2019 ANNUAL REPORT

CALFRAC WELL SERVICES

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

CWS™ CALFRAC

CONTENTS

CALFRAC WELL SERVICES LTD.

ANNUAL GENERAL MEETING

May 5, 2020

3:30 pm

McMurray Room

Calgary Petroleum Club

319 – 5th Avenue SW

Calgary, Alberta

PRESIDENT'S MESSAGE

To Our Valued Stakeholders:

I am very proud to report to you on behalf of the over 3,000 employees at Calfrac whose dedication and commitment to safety and service quality are on display every day they come to work, and are the backbone of our License to Operate. Throughout the Company, we are focused on delivering the efficiencies in execution that make us the service company of choice, not only today but at all points in the cycle.

The management team at Calfrac changed during 2019, and I was honored to step into my new role, surrounded by quality people in all of our operating jurisdictions. From our newest employee to those who have been with us since inception, I'd like to thank you and your families for all your hard work and dedication during 2019. I remain convinced that our team is second to none and there is no group I would rather work with.

Calfrac celebrated its 20th anniversary in 2019, which gave us an opportunity to reflect on the journey and recognize the wins and losses along the way.

At Calfrac, we are focused every day on optimizing all aspects of our business, while recognizing that many variables that impact us are outside our control . For us, that means working with the best clients, vendors and business partners, and committing to the development of an outstanding employee base. We do that by delivering on our Brand Promise of "Do It Better, Do It Safely, Do It On Time", a philosophy that has been the foundation of Calfrac since 1999.

To our investors; while 2019 was a return to more challenging market conditions, we remain confident that our approach to the business and our capital structure will provide compelling returns through the cycles ahead.

I would like to take a moment to reflect on some of our accomplishments over the past year:

RECORD SAFETY PERFORMANCE

One of Calfrac's core values is commitment - in this case a corporate commitment to our employees and their families that our people will return home safely after work. We measure this through two indicators, Total Recordable Injury Frequency (TRIF) and Lost Time Injury Frequency (LTIF). Through 2019, our North American operations saw continuous improvement in these categories, resulting in both our Canadian and United States Divisions delivering record results by year-end. Calfrac's international divisions also possess excellent safety records, and have maintained this strong performance over a number of years. From the hiring and onboarding process, through training and education along with in-field leadership, Calfrac's commitment to safety is front of mind and I am proud to report these accomplishments.

NORTH AMERICAN OPERATIONS

We saw a consistent deceleration of activity through 2019 which presented a number of challenges to our business. Throughout, our team acted prudently to reduce costs and capital expenditures while maintaining safety and service quality in our operations. Calfrac was able to maintain a strong list of clients and responded to market conditions appropriately. This included the stacking of fleets, with Calfrac's North American footprint roughly 20% smaller than it was in mid-2018. In Canada, where Calfrac maintains a significant market presence, our actions to reduce supply should help balance the marketplace and improve returns, but higher levels of activity will also be required to fully tighten the supply demand balance.

At the outset of 2020, we saw the year largely as a mirror image of 2019, with activity likely to improve throughout the year. However, recent macro events, such as Covid-19 virus and a potential slowing global economy, have clouded the 2020 outlook both globally and as it pertains to our industry and prospects.

Our largest concern in North America has shifted from the oversupply in pressure pumping to the health of our gas-exposed clients. North American natural gas prices have deteriorated in the early part of the year and we will continue to monitor both the condition of the natural gas market and our clients' subsequent response.

INTERNATIONAL OPERATIONS

The most significant events impacting our international divisions were unfortunately both negative in 2019. The contamination of oil export pipelines in Russia caused a slowdown throughout the industry, one which began to reverse late in the year but will not likely be fully recovered from until later this year. Our strategic positioning allows our Russian management team to execute with a high level of focus and we expect improved results in 2020, particularly as weather improves in the second and third quarters.

In Argentina, a change of government cast a shadow of uncertainty over the capital spending plans of a number of our clients in that country. As of today it appears that those fears were overblown as the new government has not enacted policies that would significantly harm the economics of our clients' operations. We will continue to monitor the situation but for now, expect operations to continue at approximately the same pace as was seen in 2019.

DELIVERING ON BUSINESS IMPROVEMENTS

Calfrac continues to look for smarter and more effective ways to run our business, and we expect the introduction of an ERP system, scheduled in the second quarter, to enable our managers to quickly access the data they need to make decisions as well as improve a number of internal processes. In addition, we have begun capturing telemetry from our operating equipment and other field data to improve our operating and maintenance practices and ultimately improve returns. I believe that good decisions require good data and this step will certainly help Calfrac in the years ahead.

LOOKING FORWARD

As I wrote as the outset, our team is focused on safely delivering the efficiencies in execution that make us a service company of choice, while proactively seeking out opportunities to add value across our business. 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,

Lindsay Link
President and Chief Operating Officer

March 4, 2020
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 March 4, 2020 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, 2019 and 2018. It should be read in conjunction with the interim consolidated financial statements for the year ended December 31, 2019 as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2018.

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 25 and 26.

CALFRAC'S BUSINESS

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

The Company's reportable business segments during the three months ended December 31, 2019 were as follows:

Segment	Active	Idle	Total	Crewed Fleets
	(hhp)	*(hhp)*	*(hhp)*	*(#)*
United States	830,000	93,000	923,000	15
Canada	236,000	36,000	272,000	5
Argentina	138,000	—	138,000	5
Russia	65,000	12,000	77,000	5
Total	1,269,000	141,000	1,410,000	30

- The Company's United States segment provides fracturing services to oil companies operating in the Bakken 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. At December 31, 2019, Calfrac's United States operations had combined active horsepower of approximately 830,000 and no active cementing or coiled tubing units. At the end of the fourth quarter, the United States segment had temporarily idled approximately 93,000 horsepower, five cementing units and one coiled tubing unit.

- 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, 2019, Calfrac's Canadian operations had active horsepower of approximately 236,000 and 11 active coiled tubing units. At the end of the fourth quarter, the Canadian segment had temporarily idled approximately 36,000 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 138,000 active horsepower, 13 active cementing units and six active coiled tubing units in its Argentinean segment at December 31, 2019.

- The Company's Russian segment provides fracturing and coiled tubing services in Western Siberia. During the fourth quarter of 2019, 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, 2019, the Russian segment had seven deep coiled tubing units, of which three were active, and approximately 65,000 active horsepower forming five fracturing spreads in Russia.

FINANCIAL OVERVIEW – YEARS ENDED DECEMBER 31, 2019 VERSUS 2018

CONSOLIDATED HIGHLIGHTS

Years Ended December 31,	**2019**	2018	Change
(C$000s, except per share amounts)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**1,620,955**	2,256,426	(28)
Operating income[(1)]	**152,744**	311,825	(51)
Per share – basic	**1.06**	2.16	(51)
Per share – diluted	**1.05**	2.12	(50)
Adjusted EBITDA[(1)]	**159,119**	329,408	(52)
Per share – basic	**1.10**	2.29	(52)
Per share – diluted	**1.09**	2.24	(51)
Net loss attributable to the shareholders of Calfrac	**(156,203)**	(18,188)	NM
Per share – basic	**(1.08)**	(0.13)	NM
Per share – diluted	**(1.08)**	(0.13)	NM
Working capital, end of year	**248,772**	329,871	(25)
Total assets, end of year	**1,525,922**	1,782,657	(14)
Long-term debt, end of year	**976,693**	989,614	(1)
Total equity, end of year	**368,623**	513,820	(28)

(1) Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.

2019 OVERVIEW

In 2019, the Company:

- generated revenue of $1.6 billion versus $2.3 billion in 2018 resulting primarily from lower pricing and activity in North America combined with a greater proportion of customers providing their own sand;
- reported adjusted EBITDA of $159.1 million versus $329.4 million in 2018 mainly as a result of lower utilization and pricing in North America;
- reported a net loss attributable to shareholders of Calfrac of $156.2 million or $1.08 per share diluted, which included additional depreciation of $32.9 million relating to accounting policy changes, a foreign exchange loss of $6.3 million, inventory write-down of $3.7 million and impairment of PP&E of $2.2 million compared to a loss of $18.2 million or $0.13 per share diluted in 2018;
- executed the extension of the Company's revolving credit facility, now maturing in June 2022;
- completed the acquisition of additional fracturing equipment in Argentina;
- aligned its operating footprint in Canada and the United States in response to lower activity levels; and
- incurred capital expenditures, net of disposals, of $139.3 million primarily to support the Company's North American fracturing operations.

Subsequent to year-end, Calfrac executed an exchange offer of US$120.0 million of new 10.875% second lien secured notes due March 15, 2026 to holders of its existing 8.50% senior unsecured notes due June 15, 2026. The exchange will result in reduced leverage of approximately $130.0 million and a reduction of $7.3 million in annual debt service costs.

CANADA

Years Ended December 31,	**2019**	2018	Change
(C$000s, except operational information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**397,583**	650,731	(39)
Expenses			
Operating	**345,315**	549,448	(37)
Selling, general and administrative (SG&A)	**11,579**	14,121	(18)
	356,894	563,569	(37)
Operating income[(1)]	**40,689**	87,162	(53)
Operating income (%)	**10.2**	13.4	(24)
Fracturing revenue per job ($)	**16,573**	21,156	(22)
Number of fracturing jobs	**21,046**	28,038	(25)
Active pumping horsepower, end of period (000s)	**236**	289	(18)
Idle pumping horsepower, end of period (000s)	**36**	17	112
Total pumping horsepower, end of period (000s)	**272**	306	(11)
Coiled tubing revenue per job ($)	**19,839**	22,809	(13)
Number of coiled tubing jobs	**2,339**	2,299	2
Active coiled tubing units, end of period (#)	**11**	11	—
Idle coiled tubing units, end of period (#)	**3**	3	—
Total coiled tubing units, end of period (#)	**14**	14	—

(1) Refer to “Non-GAAP Measures” on pages 25 and 26 for further information.

REVENUE

Revenue from Calfrac’s Canadian operations in 2019 was $397.6 million versus $650.7 million in 2018. Through the majority of 2019, a number of key clients in Calfrac’s Canadian division were less active compared to 2018, as takeaway capacity issues and government mandated production curtailment impacted spending plans. Although the Company continued to work for a top tier customer mix in 2019, the number of fracturing jobs decreased by 25 percent. Revenue per fracturing job decreased by 22 percent from the prior year primarily due to lower pricing and job mix. Coiled tubing activity increased by 2 percent although revenue per job decreased by 13 percent resulting in lower coiled tubing revenue year-over-year.

OPERATING INCOME

The Company’s Canadian division generated operating income of $40.7 million in 2019 compared to $87.2 million in 2018. The decrease was due to lower pricing and utilization. Despite the lower revenue base, the Company generated an 10 percent operating income margin through its focus on controlling operating costs during periods of lower activity. The Canadian division idled one fleet at the beginning of 2019 and revised its field work schedule beginning in the second quarter in order to better align with expected activity levels, which helped improve profitability. The reported operating income was positively impacted by the adoption of IFRS 16 at the beginning of 2019 which resulted in $8.8 million of lease payments no longer being recognized as operating costs in 2019. In addition, the $2.5 million reduction in SG&A expenses compared to 2018 was due to headcount reductions, a lower annual bonus provision and a reduction in corporate costs allocated to the Canadian division, offset partially by restructuring costs of $0.7 million and a bad debt expense of $1.3 million that were recorded in 2019.

UNITED STATES

Years Ended December 31,	**2019**	2018	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**930,404**	1,296,675	(28)
Expenses			
Operating	**786,864**	1,014,151	(22)
SG&A	**17,335**	20,176	(14)
	804,199	1,034,327	(22)
Operating income[1]	**126,205**	262,348	(52)
Operating income (%)	**13.6**	20.2	(33)
Fracturing revenue per job ($)	**42,832**	58,333	(27)
Number of fracturing jobs	**21,687**	22,176	(2)
Active pumping horsepower, end of period (000s)	**830**	854	(3)
Idle pumping horsepower, end of period (000s)	**93**	25	272
Total pumping horsepower, end of period (000s)	**923**	879	5
Active coiled tubing units, end of period (#)	**—**	—	—
Idle coiled tubing units, end of period (#)	**1**	2	(50)
Total coiled tubing units, end of period (#)	**1**	2	(50)
Active cementing units, end of period (#)	**—**	—	—
Idle cementing units, end of period (#)	**5**	10	(50)
Total cementing units, end of period (#)	**5**	10	(50)
US$/C$ average exchange rate[2]	**1.3269**	1.2957	2

[1] *Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.*
[2] *Source: Bank of Canada.*

REVENUE

Revenue from Calfrac's United States operations decreased to $930.4 million in 2019 from $1.3 billion in 2018 primarily due to lower pricing and fracturing activity. Completions activity in the United States decreased during 2019 as customers continued to focus on spending within their operating cash flows. As a result, the number of fracturing jobs completed declined by 2 percent year-over-year, with lower activity in Artesia and Colorado being partially offset by higher activity in Pennsylvania, North Dakota and San Antonio. Revenue per job decreased 27 percent due to lower pricing combined with the impact of job mix and certain customers providing their own sand.

