2021 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 3, 2022
3:30 pm

Devonian Room
Calgary Petroleum Club
319 – 5th Avenue SW
Calgary, Alberta

PRESIDENT'S MESSAGE

To Our Valued Stakeholders:

The past year continued to be very challenging as the world adapted to a post COVID-19 pandemic environment. Throughout this time, we remained focused on executing our safety-first and consistent service quality strategy in order to maximize the financial returns to our shareholders. The Company expects the fundamentals for the pressure pumping industry to significantly improve year-over-year and we will utilize our expertise and commitment to capital discipline to maximize operating cash flow which will be dedicated to the retirement of debt.

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

SAFETY PERFORMANCE

At Calfrac, nothing else that we do matters more than having our employees perform our services effectively and safely. Over the past few years, we have taken measures to continually improve employee safety, and 2021 was no exception. Calfrac maintained this strong focus during 2021 as it achieved one of the lowest incident rates in the Company's history while, at the same time, hired a significant number of new and past employees following the COVID-19 downturn.

NORTH AMERICAN OPERATIONS

While the commodity backdrop improved during 2021, the E&P industry in North America maintained significant capital investment discipline, which muted the recovery in the energy services sector. We successfully leveraged our relationships with strategic clients in order to reactivate fleets and exited the year with nine fracturing fleets in the United States and four fracturing fleets in Canada.

Consolidation in the pressure pumping industry occurred in 2021 with the merger of some competitors in the United States. The Company believes that further consolidation would positively impact the supply-demand dynamics in North America and improve the economics for the entire pressure pumping industry.

While activity has been slower to commence in some of our operating areas early in 2022, we expect that activity and net profitability will significantly gain momentum in the coming quarters.

INTERNATIONAL OPERATIONS

In Argentina, activity during 2021 improved steadily throughout the year as COVID-19 restrictions subsided and the Company expects robust activity and enhanced year-over-year financial performance in 2022. Calfrac's acquisition of equipment from a competitor leaving the market in 2021 is anticipated to provide an expanded operating scale in southern Argentina which will lead to further growth in this market.

The ongoing conflict between Russia and Ukraine has added a level of risk and uncertainty around the Company's operations in Russia. As a result of this dynamic situation, Calfrac is monitoring developments in real time and is evaluating its options for its Russian operations.

ENVIRONMENTAL FOCUS

Protecting the environment is paramount to Calfrac's ESG efforts. We understand the impact that our operations can have on greenhouse gas emissions and our mission is to incorporate the most effective processes, while not compromising on our service quality. Currently, we are reviewing the results from our ongoing study where we evaluate greenhouse gas emissions from the latest pressure pumping technologies to determine the optimal solution. We look forward to sharing the outcomes of our findings soon, and then implementing them in the field.

LOOKING FORWARD

The Calfrac team is prepared for an exciting 2022, and anticipates a significant improvement in year-over-year financial performance driven by the safe and high quality services that we are known for. I am enthusiastic about the progress that we expect to make this year and look forward to updating you at our upcoming Annual General Meeting in May and over the course of the year.

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

Lindsay Link
President and Chief Operating Officer

March 16, 2022
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 15, 2022 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, 2021 and 2020. It should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2021, as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2020.

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 26 and 27.

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, 2021, were as follows:

Segment	Active	Idle	Total	Crewed Fleets
	(000's hhp)	*(000's hhp)*	*(000's hhp)*	*(#)*
United States	579	294	873	9
Canada	227	43	270	4
Argentina	137	—	137	6
Russia	77	—	77	6
Total	1,020	337	1,357	25

- The Company's United States segment provides fracturing services to energy companies operating in the Bakken shale play in North Dakota; in the Rockies area, including the Uinta Basin in Utah and the Powder River Basin in Wyoming. 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, 2021, Calfrac's United States operations had combined active horsepower of approximately 579,000 and no active cementing or coiled tubing units. At the end of the fourth quarter, the United States segment had temporarily idled approximately 294,000 horsepower, two 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, 2021, Calfrac's Canadian operations had active horsepower of approximately 227,000 and eight active coiled tubing units. At the end of the fourth quarter, the Canadian segment had temporarily idled approximately 43,000 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, Comodoro and Añelo regions. The Company had approximately six fracturing spreads with 137,000 active horsepower, 10 active and three idle cementing units and five active and one idle coiled tubing unit in its Argentinean segment at December 31, 2021.

- The Company's Russian segment provides fracturing and coiled tubing services in Western Siberia. During the fourth quarter of 2021, the Company operated under multi-year agreements to provide services to Russia's largest oil producer. At December 31, 2021, the Russian segment had seven deep coiled tubing units, of which four were active, and six fracturing spreads with approximately 77,000 active horsepower, all of which were active.

FINANCIAL OVERVIEW – YEARS ENDED DECEMBER 31, 2021 VERSUS 2020

CONSOLIDATED HIGHLIGHTS

Years Ended December 31,	**2021**	2020	Change
(C$000s, except per share amounts) *(unaudited)*	***($)***	*($)*	*(%)*
Revenue	**1,002,395**	705,436	42
Operating income[1]	**63,704**	21,997	190
Per share – basic[2]	**1.70**	5.21	(67)
Per share – diluted[2]	**0.76**	0.41	85
Adjusted EBITDA[1]	**61,379**	23,809	158
Per share – basic[2]	**1.63**	5.64	(71)
Per share – diluted[2]	**0.73**	0.44	66
Net loss	**(82,812)**	(324,235)	(74)
Per share – basic[2]	**(2.21)**	(76.78)	(97)
Per share – diluted[2]	**(2.21)**	(76.78)	(97)
Working capital, end of year	**170,737**	161,448	6
Total assets, end of year	**892,961**	912,463	(2)
Long-term debt, end of year	**388,479**	324,633	20
Total equity, end of year	**328,840**	410,234	(20)

[1] *Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.*

[2] *Comparative amounts were adjusted to reflect the Company's fifty-to-one common share consolidation that occurred on December 18, 2020.*

2021 OVERVIEW

In 2021, the Company:

- generated revenue of $1.0 billion, an increase of 42 percent from 2020, resulting primarily from higher activity in North America due to an improved commodity price environment and significantly higher activity in Argentina as 2021 did not include the impact of a lengthy government mandated shutdown in Argentina due to the COVID-19 pandemic;
- amended its revolving credit facility, resulting in a reduction in capacity from $290.0 million to $250.0 million;
- activated two additional fleets in the United States for a total of nine active crews at year-end;
- reported adjusted EBITDA of $61.4 million versus $23.8 million in 2020;
- reported a net loss of $82.8 million or $2.21 per share diluted compared to a net loss of $324.2 million or $76.78 per share diluted in 2020;
- reported period-end working capital of $170.7 million versus $161.4 million at December 31, 2020; and
- incurred capital expenditures of $70.7 million primarily to support the Company's North American fracturing operations, compared to $44.6 million in 2020.

Subsequent to the end of 2021, the Company negotiated additional waivers and amendments to its revolving credit facilities in order to fund expected future working capital requirements in North America. The waivers and amendments included the following:

i. The Company's Funded Debt to Adjusted EBITDA covenant was waived for the quarter ended December 31, 2021, and has been increased to 3.75x for the quarter ended March 31, 2022;

ii. The minimum $15.0 million liquidity requirement was temporarily waived until March 15, 2022 and reinstated through to June 30, 2022;

iii. G2S2 Capital Inc. (G2S2) was added as a lender to permit the incurrence of a secured bridge loan from G2S2 under the credit agreement, with such debt being excluded from the definitions of Funded Debt, Total Debt and Current Liabilities for the purposes of financial covenant calculations; and

iv. The eligible portion of the net book value of property, plant and equipment (PP&E) for the purposes of the borrowing base calculation was increased from 25 percent to 35 percent, subject to a maximum contribution of $150.0 million.

Additionally, the Company executed a secured bridge loan with G2S2, a company controlled by George Armoyan, in order to fund its short-term working capital requirements. As of March 15, 2022, the Company had drawn $15.0 million on the loan and can request further draws up to an additional $10.0 million, for maximum proceeds of $25.0 million, at an interest rate of 8.0 percent. The loan is repayable on April 29, 2022, with the option to extend the loan for a period of 60 days upon the consent of G2S2.

FINANCIAL OVERVIEW – YEARS ENDED DECEMBER 31, 2021 VERSUS 2020

CANADA

Years Ended December 31,	**2021**	2020	Change
(C$000s, except operational information) *(unaudited)*	***($)***	*($)*	*(%)*
Revenue	**280,258**	230,448	22
Expenses			
Operating	**238,261**	188,656	26
SG&A	**2,683**	7,924	(66)
	240,944	196,580	23
Operating income[1]	**39,314**	33,868	16
Operating income (%)	**14.0**	14.7	(5)
Fracturing revenue per job ($)	**21,626**	19,844	9
Number of fracturing jobs	**11,769**	10,508	12
Active pumping horsepower, end of period (000s)	**227**	202	12
Idle pumping horsepower, end of period (000s)	**43**	73	(41)
Total pumping horsepower, end of period (000s)	**270**	275	(2)
Coiled tubing revenue per job ($)	**18,970**	19,563	(3)
Number of coiled tubing jobs	**1,339**	1,092	23
Active coiled tubing units, end of period (#)	**8**	8	—
Idle coiled tubing units, end of period (#)	**5**	5	—
Total coiled tubing units, end of period (#)	**13**	13	—

[1] *Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.*

REVENUE

Revenue from Calfrac's Canadian operations during 2021 was $280.3 million versus $230.4 million in 2020 primarily due to increased activity and a larger average number of fleets operating during the year. Work during 2021 shifted from smaller jobs in the Viking to larger jobs in the Cardium, Deep Basin and Montney areas resulting in a 9 percent increase in revenue per job from the comparable period in 2020. The number of coiled tubing jobs increased by 23 percent from the comparable period in 2020 due to higher activity while revenue per job decreased by 3 percent due to changes in job mix.

OPERATING INCOME

The Company's Canadian division generated operating income of $39.3 million compared to $33.9 million in 2020. The increase in operating income was primarily due to higher fracturing activity. The Company recognized CEWS benefits of $7.0 million in 2021 compared to $10.9 million in 2020. SG&A expenses in 2021 included the reversal of a bad debt expense of $1.4 million. In addition, SG&A expenses in 2021 included a recovery from a litigation settlement offset partially by higher operating expenses stemming from an arbitral order, which increased operating income by $0.7 million. The comparable period in 2020 included $1.6 million of severance costs, a non-cash termination charge of $2.1 million in order to exit a contractual take-or-pay product purchase commitment and a $0.7 million bad debt provision. Excluding these items, operating income for 2021 would have been $31.1 million or 11.1 percent compared to $28.1 million or 12 percent in 2020. The improvement in operating income is due to the 12 percent increase in fracturing activity offset partially by lower margins for its coiled tubing operations as more pump-down work was completed in 2021 as compared to 2020, which included a greater proportion of higher margin coiled tubing related milling work.

UNITED STATES

Years Ended December 31,	**2021**	2020	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**428,521**	306,090	40
Expenses			
Operating	**406,366**	289,243	40
SG&A	**11,887**	12,818	(7)
	418,253	302,061	38
Operating income[1]	**10,268**	4,029	155
Operating income (%)	**2.4**	1.3	85
Fracturing revenue per job ($)	**30,982**	29,282	6
Number of fracturing jobs	**13,833**	10,453	32
Active pumping horsepower, end of period (000s)	**579**	516	12
Idle pumping horsepower, end of period (000s)	**294**	354	(17)
Total pumping horsepower, end of period (000s)	**873**	870	—
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 (#)	**2**	3	(33)
Total cementing units, end of period (#)	**2**	3	(33)
US$/C$ average exchange rate[2]	**1.2535**	1.3415	(7)

[1] Refer to “Non-GAAP Measures” on pages 26 and 27 for further information.
[2] Source: Bank of Canada.

REVENUE

Revenue from Calfrac’s United States operations increased to $428.5 million in 2021 from $306.1 million in 2020, primarily due to a 32 percent increase in the number of fracturing jobs completed. Overall activity in 2021 was impacted by extreme cold weather during the first quarter which temporarily shutdown operations and some short notice schedule delays late in the second quarter. Activity increased significantly in the third quarter for the seven existing crews plus the two additional fleets that were reactivated late in the second quarter. The fourth quarter started strong before key customer activity slowed significantly during the second half of the quarter. The higher fracturing revenue per job was mainly due to job mix and to a lesser extent pricing, offset partially by the 7 percent depreciation of the U.S dollar.

OPERATING INCOME

The Company’s United States division generated operating income of $10.3 million in 2021 compared to operating income of $4.0 million in 2020. In 2021 the Company reactivated two fracturing fleets and relocated a third fleet. These actions resulted in $5.0 million of increased operating expenses during the year. Pricing during the first half of 2021 remained challenged but the Company was able to obtain some modest net pricing increases during the third and fourth quarters. Utilization of the Company’s fracturing fleets was stronger at times than the comparable period in 2020, however, the results were negatively impacted by weather delays in certain operating areas in the first quarter, while customer delays by key customers and the relocation of equipment also impacted utilization during the second quarter. Activity levels in the third quarter were strong and contributed the majority of the U.S. division’s operating income for the year. An early slowdown of operating activity with key customers resulted in a sequential reduction in utilization in that quarter. SG&A expenses decreased by 7 percent as the comparable period in 2020 included $2.4 million of restructuring costs. Excluding restructuring costs, SG&A increased due to the reinstatement of previously reduced salaries and benefits during the fourth quarter in 2021.

RUSSIA

Years Ended December 31,	**2021**	2020	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**122,146**	100,407	22
Expenses			
Operating	**104,938**	86,441	21
SG&A	**2,835**	3,033	(7)
	107,773	89,474	20
Operating income[(1)]	**14,373**	10,933	31
Operating income (%)	**11.8**	10.9	8
Fracturing revenue per job ($)	**61,313**	80,733	(24)
Number of fracturing jobs	**1,847**	1,119	65
Active pumping horsepower, end of period (000s)	**77**	65	18
Idle pumping horsepower, end of period (000s)	**—**	12	(100)
Total pumping horsepower, end of period (000s)	**77**	77	—
Coiled tubing revenue per job ($)	**37,091**	46,824	(21)
Number of coiled tubing jobs	**240**	215	12
Active coiled tubing units, end of period (#)	**4**	4	—
Idle coiled tubing units, end of period (#)	**3**	3	—
Total coiled tubing units, end of period (#)	**7**	7	—
Rouble/C$ average exchange rate[(2)]	**0.0170**	0.0186	(9)

[(1)] Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.
[(2)] Source: Bank of Canada.

REVENUE

Revenue from Calfrac's Russian operations in 2021 of $122.1 million was 22 percent higher than in 2020. The increase in revenue was attributable to a 65 percent increase in fracturing activity due to a larger percentage of multi-stage projects completed in 2021, which resulted in a higher number of stages completed at a lower average job size. In addition, the Company did not encounter the same degree of weather-related disruptions during 2021, although fracturing operations were halted for 11 days in December due to the inability of the customer to supply proppant during that time period. Revenue per fracturing job was 24 percent lower than in 2020 due to changes in job mix combined with the 9 percent depreciation of the Russian rouble. Coiled tubing activity increased by 12 percent as the Company operated one additional coiled tubing unit, however, the mix of jobs resulted in a lower revenue per job.

OPERATING INCOME

The Company's Russian division generated operating income of $14.4 million in 2021 compared to operating income of $10.9 million in 2020. Utilization in 2021 improved significantly and the Company increased its operating footprint from five fracturing fleets in 2020 to six fleets in 2021. In addition, the completion of more multi-stage projects also had a positive impact on profitability during the period. Operating results in 2020 included $0.4 million in severance costs while 2021 did not include any severance costs.

