MANAGING GROWTH THROUGH THE CYCLE

Calfrac Well Services Ltd. 2007 Annual Report

PROFILE

Calfrac Well Services Ltd. is a leading provider of fracturing, coiled tubing and cementing services for the oil and natural gas industry. Based in Calgary, Alberta, Calfrac is a growth company with operations in western Canada, the United States, Russia, Mexico and Argentina. Calfrac's competitive advantages include geographical diversification, a modern equipment fleet, a premium customer base that is actively drilling, in-house R&D and design, leading technologies, a proportion of revenues anchored in long-term contracts, a skilled workforce and an experienced management team.

Calfrac remained profitable in 2007, a year of significant challenges for the Canadian oil and natural gas service sector, delivering an 8 percent increase in year-over-year revenues while growing its operations internationally. With ample working capital, a strong balance sheet, numerous market opportunities and approximately 1,500 dedicated employees, Calfrac is strategically positioned to continue growing operations and creating shareholder value in 2008 and beyond. Calfrac trades on the TSX under the symbol CFW. Its market capitalization was $655 million at year-end 2007. At December 31, 2007, it had 37.2 million common shares issued and outstanding.

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STRONG THROUGH THE CYCLE WITH GEOGRAPHICAL DIVERSIFICATION AND SERVICE LINES.

Virtually any service and supply provider can be profitable during commodity price upswings. Few can say the same during the downturns. Calfrac's business model is structured to remain strong through the cycle. Its management team has been through all phases of the oil and natural gas industry cycle. Diversification of our service lines and geographical markets is the key. While western Canada lagged last year, other markets surged. Calfrac's diversification enabled the redeployment of equipment and crews to its most active markets – maximizing utilization and operating margins. We delivered operational growth, continued profitability and a strong balance sheet – creating solid positioning for further growth in 2008.

$460

MILLION – 2007 REVENUE

GLOBAL FOOTPRINT

Specialized completion services are in growing worldwide demand, and Calfrac is moving systematically to expand in new markets. Our U.S. fleet drove our growth in 2007, generating more than 30 percent of total corporate revenues, while revenue in Russia grew by 189 percent year-over-year and operations began in Mexico.

STRONG RELATIONSHIPS AND LONG-TERM CONTRACTS

Helping our customers succeed creates strong relationships that serve us well through the commodity price cycle. A significant portion of our 2007 activity came from long-term contracts, creating a base of operating and financial stability amid a weaker Canadian market.

46%

PERCENTAGE OF 2007 REVENUE EARNED OUTSIDE OF CANADA

HANDS-ON MANAGEMENT

With up to 30 years of individual industry experience, Calfrac's senior management team members understand the technology, understand the international markets and have been through all phases of the service sector business. Calfrac's business model and diversification strategy were driven by the management team's experience and understanding of market dynamics.

TECHNOLOGY IS A COMPETITIVE ADVANTAGE

Calfrac's state-of-the-art equipment and custom-engineered solutions have made us a preferred supplier among producers demanding success in deep, tight, technically challenging and expensive-to-drill reservoirs.

A GLOBAL FOOTPRINT STABILIZES PERFORMANCE THROUGH THE CYCLE

BUILDING INTERNATIONALLY

GROW LOCALLY
Calfrac sets up a strong local management team in each new market it enters. Effective sales and marketing plus strategic industry relationships are critical in building a new customer base. We always work to gain an anchor contract in each new region before committing substantial capital and equipment.

REPEAT THE MODEL IN NEW MARKETS
Calfrac's growth model works. It has been applied in the U.S., Russia and most recently in Mexico. Argentina is the newest market initiative. Looking ahead, Calfrac sees expansion opportunities within these markets – and into new ones.

BUILD RELATIONSHIPS
Just as in Canada, our global business model is based on building strong relationships by satisfying the customer's needs. International opportunities are driven mainly by the size of the resource base, the large-scale opportunity to increase production and the local market's need for technology. Calfrac brings processes and equipment that are needed – and that work.

POTENTIAL FOR STRONG RETURN ON INVESTMENT
Building a meaningful new market presence usually takes a few years. This requires a long-term view.

