Tesla Reports 2016 First Quarter Results and Provides Update on Credit Facilities and Going Concern

Calgary, Alberta **Symbol: TXL**

May 16, 2016 **Stock Exchange: TSX**

Tesla Exploration Ltd. ("Tesla" or the "Company") today announces its 2016 first quarter operating and financial results.

(000s, except per share data) (unaudited)	Three months ended March 31, 2016 $	2015 $	Change %
Revenue	**17,783**	26,189	(32)
Revenue excluding reimbursables	**16,229**	23,443	(31)
Gross margin[1]	**(343)**	5,351	(106)
As a % of revenue excluding reimbursables	**-2%**	23%	
Net earnings (loss)	**(24,618)**	(14,711)	(67)
Per share - basic	**(1.11)**	(0.67)	(66)
Adjusted EBITDA[2]	**(4,525)**	17	n/m
Per share - basic	**(0.20)**	-	n/m
Cash flow from (used in) operations	**(4,812)**	(191)	(2,419)
Per share - basic	**(0.22)**	(0.01)	(2,100)
Weighted average shares outstanding for the period - basic	**22,218**	21,891	1
Capital expenditures	**28**	473	(94)

As at	March 31, 2016 $	December 31, 2015 $	Change %
Working capital[3]	**(43,889)**	(37,189)	18
Total assets	**59,773**	81,170	(26)
Total borrowings[4]	**49,257**	46,182	7
Equity	**(14,243)**	11,196	(227)

1. Gross margin is defined as gross profit before depreciation and amortization. Gross margin is a measure that does not have a meaning prescribed under IFRS in Canada and accordingly, may not be comparable to similar measures used by other companies.
2. Adjusted EBITDA is defined as income before interest, taxes, depreciation, amortization and impairments, gains or losses on foreign exchange, gains or losses on sales of capital assets, bad debt provisions and stock-based compensation. Adjusted EBITDA and Adjusted EBITDA per share are presented because they are frequently used by securities analysts and others for evaluating companies and their ability to service debt. Adjusted EBITDA is a measure that does not have any standardized meaning prescribed under IFRS in Canada and accordingly, may not be comparable to similar measures used by other companies. The Company is consistent with its calculation of Adjusted EBITDA year-over-year.
3. Includes capital lease obligations, operating and term debt facilities, including current portions.

2016 First Quarter Highlights

- Tesla continues to report as a going concern. The Company's credit facility expires on June 30, 2016 and management continues to work with the Company's lender to restructure its debt to achieve a sustainable capital structure. For the three months ended March 31, 2016, the Company was not in compliance with its adjusted earnings before interest, taxes, depreciation, and amortization ("Lender Adjusted EBITDA") covenant on its Credit Facility. Subsequent to March 31, 2016, the Company had also drawn in excess of its maximum borrowing base allowed by its lender. The Company is currently negotiating with its lender to remedy the violation as part of the restructuring of the credit facility.

- On May 16, 2016, the directors of Tesla Exploration International Ltd., a wholly owned subsidiary of the Company received a formal notice from its UK lender indicating that the UK lender was willing to continue to make available the £1.8 million ($3.4 million) overdraft facility subject to certain amendments which would reduce the overdraft facility from £1.8 million to £100 ($186). The directors have been given 10 business days to agree to the proposed amendments. The proposed amendments have the effect of demanding full repayment of the amounts currently outstanding under the overdraft facility (£1.8 million as of the date hereof) by May 31, 2016. The proposed amendments would also require the Company to post £25,000 to secure its guarantee in favour of Her Majesty's Revenue & Customs for any outstanding tax due. The Company currently does not have sufficient funds to repay amounts drawn under the overdraft facility. The Company is seeking alternate arrangements with its Canadian lender to be able to agree to or otherwise manage the proposed amendments from the UK lender, but can make no assurances with respect to its ability to complete such an arrangement on the timing proposed by the UK lender or at all. If no alternate arrangement can be reached, the UK lender may exercise its right under the overdraft facility to realize on the Company's assets and this would have a material adverse effect on the Company.

- In response to the sustained decrease in commodity prices and ongoing challenges facing the seismic industry, Tesla continues its strategy to prudently manage its cost structure and retain key employees to remain financially and operationally successful. This includes continuing to reduce overheads across all divisions. These measures include layoffs of field and administrative personnel, reductions in employee and director compensation, reduced capital spending and, where appropriate, the sale of idle equipment. Tesla continues to make a concerted effort to analyze and optimize its field crew size and operational practices.

