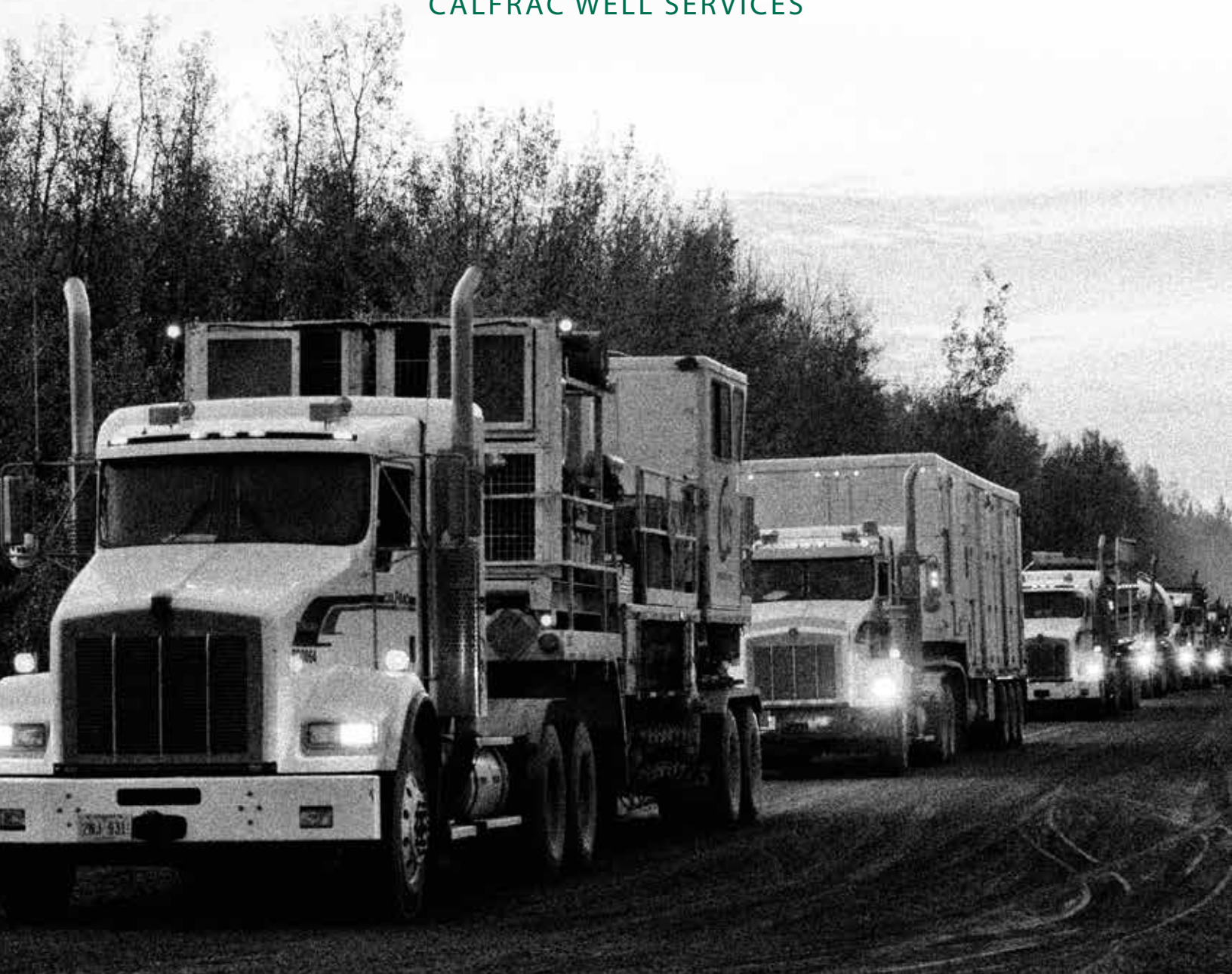




# 2020 ANNUAL REPORT

CALFRAC WELL SERVICES



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

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## **CALFRAC WELL SERVICES LTD.**

### **ANNUAL GENERAL MEETING**

May 4, 2021

3:30 pm

McMurray Room

Calgary Petroleum Club

319 – 5th Avenue SW

Calgary, Alberta

## PRESIDENT'S MESSAGE

To Our Valued Stakeholders:

Although it seems far more than a year ago, 2020 began on a relatively optimistic note, both within energy markets and for Calfrac. Constructive commodity prices and a strengthening outlook for pressure pumping allowed us to contemplate better days ahead, beginning with a debt exchange offer that materially reduced the Company's total debt and interest costs.

However, the impact of the COVID-19 pandemic and government responses to the situation, coupled with a poorly handled supply reaction to the loss of oil demand soon reversed our optimism, and shook the foundations of our industry and our economy.

Here at Calfrac, rather than dwell on the external drivers responsible for the situation, we rolled up our sleeves and did the hard work that was required. First, that entailed a rapid and material restructuring of our operating footprint and cost structure, which unfortunately resulted in a large number of Calfrac employees being affected. These decisions are never easy and have significant impacts on the Calfrac family and the communities we operate in.

After right-sizing our operating and overhead cost structure, our attention more fully turned to our balance sheet which required the same right-sizing as our operations, and our efforts delivered that outcome. I would again like to offer my thanks to all those involved in our Recapitalization Transaction. Those thanks extend as well to our employees in the field and the office that maintained the Calfrac Brand Promise to Do It Better, Do It Safely and Do It On Time. Our company weathered the storm because our operation is filled with and led by outstanding people.

We were all pleased to complete Calfrac's restructuring in December, as it allowed us to begin 2021 with a singular focus, growing our operating footprint by delivering the safe and efficient services we are known for in the field, along with innovative, common-sense solutions from our technical and operational support teams.

We begin 2021 with optimism for the years ahead. Most producers have shifted focus to delivering strong returns and free cash flow to investors, and although that likely reduces how fast activity can accelerate in the near term, the never-ending decline of existing production and the physical limits on operating intensity likely signal strength and potentially stability for commodity prices ahead. The resurgence of prudent capital allocation in the Oilfield Services space also bodes well for the future of our industry, one where appropriate returns and risk-sharing come before growth or market share.

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 - and our most important commitment is to send our employees home from work safe and injury-free. At Calfrac, we all understand the risks our employees and their families take when they go to work, and we never lose focus on the safety of our employees and the communities where we operate. While periods of industry volatility can impact safety performance, I am thrilled to share that once again, Calfrac delivered a record low rate of Recordable Incidents (TRIF) and Lost Time Injuries (LTIF). Distractions were in abundance in 2020 but our people and our leadership maintained the focus required and I could not be more proud.

### NORTH AMERICAN OPERATIONS

Although market dynamics in North America have been volatile over the last 10 years, 2020 should go down in history as the high water mark for delivering the unexpected. A combination of demand loss due to COVID-19 restrictions and a poor supply response devastated oil markets in March and April, and with it, the plans of our customers. Although activity recovered through the second half of the year, the step change down in activity and pricing massively impacted the pressure pumping market in North America.

Looking ahead, we see brighter days coming. Improved oil prices and prudent capital allocation have improved the health of the producer community, while the prospect of improved demand for energy as global vaccination efforts unfold has solidified oil market fundamentals. Assuming the rational actions observed recently continue, we believe that oil-directed activity should trend higher throughout 2021.

Likewise, fundamentals for natural gas in North America have also improved. Higher LNG exports, reduced infrastructure bottlenecks and lower associated gas production from oil plays have all helped to solidify the market. Particularly in Canada,

we expect activity focused on natural gas to hold on to gains made in late 2020 and potentially set the stage for further growth in the years ahead.

Consolidation in the E&P space has been a frequent news item over the last few months, and while these transactions cause short-term uncertainty, we believe the aggregation of quality assets in the hands of fewer teams is a positive development. Many of the resulting producers have strong balance sheets, significant development runway and prudent capital allocation policies. All oilfield services businesses depend on the spending habits of their clients and while prudence may temper near term growth expectations, it serves as a strong foundation for the long-term health of our industry.

## **INTERNATIONAL OPERATIONS**

The changes experienced in North America also affected Calfrac's international divisions. A government-mandated shutdown of operations in Argentina occurred in the first quarter of 2020, and operations did not resume until late in the third quarter. In Russia, while operational impacts were limited, travel restrictions and the remote nature of operations in Siberia presented unique challenges to our team, which were overcome with a combination of agility, innovation and hard work.

We believe that 2021 will prove to be a year of improvement in Calfrac's international operations. Russia delivered strong results in 2020 so the improvements are expected to be less dramatic, but still welcome after the operational disruptions seen in recent years. In Argentina, the full resumption of operations and the addition of a contracted work program for our large shale fracturing crew in Neuquén support our outlook for significant improvement in full-year operating performance. Additionally, government incentives to develop domestic natural gas in Argentina and the exit of some competitors from the market support a more optimistic outlook for our operations in the country over a multi-year horizon.

## **REALIZING BENEFITS OF INNOVATION**

Having implemented an ERP system during 2020, our project team delivered an outstanding result in the midst of significant changes in our industry and our Company. Our attention has now turned to optimizing this new system and the resources required to effectively support our operations while delivering incremental benefits and capabilities that will drive further improvements.

## **SAFEGUARDING OUR ENVIRONMENT**

Our industry has always risen to the challenges placed in front of it, and I see our part in the quest to reduce our society's impact on the environment as the next major issue for us all to address. Part of our Brand Promise is to Do It Better, and that has always included looking out for the environment so I know Calfrac is already moving down the right path. Our team continues to investigate and evaluate new technologies and operating procedures that can reduce our impact on the environment while also improving our operational and financial performance. I expect more changes to come but I am confident that Calfrac is well-equipped to succeed as our industry evolves.

## **LOOKING FORWARD**

We have all caught our breath after an eventful 2020, and have our sights set on restoring our operating footprint by delivering the safe and effective services that have earned us the strong reputation we have. 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 3, 2021  
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 3, 2021 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, 2020 and 2019. It should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2020 as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2019.

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 28 and 29.

### 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, 2020 were as follows:

| Segment       | Active<br>(000's hhp) | Idle<br>(000's hhp) | Total<br>(000's hhp) | Crewed Fleets<br>(#) |
|---------------|-----------------------|---------------------|----------------------|----------------------|
| United States | 516                   | 354                 | 870                  | 7                    |
| Canada        | 202                   | 73                  | 275                  | 4                    |
| Argentina     | 118                   | 5                   | 123                  | 5                    |
| Russia        | 65                    | 12                  | 77                   | 5                    |
| Total         | 901                   | 444                 | 1,345                | 21                   |

- 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, 2020, Calfrac's United States operations had combined active horsepower of approximately 516,000 and no active cementing or coiled tubing units. At the end of the fourth quarter, the United States segment had temporarily idled approximately 354,000 horsepower, three 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, 2020, Calfrac's Canadian operations had active horsepower of approximately 202,000 and eight active coiled tubing units. At the end of the fourth quarter, the Canadian segment had temporarily idled approximately 73,000 horsepower and five 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 118,000 active horsepower, 12 active and one idle cementing units and five active and one idle coiled tubing units in its Argentinean segment at December 31, 2020.
- The Company's Russian segment provides fracturing and coiled tubing services in Western Siberia. During the fourth quarter of 2020, the Company operated under multi-year agreements to provide services to Russia's largest oil producer. At December 31, 2020, the Russian segment had seven deep coiled tubing units, of which four were active, and approximately 65,000 active horsepower forming five fracturing spreads in Russia.

## RECAPITALIZATION TRANSACTION AND AMENDED CREDIT FACILITIES

On December 18, 2020, Calfrac announced the completion of its previously disclosed amended recapitalization transaction (“Recapitalization Transaction”). The Recapitalization Transaction was implemented pursuant to a plan of arrangement (the “Plan”) under the Canada Business Corporations Act (“CBCA”). The Plan was approved by an order of the Court of Queen’s Bench of Alberta dated October 30, 2020; and an order giving full effect to the Plan in the United States was entered effective December 1, 2020 (see Note 5 for additional information).

As a result of the Plan, Calfrac:

- reduced indebtedness by approximately \$576.0 million, primarily representing the face value of the senior unsecured notes that were exchanged for common equity in the Company;
- reduced annual interest costs by approximately \$51.0 million;
- secured an increase in liquidity of \$60.0 million through the issuance of 1.5 lien payment-in-kind convertible notes (“1.5 Lien Notes”). These notes bear interest at 10.0 percent per annum, paid semi-annually and are due on December 18, 2023;
- issued two share purchase warrants for every Calfrac share held to registered shareholders as of the close of business on December 17, 2020. Each warrant allows the holder to purchase a share of common equity from the Company for \$0.05 per share or \$2.50 per share after the 50:1 share and warrant consolidation that was completed in conjunction with the Recapitalization Transaction. These warrants have a three-year term following the effective date, expiring on December 18, 2023 and are listed for trading on the TSX under the symbol “CFW.WT”;
- completed a tender offer for Calfrac shares using its existing liquidity where 121,231 post-consolidation shares were repurchased for \$0.9 million in cash;
- executed an amendment to the Company’s credit facility agreement, which included a waiver of the Funded Debt to Adjusted EBITDA covenant through the end of the second quarter of 2021 and an increase to the covenant threshold for the third and fourth quarter of 2021 to 4.5x and 3.5x, respectively; and,
- executed a share and warrant consolidation at a 50:1 ratio, resulting in approximately 37.4 million shares outstanding at closing, before giving effect to future warrant exercises, equity-linked compensation or conversion of the 1.5 Lien Notes.

## RESPONSE TO COVID-19 AND OPEC+ SUPPLY PRESSURES

During 2020, the global economy slowed significantly in response to the worldwide COVID-19 pandemic, while the oil industry was also impacted by the oil supply war between the Organization of the Petroleum Exporting Countries and Russia (OPEC+).

In early March 2020, an oil supply war between Saudi Arabia and Russia erupted due to the inability of OPEC+ to agree on proposed oil production output quotas. As a result, WTI and Brent crude prices fell nearly 30 percent. Prior to this time, crude oil prices had already fallen by 30 percent since the start of the year due to a decrease in demand, and a resulting surplus of oil inventory.

In the midst of this, the COVID-19 outbreak developed rapidly in 2020 and significant measures were put in place by governments around the world to prevent the transmission of the virus. This included limiting the movement of people, travel restrictions, temporarily closing businesses and schools as well as cancelling events. This had an immediate significant impact on businesses and led to severe global socioeconomic disruption and extreme global capital market volatility. With respect to the oil market specifically, demand for fuel plummeted as people around the world significantly limited their movements in response to the COVID-19 pandemic.

In early April, OPEC and Russia engaged in negotiations to cut oil production and reached an agreement to curtail oil production starting May 1 in an effort to help balance the oil market that had been severely impacted by the COVID-19 induced slump and ill-timed battle for market share. These production cuts stabilized global oil markets, but surplus inventory and the restoration of demand resulted in a slow recovery of prices towards pre-COVID-19 levels.

The volatile economic environment has made estimates and judgments required in the preparation of Calfrac's financial statements increasingly complex and subject to a higher degree of measurement uncertainty. The ongoing effects of market uncertainty have and are expected to continue to materially reduce client spending and demand for the Company's services, resulting in decreased revenue and cash flows. Additional uncertainties include increased risk of accounts receivable collections and impairment charges to property, plant and equipment.

The Company proactively addressed the rapid and unforeseen deterioration in 2020 business conditions that resulted from the COVID-19 global pandemic and the delayed response by the OPEC+ group to global oil markets earlier in the year. The measures and actions taken included significant headcount reductions, salary reductions, restrictions on discretionary spending, reduction of compensation programs and bonuses, and reduction to capital spending. These measures remain in place as demand for the Company's services continue to recover from the lows experienced during 2020, and will position the Company to realize improved returns as market conditions improve.

## FINANCIAL OVERVIEW – YEARS ENDED DECEMBER 31, 2020 VERSUS 2019

### CONSOLIDATED HIGHLIGHTS

| Years Ended December 31,<br>(C\$000s, except per share amounts)<br>(unaudited) | 2020<br>(\$)     | 2019<br>(\$) | Change<br>(%) |
|--------------------------------------------------------------------------------|------------------|--------------|---------------|
| Revenue                                                                        | <b>705,436</b>   | 1,620,955    | (56)          |
| Operating income <sup>(1)</sup>                                                | <b>21,997</b>    | 152,744      | (86)          |
| Per share – basic <sup>(2)</sup>                                               | <b>5.21</b>      | 52.83        | (90)          |
| Per share – diluted <sup>(2)</sup>                                             | <b>0.41</b>      | 52.50        | (99)          |
| Adjusted EBITDA <sup>(1)</sup>                                                 | <b>23,809</b>    | 159,119      | (85)          |
| Per share – basic <sup>(2)</sup>                                               | <b>5.64</b>      | 55.03        | (90)          |
| Per share – diluted <sup>(2)</sup>                                             | <b>0.44</b>      | 54.69        | (99)          |
| Net loss                                                                       | <b>(324,235)</b> | (156,203)    | 108           |
| Per share – basic <sup>(2)</sup>                                               | <b>(76.78)</b>   | (54.03)      | 42            |
| Per share – diluted <sup>(2)</sup>                                             | <b>(76.78)</b>   | (54.03)      | 42            |
| Working capital, end of year                                                   | <b>161,448</b>   | 248,772      | (35)          |
| Total assets, end of year                                                      | <b>912,463</b>   | 1,525,922    | (40)          |
| Long-term debt, end of year                                                    | <b>324,633</b>   | 976,693      | (67)          |
| Total equity, end of year                                                      | <b>410,234</b>   | 368,623      | 11            |

<sup>(1)</sup> Refer to “Non-GAAP Measures” on pages 28 and 29 for further information.

<sup>(2)</sup> Comparative amounts were adjusted to reflect the Company’s fifty-to-one common share consolidation that occurred on December 18, 2020.

### 2020 OVERVIEW

In 2020, the Company:

- generated revenue of \$705.4 million, a decrease of 56 percent from 2019, resulting primarily from lower pricing and activity in Canada and the United States and the impact of a lengthy government mandated shutdown in Argentina due to the COVID-19 pandemic;
- executed an exchange offer by issuing new US\$120.0 million second lien secured notes (“Second Lien Notes”) that bear interest at 10.875 percent per annum and are due on March 15, 2026 to previous holders of its 8.5 percent senior unsecured notes that were due on June 15, 2026 that tendered such notes at an exchange price of US\$550 for each US\$1,000 of senior unsecured notes, resulting in US\$218.2 million of senior unsecured notes being exchanged for US\$120.0 million of Second Lien Notes;
- completed the settlement of the Company’s remaining US\$431.8 million senior unsecured notes, including all accrued and unpaid interest, for common shares of the Company, in addition to the issuance of \$60.0 million of 1.5 Lien Notes. These notes bear interest at 10.0 percent per annum and are due on December 18, 2023;
- amended its revolving credit facility, resulting in a reduction in capacity from \$375.0 million to \$290.0 million, including a waiver of its Funded Debt to EBITDA covenant through the end of June 30, 2021 and an increase in the covenant threshold for the three months ended September 30, 2021 and December 31, 2021 to 4.5x and 3.5x, respectively;
- aligned its operating footprint in Canada and the United States in response to lower activity levels;
- reported adjusted EBITDA of \$23.8 million versus \$159.1 million in 2019;
- recorded a gain on the settlement of debt of \$226.3 million and a gain on debt exchange of \$130.4 million;
- recorded an impairment of assets totaling \$255.6 million;



- recorded a write-off of the Company's deferred tax asset in the first quarter and the recognition of a deferred tax liability in the fourth quarter related to the Company's Recapitalization Transaction, which resulted in a deferred income tax expense of \$167.8 million in 2020;
- reported a net loss of \$324.2 million or \$76.78 per share diluted, compared to a net loss of \$156.2 million or \$54.03 per share diluted in 2019;
- reported period-end working capital of \$161.4 million versus \$248.8 million at December 31, 2019, which is consistent with the reduced operating footprint in Canada and the United States; and
- incurred capital expenditures of \$44.6 million primarily to support the Company's North American fracturing operations, compared to \$139.3 million in 2019.

## CANADA

| Years Ended December 31,                         | 2020           | 2019        | Change     |
|--------------------------------------------------|----------------|-------------|------------|
| <i>(C\$000s, except operational information)</i> | <i>(\$)</i>    | <i>(\$)</i> | <i>(%)</i> |
| <i>(unaudited)</i>                               |                |             |            |
| Revenue                                          | <b>230,448</b> | 397,583     | (42)       |
| Expenses                                         |                |             |            |
| Operating                                        | <b>188,656</b> | 345,315     | (45)       |
| Selling, general and administrative (SG&A)       | <b>7,924</b>   | 11,579      | (32)       |
|                                                  | <b>196,580</b> | 356,894     | (45)       |
| Operating income <sup>(1)</sup>                  | <b>33,868</b>  | 40,689      | (17)       |
| Operating income (%)                             | <b>14.7</b>    | 10.2        | 44         |
| Fracturing revenue per job (\$)                  | <b>19,844</b>  | 16,573      | 20         |
| Number of fracturing jobs                        | <b>10,508</b>  | 21,046      | (50)       |
| Active pumping horsepower, end of period (000s)  | <b>202</b>     | 236         | (14)       |
| Idle pumping horsepower, end of period (000s)    | <b>73</b>      | 36          | 103        |
| Total pumping horsepower, end of period (000s)   | <b>275</b>     | 272         | 1          |
| Coiled tubing revenue per job (\$)               | <b>19,563</b>  | 19,839      | (1)        |
| Number of coiled tubing jobs                     | <b>1,092</b>   | 2,339       | (53)       |
| Active coiled tubing units, end of period (#)    | <b>8</b>       | 11          | (27)       |
| Idle coiled tubing units, end of period (#)      | <b>5</b>       | 3           | 67         |
| Total coiled tubing units, end of period (#)     | <b>13</b>      | 14          | (7)        |

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.

## REVENUE

Revenue from Calfrac's Canadian operations during 2020 was \$230.4 million versus \$397.6 million in 2019. In 2020, the number of fracturing jobs decreased by 50 percent due to a smaller operating footprint after the first quarter of 2020 and an overall decrease in market activity. Revenue per fracturing job increased by 20 percent from 2019 primarily due to job mix as larger average job sizes were completed. Despite revenue per job staying consistent, coiled tubing activity decreased by 53 percent which resulted in lower year-over-year coiled tubing revenue.

## OPERATING INCOME

The Company's Canadian division generated operating income of \$33.9 million compared to \$40.7 million in 2019. The decrease was due to the significantly lower revenue base and a non-cash termination charge of \$2.1 million to exit a take-or-pay product purchase commitment. Despite the lower revenue base, the Company achieved a 15 percent operating income margin due to its continued focus on controlling operating costs combined with \$10.9 million of Canadian Emergency Wage Subsidy that was received in response to the ongoing COVID-19 pandemic. This increase was partially offset by \$1.6 million in restructuring costs recorded in 2020 compared to \$0.7 million of restructuring expenses that were recorded in 2019. The \$3.7 million reduction in SG&A expenses compared to 2019 was primarily due to lower headcount, compensation reductions and limitations on discretionary spending. In addition, a bad-debt provision of \$1.4 million was recorded in 2020 versus a \$1.3 million provision that was recorded in 2019.