Our motivation is always the same: to conduct profitable operations and generate long-term returns on investment for our shareholders.

EXPAND EQUIPMENT SPREADS AS WORK WARRANTS
Calfrac's operations are efficiently scalable, thanks to its large equipment fleet in five national markets and 12 operating bases, its strong financial position and its ability to design and commission new equipment. Successful operations and satisfied customers lead to new work. Calfrac maximizes its overall utilization by redeploying equipment to the most active markets.

CANADA
Calfrac worked proactively to preserve utilization and margins in 2007 by rationalizing staff and redeploying equipment. Despite a steep decline in overall Canadian drilling, our premium customers – exploration-oriented intermediates plus the industry's number-one driller – remained more active than the industry average.

UNITED STATES
Calfrac is benefiting from its early entry into the U.S. market. Our customer base now includes the most active driller in the continental U.S. Calfrac's U.S. fracturing fleet continued to grow in numbers and horsepower requirements throughout 2007, winning deeper and higher-paying jobs and driving U.S. revenue to more than 30 percent of Calfrac's total.

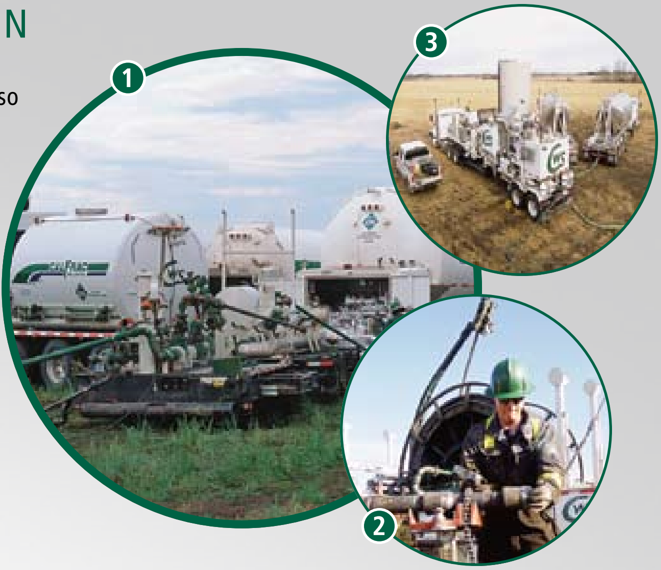
MEXICO
A three-year, US$75 million anchor contract with Pemex created a foothold for Calfrac in northern Mexico. Our first fracturing spread began operations in the fourth quarter of 2007. Growth prospects are strong for additional equipment to be deployed in the future.

RUSSIA
With its immense resource base and pressing need for modern services, Russia is turning into a growth driver for Calfrac. Five deep coiled tubing units and three fracturing spreads were working in 2007. Sustained growth in industry capital expenditures bodes well for increased service contracts for the future.

ARGENTINA
Argentina's gradually evolving energy market suggests a more active drilling scene over the coming years. Calfrac's initial focus will be to commence cementing operations for a core customer within this market and look to expand into other service lines in the future.

SERVICE LINE DEPTH BUILDS TRACTION

Calfrac's service lines complement one another. For example, when fracturing a multi-zone horizontal well, coiled tubing services may also be utilized. And these new wells will require cementing services. Calfrac's constantly improving in-house chemical technology and state-of-the-art equipment can handle the full range of fracturing jobs: oil and natural gas, new wells and recompletions, vertical or horizontal, shallow through deep, including multiple or stage fractures. Calfrac is fulfilling customers' demand for higher horsepower and higher pumping rates to perform the larger fractures they need to drill productive wells in tight reservoirs. We add to our capabilities organically, designing and commissioning new equipment and adding pumper units, as well as through carefully selected acquisitions of complementary technologies or equipment available at attractive prices.



1 FRACTURING

The backbone of our business. Shallow through deep. Oil or natural gas. Vertical or horizontal. Simple or complex. We do it all. Not everyone can say the same. Active in four countries, Calfrac's combined fracturing fleet grew to 28 spreads with a total of approximately 242,000 horsepower by year-end 2007.

