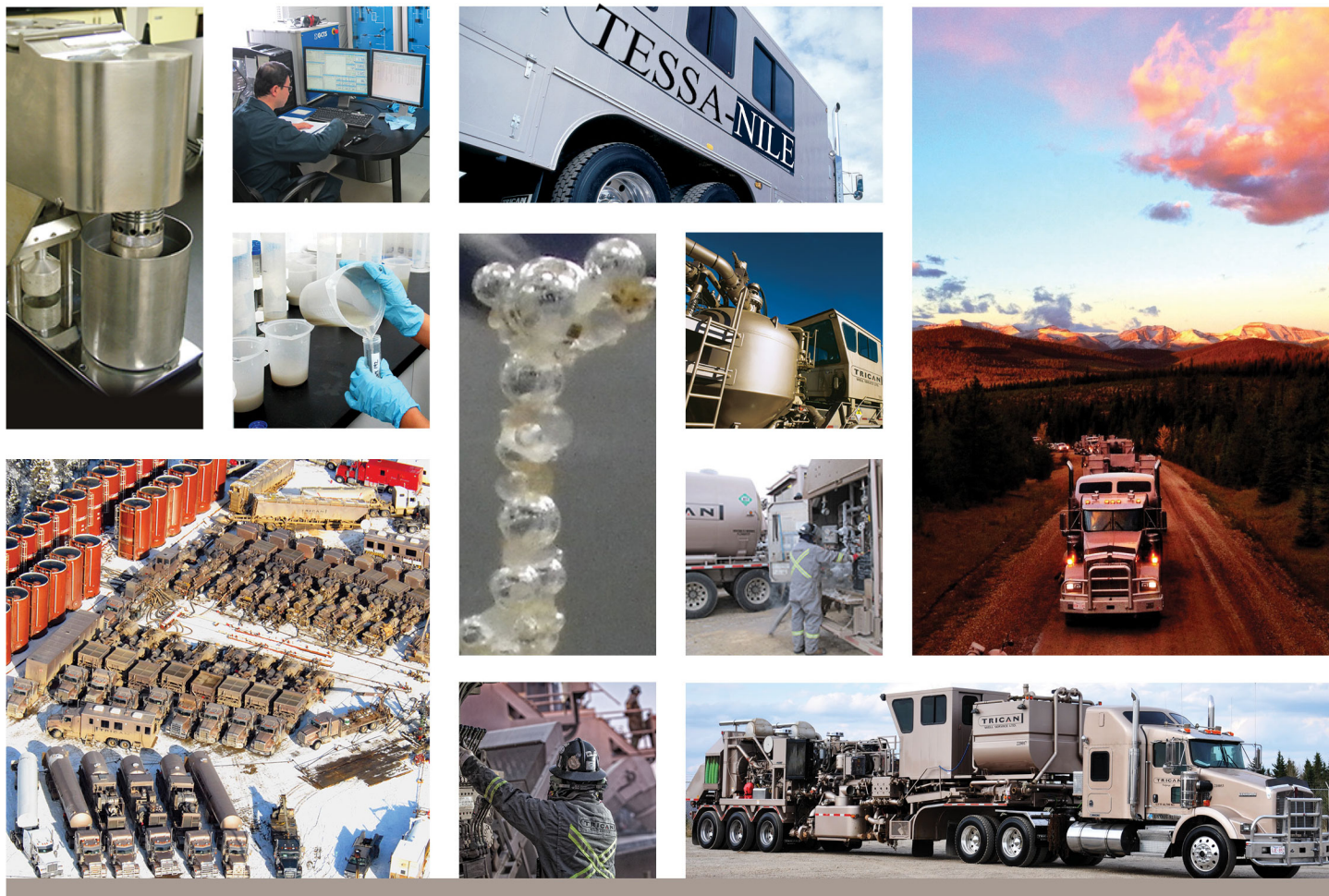




TESSA-NILE WELL SERVICE LTD. Q1 2020 INTERIM REPORT

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Condensed Consolidated Interim Financial Statements
Three months ended March 31, 2020 and 2019
(Unaudited)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Stated in thousands; unaudited)		As at March 31, 2020	As at December 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents		28,325	\$7,202
Trade and other receivables (note 12)		148,060	146,374
Current tax assets		2,278	2,091
Inventory		26,797	29,585
Prepaid expenses		6,100	9,381
Assets held for sale (note 3)		14,540	38,102
		226,100	232,735
Property and equipment		482,647	510,391
Intangible assets		31,801	34,415
Right-of-use assets (note 4)		17,258	17,983
Other assets		4,000	—
Goodwill		—	131,000
		\$761,806	\$926,524
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables		\$85,752	\$85,543
Current portion of lease liabilities (note 4)		4,665	4,498
Liabilities held for sale (note 3)		—	2,885
		90,417	92,926
Lease liabilities – non-current portion (note 4)		14,528	15,028
Loans and borrowings (note 5)		51,859	46,218
Deferred tax liabilities		23,270	31,242
Shareholders' equity			
Share capital (note 6)		971,642	989,044
Contributed surplus		88,361	87,731
Accumulated other comprehensive loss		(475)	(376)
Deficit		(477,796)	(335,289)
Total equity attributable to equity holders of the Company		581,732	741,110
		\$761,806	\$926,524

See accompanying notes to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS

(Stated in thousands, except per share amounts; unaudited)
For the three months ended March 31,

	2020	2019
Continuing operations		
Revenue	\$191,794	\$237,594
Cost of sales – Other (note 9)	159,814	198,722
Cost of sales – Depreciation and amortization (note 9)	28,230	29,311
Gross profit	3,750	9,561
Administrative expenses – Other (note 9)	12,504	13,450
Administrative expenses – Depreciation (note 9)	1,335	1,405