- Tesla Canada peaked at 4 crews during the first quarter of 2016 and operated over 320 thousand channel days including two-dimensional ("2D") three-dimensional ("3D") and three-component ("3C") programs throughout British Columbia, Alberta and Manitoba. Canadian operations utilized 22,000 field station units ("FSUs") of the Company's multi-component wireless acquisition system ("Hawk") on several significant programs. Though activity was lower, Tesla Canada was able to achieve much higher margins as a percentage of revenue than the first quarter of 2015 due to the implementation of numerous cost reduction initiatives.

- Tesla Canada has committed contracts and outstanding proposals from new and existing clients for several projects planned for the upcoming fall and winter. These work commitments will utilize the Company's Hawk system and 3C channels.

- Tesla USA completed a microseismic monitoring project during the first quarter of 2016. Tesla USA has several more of these projects secured in its backlog and has two large survey projects currently under bid for 2016.

- Tesla International completed its large 2D survey in the Democratic Republic of Congo with most of the activity undertaken in the first quarter of 2016. Recording was completed with strong operational and safety performance in April. The Company is currently in the demobilization phase of the project.

- Tesla Offshore is currently preparing for its summer season with several geophysical, trawling and construction projects planned.

- Tesla continues to pursue opportunities to utilize its personnel, technology, and expertise in the fields of measured induced seismicity. There are significant growth opportunities in these areas given the current and pending governmental policies on reporting these induced seismic events.

- On January 7, 2016 Matco Investments Ltd (“Matco”) acquired beneficial ownership and control of 349,731 common shares of Tesla as partial consideration for Matco providing a guarantee in the amount of $2.5 million, in favour of the Company’s lender, which becomes operative in certain circumstances. Total draws of $0.8 million were made on the guarantee during the first quarter of 2016.

First Quarter Financial Results

The Company’s consolidated revenues including reimbursables decreased 32% to $17.8 million in the first quarter of 2016 compared to $26.2 million in the first quarter of 2015. The Company’s revenue excluding reimbursables decreased 31% to $16.2 million from $23.4 million for the same periods. The increase in Tesla International’s revenue was more than offset by significant declines in activity levels across the other divisions, resulting lower in consolidated revenue.

The Company’s gross margin declined to ($0.3) million in the first quarter of 2016 compared to $5.4 million in the first quarter of 2015 due to the reduction in revenues and a 22% decrease in gross margin percentage including reimbursables to (2)% from 20% in 2015 (25% decrease excluding reimbursables to (2)% from 23%). Tesla Canada achieved lower margins during the quarter compared to 2015 due to the reduction in revenue. This was offset by an increase in margin percentage in Canada as a result of effective scheduling of projects, as well as lower personnel and fuel costs among other cost cutting measures initiated throughout 2015. Tesla USA saw lower margin and margin percentage despite significant cost cutting, due to lower revenue and a higher proportion of low margin microseismic activity. Tesla International’s margin was adversely affected by low production on the Company’s project in the Democratic Republic of Congo (“DRC”) resulting from delays in equipment reaching the project area as well as camp set up. Reimbursable revenues declined due to a large decrease in front-end work undertaken by Tesla Canada, Tesla USA and Tesla International. Tesla Offshore’s margin declined due to lower overall revenue and a higher proportion of lower margin construction activities during the seasonally slow winter months. Fixed direct overheads including severance for field staff resulted in a negative gross margin for the quarter.

The first quarter continued the trend from 2015 with much lower exploration activity and available seismic projects for Tesla Canada. Acquisition revenues decreased 59% from the comparative quarter resulting from a decrease in activity as clients cancelled or postponed programs into late 2016 or the first quarter of 2017. The Company witnessed exploration spending being reduced and/or suspended as operators, in a response to continued low commodity prices, focused on only the most economic properties and those for which valuable leases were expiring. The Company averaged 2 crews, peaking at 4, compared to an average of 4 and a peak of 5 in the first quarter of 2015. Prices also fell as clients rebid projects in an effort to secure the lowest possible cost for their seismic programs. Tesla Canada has continued its focus on controlling field and indirect overhead costs while optimizing its logistical and scheduling processes in an attempt to maintain its profitability.

Tesla USA continues to face a very weak US seismic land acquisition market corresponding with the steep drop in rig count across the remaining active basins. Tesla USA’s total revenues declined significantly with little activity and a corresponding decrease in front-end related reimbursables during the current quarter. Revenues were limited to microseismic monitoring projects. In the first quarter of 2015, Tesla USA operated two microseismic projects as well as completing advance work for a larger project later in the year. Tesla USA’s gross margin decreased with the decline in operating revenues.