2 COILED TUBING

Calfrac inserts coiled tubing into wells to perform various well servicing operations. Coiled tubing units are often used (together with support equipment) to pump in nitrogen, acid or air to remove unwanted solids, gels or fluids from the wellbore and producing zone. Coiled tubing units can also be used to set and remove tools, perform drillouts and set siphon or velocity strings, which promote natural gas production without accumulating fluid in the wellbore. Calfrac operated 18 coiled tubing units at year-end 2007.

3 CEMENTING

Drilling oil and natural gas wells involves penetrating numerous geological layers, many of which may be saturated with fresh or salt water, oil, natural gas or combinations thereof. These layers are segregated by running steel casing down the well and cementing it in place. Once the various geological layers are isolated, the well can be completed and brought on production. Calfrac had 16 cementing units at year-end 2007.

2007 PERFORMANCE

BY REGION

REVENUES

- Canada : $ 249.5 MM
- United States and Mexico : $ 146.8 MM
- Russia : $ 64.0 MM

OPERATING INCOME

- Canada : $ 41.8 MM
- United States and Mexico : $ 46.2 MM
- Russia : $ 12.1 MM

BY SERVICE LINE

REVENUES

- Fracturing : $ 403.8 MM
- Coiled Tubing : $ 38.0 MM
- Cementing : $ 18.5 MM

LEADING TECHNOLOGIES MAKE CALFRAC A PREMIUM SERVICE PROVIDER

Calfrac's ability to deliver the right technologies to its customers goes to the core of its service offering. Our growing fleet of customized, Calfrac-designed equipment is amongst the most modern in the industry, with an average age of approximately four years – making our fleet's reliability tough to beat. Our approach to well completion solutions is unique in the industry: we work with our customers to determine what they need, and then engineer a best-fit solution. This sets Calfrac apart from larger and smaller competitors alike. Our overarching goal: to help our customers succeed in today's deeper, tighter, more technically challenging reservoirs, with their larger and more complex fracturing jobs.

FIELD SUCCESS STORIES

TAILOR-MADE TECHNOLOGICAL SOLUTIONS

Following on the Company's successful application of slick water fracturing in tight gas sand and shale reservoirs in the U.S., Calfrac began to offer this technology to customers pursuing similar plays in the Western Canada Sedimentary Basin. Our experienced sales and engineering teams identified the geological formations that made the best fit for using this technological approach, and then worked with new and established customers to modify their fracturing programs. The result was a tailored, cost-effective solution to enhance natural gas production from prolific but technically challenging natural gas pools of the Alberta and B.C. foothills.

RUSSIAN FRACTURING ACHIEVEMENT

Calfrac passed a major operating milestone in June 2007 with the successful execution of a 670-tonne fracturing treatment in Western Siberia. Using state-of-the-art equipment and leading fluid technology, the Company flawlessly completed the largest fracturing job in its history and one of the largest ever performed in Russia.

FRACTURING 101 ► A QUICK LESSON

Today's leading oil and natural gas producers are using pads to cost-effectively drill wells into unconventional or "tight" natural gas reservoirs. Making these wells productive usually requires fracturing. Specialized service providers such as Calfrac blend chemicals and proppants together and this slurry is pumped down the wellbore at very high pressures. This causes the targeted rock formation to fracture (or open), allowing the trapped natural gas to be produced at economic rates. In some applications, multiple or staged fracturing treatments are completed within one well, enhancing productivity of these gas-charged but otherwise slow-flowing tight sand and shale reservoirs. Fracturing can be used to enhance the recovery of oil or natural gas from either vertical or horizontal wells drilled in North America as well as in other international markets such as Russia.