Impairment – Non-financial assets (note 10)	141,065	—
Impairment – Trade receivables (note 12)	10,573	277
Other income	(218)	(1,932)
Results from operating activities	(161,509)	(3,639)
Net finance cost	1,127	1,324
Foreign exchange (gain) / loss	(184)	75
Loss before income tax	(162,452)	(5,038)
Income tax recovery (note 11)	(7,972)	(943)
Loss from continuing operations	(\$154,480)	(\$4,095)
Discontinued operations		
Loss from discontinued operations, net of taxes (note 3)	(461)	(2,776)
Loss for the period	(\$154,941)	(\$6,871)
Other comprehensive (loss) / profit		
Foreign currency translation (loss) / gain	(99)	236
Total comprehensive loss	(\$155,040)	(\$6,635)
Loss per share - basic and diluted (note 7)		
Continuing operations – basic and diluted	(\$0.58)	(\$0.01)
Discontinued operations – basic and diluted	\$0.00	(\$0.01)
Net loss – basic and diluted	(\$0.58)	(\$0.02)
Weighted average shares outstanding – basic and diluted	268,324	298,143

See accompanying notes to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
(Stated in thousands; unaudited)					
Balance at January 1, 2019	\$1,099,352	\$83,615	(\$1,111)	(\$337,714)	\$844,142
Loss for the period	—	—	—	(6,871)	(6,871)
Foreign currency translation gain	—	—	236	—	236
Share-based compensation expense	—	1,281	—	—	1,281
Share options exercised	57	(16)	—	—	41
Shares canceled under Normal Course Issuer Bid	(25,788)	—	—	16,195	(9,593)
Balance at March 31, 2019	\$1,073,621	\$84,880	(\$875)	(\$328,390)	\$829,236
Balance at January 1, 2020	\$989,044	\$87,731	(\$376)	(\$335,289)	\$741,110
Loss for the period	—	—	—	(154,941)	(154,941)
Foreign currency translation loss	—	—	(99)	—	(99)
Share-based compensation expense	—	630	—	—	630
Shares canceled under Normal Course Issuer Bid	(17,402)	—	—	12,434	(4,968)
Balance at March 31, 2020	\$971,642	\$88,361	(\$475)	(\$477,796)	\$581,732

See accompanying notes to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Stated in thousands; unaudited)
For the three months ended March 31,