ARGENTINA

Years Ended December 31, *(C$000s, except operational and exchange rate information)* *(unaudited)*	**2021** *($)*	2020 *($)*	Change *(%)*
Revenue	**171,470**	68,491	150
Expenses			
Operating	**142,271**	68,050	109
SG&A	**7,068**	6,918	2
	149,339	74,968	99
Operating income (loss)[1]	**22,131**	(6,477)	NM
Operating income (loss) (%)	**12.9**	(9.5)	NM
Fracturing revenue per job ($)	**57,453**	58,612	(2)
Number of fracturing jobs	**1,800**	680	165
Active pumping horsepower, end of period (000s)	**137**	118	16
Idle pumping horsepower, end of period (000s)	**—**	5	NM
Total pumping horsepower, end of period (000s)	**137**	123	11
Coiled tubing revenue per job ($)	**21,860**	75,499	(71)
Number of coiled tubing jobs	**1,063**	162	NM
Active coiled tubing units, end of period (#)	**5**	5	—
Idle coiled tubing units, end of period (#)	**1**	1	—
Total coiled tubing units, end of period (#)	**6**	6	—
Cementing revenue per job ($)	**59,558**	53,529	11
Number of cementing jobs	**445**	240	85
Active cementing units, end of period (#)	**10**	12	(17)
Idle cementing units, end of period (#)	**3**	1	200
Total cementing units, end of period (#)	**13**	13	—
US$/C$ average exchange rate[2]	**1.2535**	1.3415	(7)

[1] Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.
[2] Source: Bank of Canada.

REVENUE

Calfrac's Argentinean operations generated revenue of $171.5 million in 2021 versus $68.5 million in 2020 primarily due to a significant increase in activity as the oilfield industry in Argentina experienced a complete shutdown of field activity in mid-March 2020 due to the COVID-19 pandemic, which affected all of the Company's operating regions and service lines. Beginning in the second quarter of 2021, Argentina returned to normal operations for all service lines. However, utilization in 2021 was negatively impacted by operational delays in Neuquén due to roadblocks in April as union strikes caused the shutdown of all oilfield activity for 18 days along with lower activity with a customer due to wellbore issues. This lower activity was partially mitigated by a contractual arrangement that provided a minimum revenue guarantee. Revenue per job across all service lines was negatively impacted by the 7 percent depreciation of the U.S. dollar.

OPERATING INCOME (LOSS)

In 2021, the Company's operations in Argentina generated operating income of $22.1 million, compared to an operating loss of $6.5 million in the comparable period in 2020. The increase in operating income was due to improved equipment utilization as the comparable period in 2020 had an unprecedented revenue disruption caused by the government mandated shutdown of all oilfield activity in response to the COVID-19 pandemic. The Company recorded $0.7 million of severance expense during 2021.

CORPORATE

Years Ended December 31,	**2021**	2020	Change
(C$000s)	***($)***	*($)*	*(%)*
(unaudited)			
Expenses			
Operating	**1,258**	2,167	(42)
SG&A	**21,124**	18,189	16
	22,382	20,356	10
Operating loss[1]	**(22,382)**	(20,356)	10
% of Revenue	**2.2**	2.9	(24)

[1] *Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.*

OPERATING LOSS

Corporate expenses in 2021 were $22.4 million compared to $20.4 million in the comparable period in 2020. The increase in corporate operating expense was primarily due to higher professional fees and stock-based compensation expense in 2021. The impact of the Canada Emergency Wage Subsidy and Emergency Rent programs was $0.7 million in 2021 compared to $1.6 million in 2020.

DEPRECIATION

Depreciation expense decreased by $44.1 million from $172.0 million in 2020 to $127.9 million in 2021 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 half of 2020.

FOREIGN EXCHANGE LOSSES

The Company recorded a foreign exchange loss of $5.3 million in 2021 versus a loss of $15.5 million in the comparable period in 2020. 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 2021 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 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 interest expense of $37.7 million in 2021 was $53.5 million lower than 2020. The decrease in interest expense was primarily due to the significant reduction in long-term debt resulting from the Recapitalization Transaction that closed on December 18, 2020, combined with the debt exchange that was completed during the first quarter in 2020. These transactions combined to eliminate US$650.0 million of the Company's 8.50 percent Unsecured Notes and replaced it with US$120.0 million of Second Lien Notes bearing interest at 10.875 percent and $59.0 million of 1.5 Lien Notes bearing interest at 10.0 percent. Interest expense in 2020 also included the write-off of $4.4 million of deferred finance costs related to the portion of Unsecured Notes that were exchanged during the period.

INCOME TAXES

The Company recorded an income tax recovery of $25.5 million in 2021 compared to a $168.6 million tax expense in 2020. A deferred tax recovery of $27.0 million was recorded primarily due to losses incurred in the United States and a current income tax expense of $1.5 million resulted primarily from current tax obligations in Russia. The expense position in 2020 was the result of the derecognition of the Company's deferred tax asset, which resulted in a deferred tax expense of $115.6 million, and the recording of a deferred tax liability of $54.2 million as a result of the Recapitalization Transaction.

IMPAIRMENT

As at December 31, 2021, the Company did not identify any changes in the indicators of impairment or any new indicators of impairment since the last impairment test that was carried out as at December 31, 2020. Therefore, no further assessment on impairment was performed as there have been no changes in circumstances that indicate that the carrying amount of property, plant and equipment exceeded its recoverable amount as at December 31, 2021.

The impairment losses by CGU are shown in the table below:

	Years Ended Dec. 31,	
	2021	2020
(C$000s)	***($)***	*($)*
Canada	—	132,483
United States	—	15,380
Argentina	—	52,466
Russia	—	26,879
	—	227,208

In addition, the Company reviewed the carrying value of its inventories across all operating segments and determined there was no impairment to write-off obsolete inventory and write inventory down to its net realizable amount. The inventory write-down by CGU was as follows:

	Years Ended Dec. 31,	
	2021	2020
(C$000s)	***($)***	*($)*
Canada	—	6,200
United States	—	10,668
Argentina	—	11,000
	—	27,868

LIQUIDITY AND CAPITAL RESOURCES

	Years Ended Dec. 31,	
	2021	2020
(C$000s) *(unaudited)*	***($)***	*($)*
Cash provided by (used in):		
Operating activities	**(15,337)**	24,520
Financing activities	**45,852**	8,602
Investing activities	**(61,294)**	(42,518)
Effect of exchange rate changes on cash and cash equivalents	**(402)**	(3,336)
Decrease in cash and cash equivalents	**(31,181)**	(12,732)

OPERATING ACTIVITIES

The Company's cash used in operating activities for the year ended December 31, 2021 was $15.3 million versus cash provided of $24.5 million in 2020. The decrease in cash from operations was primarily due to a larger outflow of cash from working capital during the period. In 2021, $50.1 million of cash was used to fund the Company's working capital requirements versus providing $4.6 million of cash in 2020. At December 31, 2021, Calfrac's working capital was $170.7 million compared to $161.4 million at December 31, 2020.

FINANCING ACTIVITIES

Net cash provided by financing activities for the year ended December 31, 2021 was $45.9 million compared to net cash provided of $8.6 million in 2020. During 2021, the Company borrowed $53.5 million on a net basis under its credit facilities, paid lease principal payments of $7.8 million and received proceeds of $0.2 million from the exercise of a portion of the Company's outstanding warrants.

On February 24, 2020, Calfrac executed an exchange offer of US$120.0 million of new 10.875 percent second lien secured notes ("Second Lien Notes") due March 15, 2026 to holders of its existing 8.50 percent 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 the obligations under the Company's 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 of Unsecured Notes 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.

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 and interest expense, and provided additional liquidity to fund ongoing operations.

During the first quarter of 2021, the Company recorded the rescission of $1.0 million of its 1.5 Lien Notes. For accounting purposes, the $1.0 million principal amount was recorded on a proportional basis as a reduction of the liability and equity portion of the 1.5 Lien Notes. The Company also opted to pay its March 15 and September 15, 2021 interest payments on the 1.5 Lien Notes in cash rather than utilizing the payment-in-kind option.

On June 30, 2021, the Company amended its revolving credit facility agreement, which is available on SEDAR, to reduce its total facility capacity from $290.0 million to $225.0 million and extended the maturity date to July 1, 2023. On November 25, 2021, the Company further amended its revolving credit facility agreement to increase its total facility capacity to $250.0 million.

Subsequent to the end of 2021, the Company negotiated additional waivers and amendments to its revolving credit facilities in order to fund expected future working capital requirements in North America. The waivers and amendments included the following:

i. The Company's Funded Debt to Adjusted EBITDA covenant was waived for the quarter ended December 31, 2021, and has been increased to 3.75x for the quarter ended March 31, 2022;

ii. The minimum $15.0 million liquidity requirement was temporarily waived through March 15, 2022 and reinstated through the term of an extended Covenant Relief Period. The extended Covenant Relief Period terminates on June 30, 2022 to the extent Calfrac has provided a compliance certificate to its lenders certifying compliance with all applicable financial covenants at such quarter end;

iii. G2S2 Capital Inc. (G2S2) was added as a lender to permit the incurrence of a secured bridge loan from G2S2 under the credit agreement, with such debt being excluded from the definitions of Funded Debt, Total Debt and Current Liabilities for the purposes of financial covenant calculations; and

iv. The eligible portion of the net book value of property, plant and equipment (PP&E) for the purposes of the borrowing base calculation was increased from 25 percent to 35 percent, subject to a maximum contribution of $150.0 million.

Additionally, the Company executed a secured bridge loan with G2S2 (the G2S2 Loan), a company controlled by George Armoyan, in order to fund its short-term working capital requirements. As of March 15, 2022, the Company had drawn $15.0 million on the loan and can request further draws up to an additional $10.0 million, for maximum proceeds of $25.0 million, at an interest rate of 8.00 percent. The loan is repayable on April 29, 2022, with the option to extend the loan for a period of 60 days upon the consent of G2S2. The G2S2 Loan is secured by the existing security interests securing the obligations under the credit agreement, provided that G2S2's right to any realization proceeds is subordinate to the prior repayment in full of all of the other lenders. G2S2 has no voting rights as a lender under the credit agreement for any purpose.

The facilities consist of an operating facility of $45.0 million and a syndicated facility of $205.0 million. The Company's credit facilities mature on July 1, 2023, 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 and also during the Covenant Relief Period, certain restrictions apply including the following, among others: (a) acquisitions are subject to consent of the lenders; (b) distributions are restricted other than those relating to the Company's equity compensation plans; (c) no increase in the rate of dividends are permitted; and (d) additional permitted debt is restricted to $5.0 million, subject to certain exceptions. As at December 31, 2021, the Company's net Total Debt to Adjusted EBITDA ratio exceeded the 5.00:1.00 threshold and the Company was also subject to the additional Covenant Relief Period restrictions described herein.

Advances under the credit facilities are limited by a borrowing base. The borrowing base, including the amendments discussed above, 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 a specified purpose, including a potential equity cure; and

iii. 35 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 subject to a maximum contribution of $150.0 million.

At December 31, 2021, the Company had used $0.9 million of its credit facilities for letters of credit and had $190.0 million of borrowings under its credit facilities, and $1.4 million of bank overdraft. As described above, the Company's credit facilities are subject to a monthly borrowing base, which at December 31, 2021 was $217.1 million prior to the amendment increasing the eligible PP&E percentage to 35 percent. 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. As per the amended credit facility agreement, the Company's Funded Debt to Adjusted EBITDA covenant was waived for the quarter ended December 31, 2021, and is 3.75x for the quarter ended March 31, 2022 and 3.00x for each quarter end thereafter. As shown in the table below, the Company was in compliance with its financial covenants associated with its credit facilities as at December 31, 2021.

	Covenant	**Actual**
As at December 31,	2021	**2021**
Working capital ratio not to fall below	1.15x	**2.40x**
Funded Debt to Adjusted EBITDA not to exceed[(1)(2)]	N/A	**3.83x**
Funded Debt to Capitalization not to exceed[(1)(3)]	0.30x	**0.27x**

[(1)] Funded Debt is defined as Total Debt excluding all outstanding Second Lien Notes, 1.5 Lien Notes, the G2S2 Loan 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 a specified purpose, including a potential equity cure).
[(2)] Adjusted EBITDA is defined as net income or loss for the period adjusted for interest, taxes, depreciation and amortization, non-cash stock-based compensation, and gains and losses that are extraordinary or non-recurring.
[(3)] Capitalization is Total Debt plus equity.

The credit facility agreement provides that 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, 2023, 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.

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, 2023 will increase Adjusted EBITDA over the relevant twelve-month rolling period and may also serve to reduce Funded Debt unless used for other purposes.

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 in a calendar year, subject to certain exceptions. There are no restrictions pertaining to dispositions of property or assets outside of Canada and the United States, except that if 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. Also, during the Covenant Relief Period, there is an obligation to reduce advances under the credit facilities using proceeds of any disposition of property or assets that exceed $10.0 million.

The indentures governing the 1.5 Lien Notes and Second Lien Notes (the "Indentures"), which are available on SEDAR, 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 the Indentures or the making of such payment would result in a default;

ii. the Company would not meet the Fixed Charge Coverage Ratio[1] under the 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 the builder baskets included in the Indentures.

[1] *The Fixed Charge Coverage Ratio is defined as cash flow to interest expense. Cash flow is a non-GAAP measure and does not have a standardized meaning under IFRS and is defined under the 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, 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 the Indentures. As at December 31, 2021, the US$20.0 million basket was not utilized. The Indentures also restrict the ability to incur 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 indebtedness, including debt incurred under credit facilities up to the greater of $375.0 million or 30 percent of the Company's consolidated tangible assets as well as a general permitted debt basket equal to the greater of 4 percent of consolidated tangible assets and US$60.0 million. The 1.5 Lien Notes indenture includes additional 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 prepayments and certain capital commitments which aggregate over US$12.0 million. The 1.5 Lien Notes 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, 2021, the Company's Fixed Charge Coverage Ratio of 1.63:1 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, subject to the additional restrictions under the credit facility agreement, for the Company to incur anticipated additional indebtedness and make anticipated restricted payments which are expected to be required to conduct its operations.

INVESTING ACTIVITIES

Calfrac's net cash used for investing activities was $61.3 million for the year ended December 31, 2021 versus $42.5 million in 2020. Cash outflows relating to capital expenditures were $63.4 million for the year ended December 31, 2021 compared to $46.2 million in 2020. Calfrac's Board of Directors have approved a 2022 capital budget of approximately $97.0 million, which is comprised primarily of maintenance capital, and is subject to fluctuations based on operating activity.

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, 2021 was a loss of $0.4 million versus a loss of $3.3 million in 2020. 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, remaining availability under the G2S2 Loan, access to capital markets and anticipated funds provided by operations, the Company expects to have adequate resources to fund its financial obligations and planned capital expenditures for 2022 and beyond.

At December 31, 2021, the Company had a bank overdraft position of $1.4 million.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares. Employees have been granted options to purchase common shares under the Company's shareholder-approved omnibus incentive plan. The number of shares reserved for issuance under the plan is equal to 10 percent of the Company's issued and outstanding common shares. As at March 15, 2022, the Company had issued and outstanding 38,297,813 common shares, 5,587,029 common share purchase warrants and 3,300,000 options to purchase common shares.