Tesla International’s revenues increased significantly over the comparative quarter. During the first quarter of 2016, revenues were generated on the mobilization, advance work and recording for a large two-dimensional (“2D”) project in the DRC. Unfortunately the profitability of this project was hampered by delays in equipment arriving at the program location, completion of the camp site for the crew and difficult conditions which were not fully appreciated during the limited scouting exercise available to the Company. In an effort to meet specific targets and deadlines stipulated by the client, the Company utilized numerous key personnel from its Canadian operations who were idle during the quarter. While these personnel improved operational performance, the increase in staffing led to an overall loss during the quarter. Including results from 2015 as well as the completion of the program in the second quarter, Tesla International expects that the project will generate positive cash flow overall. There was limited activity for the UK crew as political and economic uncertainty continues to delay, exploration and development of many prospective resource plays. Tesla International generated a small amount of report processing revenue in the quarter as well as recording revenue as the UK crew completed a small project. During the first quarter of 2015, revenues were generated on two mobilizations in Africa, one of which was cut short due to issues with security and local labor supply that could not be resolved with the client.

Tesla Offshore's revenue declined during the first quarter of 2016 compared to the first quarter of 2015. Geophysical revenues decreased due to the Company's Autonomous Underwater Vehicle ("AUV") being idle for the quarter. The AUV system has demonstrated its extensive capabilities reliably in recent months however its utilization is low with very limited exploration activity being undertaken in the Gulf of Mexico (GOM). This was partially offset by increased construction revenue, the majority of which was lower margin trawling activity as the market for positioning and special project services remains low particularly during the winter months when weather reduces the available days of operation.

The Company had Adjusted EBITDA of ($4.5) million (($0.20) per share) in the first quarter of 2016 compared to Adjusted EBITDA of less than $0.1 million ($0.00 per share) in the first quarter of 2015. The decline was due to a decrease in absolute gross margin for reasons noted above offset by a decrease in general and administrative costs quarter-over-quarter.

The Company had a consolidated net loss of ($24.6) million (($1.11) per share) in the first quarter of 2016 compared with a consolidated net loss of ($14.7) million (($0.67) per share) in the first quarter of 2015. The increase in the consolidated net loss was due to the above noted decline in operating results as well as the impairment charge for the North American Land, International and Offshore CGU's. The Company has continued to not recognize any deferred tax assets in 2016.

Outlook

Tesla continues to face many challenges in its attempt to maintain its operations and improve its financial stability. Lack of certainty around global commodity prices continues to see exploration budgets slashed and with them the demand for the Company's services. Visibility into the near term demand is limited and Tesla continues to seek ways to reduce costs and increase flexibility from its lender. Delays of significant projects in Africa and the UK have worsened the Company's outlook for 2016 and continued low commodity prices suggest activity will continue to be limited in the North American land seismic market. Tesla continues to work with its legacy clients to find ways to provide value for both the Company and those clients.

Tesla continues to report as a going concern which contemplates that assets will be realized and liabilities discharged in the normal course of business as they come due. The Company's ability to continue as a going concern is dependent upon its ability to generate sufficient cash flows from operations, restructure its credit facility or obtain additional financing to settle its obligations as they become due. Management intends to continue to assess its cost structure, eliminating any discretionary spending while optimizing field operations. Management will also continue to work with its lender to maintain the best possible financing structure for the Company over the short and long term. There can be no assurance that the steps management will take will be successful. The interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues, expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

North America Land Operations
In Canada, the outlook for the remainder of 2016 is poor with few projects currently being marketed and a great deal of uncertainty around project budgets and timing. The seismic industry has seen many upstream producers further reduce exploration budgets and development projects as they focus on their own core areas where historical geophysical data is often already available. With fewer programs available for bid, many competitors have resorted to aggressive bidding to secure work. Tesla Canada continues to pursue potash programs in Saskatchewan in an effort to fill excess capacity for its crews. The Company has several smaller programs tentatively scheduled for the fourth quarter of 2016 and one large program that is already slated for the fourth quarter of 2016 and the first quarter of 2017.

Tesla USA continues to face a weak seismic market with heavy competition for available projects as oil and gas companies prioritize production and development focused drilling, supplemented with the purchase of existing seismic data, as opposed to exploration and associated seismic activity to acquire new sub-surface data. Client budgets have been reallocated to enhance drilling and production operations which detrimentally affected scheduling of certain projects. Tesla USA continues to provide a microseismic monitoring crew for a large oilfield service provider in the various active basins across the United States. The Company continues to pursue two large projects that have requested bids for surveys in Texas and California which could improve the results of the second half of 2016.