OPERATING INCOME

The Company's United States division generated operating income of $126.2 million in 2019 compared to $262.3 million in 2018. The 52 percent decrease was primarily the result of lower pricing and utilization of active equipment. Although the Company had 17 active fleets available in 2019, only an average of 14 active crews were utilized during that period and exited the year with 10 active fleets. The lower utilization levels were primarily related to Calfrac's Texas operations, and to a lesser extent, in North Dakota, as extreme weather impacted customer activity during the first quarter in that operating region while wet weather negatively impacted parts of the third quarter. The prior year's operating results included $12.9 million of reactivation costs in 2018 while 2019 did not include any of such costs. The reported operating income was also positively impacted by the adoption of IFRS 16 at the beginning of 2019, which resulted in $12.7 million of lease payments no longer being recognized as operating costs in 2019. SG&A expenses decreased by 14 percent primarily due to a lower bonus provision recorded in 2019. Additionally, the Company revised its thresholds for capitalization of major components relating to field equipment effective January 1, 2019. Due to this change, certain costs that were previously classified as operating expenses are now classified as capital expenditures. This resulted in a decrease to operating expenses in the United States totaling $10.2 million relating to the 2019 fiscal year and was recorded during the fourth quarter of 2019.

RUSSIA

Years Ended December 31,	**2019**	2018	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**105,807**	106,819	(1)
Expenses			
Operating	**107,597**	103,938	4
SG&A	**3,215**	3,326	(3)
	110,812	107,264	3
Operating loss[1]	**(5,005)**	(445)	NM
Operating loss (%)	**(4.7)**	(0.4)	NM
Fracturing revenue per job ($)	**86,397**	78,176	11
Number of fracturing jobs	**1,094**	1,167	(6)
Active pumping horsepower, end of period (000s)	**65**	77	(16)
Idle pumping horsepower, end of period (000s)	**12**	—	NM
Total pumping horsepower, end of period (000s)	**77**	77	—
Coiled tubing revenue per job ($)	**44,619**	39,065	14
Number of coiled tubing jobs	**253**	399	(37)
Active coiled tubing units, end of period (#)	**3**	6	(50)
Idle coiled tubing units, end of period (#)	**4**	1	NM
Total coiled tubing units, end of period (#)	**7**	7	—
Rouble/C$ average exchange rate[2]	**0.0205**	0.0207	(1)

(1) Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.
(2) Source: Bank of Canada.

REVENUE

Revenue from Calfrac's Russian operations in 2019 of $105.8 million was consistent with 2018. The slight decrease in revenue, which is generated in roubles, was mostly related to a 37 percent reduction in coiled tubing activity, combined with the 1 percent depreciation of the Russian rouble in 2019 versus 2018. Revenue per fracturing job was 11 percent higher than the comparable period in 2018 due to proppant being provided for all jobs completed with a major customer for the full period in 2019. This was partially offset by the 6 percent reduction in fracturing activity. The Company idled one fracturing spread and two coiled tubing units during 2019 to align with activity levels.

OPERATING LOSS

The Company's Russian division incurred an operating loss of $5.0 million in 2019 compared to a loss of $0.4 million in 2018. Calfrac's operations in the first quarter of 2019 were impacted by extremely cold temperatures experienced for portions of January and February, combined with higher equipment repair expenses. In addition, the Company closed its operations in Noyabrsk during the first quarter and incurred mobilization costs to transfer equipment to Khanty-Mansiysk to work for an existing customer in that region. The second and third quarters experienced lower activity for both fracturing and coiled tubing services as Calfrac's major customer in Western Siberia was impacted by the issues associated with the contamination of the Transneft pipeline network while the fourth quarter was impacted by higher equipment repairs and subcontractor costs compared to the same period in 2018.

ARGENTINA

Years Ended December 31,	**2019**	2018	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**187,161**	202,201	(7)
Expenses			
Operating	**153,479**	178,796	(14)
SG&A	**7,554**	10,569	(29)
	161,033	189,365	(15)
Operating income(1)	**26,128**	12,836	104
Operating income (%)	**14.0**	6.3	122
Active pumping horsepower, end of period (000s)	**138**	108	28
Idle pumping horsepower, end of period (000s)	**—**	—	—
Total pumping horsepower, end of period (000s)	**138**	108	28
Active cementing units, end of period (#)	**13**	11	18
Idle cementing units, end of period (#)	**1**	2	(50)
Total cementing units, end of period (#)	**14**	13	8
Active coiled tubing units, end of period (#)	**6**	5	20
Idle coiled tubing units, end of period (#)	**—**	1	(100)
Total coiled tubing units, end of period (#)	**6**	6	—
US$/C$ average exchange rate(2)	**1.3269**	1.2957	2

(1) Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.
(2) Source: Bank of Canada.

REVENUE

Calfrac's Argentinean operations generated total revenue of $187.2 million in 2019 versus $202.2 million in 2018. The 7 percent decline in year-over-year revenue was primarily due to the change in customer mix that occurred during the third quarter of 2019. The Company completed of one of its bundled service contracts in the Vaca Muerta shale play during the third quarter where Calfrac provided sand and replaced it with another contract with a customer that provides its own sand. During 2019, the Company achieved higher fracturing activity in the Vaca Muerta shale play and a significant improvement in cementing activity. This was partially offset by lower coiled tubing revenue as activity was weighted to lower margin contract work in 2019 compared to higher margin call-out work in 2018.

OPERATING INCOME

The Company's operations in Argentina generated operating income of $26.1 million in 2019 compared to $12.8 million in the comparable period in 2018. The Company has continued to improve its operating margins throughout the transition to unconventional operations in Argentina mainly due to improved pricing and a focus on reducing costs. The Company added additional operating capacity during the second quarter in 2019 supported by higher unconventional fracturing activity which also contributed to the year-over-year improvement in operating income.

CORPORATE

Years Ended December 31,	**2019**	2018	Change
(C$000s)	***($)***	*($)*	*(%)*
(unaudited)			
Expenses			
Operating	**5,081**	6,322	(20)
SG&A	**30,192**	43,754	(31)
	35,273	50,076	(30)
Operating loss[1]	**(35,273)**	(50,076)	(30)
% of Revenue	**2.2**	2.2	—

[1] *Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.*

OPERATING LOSS

Corporate expenses in 2019 were $35.3 million compared to $50.1 million in 2018. The decrease was primarily due to lower stock-based compensation expense and a lower bonus provision when compared to the same period in 2018. This was partially offset by $4.4 million of retirement and severance payments in 2019. The $7.3 million reduction in stock-based compensation was mainly due to a lower share price and fewer restricted share units outstanding. The implementation of IFRS 16 also resulted in lower reported corporate expenses as lease payments related to corporate office space are no longer recorded in SG&A.

DEPRECIATION

Depreciation expense in 2019 increased by $70.7 million to $261.2 million from $190.5 million in 2018. The increase was primarily due to the Company decreasing its useful life estimates and salvage values, effective January 1, 2019, for certain components of its fracturing equipment. This resulted in a one-time depreciation charge of $9.5 million during the first quarter relating to assets in use at the end of the prior quarter. The resulting accelerated depreciation rate on these components, combined with additions during 2019 increased depreciation expense by a further $23.5 million. In addition, the adoption of IFRS 16 at the beginning of 2019 resulted in a $20.9 million increase to depreciation expense. The Company also recorded an additional $9.2 million of depreciation on assets placed into service in the United States. Fluctuations in the U.S. dollar relative to the Canadian dollar also contributed to the increase in reported depreciation.

Effective April 1, 2019, the Company revised its policy regarding the derecognition of major components relating to field equipment. The change in accounting policy was adopted on a retrospective basis, with each prior period presented in the statements of operations being restated to reflect the change. The change in policy resulted in $30.2 million of loss on disposal of property, plant and equipment being reclassified to depreciation expense on the statement of operations for the year ended December 31, 2018.

The Company revised its thresholds for capitalization of major components relating to field equipment. Due to this change, certain costs that were previously classified as operating expenses are now classified as capital expenditures. This resulted in a decrease to operating expenses and an increase to capital expenditures totaling $10.9 million relating to the 2019 fiscal year and was recorded during the fourth quarter of 2019. This did not have any impact on prior periods.

FOREIGN EXCHANGE LOSSES

The Company recorded a foreign exchange loss of $6.3 million in 2019 versus a loss of $38.0 million in 2018. Foreign exchange gains and losses arise primarily from the translation of net monetary assets or liabilities that were held in U.S. dollars in Canada, net monetary assets or liabilities that were held in pesos in Argentina, and liabilities held in Canadian dollars in Russia. The Company's foreign exchange loss in 2019 was largely attributable to net monetary assets that were held in pesos in Argentina as the peso devalued by 59 percent against the U.S. dollar during 2019 and U.S. dollar denominated assets held in Canada as the United States dollar depreciated against the Canadian dollar during 2019.

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 2019 (2018 - $nil) . Furthermore, the Company carried out a comprehensive review of its property, plant and equipment and identified assets that were permanently idle or obsolete, and therefore, no longer able to generate cash inflows. These assets were written down to their recoverable amount resulting in an impairment charge of $2.2 million for the year ended December 31, 2019 (year ended December 31, 2018 - $0.1 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, 2019, the Company recorded an impairment charge of $3.7 million to write-down inventory to its net realizable amount in the United States and Argentina (year ended December 31, 2018 - $7.2 million).

INTEREST

The Company's interest expense of $85.8 million in 2019 was $20.8 million lower than in 2018, primarily due to $21.2 million in one-time charges associated with the debt refinancing transactions that were completed in the second quarter in 2018. Interest expense in 2019 also included $2.1 million related to the adoption of IFRS 16. Excluding these one-time items, interest expense was $1.7 million lower than 2018 primarily due to lower average debt levels.

INCOME TAXES

The Company recorded an income tax recovery of $52.2 million in 2019 compared to a $4.6 million tax recovery in 2018. The recovery position was the result of pre-tax losses across all divisions in 2019. The effective recovery rate was 25 percent in 2019.

LIQUIDITY AND CAPITAL RESOURCES

	Years Ended December 31,	
	2019	2018
(C$000s) *(unaudited)*	***($)***	*($)*
Cash provided by (used in):		
Operating activities	**132,024**	184,746
Financing activities	**4,021**	(58,073)
Investing activities	**(138,892)**	(149,814)
Effect of exchange rate changes on cash and cash equivalents	**(6,492)**	22,293
Decrease in cash and cash equivalents	**(9,339)**	(848)

OPERATING ACTIVITIES

The Company's cash provided by operating activities for the year ended December 31, 2019 was $132.0 million versus $184.7 million during 2018. The decrease in cash provided by operations was primarily due to lower activity and pricing in North America offset partially by working capital providing $62.7 million of cash in 2019 compared to using $13.6 million in 2018. At December 31, 2019, Calfrac's working capital was $248.8 million compared to $329.9 million at December 31, 2018.

FINANCING ACTIVITIES

Net cash provided by financing activities for the year ended December 31, 2019 was $4.0 million compared to net cash used of $58.1 million in 2018. During the year ended December 31, 2019, the Company had net borrowings under its credit facilities of $23.9 million, proceeds from the issuance of shares of $0.2 million and lease principal payments of $20.0 million.

On February 24, 2020, Calfrac executed an exchange offer of US$120.0 million of new 10.875% second lien secured notes ("New Notes") due March 15, 2026 to holders of its existing 8.50% senior unsecured notes ("Old Notes") due June 15, 2026. The New Notes are secured by a second lien on the same assets that secure obligations under the Company's existing senior secured credit facility. The exchange was completed at an average exchange price of US$550 per each US$1,000 of Old Notes resulting in US$218.2 million being exchanged for US$120.0 million of New Notes. The exchange will result in reduced leverage of approximately $130.0 million and a reduction of $7.3 million in annual debt service costs.

On April 30, 2019, Calfrac amended and extended its credit facilities while maintaining its total facility capacity at $375.0 million. The facilities consist of an operating facility of $40.0 million and a syndicated facility of $335.0 million. The Company's credit facilities were extended by a term of two years and mature on June 1, 2022 and can be extended by one or more years at the Company's request and lenders' acceptance. The Company may also prepay principal without penalty. The interest rates are based on the parameters of certain bank covenants. For prime-based loans and U.S. base-rate loans, the rate ranges from prime or U.S. base rate plus 0.50 percent to prime plus 2.50 percent. For LIBOR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 1.50 percent to 3.50 percent above the respective base rates. The accordion feature of the syndicated facility remains at $100.0 million, and is available to the Company during the term of the agreement. The

Company incurs interest at the high end of the ranges outlined above if its net Total Debt to Adjusted EBITDA ratio is above 4.00:1.00. Additionally, in the event that the Company's net Total Debt to Adjusted EBITDA ratio is above 5.00:1.00, certain restrictions apply including the following: (a) acquisitions are subject to majority lender consent; (b) distributions are restricted other than those relating to the Company's share unit plans; and (c) no increase in the rate of dividends are permitted. As at December 31, 2019, the Company's net Total Debt to Adjusted EBITDA ratio was 6.96:1.00.

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 $150.0 million.

At December 31, 2019, the Company had used $0.8 million of its credit facilities for letters of credit and had $148.0 million of borrowings under its credit facilities, leaving $226.2 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, 2019 resulted in a liquidity amount of $123.2 million.

As shown in the table below, at December 31, 2019, the Company was in compliance with the financial covenants associated with its credit facilities.