SUMMARY OF QUARTERLY RESULTS

Three Months Ended	Mar. 31,	Jun. 30,	Sep. 30,	Dec. 31,	Mar. 31,	Jun. 30,	Sep. 30,	**Dec. 31,**
	2020	2020	2020	2020	2021	2021	2021	**2021**
(C$000s, except per share and operating data) *(unaudited)*	*($)*	*($)*	*($)*	*($)*	*($)*	***($)***	***($)***	***($)***
Financial								
Revenue	305,515	91,423	127,776	180,722	241,575	207,311	295,754	**257,755**
Operating income (loss)[1]	5,698	(7,307)	8,009	15,597	12,940	6,043	35,623	**9,098**
Per share – basic[2]	1.97	(2.52)	2.76	1.91	0.35	0.16	0.95	**0.24**
Per share – diluted[2]	1.96	(2.52)	2.75	0.27	0.15	0.07	0.43	**0.11**
Adjusted EBITDA[1]	6,812	(5,185)	8,467	13,715	11,936	4,393	35,581	**9,469**
Per share – basic[2]	2.35	(1.79)	2.91	1.68	0.31	0.12	0.95	**0.25**
Per share – diluted[2]	2.34	(1.79)	2.91	0.24	0.14	0.05	0.43	**0.11**
Net income (loss)	(122,857)	(277,275)	(50,000)	125,897	(22,418)	(30,535)	(1,541)	**(28,318)**
Per share – basic[2]	(42.38)	(95.61)	(17.20)	15.43	(0.60)	(0.82)	(0.04)	**(0.75)**
Per share – diluted[2]	(42.38)	(95.61)	(17.20)	2.19	(0.60)	(0.82)	(0.04)	**(0.75)**
Capital expenditures	29,283	6,068	2,792	6,487	11,586	18,065	25,234	**15,814**
Working capital (end of period)	233,125	157,165	127,989	161,448	170,088	152,176	179,511	**170,737**
Total equity (end of period)	239,099	(34,195)	(81,033)	410,234	384,561	350,631	357,830	**328,840**

Operating (end of period)								
Active pumping horsepower (000s)	1,242	780	840	901	934	950	976	**1,020**
Idle pumping horsepower (000s)	174	572	505	444	411	393	383	**337**
Total pumping horsepower (000s)	1,416	1,352	1,345	1,345	1,345	1,343	1,359	**1,357**
Active coiled tubing units (#)	20	16	15	17	16	16	16	**17**
Idle coiled tubing units (#)	7	11	12	10	11	11	11	**10**
Total coiled tubing units (#)	27	27	27	27	27	27	27	**27**
Active cementing units (#)	13	13	12	12	10	10	10	**10**
Idle cementing units (#)	3	3	4	4	6	6	6	**5**
Total cementing units (#)	16	16	16	16	16	16	16	**15**

[1] *Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.*
[2] *Comparative amounts were adjusted to reflect the Company's fifty-to-one common share consolidation 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, 2021 VERSUS 2020

CONSOLIDATED HIGHLIGHTS

Three Months Ended December 31,	**2021**	2020	Change
(C$000s, except per share amounts) *(unaudited)*	***($)***	*($)*	*(%)*
Revenue	**257,755**	180,722	43
Operating income[1]	**9,098**	15,597	(42)
Per share – basic	**0.24**	1.91	(87)
Per share – diluted[2]	**0.11**	0.27	(59)
Adjusted EBITDA[1]	**9,469**	13,715	(31)
Per share – basic	**0.25**	1.68	(85)
Per share – diluted[2]	**0.11**	0.24	(54)
Net income (loss)	**(28,318)**	125,897	NM
Per share – basic	**(0.75)**	15.43	NM
Per share – diluted	**(0.75)**	2.19	NM
Working capital, end of period	**170,737**	161,448	6
Total assets, end of period	**892,961**	912,463	(2)
Long-term debt, end of period	**388,479**	324,633	20
Total equity, end of period	**328,840**	410,234	(20)

[1] *Refer to "Non-GAAP Measures" on pages pages 26 and 27 for further information.*
[2] *Comparative amounts were adjusted to reflect the Company's fifty-to-one common share consolidation that occurred on December 18, 2020.*

FOURTH QUARTER 2021 OVERVIEW

In the fourth quarter of 2021, the Company:

- generated revenue of $257.8 million, an increase of 43 percent from the fourth quarter in 2020 resulting primarily from improved activity in North America and Argentina;
- increased the Company's total revolving credit facility capacity from $225.0 million to $250.0 million;
- reported adjusted EBITDA of $9.5 million versus $13.7 million in the fourth quarter of 2020;
- reported a net loss of $28.3 million or $0.75 per share diluted, compared to a net income of $125.9 million or $2.19 per share diluted in 2020, which included a gain on the settlement of debt of $226.3 million and a deferred income tax expense of $54.2 million;
- reported period-end working capital of $170.7 million versus $161.4 million at December 31, 2020; and
- incurred capital expenditures of $15.8 million primarily to support the Company's United States fracturing operations.

CANADA

Three Months Ended December 31,	**2021**	2020	Change
(C$000s, except operational information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**67,334**	53,347	26
Expenses			
Operating	**60,755**	42,403	43
SG&A	**1,809**	1,870	(3)
	62,564	44,273	41
Operating income[1]	**4,770**	9,074	(47)
Operating income (%)	**7.1**	17.0	(58)
Fracturing revenue per job ($)	**23,259**	28,525	(18)
Number of fracturing jobs	**2,630**	1,697	55
Active pumping horsepower, end of period (000s)	**227**	202	12
Idle pumping horsepower, end of period (000s)	**43**	73	(41)
Total pumping horsepower, end of period (000s)	**270**	275	(2)
Coiled tubing revenue per job ($)	**16,009**	19,894	(20)
Number of coiled tubing jobs	**382**	242	58
Active coiled tubing units, end of period (#)	**8**	8	—
Idle coiled tubing units, end of period (#)	**5**	5	—
Total coiled tubing units, end of period (#)	**13**	13	—

[1] Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.

REVENUE

Revenue from Calfrac's Canadian operations during the fourth quarter of 2021 was $67.3 million compared to $53.3 million in the same period of 2020 primarily due to higher activity in the Montney basin. The number of fracturing jobs increased by 55 percent from the comparable period in 2020 as a significantly improved commodity price environment resulted in an increase in drilling and completions activity in western Canada. Revenue per fracturing job was 18 percent lower than the comparable quarter due to job mix. The number of coiled tubing jobs increased by 58 percent from the fourth quarter in 2020 as more pump-down and annular work was performed. The change in job type also contributed to the 20 percent decrease in revenue per job, as the comparable quarter included a greater proportion of milling work, which generate higher margins.

OPERATING INCOME

Operating income in Canada during the fourth quarter of 2021 was $4.8 million compared to $9.1 million in the same period of 2020. The Canadian division's operating income as a percentage of revenue was 7 percent compared to 17 percent in the fourth quarter of 2020 as the Company incurred additional costs to prepare for an active first quarter in 2022. This included approximately $0.8 million of reactivation costs to increase its fracturing footprint to four large fleets and five coiled tubing units beginning in 2022. The Company also incurred additional hiring and personnel costs in advance of these additional units generating revenue. The benefit from the Canadian Emergency Wage Subsidy (CEWS) of $0.7 million was $2.1 million lower as compared to the fourth quarter of 2020 as the Company's revenue continued to improve. SG&A expense in the fourth quarter of 2021 included a $0.1 million bad debt expense while the same period in 2020 included a $0.7 million bad debt provision. Excluding these items, operating income for the fourth quarter of 2021 would have been $4.9 million or 7.3 percent versus $7.0 million or 13.1 percent in the comparable period in 2020. The decrease in operating income for the quarter, both on a total basis and as a percentage of revenue, was mainly due to higher fuel costs associated with extremely cold weather in December and higher product costs due to job mix during the quarter, combined with increased personnel costs resulting from the reinstatement of previously reduced employee salaries and benefits.

UNITED STATES

Three Months Ended December 31,	**2021**	2020	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**110,581**	67,283	64
Expenses			
Operating	**105,395**	63,689	65
SG&A	**3,127**	2,590	21
	108,522	66,279	64
Operating income[1]	**2,059**	1,004	105
Operating income (%)	**1.9**	1.5	27
Fracturing revenue per job ($)	**36,709**	26,838	37
Number of fracturing jobs	**3,013**	2,507	20
Active pumping horsepower, end of period (000s)	**579**	516	12
Idle pumping horsepower, end of period (000s)	**294**	354	(17)
Total pumping horsepower, end of period (000s)	**873**	870	—
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 (#)	**2**	3	(33)
Total cementing units, end of period (#)	**2**	3	(33)
US$/C$ average exchange rate[2]	**1.2603**	1.3030	(3)

[1] Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.
[2] Source: Bank of Canada.

REVENUE

Revenue from Calfrac's United States operations increased to $110.6 million during the fourth quarter of 2021 from $67.3 million in the comparable quarter of 2020. The 64 percent increase in revenue can be attributed to a combination of a 37 percent increase in revenue per job period-over-period and a 20 percent increase in the number of fracturing jobs completed. The higher revenue per job was the result of pricing increases, mainly to pass through higher input costs to its customers, and job mix. Activity increased in all of the remaining areas where the Company operates with no activity in Texas and New Mexico as the Company exited those markets earlier in 2021.

OPERATING INCOME

The Company's United States operations generated operating income of $2.1 million during the fourth quarter of 2021 compared to $1.0 million in the same period in 2020. The slight improvement in operating income on a dollar basis was largely driven by better utilization in Colorado, offset partially by lower utilization in North Dakota as most of its customers reduced operations in December due to capital budget exhaustion. During the quarter, there were inflationary pressures experienced across most operating cost drivers that were effectively offset by pricing increases. SG&A expenses increased by 21 percent primarily due to the reinstatement of previously reduced salaries and benefits during the quarter.

RUSSIA

Three Months Ended December 31,	**2021**	2020	Change
(C$000s, except operational and exchange rate information) *(unaudited)*	***($)***	*($)*	*(%)*
Revenue	**28,094**	26,949	4
Expenses			
Operating	**25,821**	21,843	18
SG&A	**640**	660	(3)
	26,461	22,503	18
Operating income [(1)]	**1,633**	4,446	(63)
Operating income (%)	**5.8**	16.5	(65)
Fracturing revenue per job ($)	**60,778**	74,317	(18)
Number of fracturing jobs	**437**	324	35
Active pumping horsepower, end of period (000s)	**77**	65	18
Idle pumping horsepower, end of period (000s)	**—**	12	(100)
Total pumping horsepower, end of period (000s)	**77**	77	—
Coiled tubing revenue per job ($)	**29,509**	47,838	(38)
Number of coiled tubing jobs	**52**	60	(13)
Active coiled tubing units, end of period (#)	**4**	4	—
Idle coiled tubing units, end of period (#)	**3**	3	—
Total coiled tubing units, end of period (#)	**7**	7	—
Rouble/C$ average exchange rate[(2)]	**0.0173**	0.0171	1

[(1)] Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.
[(2)] Source: Bank of Canada.

REVENUE

Revenue from Calfrac's Russian operations increased by 4 percent during the fourth quarter of 2021 to $28.1 million from $26.9 million in the corresponding period of 2020. The increase in revenue was attributable to a 35 percent increase in fracturing activity as the Company increased its operating footprint from four fleets in 2020 to six fleets in 2021, combined with changes in job mix as a higher percentage of multi-stage work was completed resulting in a higher number of stages completed at a lower average job size. Revenue per fracturing job decreased by 18 percent primarily due to the impact of job mix. Coiled tubing activity decreased by 13 percent as activity was concentrated on port openings rather than cleanouts during the quarter, which also resulted in a lower revenue per job.

OPERATING INCOME

The Company's Russian division generated operating income of $1.6 million during the fourth quarter of 2021 or 6 percent of revenue versus $4.4 million or 16 percent of revenue in the comparable quarter in 2020. The lower operating margin performance was primarily due to lower than expected fracturing equipment utilization as operations were suspended for 11 days in December due to the inability of the customer to supply proppant during that time period. Coiled tubing activity was comprised of lower margin work during the quarter, which had a negative impact on overall margins as a percentage of revenue.

ARGENTINA

Three Months Ended December 31,	**2021**	2020	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**51,746**	33,143	56
Expenses			
Operating	**42,964**	26,344	63
SG&A	**1,884**	1,323	42
	44,848	27,667	62
Operating income (loss)[1]	**6,898**	5,476	26
Operating income (loss) (%)	**13.3**	16.5	(19)
Fracturing revenue per job ($)	**63,476**	60,188	5
Number of fracturing jobs	**468**	359	30
Active pumping horsepower, end of period (000s)	**137**	118	16
Idle pumping horsepower, end of period (000s)	**—**	5	NM
Total pumping horsepower, end of period (000s)	**137**	123	11
Coiled tubing revenue per job ($)	**18,999**	82,005	(77)
Number of coiled tubing jobs	**348**	52	569
Active coiled tubing units, end of period (#)	**5**	5	—
Idle coiled tubing units, end of period (#)	**1**	1	—
Total coiled tubing units, end of period (#)	**6**	6	—
Cementing revenue per job ($)	**83,848**	43,697	92
Number of cementing jobs	**123**	85	45
Active cementing units, end of period (#)	**10**	12	(17)
Idle cementing units, end of period (#)	**3**	1	200
Total cementing units, end of period (#)	**13**	13	—
US$/C$ average exchange rate[2]	**1.2603**	1.3030	(3)

[1] Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.
[2] Source: Bank of Canada.

REVENUE

Calfrac's Argentinean operations generated revenue of $51.7 million during the fourth quarter of 2021 compared to $33.1 million in the comparable quarter in 2020. Activity in the fourth quarter of 2021 improved year-over-year across all service lines and operating regions. Activity in the Vaca Muerta shale play continued to increase along with activity in southern Argentina. Fracturing revenue per job increased by 5 percent compared to the comparable quarter despite the impact of a 3 percent depreciation in the U.S. dollar, primarily due to job mix. The largest revenue improvement was achieved in the Company's cementing operations as activity increased by 45 percent and revenue per job increased by 92 percent due to changes in job mix as a greater number of pre-fracturing projects were completed in the fourth quarter of 2021. Coiled tubing revenue was comprised of contracted work with a different customer than the same period in 2020, which resulted in a larger number of jobs completed at a significantly lower revenue per job.

OPERATING INCOME

The Company's operations in Argentina generated an operating income of $6.9 million during the fourth quarter of 2021 compared to operating income of $5.5 million in the comparable quarter of 2020. Utilization of the Company's equipment improved compared to the same period in 2020 as the prior year included a government mandated shutdown of oilfield activity in response to the COVID-19 pandemic. The Company's operating margins as a percentage of revenue decreased from 16.5 percent to 13.3 percent as its fixed cost structure increased to scale up for additional activity. Operating income was also negatively affected by inflationary salary increases in December that were not immediately offset by local currency devaluation and higher equipment repair costs related to the start-up of equipment purchased from a third party earlier in the year.

CORPORATE

Three Months Ended December 31,	**2021**	2020	Change
(C$000s)	***($)***	*($)*	*(%)*
(unaudited)			
Expenses			
Operating	**297**	303	(2)
SG&A	**5,965**	4,100	45
	6,262	4,403	42
Operating loss[1]	**(6,262)**	(4,403)	42
% of Revenue	**2.4**	2.4	—

[1] *Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.*

OPERATING LOSS

Corporate expenses for the fourth quarter of 2021 were $6.3 million compared to $4.4 million in the fourth quarter of 2020. The increase was due in part to an increase in stock-based compensation expense of $0.7 million in the fourth quarter in 2021 compared to the same period in 2020, primarily due to the issuance of new equity-based awards under the omnibus incentive plan during the second quarter in 2021, combined with a higher share price. In addition, higher professional fees and personnel costs also contributed to the increase in SG&A expense during the quarter.

DEPRECIATION

For the three months ended December 31, 2021, depreciation expense increased by $0.8 million to $31.6 million from $30.8 million in the corresponding quarter in 2020. The slight increase in fourth-quarter depreciation expense was primarily due to the year-over-year increase in capital expenditures relating to major component purchases which have a shorter useful life and a corresponding higher rate of depreciation.

FOREIGN EXCHANGE GAINS AND LOSSES

The Company recorded a foreign exchange loss of $1.9 million during the fourth quarter of 2021 versus a loss of $5.7 million in the comparative three-month period of 2020. 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 mainly due 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 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 $9.7 million for the fourth quarter of 2021 was $15.2 million lower than the comparable period in 2020. The decrease in interest expense was primarily due to the significant reduction in long-term debt resulting from the Recapitalization Transaction that closed on December 18, 2020, combined with the debt exchange that was completed during the first quarter in 2020. These transactions combined to eliminate US$650.0 million of the Company's 8.50 percent Unsecured Notes and replaced it with US$120.0 million of Second Lien Notes bearing interest at 10.875 percent and $59.0 million of 1.5 Lien Notes bearing interest at 10.0 percent. In addition, the USD/CAD exchange rate was 3 percent lower than the comparable quarter in 2020, which resulted in a reduction of reported interest expense on the Company's Second Lien Notes.