## UNITED STATES

| Years Ended December 31,                                           | 2020           | 2019        | Change     |
|--------------------------------------------------------------------|----------------|-------------|------------|
| <i>(C\$000s, except operational and exchange rate information)</i> | <i>(\$)</i>    | <i>(\$)</i> | <i>(%)</i> |
| <i>(unaudited)</i>                                                 |                |             |            |
| Revenue                                                            | <b>306,090</b> | 930,404     | (67)       |
| Expenses                                                           |                |             |            |
| Operating                                                          | <b>289,243</b> | 786,864     | (63)       |
| SG&A                                                               | <b>12,818</b>  | 17,335      | (26)       |
|                                                                    | <b>302,061</b> | 804,199     | (62)       |
| Operating income <sup>(1)</sup>                                    | <b>4,029</b>   | 126,205     | (97)       |
| Operating income (%)                                               | <b>1.3</b>     | 13.6        | (90)       |
| Fracturing revenue per job (\$)                                    | <b>29,282</b>  | 42,832      | (32)       |
| Number of fracturing jobs                                          | <b>10,453</b>  | 21,687      | (52)       |
| Active pumping horsepower, end of period (000s)                    | <b>516</b>     | 830         | (38)       |
| Idle pumping horsepower, end of period (000s)                      | <b>354</b>     | 93          | 281        |
| Total pumping horsepower, end of period (000s)                     | <b>870</b>     | 923         | (6)        |
| Active coiled tubing units, end of period (#)                      | —              | —           | —          |
| Idle coiled tubing units, end of period (#)                        | <b>1</b>       | 1           | —          |
| Total coiled tubing units, end of period (#)                       | <b>1</b>       | 1           | —          |
| Active cementing units, end of period (#)                          | —              | —           | —          |
| Idle cementing units, end of period (#)                            | <b>3</b>       | 5           | (40)       |
| Total cementing units, end of period (#)                           | <b>3</b>       | 5           | (40)       |
| US\$/C\$ average exchange rate <sup>(2)</sup>                      | <b>1.3415</b>  | 1.3269      | 1          |

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.

<sup>(2)</sup> Source: Bank of Canada.

## REVENUE

Revenue from Calfrac's United States operations decreased to \$306.1 million in 2020 from \$930.4 million in 2019 primarily due to lower fracturing activity and pricing. The Company's fracturing activity in the United States decreased during 2020 by 52 percent as customers curtailed spending in all of Calfrac's operating regions in response to low commodity prices. Revenue per job decreased 32 percent due to lower pricing, combined with changes in job mix.

## OPERATING INCOME

The Company's United States division generated operating income of \$4.0 million during 2020 compared to \$126.2 million in 2019. The 97 percent decrease was primarily the result of the significant decline in the Company's revenue base as customers reduced their drilling and completions activity in response to the reduction in commodity prices. The Company began 2020 with 10 active fracturing fleets in the United States and increased its operating scale to a peak of 14 fleets before reducing to four crewed fleets in the second quarter. The Company exited the fourth quarter with seven active fleets versus operating an average of 14 fleets during 2019. Operating results also included \$3.9 million of reactivation costs, primarily in the fourth quarter. SG&A expenses decreased by 26 percent, primarily due to lower personnel costs resulting from headcount and compensation reductions. The Company recorded \$2.4 million of restructuring costs during 2020 compared to \$0.8 million in 2019.

## RUSSIA

| Years Ended December 31,                                           | 2020           | 2019        | Change     |
|--------------------------------------------------------------------|----------------|-------------|------------|
| <i>(C\$000s, except operational and exchange rate information)</i> | <i>(\$)</i>    | <i>(\$)</i> | <i>(%)</i> |
| <i>(unaudited)</i>                                                 |                |             |            |
| Revenue                                                            | <b>100,407</b> | 105,807     | (5)        |
| Expenses                                                           |                |             |            |
| Operating                                                          | <b>86,441</b>  | 107,597     | (20)       |
| SG&A                                                               | <b>3,033</b>   | 3,215       | (6)        |
|                                                                    | <b>89,474</b>  | 110,812     | (19)       |
| Operating income (loss) <sup>(1)</sup>                             | <b>10,933</b>  | (5,005)     | NM         |
| Operating income (loss) (%)                                        | <b>10.9</b>    | (4.7)       | NM         |
| Fracturing revenue per job (\$)                                    | <b>80,733</b>  | 86,397      | (7)        |
| Number of fracturing jobs                                          | <b>1,119</b>   | 1,094       | 2          |
| Active pumping horsepower, end of period (000s)                    | <b>65</b>      | 65          | —          |
| Idle pumping horsepower, end of period (000s)                      | <b>12</b>      | 12          | —          |
| Total pumping horsepower, end of period (000s)                     | <b>77</b>      | 77          | —          |
| Coiled tubing revenue per job (\$)                                 | <b>46,824</b>  | 44,619      | 5          |
| Number of coiled tubing jobs                                       | <b>215</b>     | 253         | (15)       |
| Active coiled tubing units, end of period (#)                      | <b>4</b>       | 3           | 33         |
| Idle coiled tubing units, end of period (#)                        | <b>3</b>       | 4           | (25)       |
| Total coiled tubing units, end of period (#)                       | <b>7</b>       | 7           | —          |
| Rouble/C\$ average exchange rate <sup>(2)</sup>                    | <b>0.0186</b>  | 0.0205      | (9)        |

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.

<sup>(2)</sup> Source: Bank of Canada.

## REVENUE

Revenue from Calfrac's Russian operations in 2020 of \$100.4 million was 5 percent lower than in 2019. The slight decrease in revenue, which is generated in roubles, was mostly related to the 9 percent decline of the Russian rouble in 2020 versus 2019 combined with a 15 percent reduction in coiled tubing activity due to lower utilization with Calfrac's main customer. Fracturing activity increased by 2 percent as the Company began operations in the Erginskoye field in Western Siberia at the end of the second quarter. Revenue per fracturing job was 7 percent lower than in 2019 due to the 9 percent depreciation of the Russian rouble, partially offset by job mix as the Company completed more multi-stage wells during 2020 as compared to 2019.

## OPERATING INCOME (LOSS)

The Company's Russian division generated operating income of \$10.9 million during 2020 compared to a loss of \$5.0 million in 2019. Utilization in the first quarter of 2020 was negatively impacted by warmer than normal weather which restricted access to job locations. The second, third and fourth quarters experienced improved profitability due to better utilization, combined with cost reduction measures that were implemented throughout 2020, and lower fuel costs. The operating results for 2020 also included \$0.4 million in restructuring expenses.

**ARGENTINA**

| Years Ended December 31,                                           | 2020           | 2019        | Change     |
|--------------------------------------------------------------------|----------------|-------------|------------|
| <i>(C\$000s, except operational and exchange rate information)</i> | <i>(\$)</i>    | <i>(\$)</i> | <i>(%)</i> |
| <i>(unaudited)</i>                                                 |                |             |            |
| Revenue                                                            | <b>68,491</b>  | 187,161     | (63)       |
| Expenses                                                           |                |             |            |
| Operating                                                          | <b>68,050</b>  | 153,479     | (56)       |
| SG&A                                                               | <b>6,918</b>   | 7,554       | (8)        |
|                                                                    | <b>74,968</b>  | 161,033     | (53)       |
| Operating (loss) income <sup>(1)</sup>                             | <b>(6,477)</b> | 26,128      | NM         |
| Operating (loss) income (%)                                        | <b>(9.5)</b>   | 14.0        | NM         |
| Fracturing revenue per job (\$)                                    | <b>58,612</b>  | 120,514     | (51)       |
| Number of fracturing jobs                                          | <b>680</b>     | 974         | (30)       |
| Active pumping horsepower, end of period (000s)                    | <b>118</b>     | 138         | (14)       |
| Idle pumping horsepower, end of period (000s)                      | <b>5</b>       | —           | NM         |
| Total pumping horsepower, end of period (000s)                     | <b>123</b>     | 138         | (11)       |
| Coiled tubing revenue per job (\$)                                 | <b>75,499</b>  | 38,668      | 95         |
| Number of coiled tubing jobs                                       | <b>162</b>     | 676         | (76)       |
| Active coiled tubing units, end of period (#)                      | <b>5</b>       | 6           | (17)       |
| Idle coiled tubing units, end of period (#)                        | <b>1</b>       | —           | NM         |
| Total coiled tubing units, end of period (#)                       | <b>6</b>       | 6           | —          |
| Cementing revenue per job (\$)                                     | <b>53,529</b>  | 43,778      | 22         |
| Number of cementing jobs                                           | <b>240</b>     | 522         | (54)       |
| Active cementing units, end of period (#)                          | <b>12</b>      | 13          | (8)        |
| Idle cementing units, end of period (#)                            | <b>1</b>       | 1           | —          |
| Total cementing units, end of period (#)                           | <b>13</b>      | 14          | (7)        |
| US\$/C\$ average exchange rate <sup>(2)</sup>                      | <b>1.3415</b>  | 1.3269      | 1          |

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.

<sup>(2)</sup> Source: Bank of Canada.

**REVENUE**

Calfrac's Argentinean operations generated total revenue of \$68.5 million during 2020 versus \$187.2 million in 2019. The 63 percent decline in revenue was primarily due to the shutdown of the oilfield industry in Argentina due to the COVID-19 pandemic, which affected all of the Company's operating regions and service lines. Activity in the first quarter of 2020 was higher than the fourth quarter of 2019 despite some schedule gaps in the Vaca Muerta region. However, the Argentinean government mandated a complete shutdown of all oilfield activity in mid-March in response to the COVID-19 pandemic. Although this shutdown continued throughout most of the second quarter, some activity resumed in southern Argentina during June and continued into the third and fourth quarters. In the fourth quarter, fracturing activity recommenced in the Vaca Muerta shale play as customers gradually resumed completions activity.

**OPERATING (LOSS) INCOME**

The Company's operations in Argentina incurred an operating loss of \$6.5 million during 2020 compared to operating income of \$26.1 million in 2019. The loss was attributable to the unprecedented revenue disruption caused by the government-mandated shutdown of all oilfield activity in response to the COVID-19 pandemic during the second and third quarters of 2020. The Company generated operating income in the fourth quarter of 2020 as equipment utilization improved. The 8 percent decline in SG&A expenses was primarily due to headcount reductions and other cost savings initiatives. The reduction in SG&A expenses would have been 30 percent excluding a US\$2.3 million stamp tax accrual reversal that was recorded in the fourth quarter of 2019.

## CORPORATE

| Years Ended December 31,      | 2020     | 2019     | Change |
|-------------------------------|----------|----------|--------|
| (C\$000s)                     | (\$)     | (\$)     | (%)    |
| (unaudited)                   |          |          |        |
| Expenses                      |          |          |        |
| Operating                     | 2,167    | 5,081    | (57)   |
| SG&A                          | 18,189   | 30,192   | (40)   |
|                               | 20,356   | 35,273   | (42)   |
| Operating loss <sup>(1)</sup> | (20,356) | (35,273) | (42)   |
| % of Revenue                  | 2.9      | 2.2      | 32     |

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.

## OPERATING LOSS

Corporate expenses during 2020 were \$20.4 million compared to \$35.3 million in 2019. The decrease was primarily due to lower personnel costs resulting from headcount and compensation reductions, combined with \$1.6 million in government subsidies that were received in 2020. The reduction in personnel costs was partially offset by \$0.8 million of severance costs that were recorded in 2020 as compared to \$4.4 million of retirement and severance payments in 2019. In addition, the Company's stock-based compensation expense was \$3.6 million lower than 2019. This decrease was primarily due to a lower average share price during 2020, offset partially by the cancellation of all outstanding stock options in conjunction with the Recapitalization Transaction that closed in December 2020.

## DEPRECIATION

Depreciation expense during 2020 decreased by \$89.2 million to \$172.0 million from \$261.2 million in 2019. The decrease was primarily due to the impact of the \$227.2 million of property, plant and equipment (PP&E) impairment charges that were recorded during the first six months of 2020, combined with lower sustaining capital expenditures. The remaining reduction in depreciation was the result of the Company decreasing its useful life estimates and salvage values effective January 1, 2019 for certain components of its fracturing equipment. This resulted in a one-time depreciation charge of \$9.5 million during the first quarter in 2019 relating to assets in use at the end of the previous quarter.

## FOREIGN EXCHANGE LOSSES

The Company recorded a foreign exchange loss of \$15.5 million during 2020 versus a loss of \$6.3 million in the comparable period in 2019. Foreign exchange gains and losses arise primarily from the translation of net monetary assets or liabilities that were held in U.S. dollars in Canada, net monetary assets or liabilities that were held in pesos in Argentina, and liabilities held in Canadian dollars in Russia. The Company's foreign exchange loss in 2020 was largely attributable to net monetary assets that were held in pesos in Argentina as the peso devalued against the U.S. dollar during this period, combined with liabilities held in Canadian dollars in Russia due to the decline in the Russian rouble versus the Canadian dollar.

## IMPAIRMENT

The Company tested each of its cash generating units (CGUs) for potential impairment at March 31, 2020, at June 30, 2020 and again at December 31, 2020. A complete summary of the impairment charges recorded during 2020 are as follows:

|               | Years Ended Dec. 31, |       |
|---------------|----------------------|-------|
|               | 2020                 | 2019  |
| (C\$000s)     | (\$)                 | (\$)  |
| Canada        | 132,483              | 1,921 |
| United States | 15,380               | 244   |
| Argentina     | 52,466               | —     |
| Russia        | 26,879               | —     |
|               | 227,208              | 2,165 |

In addition, the Company also carried out a comprehensive review of its inventory to identify individual items that were permanently idle or obsolete, with potential for impairment in value. This resulted in an inventory write-down of \$27.9 million (year ended December 31, 2019 – \$3.7 million). The inventory write-down by CGU is as follows:

|                  | Years Ended Dec. 31, |             |
|------------------|----------------------|-------------|
|                  | 2020                 | 2019        |
| <i>(C\$000s)</i> | <i>(\$)</i>          | <i>(\$)</i> |
| Canada           | 6,200                | 656         |
| United States    | 10,668               | 2,108       |
| Argentina        | 11,000               | 980         |
|                  | <b>27,868</b>        | 3,744       |

## INTEREST

The Company's interest expense of \$91.3 million in 2020 includes \$47.3 million of accrued interest that was forgiven as part of the Recapitalization Transaction (see Note 5). Reported interest expense was \$5.4 million higher than in 2019 due to the write-off of \$4.4 million and \$7.4 million of deferred finance costs related to the portion of senior unsecured notes exchanged during the first quarter in 2020 and the settlement of senior unsecured notes in the fourth quarter in 2020, respectively. This was offset partially by lower cash interest expenses resulting from the debt exchange that was completed during the first quarter in 2020, which reduced debt by approximately \$130.0 million.

## INCOME TAXES

The Company recorded an income tax expense of \$168.6 million in 2020 compared to a \$52.2 million tax recovery in 2019. The expense position was primarily the result of the de-recognition of the Company's deferred tax asset during the first quarter of 2020 and the recording of a deferred tax liability of \$54.2 million during the fourth quarter of 2020 as a result of the Recapitalization Transaction. This liability was recorded due to the utilization of tax basis in the United States.

## LIQUIDITY AND CAPITAL RESOURCES

|                                                              | Years Ended Dec. 31, |             |
|--------------------------------------------------------------|----------------------|-------------|
|                                                              | 2020                 | 2019        |
| <i>(C\$000s)</i>                                             | <i>(\$)</i>          | <i>(\$)</i> |
| <i>(unaudited)</i>                                           |                      |             |
| Cash provided by (used in):                                  |                      |             |
| Operating activities                                         | 24,520               | 132,024     |
| Financing activities                                         | 8,602                | 4,021       |
| Investing activities                                         | (42,518)             | (138,892)   |
| Effect of exchange rate changes on cash and cash equivalents | (3,336)              | (6,492)     |
| Decrease in cash and cash equivalents                        | <b>(12,732)</b>      | (9,339)     |

## OPERATING ACTIVITIES

The Company's cash provided by operating activities for the year ended December 31, 2020 was \$24.5 million versus cash provided of \$132.0 million during the same period in 2019. The decrease in cash provided by operations was primarily due to lower activity and pricing, combined with a lower inflow of cash from working capital during the year. Working capital provided \$4.6 million of cash in 2020 compared to \$62.7 million in 2019. At December 31, 2020, Calfrac's working capital was \$161.4 million compared to \$248.8 million at December 31, 2019.

## FINANCING ACTIVITIES

Net cash provided by financing activities for the year ended December 31, 2020 was \$8.6 million compared to net cash provided of \$4.0 million in 2019. During the year ended December 31, 2020, the Company issued \$60.0 million of 1.5 Lien Notes, repaid \$28.9 million on a net basis under its credit facilities, incurred expenses of \$7.6 million related to the issuance of 1.5 Lien Notes, paid lease principal payments of \$14.1 million and repurchased common shares for a total of \$0.9 million.

On December 18, 2020, Calfrac completed the Recapitalization Transaction and the new financing of \$60.0 million 1.5 Lien Notes. The completion of the Recapitalization Transaction significantly reduced the Company's total debt, will reduce annual interest expense and provide additional liquidity to fund ongoing operations.

In conjunction with the completion of the Recapitalization Transaction, the Company amended its revolving credit facility agreement to reduce its total facility capacity from \$375.0 million to 290.0 million and, as part of the amended agreement, the Company's Funded Debt to Adjusted EBITDA covenant is waived for the quarters ended December 31, 2020 through

June 30, 2021 and is 4.50x for the quarter ended September 30, 2021, 3.50x for the quarter ended December 31, 2021 (“Covenant Relief Period”) and 3.00x for each quarter end thereafter. The Covenant Relief Period terminates on the earlier of December 31, 2021 and any prior quarter end for which Calfrac has requested early termination and has provided a compliance certificate to its lenders certifying compliance with all financial covenants and where the Funded Debt to Adjusted EBITDA ratio is less than 3.00x at such quarter end. The facilities consist of an operating facility of \$30.9 million and a syndicated facility of \$259.1 million. The Company’s credit facilities 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 1.00 percent to prime plus 3.50 percent. For LIBOR-based loans and bankers’ acceptance-based loans, the margin thereon ranges from 2.00 percent to 4.50 percent above the respective base rates. The Company incurs interest at the high end of the ranges outlined above during the Covenant Relief Period or 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 equity compensation plans; and (c) no increase in the rate of dividends are permitted. As at December 31, 2020, the Company’s net Total Debt to Adjusted EBITDA ratio exceeded the 5.00:1.00 threshold.

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

- i. Eligible North American accounts receivable, which is based on 75 percent of accounts receivable owing by companies rated BB+ or lower by Standard & Poor’s (or a similar rating agency) and 85 percent of accounts receivable from companies rated BBB- or higher;
- ii. 100 percent of unencumbered cash of the parent company and its U.S. operating subsidiary, excluding any cash held in a segregated account for the purposes of a potential equity cure; and
- iii. 25 percent of the net book value of property, plant and equipment (PP&E) of the parent company and its U.S. operating subsidiary. The value of PP&E excludes assets under construction and is limited to \$150.0 million.

At December 31, 2020, the Company had used \$0.8 million of its credit facilities for letters of credit and had \$130.0 million of borrowings under its credit facilities, leaving \$159.2 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, 2020 resulted in liquidity of \$80.4 million. Under the terms of the Company’s amended credit facility agreement, Calfrac must maintain a minimum liquidity amount of \$15.0 million during the Covenant Relief Period.

The Company’s credit facilities contain certain financial covenants. Weakened market conditions attributable to the COVID-19 pandemic and continued low price of oil and natural gas have required many oil and gas service companies to seek covenant relief from their lenders. As per the amended credit facility agreement, the Company’s Funded Debt to Adjusted EBITDA covenant is waived for the quarters ended December 31, 2020 through June 30, 2021 and is 4.50x for the quarter ended September 30, 2021, 3.50x for the quarter ended December 31, 2021 and 3.00x for each quarter end thereafter. As shown in the table below, the Company was in full compliance with its financial covenants associated with its credit facilities as at December 31, 2020.

|                                                                | Covenant | Actual        |
|----------------------------------------------------------------|----------|---------------|
| As at December 31,                                             | 2020     | 2020          |
| Working capital ratio not to fall below                        | 1.15x    | <b>2.66x</b>  |
| Funded Debt to Adjusted EBITDA not to exceed <sup>(1)(2)</sup> | N/A      | <b>14.45x</b> |
| Funded Debt to Capitalization not to exceed <sup>(1)(3)</sup>  | 0.30x    | <b>0.16x</b>  |

<sup>(1)</sup> Funded Debt is defined as Total Debt excluding all outstanding second lien senior notes, 1.5 Lien 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).

<sup>(2)</sup> Adjusted EBITDA is defined as net income or loss for the period adjusted for interest, taxes, depreciation and amortization, non-cash stock-based compensation, and gains and losses that are extraordinary or non-recurring.

<sup>(3)</sup> Capitalization is Total Debt plus equity.



On February 24, 2020, Calfrac executed an exchange offer of US\$120.0 million of new 10.875% Second Lien Notes due March 15, 2026 to holders of its existing 8.50% senior unsecured notes (“Unsecured Notes”) due June 15, 2026. The Second Lien Notes are secured by a second lien on the same assets that secure obligations under the Company’s existing senior secured credit facility and 1.5 Lien Notes. The exchange was completed at an exchange price of US\$550 for each US\$1,000 of Unsecured Notes, resulting in US\$218.2 million being exchanged for US\$120.0 million of Second Lien Notes. The exchange resulted in reduced debt of approximately \$130.0 million and a reduction in annual debt service costs of approximately \$7.3 million.

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 (\$10.0 million during the Covenant Relief Period). There are no restrictions pertaining to dispositions of property or assets outside of Canada and the United States, except that to the extent that advances under the credit facilities exceed \$50.0 million at the time of any such dispositions, Calfrac must use the resulting proceeds to reduce the advances to less than \$50.0 million before using the balance for other purposes.

The indentures governing the Second Lien Notes and the 1.5 Lien Notes contain restrictions on the Company’s ability to pay dividends, purchase and redeem shares of the Company and make certain restricted investments, that are not defined as Permitted Investments under the indentures, in circumstances where:

- i. the Company is in default under either of the indentures or the making of such payment would result in a default;
- ii. the Company would not meet the Fixed Charge Coverage Ratio<sup>(1)</sup> under either of the indentures of at least 2:1 for the most recent four fiscal quarters, after giving pro forma effect to such restricted payment as if it had been made at the beginning of the applicable four fiscal quarter period; or
- iii. there is insufficient room for such payment within a builder basket included in the indentures; and in the case of the 1.5 Lien Notes indenture, at least one year has passed since their issue date.

<sup>(1)</sup> 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 indentures as net income (loss) before depreciation, extraordinary gains or losses, unrealized foreign exchange gains or losses, gains or losses on disposal of property, plant and equipment, impairment or reversal of impairment of assets, restructuring charges, provision for settlement of litigation, stock-based compensation, interest, and income taxes. Interest expense is adjusted to exclude any non-recurring charges associated with redeeming or retiring any indebtedness prior to its maturity.

These limitations on restricted payments are tempered by the existence of a number of exceptions to the general prohibition, including a basket allowing for restricted payments in an aggregate amount of up to US\$20.0 million in each of these indentures. As at December 31, 2020 these baskets were not utilized. The indentures also restrict 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. The indenture governing the 1.5 Lien Notes includes restrictions on certain investments including certain investments in subsidiary entities, however the indenture includes several exceptions to this prohibition, including a general basket of US\$10.0 million and baskets related to prepayment and build commitments which aggregate over US\$12.0 million. This indenture also contains a restriction that any indebtedness incurred in excess of \$290.0 million under the credit facilities basket shall be junior in priority to the 1.5 Lien Notes.

