



2018 Annual Report

CALFRAC WELL SERVICES

DO IT BETTER • DO IT ON TIME • DO IT SAFELY

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CALFRAC WELL SERVICES LTD.

ANNUAL GENERAL MEETING

May 7, 2019

3:30 pm

McMurray Room

Calgary Petroleum Club

319 – 5th Avenue SW

Calgary, Alberta

CEO's MESSAGE

As we look forward to 2019, I would like to take a moment to celebrate the numerous accomplishments of our company during 2018. Last year was highlighted by change and challenge which, as always, were met with the honest hard work and resourcefulness that has always been a part of Calfrac's culture. From completing the reactivation of our North American asset base to improving our balance sheet, we have much to be proud of, but none of it would have been possible without the exceptional team at Calfrac.

August 19th, 2019 will be the 20th anniversary of Calfrac's first job, a milestone worth celebrating. Nothing happens at Calfrac without the efforts of our people. In any year, good or bad, I believe that what sets Calfrac apart is the quality of our people and the culture we have established over more than a generation that focuses on our brand promise: Do it Better, Do it On Time, Do it Safely. To everyone at Calfrac, on behalf of the management team and board of directors, thank you for being part of the team and proving every day what makes us better.

To our valued business partners, both clients and vendors, our industry depends on partnerships and we're proud of the breadth and depth of our relationships with you.

To our investors, after a turbulent last four years, I want you to know that we deeply appreciate your support and confidence, and I want to reaffirm our pledge to run our business the best way we know how, for the long-term benefit of all involved.

DELIVERING ON A LOWER RISK BALANCE SHEET

During 2018, Calfrac successfully executed a refinancing of our balance sheet and stands today with strong liquidity and cash flow generation capacity, as well as several options to reduce our long-term indebtedness to levels we deem appropriate for our industry. As was our plan, we improved the structure of our balance sheet through the repayment of our second-lien term loan and extending the tenor of our senior notes to 2026. On completion of this refinancing, Calfrac's focus shifted to generating free cash flow to reduce indebtedness under the Company's revolving credit facility. We exceeded our expectations in the second half of 2018 by reducing the balance by \$95 million while funding approximately \$40.0 million in interest payments as well as \$70.0 million in capital spending needs. We had highlighted our confidence in our ability to generate cash while investing in our assets, and once again Calfrac delivered. Approximately seven percent of our outstanding net debt is covenant-bearing, and we remain focused on reducing this balance further in the year ahead.

CANADIAN OPERATIONS

In 2018, the Western Canadian Sedimentary Basin (WCSB) rig count was relatively consistent with 2017 levels, however, increasing fracturing intensity and improved year-on-year pricing resulted in strong improvements in the financial performance of Calfrac's Canadian division through the first three quarters of the year. More recently, a decline in commodity prices and producer uncertainty led to a slowdown in activity in the fourth quarter, which in turn, resulted in further price reductions in the basin.

This uncertainty has continued into 2019 and although the first quarter is expected to be busy, lower activity levels have caused the Company to make modest reductions in its operating footprint in Canada. While commodity prices have improved, the investing climate in Canada generally and the WCSB specifically remains cautious.

In 2019, Calfrac's Canadian division will continue to focus on delivering on our Brand Promise while managing our footprint and costs prudently in response to prevailing market conditions.

UNITED STATES OPERATIONS

The strong performance delivered by our United States operations in 2018 was largely a continuation of the ramp-up experienced during 2017. As I wrote a year ago, our focus in 2018 was on optimization and, through that focus, we were able to deliver exceptional operating and financial performance, highlighted by our excellent results in the third quarter. Though budget exhaustion and commodity uncertainty did impact crew utilization through the end of the year, activity in the first quarter thus far has been robust. Calfrac's performance throughout the year has resulted in a very stable list of clients, and opportunities to meet incremental demand for our services from existing clients.

Many industry watchers believe that activity in the Lower 48 should remain roughly flat year-on-year in a US\$55/bbl price environment, and we tend to agree. With incremental takeaway capacity in the Permian Basin expected to be added in the second half of the year, we believe incremental demand for fracturing services should appear late in the second quarter, leading to improved market conditions in the second half of 2019.

In 2019, our operations in the United States will remain focused on optimizing our franchise in the face of dynamic market conditions, including the potential deployment of assets from other jurisdictions.

RUSSIAN OPERATIONS

This past year was a challenging year for Calfrac's Russian operations. Unseasonal weather patterns as well as the impact of OPEC+ production cuts on some clients were unforeseen obstacles during 2018. Our management team in Russia performed very well in mitigating the impact of these challenges and, as a result of a successful tendering process in 2018, Calfrac expects activity in our Russian operations to trend much closer to 2017 levels through the year ahead.

ARGENTINEAN OPERATIONS

During 2018, completions-focused activity in Argentina increased significantly, and industry adoption of a higher intensity operating model progressed with experience, leading to material improvements in operating results during the second half of the year. Anchored by contract visibility with many of the top operators in country, Calfrac expects performance in 2019 to continue at the levels seen in the latter half of 2018, with some potential for improvement.

CONTINUED FOCUS ON IMPROVING OUR BUSINESS

We recognize that our industry and our world are both moving faster and are more focused on data than ever before. That's why Calfrac continues to look at innovation, from implementing processes to give us real-time visibility on our operations, to forward-thinking approaches to our supply chain. Our culture of innovation and safety in the field remains the cornerstone of our franchise, and we're proud to be a leader in these areas that are critical to business success.

LOOKING FORWARD

Our industry is not one that sees stability in its fundamentals for long periods of time. Regardless of what 2019 holds, I am confident that we have the people, assets and strategy to be a catalyst for the success of all our stakeholders. I look forward to updating you with our progress at our upcoming Annual General Meeting in May and throughout the year.

Doing it Better, Doing it On Time, Doing it Safely,



Fernando Aguilar
President and Chief Executive Officer

February 27, 2019
Calgary, Alberta, Canada

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) for Calfrac Well Services Ltd. ("Calfrac" or the "Company") has been prepared by management as of February 27, 2019 and is a review of the Company's financial condition and results of operations based on International Financial Reporting Standards (IFRS).

The focus of this MD&A is a comparison of the financial performance for the years ended December 31, 2018 and 2017. It should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018 as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2017.

Readers should also refer to the "Forward-Looking Statements" legal advisory at the end of this MD&A. All financial amounts and measures presented are expressed in Canadian dollars unless otherwise indicated. The definitions of certain non-GAAP measures used are included on pages 24 and 25.

CALFRAC'S BUSINESS

Calfrac is an independent provider of specialized oilfield services in Canada, the United States, Russia and Argentina, including hydraulic fracturing, coiled tubing, cementing and other well stimulation services.

The Company's reportable business segments during the three months and year ended December 31, 2018 were as follows:

Segment	Active (hhp)	Idle (hhp)	Total (hhp)	Active Fleets (#)
United States	854,000	25,000	879,000	17
Canada	289,000	17,000	306,000	7
Argentina	108,000	—	108,000	5
Russia	77,000	—	77,000	6
Total	1,328,000	42,000	1,370,000	35

- The Company's United States segment provides fracturing services to oil companies operating in the Bakken oil shale play in North Dakota; in the Rockies area, including the Powder River Basin in Wyoming, as well as in Texas and New Mexico, where it services the Eagle Ford and Permian basins. Calfrac also provides fracturing services to natural gas-focused customers operating in the Marcellus and Utica shale plays in Pennsylvania, Ohio and West Virginia. During the third quarter of 2017, the Company restarted and expanded operations in Texas by re-opening its San Antonio base and commencing operations based out of Artesia, New Mexico servicing the Permian basin. At December 31, 2018, Calfrac's United States operations had combined active horsepower of approximately 854,000 and no active cementing or coiled tubing units. At the end of the fourth quarter, the United States segment had temporarily idled approximately 25,000 horsepower, ten cementing units and two coiled tubing units.
- The Canadian segment is focused on the provision of fracturing and coiled tubing services to a diverse group of oil and natural gas exploration and production companies operating in Alberta, northeast British Columbia, Saskatchewan and Manitoba. The Company's customer base in Canada ranges from large multinational public companies to small private companies. At December 31, 2018, Calfrac's Canadian operations had active horsepower of approximately 289,000 and 11 active coiled tubing units. At the end of the fourth quarter, the Canadian segment had temporarily idled approximately 17,000 horsepower and three coiled tubing units.
- The Argentinean segment provides pressure pumping services from its operating bases in Argentina. The Company provides fracturing, cementing and coiled tubing services to oil and natural gas companies operating in the Neuquén, Las Heras and Comodoro regions. The Company had approximately 108,000 active horsepower, 11 active cementing units and five active coiled tubing units in its Argentinean segment at December 31, 2018. At the end of the fourth quarter, the Argentinean segment had two idle cementing units and one idle coiled tubing unit.
- The Company's Russian segment provides fracturing and coiled tubing services in Western Siberia. During the fourth quarter of 2018, the Company operated under a mix of annual and multi-year agreements to provide services to a number of Russia's largest oil producers. At December 31, 2018, the Russian segment had seven deep coiled tubing units, of which six were active, and approximately 77,000 active horsepower forming six fracturing spreads in Russia.

FINANCIAL OVERVIEW – YEARS ENDED DECEMBER 31, 2018 VERSUS 2017

CONSOLIDATED HIGHLIGHTS

Years Ended December 31,	2018	2017	Change
<i>(C\$000s, except per share amounts)</i> <i>(unaudited)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(%)</i>
Revenue	2,256,426	1,527,705	48
Operating income (loss) ⁽¹⁾	311,825	180,120	73
Per share – basic	2.16	1.31	65
Per share – diluted	2.12	1.29	64
Adjusted EBITDA ⁽¹⁾	329,408	191,823	72
Per share – basic	2.29	1.39	65
Per share – diluted	2.24	1.38	62
Net income (loss) attributable to the shareholders of Calfrac	(18,188)	5,939	NM
Per share – basic	(0.13)	0.04	NM
Per share – diluted	(0.13)	0.04	NM
Working capital, end of year	329,871	327,049	1
Total assets, end of year	1,782,657	1,777,966	—
Long-term debt, end of year	989,614	958,825	3
Total equity, end of year	513,820	543,645	(5)

2018 OVERVIEW

In 2018, the Company:

- generated revenue of \$2.3 billion versus \$1.5 billion in 2017, resulting primarily from significantly higher activity and improved pricing in North America;
- reported adjusted EBITDA of \$329.4 million versus \$191.8 million in 2017, mainly as a result of improved utilization and pricing in North America;
- reported a net loss attributable to shareholders of Calfrac of \$18.2 million or \$0.13 per share diluted, which included a foreign exchange loss of \$38.0 million compared to net income of \$5.9 million or \$0.04 per share diluted in 2017, which included a \$76.3 million property, plant and equipment impairment reversal;
- amended its revolving credit facility agreement to exercise \$100.0 million of accordion capacity, which increased its total borrowing capacity under these facilities from \$275.0 million to \$375.0 million;
- closed a private offering of US\$650.0 million aggregate principal amount of 8.50 percent senior notes due 2026 and repaid all of its outstanding 7.50 percent senior notes due 2020;
- repaid in full the remaining \$196.5 million principal amount of its second lien senior secured term loan facility with Alberta Investment Management Corporation (AIMCo);
- activated four fleets in its U.S. operations, including two in New Mexico, one in North Dakota and one in Colorado, as well as one large fracturing fleet in Canada; and
- incurred capital expenditures of \$159.8 million primarily to support the Company's North American fracturing operations.

CANADA

Years Ended December 31,	2018	2017	Change
<i>(C\$000s, except operational information)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(%)</i>
<i>(unaudited)</i>			
Revenue	650,731	540,059	20
Expenses			
Operating	549,448	444,589	24
Selling, general and administrative (SG&A)	14,121	10,727	32
	563,569	455,316	24
Operating income ⁽¹⁾	87,162	84,743	3
Operating income (%)	13.4	15.7	(15)
Fracturing revenue per job (\$)	21,156	20,346	4
Number of fracturing jobs	28,038	24,104	16
Active pumping horsepower, end of period (000s)	289	277	4
Idle pumping horsepower, end of period (000s)	17	143	(88)
Total pumping horsepower, end of period (000s)	306	420	(27)
Coiled tubing revenue per job (\$)	22,809	22,108	3
Number of coiled tubing jobs	2,299	2,079	11
Active coiled tubing units, end of period (#)	11	9	22
Idle coiled tubing units, end of period (#)	3	6	(50)
Total coiled tubing units, end of period (#)	14	15	(7)

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

REVENUE

Revenue from Calfrac's Canadian operations in 2018 was \$650.7 million versus \$540.1 million in 2017. Completions activity in Canada improved during 2018 when compared to 2017 primarily due to a stronger first half of the year. The number of fracturing and coiled tubing jobs increased by 16 percent and 11 percent, respectively, due to a larger operating scale, combined with a more active and efficient customer base as compared to the same period in 2017. Revenue per fracturing job increased by 4 percent from the prior year while coiled tubing revenue per job was up 3 percent, primarily due to higher pricing during the first half of 2018 and the completion of larger jobs, which were offset partially by job mix.

OPERATING INCOME

The Company's Canadian division generated operating income of \$87.2 million during 2018 compared to \$84.7 million in 2017. The increase was due to improved utilization and better pricing during the first six months of 2018 compared to the same period in 2017, while second half utilization was lower year-over-year. The 13 percent operating income margin was negatively impacted by higher than expected third-party sand transportation costs during the first quarter, while higher costs for diesel fuel and products reduced operating income margins during the second quarter. Pricing for proppant trended lower towards the end of 2018 as supply improved, however, this lower pricing did not meaningfully impact profitability until the fourth quarter. Operating income in 2018 was negatively impacted by \$1.4 million of provincial sales tax assessments in British Columbia and \$0.3 million in severance costs. The \$3.4 million increase in SG&A expenses compared to 2017 was primarily due to the reinstatement of compensation that was scaled back during 2016, combined with the Company allocating a greater proportion of its corporate SG&A costs that directly related to its operating divisions during 2018.

UNITED STATES

Years Ended December 31,	2018	2017	Change
<i>(C\$000s, except operational and exchange rate information)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(%)</i>
<i>(unaudited)</i>			
Revenue	1,296,675	713,467	82
Expenses			
Operating	1,014,151	577,525	76
SG&A	20,176	14,152	43
	1,034,327	591,677	75
Operating income ⁽¹⁾	262,348	121,790	115
Operating income (%)	20.2	17.1	18
Fracturing revenue per job (\$)	58,333	42,762	36
Number of fracturing jobs	22,176	16,457	35
Active pumping horsepower, end of period (000s)	854	653	31
Idle pumping horsepower, end of period (000s)	25	130	(81)
Total pumping horsepower, end of period (000s)	879	783	12
Active coiled tubing units, end of period (#)	—	—	—
Idle coiled tubing units, end of period (#)	2	1	100
Total coiled tubing units, end of period (#)	2	1	100
Active cementing units, end of period (#)	—	—	—
Idle cementing units, end of period (#)	10	9	11
Total cementing units, end of period (#)	10	9	11
US\$/C\$ average exchange rate ⁽²⁾	1.2957	1.2986	—

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

⁽²⁾ Source: Bank of Canada.

REVENUE

Revenue from Calfrac's United States operations increased to \$1.3 billion in 2018 from \$713.5 million in 2017 primarily due to significantly higher fracturing activity and improved pricing in 2018. Completions activity in the United States significantly improved year-over-year, which allowed the Company to reactivate equipment throughout 2017 and 2018, including the start-up of operations in Texas and New Mexico. The Company activated a 17th fleet in the United States during the third quarter of 2018, representing the full reactivation of its entire operating fleet, although not all fleets were fully utilized during the fourth quarter. The result was a 35 percent increase in the number of fracturing jobs completed year-over-year. Activity was significantly higher in all operating areas with the exception of Colorado. Revenue per job increased 36 percent due to improved pricing combined with the impact of job mix as the Company's operations in Texas resulted in larger overall job sizes.

OPERATING INCOME

The Company's United States division generated operating income of \$262.3 million in 2018 compared to \$121.8 million in 2017. The significant increase was primarily the result of improved utilization and pricing in North Dakota and Pennsylvania as well as the addition of operations in Texas and New Mexico that did not commence until the third quarter of 2017. The operating income of 20 percent during 2018 was negatively impacted by market-driven logistical issues that resulted in higher than normal transportation and sand costs during the first three months of the year. These conditions abated during the second quarter; however, cost inflation continued, with products and fuel experiencing the largest increases. The third quarter saw a reversal of this trend with sand and transportation costs trending lower, however, most of these savings were passed through to customers and had little impact on profitability. Operating results included \$12.9 million of reactivation costs in 2018 compared to \$20.4 million in 2017. SG&A expenses increased by 43 percent in 2018 primarily due to higher personnel costs combined with growth in business scale and increased activity.

RUSSIA

Years Ended December 31,	2018	2017	Change
<i>(C\$000s, except operational and exchange rate information)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(%)</i>
<i>(unaudited)</i>			
Revenue	106,819	123,965	(14)
Expenses			
Operating	103,938	106,852	(3)
SG&A	3,326	3,700	(10)
	107,264	110,552	(3)
Operating (loss) income ⁽¹⁾	(445)	13,413	NM
Operating (loss) income (%)	(0.4)	10.8	NM
Fracturing revenue per job (\$)	78,176	77,590	1
Number of fracturing jobs	1,167	1,349	(13)
Pumping horsepower, end of period (000s)	77	77	—
Coiled tubing revenue per job (\$)	39,065	42,690	(8)
Number of coiled tubing jobs	399	452	(12)
Active coiled tubing units, end of period (#)	6	6	—
Idle coiled tubing units, end of period (#)	1	1	—
Total coiled tubing units, end of period (#)	7	7	—
Rouble/C\$ average exchange rate ⁽²⁾	0.0207	0.0223	(7)

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

⁽²⁾ Source: Bank of Canada.

REVENUE

Revenue from Calfrac's Russian operations in 2018 decreased by 14 percent to \$106.8 million from \$124.0 million in 2017. The decrease in revenue, which is generated in roubles, was partially related to lower fracturing activity, combined with the 7 percent depreciation of the Russian rouble in 2018 versus 2017. Revenue per fracturing job was consistent with the comparable period in 2017. The decrease in revenue was also due to a 12 percent reduction in coiled tubing activity.

OPERATING (LOSS) INCOME

The Company's Russia division incurred an operating loss of \$0.4 million in 2018 compared to income of \$13.4 million in the same period in 2017 primarily due to lower fracturing and coiled tubing crew utilization. Calfrac's operations in 2018 were impacted by weather-related delays and lower activity with one of its customers in Western Siberia. The Company shut down its operations in Usinsk following the expiry of its contract in that area at the end of the first quarter and reallocated equipment to Noyabrsk. Activity in Noyabrsk in 2018 was negatively impacted by production cuts resulting from Russia's cooperation with OPEC members during the year.

ARGENTINA

Years Ended December 31,	2018	2017	Change
<i>(C\$000s, except operational and exchange rate information)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(%)</i>
<i>(unaudited)</i>			
Revenue	202,201	150,214	35
Expenses			
Operating	178,796	142,658	25
SG&A	10,569	10,660	(1)
	189,365	153,318	24
Operating income (loss) ⁽¹⁾	12,836	(3,104)	NM
Operating income (loss) (%)	6.3	(2.1)	NM
Active pumping horsepower, end of period (000s)	108	108	—
Idle pumping horsepower, end of period (000s)	—	7	NM
Total pumping horsepower, end of period (000s)	108	115	(6)
Active cementing units, end of period (#)	11	12	(8)
Idle cementing units, end of period (#)	2	2	—
Total cementing units, end of period (#)	13	14	(7)
Active coiled tubing units, end of period (#)	5	6	(17)
Idle coiled tubing units, end of period (#)	1	1	—
Total coiled tubing units, end of period (#)	6	7	(14)
US\$/C\$ average exchange rate ⁽²⁾	1.2957	1.2986	—
Argentinean peso/C\$ average exchange rate ⁽²⁾	0.0463	0.0782	(41)

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

⁽²⁾ Source: Bank of Canada and Bloomberg.

REVENUE

Calfrac's Argentinean operations generated total revenue of \$202.2 million in 2018 versus \$150.2 million in 2017. The 35 percent improvement in year-over-year revenue was primarily due to higher fracturing activity in the Vaca Muerta shale play. The increase in fracturing revenue was partially offset by lower cementing activity in northern Argentina combined with the impact of union strikes in southern Argentina that occurred during the first quarter of 2018. Coiled tubing revenue in Argentina increased year-over-year due to increased activity in unconventional resource plays in Neuquén, which also resulted in higher revenue per job.