	Covenant	**Actual**
As at December 31,	2019	**2019**
Working capital ratio not to fall below	1.15x	**2.83x**
Funded Debt to Adjusted EBITDA not to exceed[(1)(2)]	3.00x	**0.80x**
Funded Debt to Capitalization not to exceed[(1)(3)]	0.30x	**0.08x**

(1) Funded Debt is defined as Total Debt excluding all outstanding senior unsecured notes and lease obligations. Total Debt includes bank loans and long-term debt (before unamortized debt issuance costs and debt discount) plus outstanding letters of credit. For the purposes of the Total Debt to Adjusted EBITDA ratio, the Funded Debt to Capitalization Ratio and the Funded Debt to Adjusted EBITDA ratio, the amount of Total Debt or Funded Debt, as applicable, is reduced by the amount of cash on hand with lenders (excluding any cash held in a segregated account for the purposes of a potential equity cure).
(2) Adjusted EBITDA is defined as net income or loss for the period adjusted for interest, taxes, depreciation and amortization, non-cash stock-based compensation, 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, 2022, subject to certain conditions including:

i. the Company is only permitted to use the proceeds of a common share issuance to increase Adjusted EBITDA a maximum of two times;

ii. the Company cannot use the proceeds of a common share issuance to increase Adjusted EBITDA in consecutive quarter ends;

iii. the maximum proceeds of each common share issuance permitted to be attributed to Adjusted EBITDA cannot exceed the greater of 50 percent of Adjusted EBITDA on a trailing four-quarter basis and $25.0 million; and

iv. if proceeds are not used immediately as an equity cure they must be held in a segregated bank account pending an election to use them for such purpose, and if they are removed from such account but not used as an equity cure they will no longer be eligible for such use.

The Company can utilize two equity cures during the term of the credit facilities subject to the conditions described above. To utilize an equity cure, the Company must provide notice of any such election to the lending syndicate at any time prior to the filing of its quarterly financial statements for the applicable quarter on SEDAR. Amounts used as an equity cure prior to June

30, 2022 will increase Adjusted EBITDA over the relevant twelve-month rolling period and will also serve to reduce Funded Debt.

The Company's credit facilities also require majority lender consent for dispositions of property or assets in Canada and the United States if the aggregate market value exceeds $20.0 million. There are no restrictions pertaining to dispositions of property or assets outside of Canada and the United States, except that to the extent that advances under the credit facilities exceed $50.0 million at the time of any such dispositions, Calfrac must use the resulting proceeds to reduce the advances to less than $50.0 million before using the balance for other purposes.

The 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 would not meet the Fixed Charge Coverage Ratio(1) under the indenture of at least 2:1 for the most recent four fiscal quarters, after giving pro forma effect to such restricted payment as if it had been made at the beginning of the applicable four fiscal quarter period; or

iii. there is insufficient room for such payment within a builder basket included in the 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, 2019 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 plus a general basket equal to the greater of 4 percent of consolidated tangible assets and US$60.0 million.

As at December 31, 2019, the Company's Fixed Charge Coverage Ratio of 1.85:1 was below the required 2:1 ratio. Failing to meet the Fixed Charge Coverage Ratio is not an event of default under the indenture, and the baskets highlighted in the preceding paragraph provide sufficient flexibility for the Company to incur additional indebtedness and make anticipated restricted payments which may be required to conduct its operations.

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.

INVESTING ACTIVITIES

Calfrac's net cash used for investing activities was $138.9 million for the year ended December 31, 2019 versus $149.8 million in 2018. Cash outflows relating to capital expenditures were $147.4 million in 2019 compared to $157.2 million in 2018. In addition to supporting ongoing operations globally, a portion of capital spending in 2019 funded the acquisition of incremental fracturing equipment in Argentina, which improved the Company's footprint and flexibility in the market.

Calfrac's Board of Directors have approved a 2020 capital budget of $100.5 million, which is comprised primarily of maintenance capital.

EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS

The effect of changes in foreign exchange rates on the Company's cash and cash equivalents during the year ended December 31, 2019 was a loss of $6.5 million versus a gain of $22.3 million in 2018. These gains 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, 2019, the Company had cash and cash equivalents of $42.6 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 March 3, 2020, the Company had issued and outstanding 145,149,528 common shares, 485,798 equity-based performance share units and 12,172,402 options to purchase common shares.

SUMMARY OF QUARTERLY RESULTS

Three Months Ended	Mar. 31, 2018	Jun. 30, 2018	Sep. 30, 2018	Dec. 31, 2018	Mar 31, 2019	Jun. 30, 2019	Sep. 30, 2019	**Dec. 31, 2019**
(C$000s, except per share and operating data) (unaudited)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	***($)***
Financial								
Revenue	582,838	544,602	630,128	498,858	475,012	429,638	399,220	**317,085**
Operating income[(1)]	67,974	66,528	115,331	61,992	43,623	41,103	47,021	**20,997**
Per share – basic	0.47	0.46	0.80	0.43	0.30	0.28	0.33	**0.15**
Per share – diluted	0.46	0.45	0.79	0.42	0.30	0.28	0.32	**0.14**
Adjusted EBITDA[(1)]	72,953	81,910	111,631	62,914	44,086	45,123	43,028	**26,882**
Per share – basic	0.51	0.57	0.77	0.44	0.31	0.31	0.30	**0.19**
Per share – diluted	0.50	0.56	0.76	0.43	0.30	0.31	0.30	**0.18**
Net income (loss) attributable to the shareholders of Calfrac	3,234	(32,838)	14,878	(3,462)	(36,334)	(41,045)	(29,424)	**(49,400)**
Per share – basic	0.02	(0.23)	0.10	(0.02)	(0.25)	(0.28)	(0.20)	**(0.34)**
Per share – diluted	0.02	(0.23)	0.10	(0.02)	(0.25)	(0.28)	(0.20)	**(0.34)**
Capital expenditures	51,334	42,404	34,542	31,484	28,218	37,784	38,885	**34,418**
Working capital (end of period)	360,654	361,613	386,843	329,871	276,785	291,056	257,189	**248,772**
Total equity (end of period)	546,018	507,607	516,899	513,820	481,675	443,361	414,195	**368,623**
Operating (end of period)								
Active pumping horsepower (000s)	1,259	1,313	1,344	1,328	1,344	1,346	1,337	**1,269**
Idle pumping horsepower (000s)	134	80	49	42	36	59	72	**141**
Total pumping horsepower (000s)	1,393	1,393	1,393	1,370	1,380	1,405	1,409	**1,410**
Active coiled tubing units (#)	22	22	22	22	21	21	21	**20**
Idle coiled tubing units (#)	8	8	8	7	8	8	8	**8**
Total coiled tubing units (#)	30	30	30	29	29	29	29	**28**
Active cementing units (#)	12	11	11	11	11	14	14	**13**
Idle cementing units (#)	11	12	12	12	12	9	9	**6**
Total cementing units (#)	23	23	23	23	23	23	23	**19**

[(1)] With the adoption of IFRS 16, the accounting treatment for operating leases when Calfrac is the lessee, changed effective January 1, 2019. Calfrac adopted IFRS 16 using the modified retrospective approach and the comparative information was not restated. As a result, the Company's 2019 Operating Income and Adjusted EBITDA are not comparable to periods prior to January 1, 2019. Refer to "Non-GAAP Measures" on pages 25 and 26 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 35).

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 34).

FINANCIAL OVERVIEW – THREE MONTHS ENDED DECEMBER 31, 2019 VERSUS 2018

CONSOLIDATED HIGHLIGHTS

Three Months Ended December 31,	**2019**	2018	Change
(C$000s, except per share amounts)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**317,085**	498,858	(36)
Operating income[(1)]	**20,997**	61,992	(66)
Per share – basic	**0.15**	0.43	(65)
Per share – diluted	**0.14**	0.42	(67)
Adjusted EBITDA[(1)]	**26,882**	62,914	(57)
Per share – basic	**0.19**	0.44	(57)
Per share – diluted	**0.18**	0.43	(58)
Net loss attributable to the shareholders of Calfrac	**(49,400)**	(3,462)	NM
Per share – basic	**(0.34)**	(0.02)	NM
Per share – diluted	**(0.34)**	(0.02)	NM
Working capital, end of period	**248,772**	329,871	(25)
Total assets, end of period	**1,525,922**	1,782,657	(14)
Long-term debt, end of period	**976,693**	989,614	(1)
Total equity, end of period	**368,623**	513,820	(28)

[(1)] Refer to "Non-GAAP Measures" on pages pages 25 and 26 for further information.

FOURTH QUARTER 2019 OVERVIEW

In the fourth quarter of 2019, the Company:

- generated revenue of $317.1 million, a decrease of 36 percent from the fourth quarter in 2018, resulting primarily from lower pricing and activity in Canada and the United States;
- recorded an impairment of PP&E and inventory totalling $5.3 million compared to $4.1 million in the fourth quarter of 2018;
- revised its thresholds for capitalization of major components relating to field equipment, which resulted in a decrease to operating expenses and an increase to capital expenditures totaling $10.9 million;
- reported adjusted EBITDA of $26.9 million versus $62.9 million in the fourth quarter of 2018;
- reported a net loss attributable to shareholders of Calfrac of $49.4 million or $0.34 per share diluted, compared to a net loss of $3.5 million or $0.02 per share diluted in 2018;
- reported period-end working capital of $248.8 million versus $329.9 million at December 31, 2018; and
- incurred capital expenditures, net of disposals, of $34.4 million primarily to support the Company's United States fracturing operations.

CANADA

Three Months Ended December 31,	**2019**	2018	Change
(C$000s, except operational information) *(unaudited)*	***($)***	*($)*	*(%)*
Revenue	**73,009**	145,085	(50)
Expenses			
Operating	**67,171**	124,957	(46)
SG&A	**2,414**	3,472	(30)
	69,585	128,429	(46)
Operating income[1]	**3,424**	16,656	(79)
Operating income (%)	**4.7**	11.5	(59)
Fracturing revenue per job ($)	**15,348**	20,265	(24)
Number of fracturing jobs	**4,160**	6,537	(36)
Active pumping horsepower, end of period (000s)	**236**	289	(18)
Idle pumping horsepower, end of period (000s)	**36**	17	112
Total pumping horsepower, end of period (000s)	**272**	306	(11)
Coiled tubing revenue per job ($)	**21,741**	23,492	(7)
Number of coiled tubing jobs	**405**	517	(22)
Active coiled tubing units, end of period (#)	**11**	11	—
Idle coiled tubing units, end of period (#)	**3**	3	—
Total coiled tubing units, end of period (#)	**14**	14	—

[1] *Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.*

REVENUE

Revenue from Calfrac's Canadian operations during the fourth quarter of 2019 was $73.0 million compared to $145.1 million in the same period of 2018 primarily due to lower activity and pricing. In the fourth quarter of 2019, the number of fracturing jobs was 36 percent lower than the comparable period in 2018 due to lower industry activity in response to government mandated production cuts. Activity in October was relatively strong; however, activity in November and December was reduced as a result of customers exhausting their full-year capital budgets. Revenue per job decreased by 24 percent due to certain customers providing their own sand and fuel, combined with lower pricing. The number of coiled tubing jobs decreased by 22 percent from the fourth quarter in 2018, while revenue per job decreased by 7 percent due to job mix.

OPERATING INCOME

Operating income in Canada during the fourth quarter of 2019 was $3.4 million compared to $16.7 million in the same period of 2018. The significant decline in operating income was due to the lower revenue base and pricing, offset partially by the implementation of cost control measures earlier in the year. At the beginning of 2019, the Company made the decision to idle one fracturing fleet due to weaker demand for its fracturing services and also reduced its fixed cost structure accordingly. In addition, the Canadian division continued its revised field work schedule during the fourth quarter in order to better align costs with the expected level of activity. Pricing was lower compared to the fourth quarter in 2018, however, the impact was mitigated by reductions in logistical and material costs. The reported operating income was impacted positively by the adoption of IFRS 16 at the beginning of 2019, which resulted in $2.2 million of lease payments no longer being recognized as operating costs during the fourth quarter of 2019. In addition, the $1.1 million decrease in SG&A expenses in the fourth quarter of 2019 compared to the fourth quarter in 2018 was primarily due to a reduction in corporate costs allocated to the Canadian division combined with lower personnel costs, offset partially by $0.7 million in restructuring costs.

UNITED STATES

Three Months Ended December 31,	**2019**	2018	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**187,770**	279,324	(33)
Expenses			
Operating	**160,012**	223,055	(28)
SG&A	**4,164**	4,741	(12)
	164,176	227,796	(28)
Operating income[(1)]	**23,594**	51,528	(54)
Operating income (%)	**12.6**	18.4	(32)
Fracturing revenue per job ($)	**34,402**	55,492	(38)
Number of fracturing jobs	**5,435**	5,034	8
Active pumping horsepower, end of period (000s)	**830**	854	(3)
Idle pumping horsepower, end of period (000s)	**93**	25	272
Total pumping horsepower, end of period (000s)	**923**	879	5
Active coiled tubing units, end of period (#)	**—**	—	—
Idle coiled tubing units, end of period (#)	**1**	2	(50)
Total coiled tubing units, end of period (#)	**1**	2	(50)
Active cementing units, end of period (#)	**—**	—	—
Idle cementing units, end of period (#)	**5**	10	(50)
Total cementing units, end of period (#)	**5**	10	(50)
US$/C$ average exchange rate[(2)]	**1.3200**	1.3204	—

[(1)] *Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.*
[(2)] *Source: Bank of Canada.*

REVENUE

Revenue from Calfrac's United States operations decreased to $187.8 million during the fourth quarter of 2019 from $279.3 million in the comparable quarter of 2018. The significant decrease in revenue can be attributed to a combination of a 38 percent decrease in revenue per job, offset partially by an 8 percent increase in the number of fracturing jobs completed period-over-period. The significant decrease in revenue per job was primarily due to the impact of nearly half of Calfrac's United States activity involving customers providing their own sand, combined with lower pricing in all operating areas. The 8 percent increase in activity was driven by a change in job mix in Pennsylvania and North Dakota that resulted in more jobs completed at a lower average job size while Calfrac's Texas and Colorado operations completed fewer jobs period-over-period.