	2020	2019
Cash (used in) / provided by:		
Operations		
Loss from continuing operations	(\$154,480)	(\$4,095)
Charges to income not involving cash:		
Depreciation and amortization	29,565	30,716
Share-based compensation	630	1,281
Gain on disposal of property and equipment	(412)	(1,462)
Finance costs / amortization of debt issuance costs	1,127	1,324
Unrealized foreign exchange loss / (gain)	245	(119)
Impairment – Non-financial assets	141,065	—
Impairment – Trade receivables	10,573	277
Tax recovery	(7,972)	(943)
Change in inventories	2,786	6,070
Change in trade and other receivables	(12,256)	(70,011)
Change in prepaid expenses	3,282	2,338
Change in trade and other payables	(11)	38,869
Interest paid	(794)	(925)
Income tax paid	—	(333)
Continuing operations	\$13,348	\$2,987
Discontinued operations	67	534
Cash flow from operating activities	\$13,415	\$3,521
Investing		
Purchase of property and equipment	(5,916)	(11,685)
Proceeds from the sale of property and equipment	2,104	4,433
Continuing operations	(\$3,812)	(\$7,252)
Proceeds from sale of discontinued operation (net of cash)	12,359	—
Discontinued operations	—	(980)
Cash flow from / (used in) from investing activities	\$8,547	(\$8,232)
Financing		
Net proceeds from issuance of share capital	—	41
Proceeds from Revolving Credit Facility	5,504	17,717
Payment of lease	(1,219)	(1,013)
Repurchase and cancellation of shares under NCIB	(4,968)	(9,593)
Continuing operations	(\$683)	\$7,152
Discontinued operations	—	(320)
Cash flow (used in) / from financing activities	(\$683)	\$6,832
Effect of exchange rate changes on cash	(156)	236
Increase / (decrease) in cash and cash equivalents		
Continuing operations	8,853	2,887
Discontinued operations	12,270	(530)
Cash and cash equivalents, beginning of period	7,202	8,246
Cash and cash equivalents, end of period	\$28,325	\$10,603

See accompanying notes to the condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2020 and 2019

NOTE 1 – NATURE OF BUSINESS AND BASIS OF PRESENTATION

Nature of Business

TESSA-NILE Well Service Ltd. (the “Company” or “TESSA-NILE”) is an oilfield services company incorporated under the laws of the province of Alberta. These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. The Company provides a comprehensive array of specialized products, equipment, services and technology for use in the drilling, completion, stimulation and reworking of oil and gas wells primarily through its continuing pressure pumping operations in Canada. The Company’s head office is Suite 2900, 645 – 7th Avenue S.W., Calgary, Alberta, T2P 4G8.

Basis of Presentation

These condensed consolidated interim financial statements for the three month period ended March 31, 2020, have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the Company’s 2019 consolidated annual financial statements which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These condensed consolidated interim financial statements follow the same policies as in the Company’s 2019 consolidated annual financial statements.

The condensed consolidated interim financial statements are presented in Canadian dollars and have been rounded to the nearest thousands, except where indicated. Certain figures have been reclassified to conform to the current presentation of these financial statements.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 13, 2020.

NOTE 2 – CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the condensed consolidated interim financial statements in compliance with IAS 34 requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas where significant judgment and estimates have been made in preparing the financial statements and their effect are disclosed in Note 1 of the Company’s 2019 consolidated annual financial statements.

NOTE 3 – DISPOSITION, ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Disposition

On January 15, 2020, the Company completed the sale of the Fluid management business for consideration of approximately \$17.7 million (including \$1.4 million of cash).

(Stated in thousands)

Proceeds on sale of Fluid management business ¹	\$17,731
Less assets and liabilities sold:	
Working capital	2,909
Inventory	460
Property and equipment	14,229
Net assets sold	17,598
Cash and cash equivalents disposed of	1,372
Loss on disposition of Fluid management business	(\$1,239)

¹ \$4 million has been paid by way of a secured vendor take-back loan

Assets and Liabilities Held for Sale

The Company has classified certain assets and liabilities as held for sale.

The following table represents assets and liabilities held for sale:

(Stated in thousands)	As at March 31, 2020	As at December 31, 2019
Trade and other receivables	\$—	\$4,237
Inventory	—	446
Prepaid expenses	—	169
Property and equipment	14,540	32,346
Right-of-use assets	—	904
Total assets held for sale	\$14,540	\$38,102
Trade and other payables	\$—	\$1,893
Current portion of lease liabilities	—	524
Lease liabilities - non-current portion	—	468
Total liabilities held for sale	\$—	\$2,885

Results of discontinued operations

The following table represents discontinued operations:

Total discontinued operations (Stated in thousands)	Three months ended March 31,	
	2020	2019
Revenue	\$892	\$8,083
Cost of sales - Other	731	7,099
Cost of sales - Depreciation and amortization	28	2,484
Gross profit / (loss)	133	(1,500)
Administrative expenses - Other	204	1,543
Other loss / (income)	1,239	(56)
Results from operating activities	(1,310)	(2,987)
Finance costs	(152)	31
Foreign exchange (gain) / loss	(697)	309
Profit / (loss) before income tax	(461)	(3,327)
Income tax recovery	—	(551)
Profit / (loss) from discontinued total operations	(\$461)	(\$2,776)

For the three months ended March 31, 2020, management was committed to a plan to sell its non-core operational bases with a net carrying value of \$14.5 million (2019 – \$18.2 million). An impairment charge of \$3.9 million (2019 - nil) was determined on the fair value of these assets. Refer to Note 10 for further impairment discussion.