OPERATING INCOME (LOSS)

The Company's operations in Argentina generated operating income of \$12.8 million in 2018 compared to a loss of \$3.1 million in 2017. The Company has continued to improve its operating margins throughout the transition to unconventional operations in Argentina mainly due to improved utilization. There were a number of one-time costs recorded in 2018, including \$0.8 million in restructuring charges and a \$0.4 million adjustment to bad debt expense. Similarly, the Company had \$1.6 million in one-time costs in 2017 related to the retrofitting of equipment and \$0.7 million of restructuring costs.

CORPORATE

Years Ended December 31,	2018	2017	Change
(C\$000s)	(\$)	(\$)	(%)
(unaudited)			
Expenses			
Operating	6,322	4,633	36
SG&A	43,754	32,089	36
	50,076	36,722	36
Operating loss ⁽¹⁾	(50,076)	(36,722)	36
% of Revenue	2.2	2.4	(8)

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

OPERATING LOSS

Corporate expenses in 2018 were \$50.1 million compared to \$36.7 million in the comparable period in 2017. Operating expenses were \$1.7 million higher primarily due to higher personnel costs during the year. SG&A expenses increased by \$11.7 million primarily due to a \$6.5 million increase in stock-based compensation expense. The remaining increase related to the reinstatement of compensation that was scaled back during 2016, offset partially by the higher allocation of costs that were directly attributed to the Company's operating divisions.

DEPRECIATION

Depreciation expense in 2018 increased by \$29.5 million to \$160.3 million from \$130.8 million in 2017. The increase in depreciation was primarily due to the \$76.3 million impairment reversal that was recorded during the fourth quarter of 2017, combined with capital expenditures related to the continued activation of fleets in North America during 2017 and 2018.

FOREIGN EXCHANGE LOSSES

The Company recorded a foreign exchange loss of \$38.0 million in 2018 versus a loss of \$34.3 million in 2017. 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 and Argentina, 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 2018 was largely attributable to the translation of U.S. dollar-denominated liabilities held in Argentina during the first six months of 2018 as the peso devalued against the U.S. dollar during that time period. As disclosed in note 2 to the consolidated financial statements, the Company changed the functional currency of its Argentina subsidiary from Argentinean pesos to U.S. dollars effective July 1, 2018, which resulted in no further foreign exchange losses on its U.S. dollar-denominated liabilities held in Argentina in the last six months of the year. The consolidated foreign exchange loss was partially offset by a foreign exchange gain on U.S. dollar-denominated assets held in Canada.

IMPAIRMENT

A comparison of the recoverable amounts of each cash generating unit (CGU) with their respective carrying amounts resulted in no impairment against property, plant and equipment in 2018 while in 2017 the same comparison supported an impairment reversal of \$76.3 million.

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. For the year ended December 31, 2018, the Company recorded an impairment charge of \$7.2 million to write-down inventory to its net realizable amount in Canada, United States and Argentina as well as write-off obsolete spare parts inventory in Mexico due to the closure of operations in that country.

INTEREST

The Company's interest expense was \$106.6 million in 2018 versus \$85.5 million in 2017. The \$21.1 million increase was partially due to the repayment of the Company's second lien term loan during the period which resulted in the write-off of the remaining deferred financing costs of \$5.8 million. In addition, the Company closed a private offering of US\$650.0 million aggregate principal amount of 8.50 percent senior notes during the second quarter, which were used to repay all of its outstanding 7.50 percent senior notes due 2020. The early repayment of these notes resulted in a make-whole interest payment of \$10.4 million during the second quarter in 2018 and the write-off of the remaining \$5.0 million unamortized deferred finance costs.

INCOME TAXES

The Company recorded an income tax recovery of \$4.6 million in 2018 compared to a recovery of \$7.7 million in 2017. The mix of earnings, combined with certain items that do not fluctuate with income, resulted in the recovery position.

LIQUIDITY AND CAPITAL RESOURCES

	Years Ended December 31,	
	2018	2017
<i>(C\$000s)</i>	<i>(\$)</i>	<i>(\$)</i>
<i>(unaudited)</i>		
Cash provided by (used in):		
Operating activities	184,746	(13,898)
Financing activities	(58,073)	49,840
Investing activities	(149,814)	(76,009)
Effect of exchange rate changes on cash and cash equivalents	22,293	(17,101)
Decrease in cash and cash equivalents	(848)	(57,168)

OPERATING ACTIVITIES

The Company's cash provided by operating activities for the year ended December 31, 2018 was \$184.7 million versus cash used of \$13.9 million during 2017. The significant increase in cash provided by operations was primarily due to improved operating results in the United States while working capital required \$13.6 million of cash in 2018 compared to \$117.2 million in 2017. At December 31, 2018, Calfrac's working capital was \$329.9 million compared to \$327.0 million at December 31, 2017.

FINANCING ACTIVITIES

Net cash used by financing activities for the year ended December 31, 2018 was \$58.1 million compared to net cash provided by financing activities of \$49.8 million in 2017. During the year ended December 31, 2018, the Company received net funds from the issuance of senior notes of \$822.1 million, had net borrowings under its credit facilities of \$90.0 million (net of \$5.0 million of debt issuance costs), proceeds of \$1.4 million from the issuance of common shares, repaid senior notes totalling \$773.8 million and made principal payments under its term loan of \$197.0 million.

On May 31, 2018, the Company repaid in full the remaining \$196.5 million principal amount of its second lien senior secured term loan facility with Alberta Investment Management Corporation (AIMCo). The term loan, which had a maturity date of September 20, 2020 provided Calfrac the right to prepay the loan prior to June 10, 2018 with a nominal prepayment premium.

On May 30, 2018, Calfrac closed a private offering of US\$650.0 million aggregate principal amount of its 8.50 percent senior notes due 2026. Fixed interest on the notes is payable on June 15 and December 15 of each year. The notes will mature on June 15, 2026. The Company used a portion of the net proceeds from the offering of the notes to repay all of its outstanding 7.50 percent senior notes due 2020.

On May 9, 2018, Calfrac amended its credit facilities to exercise \$100.0 million of accordion capacity which increased its total facility capacity from \$275.0 million to \$375.0 million. The facilities consist of an operating facility of \$27.5 million and a syndicated facility of \$347.5 million. The Company's credit facilities mature on June 1, 2020 and can be extended by one or more years at the Company's request and lenders' acceptance. The Company also may 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 remaining accordion feature of the syndicated facility was reduced to \$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 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 no increase in the rate of dividends will be permitted; and (c) the Company will be prohibited from utilizing advances under the credit facilities to redeem or repay subordinated debt. As at December 31, 2018, the Company's net Total Debt to Adjusted EBITDA ratio was 2.92:1.00.

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

- i. Eligible North American accounts receivable, which is based on 75 percent of accounts receivable owing by companies rated BB+ or lower by Standard & Poor's (or a similar rating agency) and 85 percent of accounts receivable from companies rated BBB- or higher;
- ii. 100 percent of unencumbered cash of the parent company and its U.S. operating subsidiary, excluding any cash held in a segregated account for the purposes of a potential equity cure; and
- iii. 25 percent of the net book value of property, plant and equipment (PP&E) of the parent company and its U.S. operating subsidiary. The value of PP&E excludes assets under construction and is limited to \$125.0 million.

As at December 31, 2018, the Company had used \$0.9 million of its credit facilities for letters of credit and had \$120.0 million of borrowings under its credit facilities, leaving \$254.1 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 December 31, 2018 was higher than the available capacity.

The Company's credit facilities contain certain financial covenants as shown below.

Working capital ratio not to fall below	1.15x
Funded Debt to Adjusted EBITDA not to exceed ⁽¹⁾⁽²⁾	3.00x
Funded Debt to Capitalization not to exceed ⁽¹⁾⁽³⁾	0.30x

⁽¹⁾ *Funded Debt is defined as Total Debt excluding all outstanding senior unsecured notes. 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, non-controlling interest, and gains and losses that are extraordinary or non-recurring.*

⁽³⁾ *Capitalization is Total Debt plus equity attributable to the shareholders of Calfrac.*

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, 2020, subject to certain conditions including:

- i. the Company is only permitted to use the proceeds of a common share issuance to increase Adjusted EBITDA a maximum of two times;
- ii. the Company cannot use the proceeds of a common share issuance to increase Adjusted EBITDA in consecutive quarter ends;
- iii. the maximum proceeds of each common share issuance permitted to be attributed to Adjusted EBITDA cannot exceed the greater of 50 percent of Adjusted EBITDA on a trailing four-quarter basis and \$25.0 million; and
- iv. if proceeds are not used immediately as an equity cure they must be held in a segregated bank account pending an election to use them for such purpose, and if they are removed from such account but not used as an equity cure they will no longer be eligible for such use.

The September 2017 amendments to the credit facilities provided that 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, 2020 will increase Adjusted EBITDA over the relevant twelve-month rolling period and will also serve to reduce Funded Debt.

As shown in the table below, at December 31, 2018, the Company was in compliance with the financial covenants associated with its credit facilities.

As at December 31,	Covenant	Actual
	2018	2018
Working capital ratio not to fall below	1.15x	2.38x
Funded Debt to Adjusted EBITDA not to exceed	3.00x	0.23x
Funded Debt to Capitalization not to exceed	0.30x	0.05x

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 indenture governing the senior unsecured notes, which is available on SEDAR, contains 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 indenture, 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, with the restricted payments regime commencing once internal financial statements are available which show that the ratio is not met on a pro forma basis for the most recently ended four fiscal quarter period; 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) attributable to the shareholders of Calfrac 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 December 31, 2018 this basket was not utilized. The indenture 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.

As at December 31, 2018, the Company's Fixed Charge Coverage Ratio of 3.86:1 was higher than the required 2:1 ratio so the aforementioned prohibitions will not be applicable as long as the Company remains above this ratio.

INVESTING ACTIVITIES

Calfrac's net cash used for investing activities was \$149.8 million for the year ended December 31, 2018 versus \$76.0 million in 2017. Cash outflows relating to capital expenditures were \$157.2 million in 2018 compared to \$86.4 million in 2017. Capital expenditures were primarily to support the Company's North American fracturing operations. The Company disposed of assets in 2018 for proceeds of \$7.4 million compared to \$10.5 million in 2017.

As announced in December 2018, Calfrac's Board of Directors have approved a capital budget of \$149.0 million, which includes \$126.0 million of maintenance capital, \$11.0 million of refurbishment capital and \$12.0 million related to corporate initiatives. In addition, approximately \$6.0 million remaining from Calfrac's 2018 capital program is expected to be spent in 2019.

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 year ended December 31, 2018 was a gain of \$22.3 million versus a loss of \$17.1 million in 2017. These gains and losses relate to movements of cash and cash equivalents held by the Company in a foreign currency during the period.

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

At December 31, 2018, the Company had cash and cash equivalents of \$51.9 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 February 27, 2019, the Company had issued and outstanding 144,573,047 common shares, 209,851 equity-based performance share units and 10,667,545 options to purchase common shares.

SUMMARY OF QUARTERLY RESULTS

Three Months Ended	Mar. 31,	Jun. 30,	Sep. 30,	Dec. 31,	Mar. 31,	Jun. 30,	Sep. 30,	Dec. 31,
	2017	2017	2017	2017	2018	2018	2018	2018
<i>(C\$000s, except per share and operating data)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
<i>(unaudited)</i>								
Financial								
Revenue	268,815	325,344	448,090	485,456	582,838	544,602	630,128	498,858
Operating income (loss) ⁽¹⁾	20,395	36,740	78,196	44,789	67,974	66,528	115,331	61,992
Per share – basic	0.15	0.27	0.57	0.32	0.47	0.46	0.80	0.43
Per share – diluted	0.15	0.27	0.57	0.31	0.46	0.45	0.79	0.42
Adjusted EBITDA ⁽¹⁾	21,584	39,913	81,113	49,213	72,953	81,910	111,631	62,914
Per share – basic	0.16	0.29	0.59	0.35	0.51	0.57	0.77	0.44
Per share – diluted	0.16	0.29	0.59	0.34	0.50	0.56	0.76	0.43
Net income (loss) attributable to the shareholders of Calfrac	(19,547)	(20,349)	7,822	38,013	3,234	(32,838)	14,878	(3,462)
Per share – basic	(0.14)	(0.15)	0.06	0.27	0.02	(0.23)	0.10	(0.02)
Per share – diluted	(0.14)	(0.15)	0.06	0.26	0.02	(0.23)	0.10	(0.02)
Capital expenditures	12,965	22,358	22,093	34,518	51,334	42,404	34,542	31,484
Working capital (end of period)	278,818	293,411	334,606	327,049	360,654	361,613	386,843	329,871
Total equity (end of period)	485,452	463,180	477,188	543,645	546,018	507,607	516,899	513,820

Operating (end of period)

Active pumping horsepower (000s)	727	874	1,057	1,115	1,259	1,313	1,344	1,328
Idle pumping horsepower (000s)	493	443	338	280	134	80	49	42
Total pumping horsepower (000s)	1,220	1,317	1,395	1,395	1,393	1,393	1,393	1,370
Active coiled tubing units (#)	20	21	21	21	22	22	22	22
Idle coiled tubing units (#)	12	11	11	9	8	8	8	7
Total coiled tubing units (#)	32	32	32	30	30	30	30	29
Active cementing units (#)	12	12	12	12	12	11	11	11
Idle cementing units (#)	13	13	13	11	11	12	12	12
Total cementing units (#)	25	25	25	23	23	23	23	23

⁽¹⁾ Refer to “Non-GAAP Measures” on pages 24 and 25 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” on page 33).

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” on page 32).

FINANCIAL OVERVIEW – THREE MONTHS ENDED DECEMBER 31, 2018 VERSUS 2017

CONSOLIDATED HIGHLIGHTS

Three Months Ended December 31,	2018	2017	Change
<i>(C\$000s, except per share amounts)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(%)</i>
<i>(unaudited)</i>			
Revenue	498,858	485,456	3
Operating income (loss) ⁽¹⁾	61,992	44,789	38
Per share – basic	0.43	0.32	34
Per share – diluted	0.42	0.31	35
Adjusted EBITDA ⁽¹⁾	62,914	49,213	28
Per share – basic	0.44	0.35	26
Per share – diluted	0.43	0.34	26
Net income (loss) attributable to the shareholders of Calfrac	(3,462)	38,013	NM
Per share – basic	(0.02)	0.27	NM
Per share – diluted	(0.02)	0.26	NM
Working capital, end of period	329,871	327,049	1
Total assets, end of period	1,782,657	1,777,966	—
Long-term debt, end of period	989,614	958,825	3
Total equity, end of period	513,820	543,645	(5)

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

FOURTH QUARTER 2018 OVERVIEW

In the fourth quarter of 2018, the Company:

- generated revenue of \$498.9 million, an increase of 3 percent from the fourth quarter in 2017, resulting primarily from higher activity in Canada and larger job sizes in the United States;
- recorded reactivation costs of \$2.9 million compared to \$7.4 million in the fourth quarter of 2017;
- reported adjusted EBITDA of \$62.9 million versus \$49.2 million in the fourth quarter of 2017;
- reported a net loss attributable to shareholders of Calfrac of \$3.5 million or \$0.02 per share diluted, compared to net income of \$38.0 million or \$0.26 per share diluted in 2017, which included a \$76.3 million property, plant and equipment impairment reversal;
- reported period-end working capital of \$329.9 million versus \$327.0 million at December 31, 2017; and
- incurred capital expenditures of \$31.5 million primarily to support the Company's United States fracturing operations.

CANADA

Three Months Ended December 31,	2018	2017	Change
<i>(C\$000s, except operational information)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(%)</i>
<i>(unaudited)</i>			
Revenue	145,085	136,776	6
Expenses			
Operating	124,957	118,200	6
SG&A	3,472	3,884	(11)
	128,429	122,084	5
Operating income ⁽¹⁾	16,656	14,692	13
Operating income (%)	11.5	10.7	7
Fracturing revenue per job (\$)	20,265	21,042	(4)
Number of fracturing jobs	6,537	5,928	10
Active pumping horsepower, end of period (000s)	289	277	4
Idle pumping horsepower, end of period (000s)	17	143	(88)
Total pumping horsepower, end of period (000s)	306	420	(27)
Coiled tubing revenue per job (\$)	23,492	23,030	2
Number of coiled tubing jobs	517	484	7
Active coiled tubing units, end of period (#)	11	9	22
Idle coiled tubing units, end of period (#)	3	6	(50)
Total coiled tubing units, end of period (#)	14	15	(7)

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

REVENUE

Revenue from Calfrac's Canadian operations during the fourth quarter of 2018 was \$145.1 million versus \$136.8 million in the same period of 2017 primarily due to higher activity, offset partially by lower pricing. In the fourth quarter of 2018, the number of fracturing jobs was 10 percent higher than the comparable period in 2017. In both 2018 and 2017, activity slowed towards the second half of the fourth quarter due to its customers exhausting their full-year capital budgets. In response, Calfrac offered pricing incentives in order to accelerate certain planned first-quarter 2019 projects into November and December, which resulted in slightly lower average pricing in the fourth quarter of 2018 versus the same period in 2017. The number of coiled tubing jobs increased by 7 percent from the fourth quarter in 2017 primarily due to a larger operating scale and a greater focus on the conventional coiled tubing market in western Canada.

OPERATING INCOME

Operating income in Canada during the fourth quarter of 2018 was \$16.7 million compared to \$14.7 million in the same period of 2017. The increase in operating income was due to lower proppant costs as pricing for sand trended lower towards the end of the third quarter in 2018 as supply improved, the benefit of which was realized during the back half of the fourth quarter. In addition, the \$0.4 million decrease in SG&A expenses compared to the fourth quarter in 2017 was primarily due to a full-year bonus accrual being recorded in the fourth quarter of 2017, offset partially by severance costs of \$0.3 million that were accrued during the fourth quarter in 2018.

UNITED STATES

Three Months Ended December 31,	2018	2017	Change
<i>(C\$000s, except operational and exchange rate information)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(%)</i>
<i>(unaudited)</i>			
Revenue	279,324	267,659	4
Expenses			
Operating	223,055	212,593	5
SG&A	4,741	5,537	(14)
	227,796	218,130	4
Operating income ⁽¹⁾	51,528	49,529	4
Operating income (%)	18.4	18.5	(1)
Fracturing revenue per job (\$)	55,492	50,429	10
Number of fracturing jobs	5,034	5,276	(5)
Active pumping horsepower, end of period (000s)	854	653	31
Idle pumping horsepower, end of period (000s)	25	130	(81)
Total pumping horsepower, end of period (000s)	879	783	12
Active coiled tubing units, end of period (#)	—	—	—
Idle coiled tubing units, end of period (#)	2	1	100
Total coiled tubing units, end of period (#)	2	1	100
Active cementing units, end of period (#)	—	—	—
Idle cementing units, end of period (#)	10	9	11
Total cementing units, end of period (#)	10	9	11
US\$/C\$ average exchange rate ⁽²⁾	1.3204	1.2713	4

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

⁽²⁾ Source: Bank of Canada.

REVENUE

Revenue from Calfrac's United States operations increased to \$279.3 million during the fourth quarter of 2018 from \$267.7 million in the comparable quarter of 2017 despite a 5 percent decrease in the number of fracturing jobs completed period-over-period. The sharp decline in crude oil prices that occurred during the fourth quarter in 2018 caused some customers to slow their completions activity during the quarter, with Colorado and Permian-based activity experiencing the largest activity declines. This was partially offset by increased activity in North Dakota and south Texas year-over-year. The decline in activity was more than offset by the 10 percent increase in revenue per job year-over-year due to the impact of job mix as the Company's operations in Texas and New Mexico resulted in the completion of larger overall job sizes. The 4 percent appreciation in the U.S. dollar versus the Canadian dollar also contributed to the increase in revenue.

OPERATING INCOME

The Company's United States operations generated operating income of \$51.5 million during the fourth quarter of 2018 compared to \$49.5 million in the same period in 2017. The improvement in operating results was primarily due to better utilization in North Dakota and Pennsylvania, offset partially by lower utilization in Artesia and Colorado. Operating results in the fourth quarter of 2018 included \$2.9 million of fleet reactivation costs, while \$6.0 million was incurred in the comparable quarter in 2017. SG&A expenses decreased by 14 percent in the fourth quarter of 2018 primarily due to a full year bonus accrual recorded in the fourth quarter in 2017.

RUSSIA

Three Months Ended December 31,	2018	2017	Change
<i>(C\$000s, except operational and exchange rate information)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(%)</i>
<i>(unaudited)</i>			
Revenue	24,892	34,988	(29)
Expenses			
Operating	24,211	29,675	(18)
SG&A	941	1,319	(29)
	25,152	30,994	(19)
Operating (loss) income ⁽¹⁾	(260)	3,994	NM
Operating (loss) income (%)	(1.0)	11.4	NM
Fracturing revenue per job (\$)	76,039	85,651	(11)
Number of fracturing jobs	285	350	(19)
Pumping horsepower, end of period (000s)	77	77	—
Coiled tubing revenue per job (\$)	38,338	39,767	(4)
Number of coiled tubing jobs	84	126	(33)
Active coiled tubing units, end of period (#)	6	6	—
Idle coiled tubing units, end of period (#)	1	1	—
Total coiled tubing units, end of period (#)	7	7	—
Rouble/C\$ average exchange rate ⁽²⁾	0.0199	0.0218	(9)

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

⁽²⁾ Source: Bank of Canada.