OPERATING INCOME

The Company's United States operations generated operating income of $23.6 million during the fourth quarter of 2019 compared to $51.5 million in the same period in 2018. The year-over-year decline in operating results was primarily due to lower realized pricing and decreased utilization. Pricing in the fourth quarter of 2019 was down significantly from the comparable quarter in 2018. The number of jobs completed was 8 percent higher primarily due to customer and job mix which resulted in more jobs at a lower average revenue per job. The reported operating income was positively impacted by the adoption of IFRS 16 at the beginning of 2019 which resulted in $2.6 million of lease payments no longer being recognized as operating costs during the fourth quarter of 2019. SG&A expenses decreased by 12 percent primarily due to a lower bonus accrual recorded in the quarter, offset partially by $0.8 million in restructuring costs. Additionally, the Company revised its thresholds for capitalization of major components relating to field equipment effective October 1, 2019. Due to this change, certain costs that were previously classified as operating expenses are now classified as capital expenditures. This resulted in a decrease to operating expenses in the United States totaling $10.2 million relating to the 2019 fiscal year and was recorded during the fourth quarter of 2019.

RUSSIA

Three Months Ended December 31,	**2019**	2018	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**24,244**	24,892	(3)
Expenses			
Operating	**25,688**	24,211	6
SG&A	**702**	941	(25)
	26,390	25,152	5
Operating loss[1]	**(2,146)**	(260)	NM
Operating loss (%)	**(8.9)**	(1.0)	NM
Fracturing revenue per job ($)	**83,972**	76,039	10
Number of fracturing jobs	**263**	285	(8)
Active pumping horsepower, end of period (000s)	**65**	77	(16)
Idle pumping horsepower, end of period (000s)	**12**	—	NM
Total pumping horsepower, end of period (000s)	**77**	77	—
Coiled tubing revenue per job ($)	**46,940**	38,338	22
Number of coiled tubing jobs	**46**	84	(45)
Active coiled tubing units, end of period (#)	**3**	6	(50)
Idle coiled tubing units, end of period (#)	**4**	1	300
Total coiled tubing units, end of period (#)	**7**	7	—
Rouble/C$ average exchange rate[2]	**0.0207**	0.0199	4

[1] *Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.*
[2] *Source: Bank of Canada.*

REVENUE

Revenue from Calfrac's Russian operations decreased by 3 percent during the fourth quarter of 2019 to $24.2 million from $24.9 million in the corresponding three-month period of 2018. The decrease in revenue was attributable to lower activity with its primary customer in Khanty-Mansiysk as warmer than normal weather during November and December restricted access to job locations and deferred planned work into 2020. Revenue per fracturing job increased by 10 percent primarily due to sand being provided by Calfrac for all of its jobs while the comparable period included some jobs where sand was provided by customers. Coiled tubing activity decreased by 45 percent primarily due to lower than expected utilization with Calfrac's main customer.

OPERATING LOSS

The Company's Russian division generated an operating loss of $2.1 million during the fourth quarter of 2019 versus a loss of $0.3 million in the comparable quarter in 2018. The negative operating result was due to lower utilization combined with higher equipment repairs and subcontractor costs to set up remote operations. The fourth quarter experienced lower field activity for both fracturing and coiled tubing services due to weather-related access issues.

ARGENTINA

Three Months Ended December 31,	**2019**	2018	Change
(C$000s, except operational and exchange rate information) (unaudited)	***($)***	*($)*	*(%)*
Revenue	**32,062**	49,557	(35)
Expenses			
Operating	**26,819**	42,711	(37)
SG&A	**(577)**	2,489	NM
	26,242	45,200	(42)
Operating income[1]	**5,820**	4,357	34
Operating income (%)	**18.2**	8.8	107
Active pumping horsepower, end of period (000s)	**138**	108	28
Idle pumping horsepower, end of period (000s)	**—**	—	—
Total pumping horsepower, end of period (000s)	**138**	108	28
Active cementing units, end of period (#)	**13**	11	18
Idle cementing units, end of period (#)	**1**	2	(50)
Total cementing units, end of period (#)	**14**	13	8
Active coiled tubing units, end of period (#)	**6**	5	20
Idle coiled tubing units, end of period (#)	**—**	1	(100)
Total coiled tubing units, end of period (#)	**6**	6	—
US$/C$ average exchange rate[2]	**1.3200**	1.3204	—

[1] Refer to “Non-GAAP Measures” on pages 25 and 26 for further information.
[2] Source: Bank of Canada.

REVENUE

Calfrac’s Argentinean operations generated total revenue of $32.1 million during the fourth quarter of 2019 compared to $49.6 million in the comparable quarter in 2018. This 35 percent decline in revenue was primarily due to the completion of one of its bundled service contracts in the Vaca Muerta shale play where Calfrac provided sand. This contract was replaced with another contract with a customer that provided their own sand. Fracturing activity increased by 16 percent while revenue per job decreased by 38 percent as a result of the change in customer mix. Uncertainty surrounding the change in government and leadership at a key customer also negatively impacted activity levels in the fourth quarter of 2019. Cementing revenue was consistent with the comparable period while coiled tubing revenue decreased slightly from the fourth quarter in 2018 despite an increase in the number of jobs completed as activity was weighted to lower margin contract work in 2019, compared to higher margin call-out work in 2018.

OPERATING INCOME

The Company’s operations in Argentina generated operating income of $5.8 million during the fourth quarter of 2019 compared to $4.4 million during the comparable quarter in 2018. The Company was able to generate higher operating income due to better pricing on contracted activity as compared to the fourth quarter in 2018. The $3.1 million decrease in SG&A expenses from the fourth quarter in 2018 was mainly due to the reversal of a US$2.3 million stamp tax accrual resulting from terminated customer contracts.

CORPORATE

Three Months Ended December 31,	**2019**	2018	Change
(C$000s)	***($)***	*($)*	*(%)*
(unaudited)			
Expenses			
Operating	**1,588**	1,952	(19)
SG&A	**8,107**	8,337	(3)
	9,695	10,289	(6)
Operating loss(1)	**(9,695)**	(10,289)	(6)
% of Revenue	**3.1**	2.1	48

(1) *Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.*

OPERATING LOSS

Corporate expenses for the fourth quarter of 2019 were $9.7 million compared to $10.3 million in the fourth quarter of 2018. The decrease was primarily due to a lower bonus provision when compared to the same period in 2018, offset partially by $1.9 million in restructuring costs recorded during the fourth quarter in 2019. The increase in stock-based compensation was mainly due to a a reversal that was recorded during the fourth quarter in 2018. The implementation of IFRS 16 also resulted in lower reported corporate expenses as lease payments related to corporate office space are no longer recorded in SG&A.

DEPRECIATION

For the three months ended December 31, 2019, depreciation expense increased by $20.4 million to $68.9 million from $48.5 million in the corresponding quarter of 2018. The increase was primarily due to depreciation on assets placed into service in the United States. In addition, the adoption of IFRS 16 at the beginning of 2019 resulted in a $4.8 million increase to depreciation expense and the revision to the Company's capitalization thresholds resulted in an additional $2.2 million of depreciation recorded in the fourth quarter of 2019. Also, contributing to the higher depreciation was the impact of the Company decreasing its useful life estimates and salvage values, effective January 1, 2019, for certain components of its fracturing equipment. Higher depreciation on these components, combined with additions during the quarter, increased depreciation expense by approximately $2.3 million.

Effective April 1, 2019, the Company revised its policy regarding the derecognition of major components relating to field equipment. The change in accounting policy was adopted on a retrospective basis, with each prior period presented in the statements of operations being restated to reflect the change. The change in policy resulted in $8.1 million of loss on disposal of property, plant and equipment being reclassified to depreciation expense on the statement of operations for the three months ended December 31, 2018.

The Company revised its thresholds for capitalization of major components relating to field equipment. Due to this change, certain costs that were previously classified as operating expenses are now classified as capital expenditures. This resulted in a decrease to operating expenses and an increase to capital expenditures totaling $10.9 million relating to the 2019 fiscal year and was recorded during the fourth quarter of 2019. This did not have any impact on prior periods.

FOREIGN EXCHANGE GAINS

The Company recorded a foreign exchange gain of $0.1 million during the fourth quarter of 2019 versus a gain of $3.3 million in the comparative three-month period of 2018. 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.

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 2019 (2018 - $nil). Furthermore, the Company carried out a comprehensive review of its property, plant and equipment and identified assets that were permanently idle or obsolete, and therefore, no longer able to generate cash inflows. These assets were written down to their recoverable amount resulting in an impairment charge of $2.2 million for the three months ended December 31, 2019 (three months ended December 31, 2018 - $0.1 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, 2019, the Company recorded an impairment charge of $3.2 million to write-down inventory to its net realizable amount in the United States and Argentina (three months ended December 31, 2018 - $4.0 million).

INTEREST

The Company's net interest expense of $21.5 million for the fourth quarter of 2019 was $0.5 million higher than the comparable period in 2018. The increase in interest expense was due to the adoption of IFRS 16, which resulted in a $0.5 million increase in interest expense during the fourth quarter in 2019.

INCOME TAXES

The Company recorded an income tax recovery of $23.4 million during the fourth quarter of 2019 compared to a recovery of $4.6 million in the comparable period of 2018. The recovery position was the result of pre-tax losses incurred during the quarter. The effective recovery rate was 32 percent in 2019.

BUSINESS UPDATE AND OUTLOOK

Calfrac's operating results during the fourth quarter were impacted by budget exhaustion by customers in both Canada and the United States as well as the onset of winter conditions in Russia. Due to the recent change of government in Argentina, typical end-of-year slowdowns were magnified due to higher levels of uncertainty around energy policy and client leadership. Overall, fourth-quarter activity was in-line with the outlook communicated in Calfrac's third-quarter MD&A. Further pricing erosion was observed, mostly in the Texas and Pennsylvania markets of the United States, as budget exhaustion and lower natural gas prices impacted market dynamics. Encouragingly, budgets have been replenished and a strong supply response has been observed in the North American pressure pumping market although we believe these impacts will take time to fully impact Calfrac's results.

CANADA

In Canada, activity met expectations throughout most of the quarter although weather-related delays caused some slowdowns and a small amount of work was deferred into 2020.

After a strong October, utilization decreased significantly during November and December which impacted profitability levels for the quarter. Given the strong activity that is planned for the first quarter of 2020, the Company's ability to materially reduce costs was limited, especially with respect to field labour and equipment-related costs.

Customer programs did not fully get underway until the middle of January, but since that time, Calfrac's Canadian operations have experienced high levels of utilization. The Company expects that this will continue until the onset of road bans impacts operating tempo in some areas. Based on current information, Calfrac expects seasonally strong activity levels through the second and third quarter for its Canadian asset base.

As compared to the first quarter of 2019, rig count and completions activity are expected to be higher in 2020, but Calfrac does not intend to add capacity to its Canadian operations in the near term without a meaningful improvement in pricing and returns. The pressure pumping market in Canada for the first quarter is under supplied, however, sustained levels of high crew utilization combined with improved returns would be required to justify the decision to deploy incremental fracturing crews in the Western Canadian Sedimentary Basin.

UNITED STATES

As expected, activity in the fourth quarter in the United States was lower than the third quarter as planned customer program completion along with weaker natural gas prices impacted demand for completion crews. Additionally, Calfrac declined to participate in bids where pricing had fallen below a level needed to sustain operations.

Activity in the first quarter has tracked our expectations with programs in Texas beginning at a good pace. Programs in the Bakken are typically slower to ramp-up in the winter months, but are expected to be fully underway before the end of the quarter.

During the fourth quarter and early in 2020, a number of players in the fracturing market retired assets or went as far as to cease operations. Calfrac believes that this is direct evidence of the unsustainable returns in the space at present, and the reduction of supply is an encouraging development. While the Company believes that much of the equipment that has exited the industry was not relevant to current operations, the removal of equipment and reduction in competitors moves the U.S. pressure pumping market closer to balance. Calfrac believes that a modest increase in activity could sufficiently tighten the competitive balance in order to establish pricing traction, however, current consensus does not contemplate any meaningful acceleration in the near term.

Calfrac is currently marketing 14 fracturing spreads in the United States, with no plans for expansion in the near term. As previously discussed, weaker natural gas prices have impacted the cash flow and spending plans for our clients in Pennsylvania, and the Company has redeployed one of the four spreads that was previously working in this region to another basin.

RUSSIA

The onset of winter prevented any significant acceleration in activity in Calfrac's Russian operations in the fourth quarter. Weather conditions also slowed operations in January and February, but Calfrac expects activity levels will improve through the end of the quarter and remain strong through the summer period. A reduced operating footprint is likely to improve profitability in 2020 relative to prior years.

ARGENTINA

The Company's operations in Argentina weakened as expected during the fourth quarter due, in part, to normal year-end slowdowns that were magnified by the uncertainty surrounding the change in government and subsequent impacts on a key customer. Activity ramped up through January and current expectations are for activity levels in the year ahead to resemble those experienced in 2019. Calfrac's ability to market two full-time shale fracturing crews has broadened the Company's operating footprint in this market and positions Calfrac as a supplier of choice for many producers.

CORPORATE

Early in 2020, Calfrac successfully executed a debt exchange transaction that reduced leverage and annual debt service costs by approximately $130.0 million and $7.3 million, respectively. Calfrac's corporate focus remains squarely on supporting the delivery of outstanding service quality to its clients in all operating areas. Cost controls, capital prudence and liquidity remain paramount for management in addition to supporting a top-tier operation.

NON-GAAP MEASURES

With the adoption of IFRS 16, the accounting treatment for operating leases when Calfrac is the lessee, changed effective January 1, 2019. Calfrac adopted IFRS 16 using the modified retrospective approach and the comparative information was not restated. As a result, the Company's 2019 operating income and adjusted EBITDA are not comparable to periods prior to January 1, 2019.