INCOME TAXES

The Company recorded an income tax recovery of $6.4 million during the fourth quarter of 2021 compared to a tax expense of $54.8 million in the comparable period of 2020. A deferred tax recovery of $6.3 million was recorded due to losses incurred in the United States.

BUSINESS UPDATE AND OUTLOOK

A prolonged period of underinvestment in the upstream sector, in combination with a rebound in demand as COVID-19 related restrictions have been reduced, has resulted in a significant increase in crude oil and natural gas prices. This stronger commodity price environment provides the foundation for higher demand for Calfrac's services moving forward. The Company's positive momentum from the third quarter continued into the fourth quarter of 2021 but paused towards year-end due to normal seasonality, combined with customer budget exhaustion. Calfrac expects to utilize its industry expertise to drive improved financial results on a sequential basis while positioning the Company to capitalize on a tightening oilfield services market and meaningfully increase its overall financial performance in 2022.

CANADA

Calfrac's Canadian division anticipates a strong first quarter for its four large fracturing fleets. The high level of activity is expected to continue into the second half of the year, after the seasonal break-up, leading to improved year-over-year financial performance. This strength in demand highlights the need for E&P companies to align with quality service providers that can safely and efficiently execute on their capital programs. In recent years, the pricing for the pressure pumping sector has been unsustainably low and did not generate a sufficient return on capital employed. Calfrac anticipates that a tightening services market in Canada will provide the opportunity to significantly increase its prices in order to reflect the appropriate value of its services. The Company achieved modest price improvements during 2021, but upward pricing pressures for trucking, fuel, chemicals, and sand were significant and continue to persist. Calfrac believes that the pressure pumping sector in 2022 will increase service prices that outpace cost inflation and enable the industry to begin delivering acceptable returns on investment.

UNITED STATES

As expected, the Company's United States operations experienced a delayed start to 2022 in one of its operating districts, but still expects to deliver improved sequential performance during the first quarter. As momentum continues to build, Calfrac anticipates a significant increase in financial performance during 2022 driven by high utilization for its nine operating fracturing fleets combined with the continuation of service price appreciation that commenced in the second half of 2021. While the Company continues to pass along inflationary cost increases, Calfrac has been successful in improving utilization as well as net service pricing during the past few months. Calfrac is committed to partnering with customers to combine safe and efficient operations with optimal scheduling management in order to produce sustainable full cycle returns to the benefit of its customers and Calfrac's stakeholders.

RUSSIA

The ongoing conflict between Russia and Ukraine has added a level of risk and uncertainty around the Company's operations in Russia. As a result of this dynamic situation, Calfrac is monitoring developments in real time and is evaluating its options for its Russian operations.

ARGENTINA

Calfrac's operations in Argentina delivered a significant year-over-year increase in profitability mainly due to strong equipment utilization in the Vaca Muerta shale play. The Company expects the operating cadence that was achieved in the second half of 2021 to continue throughout 2022 and drive strong levels of financial performance.

CORPORATE

Given the expected growth in activity in North America during 2022, the Company amended its credit facility agreement with its lending syndicate in order to provide the necessary liquidity to fund increasing working capital requirements for its operations. Calfrac's continued focus is to optimize capital allocation and operating efficiencies in order to maximize its operating cash flow, and dedicate any excess free cash flow to debt repayment. The Company will not consider any additional fleet reactivation or growth investments until financial returns exceed internal benchmarks that properly account for macroeconomic, industry and operation-specific risk factors.

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 property, plant and equipment, impairment of other assets, 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,**	
	2021	2020	**2021**	2020
(C$000s) *(unaudited)*	***($)***	*($)*	***($)***	*($)*
Net loss	**(28,318)**	125,897	**(82,812)**	(324,235)
Add back (deduct):				
Depreciation	**31,638**	30,843	**127,925**	172,021
Foreign exchange losses (gains)	**1,885**	5,733	**5,288**	15,477
Loss (gain) on disposal of property, plant and equipment	**(110)**	(260)	**403**	24
Impairment of property, plant and equipment	**—**	—	**—**	227,208
Impairment of inventory	**—**	—	**—**	27,868
Impairment of other assets	**705**	—	**705**	507
Gain on exchange of debt	—	—	**—**	(130,444)
Interest	**9,662**	24,913	**37,737**	91,267
Income taxes	**(6,364)**	54,790	**(25,542)**	168,623
Operating income	**9,098**	15,597	**63,704**	21,997

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,	
	2021	2020	**2021**	2020
(C$000s) *(unaudited)*			*($)*	*($)*
Net loss	**(28,318)**	125,897	**(82,812)**	(324,235)
Add back (deduct):				
Depreciation	**31,638**	30,843	**127,925**	172,021
Unrealized foreign exchange (gains) losses	**1,338**	3,435	**718**	8,319
Loss (gain) on disposal of property, plant and equipment	**(110)**	(260)	**403**	24
Impairment of property, plant and equipment	**—**	—	**—**	227,208
Impairment of inventory	**—**	—	**—**	27,868
Impairment of other assets	**705**	—	**705**	507
Gain on exchange of debt	**—**	—	**—**	(130,444)
Litigation settlements	**—**	—	**(700)**	—
Non-cash purchase commitment termination settlement	**—**	—	**—**	2,082
Restructuring charges	**2**	4	**673**	5,377
Stock-based compensation	**916**	412	**2,272**	1,511
Interest	**9,662**	24,913	**37,737**	91,267
Income taxes	**(6,364)**	54,790	**(25,542)**	168,623
Adjusted EBITDA[(1)]	**9,469**	13,715	**61,379**	23,809

[(1)] For bank covenant purposes, EBITDA includes the deduction of an additional $9.0 million for the year ended December 31, 2021 (year ended December 31, 2020 - $15.6 million) of lease payments that would have been recorded as operating expenses prior to the adoption of IFRS 16.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

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 as disclosed in the Company's 2021 annual consolidated financial statements.

GREEK LITIGATION

As described in note 20 to the annual 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.

VENDOR CONTRACT DISPUTE

A complaint for money damages was filed against the Company by a vendor in the United States District Court for the District of Delaware in July 2021. The complaint, which was amended in February 2022, alleges the Company failed to satisfy certain volume commitments and associated shortfall payment obligations under a sand supply agreement and the vendor is seeking at least US$10.2 million in damages together with interest and unspecified other relief. The Company has filed an answer to the original complaint and a counter-claim, and its answer to the amended complaint is due March 18, 2022. The case is still in the early stages, but the Company intends to pursue its counter-claim and vigorously defend against the vendor's allegations.

Given the stage of the proceedings and the existence of available defenses, the direction and financial consequences of the claims in the complaint cannot be determined at this time. While management does not believe that this claim will have a material adverse effect on the business or financial condition of the Company, no assurance can be given as to the outcome of the proceedings.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This MD&A is based on the Company's consolidated financial statements for the year ended December 31, 2021 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 $0.6 million at December 31, 2021, is adequate.

DEPRECIATION

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

FINANCIAL INSTRUMENTS

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

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial instruments included in the consolidated balance sheets, except long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of the Second Lien Notes, as measured based on the closing market price at December 31, 2021 was $139.6 million (December 31, 2020 – $106.7 million). 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.

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, 2021, the Company had a loss allowance provision for accounts receivable of $0.6 million (December 31, 2020 – $1.7 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, 2021 and 2020, excluding any impaired accounts, are as follows:

As at December 31,	**2021**	2020
(C$000s)	***($)***	*($)*
(unaudited)		
Current	**135,043**	97,000
31 - 60 days	**26,405**	20,303
61 - 90 days	**13,716**	10,111
91+ days	**8,310**	5,045
Total	**183,474**	132,459

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 or unsecured debt, 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, 2021	**Total**	**< 1 Year**	**1 - 3 Years**	**4 - 6 Years**	**7 - 9 Years**	**Thereafter**
(C$000s)	***($)***	*($)*	*($)*	*($)*	*($)*	*($)*
(unaudited)						
Accounts payable and accrued liabilities	**127,441**	127,441	—	—	—	—
Lease obligations[1]	**23,534**	7,957	12,732	2,845	—	—
Long-term debt[1]	**441,248**	33,793	251,183	156,272	—	—

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

[1] *Principal and interest*

FOREIGN EXCHANGE RISK

The Company is exposed to foreign exchange risk associated with foreign operations where assets, liabilities, revenue and costs are denominated in currencies other than Canadian dollars. These currencies include the U.S. dollar, Russian rouble, and Argentinean peso. The Company is also exposed to the impact of foreign currency fluctuations in its Canadian operations on purchases of products and property, plant and equipment from vendors in the United States. In addition, the Company's 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, 2021	Impact to Net Income
(C$000s)	*($)*
1% change in value of U.S. dollar	**1,407**
1% change in value of Argentinean peso	**90**
1% change in value of Russian rouble	**—**

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	—

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 cash-generating units are determined to be at the country level, consisting of Canada, the United States, Russia and Argentina.

The Company did not identify any changes in the indicators of impairment or any new indicators of impairment since the last impairment test that was carried out as at December 31, 2020. For the year ended December 31, 2021, no impairment charge was recorded (year ended December 31, 2020 – impairment of $227.2 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. During the year ended December 31, 2021, the Company reviewed the carrying value of its inventories across all operating segments and determined there was no impairment to write-off obsolete inventory and write inventory down to its net realizable amount (year ended December 31, 2020 – $27.9 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 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

Entities controlled by George S. Armoyan, a member of the Board of Directors and Interim CEO, and Ronald P. Mathison, the Chairman of the Company, hold 44 percent and 19 percent, respectively, of the Company's 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. Certain entities controlled by George S. Armoyan received 734,413 shares for their participation in backstopping the 1.5 Lien Notes, of which 38,023 shares were sold during the first quarter of 2021.

Certain entities controlled by George S. Armoyan hold US$16.4 million of the Company's Second Lien Notes (December 31, 2020 – US$2.4 million).

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, 2021 was $1.0 million (year ended December 31, 2020 – $1.5 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

No new IFRS or interpretations from the International Financial Reporting Interpretations Committee came into effect for the year beginning on or after January 1, 2021 that had a material impact on the Company.

RECENT ACCOUNTING PRONOUNCEMENTS

IAS 1 *Presentation of Financial Statements* has been amended to clarify how to classify debt and other liabilities as either current or non-current. The amendment is effective for the years beginning on or after January 1, 2023.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* has been amended 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.

IAS 16 *Property, Plant and Equipment* has been amended to (i) prohibit an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly), (ii) clarify that an entity is "testing whether the asset is functioning properly" when it assesses the technical and physical performance of the asset, and (iii) require certain related disclosures. These amendments are effective for periods beginning on or after January 1, 2022.

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

The Interim 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 Interim CEO and CFO at December 31, 2021. Based on this evaluation, the Interim 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.

BUSINESS RISKS

The business of Calfrac is subject to certain risks and uncertainties. Prior to making any investment decision regarding Calfrac, investors should carefully consider, among other things, the risk factors set forth below as well as in the Company’s most recently filed Annual Information Form, which are available at www.sedar.com.

VOLATILITY OF INDUSTRY CONDITIONS

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

The prices for oil and natural gas are subject to a variety of factors including: the demand for energy; the ability of OPEC+ to set and maintain production levels for oil; oil and gas production by non- OPEC+ countries; the decline rates for current production; global and domestic economic conditions, including currency fluctuations; political and economic uncertainty and socio-political unrest; cost of exporting, producing and delivering oil and gas; technological advances affecting energy consumption; weather conditions; the effect of worldwide energy conservation and greenhouse gas reduction measures; 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.

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 indebtedness, provision of guarantees, making of capital expenditures and entering into of certain transactions, among others.

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

In 2021, the Company and the industry worldwide experienced shortage of supply and an increase in inflationary pricing of raw materials such as proppant, chemicals, nitrogen, and diesel fuel and component parts as a result of the COVID-19 pandemic making it difficult to provide fixed pricing for customers. Volatility and increased costs of component parts and raw materials, including as a result of the Russia-Ukraine conflict, may have a material adverse effect on the Company's business, financial condition, results of operations and cash flows have been may also have a material adverse effect on the Company's business, financial condition, results of operations and cash flow, which cannot be easily countered by price increases to customers in a highly competitive environment.

EMPLOYEES

The Company requires 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 sufficiently qualified employees to meet its needs. The nature of the Company's work requires skilled employees who can perform physically demanding work. Volatility in the oilfield services industry and the demanding nature of the work, however, may prompt employees 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.

FOREIGN OPERATIONS

Some of the Company's operations and related assets are located in Argentina and Russia, which may be considered politically and/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 such activities or actions could adversely affect the economics of exploration or development projects for Company's customers and the demand for the Company's well stimulation services which, in turn, could have a material adverse effect on its assets, 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. In response to Russia's invasion of Ukraine, a number of countries, including Canada, the U.S. and European Union member states, have taken actions against Russia, such as: imposition of sanctions targeting certain Russian leadership and other individuals; restrictions on certain sectors of the Russian economy; expulsion of some Russian banks from the SWIFT global banking payment system; and other measures, with further restrictions and counter-sanctions or actions by Russia itself possible as the conflict continues. Such measures and the ongoing conflict between Russia and Ukraine has added a level of risk and uncertainty around the Company’s operations in Russia. As a result of these changes in circumstances, there is risk and uncertainty surrounding the Company’s Russian operations, including uncertainty surrounding banking restrictions and the ability to repatriate funds to Canada from Russia, the Company’s ownership and control over its Russian subsidiary, potential impairment of current and long-term assets, the physical security of property, plant and equipment, and overall business and operational risks. The conflict and sanctions or restrictions imposed against or by Russia could have a material adverse effect on the Russian Division's assets, business, financial condition, results of operations and cash flows. Additionally, the conflict and sanctions or restrictions imposed against or by Russia could exacerbate a number of risks described elsewhere in these Risk Factors, such as: the Company's access to capital, the availability and price escalation of raw materials and component parts, activist shareholder and ESG risks and cybersecurity threats.

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.

EQUIPMENT LEVELS

Because of the long life 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.

COVID-19 PANDEMIC

The COVID-19 pandemic caused a significant and swift reduction in global economic activity during 2020, which significantly weakened demand for oil and gas, and in turn, for the Company's products and services. The Company implemented a COVID-19 Pandemic Response Plan to provide direction to partially mitigate the impacts of the COVID-19 pandemic. The Company also experienced an increase in operating costs due to the implementation of various controls to comply and manage the spread of COVID-19.

Other effects of the pandemic included, and may continue to include, significant volatility and disruption of the global financial markets; adverse revenue and net income effects; disruptions to the Company's operations, including suspension or deferral of drilling activities; customer shutdowns of oil and gas exploration and production; downward revisions to customer budgets; limitations on access to sources of liquidity; supply chain disruptions; limitations on access to raw materials; employee impacts from illness, school closures and other community response measures; ability to recruit and maintain a viable and healthy workforce; temporary closures of Company's facilities or the facilities of Company's customers and suppliers. The pandemic is continuously evolving, and the extent to which Company's operating and financial results will continue to be affected will depend on various factors beyond the Company's control, such as the ultimate duration, severity and sustained geographic resurgence of the virus; the emergence, severity and transmission rates of new variants and strains of the virus; and the effectiveness of containment actions of the virus and its variants, or treatment of its impact, such as the availability and acceptance of vaccines. COVID-19, and the volatile regional and global economic conditions stemming from the pandemic may 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.

ENERGY TRANSITION

The Company's long-term success depends on its ability to effectively address the energy transition from fossil-based systems of energy production and consumption to renewable energy sources. The Company's success will require adapting its equipment and technologies to potentially changing government requirements and customer requirements and preferences, as well as engaging with customers to develop solutions to reduce the carbon emissions from pressure pumping operations. If the energy transition landscape changes faster than anticipated or in a manner that the Company does not anticipate, the demand for the Company's products and services could be adversely affected as well as their operating costs and asset valuation. Furthermore, if the Company fails or is perceived to not effectively implement a carbon reduction strategy, or if investors or financial institutions shift funding away from companies in fossil fuel-related industries, the Company's access to capital or the market for its securities could be negatively impacted.