REVENUE

Revenue from Calfrac's Russian operations decreased by 29 percent during the fourth quarter of 2018 to \$24.9 million from \$35.0 million in the corresponding three-month period of 2017. The decrease in revenue was attributable to a decrease in fracturing activity in Noyabrsk and Usinsk, offset partially by higher activity in Khanty-Mansiysk. Revenue per fracturing job decreased by 11 percent primarily due to job mix as the Company did not perform any work in Usinsk which typically had significantly larger job sizes. Coiled tubing activity decreased by 33 percent, primarily due to lower utilization than expected with one of its customers. The 9 percent depreciation of the Russian rouble in the fourth quarter of 2018 versus the same period in 2017 also contributed to the decrease in reported revenue.

OPERATING (LOSS) INCOME

The Company's Russian division generated an operating loss of \$0.3 million during the fourth quarter of 2018 versus income of \$4.0 million in the comparable quarter in 2017. The decrease was primarily due to lower equipment utilization in Noyabrsk combined with the impact of the expiration of its contract in Usinsk at the end of the first quarter in 2018, as this region contributed positively to operating income in 2017. SG&A expenses were \$0.4 million lower than the comparable quarter in 2017 due to a lower annual bonus provision.

ARGENTINA

Three Months Ended December 31,	2018	2017	Change
<i>(C\$000s, except operational and exchange rate information)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(%)</i>
<i>(unaudited)</i>			
Revenue	49,557	46,033	8
Expenses			
Operating	42,711	46,233	(8)
SG&A	2,489	2,877	(13)
	45,200	49,110	(8)
Operating income (loss) ⁽¹⁾	4,357	(3,077)	NM
Operating income (loss) (%)	8.8	(6.7)	NM
Active pumping horsepower, end of period (000s)	108	108	—
Idle pumping horsepower, end of period (000s)	—	7	NM
Total pumping horsepower, end of period (000s)	108	115	(6)
Active cementing units, end of period (#)	11	12	(8)
Idle cementing units, end of period (#)	2	2	—
Total cementing units, end of period (#)	13	14	(7)
Active coiled tubing units, end of period (#)	5	6	(17)
Idle coiled tubing units, end of period (#)	1	1	—
Total coiled tubing units, end of period (#)	6	7	(14)
US\$/C\$ average exchange rate ⁽²⁾	1.3204	1.2713	4

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

⁽²⁾ Source: Bank of Canada and Bloomberg.

REVENUE

Calfrac's Argentinean operations generated total revenue of \$49.6 million during the fourth quarter of 2018 versus \$46.0 million in the comparable three-month period in 2017. Revenue in Argentina was 8 percent higher than the comparable quarter primarily due to the completion of significantly larger jobs in Neuquén and in southern Argentina. The Company's revenue per job increased by 95 percent in the fourth quarter of 2018, primarily due to a greater proportion of activity in the Vaca Muerta, while job mix in the south also resulted in larger job sizes year-over-year. Coiled tubing revenue in Argentina decreased from the fourth quarter in 2017 as more of the Company's coiled tubing equipment was allocated to unconventional fracturing work. Cementing revenue was relatively consistent with the comparable period in 2017 as lower cementing activity in northern Argentina was offset by increased cementing activity in southern Argentina.

OPERATING INCOME (LOSS)

The Company's operations in Argentina generated operating income of \$4.4 million during the fourth quarter of 2018 compared to a loss of \$3.1 million during the fourth quarter in 2017. The Company achieved positive operating income through a combination of improved utilization and crew efficiencies during the quarter as it continued to transition to unconventional operations in Argentina. SG&A expenses were 13 percent lower during the fourth quarter in 2018 compared to the fourth quarter in 2017 primarily due to a \$0.6 million adjustment to bad debt expense recorded in 2018, offset partially by higher personnel expenses in 2018.

CORPORATE

Three Months Ended December 31,	2018	2017	Change
(C\$000s)	(\$)	(\$)	(%)
(unaudited)			
Expenses			
Operating	1,952	1,965	(1)
SG&A	8,337	18,384	(55)
	10,289	20,349	(49)
Operating loss ⁽¹⁾	(10,289)	(20,349)	(49)
% of Revenue	2.1	4.2	(50)

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

OPERATING LOSS

Corporate expenses for the fourth quarter of 2018 were \$10.3 million compared to \$20.3 million in the fourth quarter of 2017. Operating expenses were consistent with the comparable quarter in 2017. SG&A expenses decreased by \$10.0 million primarily due to a lower share price at the end of 2018 which decreased stock-based compensation expense by \$8.5 million versus the same period in 2017. In addition, the fourth quarter in 2017 included a full-year bonus provision resulting in a comparative decrease of \$2.3 million in the fourth quarter in 2018.

DEPRECIATION

For the three months ended December 31, 2018, depreciation expense increased by \$3.9 million to \$40.4 million from \$36.5 million in the corresponding quarter of 2017. The increase in depreciation was primarily due to the \$76.3 million impairment reversal that was recorded during the fourth quarter of 2017, combined with capital expenditures related to the continued activation of fleets in North America during 2017 and 2018. In addition, the 4 percent appreciation in the U.S. dollar relative to the Canadian dollar resulted in higher reported depreciation during the fourth quarter in 2018. This was offset partially by the impact of fully depreciated assets in Canada which reduced depreciation expense during the quarter.

FOREIGN EXCHANGE GAINS AND LOSSES

The Company recorded a foreign exchange gain of \$3.3 million during the fourth quarter of 2018 versus a loss of \$8.1 million in the comparative three-month period of 2017. 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 gain for the fourth quarter of 2018 was largely attributable to U.S. dollar-denominated assets held in Canada as the U.S. dollar appreciated against the Canadian dollar during the quarter.

IMPAIRMENT

A comparison of the recoverable amounts of each CGU with their respective carrying amounts resulted in no impairment against property, plant and equipment in the fourth quarter of 2018 while in 2017 the same comparison supported an impairment reversal of \$76.3 million.

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. For the three months ended December 31, 2018, the Company recorded an impairment charge of \$4.0 million to write-down inventory to its net realizable amount in Canada and the United States as well as write-off obsolete spare parts inventory in Mexico due to the closure of operations in that country.

INTEREST

The Company's net interest expense of \$21.0 million for the fourth quarter of 2018 was consistent with the comparable period of 2017 despite a change in the debt mix. The higher interest rate on its US\$650.0 million 8.50 percent senior notes during the fourth quarter compared to its US\$600.0 million 7.50 percent senior notes that were repaid during the second quarter of 2018 resulted in an increase in reported interest expense. The stronger U.S. dollar during the fourth quarter in 2018 compared to the same period in 2017 also contributed to the higher reported interest expense related to its senior notes. This was offset by the impact of replacing a portion of its \$200.0 million second lien term loan that carried an interest rate of 9.0% with lower interest rate credit facility borrowings.

INCOME TAXES

The Company recorded income tax recovery of \$4.6 million during the fourth quarter of 2018 compared to an expense of \$14.7 million in the comparable period of 2017. The recovery position was the result of pre-tax losses during the quarter in Canada, the United States and Argentina.

BUSINESS UPDATE AND OUTLOOK

Calfrac's fourth-quarter results reflect the strength of Calfrac's global platform, impacted by seasonal and market-specific issues at year-end.

CANADA

In Canada, the fourth quarter began with very strong utilization and revenue due, in part, to weather-related delays during the third quarter that deferred activity into October. However, a significant widening of differentials for Canadian light oil and condensate was experienced during the fourth quarter which resulted in the deferral or cancellation of planned completion programs, and consequently, increased pricing pressure throughout the entire industry. In spite of these challenges, Calfrac's Canadian division delivered higher revenue and operating income as compared to the prior year.

At the beginning of 2019, Calfrac made the decision to suspend operations for one fleet in its Canadian division based on weaker demand for fracturing services. The Company expects acceptable utilization on its remaining seven fleets through the balance of the first quarter, but lower pricing relative to 2018 is anticipated to negatively impact operating income. The majority of this recently idled equipment has already been redeployed to support Calfrac's operations in the United States. Recent cold weather and schedule shifts have impacted utilization in February, however activity is projected to recover in March, and prospects for utilization during spring break-up appear to be improving. As always, weather and road bans will ultimately determine how much activity can be serviced in the weeks ahead.

Beyond the first quarter, Calfrac's client base is uncertain as to the scope and timing of their capital spending programs for the remainder of 2019. As such, Calfrac has unusually low visibility into its activity levels beyond spring break-up. The Company will continue to monitor the market and will remain mindful of retaining an industry-leading position in Canada while delivering acceptable financial returns for its stakeholders.

UNITED STATES

The fourth quarter saw a continuation of solid performance from Calfrac's operations in the United States. While budget exhaustion and lower crude oil prices impacted activity and pricing, the Company was able to deliver financial results that were slightly better than the same quarter in 2017. As expected, utilization was lower during the final weeks of the quarter due to normal seasonal patterns as well as budget exhaustion and lower commodity prices. Some pricing pressures were observed but they had limited impact on the reported fourth-quarter financial results.

Thus far in the first quarter, activity has been solid, although recent periods of cold weather have had an impact on operating cadence in North Dakota and Pennsylvania as programs have been paused.

Based on steady rig activity and a growing inventory of drilled but uncompleted wells, the Company's outlook in the United States remains strong as oil takeaway capacity additions in the Permian Basin are expected to increase completion activity in that basin during the second half of the year. Calfrac's strong presence throughout multiple basins in the United States and across several top-tier producers should lead to strong utilization over the short-run, and the Company will monitor producer plans for opportunities to further optimize its operational and financial performance in the United States.

RUSSIA

Calfrac's operations in Russia posted break-even results in the fourth quarter, as weather and client activity levels continued to impede the operation. However, after a successful tender season, the Company expects 2019 operating results to more closely resemble levels seen in 2017.

ARGENTINA

Calfrac's operations in Argentina again delivered strong year-on-year improvement in operating and financial results, due to higher activity and productivity across the operation.

Calfrac's outlook for Argentina in 2019 remains positive, as contracted work volumes are expected to be higher along with further improvements in cost management and productivity. The Company is in the process of transferring some previously idle cementing assets from the United States to further enhance Calfrac's service offering in Argentina.

CORPORATE

Calfrac demonstrated its ability to generate cash and reduce leverage during the fourth quarter, and will remain focused on cash generation in 2019. While uncertainty remains elevated, particularly in Canada, the Company's operating footprint and strategic approach is expected to generate cash in 2019 across a wide range of outcomes, with debt reduction continuing to be the Company's top priority. Calfrac will continue to focus on delivering safe and effective service in the field while bringing innovative ideas around products and logistics that, taken together, will be the catalyst for success for our clients, our employees and our investors.

As announced in December 2018, the Company's Board of Directors approved a 2019 capital budget of \$149.0 million, consisting of \$126.0 million of maintenance capital, \$11.0 million in refurbishment capital and \$12.0 million in corporate initiatives, consisting primarily of costs for the implementation of an ERP system in North America and Argentina. In addition, approximately \$6.0 million of Calfrac's 2018 budget is forecast to be spent in 2019.

NON-GAAP MEASURES

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

Operating income (loss) is defined as net income (loss) before depreciation, foreign exchange gains or losses, gains or losses on disposal of property, plant and equipment, impairment of inventory, impairment of property, plant and equipment, interest, and income taxes. Management believes that operating income is a useful supplemental measure as it provides an indication of the financial results generated by Calfrac's business segments prior to consideration of how these segments are financed or taxed. Operating income for the period was calculated as follows:

	Three Months Ended Dec. 31,		Years Ended Dec. 31,	
	2018	2017	2018	2017
<i>(C\$000s)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
<i>(unaudited)</i>				
Net (loss) income	(3,462)	35,871	(26,177)	586
Add back (deduct):				
Depreciation	40,391	36,486	160,318	130,793
Foreign exchange (gains) losses	(3,342)	8,099	38,047	34,273
Loss on disposal of property, plant and equipment	7,887	4,966	30,317	13,039
Impairment (reversal of impairment) of property, plant and equipment	115	(76,296)	115	(76,296)
Impairment of inventory	3,978	—	7,167	—
Interest	20,999	20,962	106,630	85,450
Income taxes	(4,574)	14,701	(4,592)	(7,725)
Operating income	61,992	44,789	311,825	180,120

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 Dec. 31,		Years Ended Dec. 31,	
	2018	2017	2018	2017
(C\$000s)			(\$)	(\$)
(unaudited)				
Net (loss) income	(3,462)	35,871	(26,177)	586
Add back (deduct):				
Depreciation	40,391	36,486	160,318	130,793
Unrealized foreign exchange (gains) losses	(4,345)	8,438	11,465	34,646
Non-recurring realized foreign exchange losses ⁽¹⁾	—	—	29,288	—
Loss on disposal of property, plant and equipment	7,887	4,966	30,317	13,039
Impairment (reversal of impairment) of property, plant and equipment	115	(76,296)	115	(76,296)
Impairment of inventory	3,978	—	7,167	—
Provision for settlement of litigation	—	—	—	(139)
Restructuring charges	281	563	1,076	1,131
Stock-based compensation	1,644	1,380	5,812	4,985
Losses attributable to non-controlling interest	—	2,142	7,989	5,353
Interest	20,999	20,962	106,630	85,450
Income taxes	(4,574)	14,701	(4,592)	(7,725)
Adjusted EBITDA	62,914	49,213	329,408	191,823

⁽¹⁾ The Company recognized a one-time realized foreign exchange loss resulting from the capitalization of inter-company debt held by its Argentinean subsidiary.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

As at December 31, 2018	Payment Due by Period				
	Total	< 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
(C\$000s)	(\$)	(\$)	(\$)	(\$)	(\$)
(unaudited)					
Operating and finance leases	34,564	17,224	15,477	1,863	—
Purchase obligations	246,263	143,936	100,608	1,719	—
Total contractual obligations	280,827	161,160	116,085	3,582	—

As outlined above, Calfrac has various contractual lease commitments related to vehicles, equipment and facilities as well as purchase obligations for products, services and property, plant and equipment.

GREEK LITIGATION

As described in note 20 to the interim consolidated financial statements, the Company and one of its Greek subsidiaries are involved in a number of legal proceedings in Greece. Management regularly evaluates the likelihood of potential liabilities being incurred and the amounts of such liabilities after careful examination of available information and discussions with its legal advisors. 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 was recorded in the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This MD&A is based on the Company's consolidated financial statements for the year ended December 31, 2018 which were prepared in accordance with IFRS. Management is required to make assumptions, judgments and estimates in the application of IFRS. Calfrac's significant accounting policies are described in note 2 to the annual consolidated financial statements.

The preparation of the consolidated financial statements requires that certain estimates and judgments be made concerning the reported amount of revenue and expenses and the carrying values of assets and liabilities. These estimates are based on historical experience and management's judgment. The estimation of anticipated future events involves uncertainty and, consequently, the estimates used by management in the preparation of the consolidated financial statements may change as future events unfold, additional experience is gained or the environment in which the Company operates changes. The accounting policies and practices requiring estimates that have a significant impact on the Company's financial results include the allowance for doubtful accounts receivable, depreciation, the fair value of financial instruments, impairment of property, plant and equipment, income taxes, stock-based compensation expenses, functional currency and cash-generating units (CGU).

Judgment is also used in the determination of the functional currency of each subsidiary and in the determination of CGUs.

ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE

The Company performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, financial condition of the customer and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based on expected and incurred losses as well as overall industry conditions. In situations where the creditworthiness of a customer is uncertain, services are provided on receipt of cash in advance or services are declined. Calfrac's management believes that the provision for doubtful accounts receivable, which was \$0.6 million at December 31, 2018, is adequate.

DEPRECIATION

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.

FINANCIAL INSTRUMENTS

Financial instruments included in the Company's consolidated balance sheets are cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities, long-term debt and finance lease obligations.

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial instruments included in the consolidated balance sheets, except long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of the senior unsecured notes based on the closing market price at December 31, 2018 was \$661.5 million before deduction of unamortized debt issuance costs (December 31, 2017 – \$743.1 million). The carrying value of the senior unsecured notes at December 31, 2018 was \$886.7 million before deduction of unamortized debt issuance costs and debt discount (December 31, 2017 – \$752.7 million). The fair values of the remaining long-term debt and finance lease obligations approximate their carrying values, as described in note 11 to the annual consolidated financial statements.

CREDIT RISK

Substantial amounts of the Company's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risks. The Company mitigates this risk through its credit policies and practices, including the use of credit limits and approvals, and by monitoring its customers' financial condition. At December 31, 2018, the Company had a provision for doubtful accounts receivable of \$0.6 million (December 31, 2017 – \$4.6 million).

Payment terms with customers vary by country and contract. Standard payment terms, however, are 30 days from invoice date. The Company's aged trade and accrued accounts receivable at December 31, 2018 and 2017, excluding the provision for doubtful accounts, are as follows:

As at December 31,	2018	2017
(C\$000s)	(\$)	(\$)
(unaudited)		
Current	203,368	232,963
31 - 60 days	109,510	80,176
61 - 90 days	21,553	22,051
91+ days	8,936	13,454
Total	343,367	348,644

The Company's accounts receivable that were greater than 90 days included \$6.3 million from customers operating in Russia for which no provision has been made. Although the timing is uncertain, collection is expected in its entirety.

INTEREST RATE RISK

The Company is exposed to cash flow risk due to fluctuating interest payments required to service any floating-rate debt. The increase or decrease in annual interest expense for each 1 percentage point change in the interest rate on floating-rate debt at December 31, 2018 amounts to \$1.2 million (2017 – \$0.3 million).

The Company's effective interest rate for the year ended December 31, 2018 was 10.6 percent (December 31, 2017 – 8.6 percent). During 2018, the Company incurred \$21.2 million of interest expense relating to the early repayment of its second lien term loan and 7.50 percent senior notes due 2020. Excluding these non-recurring costs, the effective interest rate for the year ended December 31, 2018 would have been 8.5 percent.

LIQUIDITY RISK

The Company's principal sources of liquidity are operating cash flows, existing or new credit facilities, new secured debt, new senior unsecured notes and new share equity. The Company monitors its liquidity to ensure it has sufficient funds to complete planned capital and other expenditures. The Company mitigates liquidity risk by maintaining adequate banking and credit facilities and monitoring its forecast and actual cash flows. The Company may also adjust its capital spending and dividends to maintain liquidity.

The expected timing of cash outflows relating to financial liabilities is outlined in the table below:

At December 31, 2018	Total	< 1 Year	1 - 3 Years	4 - 6 Years	7 - 9 Years	Thereafter
(C\$000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
(unaudited)						
Accounts payable and accrued liabilities	239,507	239,507	—	—	—	—
Long-term debt ⁽¹⁾	1,580,482	80,991	348,959	226,116	924,416	—

At December 31, 2017	Total	< 1 Year	1 - 3 Years	4 - 6 Years	7 - 9 Years	Thereafter
(C\$000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
(unaudited)						
Accounts payable and accrued liabilities	246,943	246,943	—	—	—	—
Long-term debt ⁽¹⁾	1,189,001	101,860	1,086,987	154	—	—

⁽¹⁾ Principal and interest

FOREIGN EXCHANGE RISK

The Company is exposed to foreign exchange risk associated with foreign operations where assets, liabilities, revenue and costs are denominated in currencies other than Canadian dollars. These currencies include the U.S. dollar, Russian rouble, Mexican peso and Argentinean peso. The Company is also exposed to the impact of foreign currency fluctuations in its Canadian operations on purchases of products and property, plant and equipment from vendors in the United States. In addition, the Company's senior unsecured notes and related interest expense are denominated in U.S. dollars. The amount of this debt and related interest expressed in Canadian dollars varies with fluctuations in the U.S. dollar to Canadian dollar exchange rate. This risk is mitigated, however, by the Company's U.S. operations and accompanying revenue streams.

A change in the value of foreign currencies in the Company's consolidated financial instruments (cash, accounts receivable, accounts payable and debt) would have had the following impact on net income and other comprehensive income:

At December 31, 2018	Impact to Net Income
(C\$000s)	(\$)
1% change in value of U.S. dollar	562
1% change in value of Argentinean peso	(83)
1% change in value of Russian rouble	—

At December 31, 2017	Impact to Net Income
(C\$000s)	(\$)
1% change in value of U.S. dollar	1,168
1% change in value of Argentinean peso	N/A
1% change in value of Russian rouble	—

IMPAIRMENT

Assessment of impairment is based on management's judgment of whether there are internal and external factors that would indicate that an asset or CGU is impaired.