As at December 31, 2020, the Company's Fixed Charge Coverage Ratio of 0.30:1 was below the required 2:1 ratio. Failing to meet the Fixed Charge Coverage Ratio is not an event of default under the indentures, and the baskets highlighted in the preceding paragraph provide sufficient flexibility for the Company to incur additional indebtedness and make anticipated restricted payments which may be required to conduct its operations.

## **INVESTING ACTIVITIES**

Calfrac's net cash used for investing activities was \$42.5 million for the year ended December 31, 2020 versus \$138.9 million in 2019. Cash outflows relating to capital expenditures were \$46.2 million in 2020 compared to \$147.4 million in 2019. Calfrac's Board of Directors have approved a 2021 capital budget of approximately \$55.0 million, which is comprised primarily of maintenance capital.

## **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS**

The effect of changes in foreign exchange rates on the Company's cash and cash equivalents during the year ended December 31, 2020 was a loss of \$3.3 million versus a loss of \$6.5 million in 2019. These losses relate to movements of cash and cash equivalents held by the Company in a foreign currency during the period.

With its working capital position, available credit facilities and anticipated funds provided by operations, the Company expects to have adequate resources to fund its financial obligations and planned capital expenditures for 2021 and beyond.

At December 31, 2020, the Company had cash on hand of \$29.8 million.

## **OUTSTANDING SHARE DATA**

The Company is authorized to issue an unlimited number of common shares. In connection with the approval of the Recapitalization Transaction, shareholders approved an omnibus incentive plan which permits the granting of various types of equity awards, including stock options, share appreciation rights, restricted shares, restricted share units, deferred share units and other share-based awards as determined by the Board of Directors. The number of shares reserved under the omnibus incentive plan is equal to 10 percent of the Company's issued and outstanding common shares. As at March 3, 2021, the Company had not issued any equity awards under the omnibus incentive plan.

## SUMMARY OF QUARTERLY RESULTS

| Three Months Ended                                                          | Mar 31,<br>2019 | Jun. 30,<br>2019 | Sep. 30,<br>2019 | Dec. 31,<br>2019 | Mar. 31,<br>2020 | Jun. 30,<br>2020 | Sep. 30,<br>2020 | Dec. 31,<br>2020 |
|-----------------------------------------------------------------------------|-----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <i>(C\$000s, except per share and operating data)</i><br><i>(unaudited)</i> | <i>(\$)</i>     | <i>(\$)</i>      | <i>(\$)</i>      | <i>(\$)</i>      | <i>(\$)</i>      | <i>(\$)</i>      | <i>(\$)</i>      | <i>(\$)</i>      |
| <b>Financial</b>                                                            |                 |                  |                  |                  |                  |                  |                  |                  |
| Revenue                                                                     | 475,012         | 429,638          | 399,220          | 317,085          | 305,515          | 91,423           | 127,776          | <b>180,722</b>   |
| Operating income (loss) <sup>(1)</sup>                                      | 43,623          | 41,103           | 47,021           | 20,997           | 5,698            | (7,307)          | 8,009            | <b>15,597</b>    |
| Per share – basic <sup>(2)</sup>                                            | 15.10           | 14.23            | 16.25            | 7.25             | 1.97             | (2.52)           | 2.76             | <b>1.91</b>      |
| Per share – diluted <sup>(2)</sup>                                          | 14.92           | 14.07            | 16.18            | 7.22             | 1.96             | (2.52)           | 2.75             | <b>0.27</b>      |
| Adjusted EBITDA <sup>(1)</sup>                                              | 44,086          | 45,123           | 43,028           | 26,882           | 6,812            | (5,185)          | 8,467            | <b>13,715</b>    |
| Per share – basic <sup>(2)</sup>                                            | 15.26           | 15.62            | 14.87            | 9.29             | 2.35             | (1.79)           | 2.91             | <b>1.68</b>      |
| Per share – diluted <sup>(2)</sup>                                          | 15.07           | 15.45            | 14.80            | 9.25             | 2.34             | (1.79)           | 2.91             | <b>0.24</b>      |
| Net income (loss)                                                           | (36,334)        | (41,045)         | (29,424)         | (49,400)         | (122,857)        | (277,275)        | (50,000)         | <b>125,897</b>   |
| Per share – basic <sup>(2)</sup>                                            | (12.58)         | (14.21)          | (10.17)          | (17.07)          | (42.38)          | (95.61)          | (17.20)          | <b>15.43</b>     |
| Per share – diluted <sup>(2)</sup>                                          | (12.58)         | (14.21)          | (10.17)          | (17.07)          | (42.38)          | (95.61)          | (17.20)          | <b>2.19</b>      |
| Capital expenditures                                                        | 28,218          | 37,784           | 38,885           | 34,418           | 29,283           | 6,068            | 2,792            | <b>6,487</b>     |
| Working capital (end of period)                                             | 276,785         | 291,056          | 257,189          | 248,772          | 233,125          | 157,165          | 127,989          | <b>161,448</b>   |
| Total equity (end of period)                                                | 481,675         | 443,361          | 414,195          | 368,623          | 239,099          | (34,195)         | (81,033)         | <b>410,234</b>   |

### Operating (end of period)

|                                  |       |       |       |       |       |       |       |              |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|--------------|
| Active pumping horsepower (000s) | 1,344 | 1,346 | 1,337 | 1,269 | 1,242 | 780   | 840   | <b>901</b>   |
| Idle pumping horsepower (000s)   | 36    | 59    | 72    | 141   | 174   | 572   | 505   | <b>444</b>   |
| Total pumping horsepower (000s)  | 1,380 | 1,405 | 1,409 | 1,410 | 1,416 | 1,352 | 1,345 | <b>1,345</b> |
| Active coiled tubing units (#)   | 21    | 21    | 21    | 20    | 20    | 16    | 15    | <b>17</b>    |
| Idle coiled tubing units (#)     | 8     | 8     | 8     | 8     | 7     | 11    | 12    | <b>10</b>    |
| Total coiled tubing units (#)    | 29    | 29    | 29    | 28    | 27    | 27    | 27    | <b>27</b>    |
| Active cementing units (#)       | 11    | 14    | 14    | 13    | 13    | 13    | 12    | <b>12</b>    |
| Idle cementing units (#)         | 12    | 9     | 9     | 6     | 3     | 3     | 4     | <b>4</b>     |
| Total cementing units (#)        | 23    | 23    | 23    | 19    | 16    | 16    | 16    | <b>16</b>    |

<sup>(1)</sup> Refer to “Non-GAAP Measures” on pages 28 and 29 for further information.

<sup>(2)</sup> Comparative amounts were adjusted to reflect the Company’s fifty-to-one common share consolidated that occurred on December 18, 2020.

## 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”).

## 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”).

## FINANCIAL OVERVIEW – THREE MONTHS ENDED DECEMBER 31, 2020 VERSUS 2019

### CONSOLIDATED HIGHLIGHTS

| Three Months Ended December 31,            | 2020           | 2019        | Change     |
|--------------------------------------------|----------------|-------------|------------|
| <i>(C\$000s, except per share amounts)</i> | <i>(\$)</i>    | <i>(\$)</i> | <i>(%)</i> |
| <i>(unaudited)</i>                         |                |             |            |
| Revenue                                    | <b>180,722</b> | 317,085     | (43)       |
| Operating income <sup>(1)</sup>            | <b>15,597</b>  | 20,997      | (26)       |
| Per share – basic                          | <b>1.91</b>    | 7.25        | (74)       |
| Per share – diluted                        | <b>0.27</b>    | 7.22        | (96)       |
| Adjusted EBITDA <sup>(1)</sup>             | <b>13,715</b>  | 26,882      | (49)       |
| Per share – basic                          | <b>1.68</b>    | 9.29        | (82)       |
| Per share – diluted                        | <b>0.24</b>    | 9.25        | (97)       |
| Net income (loss)                          | <b>125,897</b> | (49,400)    | NM         |
| Per share – basic                          | <b>15.43</b>   | (17.07)     | NM         |
| Per share – diluted                        | <b>2.19</b>    | (17.07)     | NM         |
| Working capital, end of period             | <b>161,448</b> | 248,772     | (35)       |
| Total assets, end of period                | <b>912,463</b> | 1,525,922   | (40)       |
| Long-term debt, end of period              | <b>324,633</b> | 976,693     | (67)       |
| Total equity, end of period                | <b>410,234</b> | 368,623     | 11         |

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.

### FOURTH QUARTER 2020 OVERVIEW

In the fourth quarter of 2020, the Company:

- generated revenue of \$180.7 million, a decrease of 43 percent from the fourth quarter in 2019, resulting primarily from lower pricing and activity in Canada and the United States;
- completed the exchange of the Company's remaining US\$431.8 million senior unsecured notes, including all accrued and unpaid interest, for common shares of the Company, in addition to the issuance of \$60.0 million of 1.5 Lien Notes. These notes bear interest at 10.0 percent per annum and are due on December 18, 2023;
- reported adjusted EBITDA of \$13.7 million versus \$26.9 million in the fourth quarter of 2019;
- reported net income of \$125.9 million or \$2.19 per share diluted, which included a gain on the settlement of debt of \$226.3 million and a deferred income tax expense of \$54.2 million, compared to a net loss of \$49.4 million or \$17.07 per share diluted in 2019;
- reported period-end working capital of \$161.4 million versus \$248.8 million at December 31, 2019, which is consistent with the reduced operating footprint in Canada and the United States; and
- incurred capital expenditures of \$6.5 million primarily to support the Company's United States fracturing operations.

Subsequent to the end of fourth quarter of 2020, the Company announced the modification of its prior disclosure on one matter relating to voting procedures for the Plan of Arrangement, where Calfrac recently became aware that one institutional shareholder of the Company purchased approximately \$1.0 million of 1.5 Lien Notes pursuant to the pro rata offering made to qualified holders of Calfrac's senior unsecured notes. As disclosed in the Company's March 1, 2021 press release, Calfrac and the institutional shareholder intend to rescind the subscription and cancel the applicable 1.5 Lien Notes following which the institutional shareholder will be returned its initial purchase price. Calfrac has advised applicable regulators and announced its intention to make an application to the Court of Queen's Bench of Alberta in relation to this matter.

## CANADA

| Three Months Ended December 31,                  | 2020          | 2019        | Change     |
|--------------------------------------------------|---------------|-------------|------------|
| <i>(C\$000s, except operational information)</i> | <i>(\$)</i>   | <i>(\$)</i> | <i>(%)</i> |
| <i>(unaudited)</i>                               |               |             |            |
| Revenue                                          | <b>53,347</b> | 73,009      | (27)       |
| Expenses                                         |               |             |            |
| Operating                                        | <b>42,403</b> | 67,171      | (37)       |
| SG&A                                             | <b>1,870</b>  | 2,414       | (23)       |
|                                                  | <b>44,273</b> | 69,585      | (36)       |
| Operating income <sup>(1)</sup>                  | <b>9,074</b>  | 3,424       | 165        |
| Operating income (%)                             | <b>17.0</b>   | 4.7         | 262        |
| Fracturing revenue per job (\$)                  | <b>28,525</b> | 15,348      | 86         |
| Number of fracturing jobs                        | <b>1,697</b>  | 4,160       | (59)       |
| Active pumping horsepower, end of period (000s)  | <b>202</b>    | 236         | (14)       |
| Idle pumping horsepower, end of period (000s)    | <b>73</b>     | 36          | 103        |
| Total pumping horsepower, end of period (000s)   | <b>275</b>    | 272         | 1          |
| Coiled tubing revenue per job (\$)               | <b>19,894</b> | 21,741      | (8)        |
| Number of coiled tubing jobs                     | <b>242</b>    | 405         | (40)       |
| Active coiled tubing units, end of period (#)    | <b>8</b>      | 11          | (27)       |
| Idle coiled tubing units, end of period (#)      | <b>5</b>      | 3           | 67         |
| Total coiled tubing units, end of period (#)     | <b>13</b>     | 14          | (7)        |

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.

## REVENUE

Revenue from Calfrac's Canadian operations during the fourth quarter of 2020 was \$53.3 million compared to \$73.0 million in the same period of 2019. The lower revenue was mainly related to a smaller operating footprint as operator activity was relatively strong in October and December with a slight pullback in activity experienced in November. In the fourth quarter of 2020, the number of fracturing jobs was 59 percent lower than the comparable period in 2019 as a higher proportion of customer activity was in the Montney shale play, which has larger average job sizes but a lower number of stages compared to the Viking oil play, which was more active during the fourth quarter of 2019. Revenue per job increased by 86 percent, mainly due to job mix, combined with a shift in customer mix, as the majority of activity completed in the quarter was focused on larger pad style jobs. The number of coiled tubing jobs decreased by 40 percent from the fourth quarter in 2019 as the number of coiled tubing crews was reduced, while revenue per job decreased by 8 percent due to job mix.

## OPERATING INCOME

Operating income in Canada during the fourth quarter of 2020 was \$9.1 million compared to \$3.4 million in the same period of 2019. Despite a 27 percent decrease in revenue, the Company's operating income was 17 percent compared to 5 percent in the comparable quarter. The improved operating income was due to a combination of strong equipment utilization through the majority of the quarter, the continuation of cost savings initiatives, primarily related to headcount reductions, and the \$2.8 million Canadian Emergency Wage Subsidy that was received and recorded as a reduction of operating costs during the quarter. In addition, a \$0.7 million bad-debt provision was recorded during the quarter, while the comparable quarter in 2019 included \$0.7 million in restructuring costs.

## UNITED STATES

| Three Months Ended December 31,                                            | 2020   | 2019    | Change |
|----------------------------------------------------------------------------|--------|---------|--------|
| (C\$000s, except operational and exchange rate information)<br>(unaudited) | (\$)   | (\$)    | (%)    |
| Revenue                                                                    | 67,283 | 187,770 | (64)   |
| Expenses                                                                   |        |         |        |
| Operating                                                                  | 63,689 | 160,012 | (60)   |
| SG&A                                                                       | 2,590  | 4,164   | (38)   |
|                                                                            | 66,279 | 164,176 | (60)   |
| Operating income <sup>(1)</sup>                                            | 1,004  | 23,593  | (96)   |
| Operating income (%)                                                       | 1.5    | 12.6    | (88)   |
| Fracturing revenue per job (\$)                                            | 26,838 | 34,402  | (22)   |
| Number of fracturing jobs                                                  | 2,507  | 5,435   | (54)   |
| Active pumping horsepower, end of period (000s)                            | 516    | 830     | (38)   |
| Idle pumping horsepower, end of period (000s)                              | 354    | 93      | 281    |
| Total pumping horsepower, end of period (000s)                             | 870    | 923     | (6)    |
| Active coiled tubing units, end of period (#)                              | —      | —       | —      |
| Idle coiled tubing units, end of period (#)                                | 1      | 1       | —      |
| Total coiled tubing units, end of period (#)                               | 1      | 1       | —      |
| Active cementing units, end of period (#)                                  | —      | —       | —      |
| Idle cementing units, end of period (#)                                    | 3      | 5       | (40)   |
| Total cementing units, end of period (#)                                   | 3      | 5       | (40)   |
| US\$/C\$ average exchange rate <sup>(2)</sup>                              | 1.3030 | 1.3200  | (1)    |

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.

<sup>(2)</sup> Source: Bank of Canada.

## REVENUE

Revenue from Calfrac's United States operations decreased to \$67.3 million during the fourth quarter of 2020 from \$187.8 million in the comparable quarter of 2019. The significant decrease in revenue can be attributed to a combination of a 54 percent reduction in the number of fracturing jobs completed and a 22 percent decrease in revenue per job period-over-period. Activity was lower in all operating regions compared to the same period in 2019 and the Company responded by reducing its operating footprint during 2020 from a peak of 14 fleets in the first quarter, down to four fleets to start the fourth quarter. The Company was able reactivate three fleets during the fourth quarter, in response to customer requirements, although these additional fleets did not generate revenue for the full quarter. Pricing in all operating areas continued to be challenged during the fourth quarter despite an improvement in oil prices during the quarter.

## OPERATING INCOME

The Company's United States operations generated operating income of \$1.0 million during the fourth quarter of 2020 compared to \$23.6 million in the same period in 2019. The decrease in operating income was due to the significant reduction in revenue compared to the fourth quarter of 2019 as the Company reduced its operating footprint in response to the deterioration in the market. The lower operating income as a percentage of revenue was the result of lower pricing during the quarter along with \$3.9 million in costs associated with the reactivation of crews for which a full quarter of revenue was not achieved. SG&A expenses decreased by 38 percent, primarily due to headcount and compensation reductions that were enacted in 2020. In addition, the operating results for the fourth quarter of 2019 included a \$10.2 million reduction to operating expenses related to a change in the capitalization of major components policy. This reflected the fiscal year total of which approximately \$8.2 million related to prior quarters. The fourth quarter of 2019 recorded \$0.8 million in restructuring costs.

## RUSSIA

| Three Months Ended December 31,                                    | 2020        | 2019        | Change     |
|--------------------------------------------------------------------|-------------|-------------|------------|
| <i>(C\$000s, except operational and exchange rate information)</i> | <i>(\$)</i> | <i>(\$)</i> | <i>(%)</i> |
| <i>(unaudited)</i>                                                 |             |             |            |
| Revenue                                                            | 26,949      | 24,244      | 11         |
| Expenses                                                           |             |             |            |
| Operating                                                          | 21,843      | 25,688      | (15)       |
| SG&A                                                               | 660         | 702         | (6)        |
|                                                                    | 22,503      | 26,390      | (15)       |
| Operating income (loss) <sup>(1)</sup>                             | 4,446       | (2,146)     | NM         |
| Operating income (loss) (%)                                        | 16.5        | (8.9)       | NM         |
| Fracturing revenue per job (\$)                                    | 74,317      | 83,972      | (11)       |
| Number of fracturing jobs                                          | 324         | 263         | 23         |
| Active pumping horsepower, end of period (000s)                    | 65          | 65          | —          |
| Idle pumping horsepower, end of period (000s)                      | 12          | 12          | —          |
| Total pumping horsepower, end of period (000s)                     | 77          | 77          | —          |
| Coiled tubing revenue per job (\$)                                 | 47,838      | 46,940      | 2          |
| Number of coiled tubing jobs                                       | 60          | 46          | 30         |
| Active coiled tubing units, end of period (#)                      | 4           | 3           | 33         |
| Idle coiled tubing units, end of period (#)                        | 3           | 4           | (25)       |
| Total coiled tubing units, end of period (#)                       | 7           | 7           | —          |
| Rouble/C\$ average exchange rate <sup>(2)</sup>                    | 0.0171      | 0.0207      | (17)       |

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.

<sup>(2)</sup> Source: Bank of Canada.

## REVENUE

Revenue from Calfrac's Russian operations increased by 11 percent during the fourth quarter of 2020 to \$26.9 million from \$24.2 million in the corresponding three-month period of 2019. The increase in revenue was attributable to a 23 percent increase in fracturing activity as a higher percentage of multi-stage wells were completed in the Erginskoye field in Western Siberia. Revenue per fracturing job decreased by 11 percent due to a 17 percent decline in the Russian rouble, offset partially by the completion of larger jobs. Coiled tubing activity increased by 30 percent, primarily due to the Company operating one additional coiled tubing unit as compared to the same period in 2019. Despite the decline in the Russian rouble, revenue per coiled tubing job was 2 percent higher than the comparable quarter, primarily due to a higher percentage of milling jobs completed in the Erginskoye field, which increased the average duration of jobs.

## OPERATING INCOME (LOSS)

The Company's Russian division generated operating income of \$4.4 million during the fourth quarter of 2020, versus an operating loss of \$2.1 million in the comparable quarter in 2019. The improved operating performance was primarily due to better utilization of its operating fleets, combined with the continuation of cost reductions, primarily related to reduced headcount and cost savings on the price of fuel.

**ARGENTINA**

| Three Months Ended December 31,                                    | 2020          | 2019        | Change     |
|--------------------------------------------------------------------|---------------|-------------|------------|
| <i>(C\$000s, except operational and exchange rate information)</i> | <i>(\$)</i>   | <i>(\$)</i> | <i>(%)</i> |
| <i>(unaudited)</i>                                                 |               |             |            |
| Revenue                                                            | <b>33,143</b> | 32,062      | 3          |
| Expenses                                                           |               |             |            |
| Operating                                                          | <b>26,344</b> | 26,819      | (2)        |
| SG&A                                                               | <b>1,323</b>  | (577)       | NM         |
|                                                                    | <b>27,667</b> | 26,242      | 5          |
| Operating (loss) income <sup>(1)</sup>                             | <b>5,476</b>  | 5,820       | (6)        |
| Operating (loss) income (%)                                        | <b>16.5</b>   | 18.2        | (9)        |
| Fracturing revenue per job (\$)                                    | <b>60,188</b> | 83,330      | (28)       |
| Number of fracturing jobs                                          | <b>359</b>    | 246         | 46         |
| Active pumping horsepower, end of period (000s)                    | <b>118</b>    | 138         | (14)       |
| Idle pumping horsepower, end of period (000s)                      | <b>5</b>      | —           | NM         |
| Total pumping horsepower, end of period (000s)                     | <b>123</b>    | 138         | (11)       |
| Coiled tubing revenue per job (\$)                                 | <b>82,005</b> | 34,743      | 136        |
| Number of coiled tubing jobs                                       | <b>52</b>     | 158         | (67)       |
| Active coiled tubing units, end of period (#)                      | <b>5</b>      | 6           | (17)       |
| Idle coiled tubing units, end of period (#)                        | <b>1</b>      | —           | NM         |
| Total coiled tubing units, end of period (#)                       | <b>6</b>      | 6           | —          |
| Cementing revenue per job (\$)                                     | <b>43,697</b> | 47,379      | (8)        |
| Number of cementing jobs                                           | <b>85</b>     | 128         | (34)       |
| Active cementing units, end of period (#)                          | <b>12</b>     | 13          | (8)        |
| Idle cementing units, end of period (#)                            | <b>1</b>      | 1           | —          |
| Total cementing units, end of period (#)                           | <b>13</b>     | 14          | (7)        |
| US\$/C\$ average exchange rate <sup>(2)</sup>                      | <b>1.3030</b> | 1.3200      | (1)        |

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.

<sup>(2)</sup> Source: Bank of Canada.

**REVENUE**

Calfrac's Argentinean operations generated total revenue of \$33.1 million during the fourth quarter of 2020 compared to \$32.1 million in the comparable quarter in 2019. Operations increased significantly during the fourth quarter following the recommencement of activity in the Neuquén region, which resulted in revenue being comparable with the fourth quarter of 2019. The Company resumed fracturing activity in the Vaca Muerta shale play with activity being consistent with fourth-quarter 2019 levels. The 46 percent increase in the number of completed fracturing jobs and the 28 percent decrease in fracturing revenue per job was primarily due to changes in job mix. Cementing activity decreased by 34 percent from the comparable quarter in 2019, primarily due to a slower restart of operations in southern Argentina. Coiled tubing activity decreased by 67 percent primarily due to changes in job mix, but was offset partially by higher subcontractor revenue due to a change in customer mix.