COMMON SHARE DILUTION

The 1.5 Lien Notes are convertible at the holder's option into common shares of the Company at any time prior to the maturity date at a conversion price of $1.3325 per common share, being a ratio of approximately 750.469 common shares per $1,000 principal amount of 1.5 Lien Notes.

In the future the Company may issue additional securities to raise capital. The Company may also acquire interests in other companies by using a combination of cash and common shares or just common shares. The Company may also issue additional securities convertible into common shares.

The Company may also attempt to increase its capital resources by making additional offerings of debt, including senior or subordinated notes. Because the Company's decision to issue securities in any future offering will depend on market conditions and other factors beyond its control, the Company cannot predict or estimate the amount, timing or nature of future offerings.

Thus, holders of common shares bear the risk of the conversion of the 1.5 Lien Notes and future offerings reducing the market value of common shares.

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.

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 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, oil and gas exploration or the hydraulic fracturing process could result in additional operating restrictions or delays. On June 29, 2021, the British Columbia Supreme Court released its decision in Yahey v. British Columbia regarding cumulative effects and the infringement of Blueberry River First Nation ("BRFN") Treaty 8 rights. The Court found that the effect of B.C.'s industrial development policies are no longer sufficient, and the Court directed that the province could no longer authorize development projects that infringe BRFN's Treaty 8 rights. On October 7, 2021, BRFN and the Province of British Columbia reached an initial agreement in response to the Supreme Court's decision confirming that 195 forestry, oil and gas projects that were authorized before the Yahey decision will proceed. Uncertainty remains for future development within Blueberry's territory and future regulatory processes. Currently, the Province and BRFN are moving to finalize an interim approach to review new applications for resource development and activities to balance the BRFN Treaty rights, the economy and the environment. The affected area covers a large portion of Montney play in Northeastern British Columbia, which has become significant source of activity for oil and gas development in Canada. The uncertainty around future development projects in the Montney area may impact the demand for the Company's services in Canada and could have a material adverse effect on the Company, its business, financial conditions, results of operations and cash flows.

GREEN HOUSE GAS INITIATIVES

In January 2021, President Biden took office and under his administration initiated the curtailment of energy operations on federal lands and pursued other regulatory initiatives, executive actions and legislation in support of a broader climate change agenda. Continuing political and social attention to the issue of climate change has resulted in both existing and proposed international agreements and national, regional and local legislation and regulatory measures to limit emissions of greenhouse gases ("GHG"), including emissions of carbon dioxide and methane from production and use of crude oil and liquids and other natural gas. The implementation of these agreements, including the Paris Agreement, the Europe Climate Law, and other existing or future regulatory mandates, may adversely affect the demand for our products and services, impose taxes on the Company or the Company's customers, require the Company or the Company's customers to reduce GHG emissions from our technologies or operations, or accelerate the obsolescence of our products or services.

This trend presents a risk to the Company if it is unable to position itself as a GHG friendly services provider through education of its customer on the Company's current GHG footprint and/or through additional carbon reduction initiatives on its existing equipment fleet or investments in new lower carbon intensive equipment. Failure of the Company to maintain an equipment fleet that satisfies the GHG priorities of its customers could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

There is also increased focus by governments and the Company's customers, investors and other stakeholders on climate change, sustainability and energy transition matters.

Negative attitudes toward or perceptions of our industry or fossil fuel products and their relationship to the environment have led governments, non-governmental organizations, and companies to implement initiatives to conserve energy and promote the use of alternative energy sources, which may reduce the demand for and production of oil and gas in areas of the world where the Company's customers operate, and thus reduce future demand for our products and services. In addition, initiatives by investors and financial institutions to limit funding to companies in fossil fuel-related industries may adversely affect the Company's liquidity or access to capital. Any of these initiatives may, in turn, adversely affect the Company's 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.

CONCENTRATION OF CUSTOMER BASE

The Company's customer base consists of over 75 oil and natural gas exploration and production companies, ranging from large multi-national public companies to small private companies as at December 31, 2021. 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, such insurance may not be adequate to cover all potential liabilities and may not be available in the future at rates that the Company considers reasonable and commercially justifiable. In 2021, oil and gas industry experienced increase insurance premiums and costs, which coupled with an occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, could 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.

CAPITAL-INTENSIVE INDUSTRY

The Company's ability to meet service requirements in part, depends upon access, timely delivery and pricing of new equipment, 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, supply chain challenges, shortage of transportation 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.

LEGAL AND ADMINISTRATIVE PROCEEDINGS

From time to time, the Company is involved in legal and administrative proceedings which are usually related to 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 employees 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. The Company has endeavoured to reduce the use of hazardous substances and the generation of wastes in its operations, but to date has been unable to eliminate them completely. The Company takes great care to prevent the release of hazardous substances into the environment at the well site or during transportation, storage or handling. The Company's customers protect groundwater from contamination by substances pumped downhole by installing and cementing layers of steel piping, called casing, in every well serviced by the Company. 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 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.

ACTIVIST SHAREHOLDER AND CORPORATE GOVERNANCE CHANGES

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 the oil and gas industry, it could have an adverse effect on the Company's financing costs and access to capital. Additionally, if the Company's 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 the Company's business.

PLAN OF ARRANGEMENT

The Plan of Arrangement completed on December 18, 2020 included 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.

Ongoing legal actions relating to the Plan of Arrangement, including the United States appeal as discussed below under the heading "Legal and Regulatory Proceedings", 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. In addition, the outcomes of such litigation could have a material adverse effect on the Company, its business, financial condition, results of operations and cash flows.

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 March 8, 2004 reorganization pursuant to a plan of arrangement and subsequent acquisition of the Company on March 24, 2004. Pursuant to the plan of arrangement, 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 corporations 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 "Legal and Regulatory Proceedings" for particulars of the legal actions in Greece relating to the operations of Denison. The direction and financial consequence of the potential decisions in these actions cannot be determined at this time. If these actions were to be determined in a manner adverse to the Company or if the Company elects to settle one or more of such claims, it could have a material adverse effect on its business, financial condition, results of operations and cash flows.

NEW TECHNOLOGIES AND CUSTOMER EXPECTATIONS

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

INTELLECTUAL PROPERTY

The success and ability of the Company to compete depends on the proprietary technology of the Company, proprietary technology of third parties that has been, or is required to be, licensed by the Company and the ability of the Company and such third parties to prevent others from copying such proprietary technology. The Company currently relies on intellectual property rights and other contractual or proprietary rights, including (without limitation) copyright, trademark laws, trade secrets, confidentiality procedures, contractual provisions, licenses and patents to protect its proprietary technology. The Company also relies on third parties from whom licenses 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, cybersecurity threats or other factors. If any of these events occur, confidential 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, any 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 and impact the Company's strong relationships with its customers. Any of these events could 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. At a global level, 2021 involved a series of high-profile ransomware attacks. Although ransomware is not a new problem, in recent years it has become one of the most popular types of cybercrime that is highly coordinated and more advanced. The scale and scope of ransomware operators as well as any potential cyber security attack represents both security and economic risks that could have a material adverse effect on the Company's business, financial condition and results of operations.

CLIMATE CHANGE INITIATIVES

Future federal legislation in Canada and the United States including potential international or bilateral requirements enacted under Canadian or American law may materially and adversely affect the Company's business, financial condition, results of operations and cash flows. For example, in Canada, 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. In the United States, on November 2, 2021 the U.S. Environmental Protection Agency (EPA) proposed the Clean Air Act rules that could require all states to reduce methane emissions from hundreds of thousands of existing sources nationwide and encourage the use of innovative methane detection technologies. The EPA extended the public comment on the proposal to January 31, 2022. 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.

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.

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.

RECAPITALIZATION TRANSACTION

The Certain risk factors relating to the Recapitalization Transaction, including risks specific to the 1.5 Lien Notes, are contained in the Special Meeting Circular dated August 17, 2020 under the heading "Risk Factors". The "Risk Factors" of the Special Meeting Circular are incorporated by reference into this annual information form. The Special Meeting Circular was filed on SEDAR on August 21, 2020. A copy of the Special Meeting Circular is available on SEDAR.

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 U.S. and the Company's expectations and intentions with respect to the foregoing, 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, impact of economic reforms and sanctions on the Company's business including the impacts of the Russian-Ukraine conflict and possible impacts of sanctions and restrictions imposed against or by Russia and the Company's expectations and intentions with respect to the foregoing, results of acquisitions, the impact of environmental regulations, 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 and potential 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, accounting policies and practices of the Company, normal industry credit, interest rate, liquidity, and foreign exchange risk on cash flow, indicators of impairment, future taxable income and utilization of available tax losses, functional currency, related-party transactions, the impact of changes in accounting policies and standards on the Company and its financial statements, evaluation of disclosure controls and procedures and internal controls over financial reporting. 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: volatility of industry conditions including the level of exploration, development and production for oil and natural gas in Canada, the United States, Argentina and Russia and market prices for oil and natural gas impacting the demand for oilfield services generally; the availability of capital on satisfactory terms and managing restrictions resulting from compliance with or breach of debt covenants and risk of acceleration of indebtedness, including under the Company's credit facilities, G2S2 Loan, 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; sourcing, pricing and availability of raw materials, component parts, equipment, suppliers, facilities and skilled personnel; the Company's ability to continue to manage the effect of the COVID-19 pandemic on its operations; excess oilfield equipment levels; direct and indirect exposure to volatile credit markets, including credit rating risk; risks associated with foreign operations including but not limited to the sanctions and restrictive measures against Russia by Canada, US and other governments in response to Russia's invasion of Ukraine; counter-actions taken by Russia in response to the sanctions and other restrictive measures taken by Canada, US and European governments; the impacts of the Russia-Ukraine conflict on the supply and demand for oil and gas produced in Russia and globally; ability to employ and retain skilled and unskilled labour to meet the Company's needs; the Company's ability to address the energy transition and adapting equipment and technical based on government and customer requirements and preferences; dilution risks associated with the conversion of outstanding convertible securities and additional equity or debt financings; regional competition; operating restrictions and compliance costs associated with legislative and regulatory initiatives relating to hydraulic fracturing and the protection of workers and the environment; greenhouse gas regulation risks; fluctuations in foreign exchange rates; dependence on, and concentration of, major customers; the demand for fracturing and other stimulation services for the completion of oil and natural gas wells; 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; the Company's ability to expand operations; liabilities relating to legal and/or administrative proceedings including the decisions by securities regulators and/or the courts; changes in legislation and the regulatory environment; failure to maintain the Company's safety standards and record; activist shareholder risks; risk relating to the Plan of Arrangement; liabilities and risks associated with prior operations; continuous improvements in operating equipment and proprietary fluid chemistries; intellectual property risk; unauthorized access or breach of confidential information; third party credit risk; cybersecurity risks; loss of reputation in the marketplace; merger and acquisition activity amongst oil and natural gas exploration and production companies; retaining key employees; failure to realize anticipated benefits of acquisitions and dispositions; unfavorable tax assessments or changes in administrative tax practices; and failure to manage growth related risks. Further information about these and other risks and uncertainties may be found under "Business Risks" above.

Consequently, all of the forward-looking statements made in this MD&A are qualified by these cautionary statements and there can be no assurance that actual results or developments anticipated by the Company will be realized, or that they will have the expected consequences or effects on the Company or its business or operations. These statements speak only as of the respective date of this MD&A or the document incorporated by reference herein. The Company assumes no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise, except as required pursuant to applicable securities laws.

ADDITIONAL INFORMATION

Further information regarding Calfrac Well Services Ltd., including the most recently filed Annual Information Form, can be accessed on the Company's website at www.calfrac.com or under the Company's public filings found at www.sedar.com.

MANAGEMENT'S LETTER

To the Shareholders of Calfrac Well Services Ltd.

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

Management has prepared the Management's Discussion and Analysis (MD&A). The MD&A is based on the Company's financial results prepared in accordance with IFRS. The MD&A compares the audited financial results for the years ended December 31, 2021 and December 31, 2020.

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 15, 2022
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, 2021 and 2020, 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, 2021 and 2020;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive (loss) income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include 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, 2021. 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

Assessment of impairment indicators on property, plant and equipment (PP&E)

Refer to 'Note 2 – Summary of Significant Accounting Policies' and 'Note 4 – Property, Plant and Equipment' to the consolidated financial statements.

The Company's total PP&E as at December 31, 2021 amounted to $563.4 million. At each reporting period management assesses whether there are indicators of impairment or impairment reversals. If indicators of impairment exist, the recoverable amount of the assets or CGU is estimated and an impairment loss is recognized for the amount by which the carrying value of the assets or CGU exceeds its recoverable amount. If indicators of impairment reversal exist, the Company estimates the recoverable amount of the assets or CGU to determine if the impairment loss previously recognized should be reversed. Management applies significant judgment in assessing whether indicators of impairment or impairment reversal exist. Internal and external factors, such as (i) a significant change in the market capitalization of the Company's share price; (ii) changes in conditions of PP&E, (iii) changes in oil and gas prices (iv) changes in forecasted earnings of the CGUs and (v) changes in interest rates, are evaluated by management in determining whether there are any indicators of impairment or impairment reversal.

We determined that this is a key audit matter due to (i) the significance of the PP&E balance and (ii) significant management judgment and (iii) the significant audit effort and subjectivity in applying audit procedures to evaluate management's assessment as to whether there are indicators of impairment or impairment reversal.

How Our Audit Addressed the Key Audit Matter

Our approach to addressing the matter involved the following procedures, among others:

- Evaluated reasonableness of management's assessment of indicators of impairment or impairment reversal, which included the following procedures:
  - Assessed the reasonableness of internal and external factors such as:
    - significant changes in the market capitalization of the Company's share price, which may indicate a change in value of the Company's PP&E
    - significant changes in the conditions of the PP&E, which may indicate a change in value of the PP&E
    - changes in oil and gas prices, forecasted earnings of the CGUs and changes in interest rates by considering the current and past performance of the CGUs, external market data and evidence obtained in other areas of the audit, as applicable
- Assessed the completeness of external or internal factors that could be considered as indicators of impairment or impairment reversal of the Company's PP&E, by considering evidence obtained in other areas of the audit.