As described in note 5 to the consolidated financial statements, the Company reviews the carrying value of its property, plant and equipment at each reporting period for indicators of impairment. As well, the Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset or CGU other than goodwill may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount of that CGU to determine if the reversal of impairment loss is supported.

The decrease in crude oil prices during the fourth quarter of 2018 combined with the impact of significant oil and natural gas differentials in Canada, which are expected to affect completion activity and pricing in Canada, were an indicator of impairment and the Company estimated the recoverable amount of its property, plant and equipment. A comparison of the recoverable amounts of each cash-generating unit with their respective carrying amounts resulted in no impairment against property, plant and equipment for the year ended December 31, 2018 (year ended December 31, 2017 – reversal of impairment \$76.3 million). The Company's 2017 year end impairment test supported the reversal of the impairment loss that was previously recorded in the United States CGU, after taking into account normal depreciation that would have been charged if no impairment had occurred.

INCOME TAXES

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax bases. Estimates of the Company's future taxable income are considered in assessing the utilization of available tax losses. The Company's business is complex and the calculation of income taxes involves many complex factors as well as the Company's interpretation of relevant tax legislation and regulations.

STOCK-BASED COMPENSATION

The fair value of stock options is estimated at the grant date using the Black-Scholes option pricing model, which includes underlying assumptions related to the risk-free interest rate, average expected option life, estimated forfeitures, estimated volatility of the Company's shares and anticipated dividends.

The fair value of the deferred share units, performance share units and restricted share units is recognized based on the market value of the Company's shares underlying these compensation programs.

FUNCTIONAL CURRENCY

Management applies judgment in determining the functional currency of its foreign subsidiaries. Judgment is made with regard to the currency that influences and determines sales prices, labour, material and other costs as well as financing and receipts from operating income.

On July 1, 2018, the functional currency of Calfrac Well Services (Argentina) S.A, a subsidiary of the Company, changed to the U.S. dollar from the Argentinean peso. The change was implemented as a result of the acquisition of Vision Sur SRL, the entity that held the non-controlling interest in Calfrac Well Services (Argentina) S.A. (as disclosed in note 13). The Company has full decision making authority over Calfrac Well Services (Argentina) S.A., which is now a wholly-owned subsidiary. In addition, an analysis was performed by management which determined that the majority of its business transactions are now either conducted in U.S. dollars or are being indexed to the U.S. dollar. Revenue has transitioned over time whereby now nearly all revenue contracts are priced in U.S. dollars. A large portion of expenses that in prior periods were priced in Argentinean pesos are now either priced in U.S. dollars or are being indexed to U.S. dollars. The debt balances are also denominated in U.S. dollars.

On the date of the change in functional currency, all assets, liabilities and equity were translated into U.S. dollars at the exchange rate as of that date. The Company has adopted a policy to translate equity items at the historical rate when translating from functional currency to presentation currency.

CASH-GENERATING UNITS

The determination of CGUs is based on management's judgment regarding shared equipment, mobility of equipment, geographical proximity and materiality.

RELATED-PARTY TRANSACTIONS

In November 2010, the Company loaned a senior officer \$2.5 million to purchase common shares of the Company on the Toronto Stock Exchange (TSX). The loan is on a non-recourse basis and is secured by the common shares acquired with the loan proceeds. The loan was amended in February 2015 to extend the term by five years to November 8, 2020 and change the interest rate to the prescribed rate under the Income Tax Act (Canada), which rate was 1.0 percent per annum at the time of the amendment. The loan was subsequently amended in December 2016 to make it non-interest bearing, effective February 24, 2015. The market value of the shares that secure the loan was approximately \$0.4 million as at December 31, 2018 (December 31, 2017 – \$1.0 million). In accordance with applicable accounting standards regarding share purchase loans receivable, this loan is classified as a reduction of shareholders' equity due to its non-recourse nature. In addition, the shares purchased with the loan proceeds are considered to be, in substance, stock options.

The Company leases certain premises from a company controlled by Ronald P. Mathison, one of the Company's directors. The rent charged for these premises during year ended December 31, 2018 was \$1.7 million (year ended December 31, 2017 – \$1.7 million), as measured at the exchange amount, which is based on market rates.

CHANGES IN ACCOUNTING POLICIES

The IASB issued IFRS 15 *Revenue from Contracts with Customers*, a new standard for the recognition of revenue, which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard is required to be adopted either retrospectively or using a modified retrospective approach. In accordance with the transition provisions in IFRS 15, the Company has adopted the new standard using the modified retrospective method; the cumulative effective of initially applying the standard is recognized as an adjustment to the opening balance of retained earnings as of January 1, 2018. Comparative prior year periods are not restated. The adoption of IFRS 15 did not result in any changes in the timing of revenue recognition for the Company's goods and services.

The IASB issued the final version of IFRS 9 *Financial Instruments*, which is effective for annual periods beginning on or after January 1, 2018. IFRS 9, as amended, addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces a substantially reformed approach to hedge accounting and a new impairment model for financial assets. The Company has adopted the standard retrospectively from January 1, 2018, with the transition provisions permitted under the standard. Differences in the carrying amount of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in the opening balance as of January 1, 2018. Comparative prior year periods are not restated. The adoption of IFRS 9 did not result in a significant change to the Company's consolidated financial statements.

Each of the Company's subsidiaries is measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Determination of functional currency is conducted through an analysis of the factors identified in IAS 21 *The Effects of Changes in Foreign Exchange Rates* and may involve certain judgments to determine the primary economic environment. The Company reconsiders the functional currency of its entities if there is a change in events and conditions which determine the primary economic environment.

On July 1, 2018, the functional currency of Calfrac Well Services (Argentina) S.A, a subsidiary of the Company, changed to the U.S. dollar from the Argentinean peso. The change was implemented as a result of the acquisition of the non-controlling interest of Calfrac Well Services (Argentina) S.A., Vision Sur SRL (as disclosed in note 13). As a wholly-owned subsidiary, the Company has full decision making authority over Calfrac Well Services (Argentina) S.A., thereby reducing its autonomy. In addition to an analysis performed by management which determined that the majority of its business transactions are now either conducted in U.S. dollars or are being indexed to the U.S. dollar, revenue has transitioned over time whereby now nearly all revenue contracts are priced in U.S. dollars. A large portion of expenses that in prior periods were priced in Argentinean pesos are now either priced in U.S. dollars or are being indexed to U.S. dollars. The debt balances are also denominated in U.S. dollars.

On the date of the change in functional currency, all assets, liabilities and equity were translated into U.S. dollars at the exchange rate as of that date. The Company has adopted a policy to translate equity items at the historical rate when translating from functional currency to presentation currency.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2016, the IASB issued IFRS 16 *Leases*, which requires lessees to recognize all leases on the balance sheet. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company has elected to adopt IFRS 16 using the modified retrospective approach by recognizing the cumulative effect of initially applying the new standard on January 1, 2019 using the simplified right-of-use asset measurement method, along with the application of various practical expedients. The impact of the standard on the Company's financial statements is expected to be material. The Company is subject to financial covenants relating to working capital, leverage and the generation of cash flow in respect of its operating and revolving credit facilities. The adoption of IFRS 16 is not expected to impact the reported bank covenants as the effects of the new standard are expected to be removed from the covenant calculations.

As at January 1, 2019, the Company expects that the adoption of IFRS 16 will result in the recognition of right-of-use assets and lease liabilities of approximately \$44.0 million.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The President and Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) of Calfrac are responsible for establishing and maintaining the Company's disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR).

DC&P are designed to provide reasonable assurance that material information relating to the Company is made known to the CEO and CFO by others, particularly in the period in which the annual filings are being prepared, and that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported within the periods specified in securities legislation, and includes controls and procedures designed to ensure that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

In accordance with the requirements of National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings," an evaluation of the effectiveness of DC&P and ICFR was carried out under the supervision of the CEO and CFO at December 31, 2018. Based on this evaluation, the CEO and CFO have concluded that the Company's DC&P and ICFR are effectively designed and operating as intended.

No change to the Company's ICFR occurring during the most recent interim period materially affected, or is reasonably likely to materially affect, the Company's ICFR.

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 below as well as in the Company's most recently filed Annual Information Form, which is available at www.sedar.com.

VOLATILITY OF INDUSTRY CONDITIONS

The demand, pricing and terms for the Company's services largely depend upon the level of expenditures made by oil and gas companies on exploration, development and production activities in North America, Argentina and Russia. Expenditures by oil and gas companies are typically directly related to the demand for, and price of, oil and gas. Generally, when commodity prices and demand are predicted to be, or are relatively, high, demand for the Company's services is high. The converse is also true.

The prices for oil and natural gas are subject to a variety of factors including: the demand for energy; the ability of OPEC to set and maintain production levels for oil; oil and gas production by non-OPEC countries; the decline rates for current production; global and domestic economic conditions, including currency fluctuations; political and economic uncertainty and socio-political unrest; cost of exporting, producing and delivering oil and gas; technological advances affecting energy consumption; weather conditions; the effect of worldwide energy conservation and greenhouse gas reduction measures; and government regulations. Any prolonged reduction in oil and natural gas prices would likely decrease the level of activity and expenditures in oil and gas exploration, development and production activities and, in turn, decrease the demand for the Company's services.

In addition to current and expected future oil and gas prices, the level of expenditures made by oil and gas companies are influenced by numerous factors over which the Company has no control, including but not limited to: general economic conditions; the cost of exploring for, producing and delivering oil and gas; the expected rates of current production; the discovery rates of new oil and gas reserves; cost and availability of drilling equipment; availability of pipeline and other oil and gas transportation capacity; natural gas storage levels; political, regulatory and economic conditions; taxation and royalty changes; government regulation; environmental regulation; ability of oil and gas companies to obtain credit, equity capital or debt financing; and currency fluctuations. A material decline in global oil and natural gas prices or North American, Russian and Argentinean activity levels as a result of any of the above factors could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

ACCESS TO CAPITAL

The Company's business plan is subject to the availability of additional financing for future costs of operations or expansion that might not be available, or may not be available on favourable terms. If the Company's cash flow from operations is not sufficient to fund its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements on terms acceptable to the Company or at all, particularly if the Company's debt levels are above industry standards. The Company's inability to raise capital could impede its growth and could materially adversely affect the business, financial condition, results of operations and cash flows of the Company.

The Company is required to comply with covenants under the Credit Agreement and the Indenture, including covenants relating to financial ratios and capital asset values which affect the availability and/or price of funding. In the event that the Company does not comply with such covenants, the Company's access to capital could be restricted or repayment could be required. Such non-compliance could result from an impairment charge to the Company's capital assets, which is determined based on management's estimates and assumptions when certain internal and external factors indicate the need for the Company to assess its capital assets balance for impairment. If realized, these risks could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Even if the Company is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to the Company. If the Company is unable to repay amounts owing under the Credit Agreement or the Indenture, the lenders could proceed to foreclose or otherwise realize upon any collateral granted to them to secure the indebtedness. The acceleration of the Company's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross-default or cross-acceleration provisions. In addition, operating and financial restrictions exist under the Credit Agreement and the Indenture, which include restrictions on the payment of dividends, repurchase or making of other distributions with respect to the Company's securities, incurrence of additional indebtedness, provision of guarantees, making of capital expenditures and entering into of certain transactions, among others.

VOLATILITY IN CREDIT MARKETS

The ability to make scheduled debt repayments, refinance debt obligations and access financing depends on the Company's financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain finance, business and other factors beyond its control. In addition, the Company's ability to refinance debt obligations and access financing is affected by credit ratings assigned to the Company and its debt. Continuing volatility in the credit markets could increase costs associated with debt instruments due to increased spreads over relevant interest rate benchmarks, or affect the ability of the Company, or third parties it seeks to do business with, to access those markets.

In addition, access to further financing for the Company or its customers remains uncertain. This condition could have an adverse effect on the industry in which the Company operates and its business, including future operating results. The Company's customers may curtail their drilling and completion programs, which could decrease demand for the Company's services and could increase downward pricing pressures. Further, certain customers could become unable to pay suppliers, including the Company, in the event they are unable to access the capital markets to fund their business operations. Such risks, if realized, could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

EMPLOYEES

The Company may not be able to find enough skilled and/or unskilled labour to meet its needs, and this could limit growth. Shortages of qualified personnel have occurred in the past during periods of high demand. The demand for qualified oilfield services personnel generally increases with stronger demand for oilfield services and as new horsepower is brought into service. Increased demand typically leads to higher wages that may or may not be reflected in any increases in service rates.

Other factors can also affect the Company's ability to find enough workers to meet its needs. The nature of the Company's work requires skilled workers who can perform physically demanding work. Volatility in the oilfield services industry and the demanding nature of the work, however, may prompt workers to pursue other kinds of jobs that offer a more desirable work environment and wages competitive to the Company's. The Company's success depends on its ability to continue to employ and retain skilled technical personnel and qualified oilfield personnel. If the Company is unable to do so, it could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

EQUIPMENT LEVELS

Because of the long-life nature of oilfield service equipment and the lag between when a decision to build additional equipment is made and when the equipment is placed into service, the quantity of oilfield service equipment in the industry does not always correlate with the level of demand for service equipment. Periods of high demand often spur increased capital expenditures on equipment, and those capital expenditures may add capacity that exceeds actual demand. Such capital overbuild could cause the Company's competitors to lower their pricing and could lead to a decrease in rates in the oilfield services industry generally, which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

COMPETITION

Each of the markets in which the Company participates is highly competitive. To be successful, a service provider must provide services that meet the specific needs of oil and natural gas exploration and production companies at competitive prices. The principal competitive factors in the markets in which the Company operates are product and service quality and availability, technical knowledge and experience, reputation for safety and price. The Company competes with large national and multi-national oilfield service companies that have extensive financial and other resources. These companies offer a wide range of well stimulation services in all geographic regions in which the Company operates. In addition, the Company competes with several regional competitors. As a result of competition, the Company may suffer from a significant reduction in revenue or be unable to pursue additional business opportunities.

SOURCES, PRICING AND AVAILABILITY OF RAW MATERIALS, COMPONENTS AND PARTS

The Company sources its raw materials, such as proppant, chemicals, nitrogen, carbon dioxide and diesel fuel, and its component parts from a variety of suppliers in North America, Russia and Argentina. Should the Company's current suppliers be unable to provide the necessary raw materials and component parts at a price acceptable to the Company or otherwise fail to deliver products in the quantities required, any resulting cost increases or delays in the provision of services to the Company's clients could have a material adverse effect on its business, financial condition, results of operations and cash flows.

FLUCTUATIONS IN FOREIGN EXCHANGE RATES

The Company's consolidated financial statements are reported in Canadian dollars. Accordingly, the results of the Company's foreign operations are directly affected by fluctuations in the exchange rates for United States, Russian and Argentinean currencies. For example, financial results from the Company's United States operations are denominated in United States dollars, so a decrease in the value of the United States dollar would decrease the Canadian dollar amount of such financial results from United States operations. In addition, the majority of the Company's debt is denominated in United States dollars, so a decline in the value of the Canadian dollar would increase the amount of reported debt in the Company's consolidated financial statements. Other than natural hedges arising from the normal course of business in foreign jurisdictions, the Company does not have any hedging positions.

FOREIGN OPERATIONS

Some of the Company's operations and related assets are located in countries outside of Canada and the United States, some of which may be considered politically or economically unstable. Activities in such countries may require protracted negotiations with host governments, national oil and gas companies and third parties and are frequently subject to economic and political considerations, such as taxation, nationalization, expropriation, inflation, currency fluctuations, increased regulation and approval requirements, restrictions on the repatriation of income or capital, governmental regulation and the risk of actions by terrorist, criminal or insurgent groups, any of which could adversely affect the economics of exploration or development

projects and the demand for the Company's well stimulation services which, in turn, could have a material adverse effect on its business, financial condition, results of operations and cash flows.

Additionally, operations outside of Canada could also expose the Company to trade and economic sanctions or other restrictions imposed by the Canadian government or other governments or organizations, such as the sanctions issued by the Canadian and U.S. governments against Russia. Although management has implemented internal controls, procedures and policies that it believes to be adequate and customary in the industry and the countries where the Company operates, federal agencies and authorities may seek to impose a broad range of criminal or civil penalties against the Company or its representatives for violations of securities laws, foreign corrupt practices laws or other federal statutes, any of which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

CONCENTRATION OF CUSTOMER BASE

The Company's customer base consists of over 130 oil and natural gas exploration and production companies, ranging from large multi-national public companies to small private companies. Notwithstanding the Company's broad customer base, it had ten significant customers that collectively accounted for approximately 56 percent of its revenue for the year ended December 31, 2018 and, of such customers, four accounted for approximately 32 percent of the Company's revenue for the year ended December 31, 2018 and the largest customer accounted for approximately 11 percent of the Company's revenue. There can be no assurance that the Company's relationship with these customers will continue, and a significant reduction or total loss of the business from these customers, if not offset by sales to new or existing customers, would have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

MERGER AND ACQUISITION ACTIVITY

Merger and acquisition activity amongst oil and natural gas exploration and production companies may constrain demand for the Company's services as clients focus on reorganizing their businesses prior to committing funds to exploration and development projects. Further, the acquiring company may have preferred supplier relationships with oilfield service providers other than the Company.

OPERATIONAL RISKS

The Company's operations are subject to hazards inherent in the oil and natural gas industry, such as equipment defects, malfunction and failures, and natural disasters which result in fires, vehicle accidents, explosions and uncontrollable flows of natural gas or well fluids that can cause personal injury, loss of life, suspension of operations, damage to formations, damage to facilities, business interruption and damage to or destruction of property, equipment and the environment. These hazards could expose the Company to substantial liability for personal injury, wrongful death, property damage, loss of oil and natural gas production, pollution, contamination of drinking water and other environmental damages. The Company continuously monitors its activities for quality control and safety, and although the Company maintains insurance coverage that it believes to be adequate and customary in the industry, such insurance may not be adequate to cover potential liabilities and may not be available in the future at rates that the Company considers reasonable and commercially justifiable. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, may have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

SEASONALITY

The Company's financial results are directly affected by the seasonal nature of the North American oil and natural gas industry, particularly in portions of western Canada and North Dakota. The first quarter incorporates the winter drilling season when a disproportionate amount of the activity takes place in western Canada and North Dakota. During the second quarter, soft ground conditions typically curtail oilfield activity in all of the Company's Canadian operating areas and its operating areas in North Dakota such that many rigs are unable to be moved due to road weight restrictions. This period, commonly referred to as "spring break-up", occurs earlier in the year in North Dakota and southeast Alberta than it does in northern Alberta and northeast British Columbia. Consequently, this is typically the Company's weakest three-month revenue period. Additionally, if an unseasonably warm winter prevents sufficient freezing, the Company might not be able to access well sites and its operating results and financial condition could therefore be adversely affected. The demand for fracturing and well stimulation services may also be affected by severe winter weather in North America and Russia. In addition, during excessively rainy periods in any of the Company's operating areas, equipment moves may be delayed, thereby adversely affecting revenue. The volatility in the weather adds a further element of unpredictability to activity and utilization rates, which can have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

LEGAL PROCEEDINGS

From time to time, the Company is involved in legal and administrative proceedings which are usually related to normal operational or labour issues. The results of such proceedings or related matters cannot be determined with certainty. The Company's assessment of the likely outcome of such matters is based on advice from external legal advisors, which is based on their judgment of a number of factors including the applicable legal or administrative framework, precedents, relevant financial and operational information and other evidence and facts specific to the matter as known at the time of the assessment. If these matters, or any matters which the Company may be subject to in the future, were to be determined in a manner adverse to the Company or if the Company elects to settle one or more of such matters, it could have a material adverse effect on its business, financial condition, results of operations and cash flows.

FEDERAL, STATE AND PROVINCIAL LEGISLATIVE AND REGULATORY INITIATIVES

The Canadian federal government, the United States Congress, the United States Environmental Protection Agency and other regulatory agencies in the United States continue to conduct investigations regarding the use and lifecycle of stimulation water and chemicals in the hydraulic fracturing process and the potential impacts on human health and the environment. In addition, most provincial, state and local governments with jurisdiction over oil and gas development have undertaken similar investigations and have implemented various conditions, rules, regulations and restrictions on hydraulic fracturing operations rather than waiting for federal implementation. Petitions and bills that assert that the fracturing process could adversely affect surface and/or ground water supplies, air quality and seismic events have been introduced in Congress and state legislatures. The proposed statutes have historically aimed to repeal the exemption for hydraulic fracturing under the Safe Drinking Water Act or enact moratoriums and/or bans on the use of hydraulic fracturing in the hydrocarbon extraction process.