**OPERATING INCOME**

The Company's operations in Argentina generated an operating income of \$5.5 million during the fourth quarter of 2020, consistent with the comparable quarter of 2019. The Company was able to significantly improve its operating income from the third quarter of 2020 due to a recommencement of fracturing activity in the Vaca Muerta shale play following the government-mandated shutdown of oilfield activity in response to the COVID-19 pandemic. SG&A expenses were \$1.9 million higher than the comparable quarter in 2019 primarily due to the reversal of a US\$2.3 million stamp tax accrual related to terminated customer contracts that was recorded in 2019. Excluding this one time item, SG&A expenses were lower than the fourth quarter of 2019 primarily due to a reduction in headcount.



## CORPORATE

| Three Months Ended December 31, | 2020    | 2019    | Change |
|---------------------------------|---------|---------|--------|
| (C\$000s)                       | (\$)    | (\$)    | (%)    |
| (unaudited)                     |         |         |        |
| Expenses                        |         |         |        |
| Operating                       | 303     | 1,588   | (81)   |
| SG&A                            | 4,100   | 8,107   | (49)   |
|                                 | 4,403   | 9,695   | (55)   |
| Operating loss <sup>(1)</sup>   | (4,403) | (9,695) | (55)   |
| % of Revenue                    | 2.4     | 3.1     | (23)   |

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.

## OPERATING LOSS

Corporate expenses for the fourth quarter of 2020 were \$4.4 million compared to \$9.7 million in the fourth quarter of 2019. The decrease was primarily due to lower personnel costs resulting from headcount and compensation reductions, combined with \$0.4 million in government subsidies received during the fourth quarter of 2020. The Company's stock-based compensation expense was \$1.0 million lower than the fourth quarter in 2019 primarily due to a lower average share price during 2020. Additionally, the fourth quarter of 2019 included \$1.9 million of restructuring costs, while no provision was recorded in the same period of 2020.

## DEPRECIATION

For the three months ended December 31, 2020, depreciation expense decreased by \$38.1 million to \$30.8 million from \$68.9 million in the corresponding quarter in 2019. During the first six months of 2020, the Company recorded PP&E impairment charges of \$227.2 million which resulted in the reduction of depreciation expense during the fourth quarter. The year-over-year decrease in capital expenditures relating to major component purchases, which have a shorter useful life and a corresponding higher rate of depreciation, also contributed to the decrease in fourth-quarter depreciation expense. The fourth quarter in 2019 included \$8.8 million of additional depreciation resulting from changes in capitalization thresholds in that quarter.

## FOREIGN EXCHANGE GAINS AND LOSSES

The Company recorded a foreign exchange loss of \$5.7 million during the fourth quarter of 2020, versus a gain of \$0.1 million in the comparative three-month period of 2019. Foreign exchange gains and losses arise primarily from the translation of net monetary assets or liabilities that were held in U.S. dollars in Canada, net monetary assets or liabilities that were held in pesos in Argentina, and liabilities held in Canadian dollars in Russia. The foreign exchange loss during the fourth quarter was primarily due to the revaluation of net monetary assets that were held in U.S. dollars as the Canadian dollar strengthened relative to the U.S. dollar.

## INTEREST

The Company's net interest expense of \$24.9 million for the fourth quarter of 2020 was \$3.4 million higher than the comparable period in 2019. The increase in interest expense was primarily due to the write-off of \$7.4 million in deferred finance costs associated with the senior unsecured notes that were settled in conjunction with the Recapitalization Transaction. This increase was partially offset by lower cash interest expense resulting from the debt exchange that was completed during the first quarter in 2020, which reduced debt by approximately \$130.0 million and the Recapitalization Transaction that was completed on December 18, 2020.

## INCOME TAXES

The Company recorded an income tax expense of \$54.8 million during the fourth quarter of 2020 compared to a recovery of \$23.4 million in the comparable period of 2019. The deferred tax expense of \$54.2 million was recorded due to the utilization of tax basis in the United States as a result of the Recapitalization Transaction. The current income tax expense of \$0.6 million was due to current tax obligations in Russia and certain state taxes in the United States as well as withholding taxes recorded in Canada.

## IMPAIRMENT

The Company tested each of its CGUs for potential impairment at December 31, 2020 and determined that there was no impairment. The impairment losses by CGU recorded during the three months ended December 31, 2020 and the comparative period are as follows:

|               | Three Months Ended Dec. 31, |       |
|---------------|-----------------------------|-------|
|               | 2020                        | 2019  |
| (C\$000s)     | (\$)                        | (\$)  |
| Canada        | —                           | 1,921 |
| United States | —                           | 244   |
|               | —                           | 2,165 |

## BUSINESS UPDATE AND OUTLOOK

Calfrac's operating results during the fourth quarter were driven by improved activity in all operating regions, including a significant increase in activity in Argentina as it returned to more typical activity levels after a government-mandated shutdown of operations during the second and third quarters.

### CANADA

In Canada, activity remained strong throughout the quarter leading to a sequential increase in revenue and operating income. In particular, activity levels in December were only marginally impacted due to weather and Christmas holidays. This high utilization and the Company's continued focus on cost management, combined with the impact of the government wage subsidy program, resulted in a year-over-year and sequential improvement in profitability.

Calfrac's Canadian division has increased its operating footprint to four fracturing crews and four coiled tubing units for the first quarter of 2021 in order to service increased demand from its major clients. It is not expected that this footprint will continue throughout the year, and Calfrac plans to revert back to three fracturing crews when work volumes subside. Excluding the impact of wage subsidies on reported results, pricing in the Canadian market remains below the level required to add fracturing capacity on a permanent basis. Consequently, the Company does not plan to add any further fracturing fleets to service spot market demand until the pricing for its services and the resulting incremental returns improve from current levels.

Second-quarter activity is expected to decrease from the first quarter due to the seasonal spring break-up, but the Company is anticipating that its core clients will remain active throughout 2021, which is expected to drive modest growth over 2020. For the first time in a number of years, the prices for light oil and natural gas in Canada are generating acceptable returns for producers. These improved economics may drive a further increase in demand for the Company's services as the year progresses.

### UNITED STATES

During the fourth quarter, Calfrac's operations in the United States accelerated more rapidly than had been anticipated as producers restarted programs before year-end. Activity gains were focused primarily in North Dakota and Texas, areas that are expected to represent the majority of Calfrac's operating activity in 2021. Calfrac is currently staffed to operate seven fracturing fleets in the United States, the result of the accelerated restart of two incremental fleets later in the fourth quarter in addition to the planned restart of one fleet in November.

While commodity prices have improved in the early part of 2021, producers remained committed to maximizing free cash flow generation versus a growth-focused strategy. As a result, Calfrac plans to only add incremental fracturing capacity when both the economic return and the duration of the client's work programs meet the Company's internal requirements. Many industry observers expect that activity may increase throughout 2021, but significantly below the levels that were experienced in 2018 and 2019. As a result, Calfrac does not currently plan on adding further equipment to its operating footprint, and will continue to explore opportunities to improve utilization and financial returns.

## **RUSSIA**

Calfrac's financial performance in Russia during the fourth quarter was very strong, although the shift to winter operating conditions did reduce activity levels in December. This decrease in equipment utilization is expected to continue throughout most of the first quarter until the winter weather abates. Calfrac is currently operating five fracturing fleets in Western Siberia along with four coiled tubing crews. Demand for the Company's services in Russia has increased and there may be future opportunities to reactivate additional equipment as the year progresses.

## **ARGENTINA**

In Argentina, Calfrac's operations improved significantly in the fourth quarter as activity rebounded to pre-shutdown levels, aided by the restart of operations of the Company's shale fracturing fleet in the Vaca Muerta shale play in November. The recent introduction of a government program designed to incentivize domestic natural gas production is also anticipated to drive further activity improvement in Neuquén during 2021. Calfrac's current contracted work volumes for the year combined with recent changes in the competitive landscape in Argentina provide additional support for year-over-year growth in Argentina's operating and financial performance.

## **CORPORATE**

After completing a lengthy and complex recapitalization process during the fourth quarter, Calfrac's corporate focus for 2021 is to continue to support the Company's operations while prudently managing all aspects of its cost structure. The Company continues to leverage its new Enterprise Resource Planning (ERP) system that was implemented during the second quarter of 2020 and is committed to evaluating other initiatives to drive further operating efficiencies, including technologies that reduce the cost and environmental impact of its operations. As such, Calfrac has dedicated approximately \$5.0 million of its 2021 capital budget of \$55.0 million to add dual fuel capability to certain of its existing fracturing pumps in North America.

## NON-GAAP MEASURES

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

Operating income (loss) is defined as net income (loss) before depreciation, foreign exchange gains or losses, gains or losses on disposal of property, plant and equipment, gains or losses on exchange or settlement of debt, 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, |           |
|----------------------------------------------------------|----------------------------|----------|----------------------|-----------|
|                                                          | 2020                       | 2019     | 2020                 | 2019      |
| (C\$000s)                                                |                            |          |                      |           |
| (unaudited)                                              |                            |          |                      |           |
| Net income (loss)                                        | <b>125,897</b>             | (49,400) | <b>(324,235)</b>     | (156,203) |
| Add back (deduct):                                       |                            |          |                      |           |
| Depreciation                                             | <b>30,843</b>              | 68,932   | <b>172,021</b>       | 261,227   |
| Foreign exchange losses (gains)                          | <b>5,733</b>               | (128)    | <b>15,477</b>        | 6,341     |
| (Gain) loss on disposal of property, plant and equipment | <b>(260)</b>               | (1,886)  | <b>24</b>            | 1,870     |
| Impairment of property, plant and equipment              | —                          | 2,165    | <b>227,208</b>       | 2,165     |
| Impairment of inventory                                  | —                          | 3,160    | <b>27,868</b>        | 3,744     |
| Impairment of other assets                               | —                          | —        | <b>507</b>           | —         |
| Gain on settlement of debt                               | <b>(226,319)</b>           | —        | <b>(226,319)</b>     | —         |
| Gain on exchange of debt                                 | —                          | —        | <b>(130,444)</b>     | —         |
| Interest                                                 | <b>24,913</b>              | 21,512   | <b>91,267</b>        | 85,826    |
| Income taxes                                             | <b>54,790</b>              | (23,358) | <b>168,623</b>       | (52,226)  |
| Operating income                                         | <b>15,597</b>              | 20,997   | <b>21,997</b>        | 152,744   |

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, 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, |           |
|----------------------------------------------------------|----------------------------|----------|----------------------|-----------|
|                                                          | 2020                       | 2019     | 2020                 | 2019      |
| (C\$000s)                                                |                            |          | (\$)                 | (\$)      |
| (unaudited)                                              |                            |          |                      |           |
| Net income (loss)                                        | 125,897                    | (49,400) | (324,235)            | (156,203) |
| Add back (deduct):                                       |                            |          |                      |           |
| Depreciation                                             | 30,843                     | 68,932   | 172,021              | 261,227   |
| Unrealized foreign exchange losses                       | 3,435                      | 859      | 8,319                | 2,041     |
| (Gain) loss on disposal of property, plant and equipment | (260)                      | (1,886)  | 24                   | 1,870     |
| Impairment of property, plant and equipment              | —                          | 2,165    | 227,208              | 2,165     |
| Impairment of inventory                                  | —                          | 3,160    | 27,868               | 3,744     |
| Impairment of other assets                               | —                          | —        | 507                  | —         |
| Gain on settlement of debt                               | (226,319)                  | —        | (226,319)            | —         |
| Gain on exchange of debt                                 | —                          | —        | (130,444)            | —         |
| Non-cash purchase commitment termination settlement      | —                          | —        | 2,082                | —         |
| Restructuring charges                                    | 4                          | 3,564    | 5,377                | 6,049     |
| Stock-based compensation                                 | 412                        | 1,334    | 1,511                | 4,626     |
| Interest                                                 | 24,913                     | 21,512   | 91,267               | 85,826    |
| Income taxes                                             | 54,790                     | (23,358) | 168,623              | (52,226)  |
| Adjusted EBITDA <sup>(1)</sup>                           | 13,715                     | 26,882   | 23,809               | 159,119   |

<sup>(1)</sup>For bank covenant purposes, EBITDA includes the deduction of an additional \$15.6 million of lease payments for the year ended December 31, 2020 (year ended December 31, 2019 – \$21.9 million) that would have been recorded as operating expenses prior to the adoption of IFRS 16 on January 1, 2019.

## CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

| As at December 31, 2020       | Payment Due by Period |          |             |             |               |
|-------------------------------|-----------------------|----------|-------------|-------------|---------------|
|                               | Total                 | < 1 Year | 1 - 3 Years | 4 - 5 Years | After 5 Years |
| (C\$000s)                     | (\$)                  | (\$)     | (\$)        | (\$)        | (\$)          |
| (unaudited)                   |                       |          |             |             |               |
| Leases                        | 42,818                | 17,049   | 21,487      | 4,282       | —             |
| Purchase obligations          | 52,527                | 47,759   | 4,768       | —           | —             |
| Total contractual obligations | 95,345                | 64,808   | 26,255      | 4,282       | —             |

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 21 to the 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, 2020 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, and the assessment of the Company's ability to continue as a going concern.

### LOSS ALLOWANCE PROVISION

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. In situations where the creditworthiness of a customer is uncertain, services are typically provided on receipt of cash in advance or services are declined. Customer payments are regularly monitored and a provision for doubtful accounts has been established based on the new impairment model under IFRS 9, which 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. Calfrac's management believes that the loss allowance provision for accounts receivable, which was \$1.7 million at December 31, 2020, 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 senior unsecured notes were settled on December 18, 2020. The fair value and carrying value of the senior unsecured notes at December 31, 2019 was \$342.1 million and \$844.2 million, respectively. The fair value of the Second Lien Notes, as measured based on the closing market price at December 31, 2020 was \$106.7 million (December 31, 2019 – not applicable). The fair values of the remaining long-term debt and lease obligations approximate their carrying values, as described in note 12 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, 2020, the Company had a loss allowance provision for accounts receivable of \$1.7 million (December 31, 2019 – \$1.9 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, 2020 and 2019, excluding any impaired accounts, are as follows:

| As at December 31, | 2020           | 2019           |
|--------------------|----------------|----------------|
| (C\$000s)          | (\$)           | (\$)           |
| (unaudited)        |                |                |
| Current            | 97,000         | 145,704        |
| 31 - 60 days       | 20,303         | 34,863         |
| 61 - 90 days       | 10,111         | 14,676         |
| 91+ days           | 5,045          | 14,888         |
| <b>Total</b>       | <b>132,459</b> | <b>210,131</b> |

The Company's accounts receivable that were greater than 90 days included \$2.5 million from customers operating in the United States and \$2.5 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, 2020 amounts to \$1.3 million (December 31, 2019 – \$1.5 million).

The Company's effective interest rate for the year ended December 31, 2020 was 7.5 percent (December 31, 2019 – 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 to maintain liquidity.

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

| At December 31, 2020                     | Total          | < 1 Year | 1 - 3 Years | 4 - 6 Years | 7 - 9 Years | Thereafter |
|------------------------------------------|----------------|----------|-------------|-------------|-------------|------------|
| (C\$000s)                                | (\$)           | (\$)     | (\$)        | (\$)        | (\$)        | (\$)       |
| <i>(unaudited)</i>                       |                |          |             |             |             |            |
| Accounts payable and accrued liabilities | <b>101,784</b> | 101,784  | —           | —           | —           | —          |
| Lease obligations <sup>(1)</sup>         | <b>24,835</b>  | 8,543    | 12,053      | 3,512       | 727         | —          |
| Long-term debt <sup>(1)</sup>            | <b>441,845</b> | 23,078   | 246,885     | 171,882     | —           | —          |

| At December 31, 2019                     | Total     | < 1 Year | 1 - 3 Years | 4 - 6 Years | 7 - 9 Years | Thereafter |
|------------------------------------------|-----------|----------|-------------|-------------|-------------|------------|
| (C\$000s)                                | (\$)      | (\$)     | (\$)        | (\$)        | (\$)        | (\$)       |
| <i>(unaudited)</i>                       |           |          |             |             |             |            |
| Accounts payable and accrued liabilities | 143,225   | 143,225  | —           | —           | —           | —          |
| Lease obligations <sup>(1)</sup>         | 38,330    | 21,901   | 14,164      | 2,265       | —           | —          |
| Long-term debt <sup>(1)</sup>            | 1,478,310 | 79,898   | 374,795     | 1,023,617   | —           | —          |

<sup>(1)</sup> 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 Second Lien 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:

| At December 31, 2020                   | Impact to Net Income |
|----------------------------------------|----------------------|
| (C\$000s)                              | (\$)                 |
| 1% change in value of U.S. dollar      | <b>1,638</b>         |
| 1% change in value of Argentinean peso | <b>18</b>            |
| 1% change in value of Russian rouble   | —                    |

| At December 31, 2019                   | Impact to Net<br>Income |
|----------------------------------------|-------------------------|
| <i>(C\$000s)</i>                       | <i>(\$)</i>             |
| 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   | —                       |

## 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 continued to be negatively impacted by the global economic slowdown due to events such as the OPEC+ crude oil supply war, the COVID-19 pandemic and the related global response to the COVID-19 demand reductions for crude oil. The Company performed an assessment on the recoverable amount of its property, plant and equipment as at March 31, 2020 and again at June 30, 2020 and recognized total impairment of \$227.2 million as a result of those impairment tests. The Company is continually monitoring these macroeconomic challenges and has determined that as at December 31, 2020, the continued uncertainty and impact from the COVID-19 pandemic and the related global response to the COVID-19 demand reductions for crude oil are considered to be indicators of impairment.

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 three months ended December 31, 2020 and an impairment charge of \$227.2 million recognized for the year ended December 31, 2020 (year ended December 31, 2019 – \$2.2 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, 2020, the Company recorded an impairment charge of \$27.9 million to write-down inventory to its net realizable amount in the United States and Argentina (year ended December 31, 2019 – \$3.7 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.



## CASH-GENERATING UNITS

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

## RELATED-PARTY TRANSACTIONS

In conjunction with the Recapitalization Transaction, the Company issued \$60.0 million of 1.5 Lien Notes on a private placement basis. Participants in the private placement included entities controlled by George S. Armoyan, a member of the Board of Directors, and Ronald P. Mathison, the Executive Chairman of the Company. The related parties hold 43.5 percent and 18.7 percent, respectively, of the 1.5 Lien Notes.

In connection with the 1.5 Lien Notes offering, the Company issued 1,125,703 common shares to certain investors that backstopped the issuance of the 1.5 Lien Notes. Participating investors included entities controlled by George S. Armoyan, which collectively received 734,413 shares for their participation.

The Company leases certain premises from a company controlled by Ronald P. Mathison. The rent charged for these premises during the year ended December 31, 2020 was \$1.5 million (year ended December 31, 2019 – \$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

Effective April 1, 2019, the Company revised its policy regarding the de-recognition of major components relating to field equipment. The revised policy states that the remaining carrying value of major components de-recognized 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 de-recognition of major components, indicating accelerated depreciation for components that were de-recognized prior to reaching their estimated useful life.

## RECENT ACCOUNTING PRONOUNCEMENTS

In October 2018, the IASB issued amendments to IFRS 3 *Business Combinations* to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments narrowed and clarified the definition of a business. The amendments include an election to use a concentration test. This is a simplified assessment that results in treatment of an acquisition as an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If an election to use a concentration test is not made, or the test failed, then the assessment focuses on the existence of a substantive process. The amendment makes clear that goodwill can only be recognized as a result of acquiring a business, not as a result of an asset acquisition. Adoption of the amendments are effective for business combinations that have an acquisition date on or after January 1, 2020.

In October 2018, the IASB issued amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to clarify what costs an entity considers in assessing whether a contract is onerous. The amendment specifies that the cost of fulfilling a contract comprises of the incremental or allocated costs that relate directly to the fulfillment of the contract. Adoption of the amendment is in effect for annual periods beginning on or after January 1, 2022.

In October 2018, the IASB issued amendments to IAS 16 *Property, Plant and Equipment*. The amendment changed the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Adoption of the amendment is in effect for annual periods beginning on or after January 1, 2022.

## 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, 2020. 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, other than noted below.

Effective April 6, 2020, the Company implemented a new Enterprise Resource Planning (ERP) system for its Canadian, United States and Argentinean divisions. While the implementation changed certain processes, it did not significantly affect the overall controls and procedures Calfrac follows in establishing internal controls over financial reporting.

## **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 and in the Management Information Circular dated August 17, 2020, as supplemented by the Material Change Report dated September 25, 2020, with respect to the Recapitalization Transaction, which are specifically incorporated by reference herein, and are available at [www.sedar.com](http://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; the impact of the COVID-19 pandemic; 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; and the impact of the COVID-19 pandemic thereon; 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, Argentinean and Russian 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.

### **COVID-19 PANDEMIC**

Given the rapid global spread of the COVID-19 pandemic, the Company's financial and operating performance could be materially adversely affected by any disruptions or suspensions of the Company's operations. Among other things, such disruptions or suspensions may result from operational changes by the Company's customers in response to the COVID-19 pandemic, directives and protocols introduced by governments and public health officials in the jurisdictions where the Company operates, slowdowns or stoppages in the performance of work due to labour shortages caused by mandatory

quarantine orders or workers becoming infected with COVID-19, supply chain disruptions and the inability of counterparties to fulfill their contractual obligations on a timely basis or at all.

The Company has implemented a COVID-19 Pandemic Response Plan to provide strategic direction during the COVID-19 pandemic. While these measures may partially mitigate the impacts of the COVID-19 pandemic, minimize recovery time and reduce business losses, such measures cannot account for nor control all possible events that may materialize. As a result, the COVID-19 pandemic may continue to have adverse financial and operational implications for the Company.

The duration and extent of the impact from the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time, such as the severity, transmission rate and resurgence of the COVID-19 virus or strain variations thereof, the timing, extent and effectiveness of containment actions, including the availability and effectiveness of vaccines, approvals thereof and the speed of vaccine distribution, the speed and extent to which normal economic and operating conditions resume worldwide, and the impact of these and other factors on the Company's stakeholders, including our customers, vendors and employees. The situation is changing rapidly, and future impacts may materialize that are not yet known. There are no comparable recent events that provide guidance as to the effect the continued spread of the COVID-19 pandemic may have, and, as a result, the ultimate impact of the COVID-19 pandemic on the Company's business, financial condition, results of operations and cash flows is highly uncertain and subject to change.

In addition, continuing developments related to the COVID-19 pandemic or other unanticipated events could negatively impact the demand for, and price of, oil and gas, which in turn 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, the 1.5 Lien Notes Indenture and the Second Lien Notes Indenture. 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, the 1.5 Lien Notes Indenture or the Second Lien Notes 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, the 1.5 Lien Notes Indenture and the Second Lien Notes 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.

### 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. Additionally, ESG factors have spurred increased investment in electric and Tier 4 emissions-rated fracturing pumps that could outstrip customer demand and/or exacerbate demand dynamics for conventional pressure pumping equipment. Such supply fundamentals could cause the Company or its competitors to lower 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.

## **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 HP 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, including the COVID-19 pandemic, 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.

## **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, environmentally friendly equipment (such as electric or low emission pumps), 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 and technologies 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, Argentina and Russia. 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, including as a result of the COVID-19 pandemic, 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 2021 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.

In November 2020, the United States elected a new President who took office in January 2021. The new Democratic presidential administration has indicated its intention to curtail energy operations on federal lands and pursue other regulatory initiatives, executive actions and legislation in support of a broader climate change agenda, which may impact hydraulic fracturing operations and other oil and natural gas exploration and production activities.