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,**	
	2019	2018	**2019**	2018
(C$000s) *(unaudited)*	***($)***	*($)*	***($)***	*($)*
Net loss	**(49,400)**	(3,462)	**(156,203)**	(26,177)
Add back (deduct):				
Depreciation[1]	**68,932**	48,522	**261,227**	190,475
Foreign exchange (gains) losses	**(128)**	(3,342)	**6,341**	38,047
Loss (gain) on disposal of property, plant and equipment[1]	**(1,886)**	(244)	**1,870**	160
Impairment of property, plant and equipment	**2,165**	115	**2,165**	115
Impairment of inventory	**3,160**	3,978	**3,744**	7,167
Interest	**21,512**	20,999	**85,826**	106,630
Income taxes	**(23,358)**	(4,574)	**(52,226)**	(4,592)
Operating income	**20,997**	61,992	**152,744**	311,825

[1] Comparatives have been reclassified to conform with the current financial statement presentation (note 2e).

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,	
	2019	2018	**2019**	2018
(C$000s) *(unaudited)*			***($)***	*($)*
Net loss	**(49,400)**	(3,462)	**(156,203)**	(26,177)
Add back (deduct):				
Depreciation	**68,932**	48,522	**261,227**	190,475
Unrealized foreign exchange losses	**859**	(4,345)	**2,041**	11,465
Non-recurring realized foreign exchange losses[(1)]	**—**	—	**—**	29,288
(Gain) loss on disposal of property, plant and equipment	**(1,886)**	(244)	**1,870**	160
Impairment of property, plant and equipment	**2,165**	115	**2,165**	115
Impairment of inventory	**3,160**	3,978	**3,744**	7,167
Restructuring charges	**3,564**	281	**6,049**	1,076
Stock-based compensation	**1,334**	1,644	**4,626**	5,812
Losses attributable to non-controlling interest	**—**	—	**—**	7,989
Interest	**21,512**	20,999	**85,826**	106,630
Income taxes	**(23,358)**	(4,574)	**(52,226)**	(4,592)
Adjusted EBITDA[(2)]	**26,882**	62,914	**159,119**	329,408

[(1)] The Company recognized a one-time realized foreign exchange loss resulting from the capitalization of intercompany debt held by its Argentinean subsidiary.
[(2)] For bank covenant purposes, EBITDA includes an additional $21.9 million of lease payments that would have been recorded as operating expenses prior to the adoption of IFRS 16 on January 1, 2019.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

		Payment Due by Period			
As at December 31, 2019	**Total**	< 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
(C$000s) *(unaudited)*	***($)***	*($)*	*($)*	*($)*	*($)*
Leases	**59,768**	31,038	26,364	2,366	—
Purchase obligations	**145,595**	118,234	27,361	—	—
Total contractual obligations	**205,363**	149,272	53,725	2,366	—

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, 2019 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 $1.9 million at December 31, 2019, 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 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, 2019 was $342.1 million before deduction of unamortized debt issuance costs (December 31, 2018 – $661.5 million). The carrying value of the senior unsecured notes at December 31, 2019 was $844.2 million before deduction of unamortized debt issuance costs and debt discount (December 31, 2018 – $886.7 million). The fair values of the remaining long-term debt and 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, 2019, the Company had a provision for doubtful accounts receivable of $1.9 million (December 31, 2018 – $0.6 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, 2019 and 2018, excluding the provision for doubtful accounts, are as follows:

As at December 31,	**2019**	2018
(C$000s) *(unaudited)*	***($)***	*($)*
Current	**145,704**	203,368
31 - 60 days	**34,863**	109,510
61 - 90 days	**14,676**	21,553
91+ days	**14,888**	8,936
Total	**210,131**	343,367

The Company's accounts receivable that were greater than 90 days included $9.4 million from customers operating in Argentina and $3.2 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, 2019 amounts to $1.5 million (2018 – $1.2 million).

The Company's effective interest rate for the year ended December 31, 2019 was 8.5 percent (December 31, 2018 – 10.6 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, 2019	**Total**	**< 1 Year**	**1 - 3 Years**	**4 - 6 Years**	**7 - 9 Years**	**Thereafter**
(C$000s)	***($)***	*($)*	*($)*	*($)*	*($)*	*($)*
(unaudited)						
Accounts payable and accrued liabilities	**143,225**	143,225	—	—	—	—
Lease obligations(1)	**38,330**	21,901	14,164	2,265	—	—
Long-term debt(1)	**1,478,310**	79,898	374,795	1,023,617	—	—

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	—

(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, 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, 2019	Impact to Net Income
(C$000s)	*($)*
1% change in value of U.S. dollar	**1,052**
1% change in value of Argentinean peso	**36**
1% change in value of Russian rouble	**—**

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	—

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 4 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 Company's financial results have been negatively impacted by lower activity in certain CGUs combined with weaker pricing levels. The Company recognizes that this is 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 CGU with their respective carrying amounts resulted in no impairment against property, plant and equipment in 2019 (2018 - $nil) . Furthermore, the Company carried out a comprehensive review of its property, plant and equipment and identified assets that were permanently idle or obsolete, and therefore, no longer able to generate cash inflows. These assets were written down to their recoverable amount resulting in an impairment charge of $2.2 million for the year ended December 31, 2019 (year ended December 31, 2018 - $nil).

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, 2019, the Company recorded an impairment charge of $3.7 million to write-down inventory to its net realizable amount in the United States and Argentina (year ended December 31, 2018 - $7.2 million).

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

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, 2019 was $1.7 million (year ended December 31, 2018 – $1.7 million), as measured at the exchange amount, which is based on market rates at the time the lease arrangements were made.

CHANGES IN ACCOUNTING POLICIES

The IASB issued IFRS 16 *Leases*, which requires that lessees recognize lease liabilities and right-of-use (ROU) assets related to its lease commitments on the balance sheet. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

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. Comparatives for the prior reporting period are not restated, as permitted under the specific transitional provisions in the standard. 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.

The Company elected 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 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.

On January 1, 2019, the adoption of IFRS 16 resulted in the recognition of ROU assets and lease liabilities of $44.9 million. 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 has no impact on the Company's reported bank covenants as the effects of the new standard are excluded from the covenant calculations.

See note 10 of the consolidated financial statements for more information on the IFRS 16 standard.

Effective April 1, 2019, the Company revised its policy regarding the derecognition of major components relating to field equipment. The revised policy states that the remaining carrying value of major components derecognized prior to reaching their estimated useful life will be recorded through depreciation on the statement of operations, rather than loss on disposal of property, plant and equipment. This change in presentation is a more appropriate classification of the derecognition of major components, indicating accelerated depreciation for components that were derecognized prior to reaching their estimated useful life.

The change in accounting policy was adopted on a retrospective basis, with each prior period presented in the statements of operations being restated to reflect the change. The change in policy resulted in a reclassification of loss on disposal of property, plant, and equipment to depreciation expense on the statement of operations of $8.1 million for the three months ended December 31, 2018 and $30.2 million for the year ended December 31, 2018.

Effective October 1, 2019, the Company revised its thresholds for capitalization of major components relating to field equipment. Due to this change, certain costs that were previously classified as operating expenses are now classified as capital expenditures. This resulted in a decrease to operating expenses and an increase to capital expenditures totaling $10.9 million relating to the 2019 fiscal year and was recorded during the fourth quarter of 2019. This impact is not material and does not affect any prior reporting periods.

RECENT ACCOUNTING PRONOUNCEMENTS

There are no recently issued accounting standards not yet applied that are applicable to the Company.

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

The President and Chief Operating Officer (COO), acting in the capacity of the 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, 2019. 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 remain 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 price, product and service quality and availability, technical knowledge and experience and reputation for safety. 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.

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 2020 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 and 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.

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 Argentina and Russia, 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 North America 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 135 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 57 percent of its revenue for the year ended December 31, 2019 and, of such customers, four accounted for approximately 26 percent of the Company's revenue for the year ended December 31, 2019 and the largest customer accounted for approximately 7 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.

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, operator error and natural disasters which can 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.

PANDEMICS, NATURAL DISASTERS OR OTHER UNANTICIPATED EVENTS

The occurrence of pandemics, such as the recent outbreak of the novel coronavirus COVID-19; natural disasters, such as hurricanes, floods or earthquakes; or other unanticipated events, such as cyberattacks, fires, terrorist attacks or railway blockades, in any of the areas in which the Company, its customers or its suppliers operate could cause interruptions in the Company's operations. In addition, pandemics, natural disasters or other unanticipated events could negatively impact the demand for, and price of, oil and natural gas which in turn could 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.

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 Companys 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.

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.

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.

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.

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.

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.

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.

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, 2019 and December 31, 2018.

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.

Lindsay R. Link
President and Chief Operating Officer

Michael D. Olinek
Chief Financial Officer

March 4, 2020
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, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What We Have Audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2019 and 2018;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive loss 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

March 4, 2020
Calgary, Alberta, Canada

CONSOLIDATED BALANCE SHEETS

As at December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
ASSETS		
Current assets		
Cash and cash equivalents	**42,562**	51,901
Accounts receivable	**216,647**	349,431
Income taxes recoverable	**1,608**	582
Inventories (note 3)	**127,620**	150,123
Prepaid expenses and deposits	**17,489**	17,527
	405,926	569,564
Non-current assets		
Property, plant and equipment (note 4)	**969,944**	1,116,677
Right-of-use assets (note 10)	**29,760**	—
Deferred income tax assets (note 8)	**120,292**	96,416
Total assets	**1,525,922**	1,782,657
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**143,225**	239,507
Current portion of lease obligations (note 10)	**13,929**	186
	157,154	239,693
Non-current liabilities		
Long-term debt (note 5)	**976,693**	989,614
Lease obligations (note 10)	**16,990**	552
Deferred income tax liabilities (note 8)	**6,462**	38,978
Total liabilities	**1,157,299**	1,268,837
Equity attributable to the shareholders of Calfrac		
Capital stock (note 6)	**509,235**	508,276
Contributed surplus	**44,316**	40,453
Loan receivable for purchase of common shares	**(2,500)**	(2,500)
Accumulated deficit	**(185,174)**	(28,971)
Accumulated other comprehensive income (loss)	**2,746**	(3,438)
Total equity	**368,623**	513,820
Total liabilities and equity	**1,525,922**	1,782,657

Commitments (note 9); 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,	**2019**	2018
(C$000s, except per share data)	***($)***	*($)*
Revenue (note 16)	**1,620,955**	2,256,426
Cost of sales (note 17)	**1,659,564**	2,043,130
Gross (loss) profit	**(38,609)**	213,296
Expenses		
Selling, general and administrative	**69,874**	91,946
Foreign exchange losses	**6,341**	38,047
Loss on disposal of property, plant and equipment	**1,870**	160
Impairment of property, plant and equipment (note 4)	**2,165**	115
Impairment of inventory (note 3)	**3,744**	7,167
Interest	**85,826**	106,630
	169,820	244,065
Loss before income tax	**(208,429)**	(30,769)
Income tax expense (recovery)		
Current	**3,014**	4,342
Deferred	**(55,240)**	(8,934)
	(52,226)	(4,592)
Net loss	**(156,203)**	(26,177)
Net loss attributable to:		
Shareholders of Calfrac	**(156,203)**	(18,188)
Non-controlling interest	**—**	(7,989)
	(156,203)	(26,177)
Loss per share (note 6)		
Basic	**(1.08)**	(0.13)
Diluted	**(1.08)**	(0.13)

See accompanying notes to the consolidated financial statements.
Certain of the comparatives have been reclassified to conform with the current presentation (note 2e).

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Years Ended December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Net loss	**(156,203)**	(26,177)
Other comprehensive income (loss)		
Items that may be subsequently reclassified to profit or loss:		
Change in foreign currency translation adjustment	**6,184**	(7,379)
Comprehensive loss	**(150,019)**	(33,556)
Comprehensive loss attributable to:		
Shareholders of Calfrac	**(150,019)**	(26,560)
Non-controlling interest	**—**	(6,996)
	(150,019)	(33,556)

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, 2019	**508,276**	**40,453**	**(2,500)**	**(3,438)**	**(28,971)**	**513,820**	**—**	**513,820**
Net loss	—	—	—	—	(156,203)	(156,203)	—	**(156,203)**
Other comprehensive income (loss):								
Cumulative translation adjustment	—	—	—	6,184	—	6,184	—	**6,184**
Comprehensive income (loss)	—	—	—	6,184	(156,203)	(150,019)	—	**(150,019)**
Stock options:								
Stock-based compensation recognized	—	3,030	—	—	—	3,030	—	**3,030**
Proceeds from issuance of shares (note 6)	252	(56)	—	—	–	196	—	**196**
Performance share units:								
Stock-based compensation recognized	—	1,596	—	—	—	1,596	—	**1,596**
Shares issued (note 6)	707	(707)	—	—	—	—		**—**
Balance – Dec. 31, 2019	**509,235**	**44,316**	**(2,500)**	**2,746**	**(185,174)**	**368,623**	**—**	**368,623**
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	—	4,637	—	—	—	4,637	—	4,637
Proceeds from issuance of shares (note 6)	1,820	(453)	—	—	–	1,367	—	1,367
Performance share units:								
Stock-based compensation recognized	—	1,175	—	—	—	1,175	—	1,175
Acquisition:								
Shares issued (notes 6 and 13)	1,250	—	—	—	—	1,250	—	1,250
Shares to be issued (notes 6 and 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

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,	**2019**	2018
(C$000s)	*($)*	*($)*
CASH FLOWS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net loss	**(156,203)**	(26,177)
Adjusted for the following:		
Depreciation	**261,227**	190,475
Stock-based compensation	**4,626**	5,812
Unrealized foreign exchange losses	**2,041**	11,465
Loss on disposal of property, plant and equipment	**1,870**	160
Impairment of property, plant and equipment (note 4)	**2,165**	115
Impairment of inventory (note 3)	**3,744**	7,167
Interest	**85,826**	106,630
Interest paid	**(80,728)**	(88,329)
Deferred income taxes	**(55,240)**	(8,934)
Changes in items of working capital (note 12)	**62,696**	(13,638)
Cash flows provided by operating activities	**132,024**	184,746
FINANCING ACTIVITIES		
Issuance of long-term debt, net of debt issuance costs	**83,632**	1,061,728
Long-term debt repayments	**(59,760)**	(1,120,992)
Lease obligation principal repayments	**(20,047)**	(176)
Proceeds on issuance of common shares	**196**	1,367
Cash flows provided by (used in) financing activities	**4,021**	(58,073)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment (note 12)	**(147,370)**	(157,187)
Proceeds on disposal of property, plant and equipment	**7,224**	7,380
Proceeds on disposal of right-of-use assets	**1,254**	—
Other	**—**	(7)
Cash flows used in investing activities	**(138,892)**	(149,814)
Effect of exchange rate changes on cash and cash equivalents	**(6,492)**	22,293
Decrease in cash and cash equivalents	**(9,339)**	(848)
Cash and cash equivalents, beginning of year	**51,901**	52,749
Cash and cash equivalents, end of year	**42,562**	51,901

See accompanying notes to the consolidated financial statements.
Certain of the comparatives have been reclassified to conform with the current presentation (note 2e).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2019 and 2018

(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 16 *Leases* and the changes in policy relating to major components of field equipment (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 March 4, 2020.