Legislative and regulatory requirements currently in place or scheduled to become effective in certain provinces and/or states in 2019 include requirements regarding local government consultation, wellhead and pad setbacks, public and landowner notification and involvement, withdrawal of water for use in hydraulic fracturing of horizontal wells, baseline testing of nearby water wells, restrictions on which additives may be used, reporting with respect to spills, mandatory visual and noise mitigation measures as well as temporary or permanent bans on hydraulic fracturing. These types of requirements could subject the Company to increased costs, delays, limits on the productivity of certain wells and, possibly, limits on its ability to deploy its technology. The adoption of any future federal, provincial, state or local laws or implementing regulations in any of the jurisdictions in which the Company operates which impose additional permitting, disclosure or regulatory obligations related to, or otherwise limiting, the hydraulic fracturing process could make it more difficult to complete oil and natural gas wells and could affect the Company's ability to utilize proprietary technological developments to compete effectively in the pressure pumping industry. Such results could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

The operations of the Company's customers are also subject to or impacted by a wide array of regulations in the jurisdictions in which they operate. As a result of changes in regulations and laws relating to the oil and natural gas industry, customers' operations could be disrupted or curtailed by governmental authorities. The cost of compliance with applicable regulations may cause customers to discontinue or limit their operations and may discourage companies from continuing development activities. As a result, demand for the Company's services could be substantially affected by regulations adversely impacting the oil and natural gas industry.

Changes in environmental requirements may reduce demand for the Company's services. For example, oil and natural gas exploration and production could become less cost-effective and decline as a result of increasingly stringent environmental requirements (including land use policies responsive to environmental concerns and delays or difficulties in obtaining environmental permits). A decline in exploration and production, in turn, could materially and adversely affect the Company's business, financial condition, results of operations and cash flows.

ENVIRONMENT LAWS AND REGULATIONS

The Company is subject to increasingly stringent and complex federal, provincial, state and local laws and regulations relating to the importation, release, transport, handling, storage, disposal and use of, and exposure to, hazardous and radioactive materials, and the protection of workers and the environment, including laws and regulations governing occupational health and safety standards, air emissions, chemical usage, water discharges, waste management and plant and wildlife protection. The Company incurs, and expects to continue to incur, significant capital, managerial and operating costs to comply with such health, safety and environmental laws and regulations. Violation of these laws and regulations could lead to loss of accreditation, damage to the Company's social license to operate, loss of access to markets and substantial fines and penalties which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

The Company uses and generates hazardous substances and wastes in its operations. Since the Company provides services to companies producing oil and natural gas, it may also become subject to claims relating to the release of such substances into the environment. In addition, some of the Company's current properties are, or have been, used for industrial purposes. Some environmental laws and regulations provide for joint and several strict liability related to spills and releases of hazardous substances for damages to the environment and natural resources or threats to public health and safety. Strict liability can render a potentially responsible party liable for damages irrespective of negligence or fault. Accordingly, the Company could become subject to potentially material liabilities relating to the investigation and cleanup of contaminated properties, and to claims alleging personal injury or property damage as the result of exposures to, or releases of, hazardous substances. In addition, stricter enforcement of existing laws and regulations, new laws and regulations, the discovery of previously unknown contamination or the imposition of new or increased requirements could require the Company to incur costs or become the basis of new or increased liabilities that could reduce its earnings and cash available for operations.

SAFETY STANDARDS

Standards for the prevention of incidents in the oilfield services industry are governed by service company safety policies and procedures, accepted industry safety practices, customer specific safety requirements and health and safety legislation. In order to ensure compliance, the Company has developed and implemented safety and training programs which it believes meet or exceed the applicable standards. A key factor considered by customers in retaining oilfield service providers is safety. Deterioration of the Company's safety performance could result in a decline in the demand for the Company's services and could have a material adverse effect on its business, financial condition, results of operations and cash flows.

MANAGEMENT STEWARDSHIP

The Company's success depends in large measure on certain key personnel. Many critical responsibilities within the Company's business have been assigned to a small number of employees. The loss of their services could disrupt the Company's operations. In addition, the Company does not maintain "key person" life insurance policies on any of its employees, so the Company is not insured against any losses resulting from the death of its key employees. The competition for qualified personnel in the oilfield services industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business.

LIABILITIES OF PRIOR OPERATIONS

From time to time, there may be legal proceedings underway, pending or threatened against the Company relating to the business of Denison prior to its reorganization and subsequent acquisition of the Company. In March 2004, the Canadian petroleum and natural gas assets and the mining leases, mining environmental services and related assets and liabilities of Denison were transferred to two new Companies that provided indemnities to Denison for all claims or losses relating to Denison's prior business, except for matters related to specific liabilities retained by Denison. Despite these indemnities, it is possible that the Company could be found responsible for claims or losses relating to the assets and liabilities transferred by Denison and that claims or losses may not be within the scope of either of the indemnities or may not be recoverable by the Company. Due to the nature of Denison's former operations (oil and natural gas exploration and production, mining and environmental services), these claims and losses could include substantial environmental claims. The Company cannot predict the outcome or ultimate impact of any legal or regulatory proceedings pending against Denison or affecting the Company's business or any legal or regulatory proceedings that may relate to Denison's prior ownership or operation of assets.

See the heading "Legal Proceedings" for particulars of the legal actions in Greece relating to the operations of Denison. The direction and financial consequence of the potential decisions in these actions cannot be determined at this time. If these actions were to be determined in a manner adverse to the Company or if the Company elects to settle one or more of such claims, it could have a material adverse effect on its business, financial condition, results of operations and cash flows.

NEW TECHNOLOGIES AND CUSTOMER EXPECTATIONS

The ability of the Company to meet its customers' performance and cost expectations will depend upon continuous improvements in operating equipment and proprietary fluid chemistries. There can be no assurance that the Company will be successful in its efforts in this regard or that it will have the resources available to meet this continuing demand. Failure by the Company to do so could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

INTELLECTUAL PROPERTY

The success and ability of the Company to compete depends on the proprietary technology of the Company, proprietary technology of third parties that has been, or is required to be, licensed by the Company and the ability of the Company and such third parties to prevent others from copying such proprietary technology. The Company currently relies on intellectual

property rights and other contractual or proprietary rights, including (without limitation) copyright, trademark laws, trade secrets, confidentiality procedures, contractual provisions, licences and patents to protect its proprietary technology. The Company also relies on third parties from whom licences have been received to protect their proprietary technology. The Company may have to engage in litigation in order to protect its patents or other intellectual property rights, or to determine the validity or scope of the proprietary rights of others. This kind of litigation can be time-consuming and expensive, regardless of whether the Company is successful. The process of seeking patent protection can itself be long and expensive, and there can be no assurance that any patent applications of the Company or such third parties will actually result in issued patents, or that, even if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to the Company. Furthermore, others may develop technology that is similar or superior to the technology of the Company or such third parties or design technology in such a way as to bypass the patents owned by the Company and/or such third parties.

Despite the efforts of the Company or such third parties, the intellectual property rights, particularly existing or future patents, of the Company or such third parties may be invalidated, circumvented, challenged, infringed or required to be licensed to others. It cannot be assured that any steps the Company or such third parties may take to protect their intellectual property rights and other rights to such proprietary technology that is central to the Company's operations will prevent misappropriation or infringement or the termination of licenses from third parties.

CONFIDENTIAL INFORMATION

The Company's efforts to protect its confidential information, as well as the confidential information of its customers, may be unsuccessful due to the actions of third parties, software bugs or other technical malfunctions, employee error or malfeasance, lost or damaged data as a result of a natural disaster, data breach, intentional harm done to software by hackers or other factors. If any of these events occur, this information could be accessed or disclosed improperly. Any incidents involving unauthorized access to confidential information could damage the Company's reputation and diminish its competitive position. In addition, the affected customers could initiate legal or regulatory action against the Company in connection with such incidents, which could cause the Company to incur significant expense. Any of these events could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

GROWTH-RELATED RISKS

The Company's ability to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. If the Company proved unable to deal with this growth, it could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

CAPITAL-INTENSIVE INDUSTRY

The Company's ability to expand its operations may, in part, depend upon timely delivery of new equipment. Equipment suppliers and fabricators may be unable to meet their planned delivery schedules for a variety of reasons which may include, but are not limited to, skilled labour shortages, the inability to source component parts in a timely manner, complexity of new technology and inadequate financial capacity. Failure of equipment suppliers and fabricators to meet their delivery schedules and to provide high quality working equipment may have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

CREDIT RISK

The Company's accounts receivable are with oil and natural gas exploration and production companies, whose revenues may be impacted by fluctuations in commodity prices. In the event such entities fail to meet their contractual obligations to the Company, such failures could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

CLIMATE CHANGE INITIATIVES

Future federal legislation, including potential international or bilateral requirements enacted under Canadian law, together with mandatory carbon pricing programs and emission reduction requirements, such as those contemplated by the federal government's Pan-Canadian Framework on Clean Growth and Climate Change and in effect at the federal level under the Greenhouse Gas Pollution Pricing Act, and in Alberta pursuant to the Climate Leadership Act, and potential further federal or provincial requirements may impose additional costs on the Company's operations and require the reduction of emissions or emissions intensity from the Company's operations and facilities. Taxes on greenhouse gas emissions and mandatory emissions reduction requirements may result in increased operating costs and capital expenditures for oil and natural gas producers, thereby decreasing the demand for the Company's services. The Alberta carbon levy, mandatory emissions reduction programs and the industry emissions cap in Alberta may also impair the Company's ability to provide its services economically and reduce

the demand for the Company's services. The Company is unable to predict the impact of current and pending climate change and emissions reduction legislation on the Company and it is possible that such legislation would have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

BENEFITS OF ACQUISITIONS AND DISPOSITIONS

The Company considers acquisitions and dispositions of businesses and assets in the ordinary course of business. Any acquisition that the Company completes could have unforeseen and potentially material adverse effects on the Company's financial position and operating results. Some of the risks involved with acquisitions include: unanticipated costs and liabilities; difficulty integrating the operations and assets of the acquired business; inability to properly access and maintain an effective internal control environment over an acquired company; potential loss of key employees and customers of the acquired company; and increased expenses and working capital requirements.

The Company may incur substantial indebtedness to finance acquisitions and may also issue equity securities in connection with any such acquisitions. Debt service requirements could represent a significant burden on the Company's results of operations and financial condition and the issuance of additional equity could be dilutive to the Company's shareholders.

Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Company's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Company. The integration of an acquired business may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. The inability of the Company to realize the anticipated benefits of acquisitions and dispositions could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

DEMAND FOR OIL AND NATURAL GAS

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other hydrocarbons. The Company cannot predict the impact of changing demand for oil and natural gas products, and any major changes could have a material adverse effect on its business, financial condition, results of operations and cash flows.

DIVIDENDS

The Company's dividend policy is at the discretion of the board of directors and is subject to change. The Company's ability to pay dividends and the amount of such dividends is dependent upon a variety of factors including, without limitation, the Company's profitability, historical and future business trends, the expected sustainability of those trends, enacted tax legislation which affects future taxes payable, cash required for debt repayments, restrictions on the Company's ability to pay dividends under the Credit Agreement and the Indenture, the amount of capital expenditure required to sustain the Company's performance, the amount of capital expenditure required to fund the Company's growth, the effect of acquisitions or dispositions on the Company's business and cash requirements and other factors that may be beyond the Company's control or not anticipated by management.

TAX ASSESSMENTS

The Company files all required income tax returns and believes that it is in full compliance with the provisions of applicable taxation legislation. However, tax authorities having jurisdiction over the Company may disagree with how the Company calculates its income (loss) for tax purposes or could change administrative practices to the Company's detriment. A successful reassessment of the Company's income tax filings by a tax authority may have an impact on current and future taxes payable, which could have a material adverse effect on the Company's financial condition and cash flows.

CYBERSECURITY

Threats to information technology systems associated with cybersecurity risks and cyber incidents or attacks continue to grow. Cybersecurity attacks could include, but are not limited to, malicious software, attempts to gain unauthorized access to data and the unauthorized release, corruption or loss of data and personal information, account takeovers, and other electronic security breaches that could lead to disruptions in the Company's critical systems. Risks associated with these attacks include, among other things, loss of intellectual property, disruption of the Company's and the Company's customers' business operations and safety procedures, loss or damage to the Company's data delivery systems, unauthorized disclosure of personal information and increased costs to prevent, respond to or mitigate cybersecurity events. Although the Company uses various procedures and controls to mitigate its exposure to such risk, cybersecurity attacks are evolving and unpredictable. The

occurrence of such an attack could go unnoticed for a period of time. Any such attack could have a material adverse effect on the Company's business, financial condition and results of operations.

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 MD&A, 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 MD&A include, but are not limited to, statements with respect to expected operating strategies and targets, capital expenditure programs, future financial resources, anticipated equipment utilization levels, future oil and natural gas well activity in each of the Company's operating jurisdictions, results of acquisitions, the impact of environmental regulations and economic reforms and sanctions on the Company's business, future costs or potential liabilities, projections of market prices and costs, supply and demand for oilfield services, expectations regarding the Company's ability to maintain its competitive position, anticipated benefits of the Company's competitive position, expectations regarding the Company's financing activities and restrictions, including with regard to its credit agreement and the indenture pursuant to which its senior notes were issued, and its ability to raise capital, treatment under government regulatory regimes, commodity prices, anticipated outcomes of specific events (including exposure under existing legal proceedings), expectations regarding trends in, and the growth prospects of, the global oil and natural gas industry, the Company's growth strategy and prospects, and the impact of changes in accounting policies and standards on the Company and its financial statements. These statements are derived from certain assumptions and analyses made by the Company based on its experience and perception of historical trends, current conditions, expected future developments and other factors that it believes are appropriate in the circumstances, including, but not limited to, the economic and political environment in which the Company operates, the Company's expectations for its current and prospective customers' capital budgets and geographical areas of focus, the Company's existing contracts and the status of current negotiations with key customers and suppliers, the effect unconventional gas projects have had on supply and demand fundamentals for natural gas and the likelihood that the current tax and regulatory regime will remain substantially unchanged.

Forward-looking statements are subject to a number of known and unknown risks and uncertainties that could cause actual results to differ materially from the Company's expectations. Such risk factors include: excess oilfield equipment levels; regional competition; the availability of capital on satisfactory terms; restrictions resulting from compliance with debt covenants and risk of acceleration of indebtedness; direct and indirect exposure to volatile credit markets, including credit rating risk; currency exchange rate risk; risks associated with foreign operations; operating restrictions and compliance costs associated with legislative and regulatory initiatives relating to hydraulic fracturing and the protection of workers and the environment; changes in legislation and the regulatory environment; dependence on, and concentration of, major customers; liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations; uncertainties in weather and temperature affecting the duration of the service periods and the activities that can be completed; liabilities and risks associated with prior operations; failure to maintain the Company's safety standards and record; failure to realize anticipated benefits of acquisitions and dispositions; the ability to integrate technological advances and match advances from competitors; intellectual property risks; sourcing, pricing and availability of raw materials, component parts, equipment, suppliers, facilities and skilled personnel; and the effect of accounting pronouncements issued periodically. Further information about these and other risks and uncertainties may be found under "Business Risks" above.

Consequently, all of the forward-looking statements made in this MD&A 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 MD&A 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.

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.

MANAGEMENT'S LETTER

To the Shareholders of Calfrac Well Services Ltd.

The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies set out in the accompanying notes to the consolidated financial statements. When necessary, management has made informed judgments and estimates in accounting for transactions that were not complete at the balance sheet date. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards (IFRS) appropriate in the circumstances. The financial information elsewhere in the Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management has prepared the Management's Discussion and Analysis (MD&A). The MD&A is based on the Company's financial results prepared in accordance with IFRS. The MD&A compares the audited financial results for the years ended December 31, 2018 and December 31, 2017.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

PricewaterhouseCoopers LLP, an independent firm of chartered professional accountants, was engaged, as approved by a vote of shareholders at the Company's most recent annual meeting, to audit the consolidated financial statements in accordance with IFRS and provide an independent professional opinion.

The Audit Committee of the Board of Directors, which is comprised of four independent directors who are not employees of the Company, has discussed the consolidated financial statements, including the notes thereto, with management and the external auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.



Fernando Aguilar
President and Chief Executive Officer



Michael D. Olinek
Chief Financial Officer

February 27, 2019
Calgary, Alberta, Canada

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Calfrac Well Services Ltd.

OUR OPINION

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Calfrac Well Services Ltd. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What We Have Audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2018 and 2017;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive (loss) income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Reynold Tetzlaff.

PricewaterhouseCoopers LLP

Chartered Professional Accountants


February 27, 2019
Calgary, Alberta, Canada

CONSOLIDATED BALANCE SHEETS

As at December 31,	2018	2017
(C\$000s)	(\$)	(\$)
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	51,901	52,749
Accounts receivable	349,431	359,955
Income taxes recoverable	582	1,759
Inventories (note 4)	150,123	145,072
Prepaid expenses and deposits	17,527	16,803
	569,564	576,338
Non-current assets		
Property, plant and equipment (note 5)	1,116,677	1,114,685
Deferred income tax assets (note 9)	96,416	86,943
Total assets	1,782,657	1,777,966
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	239,507	246,943
Current portion of long-term debt (note 6)	—	2,169
Current portion of finance lease obligations	186	177
	239,693	249,289
Non-current liabilities		
Long-term debt (note 6)	989,614	958,825
Finance lease obligations	552	737
Deferred income tax liabilities (note 9)	38,978	25,470
Total liabilities	1,268,837	1,234,321
Equity attributable to the shareholders of Calfrac		
Capital stock (note 7)	508,276	501,456
Contributed surplus	40,453	35,094
Loan receivable for purchase of common shares (note 15)	(2,500)	(2,500)
(Deficit) retained earnings	(28,971)	21,268
Accumulated other comprehensive (loss) income	(3,438)	2,728
	513,820	558,046
Non-controlling interest	—	(14,401)
Total equity	513,820	543,645
Total liabilities and equity	1,782,657	1,777,966

Commitments (note 10); Contingencies (note 20)
See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors,



Ronald P. Mathison, Director



Gregory S. Fletcher, Director

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31,	2018	2017
<i>(C\$000s, except per share data)</i>	<i>(\$)</i>	<i>(\$)</i>
Revenue	2,256,426	1,527,705
Cost of sales (note 17)	2,012,973	1,407,050
Gross profit	243,453	120,655
Expenses		
Selling, general and administrative	91,946	71,328
Foreign exchange (gains) losses	38,047	34,273
Loss on disposal of property, plant and equipment	30,317	13,039
Impairment (reversal of impairment) of property, plant and equipment (note 5)	115	(76,296)
Impairment of inventory (note 4)	7,167	—
Interest	106,630	85,450
	274,222	127,794
Loss before income tax	(30,769)	(7,139)
Income tax expense (recovery) (note 9)		
Current	4,342	3,018
Deferred	(8,934)	(10,743)
	(4,592)	(7,725)
Net (loss) income	(26,177)	586
Net (loss) income attributable to:		
Shareholders of Calfrac	(18,188)	5,939
Non-controlling interest	(7,989)	(5,353)
	(26,177)	586
(Loss) earnings per share (note 7)		
Basic	(0.13)	0.04
Diluted	(0.13)	0.04

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

Years Ended December 31,	2018	2017
<i>(C\$000s)</i>	<i>(\$)</i>	<i>(\$)</i>
Net (loss) income	(26,177)	586
Other comprehensive (loss) income		
Items that may be subsequently reclassified to profit or loss:		
Change in foreign currency translation adjustment	(7,379)	11,586
Comprehensive (loss) income	(33,556)	12,172
Comprehensive (loss) income attributable to:		
Shareholders of Calfrac	(26,560)	17,403
Non-controlling interest	(6,996)	(5,231)
	(33,556)	12,172

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity Attributable to the Shareholders of Calfrac							
	Share Capital	Contributed Surplus	Loan Receivable for Purchase of Common Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total	Non-Controlling Interest	Total Equity
(C\$000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Balance – Jan. 1, 2018	501,456	35,094	(2,500)	2,728	21,268	558,046	(14,401)	543,645
Net loss	—	—	—	—	(18,188)	(18,188)	(7,989)	(26,177)
Other comprehensive income (loss):								
Cumulative translation adjustment	—	—	—	(8,372)	—	(8,372)	993	(7,379)
Comprehensive loss	—	—	—	(8,372)	(18,188)	(26,560)	(6,996)	(33,556)
Stock options:								
Stock-based compensation recognized (note 8)	—	4,637	—	—	—	4,637	—	4,637
Proceeds from issuance of shares (note 7)	1,820	(453)	—	—	—	1,367	—	1,367
Performance share units:								
Stock-based compensation recognized (note 8)	—	1,175	—	—	—	1,175	—	1,175
Acquisition:								
Shares issued (note 13)	1,250	—	—	—	—	1,250	—	1,250
Shares to be issued (note 13)	3,750	—	—	—	—	3,750	—	3,750
Loss on acquisition	—	—	—	—	(5,799)	(5,799)	—	(5,799)
Purchase of non-controlling interest	—	—	—	2,206	(26,252)	(24,046)	21,397	(2,649)
Balance – Dec. 31, 2018	508,276	40,453	(2,500)	(3,438)	(28,971)	513,820	—	513,820
Balance – Jan. 1, 2017	466,445	36,040	(2,500)	(8,736)	15,329	506,578	(9,120)	497,458
Net income (loss)	—	—	—	—	5,939	5,939	(5,353)	586
Other comprehensive income (loss):								
Cumulative translation adjustment	—	—	—	11,464	—	11,464	122	11,586
Comprehensive income (loss)	—	—	—	11,464	5,939	17,403	(5,231)	12,172
Warrants:								
Proceeds from issuance of shares (notes 7 and 8)	34,539	(5,830)	—	—	—	28,709	—	28,709
Stock options:								
Stock-based compensation recognized (note 8)	—	4,985	—	—	—	4,985	—	4,985
Proceeds from issuance of shares (note 7)	472	(101)	—	—	—	371	—	371
Share cancellation – non-controlling interest	—	—	—	—	—	—	(50)	(50)
Balance – Dec. 31, 2017	501,456	35,094	(2,500)	2,728	21,268	558,046	(14,401)	543,645