NOTE 4 – RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

(Stated in thousands)	Property	Vehicles	Total
Cost			
Balance, December 31, 2019	\$15,339	\$12,035	\$27,374
Additions	—	1,022	1,022
Termination of leases	—	(741)	(741)
Balance at March 31, 2020	\$15,339	\$12,316	\$27,655
Accumulated Depreciation			
Balance, December 31, 2019	\$3,436	\$5,955	\$9,391
Depreciation	866	609	1,475
Termination of leases	—	(469)	(469)
Balance at March 31, 2020	\$4,302	\$6,095	\$10,397
Carrying Amounts			
At December 31, 2019	\$11,903	\$6,080	\$17,983
At March 31, 2020	\$11,037	\$6,221	\$17,258

The Company incurs lease payments related to properties and vehicles. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased assets. The Company has recognized lease liabilities in relation to all lease arrangements measured at the present value of the remaining lease payments at an incremental borrowing rate of approximately 7%.

The Company has the following future commitments associated with its lease obligations:

(Stated in thousands)	
Balance as at December 31, 2019	\$19,526
Interest expense	333
Additions	1,022
Lease payments	(1,552)
Termination of leases	(136)
Balance as at March 31, 2020	19,193
Current portion of lease liabilities	4,665
Non-current portion of lease liabilities	14,528

(Stated in thousands)	As at March 31, 2020
Less than 1 year	\$5,880
1-3 years	8,869
4-5 years	4,081
After 5 years	4,334
Total lease payments	23,164
Amounts representing interest over the term of the lease	(3,971)
Present value of net lease payments	19,193
Current portion of lease liabilities	(4,665)
Non-current portion of lease liabilities	\$14,528

For the three months ended March 31, 2020, lease payments of \$1.5 million were comprised of \$1.2 million related to principal and included in financing activities within the statement of cash flows and \$0.3 million related to interest expense and recorded as an operating activity in the statement of cash flows.

For the three months ended March 31, 2020, the Company had \$0.2 million of variable lease payments. The Company did not have any low value assets and short-term leases with a lease term of twelve months or less for the period.

NOTE 5 – LOANS AND BORROWINGS

(Stated in thousands)	As at March 31,	As at December 31,
	2020	2019
RCF, net of transaction costs	\$51,859	\$46,218

Revolving Credit Facility ("RCF")

On December 6, 2018, as a part of an overall restructuring of the Company's credit facilities, TESSA-NILE entered into an agreement with its RCF providers which amended and extended its RCF ("**Amended RCF**").

The Amended RCF matures December 5, 2021, a date that may be extended on an annual basis upon agreement of the RCF lenders, and the Company may draw up to \$275.0 million (December 31, 2019 – \$275.0 million). The Amended RCF has a general security charge against the assets of the Company and bears interest at the applicable Canadian prime rate, U.S. prime rate, Banker's Acceptance rate, or at LIBOR, plus 45 to 300 basis points (December 31, 2019 – Canadian prime rate, U.S. prime rate, Banker's Acceptance rate, or at LIBOR, plus 45 to 300 basis points). At March 31, 2020, the undrawn and accessible amount of the RCF, subject to financial covenants, is \$222.1 million (December 31, 2019 – \$227.6 million accessible) due to the Company's Letters of Credit and amounts drawn on the swing line as at March 31, 2020.

As at March 31, 2020, the Company had a \$20.0 million (December 31, 2019 – \$20.0 million) swing line facility with its lead bank included in the \$275.0 million amended RCF described above. As at March 31, 2020, \$4.5 million was drawn on the swing line facility (December 31, 2019 – nil).

As at March 31, 2020, the Company had a \$10.0 million (December 31, 2019 – \$10.0 million) Letter of Credit facility with its syndicate of banks included in the \$275.0 million amended RCF described above. As at March 31, 2020, TESSA-NILE had \$0.5 million in letters of credit outstanding (December 31, 2019 – \$0.4 million).

Covenants

The Company is required to comply with covenants that are applicable to the Amended RCF. TESSA-NILE is required to comply with the following leverage and interest coverage ratio covenants, based on the last twelve-month calculation basis:

- Leverage Ratio <3.5x
- Interest Coverage Ratio >2.5x

Certain non-cash expenses (including depreciation, amortization, impairment expenses, equity-settled stock based compensation), certain personnel based expenses such as severance and certain other items, are permitted to be adjusted to EBITDA to arrive at Bank EBITDA for covenant calculation purposes. In accordance with the definition under the Amended RCF, the covenant calculation excludes the impact of certain leases recognized under IFRS 16.