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, Argentinean and Russian 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, a portion 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 76 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 64 percent of its revenue for the year ended December 31, 2020 and, of such customers, five accounted for approximately 44 percent of the Company's revenue for the year ended December 31, 2020 and the largest customer accounted for approximately 14 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.

### **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.

### **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 Corporation considers reasonable and commercially justifiable. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, may have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

### **SEASONALITY**

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

### **LEGAL PROCEEDINGS**

From time to time, the Company is involved in legal and administrative proceedings which are usually related to normal operational or labour issues. In addition, the Company is subject to ongoing legal proceedings relating to the Plan of Arrangement that implemented the Recapitalization Transaction, which was completed on December 18, 2020. The results of such proceedings, or any new proceedings that may be commenced with respect to the Company, its business, the Plan of Arrangement 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 the Company, 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.

## CORPORATE GOVERNANCE

In recent years, publicly traded companies have increasingly been subject to demands from activist shareholders advocating for changes to corporate governance practices, including executive compensation and ESG policies. There can be no assurance that activist shareholders will not publicly advocate for the Company to make changes to its approach to corporate governance. Responding to challenges from activist shareholders, such as proxy contests, media campaigns or other activities, could be costly and time-consuming, could have a negative impact on the Company's reputation and could divert the attention and resources of management and the board of directors, all of which could have an adverse effect on the Company's business, financial condition, results of operations and cash flows.

In addition to risks associated with activist shareholders, some institutional investors are placing an increased emphasis on ESG factors when allocating their capital. These investors may implement policies that discourage investment in companies that operate in the oil and natural gas industry. To the extent certain institutional investors implement policies that discourage investment in our industry, it could have an adverse effect on our financing costs and access to capital. Additionally, if our reputation is diminished as a result of negative perceptions about the oil and natural gas industry, it could result in increased operational or regulatory compliance costs, lower shareholder confidence or loss of public support for our business.

## LOSS OF REPUTATION

As a result of the widespread usage, speed and global reach of social media and other internet resources used to generate, publish and discuss user-generated content, companies today are at risk of losing control over how they are perceived in the marketplace. Damage to the Company's reputation may result from the actual or perceived occurrence of any number of events related to the Company's operational or ESG performance and could include negative publicity with respect to the Company's handling of environmental matters and social issues. While the Company is committed to protecting its image and reputation, it does not have direct control over how others perceive it. Reputation loss may lead to decreased shareholder confidence and impediments to the Company's ability to conduct its operations, with the potential to adversely affect the Company's business, financial condition, results of operations and cash flows.

## PLAN OF ARRANGEMENT

The Plan of Arrangement includes certain releases that became effective upon the implementation of the Recapitalization Transaction in favour of certain released parties, as set out in the Plan of Arrangement. Furthermore, the Plan of Arrangement also provides that, from and after the effective time of the Plan of Arrangement, all persons shall be deemed to have consented and agreed to all of the provisions of the Plan of Arrangement in its entirety. Without limiting the foregoing, pursuant to the Plan of Arrangement, the released parties shall be released and discharged from all released claims in accordance with the Plan of Arrangement, the transactions contemplated thereunder, and any other actions or matters related directly or indirectly to the foregoing, subject to applicable exceptions. Notwithstanding the foregoing, the Company may still be subject to legal actions with regards to such released claims and related matters. Such legal actions may be costly and could require the Company to defend such potential claims without recourse for legal costs incurred, even if the Company is successful.

## LIABILITIES OF PRIOR OPERATIONS

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

See the heading "Greek Litigation" 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 and component parts. 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 and component parts 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 Emissions Management and Climate Resilience Act. 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 federal 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.

## **KEY EMPLOYEES**

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.

## **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.

## **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 the Recapitalization Transaction, including its expected benefits to the Company and impacts on its debt, liquidity and financial position, the appeals by Wilks Brothers, LLC, the anticipated rescission of a subscription for 1.5 Lien Notes by an institutional Shareholder and the Company's intention to return the investment and make a related application to the Court of Queen's Bench of Alberta, and the Company's expectations and intentions with respect to the foregoing and other matters relating to the Recapitalization Transaction, expected operating strategies and targets, capital expenditure programs, future financial resources, anticipated equipment utilization levels, future oil and natural gas well activity in each of the Company's operating jurisdictions, results of acquisitions, the impact of environmental regulations and economic reforms and sanctions on the Company's business, future costs or potential liabilities, projections of market prices and costs, supply and demand for oilfield services, expectations regarding the Company's ability to maintain its competitive position, anticipated benefits of the Company's competitive position, expectations regarding the Company's financing activities and restrictions, including with regard to its credit agreement and the indentures pursuant to which its 1.5 Lien Notes and Second Lien Notes were issued, and its ability to raise capital, treatment under government regulatory regimes, commodity prices, anticipated outcomes of specific events (including exposure and positioning 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 effectiveness of cost reduction measures instituted by the Company and the likelihood that the current tax and regulatory regime will remain substantially unchanged.

Forward-looking statements are subject to a number of known and unknown risks and uncertainties that could cause actual results to differ materially from the Company's expectations. Such risk factors include: the Company's ability to continue to manage the effect of the COVID-19 pandemic on its operations; actions taken by Wilks Brothers, LLC, decisions by securities regulators and/or the courts; restrictions resulting from compliance with or breach of debt covenants and risk of acceleration of indebtedness, including under the Company's credit facilities, 1.5 Lien Notes indenture and/or Second Lien Notes indenture; failure to reach any additional agreements with the Company's lenders; the impact of events of defaults in respect of other material contracts of the Company, including but not limited to, cross-defaults resulting in acceleration of amounts payable thereunder or the termination of such agreements; failure to receive any applicable regulatory, court, third party and other stakeholder approvals or decisions in respect of the Recapitalization Transaction and the court orders granting enforcement thereof; global economic conditions, the level of exploration, development and production for oil and natural gas in Canada, the United States, Argentina and Russia; the demand for fracturing and other stimulation services for the completion of oil and natural gas wells; volatility in market prices for oil and natural gas and the effect of this volatility on the demand for oilfield services generally; the availability of capital on satisfactory terms; direct and indirect exposure to volatile credit markets, including credit rating risk; sourcing, pricing and availability of raw materials, component parts, equipment, suppliers, facilities and skilled personnel; excess oilfield equipment levels; regional competition; currency exchange rate risk; risks associated with foreign operations; dependence on, and concentration of, major customers; liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations; uncertainties in weather and temperature affecting the duration of the service periods and the activities that can be completed; liabilities relating to legal and/or administrative proceedings; operating restrictions and compliance costs associated with legislative and regulatory initiatives relating to hydraulic fracturing and the protection of workers and the environment; changes in legislation and the regulatory environment; failure to maintain the Company's safety standards and record; liabilities and risks associated with prior operations; the ability to integrate technological advances and match advances from competitors; intellectual property risk; third party credit risk; failure to realize anticipated benefits of acquisitions and dispositions. Further information about these and other risks and uncertainties may be found under "Business Risks" 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 press release or the document incorporated by reference herein. The Company assumes no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise, except as required pursuant to applicable securities laws.

### **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](http://www.calfrac.com) or under the Company's public filings found at [www.sedar.com](http://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, 2020 and December 31, 2019.

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 3, 2021  
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, 2020 and 2019, 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, 2020 and 2019;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income (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 significant accounting policies and other explanatory information.

### 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.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | How Our Audit Addressed the Key Audit Matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Impairment of property, plant and equipment</b></p> <p><i>Refer to 'Note 2 – Summary of Significant Accounting Policies' and 'Note 4 – Property, Plant and Equipment' of the consolidated financial statements.</i></p> <p>The net book value of property, plant and equipment amounted to \$618.5 million as at December 31, 2020. Management reviews the carrying value of its property, plant and equipment at each reporting period for indicators of impairment. If indicators of impairment exist, the recoverable amount of the assets are estimated. For the purpose of measuring recoverable amounts, assets are grouped in cash generating units (CGUs). An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount.</p> <p>As disclosed by management, the events such as the OPEC+ crude oil supply war, the COVID-19 pandemic and the related global response to the COVID-19 demand reductions for crude oil were identified as indicators of impairment. The recoverable amount was determined using multi-year discounted cash flows generated from continuing operations of each CGU. The significant assumptions applied by management in estimating the recoverable amount included expected revenue growth, expected operating income growth and discount rates. Management also considered the effects of the recapitalization transaction that occurred in December as part of their December 31, 2020 impairment assessment. Management recognized an impairment charge of \$227.2 million for the Company's property, plant and equipment during the year ended December 31, 2020.</p> <p>We considered this a key audit matter due to (i) the significant judgments made by management when determining the recoverable amount of the CGUs and (ii) the high degree of subjectivity and significant audit effort involved in performing procedures to test the significant assumptions made by management. Professionals with skill and knowledge in the field of valuation assisted us in performing our procedures.</p> | <p>Our approach to addressing the matter involved the following procedures, among others:</p> <ul style="list-style-type: none"> <li>• Evaluated how management determined the recoverable amounts of each CGU, which included the following: <ul style="list-style-type: none"> <li>◦ Tested the appropriateness of the method used and the mathematical accuracy of the discounted cash flow models prepared by management.</li> <li>◦ Tested the reasonableness of expected revenue growth rates and expected operating income growth applied by management in the discounted cash flow models by comparing them to the budget, the current and past performance of the CGU and available external market and industry data.</li> <li>◦ Utilized professionals with specialized skill and knowledge in the field of valuation who assisted in testing the reasonableness of the discount rates used in the discounted cash flow models.</li> <li>◦ Tested the underlying data in the discounted cash flow models.</li> <li>◦ Assessed the fair value of the shares and warrants issued as part of the recapitalization transaction and compared it to the overall net asset value of the Company.</li> </ul> </li> <li>• Evaluated the related disclosures in the notes to the consolidated financial statements, including the sensitivity analysis of the significant assumptions used by management.</li> </ul> |

## 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants

Calgary, Alberta  
March 3, 2021

## CONSOLIDATED BALANCE SHEETS

| As at December 31,<br>(C\$000s)                 | 2020<br>(\$)   | 2019<br>(\$)     |
|-------------------------------------------------|----------------|------------------|
| <b>ASSETS</b>                                   |                |                  |
| Current assets                                  |                |                  |
| Cash and cash equivalents                       | 29,830         | 42,562           |
| Accounts receivable                             | 139,486        | 216,647          |
| Income taxes recoverable                        | 1,530          | 1,608            |
| Inventories (note 3)                            | 83,294         | 127,620          |
| Prepaid expenses and deposits                   | 17,050         | 17,489           |
|                                                 | <b>271,190</b> | <b>405,926</b>   |
| Non-current assets                              |                |                  |
| Property, plant and equipment (note 4)          | 618,488        | 969,944          |
| Right-of-use assets (note 11)                   | 22,785         | 29,760           |
| Deferred income tax assets (note 9)             | —              | 120,292          |
| <b>Total assets</b>                             | <b>912,463</b> | <b>1,525,922</b> |
| <b>LIABILITIES AND EQUITY</b>                   |                |                  |
| Current liabilities                             |                |                  |
| Accounts payable and accrued liabilities        | 101,784        | 143,225          |
| Current portion of lease obligations (note 11)  | 7,958          | 13,929           |
|                                                 | <b>109,742</b> | <b>157,154</b>   |
| Non-current liabilities                         |                |                  |
| Long-term debt (note 6)                         | 324,633        | 976,693          |
| Lease obligations (note 11)                     | 14,013         | 16,990           |
| Deferred income tax liabilities (note 9)        | 53,841         | 6,462            |
| <b>Total liabilities</b>                        | <b>502,229</b> | <b>1,157,299</b> |
| Capital stock (note 7)                          | 800,184        | 509,235          |
| Conversion rights on convertible notes (note 6) | 4,873          | —                |
| Contributed surplus                             | 65,986         | 44,316           |
| Warrants (notes 5 and 8)                        | 40,797         | —                |
| Loan receivable for purchase of common shares   | (2,500)        | (2,500)          |
| Accumulated deficit                             | (509,409)      | (185,174)        |
| Accumulated other comprehensive income          | 10,303         | 2,746            |
| <b>Total equity</b>                             | <b>410,234</b> | <b>368,623</b>   |
| <b>Total liabilities and equity</b>             | <b>912,463</b> | <b>1,525,922</b> |

Commitments (note 10); Contingencies (note 21)  
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,<br><i>(C\$000s, except per share data)</i> | <b>2020</b><br><i>(\$)</i> | 2019<br><i>(\$)</i> |
|---------------------------------------------------------------------|----------------------------|---------------------|
| Revenue (note 17)                                                   | <b>705,436</b>             | 1,620,955           |
| Cost of sales (note 18)                                             | <b>806,577</b>             | 1,659,564           |
| Gross loss                                                          | <b>(101,141)</b>           | (38,609)            |
| Expenses                                                            |                            |                     |
| Selling, general and administrative                                 | <b>48,883</b>              | 69,874              |
| Foreign exchange losses                                             | <b>15,477</b>              | 6,341               |
| Loss on disposal of property, plant and equipment                   | <b>24</b>                  | 1,870               |
| Impairment of property, plant and equipment (note 4)                | <b>227,208</b>             | 2,165               |
| Impairment of inventory (note 3)                                    | <b>27,868</b>              | 3,744               |
| Impairment of other assets                                          | <b>507</b>                 | —                   |
| Gain on settlement of debt (note 5)                                 | <b>(226,319)</b>           | —                   |
| Gain on exchange of debt (note 6)                                   | <b>(130,444)</b>           | —                   |
| Interest                                                            | <b>91,267</b>              | 85,826              |
|                                                                     | <b>54,471</b>              | 169,820             |
| Loss before income tax                                              | <b>(155,612)</b>           | (208,429)           |
| Income tax expense (recovery)                                       |                            |                     |
| Current                                                             | <b>855</b>                 | 3,014               |
| Deferred                                                            | <b>167,768</b>             | (55,240)            |
|                                                                     | <b>168,623</b>             | (52,226)            |
| Net loss                                                            | <b>(324,235)</b>           | (156,203)           |
| Loss per share (note 7)                                             |                            |                     |
| Basic                                                               | <b>(76.78)</b>             | (54.03)             |
| Diluted                                                             | <b>(76.78)</b>             | (54.03)             |

See accompanying notes to the consolidated financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

| Years Ended December 31,                                              | <b>2020</b>      | 2019        |
|-----------------------------------------------------------------------|------------------|-------------|
| <i>(C\$000s)</i>                                                      | <i>(\$)</i>      | <i>(\$)</i> |
| <b>Net loss</b>                                                       | <b>(324,235)</b> | (156,203)   |
| <b>Other comprehensive income (loss)</b>                              |                  |             |
| <b>Items that may be subsequently reclassified to profit or loss:</b> |                  |             |
| Change in foreign currency translation adjustment                     | <b>7,557</b>     | 6,184       |
| <b>Comprehensive loss</b>                                             | <b>(316,678)</b> | (150,019)   |

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

|                                                            | Share<br>Capital | Conversion Rights<br>on Convertible<br>Notes | Contributed<br>Surplus | Warrants      | Loan Receivable<br>for Purchase of<br>Common Shares | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Accumulated<br>Deficit | Total Equity     |
|------------------------------------------------------------|------------------|----------------------------------------------|------------------------|---------------|-----------------------------------------------------|--------------------------------------------------------|------------------------|------------------|
| (C\$000s)                                                  | (\$)             |                                              | (\$)                   | (\$)          | (\$)                                                | (\$)                                                   | (\$)                   | (\$)             |
| <b>Balance – January 1, 2020</b>                           | <b>509,235</b>   | —                                            | <b>44,316</b>          | —             | <b>(2,500)</b>                                      | <b>2,746</b>                                           | <b>(185,174)</b>       | <b>368,623</b>   |
| Net loss                                                   | —                | —                                            | —                      | —             | —                                                   | —                                                      | (324,235)              | <b>(324,235)</b> |
| Other comprehensive income (loss):                         |                  |                                              |                        |               |                                                     |                                                        |                        |                  |
| Cumulative translation adjustment                          | —                | —                                            | —                      | —             | —                                                   | 7,557                                                  | —                      | <b>7,557</b>     |
| Comprehensive income (loss)                                | —                | —                                            | —                      | —             | —                                                   | 7,557                                                  | (324,235)              | <b>(316,678)</b> |
| Stock options:                                             |                  |                                              |                        |               |                                                     |                                                        |                        |                  |
| Stock-based compensation recognized                        | —                | —                                            | 1,747                  | —             | —                                                   | —                                                      | —                      | <b>1,747</b>     |
| Performance share units:                                   |                  |                                              |                        |               |                                                     |                                                        |                        |                  |
| Stock-based compensation recognized                        | —                | —                                            | 856                    | —             | —                                                   | —                                                      | —                      | <b>856</b>       |
| Shares issued (note 7)                                     | 1,275            | —                                            | (1,275)                | —             | —                                                   | —                                                      | —                      | —                |
| Shares issued for settlement of debt (note 5)              | 301,427          | —                                            | —                      | —             | —                                                   | —                                                      | —                      | <b>301,427</b>   |
| Equity portion of 1.5 Lien Notes, net of share issue costs | (616)            | 4,873                                        | —                      | —             | —                                                   | —                                                      | —                      | <b>4,257</b>     |
| Shares issued for commitment fee on 1.5 Lien Notes         | 10,131           | —                                            | —                      | —             | —                                                   | —                                                      | —                      | <b>10,131</b>    |
| Fair value of warrants issued                              | —                | —                                            | —                      | 40,797        | —                                                   | —                                                      | —                      | <b>40,797</b>    |
| Shares repurchased                                         | (21,268)         | —                                            | 20,342                 | —             | —                                                   | —                                                      | —                      | <b>(926)</b>     |
| <b>Balance – December 31, 2020</b>                         | <b>800,184</b>   | <b>4,873</b>                                 | <b>65,986</b>          | <b>40,797</b> | <b>(2,500)</b>                                      | <b>10,303</b>                                          | <b>(509,409)</b>       | <b>410,234</b>   |
| Balance – January 1, 2019                                  | 508,276          | —                                            | 40,453                 | —             | (2,500)                                             | (3,438)                                                | (28,971)               | 513,820          |
| Net loss                                                   | —                | —                                            | —                      | —             | —                                                   | —                                                      | (156,203)              | (156,203)        |
| Other comprehensive income (loss):                         |                  |                                              |                        |               |                                                     |                                                        |                        |                  |
| Cumulative translation adjustment                          | —                | —                                            | —                      | —             | —                                                   | 6,184                                                  | —                      | 6,184            |
| Comprehensive income (loss)                                | —                | —                                            | —                      | —             | —                                                   | 6,184                                                  | (156,203)              | (150,019)        |
| Stock options:                                             |                  |                                              |                        |               |                                                     |                                                        |                        |                  |
| Stock-based compensation recognized                        | —                | —                                            | 3,030                  | —             | —                                                   | —                                                      | —                      | 3,030            |
| Proceeds from issuance of shares (note 7)                  | 252              | —                                            | (56)                   | —             | —                                                   | —                                                      | —                      | 196              |
| Performance share units:                                   |                  |                                              |                        |               |                                                     |                                                        |                        |                  |
| Stock-based compensation recognized                        | —                | —                                            | 1,596                  | —             | —                                                   | —                                                      | —                      | 1,596            |
| Shares issued (note 7)                                     | 707              | —                                            | (707)                  | —             | —                                                   | —                                                      | —                      | —                |
| <b>Balance – December 31, 2019</b>                         | <b>509,235</b>   | —                                            | <b>44,316</b>          | —             | <b>(2,500)</b>                                      | <b>2,746</b>                                           | <b>(185,174)</b>       | <b>368,623</b>   |

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| Years Ended December 31,<br>(C\$000s)                           | 2020<br>(\$) | 2019<br>(\$) |
|-----------------------------------------------------------------|--------------|--------------|
| <b>CASH FLOWS PROVIDED BY (USED IN)</b>                         |              |              |
| <b>OPERATING ACTIVITIES</b>                                     |              |              |
| Net loss                                                        | (324,235)    | (156,203)    |
| Adjusted for the following:                                     |              |              |
| Depreciation                                                    | 172,021      | 261,227      |
| Stock-based compensation                                        | 1,511        | 4,626        |
| Unrealized foreign exchange losses                              | 8,319        | 2,041        |
| Loss on disposal of property, plant and equipment               | 24           | 1,870        |
| Impairment of property, plant and equipment (note 4)            | 227,208      | 2,165        |
| Impairment of inventory (note 3)                                | 27,868       | 3,744        |
| Impairment of other assets                                      | 507          | —            |
| Non-cash gain on settlement of debt (note 5)                    | (198,847)    | —            |
| Non-cash gain on exchange of debt (note 6)                      | (130,444)    | —            |
| Interest                                                        | 91,267       | 85,826       |
| Interest paid                                                   | (23,004)     | (80,728)     |
| Deferred income taxes                                           | 167,768      | (55,240)     |
| Changes in items of working capital (note 13)                   | 4,557        | 62,696       |
| Cash flows provided by operating activities                     | 24,520       | 132,024      |
| <b>FINANCING ACTIVITIES</b>                                     |              |              |
| Issuance of long-term debt, net of debt issuance costs (note 6) | 142,319      | 83,632       |
| Long-term debt repayments (note 6)                              | (118,727)    | (59,760)     |
| Lease obligation principal repayments                           | (14,064)     | (20,047)     |
| Shares repurchased                                              | (926)        | —            |
| Proceeds on issuance of common shares                           | —            | 196          |
| Cash flows provided by financing activities                     | 8,602        | 4,021        |
| <b>INVESTING ACTIVITIES</b>                                     |              |              |
| Purchase of property, plant and equipment (note 13)             | (46,189)     | (147,370)    |
| Proceeds on disposal of property, plant and equipment           | 1,701        | 7,224        |
| Proceeds on disposal of right-of-use assets                     | 1,970        | 1,254        |
| Cash flows used in investing activities                         | (42,518)     | (138,892)    |
| Effect of exchange rate changes on cash and cash equivalents    | (3,336)      | (6,492)      |
| Decrease in cash and cash equivalents                           | (12,732)     | (9,339)      |
| Cash and cash equivalents, beginning of year                    | 42,562       | 51,901       |
| Cash and cash equivalents, end of year                          | 29,830       | 42,562       |

See accompanying notes to the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2020 and 2019

*(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 was originally incorporated on June 28, 1999 and amalgamated with Denison Energy Inc. on March 24, 2004) and Dominion Land Projects Ltd. on January 1, 2011 under the Business Corporations Act (Alberta). The Company was continued under the Canada Business Corporations Act on December 17, 2020. The Company’s principal place of business is at Suite 500, 407 – 8th Avenue S.W., Calgary, Alberta, Canada, T2P 1E5. 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).

These financial statements were approved by the Board of Directors for issuance on March 3, 2021.

### 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

There were no new IFRS or IFRIC interpretations that became effective on or after January 1, 2020 that had a material impact on the Company.

#### (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 recorded in the first quarter of 2019.

#### (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.

(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, the functional currency of each subsidiary and whether there are material uncertainties about the Company's ability to continue as a going concern.

i) Expected Credit Loss

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 expected credit loss is established based on expected and incurred losses and overall industry conditions. See note 12 for further information.