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,	2018	2017
(C\$000s)	(\$)	(\$)
CASH FLOWS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net (loss) income	(26,177)	586
Adjusted for the following:		
Depreciation	160,318	130,793
Stock-based compensation	5,812	4,985
Unrealized foreign exchange (gains) losses	11,465	34,646
Loss on disposal of property, plant and equipment	30,317	13,039
Impairment (reversal of impairment) of property, plant and equipment (note 5)	115	(76,296)
Impairment of inventory	7,167	—
Interest	106,630	85,450
Interest paid	(88,329)	(79,170)
Deferred income taxes	(8,934)	(10,743)
Changes in items of working capital (note 12)	(13,638)	(117,188)
Cash flows provided by (used in) operating activities	184,746	(13,898)
FINANCING ACTIVITIES		
Issuance of long-term debt, net of debt issuance costs	1,061,728	52,637
Issuance of finance lease obligations	—	971
Long-term debt repayments	(1,120,992)	(32,500)
Finance lease obligation repayments	(176)	(348)
Proceeds on issuance of common shares (note 7 and 8)	1,367	29,080
Cash flows (used in) provided by financing activities	(58,073)	49,840
INVESTING ACTIVITIES		
Purchase of property, plant and equipment (note 12)	(157,187)	(86,415)
Proceeds on disposal of property, plant and equipment	7,380	10,456
Other	(7)	(50)
Cash flows used in investing activities	(149,814)	(76,009)
Effect of exchange rate changes on cash and cash equivalents	22,293	(17,101)
Decrease in cash and cash equivalents	(848)	(57,168)
Cash and cash equivalents, beginning of period	52,749	109,917
Cash and cash equivalents, end of period (note 3)	51,901	52,749

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2018 and 2017

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

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Calfrac Well Services Ltd. (the “Company”) was formed through the amalgamation of Calfrac Well Services Ltd. (predecessor company originally incorporated on June 28, 1999) and Denison Energy Inc. (“Denison”) on March 24, 2004 under the Business Corporations Act (Alberta). The registered office is at 411 - 8th Avenue S.W., Calgary, Alberta, Canada, T2P 1E3. The Company provides specialized oilfield services, including hydraulic fracturing, coiled tubing, cementing and other well completion services to the oil and natural gas industries in Canada, the United States, Russia and Argentina.

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

With the exception of IFRS 15 *Revenue from Contracts with Customers* and the change in functional currency of one of the Company’s subsidiaries (both disclosed in note 2), the Company has consistently applied the same accounting policies throughout the periods presented, as if these policies had always been in effect.

These financial statements were approved by the Board of Directors for issuance on February 27, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The policies set out below were consistently applied to the periods presented.

(a) Basis of Measurement

The consolidated financial statements were prepared under the historical cost convention, except for the revaluation of certain financial assets and liabilities to fair value.

(b) Principles of Consolidation

These financial statements include the accounts of the Company and its wholly-owned subsidiaries in Canada, the United States, Russia and Argentina. All inter-company transactions, balances and resulting unrealized gains and losses are eliminated upon consolidation.

Subsidiaries are those entities which the Company controls by having the power to govern their financial and operating policies. The existence and effect of voting rights that are exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated upon the Company obtaining control and are deconsolidated upon control ceasing.

(c) Changes in Accounting Policies and Disclosure

The IASB issued IFRS 15 *Revenue from Contracts with Customers*, a new standard for the recognition of revenue, which replaces International Accounting Standard (IAS) 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard is required to be adopted either retrospectively or using a modified retrospective approach. In accordance with the transition provisions in IFRS 15, the Company has adopted the new standard using the modified retrospective method; the cumulative effective of initially applying the standard is recognized as an adjustment to the opening balance of retained earnings as of January 1, 2018. Comparative prior year periods are not restated. The adoption of IFRS 15 did not result in any changes in the timing of revenue recognition for the Company’s goods and services.

The IASB issued the final version of IFRS 9 *Financial Instruments*, which is effective for annual periods beginning on or after January 1, 2018. IFRS 9, as amended, addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces a substantially reformed approach to hedge accounting and a new impairment model for financial assets. The Company has adopted the standard retrospectively from January 1, 2018, with the transition provisions permitted under the standard. Differences in the carrying amount of financial assets and financial liabilities resulting from the adoption

of IFRS 9 are recognized in the opening balance as of January 1, 2018. Comparative prior year periods are not restated. The adoption of IFRS 9 did not result in a significant change to the Company's consolidated financial statements.

(d) Critical Accounting Estimates and Judgments

The preparation of the consolidated financial statements requires that certain estimates and judgments be made concerning the reported amount of revenue and expenses and the carrying values of assets and liabilities. These estimates are based on historical experience and management's judgment. The estimation of anticipated future events involves uncertainty and, consequently, the estimates used by management in the preparation of the consolidated financial statements may change as future events unfold, additional experience is acquired or the environment in which the Company operates changes. The accounting policies and practices that involve the use of estimates that have a significant impact on the Company's financial results include the allowance for doubtful accounts, depreciation, the fair value of financial instruments, income taxes, and stock-based compensation.

Judgment is also used in the determination of cash-generating units (CGUs), impairment or reversal of impairment of non-financial assets and the functional currency of each subsidiary.

i) Allowance for Doubtful Accounts

The Company performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, the customer's financial condition and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based on expected and incurred losses and overall industry conditions. See note 11 for further information on the allowance of doubtful accounts.

ii) Depreciation

Depreciation of the Company's property 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 and equipment.

iii) Fair Value of Financial Instruments

The Company's financial instruments included in the consolidated balance sheets are comprised of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities, bank loan, long-term debt and finance lease obligations.

The fair values of these financial instruments, except long-term debt, approximate their carrying amounts due to their short-term maturity. The fair value of the senior unsecured notes is based on the closing market price at the reporting period's end-date, as described in note 6. The fair values of the remaining long-term debt and finance lease obligations approximate their carrying values.

iv) Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax bases. Estimates of the Company's future taxable income were considered in assessing the utilization of available tax losses. The Company's business is complex and the calculation of income taxes involves many complex factors as well as the Company's interpretation of relevant tax legislation and regulations.

See note 9 for further information on income taxes.

v) Share-Based Payments

The fair value of stock options and warrants is estimated at the grant date using the Black-Scholes option pricing model, which includes underlying assumptions related to the risk-free interest rate, average expected option life, estimated forfeitures, estimated volatility of the Company's shares and anticipated dividends.

The fair value of the deferred share units, performance share units and restricted share units is recognized based on the market value of the Company's shares underlying these compensation programs.

See note 8 for further information on share-based payments.

vi) Functional Currency

Management applies judgment in determining the functional currency of its foreign subsidiaries. Judgment is made regarding the currency that influences and determines sales prices, labour, material and other costs as well as financing and receipts from operating income. See note 2(e) for information regarding a change in the functional currency of one of the Company's subsidiaries.

vii) Cash-Generating Units

The determination of CGUs is based on management's judgment regarding shared equipment, mobility of equipment, geographical proximity, and materiality.

viii) Impairment or Reversal of Impairment of Property, Plant and Equipment

Property, plant and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount. The recoverable amount of cash-generating units are determined based on the higher of fair value less costs of disposal and value in use calculations. These calculations require the use of judgment applied by management regarding forecasted activity levels, expected future results, and discount rates. See note 5 for further information on impairment of property, plant and equipment.

Assessment of reversal of impairment is based on management's judgment of whether there are internal and external factors that would indicate that the conditions for reversal of impairment of an asset or CGU are present.

(e) Foreign Currency Translation

i) Functional and Presentation Currency

Each of the Company's subsidiaries is measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency.

The financial statements of the subsidiaries that have a different functional currency are translated into Canadian dollars whereby assets and liabilities are translated at the rate of exchange at the balance sheet date, revenue and expenses are translated at average monthly exchange rates (as this is considered a reasonable approximation of actual rates), and gains and losses in translation are recognized in shareholders' equity as accumulated other comprehensive income.

The following foreign entities have a functional currency other than the Canadian dollar:

Entity	Functional Currency
United States	U.S. dollar
Russia	Russian rouble
Argentina	U.S. dollar

In the event the Company disposed of its entire interest in a foreign operation, or lost control, joint control, or significant influence over a foreign operation, the related foreign currency gains or losses accumulated in other comprehensive income would be recognized in profit or loss. If the Company disposed of part of an interest in a foreign operation which remained a subsidiary, a proportionate amount of the related foreign currency gains or losses accumulated in other comprehensive income would be reallocated between controlling and non-controlling interests.

On July 1, 2018, the functional currency of Calfrac Well Services (Argentina) S.A, a subsidiary of the Company, changed to the U.S. dollar from the Argentinean peso. The change was implemented as a result of the acquisition of Vision Sur SRL, the entity that held the non-controlling interest in Calfrac Well Services (Argentina) S.A. (as disclosed in note 13). The Company has full decision making authority over Calfrac Well Services (Argentina) S.A., which is now a wholly-owned subsidiary. In addition, an analysis was performed by management which determined that the majority of its business transactions are now either conducted in U.S. dollars or are being indexed to the U.S. dollar. Revenue has transitioned over time whereby now nearly all revenue contracts are priced in U.S. dollars. A large portion of expenses that in prior periods were priced in Argentinean pesos are now either priced in U.S. dollars or are being indexed to U.S. dollars. The debt balances are also denominated in U.S. dollars.

On the date of the change in functional currency, all assets, liabilities and equity were translated into U.S. dollars at the exchange rate as of that date. The Company has adopted a policy to translate equity items at the historical rate when translating from functional currency to presentation currency.

ii) Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the transaction date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the consolidated statements of operations.

(f) Financial Instruments

The new guidance under IFRS 9 *Financial Instruments* does not affect the Company's classification, measurement and recognition of financial assets and financial liabilities. The Company does not have any hedging arrangements.

The new impairment model under IFRS 9 requires the recognition of impairment provisions based on expected and incurred credit losses rather than only incurred credit losses. The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected credit loss model to its trade accounts receivable. Lifetime expected credit losses are the result of all possible default events over the expected life of the financial instrument.

i) Classification

From January 1, 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

The Company reclassifies financial assets when and only when its business model for managing those assets changes.

ii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement of financial assets depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its financial assets:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented together with foreign exchange gains and losses. Impairment losses are presented as separate line item in profit or loss.
- **Fair value through other comprehensive income:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other gains and losses. Interest income from these financial assets is included in finance income

using the effective interest rate method. Foreign exchange gains and losses are presented in other gains or losses and impairment expenses are presented as separate line item in profit or loss.

- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss is recognized in profit or loss and presented net within other gains or losses in the period in which it arises.

Prior to January 1, 2018, the Company's accounting policy with respect to financial instruments was as follows:

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

All financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on the purpose for which the instruments were acquired, and instruments are classified as "financial assets and liabilities at fair value through profit or loss", "available-for-sale investments", "loans and receivables", "financial liabilities at amortized cost", or "derivative financial instruments" as defined in IAS 39 *Financial Instruments: Recognition and Measurement*.

Cash and cash equivalents and accounts receivable are designated as "loans and receivables" and are measured at amortized cost. Accounts payable and accrued liabilities are designated as "financial liabilities at amortized cost" and are carried at amortized cost. Bank loans, long-term debt and finance lease obligations are designated as "financial liabilities at amortized cost" and carried at amortized cost using the effective interest rate method. The financing costs associated with the Company's loan facility, the US\$600,000 private placement of senior unsecured notes and the second lien term loan are included in the amortized cost of the debt. These costs are amortized to interest expense over the term of the debt.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired.

See note 11 for further information on financial instruments.

(g) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and short-term investments with original maturities of three months or less.

(h) Inventory

Inventory consists of chemicals, sand and proppant, coiled tubing, cement, nitrogen and carbon dioxide used to stimulate oil and natural gas wells, as well as spare equipment parts. Inventory is stated at the lower of cost, determined on a first-in, first-out basis, and net realizable value. Net realizable value is the estimated selling price less applicable selling expenses. If carrying value exceeds net realizable amount, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

(i) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statements of operations during the period in which they are incurred.

Property, plant and equipment are depreciated over their estimated useful economic lives using the straight-line method over the following periods:

Field equipment	1 – 30 years
Buildings	20 years
Shop, office and other equipment	5 years
Computers and computer software	3 years
Leasehold improvements	Term of the lease

Depreciation of an asset begins when it is available for use. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. Assets under construction are not depreciated until they are available for use.

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant components and depreciates each component separately. Residual values, method of amortization and useful lives are reviewed annually and adjusted, if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the assets and are included in the consolidated statements of operations.

(j) Borrowing Costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Qualifying assets are defined as assets which take a substantial period to construct (generally greater than one year). All other borrowing costs are recognized as interest expense in the consolidated statements of operations in the period in which they are incurred. The Company does not currently have any qualifying assets.

(k) Non-Controlling Interests

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity. Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

(l) Impairment or Reversal of Impairment of Non-Financial Assets

Property, plant and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped in CGUs, the lowest level with separately identifiable cash inflows that are largely independent of the cash inflows of other assets. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use (defined as the present value of the future cash flows to be derived from an asset). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount of that asset to determine if the reversal of impairment loss is supported.

(m) Income Taxes

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statements of operations except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates except, in the case of subsidiaries, when the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities when there is an intention to settle the balances on a net basis.

Deferred income tax assets and liabilities are presented as non-current.

For the 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.

(n) Revenue Recognition

Effective January 1, 2018, upon adoption of IFRS 15 *Revenue from Contracts with Customers*, the Company recognizes revenue for services rendered when the performance obligations have been completed, as control of the services transfer to the customer, when the services performed have been accepted by the customer, and collectability is reasonably assured. The consideration for services rendered is measured at the fair value of the consideration received and allocated based on their standalone selling prices. The standalone selling prices are determined based on the agreed upon list prices at which the Company sells its services in separate transactions. Payment terms with customers vary by country and contract. Standard payment terms are 30 days from invoice date.

Revenue for the sale of product is recognized when control or ownership of the product is transferred to the customer and collectability is reasonably assured.

Revenue is measured net of returns, trade discounts and volume discounts.

The Company does not expect to have any revenue contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

The adoption of IFRS 15 did not result in any changes in the timing of revenue recognition for the Company's goods and services.

Prior to January 1, 2018, the Company's accounting policy with respect to revenue recognition was as follows:

Revenue is recognized for services upon completion provided it is probable that the economic benefits will flow to the Company, the sales price is fixed or determinable, and collectability is reasonably assured. These criteria are generally met at the time the services are performed and have been accepted by the customer.

Revenue for the sale of product is recognized when control or ownership of the product is transferred to the customer and collectability is reasonably assured.

See note 16 for further information on revenue.

(o) Stock-Based Compensation Plans

The Company recognizes compensation cost for the fair value of stock options granted. Under this method, the Company records the fair value of stock option grants based on the number of options expected to vest over their vesting period as a charge to compensation expense and a credit to contributed surplus. The fair value of each tranche within an award is considered a separate award with its own vesting period and grant date. The fair value of each tranche within an award is measured at the date of grant using the Black-Scholes option pricing model.

The number of awards expected to vest is reviewed on an ongoing basis, with any impact being recognized immediately.

The Company recognizes compensation cost for the fair value of deferred share units granted to its outside directors and performance share units granted to its senior officers who do not participate in the stock option plan. The fair value of the deferred share units and performance share units is recognized based on the market value of the Company's shares underlying these compensation programs.

The Company recognizes compensation cost for the fair value of restricted share units granted to its employees. The fair value of the restricted share units is recognized based on the market value of the Company's shares underlying this compensation program.

(p) Business Combinations

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition is the fair value of the assets transferred and the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets.

Acquisition costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of operations as a gain on acquisition.

(q) Changes in Accounting Policies and Disclosure

The IASB issued IFRS 15 *Revenue from Contracts with Customers*, a new standard for the recognition of revenue, which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard is required to be adopted either retrospectively or using a modified retrospective approach. In accordance with the transition provisions in IFRS 15, the Company has adopted the new standard using the modified retrospective method; the cumulative effective of initially applying the standard is recognized as an adjustment to the opening balance of retained earnings as of January 1, 2018. Comparative prior year periods are not restated. The adoption of IFRS 15 did not result in any changes in the timing of revenue recognition for the Company's goods and services.

The IASB issued the final version of IFRS 9 *Financial Instruments*, which is effective for annual periods beginning on or after January 1, 2018. IFRS 9, as amended, addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces a substantially reformed approach to hedge accounting and a new impairment model for financial assets. The Company has adopted the standard retrospectively from January 1, 2018, with the transition provisions permitted under the standard. Differences in the carrying amount of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in the opening balance as of January 1, 2018. Comparative prior year periods are not restated. The adoption of IFRS 9 did not result in a significant change to the Company's consolidated financial statements.

(r) Recently Issued Accounting Standards Not Yet Applied

Effective January 1, 2019, the Company adopted IFRS 16 *Leases*. The new standard requires that lessees recognize lease liabilities and right-of-use (ROU) assets related to its lease commitments.

In accordance with the transition provisions in IFRS 16, the Company elected to adopt the new standard using the modified retrospective approach by recognizing the cumulative effect of initially applying the new standard on January 1, 2019 using the simplified right-of-use asset measurement method. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019. The associated ROU asset is measured at the lease liability amount on January 1, 2019, resulting in no adjustment to the opening balance of retained earnings. Comparative information is not restated.

The Company intends to use the following practical expedients permitted under the new standard:

- Leases with a remaining lease term of less than twelve months as at January 1, 2019 are considered short-term leases. As such, payments for such leases will be expensed as incurred.
- Leases of low dollar value will continue to be expensed as incurred

Several key judgments and estimates were made such as assessing whether an arrangement contains a lease, determining the lease term, calculating the incremental borrowing rate and whether to account for the lease and any non-lease components as a single lease component.

The impact of the standard on the Company's financial statements is expected to be material. The Company is subject to financial covenants relating to working capital, leverage and the generation of cash flow in respect of its operating and revolving credit facilities. The adoption of IFRS 16 is not expected to impact the reported bank covenants as the effects of the new standard are expected to be removed from the covenant calculations.

As at January 1, 2019, the Company expects that the adoption of IFRS 16 will result in the recognition of ROU assets and lease liabilities of approximately \$44,000.

3. CASH AND CASH EQUIVALENTS

During 2016, the Company received net proceeds of \$56,636 from a private placement offering of 21,055,000 common shares for total gross proceeds of \$60,007. Share issuance costs for the transaction were \$3,371, resulting in net proceeds of \$56,636.

Prior to April 3, 2017, \$50,000 of the net proceeds from the private placement was held in a segregated account. These funds were available for use at the Company's discretion and were eligible to be transferred to its operating bank account at any time. The Company could also elect to use the proceeds as an equity cure. When the proceeds are utilized as an equity cure, the funds are transferred to the Company's operating bank account and are available for use at the Company's discretion. In addition, proceeds used in this manner would be applied as a reduction of Funded Debt and included in the calculation of EBITDA for purposes of the Company's Funded Debt to EBITDA bank covenant.

On April 3, 2017, the Company elected to use the first of its two fully-funded \$25,000 equity cures effective as of the quarter ending on June 30, 2017. On April 30, 2018, the remaining \$25,000 was transferred from the segregated account without being designated as an equity cure.

4. INVENTORIES

As at December 31, (C\$000s)	2018 (\$)	2017 (\$)
Spare equipment parts	90,409	77,392
Chemicals	25,024	24,309
Sand and proppant	17,558	22,356
Coiled tubing	9,860	12,252
Other	7,272	8,763
	150,123	145,072

For the year ended December 31, 2018, the cost of inventories recognized as an expense and included in cost of sales was approximately \$830,000 (year ended December 31, 2017 – \$560,000).