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 Standards and Disclosures

The IASB issued IFRS 16 *Leases*, which requires that lessees recognize lease liabilities and right-of-use (ROU) assets related to its lease commitments on the balance sheet. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

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. Comparatives for the prior reporting period are not restated, as permitted under the specific transitional provisions in the standard. 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.

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

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

- Leases of low value based on the value of the asset when it is new, regardless of the age of the asset, will 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 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 has no impact on the Company's reported bank covenants as the effects of the new standard are excluded from the covenant calculations.

See note 10 for further information on leases.

Prior to January 1, 2019, the Company applied IAS 17 *Leases* to its accounting for leases.

(d) Changes in Accounting Estimates

Depreciation of the Company's property, plant and equipment incorporates estimates of useful lives and residual values. These estimates may change as more experience is obtained or as general market conditions change, thereby affecting the value of the Company's property, plant and equipment.

Effective January 1, 2019, the Company revised its useful life depreciation estimate and salvage value for certain of its components relating to field equipment. This change was adopted as a change in accounting estimate on a prospective basis, which resulted in a one-time depreciation charge of $9,540 to the statement of operations.

(e) Revisions and Adjustments

Effective April 1, 2019, the Company revised its policy regarding the derecognition of major components relating to field equipment. The revised policy states that the remaining carrying value of major components derecognized prior to reaching their estimated useful life will be recorded through depreciation on the statement of operations, rather than loss on disposal of property, plant and equipment. This change in presentation is a more appropriate classification of the derecognition of major components, indicating accelerated depreciation for components that were derecognized prior to reaching their estimated useful life.

The change in accounting policy was adopted on a retrospective basis, with each prior period presented in the statements of operations being restated to reflect the change. The change in policy resulted in a reclassification of loss on disposal of property, plant and equipment to depreciation expense on the statement of operations of $30,157 for the year ended December 31, 2018.

(f) 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 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 5. The fair values of the remaining long-term debt and 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 8 for further information on income taxes.

v) Share-Based Payments

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.

See note 7 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(g) 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 4 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.

(g) 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.

(h) Financial Instruments

The impairment model under IFRS 9 *Financial Instruments* 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

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.

The Company does not have any hedging arrangements.

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 less. 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.

See note 11 for further information on financial instruments.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) Revenue Recognition

Under 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.

See note 16 for further information on revenue.

(q) 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 and performance 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.

(r) 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.

(s) Recently Issued Accounting Standards Not Yet Applied

There are no recently issued accounting standards not yet applied that are applicable to the Company.

3. INVENTORIES

As at December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Spare equipment parts	**83,146**	90,409
Chemicals	**20,547**	25,024
Sand and proppant	**9,864**	17,558
Coiled tubing	**9,290**	9,860
Other	**4,773**	7,272
	127,620	150,123

For the year ended December 31, 2019, the cost of inventories recognized as an expense and included in cost of sales was approximately $574,000 (year ended December 31, 2018 – $830,000).

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, 2019, the Company recorded an impairment charge of $3,744 to write-down inventory to its net realizable amount in Canada, United States and Argentina (year ended December 31, 2018 – $7,167).

Years Ended December 31,	2019	2018
(C$000s)	*($)*	*($)*
United States	**2,108**	2,218
Canada	**656**	699
Argentina	**980**	447
Mexico	**—**	3,803
	3,744	7,167

4. PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 2019	Opening Net Book Value	Additions	Disposals	Impairment	Depreciation	Foreign Exchange Adjustments	Closing Net Book Value
(C$000s)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Assets under construction[1]	**78,780**	**(40,197)**	**—**	**—**	**—**	**(411)**	**38,172**
Field equipment	**929,669**	**175,254**	**(6,672)**	**(2,165)**	**(232,231)**	**(27,738)**	**836,117**
Field equipment under finance lease[2]	**898**	**—**	**(737)**	**—**	**(161)**	**—**	**—**
Buildings	**57,723**	**154**	**(1,708)**	**—**	**(4,807)**	**(3,124)**	**48,238**
Land	**41,966**	**170**	**(1,657)**	**—**	**—**	**(1,124)**	**39,355**
Shop, office and other equipment	**3,621**	**1,510**	**(83)**	**—**	**(1,238)**	**(245)**	**3,565**
Computers and computer software	**3,181**	**2,404**	**—**	**—**	**(1,622)**	**79**	**4,042**
Leasehold improvements	**839**	**10**	**—**	**—**	**(148)**	**(246)**	**455**
	1,116,677	**139,305**	**(10,857)**	**(2,165)**	**(240,207)**	**(32,809)**	**969,944**

[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.
[2] In the previous year 2018, the Company recognized lease assets and lease obligations in relation to leases that were classified as "finance leases" under IAS 17 Leases. These assets were presented in property, plant and equipment. On January 1, 2019, upon the adoption of IFRS 16 Leases, the Company's finance leases were transferred to "right-of-use assets".

As at December 31, 2019	Cost	Accumulated Depreciation	Net Book Value
(C$000s)	*($)*	*($)*	*($)*
Assets under construction	**38,172**	**—**	**38,172**
Field equipment	**2,231,043**	**(1,394,926)**	**836,117**
Field equipment under finance lease	**1,683**	**(1,683)**	**—**
Buildings	**90,070**	**(41,832)**	**48,238**
Land	**39,355**	**—**	**39,355**
Shop, office and other equipment	**27,728**	**(24,163)**	**3,565**
Computers and computer software	**32,435**	**(28,393)**	**4,042**
Leasehold improvements	**8,713**	**(8,258)**	**455**
	2,469,199	**(1,499,255)**	**969,944**

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

[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.

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

Property, plant and equipment are tested for impairment in accordance with the Company's accounting policy. The Company reviews the carrying value of its property, plant and equipment at each reporting period for indicators of impairment. The Company's financial results have been negatively impacted by lower activity in certain CGUs combined with weaker pricing levels. The Company recognizes this is an indicator of impairment that warrants an assessment on the recoverable amount of its property, plant and equipment.

The Company's CGUs are determined to be at the country level, consisting of Canada, the United States, Russia and Argentina.

The recoverable amount of property, plant and equipment was determined using the value in use method, based on multi-year discounted cash flows to be generated from the continuing operations of each CGU. Cash flow assumptions were based on a combination of historical and expected future results, using the following main key assumptions:

- Commodity price forecasts
- Expected revenue growth
- Expected operating income growth
- Discount rate

Revenue and operating income growth rates for each CGU were based on a combination of commodity price assumptions, historical results and forecasted activity levels, which incorporated pricing, utilization and cost improvements over the period. The cumulative annual growth rates for revenue over the forecast period from 2020 to 2024 ranged from 4.7 percent to 18.6 percent depending on the CGU.

The cash flows were prepared on a five-year basis, using a discount rate ranging from 13.2 percent to 21.2 percent depending on the CGU. Discount rates are derived from the Company's weighted average cost of capital, adjusted for risk factors specific to each CGU. Cash flows beyond that five-year period have been extrapolated using a steady 2.0 percent growth rate.

A comparison of the recoverable amounts of each cash-generating unit with their respective carrying amounts resulted in no impairment against property, plant and equipment for the year ended December 31, 2019 (year ended December 31, 2018 – $nil).

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

	Impairment			
	Canada	United States	Russia	Argentina
(C$000s)	*($)*	*($)*	*($)*	*($)*
10% increase in expected future cash flows	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, 2019 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.

Furthermore, the Company carried out a comprehensive review of its property, plant and equipment and identified assets that were permanently idle or obsolete, and therefore, no longer able to generate cash inflows. These assets were written down to their recoverable amount resulting in an impairment charge of $2,165 for the year ended December 31, 2019 (year ended December 31, 2018 – $115).

The impairment losses by CGU are as follows:

Years Ended December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Canada	**1,921**	—
United States	**244**	—
Mexico	**—**	115
	2,165	115

5. LONG-TERM DEBT

As at December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
US$650,000 senior unsecured notes due June 15, 2026, bearing interest at 8.50% payable semi-annually	**844,220**	886,730
$375,000 extendible revolving term loan facility, secured by Canadian and U.S. assets of the Company	**147,988**	120,000
Less: unamortized debt issuance costs	**(15,515)**	(17,116)
	976,693	989,614

The fair value of the senior unsecured notes, as measured based on the closing quoted market price at December 31, 2019, was $342,078 (December 31, 2018 – $661,492). 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 percent of the aggregate principal amount of the notes at a redemption price of 108.50 percent 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, recorded during 2018.

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, recorded during 2018.

On April 30, 2019, Calfrac amended and extended its credit facilities while maintaining its total facility capacity at $375,000. The facilities consist of an operating facility of $40,000 and a syndicated facility of $335,000. The Company's credit facilities were extended by a term of two years and mature on June 1, 2022 and can be extended by one or more years at the Company's request and lenders' acceptance. The Company may also prepay principal without penalty. The interest rates are based on the parameters of certain bank covenants. For prime-based loans and U.S. base-rate loans, the rate ranges from prime or U.S. base rate plus 0.50 percent to prime plus 2.50 percent. For LIBOR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 1.50 percent to 3.50 percent above the respective base rates. The accordion feature of the syndicated facility remains at $100,000, and is available to the Company during the term of the agreement. The Company incurs interest at the high end of the ranges outlined above if its net Total Debt to Adjusted EBITDA ratio is above 4.00:1.00. Additionally, in the event that the Company's net Total Debt to Adjusted EBITDA ratio is above 5.00:1.00, certain restrictions would apply including the following: (a) acquisitions will be subject to majority lender consent; (b) distributions will be restricted other than those relating to the Company's share unit plans; and (c) no increase in the rate of dividends will be permitted. As at December 31, 2019, the Company's net Total Debt to Adjusted EBITDA ratio was 6.96:1.00 (December 31, 2018 – 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, 2019 was $83,665 (year ended December 31, 2018 – $106,940).

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

	2019
(C$000s)	*($)*
Balance, January 1	989,614
Issuance of long-term debt, net of debt issuance costs	83,632
Long-term debt repayments	(59,760)
Amortization of debt issuance costs and debt discount	5,457
Foreign exchange adjustments	(42,250)
Balance, December 31	976,693

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

As at December 31, 2019	Amount
(C$000s)	*($)*
2020	—
2021	—
2022	147,988
2023	—
2024	—
Thereafter	844,220
	992,208

At December 31, 2019, the Company had utilized $844 of its loan facility for letters of credit and had $147,988 outstanding under its revolving term loan facility, leaving $226,168 in available credit, subject to a monthly borrowing base, as determined using the previous month's results, which at December 31, 2019, resulted in liquidity amount of $123,179.

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

6. CAPITAL STOCK

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

Years Ended December 31,		**2019**		2018
Continuity of Common Shares	**Shares**	**Amount**	Shares	Amount
	(#)	*($000s)*	*(#)*	*($000s)*
Balance, beginning of period	**144,462,532**	**504,526**	143,755,741	501,456
Issued upon exercise of stock options	**98,675**	**252**	483,974	1,820
Issued upon vesting of performance share units	**104,865**	**707**	—	—
Issued on acquisition	**222,816**	**1,250**	222,817	1,250
Balance, end of period	**144,888,888**	**506,735**	144,462,532	504,526
Shares to be issued	**445,633**	**2,500**	668,449	3,750
	145,334,521	**509,235**	145,130,981	508,276

The weighted average number of common shares outstanding for the year ended December 31, 2019 was 144,564,590 basic and 145,474,733 diluted (year ended December 31, 2018 – 144,041,910 basic and 146,828,943 diluted). The difference between basic and diluted shares is attributable to the dilutive effect of stock options issued by the Company as disclosed in note 7, and the shares to be issued as disclosed in note 13.

7. SHARE-BASED PAYMENTS

(a) Stock Options

Years Ended December 31,		**2019**		2018
Continuity of Stock Options	**Options**	**Average Exercise Price**	Options	Average Exercise Price
	(#)	*($)*	*(#)*	*($)*
Balance, January 1	**9,392,095**	**4.70**	9,616,173	5.30
Granted	**4,470,150**	**1.68**	1,419,319	5.79
Exercised for common shares	**(98,675)**	**1.99**	(483,974)	2.83
Forfeited	**(630,562)**	**4.71**	(481,673)	7.19
Expired	**(930,000)**	**10.58**	(677,750)	15.11
Balance, December 31	**12,203,008**	**3.16**	9,392,095	4.70

The weighted average share price at the date of exercise for stock options exercised during 2019 was $2.73 (2018 – $7.01).