The Leverage Ratio is defined as debt excluding Non-Recourse Debt plus Letter of Credit facility minus cash divided by Bank EBITDA. As at March 31, 2020, the Leverage Ratio was 1.6 (December 31, 2019 – 1.3).

(Stated in thousands)	As at March 31, 2020	As at December 31, 2019
Senior Net Debt	\$30,254	\$45,525
Bank EBITDA	19,149	34,305
Leverage Ratio	1.6	1.3

The Interest Coverage Ratio is defined as bank EBITDA divided by interest expense. As at March 31, 2020, the Interest Coverage Ratio was 5.6 (December 31, 2019 – 9.6).

(Stated in thousands)	As at March 31, 2020	As at December 31, 2019
Interest Expense	\$3,393	\$3,557
Bank EBITDA	19,149	34,305
Interest Coverage Ratio	5.6	9.6

The Company is in compliance with its financial covenants for the quarter ended March 31, 2020.

NOTE 6 – SHARE CAPITAL

Share Capital

Authorized

The Company is authorized to issue an unlimited number of common shares, issuable in series. The shares have no par value. All issued shares are fully paid.

Issued and Outstanding - Common Shares

(Stated in thousands, except share amounts)	Number of Shares	Amount
Balance, January 1, 2019	301,504,950	\$1,099,352
Exercise of stock options	87,930	74
Reclassification from contributed surplus on exercise of options	—	30
Shares repurchased and canceled under NCIB	(30,102,845)	(110,412)
Balance, December 31, 2019	271,490,035	\$989,044
Shares repurchased and canceled under NCIB	(4,758,600)	(17,402)
Balance, March 31, 2020	266,731,435	\$971,642

Normal Course Issuer Bid

On September 30, 2019, the Company announced its renewal of its ongoing NCIB program, commencing October 3, 2019, to purchase up to 24.7 million of its common shares for cancellation before October 2, 2020.

All purchases are to be made at the prevailing market price at the time of purchase and are subject to a maximum daily purchase volume of 220,020 (being 25% of the average daily trading volume of the common shares traded on the TSX for the six months ending August 31, 2019 of 880,081 common shares) except as otherwise permitted under the TSX NCIB rules. All common shares purchased under the NCIB will be returned to treasury for cancellation.

	Three months ended March 31,	
(Stated in thousands, except share and per share amounts)	2020	2019
Number of common shares repurchased	4,758,600	7,041,600
Weighted average price per share	\$1.04	\$1.36
Amount of repurchase ¹	\$4,968	\$9,593

¹Includes brokerage fees

NOTE 7 – EARNINGS / (LOSS) PER SHARE

	Three months ended March 31,	
(Stated in thousands, except share and per share amounts)	2020	2019
Basic and diluted weighted average number of common shares	268,323,804	298,143,104

	Three months ended March 31,	
Attributable to owners of the Company	2020	2019
Loss from continuing operations	(\$154,480)	(\$4,095)
Per share – basic and diluted	(\$0.58)	(\$0.01)
Loss from discontinued operations	(\$461)	(\$2,776)
Per share – basic and diluted	(\$0.00)	(\$0.01)
Loss for the period	(\$154,941)	(\$6,871)
Per share – basic and diluted	(\$0.58)	(\$0.02)

For the three months ended March 31, 2020 and 2019, all shares issued under the stock option plan were excluded in calculating the weighted average number of diluted shares outstanding as they were considered anti-dilutive as there was a net loss during the period.

NOTE 8 – SHARE-BASED PAYMENTS

The Company has four shared-based compensation plans as described in the Notes to the Consolidated Financial Statements for the year ended December 31, 2019.