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 15, 2022

CONSOLIDATED BALANCE SHEETS

		As at December 31,	
	Note	**2021**	2020
(C$000s)		***($)***	*($)*
ASSETS			
Current assets			
Cash and cash equivalents		**—**	29,830
Accounts receivable		**189,835**	139,486
Income taxes recoverable		**2,859**	1,530
Inventories	3	**101,840**	83,294
Prepaid expenses and deposits		**12,999**	17,050
		307,533	271,190
Non-current assets			
Property, plant and equipment	4	**563,423**	618,488
Right-of-use assets	11	**22,005**	22,785
Total assets		**892,961**	912,463
LIABILITIES AND EQUITY			
Current liabilities			
Bank overdraft		**1,351**	—
Accounts payable and accrued liabilities		**127,441**	101,784
Current portion of lease obligations	11	**8,004**	7,958
		136,796	109,742
Non-current liabilities			
Long-term debt	6	**388,479**	324,633
Lease obligations	11	**12,560**	14,013
Deferred income tax liabilities	9	**26,286**	53,841
Total liabilities		**564,121**	502,229
Capital stock	7	**801,178**	800,184
Conversion rights on convertible notes	6	**4,764**	4,873
Contributed surplus		**68,258**	65,986
Warrants	5, 8	**40,282**	40,797
Loan receivable for purchase of common shares		**(2,500)**	(2,500)
Accumulated deficit		**(592,221)**	(509,409)
Accumulated other comprehensive income		**9,079**	10,303
Total equity		**328,840**	410,234
Total liabilities and equity		**892,961**	912,463

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

Approved by the Board of Directors,

Ronald P. Mathison, Director

Gregory S. Fletcher, Director

CONSOLIDATED STATEMENTS OF OPERATIONS

		Years Ended December 31,	
	Note	**2021**	2020
(C$000s, except per share data)		*($)*	*($)*
Revenue	16	**1,002,395**	705,436
Cost of sales	17	**1,021,018**	806,577
Gross loss		**(18,623)**	(101,141)
Expenses			
Selling, general and administrative		**45,598**	48,883
Foreign exchange losses		**5,288**	15,477
Loss on disposal of property, plant and equipment		**403**	24
Impairment of property, plant and equipment	4	**—**	227,208
Impairment of inventory	3	**—**	27,868
Impairment of other assets		**705**	507
Gain on settlement of debt	5	**—**	(226,319)
Gain on exchange of debt	6	**—**	(130,444)
Interest		**37,737**	91,267
		89,731	54,471
Loss before income tax		**(108,354)**	(155,612)
Income tax expense (recovery)			
Current		**1,491**	855
Deferred		**(27,033)**	167,768
		(25,542)	168,623
Net loss		**(82,812)**	(324,235)
Loss per share	7		
Basic		**(2.21)**	(76.78)
Diluted		**(2.21)**	(76.78)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	Years Ended December 31,	
	2021	2020
(C$000s)	***($)***	*($)*
Net loss	**(82,812)**	(324,235)
Other comprehensive income (loss)		
Items that may be subsequently reclassified to profit or loss:		
Change in foreign currency translation adjustment	**(1,224)**	7,557
Comprehensive loss	**(84,036)**	(316,678)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Share Capital	Conversion Rights on Convertible Notes	Contributed Surplus	Warrants	Loan Receivable for Purchase of Common Shares	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	**Total Equity**
(C$000s)		*($)*		*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Balance – January 1, 2021		**800,184**	**4,873**	**65,986**	**40,797**	**(2,500)**	**10,303**	**(509,409)**	**410,234**
Net loss		—		—	—	—	—	(82,812)	**(82,812)**
Other comprehensive income (loss):									
Cumulative translation adjustment		—	—	—	—	—	(1,224)	—	**(1,224)**
Comprehensive loss		—	—	—	—	—	(1,224)	(82,812)	**(84,036)**
Stock options:									
Stock-based compensation recognized		—	—	2,272	—	—	—	—	**2,272**
Conversion of 1.5 Lien Notes into shares	6	296	(24)						**272**
Rescission of equity portion of 1.5 Lien Notes	6	—	(85)	—	—	—	—	—	**(85)**
Warrants:									
Proceeds from issuance of shares	8	698	—	—	(515)	—	—	—	**183**
Balance – December 31, 2021		**801,178**	**4,764**	**68,258**	**40,282**	**(2,500)**	**9,079**	**(592,221)**	**328,840**
Balance – January 1, 2020		509,235	—	44,316	—	(2,500)	2,746	(185,174)	368,623
Net loss		—	—	—	—	—	—	(324,235)	(324,235)
Other comprehensive income (loss):									
Cumulative translation adjustment		—	—	—	—	—	7,557	—	7,557
Comprehensive income (loss)		—	—	—	—	—	7,557	(324,235)	(316,678)
Stock options:									
Stock-based compensation recognized		—	—	1,747	—	—	—	—	1,747
Performance share units:									0
Stock-based compensation recognized		—	—	856	—	—	—	—	856
Shares issued	7	1,275	—	(1,275)	—	—	—	—	—
Shares issued for settlement of debt	5	301,427	—	—	—	—	—	—	**301,427**
Equity portion of 1.5 Lien Notes, net of share issue costs		(616)	4,873	—	—	—	—	—	**4,257**
Shares issued for commitment fee on 1.5 Lien Notes		10,131	—	—	—	—	—	—	**10,131**
Fair value of warrants issued		—	—	—	40,797	—	—	—	**40,797**
Shares repurchased		(21,268)	—	20,342	—	—	—	—	**(926)**
Balance – December 31, 2020		**800,184**	**4,873**	**65,986**	**40,797**	**(2,500)**	**10,303**	**(509,409)**	**410,234**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	**Years Ended December 31,** **2021**	 2020
(C$000s)		***($)***	*($)*
CASH FLOWS PROVIDED BY (USED IN)			
OPERATING ACTIVITIES			
Net loss		**(82,812)**	(324,235)
Adjusted for the following:			
Depreciation		**127,925**	172,021
Stock-based compensation		**2,272**	1,511
Unrealized foreign exchange losses		**718**	8,319
Loss on disposal of property, plant and equipment		**403**	24
Impairment of property, plant and equipment	4	**—**	227,208
Impairment of inventory		**—**	27,868
Impairment of other assets		**705**	507
Non-cash gain on settlement of debt	5	**—**	(198,847)
Non-cash gain on exchange of debt	6	**—**	(130,444)
Interest		**37,737**	91,267
Interest paid		**(25,127)**	(23,004)
Deferred income taxes		**(27,033)**	167,768
Changes in items of working capital	13	**(50,125)**	4,557
Cash flows (used in) provided by operating activities		**(15,337)**	24,520
FINANCING ACTIVITIES			
Issuance of long-term debt, net of debt issuance costs	6	**59,555**	142,319
Long-term debt repayments	6	**(6,050)**	(118,727)
Lease obligation principal repayments		**(7,836)**	(14,064)
Shares repurchased		**—**	(926)
Proceeds on issuance of common shares from the exercising of warrants		**183**	—
Cash flows provided by financing activities		**45,852**	8,602
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	13	**(63,434)**	(46,189)
Proceeds on disposal of property, plant and equipment		**938**	1,701
Proceeds on disposal of right-of-use assets		**1,202**	1,970
Cash flows used in investing activities		**(61,294)**	(42,518)
Effect of exchange rate changes on cash and cash equivalents		**(402)**	(3,336)
Decrease in cash and cash equivalents		**(31,181)**	(12,732)
Cash and cash equivalents, beginning of year		**29,830**	42,562
(Bank overdraft) cash and cash equivalents, end of year		**(1,351)**	29,830

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2021 and 2020

(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 15, 2022.

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, 2021 that had a material impact on the Company.

(d) Critical Accounting Estimates and Judgments

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

Judgment is also used in the determination of cash-generating units (CGUs), impairment or reversal of impairment of non-financial assets, 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, bank overdrafts, 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 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.

Management applies significant judgment in assessing whether indicators of impairment or impairment reversal exist that would necessitate either impairment testing or impairment reversal calculations. Internal and external factors such as (i) a significant change in the market capitalization of the Company's share price; (ii) changes in conditions of equipment, (iii) changes in oil and gas prices in the market, (iv) changes in forecasted earnings, and (v) changes in interest rates or other market rates of return, are evaluated by management in determining whether there are any indicators of impairment or impairment reversal.

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.

(e) Foreign Currency Translation

i) Functional and Presentation Currency

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

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

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

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

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

ii) Transactions and Balances

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

(f) Financial Instruments

The 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 less. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss is recognized in profit or loss and presented net within other gains or losses in the period in which it arises.

See note 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.

(g) Cash and Cash Equivalents

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

(h) Inventory

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

(i) Property, Plant and Equipment

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

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

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

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

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

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

(j) Borrowing Costs

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

(k) 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.

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

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

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

(m) Income Taxes

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

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

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

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

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

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

For the purposes of calculating income taxes during interim periods, the Company utilizes estimated annualized income tax rates. Current income tax expense is only recognized when taxable income is such that current income tax becomes payable.

(n) Revenue Recognition

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

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

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

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

See note 16 for further information on revenue.

(o) Stock-Based Compensation Plans

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

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

The Company recognizes compensation cost for the fair value of deferred share units granted to its outside directors. The fair value of the deferred share units is recognized based on the market value of the Company's shares underlying these compensation programs.

(p) Business Combinations

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

Acquisition costs are expensed as incurred.

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

(q) Recently Issued Accounting Standards Not Yet Applied

IAS 1 *Presentation of Financial Statements* has been amended to clarify how to classify debt and other liabilities as either current or non-current. The amendment is effective for the years beginning on or after January 1, 2023.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* has been amended 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.

IAS 16 *Property, Plant and Equipment* has been amended to (i) prohibit an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly), (ii) clarify that an entity is "testing whether the asset is functioning properly" when it assesses the technical and physical performance of the asset, and (iii) require certain related disclosures. These amendments are effective for periods beginning on or after January 1, 2022.

3. INVENTORIES

As at December 31,	**2021**	2020
(C$000s)	***($)***	*($)*
Spare equipment parts	**59,573**	53,473
Chemicals	**26,577**	14,751
Sand and proppant	**9,414**	7,302
Coiled tubing	**5,481**	5,972
Other	**795**	1,796
	101,840	83,294

For the year ended December 31, 2021, the cost of inventories recognized as an expense and included in cost of sales was approximately $396,000 (year ended December 31, 2020 – $267,000).

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, 2021, the Company reviewed the carrying value of its inventories across all operating segments and determined there was no impairment to write-off obsolete inventory and write inventory down to its net realizable amount (year ended December 31, 2020 – $27,868). The majority of the inventory impairment in 2020 was attributed to spare equipment parts.

	Years Ended December 31,	
	2021	2020
(C$000s)	***($)***	*($)*
Canada	—	6,200
United States	—	10,668
Argentina	—	11,000
	—	27,868

4. PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 2021	**Opening Net Book Value**	**Additions**	**Disposals**	**Depreciation**	**Foreign Exchange Adjustments**	**Closing Net Book Value**
(C$000s)	***($)***	***($)***	***($)***	***($)***	***($)***	***($)***
Assets under construction[1]	**15,179**	**7,879**	**—**	**—**	**(113)**	**22,945**
Field equipment	**506,290**	**62,394**	**(3,258)**	**(110,244)**	**4,575**	**459,757**
Buildings	**46,903**	**144**	**—**	**(4,220)**	**(3,877)**	**38,950**
Land	**35,103**	**29**	**770**	**—**	**(2,478)**	**33,424**
Shop, office and other equipment	**2,388**	**—**	**—**	**(918)**	**(108)**	**1,362**
Computers and computer software	**12,133**	**253**	**—**	**(5,341)**	**(35)**	**7,010**
Leasehold improvements	**492**	**—**	**—**	**(45)**	**(472)**	**(25)**
	618,488	**70,699**	**(2,488)**	**(120,768)**	**(2,508)**	**563,423**

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

As at December 31, 2021	Cost	Accumulated Depreciation	Net Book Value
(C$000s)	*($)*	*($)*	*($)*
Assets under construction	**22,945**	**—**	**22,945**
Field equipment	**2,336,369**	**(1,876,612)**	**459,757**
Buildings	**90,211**	**(51,261)**	**38,950**
Land	**33,424**	**—**	**33,424**
Shop, office and other equipment	**27,832**	**(26,470)**	**1,362**
Computers and computer software	**44,900**	**(37,890)**	**7,010**
Leasehold improvements	**8,713**	**(8,738)**	**(25)**
	2,564,394	**(2,000,971)**	**563,423**

Year Ended December 31, 2020	Opening Net Book Value	Additions	Disposals	Impairment	Depreciation	Foreign Exchange Adjustments	Closing Net Book Value
(C$000s)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Assets under construction[(1)]	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 equipment	3,565	114	(10)	(241)	(1,161)	121	2,388
Computers and computer software	4,042	12,212	—	(24)	(4,118)	21	12,133
Leasehold improvements	455	—	—	—	(183)	220	492
	969,944	44,630	(3,894)	(227,208)	(159,775)	(5,209)	618,488

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

As at December 31, 2020	Cost	Accumulated Depreciation	Net Book 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
	2,498,774	(1,880,286)	618,488

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. 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 cash-generating unit (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 cash-generating units are determined to be at the country level, consisting of Canada, the United States, Russia and Argentina.

As at December 31, 2021, the Company did not identify any changes in the indicators of impairment or any new indicators of impairment since the last impairment test that was carried out as at December 31, 2020. Therefore, no further assessment on impairment was performed as there have been no changes in circumstances that indicate that the carrying amount of property, plant and equipment exceeded its recoverable amount as at December 31, 2021.

Assumptions that are valid at the time of preparing the impairment test at December 31, 2021 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 are as follows:

	Years Ended December 31,	
	2021	2020
(C$000s)	***($)***	*($)*
Canada	—	132,483
United States	—	15,380
Argentina	—	52,466
Russia	—	26,879
	—	227,208

5. RECAPITALIZATION TRANSACTION

On December 18, 2020, the Company completed its 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 during the fourth quarter of 2020 was as follows:

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

[1] Includes $1,266 of other associated costs related to the Plan of Arrangement, of which $1,092 were non-cash expenses.
[2] $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 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 share 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.

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 recorded as a reduction of the gain on settlement of debt during the fourth quarter of 2020.

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 share units of $312 along with the cash consideration of $174 was recognized during the fourth quarter of 2020 as a reduction of the gain on settlement of debt.

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. See note 8 for further information.

(f) 1.5 Lien Notes

In conjunction with the Recapitalization Transaction, the Company issued $60,000 of 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. During the first quarter of 2021, the Company recorded the rescission of $1,050 of its 1.5 Lien Notes. 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 and Regulatory Application

Appeals of Chapter 15 Enforcement Order

On December 11, 2020, Wilks Brothers, LLC and its affiliated funds (collectively "Wilks Brothers") filed a notice of appeal (the "District Court 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 ("Chapter 15 Enforcement Order"), 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"). At a hearing held on April 23, 2021, the U.S. District Court affirmed the Chapter 15 Enforcement Order and effectively denied the District Court Appeal (the "District Court Decision"). On June 1, 2021, Wilks Brothers filed a notice of appeal to the United States Court of Appeals for the Fifth Circuit (the "Fifth Circuit Appeal"). On January 27, 2022, following the parties' January 25, 2022 Joint Motion to Stay Further Appellate Proceedings Pending Settlement Discussions, the United States Court of Appeals for the Fifth Circuit entered an order dismissing the Fifth Circuit Appeal without prejudice to either party seeking to reinstate the appeal within 180 days. The Company believes it is well-positioned to prevail on the merits of the appeal should it be reinstated.

Appeal of CBCA Final Order

On January 29, 2021, Wilks Brothers 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. On May, 27, 2021, the Supreme Court of Canada dismissed the leave to appeal application with costs. The Supreme Court of Canada's dismissal of the leave to appeal application means that the CBCA Final Order, pursuant to which the Company implemented its Recapitalization Transaction, is no longer subject to any further Canadian appeal rights, and remains in full force and effect.

Review of Toronto Stock Exchange Decision

On April 22, 2021, the Wilks Brothers filed an application to the Ontario Securities Commission (the "OSC"), requesting a hearing and review by the OSC of the decision of the Toronto Stock Exchange (the "TSX") in March 2021 granting exemptive relief (the "TSX Decision") in respect of the rescission of the purchase of 1.5 Lien Notes acquired by an institutional shareholder (the "Subject Notes").

The TSX Decision confirmed that the conditional listing approval of the TSX in respect of the common shares issuable upon conversion of the remaining $58,950 of 1.5 Lien Notes had been satisfied. Such confirmation was subject to, among other conditions, the completion of the rescission and cancellation of the Subject Notes, which was completed on April 15, 2021, as disclosed in note 6.

Following a hearing before the OSC on July 12, 2021, on July 13, 2021, the OSC issued an order dismissing Wilks Brothers' application to set aside the TSX Decision. The OSC's reasons for decision were issued to the parties on October 6, 2021. Wilks Brothers did not exercise its right of appeal from the OSC decision in the prescribed time, and as a result the OSC's decision is final.

6. LONG-TERM DEBT

As at December 31,	**2021**	2020
(C$000s)	***($)***	*($)*
$250,000 extendible revolving term loan facility, secured by the Canadian and U.S. assets of the Company on a first priority basis	**190,000**	130,000
$58,658 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	**55,385**	55,171
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	**152,136**	152,784
Less: unamortized debt issuance costs	**(9,042)**	(13,322)
	388,479	324,633

The fair value of the Second Lien Notes (as defined below), as measured based on the closing market price at December 31, 2021 was $139,640 (December 31, 2020 – $106,706). 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) 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. 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.