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. For the year ended December 31, 2018, the Company recorded an impairment charge of \$7,167 to write-down inventory to its net realizable amount in Canada, United States and Argentina as well as write-off obsolete spare parts inventory in Mexico due to the closure of operations in that country (year ended December 31, 2017 – \$nil).

Years Ended December 31,	2018	2017
(C\$000s)	(\$)	(\$)
Mexico	3,803	—
United States	2,218	—
Canada	699	—
Argentina	447	—
	7,167	—

5. PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 2018	Opening Net Book Value	Additions	Disposals	Impairment	Depreciation	Foreign Exchange Adjustments	Closing Net Book Value
(C\$000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Assets under construction ⁽¹⁾	59,192	14,736	—	(43)	—	4,895	78,780
Field equipment	948,843	138,539	(37,634)	(72)	(152,688)	32,681	929,669
Field equipment under finance lease	959	—	—	—	(61)	—	898
Buildings	58,602	2,421	—	—	(4,808)	1,508	57,723
Land	40,050	—	—	—	—	1,916	41,966
Shop, office and other equipment	4,815	599	(63)	—	(1,365)	(365)	3,621
Computers and computer software	1,110	3,188	—	—	(1,135)	18	3,181
Leasehold improvements	1,114	281	—	—	(261)	(295)	839
	1,114,685	159,764	(37,697)	(115)	(160,318)	40,358	1,116,677

As at December 31, 2018	Cost	Accumulated Depreciation	Net Book Value
(C\$000s)	(\$)	(\$)	(\$)
Assets under construction	78,780	—	78,780
Field equipment	2,062,461	(1,132,792)	929,669
Field equipment under finance lease	2,420	(1,522)	898
Buildings	91,624	(33,901)	57,723
Land	41,966	—	41,966
Shop, office and other equipment	26,301	(22,680)	3,621
Computers and computer software	30,031	(26,850)	3,181
Leasehold improvements	8,703	(7,864)	839
	2,342,286	(1,225,609)	1,116,677

Year Ended December 31, 2017	Opening Net Book Value	Additions	Disposals	Reversal of Impairment	Depreciation	Foreign Exchange Adjustments	Closing Net Book Value
(C\$000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Assets under construction ⁽¹⁾	157,205	(89,407)	—	—	—	(8,606)	59,192
Field equipment	881,123	177,754	(21,380)	76,296	(121,632)	(43,318)	948,843
Field equipment under finance lease	1,159	(361)	—	—	(132)	293	959
Buildings	66,609	1,728	(1,962)	—	(4,929)	(2,844)	58,602
Land	37,775	—	(183)	—	—	2,458	40,050
Shop, office and other equipment	6,004	1,220	(139)	—	(1,848)	(422)	4,815
Computers and computer software	1,093	1,989	—	—	(1,898)	(74)	1,110
Leasehold improvements	2,914	(990)	(121)	—	(354)	(335)	1,114
	1,153,882	91,933	(23,785)	76,296	(130,793)	(52,848)	1,114,685

As at December 31, 2017	Cost	Accumulated Depreciation	Net Book Value
(C\$000s)	(\$)	(\$)	(\$)
Assets under construction	59,192	—	59,192
Field equipment	1,961,556	(1,012,713)	948,843
Field equipment under finance lease	2,420	(1,461)	959
Buildings	89,203	(30,601)	58,602
Land	40,050	—	40,050
Shop, office and other equipment	25,765	(20,950)	4,815
Computers and computer software	26,843	(25,733)	1,110
Leasehold improvements	8,422	(7,308)	1,114
	2,213,451	(1,098,766)	1,114,685

⁽¹⁾ Additions for assets under construction are net of transfers into the other categories of property, plant and equipment, when they become available for use.

Property, plant and equipment are tested for impairment in accordance with the accounting policy in note 2. The Company reviews the carrying value of its property, plant and equipment at each reporting period for indicators of impairment. The decrease in crude oil prices during the fourth quarter of 2018 combined with the impact of significant oil and natural gas differentials in Canada which are expected to affect completion activity and pricing in Canada were an indicator of impairment and the Company estimated 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

The main commodity price assumptions over the forecast periods were:

- WTI Crude Oil (US\$/bbl) increased from \$60 in 2019 to \$73 in 2023
- Henry Hub Gas (US\$/mmBtu) increased from \$3.03 in 2019 to \$3.68 in 2023
- AECO Gas (C\$/mcf) increased from \$1.85 in 2019 to \$3.21 in 2023

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 revenue and operating income cumulative annual growth rates (CAGR) over the forecast period from 2019 to 2023, by CGU, are outlined below:

	Canada	United States	Russia	Argentina
Revenue CAGR	3%	4%	9%	17%
Operating income CAGR	8%	5%	NM	40%

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.

	Canada	United States	Russia	Argentina
Discount rate	13.3%	13.1%	15.7%	21.2%

A comparison of the recoverable amounts of each cash-generating unit with their respective carrying amounts resulted in no impairment against property, plant and equipment for the year ended December 31, 2018 (year ended December 31, 2017 – reversal of impairment \$76,296). The Company's 2017 year end impairment test supported the reversal of the impairment loss that was previously recorded in the United States CGU, after taking into account normal depreciation that would have been charged if no impairment had occurred.

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

	Impairment			
	Canada	United States	Russia	Argentina
<i>(C\$000s)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
10% increase in expected future cash flows	None	None	None	None
10% decrease in expected future cash flows	None	None	None	None
1% decrease in discount rate	None	None	None	None
1% increase in discount rate	None	None	None	None

Assumptions that are valid at the time of preparing the impairment test at December 31, 2018 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.

6. LONG-TERM DEBT

As at December 31,	2018	2017
<i>(C\$000s)</i>	<i>(\$)</i>	<i>(\$)</i>
US\$650,000 senior unsecured notes (December 31, 2017 – US\$600,000) due June 15, 2026, bearing interest at 8.50% payable semi-annually	886,730	752,700
\$200,000 second lien senior secured term loan facility due September 30, 2020, bearing interest at 9% payable quarterly, secured by the Canadian and U.S. assets of the Company on a second priority basis	—	197,000
\$347,500 extendible revolving term loan facility, secured by Canadian and U.S. assets of the Company	120,000	25,000
Less: unamortized debt issuance costs	(17,116)	(13,875)
	989,614	960,825
US\$nil mortgage matured on May 2018 bearing interest at U.S. prime less 1%, repayable at US\$33 per month principal and interest, secured by certain real property	—	169
	989,614	960,994
Less: current portion of long-term debt	—	(2,169)
	989,614	958,825

The fair value of the senior unsecured notes, as measured based on the closing quoted market price at December 31, 2018, was \$661,492 (December 31, 2017 – \$743,111). 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 May 30, 2018, the Company closed a private offering of US\$650,000 aggregate principal amount of its 8.50 percent senior notes due 2026. Fixed interest on the notes is payable on June 15 and December 15 of each year. The notes will mature on June 15, 2026, and provide the Company with the option to redeem up to 10% of the aggregate principal amount of the notes at a redemption price of 108.50% of the principal amount with the proceeds of asset sales at any time prior to December 15, 2019. The Company used a portion of the net proceeds from the offering of the notes to repay all of its outstanding 7.50 percent senior notes due 2020. The early repayment of these notes resulted in a make-whole interest payment of \$10,403 and the write-off of the remaining \$5,023 unamortized deferred finance costs.

On May 31, 2018, the Company repaid in full the remaining \$196,500 principal amount of its second lien senior secured term loan facility. The term loan, which had a maturity date of September 30, 2020, provided the Company the right to prepay the loan prior to June 10, 2018 with a nominal prepayment premium. The repayment of the second lien senior secured term loan facility resulted in the write-off of the remaining unamortized deferred finance costs of \$5,787.

On May 9, 2018, the Company amended its credit facilities to exercise \$100,000 of accordion capacity, bringing the total facilities from \$275,000 to \$375,000. The facilities consist of an operating facility of \$27,500 and a revolving term loan facility of \$347,500. The Company's credit facilities mature on June 1, 2020 and can be extended by one or more years at the Company's request and lenders' acceptance. The Company also may 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 revolving term loan facility was reduced to \$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) the Company will be prohibited from utilizing advances under the credit facilities to redeem or repay subordinated debt. As at December 31, 2018, the Company's net Total Debt to Adjusted EBITDA ratio was 2.92:1.00.

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 year ended December 31, 2018 was \$106,940 (year ended December 31, 2017 – \$85,520).

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

	2018
<i>(C\$000s)</i>	<i>(\$)</i>
Balance, January 1	960,994
Issuance of long-term debt, net of debt issuance costs	1,061,728
Long-term debt repayments	(1,120,992)
Amortization of debt issuance costs and debt discount	19,363
Foreign exchange adjustments	68,521
Balance, December 31	989,614

The aggregate scheduled principal repayments required in each of the next five years are as follows:

As at December 31, 2018	Amount
<i>(C\$000s)</i>	<i>(\$)</i>
2019	—
2020	120,000
2021	—
2022	—
2023	—
Thereafter	886,730
	1,006,730

At December 31, 2018, the Company had utilized \$887 of its loan facility for letters of credit and had \$120,000 outstanding under its revolving term loan facility, leaving \$254,113 in available credit, subject to a monthly borrowing base, as determined using the previous month's results, which at December 31, 2018 resulted in a liquidity amount that was higher than the available capacity.

See note 14 for further details on the covenants in respect of the Company's long-term debt.

7. CAPITAL STOCK

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

Years Ended December 31,	2018		2017	
	Shares	Amount	Shares	Amount
	<i>(#)</i>	<i>(\$000s)</i>	<i>(#)</i>	<i>(\$000s)</i>
Continuity of Common Shares				
Balance, beginning of period	143,755,741	501,456	136,634,590	466,445
Issued upon exercise of stock options	483,974	1,820	186,375	472
Issued upon exercise of warrants (note 8)	—	—	6,934,776	34,539
Issued on acquisition (note 13)	222,817	1,250	—	—
Balance, end of period	144,462,532	504,526	143,755,741	501,456
Shares to be issued (note 13)	668,449	3,750	—	—
	145,130,981	508,276	143,755,741	501,456

The weighted average number of common shares outstanding for the year ended December 31, 2018 was 144,041,910 basic and 146,828,943 diluted (year ended December 31, 2017 – 137,663,943 basic and 139,461,872 diluted). The difference between basic and diluted shares is attributable to the dilutive effect of stock options and warrants issued by the Company as disclosed in note 8, and the shares to be issued as disclosed in note 13.

8. SHARE-BASED PAYMENTS

(a) Stock Options

Years Ended December 31,	2018		2017	
Continuity of Stock Options	Options	Average Exercise Price	Options	Average Exercise Price
	(#)	(\$)	(#)	(\$)
Balance, January 1	9,616,173	5.30	7,246,386	6.62
Granted during the period	1,419,319	5.79	4,195,100	4.76
Exercised for common shares	(483,974)	2.83	(186,375)	1.99
Forfeited	(481,673)	7.19	(855,638)	8.12
Expired	(677,750)	15.11	(783,300)	12.30
Balance, December 31	9,392,095	4.70	9,616,173	5.30

The weighted average share price at the date of exercise for stock options exercised during 2018 was \$7.01 (2017 – \$4.76).

Exercise Price Per Option	Options Outstanding			Options Exercisable		
	Number of Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	
\$1.34 – \$2.19	2,807,900	2.02	\$ 1.94	1,984,125	\$ 1.95	
\$2.20 – \$4.33	465,675	2.93	\$ 3.34	160,500	\$ 3.27	
\$4.34 – \$4.89	3,553,251	3.00	\$ 4.84	840,651	\$ 4.84	
\$4.90 – \$5.78	1,372,069	4.01	\$ 5.73	9,775	\$ 5.33	
\$5.79 – \$20.81	1,193,200	1.15	\$ 10.10	878,825	\$ 10.39	
\$1.34 – \$20.81	9,392,095	2.61	\$ 4.70	3,873,876	\$ 4.56	

Stock options vest equally over three to four years and expire five years from the date of grant. 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 2018, determined using the Black-Scholes valuation method, was \$2.55 per option (year ended December 31, 2017 – \$2.11 per option). The Company applied the following assumptions in determining the fair value of options on the date of grant:

Years Ended December 31,	2018	2017
Expected life (years)	3.00	3.50
Expected volatility	62.88%	64.39%
Risk-free interest rate	1.97%	1.07%
Expected dividends	\$0.00	\$0.00

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

(b) Share Units

Years Ended December 31,	2018			2017		
	Deferred Share Units	Performance Share Units	Restricted Share Units	Deferred Share Units	Performance Share Units	Restricted Share Units
	(#)	(#)	(#)	(#)	(#)	(#)
Continuity of Stock Units						
Balance, January 1	145,000	683,665	4,275,183	145,000	639,330	2,757,850
Granted during the period	145,000	765,100	—	145,000	124,000	2,622,400
Exercised	(145,000)	(232,249)	(866,933)	(145,000)	—	—
Forfeited	—	(108,216)	(269,100)	—	(79,665)	(1,105,067)
Balance, December 31	145,000	1,108,300	3,139,150	145,000	683,665	4,275,183

Years Ended December 31,	2018	2017
	(\$)	(\$)
Expense (recovery) from:		
Stock options	4,637	4,985
Deferred share units	390	899
Performance share units	2,324	(171)
Restricted share units	4,921	101
Total stock-based compensation expense	12,272	5,814

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 in November of the year 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 December 31, 2018, the liability pertaining to deferred share units was \$354 (December 31, 2017 – \$867).

The Company grants performance share units to a senior officer. The amount of the grants earned is linked to corporate performance and the grants vest on the approval of the Board of Directors at the meeting held to approve the consolidated financial statements for the year in respect of which performance is being evaluated. As with the deferred share units, performance share units are settled either in cash or Company shares purchased on the open market. At December 31, 2018, the liability pertaining to performance share units was \$761 (December 31, 2017 – \$1,389).

In 2018, the Company expanded its performance share unit plan 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 December 31, 2018, the liability pertaining to the cash-based component of performance share units was \$200 (December 31, 2017 – \$nil).

Prior to 2018, the Company granted restricted share units to its employees. These units vest over three years 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 restricted share units is recognized over the vesting period, based on the current market price of the Company's shares. At December 31, 2018, the liability pertaining to restricted share units was \$3,158 (December 31, 2017 – \$5,096).

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

(c) Warrants

In conjunction with the second lien senior secured term loan facility as disclosed in note 6, 6,934,776 warrants to purchase common shares of the Company were issued during 2016, entitling the holder to acquire up to 6,934,776 common shares at a price of \$4.14 per common share. On November 6, 2017, all the warrants were exercised, for total proceeds of \$28,709.

9. INCOME TAXES

The components of income tax expense (recovery) are:

Years Ended December 31,	2018	2017
<i>(C\$000s)</i>	<i>(\$)</i>	<i>(\$)</i>
Current income tax expense	4,342	3,018
Deferred income tax recovery	(8,934)	(10,743)
	(4,592)	(7,725)

The provision for income taxes in the consolidated statements of operations varies from the amount that would be computed by applying the expected 2018 tax rate of 27.0 percent (year ended December 31, 2017 – 27.0 percent) to income before income taxes.

The main reasons for differences between the expected income tax expense (recovery) and the amount recorded are:

Years Ended December 31,	2018	2017
<i>(C\$000s except percentages)</i>	<i>(\$)</i>	<i>(\$)</i>
Loss before income tax	(30,769)	(7,139)
Income tax rate (%)	27.0	27.0
Computed expected income tax recovery	(8,308)	(1,928)
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses/non-taxable income	(1,759)	(4,803)
Foreign tax rate and other foreign differences	653	4,328
Translation of foreign subsidiaries	2,526	752
Deferred income tax adjustment from tax rate changes	(482)	(8,582)
Other non-income taxes	2,417	544
Derecognition of tax losses	3,343	772
Other	(2,982)	1,192
	(4,592)	(7,725)

The following table summarizes the income tax effect of temporary differences that give rise to the deferred income tax asset (liability) at December 31:

As at December 31,	2018	2017
<i>(C\$000s)</i>	<i>(\$)</i>	<i>(\$)</i>
Property, plant and equipment	(186,343)	(175,993)
Losses carried forward	209,744	212,842
Canadian exploration expenses	5,374	5,439
Deferred compensation payable	3,820	1,409
Deferred financing and share issuance costs	5,176	629
Other	19,667	17,147
	57,438	61,473

Loss carry-forwards expire at various dates ranging from December 31, 2020 to December 31, 2038.

The movement in deferred income tax assets and liabilities during the current and prior year is as follows:

Years Ended December 31, (C\$000s)	2018 (\$)	2017 (\$)
Balance, beginning of year	61,473	56,057
Charged (credited) to the consolidated statements of operations or accumulated other comprehensive income:		
Property, plant and equipment	(10,350)	36,936
Losses carried forward	(3,099)	(22,093)
Canadian exploration expenses	(65)	(177)
Deferred compensation payable	2,411	(527)
Deferred financing and share issuance costs	4,547	(876)
Other	2,521	(7,847)
Balance, end of year	57,438	61,473

The Company has tax losses for which no deferred tax asset is recognized as follows:

Years Ended December 31, (C\$000s)	2018 (\$)	2017 (\$)
Tax losses (capital)	31,234	27,425
Tax losses (income)	43,604	39,357

Deferred tax assets are only recognized to the extent that it is probable that the assets can be utilized.

Earnings retained by subsidiaries amounted to \$74,494 at December 31, 2018 (December 31, 2017 – \$23,619). Provision has been made for withholding and other taxes that would become payable on the distribution of these earnings only to the extent that it is expected that these earnings will be distributed in the foreseeable future.

10. COMMITMENTS

The Company has lease commitments for premises, equipment, vehicles and storage facilities under agreements requiring aggregate minimum payments over the five years following December 31, 2018, as follows:

(C\$000s)	(\$)
2019	17,224
2020	9,821
2021	3,557
2022	2,099
2023	1,863
	34,564

For the year ended December 31, 2018, \$81,587 was recognized as an expense in the consolidated statements of operations in respect of operating leases (year ended December 31, 2017 – \$55,644).

The Company has obligations for the purchase of products, services and property, plant and equipment over the next five years following December 31, 2018, as follows:

<i>(C\$000s)</i>	<i>(\$)</i>
2019	143,936
2020	67,647
2021	24,421
2022	8,540
2023	1,719
	246,263

11. FINANCIAL INSTRUMENTS

The Company's financial instruments included in the consolidated balance sheets are comprised of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities, long-term debt and finance lease obligations.

(a) Fair Values of Financial Assets and Liabilities

The fair values of financial instruments included in the consolidated balance sheets, except long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of the senior unsecured notes based on the closing market price at December 31, 2018 was \$661,492 before deduction of unamortized debt issuance costs (December 31, 2017 – \$743,111). The carrying value of the senior unsecured notes at December 31, 2018 was \$886,730 before deduction of unamortized debt issuance costs and debt discount (December 31, 2017 – \$752,700). The fair values of the remaining long-term debt approximate their carrying values, as described in note 6.

(b) Credit Risk

Substantial amounts of the Company's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risks. The Company mitigates this risk through its credit policies and practices including the use of credit limits and approvals, and by monitoring the financial condition of its customers. At December 31, 2018, the Company had a provision for doubtful accounts receivable of \$596 (December 31, 2017 – \$4,649).

Payment terms with customers vary by country and contract. Standard payment terms are 30 days from invoice date. The Company's aged trade and accrued accounts receivable at December 31, 2018 and 2017, excluding any impaired accounts, are as follows:

As at December 31,	2018	2017
<i>(C\$000s)</i>	<i>(\$)</i>	<i>(\$)</i>
Current	203,368	232,963
31 – 60 days	109,510	80,176
61 – 90 days	21,553	22,051
91+ days	8,936	13,454
Total	343,367	348,644

(c) Interest Rate Risk

The Company is exposed to cash flow risk due to fluctuating interest payments required to service any floating-rate debt. The increase or decrease in annual interest expense for each 1 percentage point change in interest rates on floating-rate debt at December 31, 2018 amounts to \$1,200 (December 31, 2017 – \$252).

The Company's effective interest rate for the year ended December 31, 2018 was 10.6 percent (year ended December 31, 2017 – 8.6 percent). During 2018, the Company incurred \$21,213 of interest expense relating to the early repayment of its second lien term loan and 7.50 percent senior notes due 2020. Excluding these non-recurring costs, the effective interest rate for the year ended December 31, 2018 would have been 8.5 percent.

(d) Liquidity Risk

The Company's principal sources of liquidity are operating cash flows, existing or new credit facilities and new share equity. The Company monitors its liquidity to ensure it has sufficient funds to complete planned capital and other expenditures. The Company mitigates liquidity risk by maintaining adequate banking and credit facilities and monitoring its forecast and actual cash flows. The Company may also adjust its capital spending and dividends to maintain liquidity. See note 14 for further details on the Company's capital structure.