Tesla has shifted its microseismic focus towards passive monitoring for measuring induced seismicity in response to the Subsurface Order No 2 implemented by the Alberta Energy Regulator (AER) and similar changes from the British Columbia Oil and Gas Commission (BCOGC). The detection and characterization of induced seismicity related to hydraulic fracturing is an emerging business line that provides the Company with growth opportunities given the current and pending governmental policies on reporting these induced seismic events.

International Operations
Tesla completed recording activities on its DRC program in April and is in the process of demobilizing the crew and remediating the survey area. The Company had planned for the crew to move straight to another program in the region, however this program has been delayed until 2017. With no other pending activity at this time Tesla will find the most cost effective way to exit the DRC while minimizing crew costs. There continues to be exploration activity in East Africa including the Great Rift Valley Trend from Tanzania into Ethiopia and coastal blocks from Mozambique northward to Somalia, and the Company believes its inventory of equipment and operational record position it well to win other projects in the area to fill this hole in the backlog.

Tesla International's UK crew continues to stand down as it awaits surveys following the award of the 14th licensing round. One program has been awarded however timing is uncertain due to permitting. Several other projects in the UK and the rest of Europe are currently under bid though none have been awarded at this time.

The UK technical services office remains steady with a number of in-seam seismic, unconventional gas (coal bed and tight reservoirs), and geophysical interpretation projects and is pursuing additional projects related to the 14th licensing round.

Offshore Operations
Due to the sustained decline in U.S. oil and gas industry activity, Tesla Offshore has continued the expansion of service offerings to international projects. Both conventional geophysical projects, as well as operations centered around the Company's Bluefin 21 AUV, are being proposed in multiple areas within Mexico, Brazil and Southeast Asia, though none have been awarded as yet. Additionally, Tesla Offshore continues to pursue opportunities with long-term engineering companies and other clients who are also pursuing work outside the Gulf of Mexico. Tesla Offshore hopes to remain active with the AUV and a charter geophysical vessel through much of the summer. The Company's goal is to be prepared when the oil prices normalize and activity levels improve in the Gulf of Mexico.

Construction activities, remain lower than historical levels due to reductions in drilling activities in the Gulf of Mexico but Tesla Offshore fully expects to capture a consistent share of the available opportunities.

Forward-looking Statements

Certain information set forth in this press release, including management's assessment of the Company's future plans and operations, contains forward-looking statements, which are based on the Company's current internal expectations, estimates, projections, assumptions and beliefs, which may prove to be incorrect. Some of the forward-looking statements may be identified by words such as "expects", "anticipates", "believes", "projects", "intends", "continues", "estimates", "objective", "ongoing", "may", "will", "should", "might", "plans" and similar expressions. These statements are not guarantees of future performance and undue reliance should not be placed on them. Such forward-looking statements are based on current expectations, estimates and projections that involve a number of known and unknown risks and uncertainties, which may cause the Company's actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. These include, but are not limited to, the risks outlined in the “Business Risks” section of the Company’s MD&A for the three months ended March 31, 2016.

The information contained in this press release should not be considered all-inclusive as it excludes changes that may occur in general economic, political and environmental conditions. The Company cautions that actual performance will be affected by a number of factors, many of which are beyond its control. Investors are cautioned against attributing undue certainty to forward-looking statements. The forward-looking information and statements contained in this press release speak only as of the date hereof and, subject to its obligations under applicable law, the Company does not intend, and does not assume any obligation, to update these forward-looking statements if conditions or opinions should change.

About Tesla

Tesla provides seismic land data acquisition in a multitude of environments in Canada through Tesla Exploration Partnership (“Tesla Canada”), in the U.S.A. through Tesla Exploration Inc. (“Tesla USA”), in South America through Tesla Exploration Trinidad Ltd. (“Tesla Trinidad”) Tesla Exploration Colombia S.A.S. (“Tesla Colombia”) and Tesla Do Brasil Geotecnia Ltda. (“Tesla Brazil”). Tesla serves other markets in Europe and Africa mainly through Tesla Exploration International Limited (“Tesla International”) and Tesla Tunisia SARL (“Tesla Tunisia”) Tesla also has an international data processing office in the UK. Tesla Offshore LLC (“Tesla Offshore”) operates geophysical hazard surveys and provides positioning services for construction and diving operations in the Gulf of Mexico and internationally using its own vessel and other chartered vessels. Tesla trades on the TSX under the symbol “TXL”.

Requests for shareholder information should be directed to:

Mr. Richard Habiak
President and CEO
(403) 216-0990

Mr. Graham Reid
Vice President and CFO
(403) 692-4602