During the first quarter of 2021, the Company recorded the rescission of $1,050 of its 1.5 Lien Notes. For accounting purposes, the $1,050 principal amount was recorded on a proportional basis as a reduction of the liability and equity portion of the 1.5 Lien Notes for $965 and $85, respectively. During the year ended December 31, 2021, $292 principal amount of the 1.5 Lien Notes was converted into 219,136 common shares. For accounting purposes, the conversion was recorded on a proportional basis as a reduction of the liability and equity portion of the 1.5 Lien Notes for $272 and $24, respectively, with a corresponding increase to share capital.

The Company also opted to pay its March 15 and September 15, 2021 interest payment on the 1.5 Lien Notes in cash rather than utilizing the payment-in-kind option.

(b) 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.

(c) Revolving Credit Facility

On June 30, 2021, the Company amended its revolving credit facility agreement to reduce its total facility capacity from $290,000 to $225,000 and extended the maturity date to July 1, 2023. On November 25, 2021, the Company further amended its revolving credit facility agreement to increase its total facility capacity to $250,000.

Subsequent to the end of 2021, the Company negotiated additional waivers and amendments to its revolving credit facilities. The waivers and amendments included the following:

i. The Company's Funded Debt to Adjusted EBITDA covenant was waived for the quarter ended December 31, 2021, and has been increased to 3.75x for the quarter ended March 31, 2022;

ii. The minimum $15,000 liquidity requirement was temporarily waived through March 15, 2022 and reinstated through the term of an extended Covenant Relief Period. The extended Covenant Relief Period terminates on June 30, 2022 to the extent Calfrac has provided a compliance certificate to its lenders certifying compliance with all applicable financial covenants at such quarter end;

iii. G2S2 Capital Inc. (G2S2) was added as a lender to permit the incurrence of a secured bridge loan from G2S2 under the credit agreement, with such debt being excluded from the definitions of Funded Debt, Total Debt and Current Liabilities for the purposes of financial covenant calculations; and

iv. The eligible portion of the net book value of property, plant and equipment (PP&E) for the purposes of the borrowing base calculation was increased from 25 percent to 35 percent, subject to a maximum contribution of $150,000.

Additionally, the Company executed a secured bridge loan with G2S2 (the G2S2 Loan), a company controlled by George Armoyan, in order to fund its short-term working capital requirements. As of March 15, 2022, the Company had drawn $15,000 on the loan and can request further draws up to an additional $10,000, for maximum proceeds of $25,000, at an interest rate of 8.00 percent. The loan is repayable on April 29, 2022, with the option to extend the loan for a period of 60 days upon the consent of G2S2. The G2S2 Loan is secured by the existing security interests securing the obligations under the credit agreement, provided that G2S2's right to any realization proceeds is subordinate to the prior repayment in full of all of the other lenders. G2S2 has no voting rights as a lender under the credit agreement for any purpose.

The facilities consist of an operating facility of $45,000 and a syndicated facility of $205,000. The Company's credit facilities mature on July 1, 2023, 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 and also during the Covenant Relief Period, certain restrictions apply including the following: (a) acquisitions are subject to consent of the lenders; (b) distributions are restricted other than those relating to the Company's equity compensation plans; (c) no increase in the rate of dividends are permitted; and (d) additional permitted debt is restricted to $5,000. As at December 31, 2021, the Company's net Total Debt to Adjusted EBITDA ratio exceeded the 5.00:1.00 threshold and the Company was also subject to the Covenant Relief Period restrictions.

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, 2021 was $37,833 (year ended December 31, 2020 – $90,332). 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:

	2021
(C$000s)	*($)*
Balance, January 1	324,633
Issuance of long-term debt, net of debt issuance costs	59,555
Long-term debt repayments	(5,965)
Conversion of 1.5 Lien Notes into shares	(272)
Amortization of compound financial instrument discount	1,451
Amortization of debt issuance costs and debt discount	9,699
Foreign exchange adjustments	(622)
Balance, December 31	388,479

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

As at December 31, 2021	Amount
(C$000s)	*($)*
2022	—
2023	190,000
2024	—
2025	—
2026	152,136
Thereafter	—
	342,136

At December 31, 2021, the Company had utilized $927 of its loan facility for letters of credit, had $190,000 outstanding under its revolving term loan facility, and $1,351 of bank overdraft. The Company's credit facilities are subject to a monthly borrowing base, which at December 31, 2021 was $217,065 prior to the amendment increasing the eligible PP&E percentage to 35 percent. 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 14 for further details on the covenants in respect of the Company's long-term debt.

7. CAPITAL STOCK

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

Years Ended December 31,		**2021**		2020
Continuity of Common Shares	**Shares**	**Amount**	Shares	Amount
	(#)	***($000s)***	*(#)*	*($000s)*
Balance, beginning of year	**37,408,490**	**800,184**	2,897,778	506,735
Issued upon exercise of warrants	**73,460**	**698**	—	—
Conversion of 1.5 Lien Notes into shares (note 6)	**219,136**	**296**	—	—
Issued upon vesting of performance share units	**—**	**—**	5,646	1,275
Issued on acquisition	**—**	**—**	8,913	2,500
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	**(114)**	**—**	(189)	—
Share issue costs on 1.5 Lien Notes	**—**	**—**	—	(616)
Balance, end of year	**37,700,972**	**801,178**	37,408,490	800,184

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.

	Years Ended December 31,	
	2021	2020
	(#)	*(#)*
Weighted average number of common shares outstanding		
Basic	**37,543,761**	4,223,061
Diluted	**83,687,093**	54,234,401

The difference between basic and diluted shares is attributable to: warrants issued as part of the Recapitalization Transaction as disclosed in note 5, the dilutive effect of the conversion of the 1.5 Lien Notes as disclosed in note 6, and the dilutive effect of stock options issued by the Company as disclosed in note 8.

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,		**2021**		2020
Continuity of Stock Options	**Options**	**Average Exercise Price**	Options	Average Exercise Price
	(#)	*($)*	*(#)*	*($)*
Balance, January 1	—	—	244,060	158.00
Granted	**3,600,000**	**3.54**	1,098	31.00
Forfeited	**(300,000)**	**3.54**	(57,280)	192.00
Terminated and cancelled	—	—	(184,536)	143.00
Expired	—	—	(3,342)	366.50
Balance, December 31	**3,300,000**	**3.54**	—	—

Stock options vest equally over three years and expire five years from the date of grant. The exercise price of outstanding options range from $3.41 to $3.54 with a weighted average remaining life of 4.44 years. When stock options are exercised, the proceeds together with the compensation expense previously recorded in contributed surplus, are added to capital stock.

The weighted average fair value of options granted during 2021, determined using the Black-Scholes valuation method, was $2.15 per option (year ended December 31, 2020 – $13.50 per option). The Company applied the following assumptions in determining the fair value of options on the date of grant:

	Years Ended December 31,	
	2021	2020
Expected life (years)	**3.00**	3.00
Expected volatility (%)	**99.99**	71.18
Risk-free interest rate (%)	**1.00**	0.87
Expected dividends ($)	**—**	—

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

(b) Share Units

Years Ended December 31,	**2021**		2020
Continuity of Stock Units	**Deferred Share Units**	Deferred Share Units	Performance Share Units
	(#)	*(#)*	*(#)*
Balance, January 1	**2,400**	2,900	25,891
Granted	**105,000**	2,100	19,968
Exercised	**—**	(1,600)	(5,646)
Forfeited	**—**	(1,000)	(8,027)
Settled	**—**	—	(17,014)
Terminated and cancelled	**—**	—	(15,172)
Balance, December 31	**107,400**	2,400	—

	Years Ended December 31,	
	2021	2020
	($)	*($)*
Expense (recovery) from:		
Stock options	**2,272**	1,747
Deferred share units	**279**	(157)
Performance share units	**—**	1,030
Total stock-based compensation expense	**2,551**	2,620

Stock-based compensation expense is included in selling, general and administrative expenses, unless otherwise noted.

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, 2021, the liability pertaining to deferred share units was $269 (December 31, 2020 – $9).

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 (note 5), 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 share, 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 during the fourth quarter of 2020. The Company applied the following Black-Scholes model inputs:

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 ($)	**—**

As at December 31, 2021, 73,460 warrants were exercised for total proceeds of $183.

9. INCOME TAXES

The components of income tax expense (recovery) are:

	Years Ended December 31,	
	2021	2020
(C$000s)	***($)***	*($)*
Current income tax expense	**1,491**	855
Deferred income tax expense (recovery)	**(27,033)**	167,768
	(25,542)	168,623

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 2021 tax rate of 23.0 percent (year ended December 31, 2020 – 24.0 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,	
	2021	2020
(C$000s except percentages)	***($)***	*($)*
Loss before income tax	**(108,354)**	(155,612)
Income tax rate (%)	**23.0**	24.0
Computed expected income tax recovery	**(24,922)**	(37,347)
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses/non-taxable income	**6,425**	430
Foreign tax rate and other foreign differences	**(3,174)**	(1,858)
Translation of foreign subsidiaries	**1,285**	(478)
Deferred income tax adjustment from tax rate changes	**—**	—
Other non-income taxes	**110**	494
Derecognition of tax losses	**(6,605)**	122,405
Recapitalization Transaction	**—**	86,804
Other	**1,339**	(1,827)
	(25,542)	168,623

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,	**2021**	2020
(C$000s)	***($)***	*($)*
Property, plant and equipment	**(84,890)**	(95,939)
Losses carried forward	**46,547**	37,012
Canadian exploration expenses	**—**	—
Deferred compensation payable	**—**	—
Deferred financing and share issuance costs	**—**	—
Other	**12,057**	5,086
	(26,286)	(53,841)

Loss carry-forwards expire at various dates ranging from December 31, 2022 to December 31, 2041.

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

	Years Ended December 31,	
	2021	2020
(C$000s)	***($)***	*($)*
Balance, beginning of year	**(53,841)**	113,830
Charged (credited) to the consolidated statements of operations or accumulated other comprehensive income:		
Property, plant and equipment	**11,049**	42,606
Losses carried forward	**9,535**	(181,122)
Canadian exploration expenses	**—**	(5,156)
Deferred compensation payable	**—**	(304)
Deferred financing and share issuance costs	**—**	(2,260)
Other	**6,971**	(21,435)
Balance, end of year	**(26,286)**	(53,841)

The Company has tax losses and attributes for which no deferred tax asset is recognized:

	Years Ended December 31,	
	2021	2020
(C$000s)	***($)***	*($)*
Tax losses (capital)	**41,851**	41,037
Tax losses (income)	**58,734**	73,837
Property, plant and equipment	**22,405**	17,211
Canadian exploration expenses	**5,128**	5,156
Deferred compensation payable	**64**	2
Deferred financing and share issuance costs	**4,020**	5,307
Other	**11,185**	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, 2021, as follows:

	Right-of-Use Asset Recognized	**No Right-of-Use Asset Recognized**	**Total**
(C$000s)	*($)*	*($)*	*($)*
2022	7,957	9,260	17,217
2023	6,527	7,278	13,805
2024	4,809	5,491	10,300
2025	1,397	5,113	6,510
2026	1,187	—	1,187
Thereafter	1,658	—	1,658
	23,535	27,142	50,677

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, 2021, as follows:

(C$000s)	*($)*
2022	11,235
2023	550
2024	—
2025	—
2026	—
	11,785

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 right-of-use assets by class of underlying asset:

Year Ended December 31, 2021	**Opening Net Book Value**	**Additions**	**Disposals**	**Depreciation**	**Foreign Exchange Adjustments**	**Closing Net Book Value**
(C$000s)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Field equipment	**13,688**	**7,456**	**(2,556)**	**(4,959)**	**(30)**	**13,599**
Buildings	**9,097**	**8,591**	**(7,092)**	**(2,197)**	**7**	**8,406**
	22,785	**16,047**	**(9,648)**	**(7,156)**	**(23)**	**22,005**

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

	2021
(C$000s)	*($)*
Interest expense on lease obligations	1,132
Expense relating to short-term leases (included in operating and selling, general and administrative expense)	20,944
Expense relating to low value leases (included in operating and selling, general and administrative expense)	1,640
Expense relating to variable lease payments (included in operating and selling, general and administrative expense)	2,523
Income from subleasing of right-of-use assets	(126)
Total cash outflow for lease obligations	8,968

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

	2021
(C$000s)	*($)*
Balance, January 1	21,971
Additions	16,047
Disposals/retirements	(9,593)
Principal portion of payments	(7,836)
Foreign exchange adjustments	(25)
Balance, December 31	20,564

12. FINANCIAL INSTRUMENTS

The Company's financial instruments included in the consolidated balance sheets are comprised of cash and cash equivalents, accounts receivable, deposits, bank overdrafts, 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, 2021 was $139,640 and $152,136, respectively (December 31, 2020 – $106,706 and $152,784).

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, 2021, the Company had a loss allowance provision for accounts receivable of $569 (December 31, 2020 – $1,726).

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 recovery of $1,163 was recorded during the year ended December 31, 2021, using the lifetime expected credit loss model (year ended December 31, 2020 – $1,390). 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:

	2021
(C$000s)	*($)*
At January 1, 2021	1,726
Increase (decrease) in loan loss allowance recognized in statement of operations	(1,163)
Foreign exchange adjustments	6
At December 31, 2021	569

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, 2021 and 2020, excluding any impaired accounts, are as follows:

As at December 31,	**2021**	2020
(C$000s)	***($)***	*($)*
Current	**135,043**	97,000
31 – 60 days	**26,405**	20,303
61 – 90 days	**13,716**	10,111
91+ days	**8,310**	5,045
Total	**183,474**	132,459

(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, 2021 amounts to $1,900 (December 31, 2020 – $1,300).

The Company's effective interest rate for the year ended December 31, 2021 was 8.4 percent (year ended December 31, 2020 – 7.5 percent).

(d) Liquidity Risk

The Company's principal sources of liquidity are operating cash flows, existing or new credit facilities, new secured or unsecured debt, 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 14 for further details on the Company's capital structure.

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

At December 31, 2021	**Total**	**<1 Year**	**1 – 3 Years**	**4 – 6 Years**	**7 – 9 Years**	**Thereafter**
(C$000s)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Accounts payable and accrued liabilities	**127,441**	**127,441**	—	—	—	—
Lease obligations[1]	**23,534**	**7,957**	**12,732**	**2,845**	—	—
Long-term debt[1]	**441,248**	**33,793**	**251,183**	**156,272**	—	—

[1] *Principal and interest*

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

[1] *Principal and interest*

(e) Foreign Exchange Risk

The Company is exposed to foreign exchange risk associated with foreign operations where assets, liabilities, revenue and costs are denominated in currencies other than Canadian dollars. These currencies include the U.S. dollar, Russian rouble, and Argentinean peso. The Company is also exposed to the impact of foreign currency fluctuations in its Canadian operations on purchases of products and property, plant and equipment from vendors in the United States. In addition, the Company's 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, 2021	**Impact to Net Income**
(C$000s)	*($)*
1% change in value of U.S. dollar	**1,407**
1% change in value of Argentinean peso	**90**
1% change in value of Russian rouble	**—**

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	—

13. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Years Ended December 31,	
	2021	2020
(C$000s)	***($)***	*($)*
Accounts receivable	**(50,349)**	77,161
Inventory	**(18,724)**	16,458
Prepaid expenses and deposits	**3,346**	(68)
Accounts payable and accrued liabilities	**16,931**	(89,072)
Income taxes recoverable	**(1,329)**	78
	(50,125)	4,557
Income taxes paid	**2,820**	777

Purchase of property, plant and equipment is comprised of:

	Years Ended December 31,	
	2021	2020
(C$000s)	***($)***	*($)*
Property, plant and equipment additions	**(70,699)**	(44,630)
Change in liabilities related to the purchase of property, plant and equipment	**7,265**	(1,559)
	(63,434)	(46,189)

14. CAPITAL STRUCTURE

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

The Company manages its capital structure and makes adjustments in light of changing market conditions and new opportunities, while remaining cognizant of the cyclical nature of the oilfield services sector. To maintain or adjust its capital structure, the Company may revise its capital spending, 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,	**2021**	2020
(C$000s)	***($)***	*($)*
Net loss	**(82,812)**	(324,235)
Adjusted for the following:		
Depreciation	**127,925**	172,021
Foreign exchange losses	**5,288**	15,477
Loss on disposal of property, plant and equipment	**403**	24
Impairment of property, plant and equipment	**—**	227,208
Impairment of inventory	**—**	27,868
Impairment of other assets	**705**	507
Gain on settlement of debt	**—**	(226,319)
Gain on exchange of debt	**—**	(130,444)
Interest	**37,737**	91,267
Income taxes	**(25,542)**	168,623
Operating income	**63,704**	21,997

Net debt for this purpose is calculated as follows:

As at December 31,	**2021**	2020
(C$000s)	***($)***	*($)*
Long-term debt, net of debt issuance costs and debt discount	**388,479**	324,633
Lease obligations	**20,564**	21,971
Add (deduct): bank overdraft (cash and cash equivalents)	**1,351**	(29,830)
Net debt	**410,394**	316,774

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, 2021, the net debt to operating income ratio was 6.44:1 (December 31, 2020 – 14.40:1) calculated on a 12-month trailing basis as follows:

For the Twelve Months Ended December 31,	**2021**	2020
(C$000s, except ratio)	***($)***	*($)*
Net debt	**410,394**	316,774
Operating income	**63,704**	21,997
Net debt to operating income ratio	**6.44**	14.40

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 was waived for the quarter ended December 31, 2021, 3.75x for the quarter ended March 31, 2022 and 3.00x for each quarter end thereafter. As shown in the table below, the Company was in compliance with its financial covenants associated with its credit facilities as at December 31, 2021.