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 Second Lien Notes is based on the closing market price at the reporting period's end-date, as described in note 6. The fair values of the remaining long-term debt and lease obligations approximate their carrying values.

iv) Income Taxes

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

See note 9 for further information on income taxes.

v) Share-Based Payments

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



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

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

vi) Functional Currency

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

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 is 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.

ix) Going Concern

Management is required to assess the Company's ability to continue as a going concern. In assessing whether the going concern assumption is appropriate, management evaluates all available information about the future, considering the possible outcomes of events and changes in conditions and the realistically possible responses that are available to such events and conditions. Reaching the conclusion to continue as a going concern requires significant judgment.

During the first, second and third quarter of 2020, the Company disclosed the potential risks surrounding the entity's ability to continue as a going concern. During the fourth quarter of 2020, management concluded that the disclosure was no longer required following the successful completion of the Company's Recapitalization Transaction. See note 5 for further information.

(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:

| <b>Entity</b> | <b>Functional Currency</b> |
|---------------|----------------------------|
| 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.

## 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.
- **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. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains or losses and impairment expenses are presented as separate line item in profit or loss.

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

See note 12 for further information on financial instruments.

### iii) Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. When a financial asset classified as amortized cost is derecognized, any gain or loss arising on derecognition is recognized directly in profit or loss and is presented together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in profit or loss. When a financial asset classified as fair value through other comprehensive income 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.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized directly in profit or loss.

When the Company uses equity instruments to extinguish a financial liability, the equity instruments are considered as consideration paid. The equity instruments are measured at the fair value, unless fair value is not reliably determinable, in which case the equity instruments issued are measured at the fair value of the liability extinguished. If the consideration paid exceeds the carrying value of the financial liability extinguished a gain is recognized in profit or loss.

### iv) Compound Financial Instruments

The Company's compound financial instruments comprise of convertible notes, which can be converted into common shares at the sole discretion of the holder. The terms of the convertible notes enable the Company to defer, and pay in kind, any interest accrued on the notes at each interest payment date by increasing the unpaid principal amount. Each increase in the principal amount will correspondingly increase the amount of shares to be issued upon conversion.

The initial fair value of the liability component of the convertible notes is determined using a market interest rate for a comparable debt instrument without an equity conversion feature. The equity component is recognized in shareholders' equity as the difference between the initial principal amount and the fair value of the liability component, and is not subsequently remeasured. Directly attributable transaction costs are allocated on a proportional basis to the initial carrying amount of the separate components.

The liability component of the convertible notes is subsequently measured at amortized cost using the effective interest rate method, until extinguished on conversion or maturity of the notes. Derecognition of the liability component of the convertible notes is treated in the same manner as detailed above.

#### (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) Leases**

Under IFRS 16 *Leases*, 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.

(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 17 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. The fair value of the deferred 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 the cash-based component of performance share units granted to its employees. The fair value of the cash-based component of performance 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) Government Subsidies

The Company adopted the following accounting policy as a result of qualifying for both the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") programs. Government subsidies are recognized when there is reasonable assurance that the Company will comply with the relevant conditions and that subsidy will be received. Government subsidies related to period expenses are recorded as a reduction of related expenses. During the year ended December 31, 2020, the Company qualified for both the CEWS program and the CERS program and recognized \$12,339 as a reduction of salaries and wages expense, and \$142 as a reduction in rent expense, respectively.

**(t) Recently Issued Accounting Standards Not Yet Applied**

In October 2018, the IASB issued amendments to IFRS 3 *Business Combinations* to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments narrowed and clarified the definition of a business. The amendments include an election to use a concentration test. This is a simplified assessment that results in treatment of an acquisition as an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If an election to use a concentration test is not made, or the test failed, then the assessment focuses on the existence of a substantive process. The amendment makes clear that goodwill can only be recognized as a result of acquiring a business, not as a result of an asset acquisition. Adoption of the amendments are effective for business combinations that have an acquisition date on or after January 1, 2020.

In October 2018, the IASB issued amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to clarify what costs an entity considers in assessing whether a contract is onerous. The amendment specifies that the cost of fulfilling a contract comprises of the incremental or allocated costs that relate directly to the fulfillment of the contract. Adoption of the amendment is in effect for annual periods beginning on or after January 1, 2022.

In October 2018, the IASB issued amendments to IAS 16 *Property, Plant and Equipment*. The amendment changed the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Adoption of the amendment is in effect for annual periods beginning on or after January 1, 2022.

**3. INVENTORIES**

| As at December 31,<br>(C\$000s) | 2020<br>(\$)  | 2019<br>(\$) |
|---------------------------------|---------------|--------------|
| Spare equipment parts           | 53,473        | 83,146       |
| Chemicals                       | 14,751        | 20,547       |
| Sand and proppant               | 7,302         | 9,864        |
| Coiled tubing                   | 5,972         | 9,290        |
| Other                           | 1,796         | 4,773        |
|                                 | <b>83,294</b> | 127,620      |

For the year ended December 31, 2020, the cost of inventories recognized as an expense and included in cost of sales was approximately \$267,000 (year ended December 31, 2019 – \$574,000).

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. During the year ended December 31, 2020, the Company reviewed the carrying value of its inventories across all operating segments and recorded an impairment charge of \$27,868 to write inventory down to its net realizable amount (year ended December 31, 2019 – \$3,744). The majority of the inventory impairment was attributed to spare equipment parts.

| Years Ended December 31,<br>(C\$000s) | 2020<br>(\$)  | 2019<br>(\$) |
|---------------------------------------|---------------|--------------|
| Canada                                | 6,200         | 656          |
| United States                         | 10,668        | 2,108        |
| Argentina                             | 11,000        | 980          |
|                                       | <b>27,868</b> | 3,744        |

## 4. PROPERTY, PLANT AND EQUIPMENT

| Year Ended December 31, 2020             | Opening<br>Net Book<br>Value | Additions     | Disposals      | Impairment       | Depreciation     | Foreign<br>Exchange<br>Adjustments | Closing<br>Net Book<br>Value |
|------------------------------------------|------------------------------|---------------|----------------|------------------|------------------|------------------------------------|------------------------------|
| (C\$000s)                                | (\$)                         | (\$)          | (\$)           | (\$)             | (\$)             | (\$)                               | (\$)                         |
| Assets under construction <sup>(1)</sup> | 38,172                       | (17,767)      | —              | (4,486)          | —                | (740)                              | 15,179                       |
| Field equipment                          | 836,117                      | 50,020        | (3,830)        | (221,292)        | (149,728)        | (4,997)                            | 506,290                      |
| Buildings                                | 48,238                       | 51            | (54)           | (1,165)          | (4,585)          | 4,418                              | 46,903                       |
| Land                                     | 39,355                       | —             | —              | —                | —                | (4,252)                            | 35,103                       |
| Shop, office and other<br>equipment      | 3,565                        | 114           | (10)           | (241)            | (1,161)          | 121                                | 2,388                        |
| Computers and computer<br>software       | 4,042                        | 12,212        | —              | (24)             | (4,118)          | 21                                 | 12,133                       |
| Leasehold improvements                   | 455                          | —             | —              | —                | (183)            | 220                                | 492                          |
|                                          | <b>969,944</b>               | <b>44,630</b> | <b>(3,894)</b> | <b>(227,208)</b> | <b>(159,775)</b> | <b>(5,209)</b>                     | <b>618,488</b>               |

<sup>(1)</sup> 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, 2020          | Cost             | Accumulated<br>Depreciation | Net Book<br>Value |
|----------------------------------|------------------|-----------------------------|-------------------|
| (C\$000s)                        | (\$)             | (\$)                        | (\$)              |
| Assets under construction        | 15,179           | —                           | 15,179            |
| Field equipment                  | 2,277,233        | (1,770,943)                 | 506,290           |
| Buildings                        | 90,067           | (43,164)                    | 46,903            |
| Land                             | 35,103           | —                           | 35,103            |
| Shop, office and other equipment | 27,832           | (25,444)                    | 2,388             |
| Computers and computer software  | 44,647           | (32,514)                    | 12,133            |
| Leasehold improvements           | 8,713            | (8,221)                     | 492               |
|                                  | <b>2,498,774</b> | <b>(1,880,286)</b>          | <b>618,488</b>    |

| Year Ended December 31, 2019                          | Opening<br>Net Book<br>Value | Additions      | Disposals       | Impairment     | Depreciation     | Foreign<br>Exchange<br>Adjustments | Closing<br>Net Book<br>Value |
|-------------------------------------------------------|------------------------------|----------------|-----------------|----------------|------------------|------------------------------------|------------------------------|
| (C\$000s)                                             | (\$)                         | (\$)           | (\$)            | (\$)           | (\$)             | (\$)                               | (\$)                         |
| Assets under construction <sup>(1)</sup>              | 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<br>lease <sup>(2)</sup> | 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<br>equipment                   | 3,621                        | 1,510          | (83)            | —              | (1,238)          | (245)                              | 3,565                        |
| Computers and computer<br>software                    | 3,181                        | 2,404          | —               | —              | (1,622)          | 79                                 | 4,042                        |
| Leasehold improvements                                | 839                          | 10             | —               | —              | (148)            | (246)                              | 455                          |
|                                                       | <b>1,116,677</b>             | <b>139,305</b> | <b>(10,857)</b> | <b>(2,165)</b> | <b>(240,207)</b> | <b>(32,809)</b>                    | <b>969,944</b>               |

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

<sup>(2)</sup> 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<br>Depreciation | Net Book<br>Value |
|-------------------------------------|------------------|-----------------------------|-------------------|
| <i>(C\$000s)</i>                    | <i>(\$)</i>      | <i>(\$)</i>                 | <i>(\$)</i>       |
| 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               |
|                                     | <b>2,469,199</b> | <b>(1,499,255)</b>          | <b>969,944</b>    |

Property, plant and equipment are tested for impairment in accordance with the Company's accounting policy. Management reviews the carrying value of its property, plant and equipment at each reporting period for indicators of impairment. The Company's financial results continue to be impeded by the global economic slowdown due to events such as the OPEC+ crude oil supply war, the COVID-19 pandemic and the related global response to the COVID-19 demand reductions for crude oil. The Company recognizes this is an indicator of impairment that warrants an assessment on the recoverable amount of its property, plant and equipment as at December 31, 2020.

The Company's cash-generating units (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 is determined using discounted cash flows to be generated from the continuing operations of each CGU. Cash flow assumptions are based on a combination of historical and expected future results, using the following main significant assumptions:

- Expected revenue growth
- Expected operating income growth
- Discount rate

Revenue and operating income growth rates for each CGU are based on a combination of commodity price assumptions, historical results and forecasted activity levels, which incorporates pricing, utilization and cost improvements over the forecast period. The cumulative annual growth rates for revenue over the forecast period from 2021 to 2025 ranged from no growth to 27.5 percent depending on the CGU.

The cash flows are prepared on a five-year basis, using a discount rate ranging from 13.4 percent to 21.5 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 are 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 three months ended December 31, 2020. As at March 31, 2020 and June 30, 2020, the Company performed an assessment on the recoverable amount of its property, plant and equipment and recognized a total impairment of \$227,208 as a result of those impairment tests for the year ended December 31, 2020 (three months and year ended December 31, 2019 – \$2,165).

Management contemplated the effects of the Recapitalization Transaction (see note 5) that occurred in December in conjunction with its December 31, 2020 impairment assessment and concluded that no additional impairment was warranted as a result of this transaction.

A sensitivity analysis on the discount rate and expected future cash flows would have the following impact on the December 31, 2020 impairment test:

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

Assumptions that are valid at the time of preparing the impairment test at December 31, 2020 may change significantly when new information becomes available. Management will continue to monitor and update its assumptions and estimates with respect to property, plant and equipment impairment on an ongoing basis.

The impairment losses by CGU recorded during the three months and year ended December 31, 2020 are as follows:

| Years Ended December 31, | 2020           | 2019        |
|--------------------------|----------------|-------------|
| <i>(C\$000s)</i>         | <i>(\$)</i>    | <i>(\$)</i> |
| Canada                   | <b>132,483</b> | 1,921       |
| United States            | <b>15,380</b>  | 244         |
| Argentina                | <b>52,466</b>  | —           |
| Russia                   | <b>26,879</b>  | —           |
|                          | <b>227,208</b> | 2,165       |

## 5. RECAPITALIZATION TRANSACTION

On December 18, 2020, the Company completed its previously disclosed Recapitalization Transaction, which was implemented pursuant to a Plan of Arrangement under the Canada Business Corporations Act. The Recapitalization Transaction involved the surrender and cancellation of the Company's US\$431,818 Unsecured Notes, including all accrued and unpaid interest, in exchange for common shares of the Company. In addition, the Company issued new \$60,000 1.5 lien senior secured 10% payment-in-kind convertible notes ("1.5 Lien Notes") due December 18, 2023 on a private placement basis. The proceeds from the issuance of the 1.5 Lien Notes were used to reduce the amounts owing under its revolving credit facility. All common share figures and share prices below are disclosed on a post-share consolidation basis of 50:1.

The composition of the gain on settlement of debt as reported in the statement of operations is as follows:

|                                                                                             | Unsecured Notes  | Warrants      | 1.5 Lien Notes | Total            |
|---------------------------------------------------------------------------------------------|------------------|---------------|----------------|------------------|
| <i>(C\$000s)</i>                                                                            |                  |               |                | <i>(\$)</i>      |
| Settlement of Unsecured Notes against shares issued to noteholders (note 5a)                | <b>(250,867)</b> | —             | —              | <b>(250,867)</b> |
| Forgiveness of accrued interest on Unsecured Notes (note 5a)                                | <b>(47,272)</b>  | —             | —              | <b>(47,272)</b>  |
| Issuance of warrants (note 5b)                                                              | —                | <b>40,797</b> | —              | <b>40,797</b>    |
| Transaction and associated costs <sup>(1)</sup> (notes 5h and 8)                            | <b>20,815</b>    | —             | —              | <b>20,815</b>    |
| Issuance of shares in respect of the commitment fee related to the 1.5 Lien Notes (note 5g) | —                | —             | <b>10,131</b>  | <b>10,131</b>    |
| Withholding taxes on shares issued in respect of commitment fee on 1.5 Lien Notes (note 5g) | —                | —             | <b>77</b>      | <b>77</b>        |
| <b>Total (gain) loss on settlement of debt<sup>(2)</sup></b>                                | <b>(277,324)</b> | <b>40,797</b> | <b>10,208</b>  | <b>(226,319)</b> |

<sup>(1)</sup> Includes \$1,266 of other associated costs related to the Plan of Arrangement, of which \$1,092 were non-cash expenses.

<sup>(2)</sup> \$198,847 of the total gain on settlement of debt was non-cash in nature.

(a) Unsecured Notes Settlement

The Company's US\$431,818 outstanding 8.50% unsecured notes due June 15, 2026 ("Unsecured Notes"), plus all accrued and unpaid interest, were surrendered and cancelled in exchange for 33,491,870 common shares. The common shares were valued for accounting purposes at a price of \$9.00 per share, which represents the share price on December 21, 2020, the first trading day immediately following the announcement of the closing of this transaction, and resulted in an accounting gain on the settlement of debt of \$277,324. The settlement of the Unsecured Notes also resulted in the write-off of the remaining unamortized deferred finance costs that pertained to these notes which totaled \$7,387.

(b) Warrants

Under the Recapitalization Transaction, shareholders were entitled to receive two warrants for each common share held. Pursuant to the Plan of Arrangement, the Company issued 5,824,433 warrants to shareholders of record (i.e. registered shareholders) as of market close on December 17, 2020. Each warrant is exercisable for a period of three years into one common share at a price of \$2.50 per common shares subject to customary adjustments and restrictions. The fair value of the warrants of \$40,797 was estimated using a Black-Scholes pricing model, and was accounted for as a reduction of the gain on settlement of debt. See note 8 for further information on the warrants.

(c) Shareholder Cash Election

Under the Recapitalization Transaction, shareholders were provided the opportunity to elect for the Company to purchase all or any portion of their common shares for \$7.50 per share up to an aggregate maximum of \$10,000 in consideration available for shareholder cash elections. On December 18, 2020, 121,231 common shares were purchased for an aggregate cash election amount of \$926 including transaction costs. See note 7 for further information on the shareholder cash election.

(d) Common Share Consolidation

Immediately prior to the Unsecured Notes settlement, and after the issuance of warrants and settlement of shareholder cash elections noted above, the Company initiated a 50:1 share consolidation. See note 7 for further information on the share consolidation.

(e) Share-Based Compensation

Pursuant to the Plan of Arrangement, all of the Company's outstanding stock options and cash-based performance share units were terminated and cancelled for no consideration. All of the Company's outstanding equity-based performance shares units vested immediately prior to the effective time of the Plan of Arrangement and aggregate consideration of \$174 was paid to the holders thereof on a pro rata basis. See note 8 for further information.

In connection with the approval of the Recapitalization Transaction, shareholders approved an omnibus incentive plan which permits the granting of various types of equity awards, including stock options, share appreciation rights, restricted shares, restricted share units, deferred share units and other share-based awards as determined by the Board of Directors. The number of shares reserved under the omnibus incentive plan is equal to 10 percent of the Company's issued and outstanding common shares.

(f) 1.5 Lien Notes

In conjunction with the Recapitalization Transaction, the Company issued \$60,000 of 1.5 lien senior convertible notes due December 18, 2023 ("1.5 Lien Notes") on a private placement basis. The gross proceeds of the 1.5 Lien Notes were used to reduce the Company's revolving credit facility, providing additional liquidity. See note 6 for further information.

(g) Commitment Fee on the 1.5 Lien Notes

In connection with the 1.5 Lien Notes offering, the Company issued 1,125,703 common shares to certain investors that backstopped the issuance of the 1.5 Lien Notes. These common shares were valued for accounting purposes at a price of \$9.00 per share which represents the share price on December 21, 2020, the first trading day immediately following the announcement of the closing of this transaction, and were accounted for as an increase to share capital of \$10,131 with a corresponding reduction of the gain on the settlement of debt.

## (h) Transaction Costs

The Company incurred transaction costs totaling \$27,145 in connection with the Recapitalization Transaction. Of that amount, \$19,549 was related to the settlement of the Unsecured Notes and was recorded as a reduction of the gain of settlement of debt. The remaining \$7,596 was allocated to the issuance of the 1.5 Lien Notes as debt issuance costs or share issue costs, see note 6 for further information.

## (i) Court Appeals

On December 11, 2020, Wilks Brothers, LLC and its affiliated funds filed a notice of appeal (the “Chapter 15 Appeal”) to the United States District Court for the Southern District of Texas (“U.S. District Court”) appealing an order by the United States Bankruptcy Court for the Southern District of Texas under Chapter 15 of the United States Bankruptcy Code entered effective December 1, 2020, recognizing and granting enforcement of the October 30, 2020 order of the Court of Queen’s Bench of Alberta approving the Plan of Arrangement pursuant to the Canada Business Corporations Act (the “CBCA Final Order”). On January 8, 2021, the Company and certain of its subsidiaries filed a motion to dismiss the Chapter 15 Appeal as equitably moot, which motion was denied by the U.S. District Court on February 9, 2021. The Company expects briefing on the merits of the Chapter 15 Appeal to be complete on or before April 1, 2021. The U.S. District Court will set a hearing on the Chapter 15 Appeal to occur after the conclusion of briefing, and the timing of such hearing is uncertain. The Company believes it is well-positioned to prevail on the merits of the Chapter 15 Appeal or in having the appeal dismissed.

On January 29, 2021, Wilks Brothers, LLC and its affiliated funds filed an application to the Supreme Court of Canada seeking leave to appeal the December 1, 2020 decision of the Court of Appeal of Alberta upholding the CBCA Final Order. The Company’s deadline to respond to the leave to appeal application is 30 days after the day on which a file is opened by the Supreme Court of Canada with respect to the leave to appeal application, which file has not yet been opened by the Court. The Company believes it is well-positioned to succeed in having the leave to appeal application dismissed.

## 6. LONG-TERM DEBT

| As at December 31,                                                                                                                                                                                                | 2020            | 2019        |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-------------|
| <i>(C\$000s)</i>                                                                                                                                                                                                  | <i>(\$)</i>     | <i>(\$)</i> |
| \$290,000 extendible revolving term loan facility, secured by the Canadian and U.S. assets of the Company on a first priority basis                                                                               | <b>130,000</b>  | 147,988     |
| \$60,000 1.5 Lien Notes due December 18, 2023, bearing interest at 10.00% payable semi-annually, secured by the Canadian and U.S. assets of the Company on a second priority basis ahead of the Second Lien Notes | <b>55,171</b>   | —           |
| US\$120,000 Second Lien Notes due March 15, 2026, bearing interest at 10.875% payable semi-annually, secured by the Canadian and U.S. assets of the Company on a second priority basis                            | <b>152,784</b>  | —           |
| US\$431,818 Unsecured Notes (December 31, 2019 – US\$650,000) due June 15, 2026, bearing interest at 8.50% payable semi-annually                                                                                  | —               | 844,220     |
| Less: unamortized debt issuance costs                                                                                                                                                                             | <b>(13,322)</b> | (15,515)    |
|                                                                                                                                                                                                                   | <b>324,633</b>  | 976,693     |

The Unsecured Notes were settled on December 18, 2020, as described below. The fair value of the Unsecured Notes at December 31, 2019 was \$342,078. The fair value of the Second Lien Notes (as defined below), as measured based on the closing market price at December 31, 2020 was \$106,706 (December 31, 2019 – not applicable). The carrying values of the revolving term loan facility and 1.5 Lien Notes approximate their fair value as the interest rate is not significantly different from current interest rates for similar loans.

### a) Unsecured Notes

On December 18, 2020, the Company’s US\$431,818 outstanding Unsecured Notes, plus all accrued and unpaid interest, were surrendered and cancelled in exchange for 33,491,870 common shares. The settlement of the Unsecured Notes also resulted in the write-off of the remaining unamortized deferred finance costs that pertained to these notes which totaled \$7,387. See note 5 for further details.

#### b) 1.5 Lien Notes

On December 18, 2020, the Company issued \$60,000 of 1.5 Lien Notes due December 18, 2023 on a private placement basis. The terms of the 1.5 Lien Notes enable the holders to convert each \$1,000 principal amount into approximately 750 common shares at their discretion. Interest is payable in cash semi-annually on March 15 and September 15 of each year. On each interest payment date, the Company may elect to defer and pay in-kind any interest accrued as of such interest payment date by increasing the unpaid principal amount of the 1.5 Lien Notes as at such date (each, a "PIK Interest Payment"). Following each such increase in the principal amount of the 1.5 Lien Notes as a result of any PIK Interest Payment, the 1.5 Lien Notes will bear interest on such increased principal amount from and after the date of each such PIK Interest Payment. Upon repayment of the 1.5 Lien Notes, any interest which has accrued thereon but has not been capitalized as set forth above shall be paid in cash.

The liability portion of the 1.5 Lien Notes was recorded at an initial fair value of \$55,127 using a discount rate of 13.4 percent, representing the discount rate of a comparable debt instrument without a conversion feature. The remaining \$4,873 is the difference between the initial principal amount and the fair value of the liability component and was recorded as the equity portion of the conversion feature in shareholders' equity. At December 31, 2020, \$44 of the discount on the liability portion of the notes was amortized into its carrying value (year ended December 31, 2019 – not applicable). The Company incurred transaction costs of \$7,596 associated with the issuance of the 1.5 Lien Notes which was allocated to debt issuance costs and share issuance costs on a proportional basis to the initial fair value of the liability and equity components.