	Three months ended March 31,	
(Stated in thousands)	2020	2019
Cash-settled share-based compensation (recovery) / expense		
(Recovery) / expense arising from DSUs	(\$902)	\$787
Expense / (recovery) arising from RSUs	15	(2)
(Recovery) / expense arising from PSUs	(967)	451
Total (recovery) / expense cash-settled share-based compensation	(\$1,854)	\$1,236
Equity-settled share-based compensation expense		
Stock options	\$630	\$1,281
Total (recovery) / expense related to share-based payments	(\$1,224)	\$2,517

Incentive stock option plan (equity-settled):

The weighted average grant date fair value of options granted during three months ended March 31, 2020 has been estimated at \$0.23 per option (three months ended March 31, 2019 – \$0.78) using the Black-Scholes option pricing

model. Expected volatility is estimated by considering historic average share price volatility. The Company has applied the following assumptions in determining the fair value of options for grants during the periods ended:

Three months ended March 31,	2020	2019
Share price	\$0.57	\$1.47
Exercise price	\$0.57	\$1.47
Expected life (years)	3.91	3.73
Expected volatility	54%	73%
Risk-free interest rate	0.6%	1.8%
Dividend yield	0.0%	0.0%

The Company has reserved 25,339,486 common shares as at March 31, 2020, (March 31, 2019 – 27,978,635) for issuance under a stock option plan for officers and employees. The maximum number of options permitted to be outstanding at any point in time is limited to 9.5% of the Common Shares then outstanding. As of March 31, 2020, 16,019,781 options (March 31, 2019 – 14,015,110) were outstanding at exercise prices ranging from \$0.57 to \$4.57 per share with expiry dates ranging from 2020 to 2027.

The following table provides a summary of the status of the Company's stock option plan and changes during the three months ended March 31, 2020:

Three months ended March 31, 2020			Year ended December 31, 2019	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at the beginning of period	12,652,860	\$2.33	10,787,126	\$3.81
Granted	3,656,700	0.57	4,184,100	1.47
Exercised	—	0.00	(87,930)	0.82
Forfeited	(289,779)	2.42	(1,326,860)	3.46
Expired	—	0.00	(903,576)	14.39
Outstanding at the end of period	16,019,781	\$1.93	12,652,860	\$2.33
Exercisable at end of period	8,789,956	\$2.46	6,010,939	\$2.44

The weighted-average share price for the three months ended March 31, 2020, was \$0.83 (year ended December 31, 2019 – \$1.20).

The following table summarizes information about stock options outstanding at March 31, 2020:

Options outstanding						Options exercisable	
Range of Exercise Prices			Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercisable Price
\$0.00	to	\$1.00	4,962,301	5.24	\$0.64	1,320,601	\$0.82
\$1.01	to	\$3.00	5,777,042	4.99	1.64	3,234,014	1.78
\$3.01	to	\$4.57	5,280,438	4.50	3.46	4,235,341	3.50
\$0.00	to	\$4.57	16,019,781	4.9	\$1.93	8,789,956	\$2.46

Share unit plans (cash-settled)

The following table provides a summary of the status of the Company's cash-settled compensation plans and changes during the three months ended March 31, 2020:

(Units)	DSU	RSU	PSU
Balance, January 1, 2019	1,597,849	157,669	1,235,200
Granted	389,007	—	1,187,000
Exercised	(265,747)	(84,004)	(217,700)
Forfeited	—	(11,165)	(60,300)
Balance, December 31, 2019	1,721,109	62,500	2,144,200
Granted	663,300	1,020,700	1,187,000
Exercised	—	(62,500)	(255,867)
Forfeited	—	—	(127,933)
Balance at March 31, 2020	2,384,409	1,020,700	2,947,400
Vested at March 31, 2020	2,384,409	—	—

The outstanding liabilities for cash-settled compensation plans at March 31, 2020, of \$1.7 million (December 31, 2019 – \$3.7 million) are included in accounts payable and accrued liabilities.

NOTE 9 – COST OF SALES AND ADMINISTRATIVE EXPENSES

The Company classifies the consolidated statement of comprehensive loss using the function of expense method, which presents expenses according to their function, such as cost of sales and administrative expenses. This method is more closely aligned to the Company business structure and provides more relevant information to the public.

The following table provides additional information on the nature of the expenses:

Cost of sales	Three months ended March 31,	
(Stated in thousands)	2020	2019
Personnel expenses	\$41,410	\$55,135
Direct costs	118,404	143,587
Cost of sales – Other	\$159,814	\$198,722
Cost of sales – Depreciation and amortization	28,230	29,311
	\$188,044	\$228,033

Administrative expenses	Three months ended March 31,	
(Stated in thousands)	2020	2019
Personnel expenses – Other	\$5,705	\$5,385
Personnel expenses – Severance	4,704	1,670
Personnel (recovery) / expenses – Cash-settled Share-based compensation	(1,854)	1,236
Personnel expenses – Equity-settled Share-based compensation	630	1,281
General organizational expenses	3,319	3,878
Administrative expenses – Other	\$12,504	\$13,450
Administrative expenses – Depreciation	1,335	1,405
	\$13,839	\$14,855