	Options Outstanding			Options Exercisable	
Exercise Price Per Option	Number of Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$1.22 – $1.30	2,904,950	4.93	$ 1.24	—	$ —
$1.31 – $2.14	2,657,975	1.02	$ 1.93	2,591,950	$ 1.95
$2.15 – $4.33	1,857,925	3.57	$ 2.69	254,200	$ 3.33
$4.34 – $4.89	3,331,726	2.00	$ 4.84	1,641,776	$ 4.84
$4.90 – $8.72	1,450,432	2.77	$ 6.02	581,932	$ 6.36
$1.22 – $8.72	12,203,008	2.81	$ 3.16	5,069,858	$ 3.46

Stock options vest equally over three to four years and expire five years from the date of grant. The exercise price of outstanding options range from $1.22 to $8.72 with a weighted average remaining life of 2.81 years. When stock options are exercised, the proceeds together with the compensation expense previously recorded in contributed surplus, are added to capital stock.

The weighted average fair value of options granted during 2019, determined using the Black-Scholes valuation method, was \$0.68 per option (year ended December 31, 2018 – \$2.55 per option). The Company applied the following assumptions in determining the fair value of options on the date of grant:

Years Ended December 31,	**2019**	2018
Expected life (years)	**3.00**	3.00
Expected volatility	**59.09%**	62.88%
Risk-free interest rate	**1.62%**	1.97%
Expected dividends	**\$0.00**	\$0.00

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

(b) Share Units

Years Ended December 31,		**2019**			2018	
Continuity of Stock Units	**Deferred Share Units**	**Performance Share Units**	**Restricted Share Units**	Deferred Share Units	Performance Share Units	Restricted Share Units
	(#)	*(#)*	*(#)*	*(#)*	*(#)*	*(#)*
Balance, January 1	**145,000**	**1,108,300**	**3,139,150**	145,000	683,665	4,275,183
Granted	**145,000**	**1,159,106**	**—**	145,000	765,100	—
Exercised	**(145,000)**	**(556,683)**	**(1,998,600)**	(145,000)	(232,249)	(866,933)
Forfeited	**—**	**(416,159)**	**(1,140,550)**	—	(108,216)	(269,100)
Balance, December 31	**145,000**	**1,294,564**	**—**	145,000	1,108,300	3,139,150

Years Ended December 31,	**2019**	2018
	(\$)	*(\$)*
Expense (recovery) from:		
Stock options	**3,030**	4,637
Deferred share units	**196**	390
Performance share units	**1,908**	2,324
Restricted share units	**(197)**	4,921
Total stock-based compensation expense	**4,937**	12,272

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, 2019, the liability pertaining to deferred share units was \$166 (December 31, 2018 – \$354).

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, 2019, the liability pertaining to the cash-based component of performance share units was \$nil (December 31, 2018 – \$200).

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, 2019, the liability pertaining to restricted share units was $nil (December 31, 2018 – $3,158).

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.

8. INCOME TAXES

The components of income tax expense (recovery) are:

Years Ended December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Current income tax expense	**3,014**	4,342
Deferred income tax recovery	**(55,240)**	(8,934)
	(52,226)	(4,592)

The provision for income taxes in the consolidated statements of operations varies from the amount that would be computed by applying the expected 2019 tax rate of 26.5 percent (year ended December 31, 2018 – 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,	**2019**	2018
(C$000s except percentages)	***($)***	*($)*
Loss before income tax	**(208,429)**	(30,769)
Income tax rate (%)	**26.5**	27.0
Computed expected income tax recovery	**(55,234)**	(8,308)
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses/non-taxable income	**(10,088)**	(1,759)
Foreign tax rate and other foreign differences	**4,925**	653
Translation of foreign subsidiaries	**(134)**	2,526
Deferred income tax adjustment from tax rate changes	**7,712**	(482)
Other non-income taxes	**923**	2,417
Derecognition of tax losses	**2,610**	3,343
Other	**(2,940)**	(2,982)
	(52,226)	(4,592)

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,	**2019**	2018
(C$000s)	***($)***	*($)*
Property, plant and equipment	**(138,546)**	(186,343)
Losses carried forward	**218,135**	209,744
Canadian exploration expenses	**5,156**	5,374
Deferred compensation payable	**304**	3,820
Deferred financing and share issuance costs	**2,260**	5,176
Other	**26,521**	19,667
	113,830	57,438

Loss carry-forwards expire at various dates ranging from December 31, 2020 to December 31, 2039.

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

Years Ended December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Balance, beginning of year	**57,438**	61,473
Charged (credited) to the consolidated statements of operations or accumulated other comprehensive income:		
Property, plant and equipment	**47,798**	(10,350)
Losses carried forward	**8,391**	(3,099)
Canadian exploration expenses	**(217)**	(65)
Deferred compensation payable	**(3,517)**	2,411
Deferred financing and share issuance costs	**(2,916)**	4,547
Other	**6,853**	2,521
Balance, end of year	**113,830**	57,438

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

Years Ended December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Tax losses (capital)	**40,878**	31,234
Tax losses (income)	**45,412**	43,604

Deferred tax assets are only recognized to the extent that it is probable that the assets can be utilized. The Company expects to have sufficient taxable income in succeeding years to fully utilize its deferred tax assets before they expire.

9. 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, 2019, as follows:

	Right-of-Use Asset Recognized	No Right-of-Use Asset Recognized	Total
(C$000s)	*($)*	*($)*	*($)*
2020	21,901	9,137	31,038
2021	8,140	8,014	16,154
2022	4,063	2,884	6,947
2023	1,961	1,302	3,263
2024	1,967	66	2,033
Thereafter	298	35	333
	38,330	21,438	59,768

The Company recognizes right-of-use assets for its leases, except for short-term leases, low value leases, leases with variable payments, or service contracts that are out of scope of IFRS 16.

The Company has obligations for the purchase of products, services and property, plant and equipment over the next five years following December 31, 2019, as follows:

(C$000s)	*($)*
2020	118,234
2021	24,374
2022	2,987
2023	—
2024	—
	145,595

10. LEASES

The Company's leasing activities comprise of buildings and various field equipment including railcars and motor vehicle leases. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

From January 1, 2019, leases are recognized as a right-of-use (ROU) asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability (principal) and interest. The interest is charged to the statement of operations over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The ROU asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Company recognizes a ROU asset at cost consisting of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of any restoration costs and any initial direct costs incurred by the lessee. The provision for any restoration costs is recognized as a separate liability as set out in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

The Company recognizes a lease liability equal to the present value of the lease payments during the lease term that are not yet paid. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate. Lease payments to be made under reasonably certain extension options are also included in the measurement of the lease liability. The Company initially estimates and recognizes amounts expected to be payable under residual value guarantees as part of the lease liability. Typically, the expected residual value at the commencement of the lease is equal to or higher than the guaranteed amount, and the Company does not expect to pay anything under the guarantees.

Payments associated with variable lease payments, short-term leases and leases of low value assets are recognized as an expense in the statement of operations. Short-term leases are leases with a lease term of twelve months or less. Low value assets comprise I.T. equipment and small items of office equipment.

On initial application of IFRS 16 on January 1, 2019, the Company recorded ROU assets and lease obligations of $44,917 on the balance sheet. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 5.31 percent.

The following table summarizes the reconciliation between the Company's operating lease commitments as at December 31, 2018 to the lease obligations recognized on January 1, 2019 upon the adoption of IFRS 16.

(C$000s)	*($)*
Operating lease commitments disclosed as at December 31, 2018	34,564
Add: leases disclosed as purchase obligations as at December 31, 2018	14,667
Less: leases that do not meet the definition of a lease under IFRS 16	(9,259)
Less: low value leases recognized as an expense	(857)
Less: short-term leases recognized as an expense	(540)
Add: residual value guarantees on leases	8,801
Less: discounted using the Company's incremental borrowing rate at January 1, 2019	(3,197)
Add: finance lease obligations recognized as at December 31, 2018	738
Lease obligation recognized as at January 1, 2019	**44,917**
Current portion of lease obligation	24,318
Non-current portion of lease obligation	20,599
Lease obligation recognized as at January 1, 2019	**44,917**

The following table sets out the movement in the right-of-use assets by class of underlying asset:

Year Ended December 31, 2019	**Opening Net Book Value**	**Additions**	**Disposals**	**Impairment**	**Depreciation**	**Foreign Exchange Adjustments**	**Closing Net Book Value**
(C$000s)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Field equipment	**33,702**	**10,287**	**(4,346)**	**—**	**(14,115)**	**(1,125)**	**24,403**
Buildings	**11,215**	**2,803**	**(1,649)**	**—**	**(6,850)**	**(162)**	**5,357**
	44,917	**13,090**	**(5,995)**	**—**	**(20,965)**	**(1,287)**	**29,760**

The following table sets out the movement in the lease obligation for the periods presented:

	2019
(C$000s)	*($)*
Balance, January 1	44,917
Additions	13,090
Disposals/retirements	(5,766)
Principal portion of payments	(20,047)
Foreign exchange adjustments	(1,275)
Balance, December 31	30,919

The following additional disclosures regarding the Company's leases are:

	2019
(C$000s)	*($)*
Interest expense on lease obligations	2,082
Expense relating to short-term leases (included in operating and selling, general and administrative expense)	45,803
Expense relating to low value leases (included in operating and selling, general and administrative expense)	2,044
Expense relating to variable lease payments (included in operating and selling, general and administrative expense)	9,145
Income from subleasing of right-of-use assets	415
Total cash outflow for lease obligations	21,893

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 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, 2019 was $342,078 before deduction of unamortized debt issuance costs (December 31, 2018 – $661,492). The carrying value of the senior unsecured notes at December 31, 2019 was $844,220 before deduction of unamortized debt issuance costs and debt discount (December 31, 2018 – $886,730). The fair values of the remaining long-term debt approximate their carrying values, as described in note 5.

(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, 2019, the Company had a provision for doubtful accounts receivable of $1,931 (December 31, 2018 – $596).

IFRS 9 *Financial Instruments* requires an entity to estimate its expected credit loss for all trade accounts receivable even when they are not past due based on the expectation that certain receivables will be uncollectible. Based on the Company's assessment, a small increase in the allowance for doubtful accounts of approximately 0.13% was recorded, using the lifetime expected credit loss model. The expected credit loss rates are based on actual credit loss experience over the past several years for each operating segment.

The loss allowance provision for trade accounts receivable as at December 31, 2019 reconciles to the opening loss allowance provision as follows:

	2019
(C$000s)	*($)*
At January 1, 2019	596
Increase in loan loss allowance recognized in statement of operations during the year	15
Specific receivables deemed as uncollectible	1,342
Foreign exchange adjustments	(22)
At December 31, 2019	1,931

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, 2019 and 2018, excluding any impaired accounts, are as follows:

As at December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Current	**145,704**	203,368
31 – 60 days	**34,863**	109,510
61 – 90 days	**14,676**	21,553
91+ days	**14,888**	8,936
Total	**210,131**	343,367

(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, 2019 amounts to $1,480 (December 31, 2018 – $1,200).

The Company's effective interest rate for the year ended December 31, 2019 was 8.5 percent (year ended December 31, 2018 – 10.6 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, 2019	**Total**	**<1 Year**	**1 – 3 Years**	**4 – 6 Years**	**7 – 9 Years**	**Thereafter**
(C$000s)	***($)***	***($)***	***($)***	***($)***	***($)***	***($)***
Accounts payable and accrued liabilities	**143,225**	**143,225**	—	—	—	—
Lease obligations[1]	**38,330**	**21,901**	**14,164**	**2,265**	—	—
Long-term debt[1]	**1,478,310**	**79,898**	**374,795**	**1,023,617**	—	—

[1] *Principal and interest*

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*

(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, 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:

At December 31, 2019	**Impact to Net Income**
(C$000s)	***($)***
1% change in value of U.S. dollar	**1,052**
1% change in value of Argentinean peso	**36**
1% change in value of Russian rouble	**—**

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	—

12. SUPPLEMENTAL CASH FLOW INFORMATION

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

Years Ended December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Accounts receivable	**132,783**	7,103
Inventory	**18,759**	(12,217)
Prepaid expenses and deposits	**38**	(724)
Accounts payable and accrued liabilities	**(87,858)**	(8,978)
Income taxes recoverable	**(1,026)**	1,178
	62,696	(13,638)
Income taxes paid	**4,040**	3,165

Purchase of property, plant and equipment is comprised of:

Years Ended December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Property, plant and equipment additions	**(139,305)**	(159,764)
Change in liabilities related to the purchase of property, plant and equipment	**(8,065)**	2,577
	(147,370)	(157,187)

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.

Subsequent to the acquisition, the purchase agreement was amended to include a price adjustment mechanism. If the operating income of Calfrac Well Services (Argentina) S.A. reaches certain target levels in 2019 and 2020, additional shares may be issued or additional cash consideration may be paid. The amount of contingent consideration, if it becomes payable, is not expected to be material.