#### c) Second Lien Notes

On February 24, 2020, the Company completed an exchange offer of US\$120,000 of new 10.875% second lien secured notes ("Second Lien Notes") due March 15, 2026 to holders of its existing Unsecured Notes. The exchange was completed at an average exchange price of US\$550 per each US\$1,000 of Unsecured Notes resulting in US\$218,182 being exchanged for US\$120,000 of Second Lien Notes, resulting in a non-cash gain on exchange of debt of \$130,444. The early settlement of the Unsecured Notes resulted in the write-off of \$4,449 of unamortized deferred finance costs.

#### d) Revolving Credit Facility

On December 18, 2020, the Company amended its credit facilities to reduce its total facility capacity from \$375,000 to \$290,000. The facilities consist of an operating facility of \$30,933 and a syndicated facility of \$259,067. As part of the amended agreement, the Company's Funded Debt to Adjusted EBITDA covenant is waived for the quarters ended December 31, 2020 through June 30, 2021 and is 4.50x for the quarter ended September 30, 2021, 3.50x for the quarter ended December 31, 2021 ("Covenant Relief Period") and 3.00x for each quarter end thereafter. The Covenant Relief Period terminates on the earlier of December 31, 2021 and any prior quarter end for which Calfrac has requested early termination and has provided a compliance certificate to its lenders certifying compliance with all financial covenants and where the Funded Debt to Adjusted EBITDA ratio is less than 3.00x at such quarter end.

The Company's credit facilities 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 1.00 percent to prime plus 3.50 percent. For LIBOR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 2.00 percent to 4.50 percent above the respective base rates. The Company incurs interest at the high end of the ranges outlined above during the Covenant Relief Period or 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 equity compensation plans; and (c) no increase in the rate of dividends are permitted. As at December 31, 2020, the Company's net Total Debt to Adjusted EBITDA ratio exceeded the 5.00:1.00 threshold.

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, 2020 was \$90,332 (year ended December 31, 2019 – \$83,665). Included in interest expense during the year ended December 31, 2020 is \$47,272 of accrued interest that was forgiven as part of the Recapitalization Transaction (see note 5).

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

| <i>(C\$000s)</i>                                       | 2020<br><i>(\$)</i> |
|--------------------------------------------------------|---------------------|
| Balance, January 1                                     | 976,693             |
| Issuance of long-term debt, net of debt issuance costs | 142,319             |
| Long-term debt repayments                              | (118,727)           |
| Non-cash settlement of Unsecured Notes                 | (549,791)           |
| Non-cash gain on exchange of debt                      | (130,444)           |
| Amortization of debt issuance costs and debt discount  | 19,074              |
| Foreign exchange adjustments                           | (14,491)            |
| <b>Balance, December 31</b>                            | <b>324,633</b>      |

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

| As at December 31, 2020<br><i>(C\$000s)</i> | Amount<br><i>(\$)</i> |
|---------------------------------------------|-----------------------|
| 2021                                        | —                     |
| 2022                                        | 130,000               |
| 2023 <sup>(1)</sup>                         | 60,000                |
| 2024                                        | —                     |
| 2025                                        | —                     |
| Thereafter                                  | 152,784               |
|                                             | <b>342,784</b>        |

<sup>(1)</sup> Gross principal of \$60,000 related to 1.5 Lien Notes.

At December 31, 2020, the Company had utilized \$828 of its loan facility for letters of credit, had \$130,000 outstanding under its revolving term loan facility, leaving \$159,172 in available credit, subject to a monthly borrowing base, as determined using the previous month's results, which at December 31, 2020, resulted in liquidity of \$80,359. Under the terms of the amended credit facility agreement, the Company must maintain a minimum liquidity amount of \$15,000 during the Covenant Relief Period.

See note 15 for further details on the covenants in respect of the Company's long-term debt.

## 7. CAPITAL STOCK

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

| Years Ended December 31,                                        | 2020          |                    | 2019          |                    |
|-----------------------------------------------------------------|---------------|--------------------|---------------|--------------------|
|                                                                 | Shares<br>(#) | Amount<br>(\$000s) | Shares<br>(#) | Amount<br>(\$000s) |
| Continuity of Common Shares                                     |               |                    |               |                    |
| Balance, beginning of year                                      | 2,897,778     | 506,735            | 2,889,251     | 504,526            |
| Issued upon exercise of stock options                           | —             | —                  | 1,974         | 252                |
| Issued upon vesting of performance share units                  | 5,646         | 1,275              | 2,097         | 707                |
| Issued on acquisition (note 14)                                 | 8,913         | 2,500              | 4,456         | 1,250              |
| Issued upon settlement of Unsecured Notes (note 5)              | 33,491,870    | 301,427            | —             | —                  |
| Issued for commitment fee on 1.5 Lien Notes (note 5)            | 1,125,703     | 10,131             | —             | —                  |
| Shares repurchased by shareholder cash election (note 5)        | (121,231)     | (21,268)           | —             | —                  |
| Cancellation of fractional shares upon 50:1 share consolidation | (189)         | —                  | —             | —                  |
| Share issue costs on 1.5 Lien Notes                             | —             | (616)              | —             | —                  |
| Balance, end of year                                            | 37,408,490    | 800,184            | 2,897,778     | 506,735            |
| Shares to be issued (note 14)                                   | —             | —                  | 8,913         | 2,500              |
|                                                                 | 37,408,490    | 800,184            | 2,906,691     | 509,235            |

On December 18, 2020, the Company consolidated its common shares on a basis of 50:1. All common share figures in the financial statements and comparatives have been adjusted to reflect the 50:1 effect, without a corresponding change in dollar amounts. Earnings per share have been adjusted to reflect the impact of the share consolidation.

The weighted average number of common shares outstanding for the three months ended December 31, 2020 was 8,158,367 basic and 57,598,127 diluted (three months ended December 31, 2019 – 2,894,394 basic and 2,906,690 diluted). The weighted average number of common shares outstanding for the year ended December 31, 2020 was 4,223,061 basic and 54,234,401 diluted (year ended December 31, 2019 – 2,891,292 basic and 2,909,495 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 8, warrants issued as part of the Recapitalization Transaction as disclosed in note 5, and the dilutive effect of the conversion of the 1.5 Lien Notes as disclosed in note 6.

As disclosed in note 5, in conjunction with the Recapitalization Transaction, the Company purchased 121,231 common shares at a cost of \$926 and, of the amount paid, \$21,268 was charged to capital stock and \$20,342 to contributed surplus. These common shares were cancelled prior to December 31, 2020.

## 8. SHARE-BASED PAYMENTS

### (a) Stock Options

| Years Ended December 31,    | 2020           |                                   | 2019           |                                   |
|-----------------------------|----------------|-----------------------------------|----------------|-----------------------------------|
|                             | Options<br>(#) | Average<br>Exercise Price<br>(\$) | Options<br>(#) | Average<br>Exercise Price<br>(\$) |
| Continuity of Stock Options |                |                                   |                |                                   |
| Balance, January 1          | 244,060        | 158.00                            | 187,842        | 235.00                            |
| Granted                     | 1,098          | 31.00                             | 89,403         | 84.00                             |
| Exercised for common shares | —              | —                                 | (1,974)        | 99.50                             |
| Forfeited                   | (57,280)       | 192.00                            | (12,611)       | 235.50                            |
| Terminated and cancelled    | (184,536)      | 143.00                            | —              | —                                 |
| Expired                     | (3,342)        | 366.50                            | (18,600)       | 529.00                            |
| Balance, December 31        | —              | —                                 | 244,060        | 158.00                            |

On December 18, 2020, as outlined in note 5, the Company terminated its remaining 184,536 outstanding stock options for no consideration. The cancellation of the stock options was accounted for as an acceleration of vesting and the remaining fair value of the options of \$780 was recognized in the current period as a reduction of the gain on settlement of debt.

The weighted average fair value of options granted during 2020, determined using the Black-Scholes valuation method, was \$13.50 per option (year ended December 31, 2019 – \$51.00 per option). The Company applied the following assumptions in determining the fair value of options on the date of grant:

| Years Ended December 31, | 2020    | 2019    |
|--------------------------|---------|---------|
| Expected life (years)    | 3.00    | 3.00    |
| Expected volatility      | 71.18 % | 59.16 % |
| Risk-free interest rate  | 0.87 %  | 1.66 %  |
| Expected dividends       | \$0.00  | \$0.00  |

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

(b) Share Units

| Years Ended December 31,  | 2020                 |                         | 2019                 |                         |                        |
|---------------------------|----------------------|-------------------------|----------------------|-------------------------|------------------------|
|                           | Deferred Share Units | Performance Share Units | Deferred Share Units | Performance Share Units | Restricted Share Units |
|                           | (#)                  | (#)                     | (#)                  | (#)                     | (#)                    |
| Continuity of Stock Units |                      |                         |                      |                         |                        |
| Balance, January 1        | 2,900                | 25,891                  | 2,900                | 22,166                  | 62,783                 |
| Granted                   | 2,100                | 19,968                  | 2,900                | 23,182                  | —                      |
| Exercised                 | (1,600)              | (5,646)                 | (2,900)              | (11,134)                | (39,972)               |
| Forfeited                 | (1,000)              | (8,027)                 | —                    | (8,323)                 | (22,811)               |
| Settled                   | —                    | (17,014)                | —                    | —                       | —                      |
| Terminated and cancelled  | —                    | (15,172)                | —                    | —                       | —                      |
| Balance, December 31      | 2,400                | —                       | 2,900                | 25,891                  | —                      |

| Years Ended December 31,               | 2020  | 2019  |
|----------------------------------------|-------|-------|
|                                        | (\$)  | (\$)  |
| Expense (recovery) from:               |       |       |
| Stock options                          | 1,747 | 3,030 |
| Deferred share units                   | (157) | 196   |
| Performance share units                | 1,030 | 1,908 |
| Restricted share units                 | —     | (197) |
| Total stock-based compensation expense | 2,620 | 4,937 |

Stock-based compensation expense is included in selling, general and administrative expenses. During the year ended December 31, 2020, the stock option and performance share unit expense related to the cancellation and termination of those respective plans, as outlined in note 5, totaling \$1,266, was recorded as a reduction of the gain on settlement of debt.

The Company grants deferred share units to its outside directors. These units vest on the first anniversary of the date of grant and are settled either in cash (equal to the market value of the underlying shares at the time of exercise) or in Company shares purchased on the open market. The fair value of the deferred share units is recognized equally over the vesting period, based on the current market price of the Company's shares. At December 31, 2020, the liability pertaining to deferred share units was \$9 (December 31, 2019 – \$166).

As disclosed in note 5, all of the Company's outstanding cash-based performance share units were terminated and cancelled for no consideration. All of the Company's outstanding equity-based performance shares units vested immediately prior to the effective time of the Plan of Arrangement and were settled with aggregate consideration of \$174 paid to the holders thereof on a pro rata basis. The immediate vesting of the equity-based performance share units was accounted for as an acceleration of vesting and the remaining fair value of the options of \$312 along with the cash consideration of \$174 was recognized in the current period as a reduction of the gain on settlement of debt.



Changes in the Company's obligations under the deferred share unit plans, which arise from fluctuations in the market value of the Company's shares underlying these compensation programs, are recorded as the share value changes.

(c) Warrants

In conjunction with the Recapitalization Transaction, the Company issued 5,824,433 warrants to shareholders of record (i.e. registered shareholders) as of market close on December 17, 2020. Each warrant is exercisable for a period of three years into one common share at a price of \$2.50 per common shares, subject to customary adjustments and restrictions. The fair value of the warrants at issuance was estimated using a Black-Scholes pricing model, in the amount of \$40,797, and accounted for as a reduction of the gain on settlement of debt. The Company applied the following Black-Scholes model inputs:

| Year Ended December 31,   | 2020    |
|---------------------------|---------|
| Expected life (years)     | 3.00    |
| Share price at grant date | \$9.00  |
| Exercise price            | \$2.50  |
| Expected volatility       | 73.90 % |
| Risk-free interest rate   | 1.27 %  |
| Expected dividends        | \$0.00  |

As of December 31, 2020, no warrants have been exercised.

## 9. INCOME TAXES

The components of income tax expense (recovery) are:

| Years Ended December 31,               | 2020           | 2019            |
|----------------------------------------|----------------|-----------------|
| (C\$000s)                              | (\$)           | (\$)            |
| Current income tax expense             | 855            | 3,014           |
| Deferred income tax expense (recovery) | 167,768        | (55,240)        |
|                                        | <b>168,623</b> | <b>(52,226)</b> |

During the first quarter of 2020, the Company derecognized its net deferred tax asset totaling \$113,830 after assessing the utilization of available tax losses based on estimates of the Company's future taxable income.

The provision for income taxes in the consolidated statements of operations varies from the amount that would be computed by applying the expected 2020 tax rate of 24.0 percent (year ended December 31, 2019 – 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,<br>(C\$000s except percentages) | 2020<br>(\$)     | 2019<br>(\$) |
|----------------------------------------------------------|------------------|--------------|
| Loss before income tax                                   | <b>(155,612)</b> | (208,429)    |
| Income tax rate (%)                                      | <b>24.0</b>      | 27.0         |
| Computed expected income tax recovery                    | <b>(37,347)</b>  | (55,234)     |
| Increase (decrease) in income taxes resulting from:      |                  |              |
| Non-deductible expenses/non-taxable income               | <b>430</b>       | (10,088)     |
| Foreign tax rate and other foreign differences           | <b>(1,858)</b>   | 4,925        |
| Translation of foreign subsidiaries                      | <b>(478)</b>     | (134)        |
| Deferred income tax adjustment from tax rate changes     | —                | 7,712        |
| Other non-income taxes                                   | <b>494</b>       | 923          |
| Derecognition of tax losses                              | <b>122,405</b>   | 2,610        |
| Recapitalization Transaction                             | <b>86,804</b>    | —            |
| Other                                                    | <b>(1,827)</b>   | (2,940)      |
|                                                          | <b>168,623</b>   | (52,226)     |

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,<br>(C\$000s)             | 2020<br>(\$)    | 2019<br>(\$) |
|---------------------------------------------|-----------------|--------------|
| Property, plant and equipment               | <b>(95,939)</b> | (138,546)    |
| Losses carried forward                      | <b>37,012</b>   | 218,135      |
| Canadian exploration expenses               | —               | 5,156        |
| Deferred compensation payable               | —               | 304          |
| Deferred financing and share issuance costs | —               | 2,260        |
| Other                                       | <b>5,086</b>    | 26,521       |
|                                             | <b>(53,841)</b> | 113,830      |

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,<br>(C\$000s)                                                                      | 2020<br>(\$)     | 2019<br>(\$) |
|------------------------------------------------------------------------------------------------------------|------------------|--------------|
| Balance, beginning of year                                                                                 | <b>113,830</b>   | 57,438       |
| Charged (credited) to the consolidated statements of operations or accumulated other comprehensive income: |                  |              |
| Property, plant and equipment                                                                              | <b>42,606</b>    | 47,798       |
| Losses carried forward                                                                                     | <b>(181,122)</b> | 8,391        |
| Canadian exploration expenses                                                                              | <b>(5,156)</b>   | (217)        |
| Deferred compensation payable                                                                              | <b>(304)</b>     | (3,517)      |
| Deferred financing and share issuance costs                                                                | <b>(2,260)</b>   | (2,916)      |
| Other                                                                                                      | <b>(21,435)</b>  | 6,853        |
| Balance, end of year                                                                                       | <b>(53,841)</b>  | 113,830      |

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

| Years Ended December 31,<br>(C\$000s)       | 2020<br>(\$) | 2019<br>(\$) |
|---------------------------------------------|--------------|--------------|
| Tax losses (capital)                        | 41,037       | 40,878       |
| Tax losses (income)                         | 73,837       | 45,412       |
| Property, plant and equipment               | 17,211       | —            |
| Canadian exploration expenses               | 5,156        | —            |
| Deferred compensation payable               | 2            | —            |
| Deferred financing and share issuance costs | 5,307        | —            |
| Other                                       | 16,388       | —            |

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.

## 10. COMMITMENTS

The Company has lease commitments for premises, equipment, vehicles and storage facilities under agreements requiring aggregate minimum payments over the five years following December 31, 2020, as follows:

|            | Right-of-Use<br>Asset<br>Recognized<br>(\$) | No Right-of-<br>Use Asset<br>Recognized<br>(\$) | Total<br>(\$) |
|------------|---------------------------------------------|-------------------------------------------------|---------------|
| (C\$000s)  |                                             |                                                 |               |
| 2021       | 8,543                                       | 8,506                                           | 17,049        |
| 2022       | 5,000                                       | 6,823                                           | 11,823        |
| 2023       | 3,729                                       | 2,540                                           | 6,269         |
| 2024       | 3,324                                       | 71                                              | 3,395         |
| 2025       | 1,332                                       | 43                                              | 1,375         |
| Thereafter | 2,907                                       | —                                               | 2,907         |
|            | 24,835                                      | 17,983                                          | 42,818        |

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, 2020, as follows:

|           |        |
|-----------|--------|
| (C\$000s) | (\$)   |
| 2021      | 47,759 |
| 2022      | 4,768  |
| 2023      | —      |
| 2024      | —      |
| 2025      | —      |
|           | 52,527 |

## 11. 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.

The following table sets out the movement in the lease obligation:

|                               | 2020        |
|-------------------------------|-------------|
| <i>(C\$000s)</i>              | <i>(\$)</i> |
| Balance, January 1            | 30,919      |
| Additions                     | 20,697      |
| Disposals/retirements         | (15,647)    |
| Principal portion of payments | (14,064)    |
| Foreign exchange adjustments  | 66          |
| Balance, December 31          | 21,971      |

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

| Year Ended December 31, 2020 | Opening<br>Net Book<br>Value | Additions   | Disposals   | Impairment  | Depreciation | Foreign<br>Exchange<br>Adjustments | Closing<br>Net Book<br>Value |
|------------------------------|------------------------------|-------------|-------------|-------------|--------------|------------------------------------|------------------------------|
| <i>(C\$000s)</i>             | <i>(\$)</i>                  | <i>(\$)</i> | <i>(\$)</i> | <i>(\$)</i> | <i>(\$)</i>  | <i>(\$)</i>                        | <i>(\$)</i>                  |
| Field equipment              | 24,403                       | 1,276       | (3,852)     | —           | (8,168)      | 29                                 | 13,688                       |
| Buildings                    | 5,357                        | 19,421      | (11,596)    | —           | (4,078)      | (7)                                | 9,097                        |
|                              | 29,760                       | 20,697      | (15,448)    | —           | (12,246)     | 22                                 | 22,785                       |

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

|                                                                                                                     | 2020        |
|---------------------------------------------------------------------------------------------------------------------|-------------|
| <i>(C\$000s)</i>                                                                                                    | <i>(\$)</i> |
| Interest expense on lease obligations                                                                               | 1,582       |
| Expense relating to short-term leases (included in operating and selling, general and administrative expense)       | 18,140      |
| Expense relating to low value leases (included in operating and selling, general and administrative expense)        | 1,389       |
| Expense relating to variable lease payments (included in operating and selling, general and administrative expense) | 7,600       |
| Income from subleasing of right-of-use assets                                                                       | (79)        |
| Total cash outflow for lease obligations                                                                            | 15,646      |

## 12. 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 and carrying value of the Second Lien Notes, as measured based on the closing market price at December 31, 2020 was \$106,706 and \$152,784, respectively (December 31, 2019 – not applicable). The Unsecured Notes were settled on December 18, 2020. The fair value and carrying value of the Unsecured Notes at December 31, 2019 was \$342,078 and \$844,220, respectively.

The fair values of the remaining long-term debt approximate their carrying values, as described in note 6.

### (b) Credit Risk

Substantial amounts of the Company's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risks. The Company mitigates this risk through its credit policies and practices including the use of credit limits and approvals, and by monitoring the financial condition of its customers. At December 31, 2020, the Company had a loss allowance provision for accounts receivable of \$1,726 (December 31, 2019 – \$1,931).

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 loan loss allowance of \$1,390 was recorded during the year ended December 31, 2020, using the lifetime expected credit loss model (year ended December 31, 2019 – \$15). The expected credit loss rates for each operating segment are based on actual credit losses experienced in the past.

The loss allowance provision for trade accounts receivable as at December 31, 2020 reconciles to the opening loss allowance provision as follows:

|                                                                       | 2020        |
|-----------------------------------------------------------------------|-------------|
| <i>(C\$000s)</i>                                                      | <i>(\$)</i> |
| At January 1, 2020                                                    | 1,931       |
| Increase in loan loss allowance recognized in statement of operations | 1,390       |
| Specific receivables deemed as uncollectible and written off          | (1,609)     |
| Foreign exchange adjustments                                          | 14          |
| At December 31, 2020                                                  | 1,726       |

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, 2020 and 2019, excluding any impaired accounts, are as follows:

| As at December 31, | 2020           | 2019        |
|--------------------|----------------|-------------|
| <i>(C\$000s)</i>   | <i>(\$)</i>    | <i>(\$)</i> |
| Current            | <b>97,000</b>  | 145,704     |
| 31 – 60 days       | <b>20,303</b>  | 34,863      |
| 61 – 90 days       | <b>10,111</b>  | 14,676      |
| 91+ days           | <b>5,045</b>   | 14,888      |
| Total              | <b>132,459</b> | 210,131     |

#### (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, 2020 amounts to \$1,300 (December 31, 2019 – \$1,480).

The Company's effective interest rate for the year ended December 31, 2020 was 7.5 percent (year ended December 31, 2019 – 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 to maintain liquidity. See note 15 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, 2020                     | Total          | <1 Year        | 1 – 3 Years    | 4 – 6 Years    | 7 – 9 Years | Thereafter  |
|------------------------------------------|----------------|----------------|----------------|----------------|-------------|-------------|
| <i>(C\$000s)</i>                         | <i>(\$)</i>    | <i>(\$)</i>    | <i>(\$)</i>    | <i>(\$)</i>    | <i>(\$)</i> | <i>(\$)</i> |
| Accounts payable and accrued liabilities | <b>101,784</b> | <b>101,784</b> | —              | —              | —           | —           |
| Lease obligations <sup>(1)</sup>         | <b>24,835</b>  | <b>8,543</b>   | <b>12,053</b>  | <b>3,512</b>   | <b>727</b>  | —           |
| Long-term debt <sup>(1)</sup>            | <b>441,845</b> | <b>23,078</b>  | <b>246,885</b> | <b>171,882</b> | —           | —           |

<sup>(1)</sup> Principal and interest

| 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 <sup>(1)</sup>         | 38,330    | 21,901  | 14,164      | 2,265       | —           | —          |
| Long-term debt <sup>(1)</sup>            | 1,478,310 | 79,898  | 374,795     | 1,023,617   | —           | —          |

<sup>(1)</sup> 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 Second Lien 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, 2020                   | Impact to Net Income |
|----------------------------------------|----------------------|
| (C\$000s)                              | (\$)                 |
| 1% change in value of U.S. dollar      | 1,638                |
| 1% change in value of Argentinean peso | 18                   |
| 1% change in value of Russian rouble   | —                    |

| 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   | —                    |

### 13. SUPPLEMENTAL CASH FLOW INFORMATION

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

| Years Ended December 31,                 | 2020     | 2019     |
|------------------------------------------|----------|----------|
| (C\$000s)                                | (\$)     | (\$)     |
| Accounts receivable                      | 77,161   | 132,783  |
| Inventory                                | 16,458   | 18,759   |
| Prepaid expenses and deposits            | (68)     | 38       |
| Accounts payable and accrued liabilities | (89,072) | (87,858) |
| Income taxes recoverable                 | 78       | (1,026)  |
|                                          | 4,557    | 62,696   |
| Income taxes paid                        | 777      | 4,040    |

Purchase of property, plant and equipment is comprised of:

| Years Ended December 31,<br>(C\$000s)                                          | 2020<br>(\$)    | 2019<br>(\$) |
|--------------------------------------------------------------------------------|-----------------|--------------|
| Property, plant and equipment additions                                        | <b>(44,630)</b> | (139,305)    |
| Change in liabilities related to the purchase of property, plant and equipment | <b>(1,559)</b>  | (8,065)      |
|                                                                                | <b>(46,189)</b> | (147,370)    |

## 14. 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. The purchase price under the agreement has been satisfied in full through the issuance of an aggregate of 17,826 shares issued in four tranches with the final tranche issued on August 7, 2020.