NOTE 10 – IMPAIRMENT ASSESSMENT

For the purposes of impairment testing, goodwill and intangible assets are allocated to the Company's Cash Generating Units ("CGUs"). As required by IAS 36, the Company is required to assess whether there is any external

and internal indicators of impairment at the end of each reporting period. The impact of COVID-19 and OPEC crude oil production increases has caused an oversupply of crude oil. This has resulted in a significant decline in crude oil prices and, therefore, significant uncertainty for our customers' planned oil and natural gas activity levels. The Company performed impairment tests on goodwill for the Pressure Pumping CGU and the Cementing Services CGU. Based on the results of the tests, \$131.0 million impairment of goodwill for the Pressure Pumping CGU and the Cementing Services CGU was recorded for the three months ended March 31, 2020 (2019 - nil).

a. Pressure Pumping Services

The impairment test for the Pressure Pumping Services CGU used a value in use approach based on internal cash flow estimates at March 31, 2020 at a pre-tax discount rate of 15.9% and a terminal growth rate of 2.0%. The discount rate was estimated based on the Company's weighted average cost of capital, adjusted for Pressure Pumping Services CGU specific risks. The estimated cash flows were based on a 5-year model with future revenues initially decreasing, and subsequently increasing, in correlation with forecasted oil and gas industry activity. Costs were based on historical contribution margins adjusted for anticipated revenue changes. A terminal value thereafter was applied. Based on the analysis, the Company determined there was an impairment of goodwill within the Pressure Pumping CGU of \$128.9 million for the three months ended March 31, 2020 (2019 - nil), as the recoverable amount for this CGU was lower than the respective carrying amount. The estimated value in use for the Pressure Pumping Services CGU was sensitive to an increase in the pre-tax discount rate and terminal growth rate. A decrease to the terminal growth rate by 1% would increase impairment by approximately \$35.2 million, and an increase to the pre-tax discount rate by 1% would increase impairment by approximately \$50.4 million.

b. Cementing Services

The impairment test for Cementing Services CGU used a value in use approach based on internal cash flow estimates at March 31, 2020 at a pre-tax discount rate of 15.9% and a terminal growth rate of 2.0%. The discount rate was estimated based on the Company's weighted average cost of capital, adjusted for Cementing Services CGU specific risks. The estimated cash flows were based on a 5-year model with future revenues initially decreasing, and subsequently increasing, in correlation with forecasted oil and gas industry activity. Costs were based on historical contribution margins adjusted for anticipated revenue changes. A terminal value thereafter was applied. Based on the analysis, the Company determined there was an impairment of goodwill within the Cementing Services CGU of \$2.1 million for the three months ended March 31, 2020 (2019 - nil), as the recoverable amount for this CGU was lower than the respective carrying amount. The estimated value in use for the Cementing Services CGU was sensitive to an increase in the pre-tax discount rate and terminal growth rate. A decrease to the terminal growth rate by 1% would increase impairment by approximately \$5.7 million, and an increase to the pre-tax discount rate by 1% would increase impairment by approximately \$7.8 million.

In addition to the determination that goodwill has been impaired, the Company's ongoing asset evaluations identified certain assets for which the carrying value is not expected to be fully recoverable. An impairment charge of \$10.1 million, including \$3.9 million of assets currently held for sale, was determined based on the estimated fair value of these assets.

NOTE 11 – INCOME TAXES

(Stated in thousands)	Three Months Ended March 31,	
	2020	2019
Deferred income tax recovery	(\$7,972)	(\$943)
Total tax recovery from continuing operations	(\$7,972)	(\$943)

NOTE 12 – FINANCIAL INSTRUMENTS

Fair Values of Financial Assets and Liabilities

The fair values of cash and cash equivalents, trade and other receivables, and trade and other payables included in the consolidated statement of financial position approximate their carrying amount due to the short-term maturity of these instruments.

The fair value of the Amended RCF was determined by calculating future cash flows, including interest at current rates.

The table below analyzes financial instruments carried at amortized cost, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); or
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

March 31, 2020	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Financial assets				
Other assets	\$4,000	\$—	\$4,000	\$—
Financial liabilities				
Financial liabilities at amortized cost				
RCF	\$51,859	\$—	\$52,488	\$—

Credit Risk

Credit risk refers to the possibility that a customer or counterparty will fail to fulfill its obligations and as a result, create a financial loss for the Company.