	Covenant	**Actual**
As at December 31,	2021	**2021**
Working capital ratio not to fall below	1.15x	**2.40x**
Funded Debt to Adjusted EBITDA not to exceed[(1)(2)]	N/A	**3.83x**
Funded Debt to Capitalization not to exceed[(1)(3)]	0.30x	**0.27x**

[1] Funded Debt is defined as Total Debt excluding all outstanding Second Lien Notes, 1.5 Lien Notes, the G2S2 Loan, 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 a specified purpose, including a potential equity cure).
[2] Adjusted EBITDA is defined as net income or loss for the period adjusted for interest, taxes, depreciation and amortization, non-cash stock-based compensation, and gains and losses that are extraordinary or non-recurring.
[3] 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,	
	2021	2020
(C$000s)	***($)***	*($)*
Net loss	**(82,812)**	(324,235)
Add back (deduct):		
Depreciation	**127,925**	172,021
Unrealized foreign exchange losses	**718**	8,319
Loss on disposal of property, plant and equipment	**403**	24
Impairment of property, plant and equipment	**—**	227,208
Impairment of inventory	**—**	27,868
Impairment of other assets	**705**	507
Gain on settlement of debt	**—**	(226,319)
Gain on exchange of debt	**—**	(130,444)
Litigation settlements	**(700)**	—
Non-cash purchase commitment termination settlement	**—**	2,082
Restructuring charges	**673**	5,377
Stock-based compensation	**2,272**	1,511
Interest	**37,737**	91,267
Income taxes	**(25,542)**	168,623
Adjusted EBITDA[(1)]	**61,379**	23,809

[1] For bank covenant purposes, EBITDA includes the deduction of an additional $8,968 of lease payments for the year ended December 31, 2021 (year ended December 31, 2020 – $15,646) 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, including the amendments discussed in note 6, 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 a specified purpose, including a potential equity cure; and

iii. 35 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 (the "Indentures") 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 the Indentures or the making of such payment would result in a default;
ii. the Company would not meet the Fixed Charge Coverage Ratio[1] under the 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 the builder baskets included in the Indentures.

[1] The Fixed Charge Coverage Ratio is defined as cash flow to interest expense. Cash flow is a non-GAAP measure and does not have a standardized meaning under IFRS and is defined under the 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, 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 the Indentures. As at December 31, 2021, these baskets were not utilized.

The Indentures also restrict the ability to incur 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 indebtedness, including debt under credit facilities up to the greater of $375,000 or 30 percent of the Company's consolidated tangible assets as well as a general basket equal to the greater of 4 percent of consolidated tangible assets and US$60,000. The 1.5 Lien Notes indenture includes additional restrictions on certain investments including certain investments in subsidiary entities, however the Indentures include several exceptions to this prohibition, including a general basket of US$10,000 and baskets related to prepayments and and certain capital build commitments which aggregate over US$12,000. This 1.5 Lien Notes 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, 2021, the Company's Fixed Charge Coverage Ratio of 1.63:1 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, subject to the additional restrictions during the Covenant Relief Period discussed above, 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, 2023, 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.

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, 2023 will increase Adjusted EBITDA over the relevant twelve-month rolling period and may also serve to reduce Funded Debt unless used for other purposes.

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 in a calendar year ($10,000 during the Covenant Relief Period), subject to certain exceptions. There are no restrictions pertaining to dispositions of property or assets outside of Canada and the United States, except that to the extent that if 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. Also, during the Covenant Relief Period, there is an obligation to reduce advances under the credit facilities using proceeds of any disposition of property or assets that exceed $10,000, subject to certain exceptions.

15. RELATED-PARTY TRANSACTIONS

Entities controlled by George S. Armoyan, interim Chief Executive Officer and a member of the Board of Directors, and Ronald P. Mathison, the Chairman of the Company, hold 44 percent and 19 percent, respectively, of the Company's 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. Certain entities controlled by George S. Armoyan received 734,413 shares for their participation in backstopping the 1.5 Lien Notes, of which 38,023 shares were sold during the first quarter of 2021.

Certain entities controlled by George S. Armoyan hold US$16,371 of the Company's Second Lien Notes (December 31, 2020 – US$2,430).

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, 2021 was $957 (year ended December 31, 2020 – $1,511), 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.

16. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	Canada	**United States**	**Russia**	**Argentina**	**Consolidated**
(C$000s)	*($)*	*($)*	*($)*	*($)*	*($)*
Year Ended December 31, 2021					
Fracturing	**254,517**	**428,570**	**113,244**	**103,415**	**899,746**
Coiled tubing	**25,401**	**—**	**8,902**	**23,237**	**57,540**
Cementing	**—**	**—**	**—**	**26,503**	**26,503**
Product sales	**340**	**(49)**	**—**	**—**	**291**
Subcontractor	**—**	**—**	**—**	**18,315**	**18,315**
	280,258	**428,521**	**122,146**	**171,470**	**1,002,395**
Year Ended December 31, 2020					
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
	230,448	306,090	100,407	68,491	705,436

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 54 percent of the Company's revenue for the year ended December 31, 2021 (year ended December 31, 2020 – four significant customers for approximately 38 percent) and, of such customers, one customer accounted for approximately 22 percent of the Company's revenue for the year ended December 31, 2021 (year ended December 31, 2020 – 14 percent).

17. PRESENTATION OF EXPENSES

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

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

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

	Years Ended December 31,	
	2021	2020
(C$000s)	***($)***	*($)*
Product costs	**327,257**	213,262
Personnel costs	**238,949**	201,318
Depreciation on property, plant and equipment	**120,768**	159,775
Depreciation on right-of-use assets (note 11)	**7,156**	12,246
Other operating costs	**326,888**	219,976
	1,021,018	806,577

During the year ended December 31, 2021, the Company qualified for the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") programs and recognized $7,735 as a reduction of salaries and wages expense (year ended December 31, 2020 – $12,339), and $465 as a reduction in rent expense (year ended December 31, 2020 – $142), respectively.

18. EMPLOYEE BENEFITS EXPENSE

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

	Years Ended December 31,	
	2021	2020
(C$000s)	***($)***	*($)*
Salaries and short-term employee benefits	**249,765**	208,763
Post-employment benefits (group retirement savings plan)	**1,533**	2,495
Share-based payments	**2,551**	2,620
Termination benefits	**1,787**	6,107
	255,636	219,985

19. COMPENSATION OF KEY MANAGEMENT

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

	Years Ended December 31,	
	2021	2020
(C$000s)	***($)***	*($)*
Salaries, fees and short-term benefits	**1,930**	2,443
Post-employment benefits (group retirement savings plan)	**6**	18
Share-based payments	**974**	842
Termination benefits	**—**	—
	2,910	3,303

In the event of termination, the President and Chief Operating Officer, and Chief Financial Officer are entitled to one year of annual compensation, and two years of annual compensation in the event of termination resulting from a change of control.

20. CONTINGENCIES

GREEK LITIGATION

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

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

In 1999, the largest group of plaintiffs received a ruling from the Athens Court of First Instance that their termination was invalid and that salaries in arrears amounting to approximately $9,852 (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 on the basis they were improperly issued and are barred from a statute of limitations perspective. 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 $3,168 (2,201 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 $832 (578 euros), amounted to $29,345 (20,391 euros) as at December 31, 2021.

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.

VENDOR CONTRACT DISPUTE

A complaint for money damages was filed against the Company by a vendor in the United States District Court for the District of Delaware in July 2021. The complaint, which was amended in February 2022, alleges the Company failed to satisfy certain volume commitments and associated shortfall payment obligations under a sand supply agreement and the vendor is seeking at least US$10.2 million in damages together with interest and unspecified other relief. The Company has filed an answer to the original complaint and a counter-claim, and its answer to the amended complaint is due March 18, 2022. The case is still in the early stages, but the Company intends to pursue its counter-claim and vigorously defend against the vendor's allegations.

Given the stage of the proceedings and the existence of available defenses, the direction and financial consequences of the claims in the complaint cannot be determined at this time. While management does not believe that this claim will have a material adverse effect on the business or financial condition of the Company, no assurance can be given as to the outcome of the proceedings.

21. SEGMENTED INFORMATION

The Company's activities are conducted in four geographical segments: Canada, the United States, Russia and Argentina. All activities are related to hydraulic fracturing, coiled tubing, cementing and other well completion services for the oil and natural gas industry.

The business segments presented reflect the Company's management structure and the way its management reviews business performance. The Company evaluates the performance of its operating segments primarily based on operating income, as defined below.

	Canada	**United States**	**Russia**	**Argentina**	**Corporate**	**Consolidated**
(C$000s)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Years Ended December 31, 2021						
Revenue	**280,258**	**428,521**	**122,146**	**171,470**	**—**	**1,002,395**
Operating income (loss)[1]	**39,314**	**10,268**	**14,373**	**22,131**	**(22,382)**	**63,704**
Segmented assets	**224,274**	**494,268**	**65,830**	**108,589**	**—**	**892,961**
Capital expenditures	**12,189**	**42,033**	**4,124**	**12,353**	**—**	**70,699**
Years Ended December 31, 2020						
Revenue	230,448	306,090	100,407	68,491	—	705,436
Operating income (loss)[1]	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

[1] Operating income (loss) is defined as net income (loss) before depreciation, foreign exchange gains or losses, gains or losses on disposal of property, plant and equipment, impairment of inventory, impairment of property, plant and equipment, interest, and income taxes.

	Years Ended December 31,	
	2021	2020
(C$000s)	*($)*	*($)*
Net loss	**(82,812)**	(324,235)
Add back (deduct):		
Depreciation	**127,925**	172,021
Foreign exchange losses	**5,288**	15,477
Loss on disposal of property, plant and equipment	**403**	24
Impairment of property, plant and equipment	**—**	227,208
Impairment of inventory	**—**	27,868
Impairment of other assets	**705**	507
Gain on settlement of debt	**—**	(226,319)
Gain on exchange of debt	**—**	(130,444)
Interest	**37,737**	91,267
Income taxes	**(25,542)**	168,623
Operating income	**63,704**	21,997

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

22. SUBSEQUENT EVENT

The ongoing conflict between Russia and Ukraine has added a level of risk and uncertainty around the Company's operations in Russia. As a result of these changes in circumstances, the risk and uncertainty surrounding banking restrictions and the ability to repatriate funds to Canada from Russia, the Company's ownership and control over its Russian subsidiary, potential impairment indicators of current and long-term assets, the physical security of property, plant and equipment, and overall business and operational risks are currently being assessed and will be addressed in the interim financial statements for the three months ended March 31, 2022.

The situation in Russia remains dynamic and additional sanctions or restrictions may be issued against or by Russia as the conflict evolves. Additional sanctions or restrictions could have a material impact on the Company's assets, business, financial condition and cash flows in Russia and the Company continues to carefully evaluate its options for its Russian operations.

HISTORICAL REVIEW

	2021	2020	2019	2018	2017
(C$000s, except per share amounts)	***($)***	*($)*	*($)*	*($)*	*($)*
(unaudited)					
FINANCIAL RESULTS					
Revenue	**1,002,395**	705,436	1,620,955	2,256,426	1,527,705
Operating income (loss)[1]	**63,704**	21,490	152,744	311,825	180,120
Per share - basic[2]	**1.70**	5.21	1.06	2.16	1.31
Per share - diluted[2]	**0.76**	0.41	1.05	2.12	1.29
Adjusted EBITDA[1]	**61,379**	23,809	159,119	329,408	191,823
Per share - basic[2]	**1.63**	5.64	1.10	2.29	1.39
Per share - diluted[2]	**0.73**	0.44	1.09	2.24	1.38
Net (loss) income	**(82,812)**	(324,235)	(156,203)	(18,188)	5,939
Per share - basic [2]	**(2.21)**	(76.78)	(1.08)	(0.13)	0.04
Per share - diluted [2]	**(2.21)**	(76.78)	(1.08)	(0.13)	0.04
Capital expenditures	**70,699**	44,630	139,305	159,764	91,933
FINANCIAL POSITION, END OF PERIOD					
Current Assets	**307,533**	271,190	405,926	569,564	576,338
Total Assets	**892,961**	912,463	1,525,922	1,782,657	1,777,966
Working Capital	**170,737**	161,448	248,772	329,871	327,049
Long-Term Debt	**388,479**	324,633	976,693	989,614	958,825
Total Equity	**328,840**	410,234	368,623	513,820	543,645
COMMON SHARE DATA					
Common shares outstanding (000s), end of period[2]	**37,701**	37,408	144,889	144,463	143,756
Weighted average (diluted)	**83,687**	54,234	145,475	146,829	139,462
Share trading					
High ($)[2]	**6.45**	9.00	3.95	8.35	6.51
Low ($)[2]	**2.75**	3.65	0.78	2.03	2.23
Close ($), end of period[2]	**4.20**	3.94	1.25	2.44	5.98
Volume (000s)[2]	**18,567**	3,887	72,113	148,998	159,116
OPERATING, END OF PERIOD					
Active pumping horsepower (000s)	**1,020**	901	1,269	1,328	1,115
Idle pumping horsepower (000s)	**337**	444	141	42	280
Total pumping horsepower (000s)	**1,357**	1,345	1,410	1,370	1,395
Active coiled tubing units (#)	**17**	17	20	22	21
Idle coiled tubing units (#)	**10**	10	8	7	9
Total coiled tubing units (#)	**27**	27	28	29	30
Active cementing units (#)	**10**	12	13	11	12
Idle cementing units (#)	**5**	4	6	12	11
Total cementing units (#)	**15**	16	19	23	23

[1] Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.

[2] 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 2021 and 2020, and on pre-share consolidation basis for all comparative periods.

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

Douglas R. Ramsay (2)(3)
Vice Chairman
Calfrac Well Services Ltd.

Gregory S. Fletcher (1)(2)(3)(4)
Lead Director
President Sierra Energy Inc.

George S. Armoyan
Interim Chief Executive Officer
President & CEO
Clarke Inc.

Anuroop Duggal (1)(2)(3)
Private Investor / Adjunct Professor
Columbia Business School

Lorne A. Gartner (1)(2)(3)
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, Governance and Nominating Committee
(3) Member of the Health, Safety, Environment and Quality Committee
(4) Lead Director

OFFICERS

George S. Armoyan
Interim Chief Executive Officer

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

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

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

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

Fred L. Toney
Vice President, Executive Sales, United States Division

Jeffrey I. Ellis
General Counsel and Corporate Secretary

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

LEGAL COUNSEL

Bennett Jones LLP
Calgary, Alberta

STOCK EXCHANGE LISTINGS

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

REGISTRAR & TRANSFER AGENT

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

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