## 15. 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, issue new shares or new debt or repay existing debt. The Company recently completed its Recapitalization Transaction aimed at addressing its capital structure, see note 5 for further information.

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,<br>(C\$000s) | 2020<br>(\$)     | 2019<br>(\$) |
|-------------------------------------------------------|------------------|--------------|
| Net loss                                              | <b>(324,235)</b> | (156,203)    |
| Adjusted for the following:                           |                  |              |
| Depreciation                                          | <b>172,021</b>   | 261,227      |
| Foreign exchange losses                               | <b>15,477</b>    | 6,341        |
| Loss on disposal of property, plant and equipment     | <b>24</b>        | 1,870        |
| Impairment of property, plant and equipment           | <b>227,208</b>   | 2,165        |
| Impairment of inventory                               | <b>27,868</b>    | —            |
| Impairment of other assets                            | <b>507</b>       | 3,744        |
| Gain on settlement of debt                            | <b>(226,319)</b> | —            |
| Gain on exchange of debt                              | <b>(130,444)</b> | —            |
| Interest                                              | <b>91,267</b>    | 85,826       |
| Income taxes                                          | <b>168,623</b>   | (52,226)     |
| Operating income                                      | <b>21,997</b>    | 152,744      |

Net debt for this purpose is calculated as follows:

| As at December 31,<br>(C\$000s)                              | 2020<br>(\$)    | 2019<br>(\$) |
|--------------------------------------------------------------|-----------------|--------------|
| Long-term debt, net of debt issuance costs and debt discount | <b>324,633</b>  | 976,693      |
| Lease obligations                                            | <b>21,971</b>   | 30,919       |
| Less: cash and cash equivalents                              | <b>(29,830)</b> | (42,562)     |
| Net debt                                                     | <b>316,774</b>  | 965,050      |

The ratio of net debt to operating income does not have a standardized meaning under IFRS and may not be comparable to similar measures used by other companies.

At December 31, 2020, the net debt to operating income ratio was 14.40:1 (December 31, 2019 – 6.32:1) calculated on a 12-month trailing basis as follows:

| For the Twelve Months Ended December 31,<br>(C\$000s, except ratio) | 2020<br>(\$)   | 2019<br>(\$) |
|---------------------------------------------------------------------|----------------|--------------|
| Net debt                                                            | <b>316,774</b> | 965,050      |
| Operating income                                                    | <b>21,997</b>  | 152,744      |
| Net debt to operating income ratio                                  | <b>14.40:1</b> | 6.32:1       |

The Company is subject to certain financial covenants relating to working capital, leverage and the generation of cash flow in respect of its operating and revolving credit facilities. These covenants are monitored on a monthly basis. As per the amended credit facility agreement as disclosed in note 6, the Company's Funded Debt to Adjusted EBITDA covenant is waived for the quarters ended December 31, 2020 to June 30, 2021, and is 4.50x for the quarter ended September 30, 2021, 3.50x for the quarter ended December 31, 2021, and 3.00x for each quarter end thereafter. As shown in the table below, the Company was in full compliance with its financial covenants associated with its credit facilities as at December 31, 2020.

| As at December 31,                                             | Covenant<br>2020 | Actual<br>2020 |
|----------------------------------------------------------------|------------------|----------------|
| Working capital ratio not to fall below                        | 1.15x            | <b>2.66x</b>   |
| Funded Debt to Adjusted EBITDA not to exceed <sup>(1)(2)</sup> | N/A              | <b>14.45x</b>  |
| Funded Debt to Capitalization not to exceed <sup>(1)(3)</sup>  | 0.30x            | <b>0.16x</b>   |

<sup>(1)</sup> Funded Debt is defined as Total Debt excluding all outstanding second lien notes, 1.5 lien 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).

<sup>(2)</sup> Adjusted EBITDA is defined as net income or loss for the period adjusted for interest, taxes, depreciation and amortization, non-cash stock-based compensation, and gains and losses that are extraordinary or non-recurring.

<sup>(3)</sup> Capitalization is Total Debt plus equity.



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, 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:

| Years Ended December 31,<br>(C\$000s)               | 2020<br>(\$)     | 2019<br>(\$) |
|-----------------------------------------------------|------------------|--------------|
| Net loss                                            | <b>(324,235)</b> | (156,203)    |
| Add back (deduct):                                  |                  |              |
| Depreciation                                        | <b>172,021</b>   | 261,227      |
| Unrealized foreign exchange losses                  | <b>8,319</b>     | 2,041        |
| Loss on disposal of property, plant and equipment   | <b>24</b>        | 1,870        |
| Impairment of property, plant and equipment         | <b>227,208</b>   | 2,165        |
| Impairment of inventory                             | <b>27,868</b>    | 3,744        |
| Impairment of other assets                          | <b>507</b>       | —            |
| Gain on settlement of debt                          | <b>(226,319)</b> | —            |
| Gain on exchange of debt                            | <b>(130,444)</b> | —            |
| Non-cash purchase commitment termination settlement | <b>2,082</b>     | —            |
| Restructuring charges                               | <b>5,377</b>     | 6,049        |
| Stock-based compensation                            | <b>1,511</b>     | 4,626        |
| Interest                                            | <b>91,267</b>    | 85,826       |
| Income taxes                                        | <b>168,623</b>   | (52,226)     |
| <b>Adjusted EBITDA<sup>(1)</sup></b>                | <b>23,809</b>    | 159,119      |

<sup>(1)</sup> For bank covenant purposes, EBITDA includes the deduction of an additional \$15,646 of lease payments for the year ended December 31, 2020 (year ended December 31, 2019 – \$21,893) that would have been recorded as operating expenses prior to the adoption of IFRS 16.

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

- i. Eligible North American accounts receivable, which is based on 75 percent of accounts receivable owing by companies rated BB+ or lower by Standard & Poor's (or a similar rating agency) and 85 percent of accounts receivable from companies rated BBB- or higher;
- ii. 100 percent of unencumbered cash of the parent company and its U.S. operating subsidiary, excluding any cash held in a segregated account for the purposes of a potential equity cure; and
- iii. 25 percent of the net book value of property, plant and equipment (PP&E) of the parent company and its U.S. operating subsidiary. The value of PP&E excludes assets under construction and is limited to \$150,000.

The indentures governing the Second Lien Notes and 1.5 Lien Notes contain restrictions on the Company's ability to pay dividends, purchase and redeem shares of the Company and make certain restricted investments, that are not defined as Permitted Investments under the indentures, in circumstances where:

- i. the Company is in default under either of the indentures or the making of such payment would result in a default;
- ii. the Company is not meeting the Fixed Charge Coverage Ratio<sup>(1)</sup> under either of the indentures of at least 2:1 for the most recent four fiscal quarters, after giving pro forma effect to such restricted payment as if it had been made at the beginning of the applicable four fiscal quarter period; or
- iii. there is insufficient room for such payment within a builder basket included in the indentures; and in the case of the 1.5 Lien Note indenture, at least one year has passed since their issue date.

<sup>(1)</sup> 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 indentures as net income (loss) before depreciation, extraordinary gains or losses, unrealized foreign exchange gains or losses, gains or losses on disposal of property, plant and equipment, impairment or reversal of impairment of assets, restructuring charges, provision for settlement of litigation, stock-based compensation, interest, and income taxes. Interest expense is adjusted to exclude any non-recurring charges associated with redeeming or retiring any indebtedness prior to its maturity.

These limitations on restricted payments are tempered by the existence of a number of exceptions to the general prohibition, including a basket allowing for restricted payments in an aggregate amount of up to US\$20,000 in each of the indentures. As at December 31, 2020, these baskets were not utilized.

The indentures also restrict 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. The indenture governing the 1.5 Lien Notes includes restrictions on certain investments including certain investments in subsidiary entities, however the indenture includes several exceptions to this prohibition, including a general basket of US\$10,000 and baskets related to prepayment and build commitments which aggregate over US\$12,000. This indenture also contains a restriction that any indebtedness incurred in excess of \$290,000 under the credit facilities basket shall be junior in priority to the 1.5 Lien Notes.

As at December 31, 2020, the Company's Fixed Charge Coverage Ratio of 0.30:1 was below the required 2:1 ratio. Failing to meet the Fixed Charge Coverage Ratio is not an event of default under the indentures, and the baskets highlighted in the preceding paragraphs provide sufficient flexibility for the Company to incur additional indebtedness and make anticipated restricted payments which may be required to conduct its operations.

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 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.

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 \$20,000 (\$10,000 during the Covenant Relief Period). 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 \$50,000 at the time of any such dispositions, the Company must use the resulting proceeds to reduce the advances to less than \$50,000 before using the balance for other purposes.

## 16. RELATED-PARTY TRANSACTIONS

In conjunction with the Recapitalization Transaction (note 5), the Company issued \$60,000 of 1.5 Lien Notes on a private placement basis. Participants in the private placement included entities controlled by George S. Armony, a member of the Board of Directors, and Ronald P. Mathison, the Executive Chairman of the Company. The related parties hold 43.5 percent and 18.7 percent, respectively, of the 1.5 Lien Notes.

In connection with the 1.5 Lien Notes offering, the Company issued 1,125,703 common shares to certain investors that backstopped the issuance of the 1.5 Lien Notes. Participating investors included entities controlled by George S. Armony, which collectively received 734,413 shares for their participation.

The Company leases certain premises from a company controlled by Ronald P. Mathison. The rent charged for these premises during the year ended December 31, 2020 was \$1,511 (year ended December 31, 2019 – \$1,742), as measured at the exchange amount, which is based on market rates at the time the lease arrangements were made and is under the normal course of business.

## 17. 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)                           | (\$)           | (\$)           | (\$)           | (\$)           | (\$)             |
| <b>Year Ended December 31, 2020</b> |                |                |                |                |                  |
| Fracturing                          | 208,523        | 306,084        | 90,340         | 39,856         | 644,803          |
| Coiled tubing                       | 21,363         | —              | 10,067         | 12,231         | 43,661           |
| Cementing                           | —              | —              | —              | 12,847         | 12,847           |
| Product sales                       | 562            | 6              | —              | —              | 568              |
| Subcontractor                       | —              | —              | —              | 3,557          | 3,557            |
|                                     | <b>230,448</b> | <b>306,090</b> | <b>100,407</b> | <b>68,491</b>  | <b>705,436</b>   |
| <b>Year Ended December 31, 2019</b> |                |                |                |                |                  |
| 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           |
|                                     | <b>397,583</b> | <b>930,404</b> | <b>105,807</b> | <b>187,161</b> | <b>1,620,955</b> |

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 76 oil and natural gas exploration and production companies, ranging from large multi-national publicly traded companies to small private companies. Notwithstanding the Company's broad customer base, Calfrac had four significant customers that collectively accounted for approximately 38 percent of the Company's revenue for the year ended December 31, 2020 (year ended December 31, 2019 – five significant customers for approximately 32 percent) and, of such customers, one customer accounted for approximately 14 percent of the Company's revenue for the year ended December 31, 2020 (year ended December 31, 2019 – 7 percent).

## 18. 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,<br>(C\$000s)         | 2020<br>(\$)   | 2019<br>(\$) |
|-----------------------------------------------|----------------|--------------|
| Product costs                                 | 213,262        | 448,203      |
| Personnel costs                               | 201,318        | 436,458      |
| Depreciation on property, plant and equipment | 159,775        | 240,262      |
| Depreciation on right-of-use assets (note 11) | 12,246         | 20,965       |
| Other operating costs                         | 219,976        | 513,676      |
|                                               | <b>806,577</b> | 1,659,564    |

## 19. 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,<br>(C\$000s)                    | 2020<br>(\$)   | 2019<br>(\$) |
|----------------------------------------------------------|----------------|--------------|
| Salaries and short-term employee benefits                | 208,763        | 447,235      |
| Post-employment benefits (group retirement savings plan) | 2,495          | 9,888        |
| Share-based payments                                     | 2,620          | 4,937        |
| Termination benefits                                     | 6,107          | 6,520        |
|                                                          | <b>219,985</b> | 468,580      |

## 20. 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. Compensation awarded to key management comprised:

| Years Ended December 31,<br>(C\$000s)                    | 2020<br>(\$) | 2019<br>(\$) |
|----------------------------------------------------------|--------------|--------------|
| Salaries, fees and short-term benefits                   | 2,443        | 3,941        |
| Post-employment benefits (group retirement savings plan) | 18           | 41           |
| Share-based payments                                     | 842          | 1,152        |
| Termination benefits                                     | —            | 2,441        |
|                                                          | <b>3,303</b> | 7,575        |

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 a change of control.

## 21. CONTINGENCIES

### GREEK LITIGATION

As a result of the acquisition and amalgamation with Denison in 2004, the Company assumed certain legal obligations relating to Denison's Greek operations.

In 1998, North Aegean Petroleum Company E.P.E. ("NAPC"), a Greek subsidiary of a consortium in which Denison participated (and which is now a majority-owned subsidiary of the Company), terminated employees in Greece as a result of the cessation of its oil and natural gas operations in that country. Several groups of former employees filed claims against NAPC and the consortium alleging that their termination was invalid and that their severance pay was improperly determined.

In 1999, the largest group of plaintiffs received a ruling from the Athens Court of First Instance that their termination was invalid and that salaries in arrears amounting to approximately \$10,685 (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 was 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.

Provisional orders granting a temporary suspension of any enforcement proceedings have been granted in respect of all of these orders. Hearings in respect of each of the orders have been held, and in each case, decisions were rendered accepting the Company's position. All of these decisions were appealed, but the favorable judgments have all been confirmed in the Company's favor. The plaintiffs have filed petitions for cassation against three of the appeal judgments, and will have 30 days to file a petition for cassation following the service of the remaining judgment once it has been certified. No hearings have been scheduled for the three pending cassation petitions.

NAPC is also the subject of a claim for approximately \$4,467 (2,862 euros) plus associated penalties and interest from the Greek social security agency for social security obligations associated with the salaries in arrears that are the subject of the above-mentioned decision.

The maximum aggregate interest and penalties payable under the claims noted above, as well as three other immaterial claims against NAPC totaling \$902 (578 euros), amounted to \$30,036 (19,244 euros) as at December 31, 2020.

Management is of the view that it is improbable there will be a material financial impact to the Company as a result of these claims. Consequently, no provision has been recorded in these consolidated financial statements.

## 22. 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)                              | (\$)    | (\$)          | (\$)    | (\$)      | (\$)      | (\$)         |
| <b>Year Ended December 31, 2020</b>    |         |               |         |           |           |              |
| Revenue                                | 230,448 | 306,090       | 100,407 | 68,491    | —         | 705,436      |
| Operating income (loss) <sup>(1)</sup> | 33,868  | 4,029         | 10,933  | (6,477)   | (20,356)  | 21,997       |
| Segmented assets                       | 213,418 | 555,494       | 62,336  | 81,215    | —         | 912,463      |
| Capital expenditures                   | 10,067  | 31,435        | 1,206   | 1,922     | —         | 44,630       |
| <b>Year Ended December 31, 2019</b>    |         |               |         |           |           |              |
| Revenue                                | 397,583 | 930,404       | 105,807 | 187,161   | —         | 1,620,955    |
| Operating income (loss) <sup>(1)</sup> | 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      |

<sup>(1)</sup> 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, gains or losses on exchange or settlement of debt, impairment of inventory, impairment of property, plant and equipment, interest, and income taxes.

| Years Ended December 31,                          | 2020      | 2019      |
|---------------------------------------------------|-----------|-----------|
| (C\$000s)                                         | (\$)      | (\$)      |
| Net loss                                          | (324,235) | (156,203) |
| Add back (deduct):                                |           |           |
| Depreciation                                      | 172,021   | 261,227   |
| Foreign exchange losses                           | 15,477    | 6,341     |
| Loss on disposal of property, plant and equipment | 24        | 1,870     |
| Impairment of property, plant and equipment       | 227,208   | 2,165     |
| Impairment of inventory                           | 27,868    | 3,744     |
| Impairment of other assets                        | 507       | —         |
| Gain on settlement of debt                        | (226,319) | —         |
| Gain on exchange of debt                          | (130,444) | —         |
| Interest                                          | 91,267    | 85,826    |
| Income taxes                                      | 168,623   | (52,226)  |
| Operating income                                  | 21,997    | 152,744   |

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

## HISTORICAL REVIEW

|                                                                | 2020        | 2019        | 2018        | 2017        | 2016        |
|----------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| <i>(C\$000s, except per share amounts)</i>                     | <i>(\$)</i> | <i>(\$)</i> | <i>(\$)</i> | <i>(\$)</i> | <i>(\$)</i> |
| <i>(unaudited)</i>                                             |             |             |             |             |             |
| <b>FINANCIAL RESULTS</b>                                       |             |             |             |             |             |
| Revenue                                                        | 705,436     | 1,620,955   | 2,256,426   | 1,527,705   | 734,514     |
| Operating income (loss) <sup>(1)</sup>                         | 21,490      | 152,744     | 311,825     | 180,120     | (58,204)    |
| Per share - basic <sup>(2)</sup>                               | 5.21        | 1.06        | 2.16        | 1.31        | (0.50)      |
| Per share - diluted <sup>(2)</sup>                             | 0.41        | 1.05        | 2.12        | 1.29        | (0.50)      |
| Adjusted EBITDA <sup>(1)</sup>                                 | 23,809      | 159,119     | 329,408     | 191,823     | (44,750)    |
| Per share - basic <sup>(2)</sup>                               | 5.64        | 1.10        | 2.29        | 1.39        | (0.38)      |
| Per share - diluted <sup>(2)</sup>                             | 0.44        | 1.09        | 2.24        | 1.38        | (0.38)      |
| Net (loss) income                                              | (324,235)   | (156,203)   | (18,188)    | 5,939       | (198,097)   |
| Per share - basic <sup>(2)</sup>                               | (76.78)     | (1.08)      | (0.13)      | 0.04        | (1.69)      |
| Per share - diluted <sup>(2)</sup>                             | (76.78)     | (1.08)      | (0.13)      | 0.04        | (1.69)      |
| Capital expenditures                                           | 44,630      | 139,305     | 159,764     | 91,933      | 38,707      |
| <b>FINANCIAL POSITION, END OF PERIOD</b>                       |             |             |             |             |             |
| Current Assets                                                 | 271,190     | 405,926     | 569,564     | 576,338     | 388,934     |
| Total Assets                                                   | 912,463     | 1,525,922   | 1,782,657   | 1,777,966   | 1,613,004   |
| Working Capital                                                | 161,448     | 248,772     | 329,871     | 327,049     | 271,581     |
| Long-Term Debt                                                 | 324,633     | 976,693     | 989,614     | 958,825     | 984,062     |
| Total Equity                                                   | 410,234     | 368,623     | 513,820     | 543,645     | 497,458     |
| <b>COMMON SHARE DATA</b>                                       |             |             |             |             |             |
| Common shares outstanding (000s), end of period <sup>(2)</sup> | 37,408      | 144,889     | 144,463     | 143,756     | 136,635     |
| Weighted average (diluted)                                     | 54,234      | 145,475     | 146,829     | 139,462     | 117,326     |
| <b>Share trading</b>                                           |             |             |             |             |             |
| High (\$) <sup>(2)</sup>                                       | 9.00        | 3.95        | 8.35        | 6.51        | 5.00        |
| Low (\$) <sup>(2)</sup>                                        | 3.65        | 0.78        | 2.03        | 2.23        | 1.06        |
| Close (\$), end of period <sup>(2)</sup>                       | 3.94        | 1.25        | 2.44        | 5.98        | 4.76        |
| Volume (000s) <sup>(2)</sup>                                   | 3,887       | 72,113      | 148,998     | 159,116     | 176,684     |
| <b>OPERATING, END OF PERIOD</b>                                |             |             |             |             |             |
| Active pumping horsepower (000s)                               | 901         | 1,269       | 1,328       | 1,115       | 659         |
| Idle pumping horsepower (000s)                                 | 444         | 141         | 42          | 280         | 563         |
| Total pumping horsepower (000s)                                | 1,345       | 1,410       | 1,370       | 1,395       | 1,222       |
| Active coiled tubing units (#)                                 | 17          | 20          | 22          | 21          | 19          |
| Idle coiled tubing units (#)                                   | 10          | 8           | 7           | 9           | 13          |
| Total coiled tubing units (#)                                  | 27          | 28          | 29          | 30          | 32          |
| Active cementing units (#)                                     | 12          | 13          | 11          | 12          | 14          |
| Idle cementing units (#)                                       | 4           | 6           | 12          | 11          | 11          |
| Total cementing units (#)                                      | 16          | 19          | 23          | 23          | 25          |

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.

<sup>(2)</sup> On December 18, 2020, the outstanding common shares of the Company were consolidated on a fifty-to-one basis. The common shares commenced trading on a post-consolidation basis on December 29, 2020. The trading volumes, prices and per share amounts in the above table are expressed on a post-share consolidation basis for 2020, and on pre-share consolidation basis for all comparative periods.

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

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

**Douglas R. Ramsay** <sup>(4)</sup>  
Vice Chairman  
Calfrac Well Services Ltd.

**Gregory S. Fletcher** <sup>(1)(2)(3)(4)(5)</sup>  
Lead Director  
President Sierra Energy Inc.

**George S. Armoyan** <sup>(2)(3)</sup>  
President & CEO  
Clarke Inc.

**Anuroop Duggal** <sup>(1)(2)(3)</sup>  
Private Investor / Adjunct Professor  
Columbia Business School

**Lorne A. Gartner** <sup>(1)(2)(3)(4)</sup>  
Independent Businessman

**Lindsay R. Link**  
President & Chief Operating Officer  
Calfrac Well Services Ltd.

*(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

**Gordon T. Milgate**  
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

**Edward L. Oke**  
Vice President, Human Resources

**B. Mark Paslawski**  
Vice President, Corporate Development & Corporate Secretary

**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

**Jeffrey I. Ellis**  
General Counsel

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Alberta Treasury Branches  
Royal Bank of Canada  
Canadian Imperial Bank of Commerce  
Export Development Canada  
The Bank of Nova Scotia

### LEGAL COUNSEL

Bennett Jones LLP  
Calgary, Alberta

### STOCK EXCHANGE LISTINGS

Toronto Stock Exchange  
Common Share Trading Symbol: CFW  
Warrant Trading Symbol: CFW.WT

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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:

Computershare Investor Services Inc.  
9th floor, 100 University Avenue  
Toronto, ON M5J 2Y1  
1-800-564-6253  
service@computershare.com

## FACILITIES & OPERATING BASES

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