The expected timing of cash outflows relating to financial liabilities is outlined in the table below:

At December 31, 2018	Total	<1 Year	1 – 3 Years	4 – 6 Years	7 – 9 Years	Thereafter
(C\$000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Accounts payable and accrued liabilities	239,507	239,507	—	—	—	—
Long-term debt ⁽¹⁾	1,580,482	80,991	348,959	226,116	924,416	—

⁽¹⁾ Principal and interest

At December 31, 2017	Total	<1 Year	1 – 3 Years	4 – 6 Years	7 – 9 Years	Thereafter
(C\$000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Accounts payable and accrued liabilities	246,943	246,943	—	—	—	—
Long-term debt ⁽¹⁾	1,189,001	101,860	1,086,987	154	—	—

⁽¹⁾ Principal and interest

(e) Foreign Exchange Risk

The Company is exposed to foreign exchange risk associated with foreign operations where assets, liabilities, revenue and costs are denominated in currencies other than Canadian dollars. These currencies include the U.S. dollar, Russian rouble, Mexican peso and Argentinean peso. The Company is also exposed to the impact of foreign currency fluctuations in its Canadian operations on purchases of products and property, plant and equipment from vendors in the United States. In addition, the Company's senior unsecured notes and related interest expense are denominated in U.S. dollars.

The amount of this debt and related interest expressed in Canadian dollars varies with fluctuations in the US\$/Cdn\$ exchange rate. The risk is mitigated, however, by the Company's U.S. operations and related revenue streams. A change in the value of foreign currencies in the Company's financial instruments (cash, accounts receivable, accounts payable and debt) would have had the following impact on net income and other comprehensive income:

At December 31, 2018	Impact to Net Income
(C\$000s)	(\$)
1% change in value of U.S. dollar	562
1% change in value of Argentinean peso	(83)
1% change in value of Russian rouble	—

At December 31, 2017	Impact to Net Income
(C\$000s)	(\$)
1% change in value of U.S. dollar	1,168
1% change in value of Argentinean peso	N/A
1% change in value of Russian rouble	—

12. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating assets and liabilities are as follows:

Years Ended December 31,	2018	2017
(C\$000s)	(\$)	(\$)
Accounts receivable	7,103	(201,246)
Inventory	(12,217)	(45,471)
Prepaid expenses and deposits	(724)	189
Accounts payable and accrued liabilities	(8,978)	127,384
Income taxes recoverable	1,178	1,956
Other long-term liabilities	—	—
	(13,638)	(117,188)
Income taxes paid	3,165	1,062

Purchase of property, plant and equipment is comprised of:

Years Ended December 31,	2018	2017
(C\$000s)	(\$)	(\$)
Property, plant and equipment additions	(159,764)	(91,933)
Change in liabilities related to purchase of property, plant and equipment	2,577	5,518
	(157,187)	(86,415)

13. ACQUISITION

On July 20, 2018, the Company acquired Vision Sur SRL, the entity that held the remaining 20 percent non-controlling interest in Calfrac Well Services (Argentina) S.A. As a result of the acquisition, Calfrac Well Services (Argentina) S.A. is now a wholly-owned subsidiary of the Company. The purchase price for Vision Sur SRL took into account the prior investments made in Calfrac Well Services (Argentina) S.A. by its shareholders, and consisted of share consideration valued at \$5,000. Under the terms of the agreement, the purchase price is payable in four tranches, with 222,817 shares issued on the acquisition date, and the remaining 668,449 shares to be issued in three tranches with the final tranche payable on January 1, 2021. This arrangement also contained an agreement to issue additional contingent shares, ranging from 50,000 to 70,000 shares, if the operating income for Calfrac Well Services (Argentina) S.A. reaches certain target levels in 2019 and 2020. The value of the contingent consideration is not material on a consolidated basis. Acquisition costs were insignificant and expensed in the statement of operations.

During the period July 21, 2018 to December 31, 2018, the acquisition contributed immaterial income to the Company. The pro-forma estimated effects on revenue and operating income, had the acquisition occurred on January 1, 2018, would have been insignificant.

14. CAPITAL STRUCTURE

The Company's capital structure is comprised of shareholders' equity and debt. The Company's objectives in managing capital are (i) to maintain flexibility so as to preserve its access to capital markets and its ability to meet its financial obligations, and (ii) to finance growth, including potential acquisitions.

The Company manages its capital structure and makes adjustments in light of changing market conditions and new opportunities, while remaining cognizant of the cyclical nature of the oilfield services sector. To maintain or adjust its capital structure, the Company may revise its capital spending, adjust dividends, if any, paid to shareholders, issue new shares or new debt or repay existing debt.

The Company monitors its capital structure and financing requirements using, amongst other parameters, the ratio of net debt to operating income. Operating income for this purpose is calculated on a 12-month trailing basis and is defined as follows:

For the Twelve Months Ended December 31,	2018	2017
<i>(C\$000s)</i>	<i>(\$)</i>	<i>(\$)</i>
Net income	(26,177)	586
Adjusted for the following:		
Depreciation	160,318	130,793
Foreign exchange losses	38,047	34,273
Loss on disposal of property, plant and equipment	30,317	13,039
Impairment (reversal of impairment) of property, plant and equipment	115	(76,296)
Impairment of inventory	7,167	—
Interest	106,630	85,450
Income taxes	(4,592)	(7,725)
Operating income	311,825	180,120

Net debt for this purpose is calculated as follows:

As at December 31,	2018	2017
<i>(C\$000s)</i>	<i>(\$)</i>	<i>(\$)</i>
Long-term debt, net of debt issuance costs and debt discount (note 6)	989,614	960,994
Finance lease obligations	738	914
Less: cash and cash equivalents	(51,901)	(52,749)
Net debt	938,451	909,159

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 December 31, 2018, the net debt to operating income ratio was 3.01:1 (December 31, 2017 – 5.05:1) calculated on a 12-month trailing basis as follows:

For the Twelve Months Ended December 31,	2018	2017
<i>(C\$000s, except ratio)</i>	<i>(\$)</i>	<i>(\$)</i>
Net debt	938,451	909,159
Operating income	311,825	180,120
Net debt to operating income ratio	3.01:1	5.05:1

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 December 31, 2018 and December 31, 2017, the Company was in compliance with its covenants with respect to its credit facilities.

	Covenant	Actual
As at December 31,	2018	2018
Working capital ratio not to fall below	1.15x	2.38x
Funded Debt to Adjusted EBITDA not to exceed ⁽¹⁾⁽²⁾	3.00x	0.23x
Funded Debt to Capitalization not to exceed ⁽¹⁾⁽³⁾	0.30x	0.05x

⁽¹⁾ Funded Debt is defined as Total Debt excluding all outstanding senior unsecured notes. 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, non-controlling interest, and gains and losses that are extraordinary or non-recurring.

⁽³⁾ Capitalization is Total Debt plus equity attributable to the shareholders of Calfrac.

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:

For the Twelve Months Ended December 31,	2018	2017
(C\$000s)	(\$)	(\$)
(unaudited)		
Net (loss) income	(26,177)	586
Add back (deduct):		
Depreciation	160,318	130,793
Unrealized foreign exchange losses	11,465	34,646
Non-recurring realized foreign exchange losses ⁽¹⁾	29,288	—
Loss on disposal of property, plant and equipment	30,317	13,039
Impairment (reversal of impairment) of property, plant and equipment	115	(76,296)
Impairment of inventory	7,167	—
Provision for settlement of litigation	—	(139)
Restructuring charges	1,076	1,131
Stock-based compensation	5,812	4,985
Losses attributable to non-controlling interest	7,989	5,353
Interest	106,630	85,450
Income taxes	(4,592)	(7,725)
Adjusted EBITDA	329,408	191,823

⁽¹⁾ The Company recognized a one-time realized foreign exchange loss resulting from the capitalization of inter-company debt held by its Argentinean subsidiary.

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 \$125,000.

The indenture governing the senior unsecured notes contains 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) attributable to the shareholders of Calfrac 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 December 31, 2018, 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 December 31, 2018, the Company's Fixed Charge Coverage Ratio of 3.86:1 was higher than the required 2:1 ratio and the aforementioned prohibitions will not be applicable as long as the Company remains above this ratio.

The Company has measures in place to ensure that it has sufficient liquidity to navigate the cyclical nature of the oilfield services sector and safeguard the Company's ability to continue as a going concern. The Company negotiated amendments to its credit facilities to provide increased financial flexibility. These amendments include an "Equity Cure" feature pursuant to which 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, 2020, 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.

On April 3, 2017, the Company elected to use the first of its two fully-funded \$25,000 equity cures effective as of the quarter ending on June 30, 2017. On April 30, 2018, the remaining \$25,000 was removed from the segregated account without being designated as an equity cure.

15. RELATED-PARTY TRANSACTIONS

In November 2010, the Company lent a senior officer \$2,500 to purchase common shares of the Company on the Toronto Stock Exchange. The loan is on a non-recourse basis and is secured by the common shares acquired with the loan proceeds. The loan was amended in February 2015 to extend the term by five years to November 8, 2020 and change the interest rate to the prescribed rate under the Income Tax Act (Canada), which rate was 1.0 percent per annum at the time of the amendment. The loan was subsequently amended in December 2016 to make it non-interest bearing, effective February 24, 2015. The market value of the shares that secure the loan was approximately \$413 as at December 31, 2018 (December 31, 2017 – \$1,012). In accordance with applicable accounting standards regarding share purchase loans receivable, this loan is classified as a reduction of shareholders' equity due to its non-recourse nature. In addition, the shares purchased with the loan proceeds are considered to be, in substance, stock options.

The Company leases certain premises from a company controlled by Ronald P. Mathison, one of the Company's directors. The rent charged for these premises during the year ended December 31, 2018 was \$1,742 (year ended December 31, 2017 – \$1,742), as measured at the exchange amount which is based on market rates.

16. REVENUE FROM CONTRACTS WITH CUSTOMERS

The IASB issued IFRS 15 *Revenue from Contracts with Customers*, a new standard for the recognition of revenue, which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The Company derives revenue from the provision of goods and services for the following major service lines and geographical regions:

	Canada	United States	Russia	Argentina	Consolidated
(C\$000s)	(\$)	(\$)	(\$)	(\$)	(\$)
Year Ended December 31, 2018					
Fracturing	593,177	1,293,593	91,232	120,619	2,098,621
Coiled tubing	52,439	—	15,587	30,339	98,365
Cementing	—	—	—	16,869	16,869
Product sales	5,115	3,082	—	—	8,197
Subcontractor	—	—	—	34,374	34,374
	650,731	1,296,675	106,819	202,201	2,256,426
Year Ended December 31, 2017					
Fracturing	490,427	703,729	104,669	77,244	1,376,069
Coiled tubing	45,963	—	19,296	25,319	90,578
Cementing	—	—	—	25,278	25,278
Product sales	3,669	9,738	—	—	13,407
Subcontractor	—	—	—	22,373	22,373
	540,059	713,467	123,965	150,214	1,527,705

The Company recognizes all its revenue from contracts with customers and no other sources (such as lease rental income).

The Company does not incur material costs to obtain contracts with customers and consequently, does not recognize any contract assets. The Company does not have any contract liabilities associated with its customer contracts.

17. PRESENTATION OF EXPENSES

The Company presents its expenses on the consolidated statements of operations using the function of expense method whereby expenses are classified according to their function within the Company. This method was selected as it is more closely aligned with the Company's business structure. The Company's functions under IFRS are as follows:

- operations (cost of sales); and
- selling, general and administrative.

Cost of sales includes direct operating costs (including product costs, direct labour and overhead costs) and depreciation on assets relating to operations.

Years Ended December 31,	2018	2017
(C\$000s)	(\$)	(\$)
Product costs	688,493	463,974
Personnel costs	486,838	345,398
Depreciation	160,318	130,793
Other operating costs	677,324	466,885
	2,012,973	1,407,050

18. EMPLOYEE BENEFITS EXPENSE

Employee benefits include all forms of consideration given by the Company in exchange for services rendered by employees.

Years Ended December 31,	2018	2017
(C\$000s)	(\$)	(\$)
Salaries and short-term employee benefits	492,538	345,542
Post-employment benefits (group retirement savings plan)	10,590	701
Share-based payments	12,272	5,814
Termination benefits	2,130	1,131
	517,530	353,188

19. COMPENSATION OF KEY MANAGEMENT

Key management is defined as the Company's Board of Directors, Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer. Compensation awarded to key management comprised:

Years Ended December 31,	2018	2017
(C\$000s)	(\$)	(\$)
Salaries, fees and short-term benefits	3,633	1,721
Post-employment benefits (group retirement savings plan)	34	10
Share-based payments	2,977	2,242
	6,644	3,973

In the event of termination, the three senior officers are entitled to one to two years of annual compensation, and two years of annual compensation in the event of termination resulting from change of control.

20. 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 \$10,689 (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 \$10,689 (6,846 euros) cited above and the interest being sought in respect of these orders is part of the \$28,365 (18,168 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 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 of Judgment No 4528/2008 had taken place until the filing of the opponents' petition and/or the issuance of the payment order. The plaintiffs have filed an appeal against the above decision which was heard on October 16, 2018 and a decision in respect of this appeal is currently pending. A hearing in respect of the order served on November 23, 2015 took place on October 31, 2018 and a decision in respect of such order is currently pending. A hearing in respect of the orders served in December of 2015 scheduled for September 20, 2016 was adjourned until November 21, 2016 and two 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 decisions in respect of such appeals are pending.

NAPC is also the subject of a claim for approximately \$4,468 (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 \$902 (578 euros), amounted to \$28,365 (18,168 euros) as at December 31, 2018.

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 consolidated financial statements.

21. 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)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Year Ended December 31, 2018						
Revenue	650,731	1,296,675	106,819	202,201	—	2,256,426
Operating income (loss) ⁽¹⁾	87,162	262,348	(445)	12,836	(50,076)	311,825
Segmented assets	578,431	949,494	96,577	158,155	—	1,782,657
Capital expenditures	42,530	105,074	5,279	6,881	—	159,764
Year Ended December 31, 2017						
Revenue	540,059	713,467	123,965	150,214	—	1,527,705
Operating income (loss) ⁽¹⁾	84,743	121,790	13,413	(3,104)	(36,722)	180,120
Segmented assets	624,845	881,716	116,146	155,259	—	1,777,966
Capital expenditures	24,942	59,773	2,796	4,422	—	91,933

⁽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.

Years Ended December 31,	2018	2017
<i>(C\$000s)</i>	<i>(\$)</i>	<i>(\$)</i>
Net (loss) income	(26,177)	586
Add back (deduct):		
Depreciation	160,318	130,793
Foreign exchange (gains) losses	38,047	34,273
Loss on disposal of property, plant and equipment	30,317	13,039
Impairment (reversal of impairment) of property, plant and equipment	115	(76,296)
Impairment of inventory	7,167	—
Interest	106,630	85,450
Income taxes	(4,592)	(7,725)
Operating income	311,825	180,120

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

The Company's customer base consists of approximately 135 oil and natural gas exploration and production companies, ranging from large multi-national publicly traded companies to small private companies. Notwithstanding the Company's broad customer base, Calfrac had four significant customers that collectively accounted for approximately 32 percent of the Company's revenue for the year ended December 31, 2018 (year ended December 31, 2017 – five significant customers for approximately 35 percent) and, of such customers, one customer accounted for approximately 11 percent of the Company's revenue for the year ended December 31, 2018 (year ended December 31, 2017 – 10 percent).

HISTORICAL REVIEW

	2018	2017	2016	2015	2014
<i>(C\$000s, except per share amounts)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
<i>(unaudited)</i>					
FINANCIAL RESULTS					
Revenue	2,256,426	1,527,705	734,514	1,495,205	2,496,931
Operating income ⁽¹⁾	311,825	180,120	(58,204)	29,384	357,210
Per share - basic ⁽²⁾	2.16	1.31	(0.50)	0.31	3.80
Per share - diluted ⁽²⁾	2.12	1.29	(0.50)	0.31	3.77
Adjusted EBITDA ⁽¹⁾	329,408	191,823	(44,750)	52,057	357,295
Per share - basic ⁽²⁾	2.29	1.39	(0.38)	0.54	3.80
Per share - diluted ⁽²⁾	2.24	1.38	(0.38)	0.54	3.77
Net income (loss) attributable to the shareholders of Calfrac	(18,188)	5,939	(198,097)	(221,594)	66,976
Per share - basic ⁽²⁾	(0.13)	0.04	(1.69)	(2.31)	0.71
Per share - diluted ⁽²⁾	(0.13)	0.04	(1.69)	(2.31)	0.71
Capital expenditures	159,764	91,933	38,707	157,934	177,585
FINANCIAL POSITION, END OF PERIOD					
Current Assets	569,564	576,338	388,934	495,179	819,298
Total Assets	1,782,657	1,777,966	1,613,004	1,815,823	2,157,367
Working Capital	329,871	327,049	271,581	305,952	441,234
Long-Term Debt	989,614	958,825	984,062	927,270	738,386
Total Equity	513,820	543,645	497,458	623,719	832,403
COMMON SHARE DATA					
Common shares outstanding (000s), end of period ⁽²⁾	144,463	143,756	136,635	115,580	95,253
Weighted average (diluted) ⁽²⁾	146,829	139,462	117,326	96,076	94,781
Share trading					
High (\$) ⁽²⁾	8.35	6.51	5.00	11.17	22.57
Low (\$) ⁽²⁾	2.03	2.23	1.06	1.37	8.60
Close (\$), end of period ⁽²⁾	2.44	5.98	4.76	2.29	10.01
Volume (000s) ⁽²⁾	148,998	159,116	176,684	136,633	112,963
OPERATING, END OF PERIOD					
Active pumping horsepower (000s)	1,328	1,115	659	776	1,254
Idle pumping horsepower (000s)	42	280	563	524	—
Total pumping horsepower (000s)	1,370	1,395	1,222	1,300	1,254
Active coiled tubing units (#)	22	21	19	20	36
Idle coiled tubing units (#)	7	9	13	17	—
Total coiled tubing units (#)	29	30	32	37	36
Active cementing units (#)	11	12	14	23	31
Idle cementing units (#)	12	11	11	8	—
Total cementing units (#)	23	23	25	31	31

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

⁽²⁾ Comparative amounts were adjusted to reflect the Company's two-for-one common share split that occurred on June 2, 2014.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Ronald P. Mathison
*Chairman
 President & Chief Executive Officer
 Matco Investments Ltd.*

Douglas R. Ramsay ⁽⁴⁾
*Vice Chairman
 Calfrac Well Services Ltd.*

Fernando Aguilar
*President & Chief Executive Officer
 Calfrac Well Services Ltd.*

Kevin R. Baker, Q.C. ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾
*President & Managing Director
 Baycor Capital Inc.*

James S. Blair ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾
*President & Chief Executive Officer
 Glenogle Energy Inc.*

Gregory S. Fletcher ⁽¹⁾⁽²⁾⁽³⁾
*President
 Sierra Energy Inc.*

Lorne A. Gartner ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾
Independent Businessman

- (1) Member of the Audit Committee
 (2) Member of the Compensation Committee
 (3) Member of the Corporate Governance and Nominating Committee
 (4) Member of the Health, Safety, Environment and Quality Committee

OFFICERS

Fernando Aguilar
President & Chief Executive Officer

Lindsay R. Link
Chief Operating Officer

Michael D. Olinek
Chief Financial Officer

Armando J. Bertolin
Director General, Latin American Division

Tom J. Medvedic
President, Canadian Division

Robert L. Sutherland
President, Russian Division

Fred L. Toney
President, United States Division

J. Michael Brown
Vice President, Technical Services

Mark R. Ellingson
Vice President, Sales & Marketing, United States Division

Chris K. Gall
Vice President, Global Supply Chain

Roderick P. Kuntz
Vice President, HS&E

Chad J. Leier
Vice President, Sales & Marketing, Canadian Division

Gordon T. Milgate
Vice President, Operations, Canadian Division

Edward L. Oke
Vice President, Human Resources

B. Mark Paslawski
Vice President, Corporate Development

Gary J. Rokosh
Vice President, Business Development, Canadian Division

Mark D. Rosen
Vice President, Operations, United States Division

Scott A. Treadwell
Vice President, Capital Markets & Strategy

Joel S. Gaucher
General Counsel & Corporate Secretary

Matthew L. Mignault
Corporate Controller

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LEGAL COUNSEL

Bennett Jones LLP
 Calgary, Alberta

STOCK EXCHANGE LISTING

Trading Symbol: CFW

REGISTRAR & TRANSFER AGENT

For information concerning lost share certificates and estate transfers, or for a change in share registration or address, please contact the transfer agent and registrar:

Computershare Investor Services Inc.
 9th floor, 100 University Avenue
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 1-800-564-6253
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