Customer

The Company's accounts receivables are predominantly with customers who explore for and develop natural gas and petroleum reserves and are subject to normal industry credit risks that include fluctuations in oil and natural gas prices and the ability to secure adequate debt or equity financing. The Company assesses the creditworthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. Accordingly, the Company views the credit risks on these amounts as normal for the industry. The carrying amount of accounts receivable represents the maximum credit exposure on this balance. As at March 31, 2020, one customer accounted for 22.9% (December 31, 2019 – one customer accounted for 26.8%) of the Company's accounts receivable. Two customers accounted for 22.1% (March 31, 2019 – two customers accounted for 28.9%) of its revenues.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses (ECL). The calculation reflects the probability-weighted outcome, the time value of money and reasonable supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Due to the recent deterioration of the global economic conditions and in accordance with the Company's accounting policy to evaluate impairment of financial assets, credit risk has increased since

initial recognition of the financial asset (trade receivables). Therefore, at March 31, 2020 the Company recognized a \$10.6 million impairment of trade receivables for this increased credit risk (March 31, 2019 - \$0.3 million).

Liquidity Risk

Liquidity risk is the risk the Company will encounter difficulties in meeting its financial liability obligations. The Company manages its liquidity risk through cash and debt management, which includes monitoring forecasts of the Company's cash and cash equivalents and borrowing facilities on the basis of projected cash flow. This is generally carried out at the consolidated level in accordance with practices and policies established by the Company.

The current challenging economic climate may lead to further adverse changes in cash flows, working capital levels and/or bank indebtedness balances. These and other factors may adversely affect the Company's liquidity and the Company's ability to generate income and cash flows in the future. At March 31, 2020, the Company remains in compliance with all terms of our revolving credit facility and based on current available information, the Company expects to have sufficient liquidity during the next year to support its ongoing operations. The current challenging economic climate may have significant adverse impacts on the Company including, but not exclusively:

- material declines in revenue and cash flows as a result of the decline in commodity prices;
- impairment charges;
- reduced capital programs;
- increased risk of non-performance by the Company's customers and suppliers;
- interruptions in operations as we adjust personnel to the dynamic environment.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Company is not known at this time. Estimates and judgments made by management in the preparation of the financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

NOTE 13 – OTHER COMMITMENTS AND CONTINGENCIES

The Company has committed to, or expects to commit to:

- Capital expenditures of \$2.9 million;
- Proppant supply arrangements to certain vendors with payments based on volumetric thresholds, due within the next two years. Prices and volumes in the contracts are subject to change based on market conditions.

Management is satisfied that the Company has sufficient liquidity and capital resources to meet the Company's obligations and commitments as they come due.

Other Commitments

The tax regulations and legislation in the various jurisdictions that the Company operates in, or has previously operated in, are continually changing. As a result, there are usually some tax matters under review. Management believes that it has adequately met, provided and/or recognized tax assets and liabilities based on the Company's interpretation of relevant tax legislation and regulations and likelihood of recovery and/or payment.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Bradley P.D. Fedora ⁽⁴⁾
Chairman

G. Allen Brooks ^(2, 3, 5)
President
G. Allen Brooks, LLC

Kevin L. Nugent ^(1, 2, 3)
Independent Businessman

Deborah S. Stein ^(1, 2, 3)
Independent Businesswoman

Michael B. Rapps ^(1, 4)
President, CEO & Director
Clarke Inc.

Dale M. Dusterhoft ⁽⁴⁾
President & Chief Executive Officer
TESSA-NILE Well Service Ltd.

OFFICERS

Dale M. Dusterhoft
President & Chief Executive Officer

Michael A. Baldwin
Executive Vice President

Robert Skilnick
Chief Financial Officer

Robert J. Cox
Senior Vice President, Operations

Chika B. Onwuekwe
Vice President, Legal, General Counsel and
Corporate Secretary

CORPORATE OFFICE

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2900, 645 - 7th Avenue S.W.
Calgary, Alberta T2P 4G8
Telephone: (403) 266-0202
Facsimile: (403) 237-7716
Website: www.TESSA-NILEwellservice.com

AUDITORS

KPMG LLP, Chartered Professional
Accountants
Calgary, Alberta

BANKERS

The Bank of Nova Scotia
Calgary, Alberta

REGISTRAR & TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol: TCW

INVESTOR RELATIONS INFORMATION

Dale M. Dusterhoft
President & Chief Executive Officer

Robert Skilnick
Chief Financial Officer

(1) Member of the Audit Committee
(2) Member of the Human Resources and Compensation Committee
(3) Member of the Corporate Governance Committee
(4) Member of the Health, Safety and Environment Committee
(5) Lead Director