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,	**2019**	2018
(C$000s)	***($)***	*($)*
Net loss	**(156,203)**	(26,177)
Adjusted for the following:		
Depreciation	**261,227**	190,475
Foreign exchange losses	**6,341**	38,047
Loss on disposal of property, plant and equipment	**1,870**	160
Impairment of property, plant and equipment	**2,165**	115
Impairment of inventory	**3,744**	7,167
Interest	**85,826**	106,630
Income taxes	**(52,226)**	(4,592)
Operating income	**152,744**	311,825

Net debt for this purpose is calculated as follows:

As at December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Long-term debt, net of debt issuance costs and debt discount (note 5)	**976,693**	989,614
Lease obligations	**30,919**	738
Less: cash and cash equivalents	**(42,562)**	(51,901)
Net debt	**965,050**	938,451

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, 2019, the net debt to operating income ratio was 6.32:1 (December 31, 2018 – 3.01:1) calculated on a 12-month trailing basis as follows:

For the Twelve Months Ended December 31,	**2019**	2018
(C$000s, except ratio)	***($)***	*($)*
Net debt	**965,050**	938,451
Operating income	**152,744**	311,825
Net debt to operating income ratio	**6.32:1**	3.01:1

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, 2019 and December 31, 2018, the Company was in compliance with its covenants with respect to its credit facilities.

	Covenant	**Actual**
As at December 31,	2019	**2019**
Working capital ratio not to fall below	1.15x	**2.83x**
Funded Debt to Adjusted EBITDA not to exceed[1][2]	3.00x	**0.80x**
Funded Debt to Capitalization not to exceed[1][3]	0.30x	**0.08x**

[1] Funded Debt is defined as Total Debt excluding all outstanding senior unsecured notes and lease obligations. Total Debt includes bank loans and long-term debt (before unamortized debt issuance costs and debt discount) plus outstanding letters of credit. For the purposes of the Total Debt to Adjusted EBITDA ratio, the Funded Debt to Capitalization Ratio and the Funded Debt to Adjusted EBITDA ratio, the amount of Total Debt or Funded Debt, as applicable, is reduced by the amount of cash on hand with lenders (excluding any cash held in a segregated account for the purposes of a potential equity cure).
[2] Adjusted EBITDA is defined as net income or loss for the period adjusted for interest, taxes, depreciation and amortization, non-cash stock-based compensation, 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 as net income or loss for the period less interest, 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 gives an indication of the results from the Company's principal business activities prior to consideration of how its activities are financed and the impact of foreign exchange, taxation and depreciation and amortization charges. Adjusted EBITDA for the period was calculated as follows:

Years Ended December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Net loss	**(156,203)**	(26,177)
Add back (deduct):		
Depreciation	**261,227**	190,475
Unrealized foreign exchange losses	**2,041**	11,465
Non-recurring realized foreign exchange losses[1]	**—**	29,288
Loss on disposal of property, plant and equipment	**1,870**	160
Impairment of property, plant and equipment (note 4)	**2,165**	115
Impairment of inventory (note 3)	**3,744**	7,167
Restructuring charges	**6,049**	1,076
Stock-based compensation	**4,626**	5,812
Losses attributable to non-controlling interest	**—**	7,989
Interest	**85,826**	106,630
Income taxes	**(52,226)**	(4,592)
Adjusted EBITDA[2]	**159,119**	329,408

[1] The Company recognized a one-time realized foreign exchange loss resulting from the capitalization of inter-company debt held by its Argentinean subsidiary.
[2] For bank covenant purposes, EBITDA includes an additional $21,893 of lease payments that would have been recorded as operating expenses prior to the adoption of IFRS 16 on January 1, 2019.

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

i. Eligible North American accounts receivable, which is based on 75 percent of accounts receivable owing by companies rated BB+ or lower by Standard & Poor's (or a similar rating agency) and 85 percent of accounts receivable from companies rated BBB- or higher;

ii. 100 percent of unencumbered cash of the parent company and its U.S. operating subsidiary, excluding any cash held in a segregated account for the purposes of a potential equity cure; and

iii. 25 percent of the net book value of property, plant and equipment (PP&E) of the parent company and its U.S. operating subsidiary. The value of PP&E excludes assets under construction and is limited to $150,000.

The 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, 2019, 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, 2019, the Company's Fixed Charge Coverage Ratio of 1.85:1 was less than the required 2:1 ratio. Failing to meet the Fixed Charge Coverage Ratio is not an event of default under the indenture, and the baskets highlighted in the preceding paragraphs provide sufficient flexibility for the Company to make anticipated restricted payments, such as dividends, and incur additional indebtedness as required to conduct its operations and satisfy its obligations.

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, 2022, subject to certain conditions including:

i. the Company is only permitted to use the proceeds of a common share issuance to increase Adjusted EBITDA a maximum of two times;
ii. the Company cannot use the proceeds of a common share issuance to increase Adjusted EBITDA in consecutive quarter ends;
iii. the maximum proceeds of each common share issuance permitted to be attributed to Adjusted EBITDA cannot exceed the greater of 50 percent of Adjusted EBITDA on a rolling four-quarter basis and $25,000; and
iv. if proceeds are not used immediately as an equity cure they must be held in a segregated bank account pending an election to use them for such purpose, and if they are removed from such account but not used as an equity cure they will no longer be eligible for such use.

In addition, to the extent that proceeds from an equity offering are used as part of the Equity Cure, such proceeds are included in the calculation of the Company's borrowing base.

15. RELATED-PARTY TRANSACTIONS

The Company leases certain premises from a company controlled by Ronald P. Mathison, the Executive Chairman of the Company. The rent charged for these premises during the year ended December 31, 2019 was $1,742 (year ended December 31, 2018 – $1,742), as measured at the exchange amount which is based on market rates at the time the lease arrangements were made.

16. REVENUE FROM CONTRACTS WITH CUSTOMERS

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, 2019					
Fracturing	**348,789**	**928,902**	**94,519**	**117,381**	**1,489,591**
Coiled tubing	**46,403**	**—**	**11,288**	**26,139**	**83,830**
Cementing	**—**	**—**	**—**	**22,852**	**22,852**
Product sales	**2,391**	**1,502**	**—**	**—**	**3,893**
Subcontractor	**—**	**—**	**—**	**20,789**	**20,789**
	397,583	**930,404**	**105,807**	**187,161**	**1,620,955**
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

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.

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 five significant customers that collectively accounted for approximately 32 percent of the Company's revenue for the year ended December 31, 2019 (year ended December 31, 2018 – four significant customers for approximately 32 percent) and, of such customers, one customer accounted for approximately 7 percent of the Company's revenue for the year ended December 31, 2019 (year ended December 31, 2018 – 11 percent).

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,	**2019**	2018
(C$000s)	***($)***	*($)*
Product costs	**448,203**	688,493
Personnel costs	**436,458**	486,838
Depreciation on property, plant and equipment	**240,262**	190,475
Depreciation on right-of-use assets (note 10)	**20,965**	—
Other operating costs	**513,676**	677,324
	1,659,564	2,043,130

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,	**2019**	2018
(C$000s)	***($)***	*($)*
Salaries and short-term employee benefits	**447,235**	492,538
Post-employment benefits (group retirement savings plan)	**9,888**	10,590
Share-based payments	**4,937**	12,272
Termination benefits	**6,520**	2,130
	468,580	517,530

19. COMPENSATION OF KEY MANAGEMENT

Key management is defined as the Company's Board of Directors, Executive Chairman, President and Chief Operating Officer, and Chief Financial Officer. During 2018, it was 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,	**2019**	2018
(C$000s)	***($)***	*($)*
Salaries, fees and short-term benefits	**3,941**	3,633
Post-employment benefits (group retirement savings plan)	**41**	34
Share-based payments	**1,152**	2,977
Termination benefits	**2,441**	—
	7,575	6,644

In the event of termination, the three senior officers are entitled to one to two years of annual compensation, and two to four 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 $9,984 (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 $9,984 (6,846 euros) cited above and the interest being sought in respect of these orders is part of the $27,279 (18,706 euros) cited below. Provisional orders granting a temporary suspension of any enforcement proceedings have been granted in respect of all of the orders that have been served. The opposition against the order served on March 24, 2015 was heard on November 24, 2015 and a decision was issued on November 25, 2016 accepting the Company's opposition on the basis that no lawful service had taken place until the filing of the opponents' petition and/or the issuance of the payment order. The plaintiffs filed an appeal against the above decision which was heard on October 16, 2018 and was rejected in June 2019. The plaintiffs have filed a petition for cassation against appeal judgment, the hearing of which has not yet been scheduled. A hearing in respect of the order served on November 23, 2015 took place on October 31, 2018 and a decision was issued in October 2019 accepting the Company's opposition. The plaintiffs filed an appeal against this decision, the hearing of which has been scheduled for March 24, 2020. A hearing in respect of the orders served in December 2015 scheduled for September 20, 2016 was adjourned until November 21, 2016 and decisions were issued on January 9, 2017 accepting the Company's oppositions on a statute of limitations basis. The plaintiffs filed appeals against the above decisions which were heard on October 16, 2018 and were rejected in June 2019. The plaintiffs have filed petitions for cassation against appeal judgments, the hearings of which have not yet been scheduled.

NAPC is also the subject of a claim for approximately $4,174 (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 $843 (578 euros), amounted to $27,279 (18,706 euros) as at December 31, 2019.

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, 2019						
Revenue	**397,583**	**930,404**	**105,807**	**187,161**	**—**	**1,620,955**
Operating income (loss)[1]	**40,689**	**126,205**	**(5,005)**	**26,128**	**(35,273)**	**152,744**
Segmented assets	**486,067**	**773,137**	**90,727**	**175,991**	**—**	**1,525,922**
Capital expenditures	**21,978**	**85,001**	**2,933**	**29,393**	**—**	**139,305**

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

[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,	**2019**	2018
(C$000s)	***($)***	*($)*
Net loss	**(156,203)**	(26,177)
Add back (deduct):		
Depreciation	**261,227**	190,475
Foreign exchange losses	**6,341**	38,047
Loss on disposal of property, plant and equipment	**1,870**	160
Impairment of property, plant and equipment	**2,165**	115
Impairment of inventory	**3,744**	7,167
Interest	**85,826**	106,630
Income taxes	**(52,226)**	(4,592)
Operating income	**152,744**	311,825

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

22. SUBSEQUENT EVENT

On February 24, 2020, the Company completed an exchange offer of US$120,000 of new 10.875% second lien secured notes ("New Notes") due March 15, 2026 to holders of its existing 8.50% senior unsecured notes ("Old Notes") due June 15, 2026. The New Notes are secured by a second lien on the same assets that secure obligations under the Company's existing senior secured credit facility. The exchange was completed at an average exchange price of US$550 per each US$1,000 of Old Notes resulting in US$218,182 being exchanged for US$120,000 of New Notes. The exchange will result in reduced leverage of approximately US$98,200 and a reduction of US$5,500 in annual debt service costs.

HISTORICAL REVIEW

	2019	2018	2017	2016	2015
(C$000s, except per share amounts)	***($)***	*($)*	*($)*	*($)*	*($)*
(unaudited)					
FINANCIAL RESULTS					
Revenue	**1,620,955**	2,256,426	1,527,705	734,514	1,495,205
Operating income (loss)[1]	**152,744**	311,825	180,120	(58,204)	29,384
Per share - basic	**1.06**	2.16	1.31	(0.50)	0.31
Per share - diluted	**1.05**	2.12	1.29	(0.50)	0.31
Adjusted EBITDA[1]	**159,119**	329,408	191,823	(44,750)	52,057
Per share - basic	**1.10**	2.29	1.39	(0.38)	0.54
Per share - diluted	**1.09**	2.24	1.38	(0.38)	0.54
Net (loss) income attributable to the shareholders of Calfrac	**(156,203)**	(18,188)	5,939	(198,097)	(221,594)
Per share - basic	**(1.08)**	(0.13)	0.04	(1.69)	(2.31)
Per share - diluted	**(1.08)**	(0.13)	0.04	(1.69)	(2.31)
Capital expenditures	**139,305**	159,764	91,933	38,707	157,934
FINANCIAL POSITION, END OF PERIOD					
Current Assets	**405,926**	569.564	576,338	388,934	495,179
Total Assets	**1,525,922**	1,782,657	1,777,966	1,613,004	1,815,823
Working Capital	**248,772**	329,871	327,049	271,581	305,952
Long-Term Debt	**976,693**	989,614	958,825	984,062	927,270
Total Equity	**368,623**	513,820	543,645	497,458	623,719
COMMON SHARE DATA					
Common shares outstanding (000s), end of period[2]	**144,889**	144,463	143,756	136,635	115,580
Weighted average (diluted)	**145,475**	146,829	139,462	117,326	96,076
Share trading					
High ($)	**3.95**	8.35	6.51	5.00	11.17
Low ($)	**0.78**	2.03	2.23	1.06	1.37
Close ($), end of period	**1.25**	2.44	5.98	4.76	2.29
Volume (000s)	**72,113**	148,998	159,116	176,684	136,633
OPERATING, END OF PERIOD					
Active pumping horsepower (000s)	**1,269**	1,328	1,115	659	776
Idle pumping horsepower (000s)	**141**	42	280	563	524
Total pumping horsepower (000s)	**1,410**	1,370	1,395	1,222	1,300
Active coiled tubing units (#)	**20**	22	21	19	20
Idle coiled tubing units (#)	**8**	7	9	13	17
Total coiled tubing units (#)	**28**	29	30	32	37
Active cementing units (#)	**13**	11	12	14	23
Idle cementing units (#)	**6**	12	11	11	8
Total cementing units (#)	**19**	23	23	25	31

[1] Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

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

Lindsay R. Link
President & Chief Operating 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)(5)
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
(5) Lead Director

OFFICERS

Ronald P. Mathison
Executive Chairman

Lindsay R. Link
President & Chief Operating Officer

Michael D. Olinek
Chief Financial Officer

Marco A. Aranguren
Director General, Argentina Division

Chad Leier
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

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

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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:

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9th floor, 100 University Avenue
Toronto, ON M5J 2Y1
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