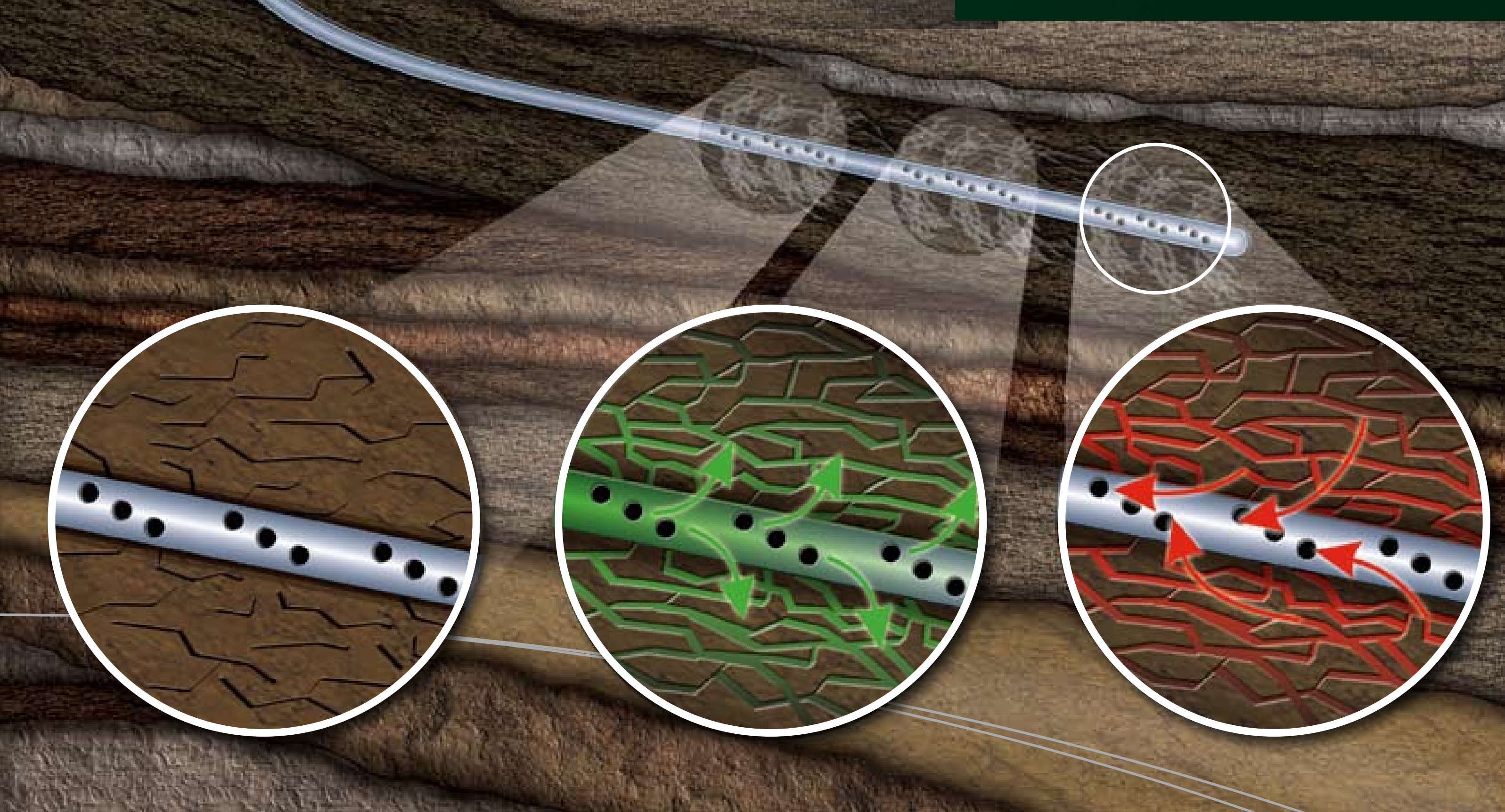
SUPPORT SERVICES

COILED TUBING

Coiled tubing units are often used together with the appropriate support equipment to pump nitrogen, acid or air in order to remove unwanted solids, gels and fluids from the wellbore and producing zone.

CEMENTING

To accomplish segregation between geological layers after a hole is drilled, steel casing is run into the bottom of the well and cemented in place. Once the cement has hardened, all of the penetrated layers are isolated from each other and the completion of the well can proceed.



2007 HIGHLIGHTS

YEARS ENDED DECEMBER 31,	2007	2006	CHANGE
(000s, except per share and unit data)	($)	($)	(%)
FINANCIAL			
Revenue	460,320	426,418	8
Gross margin [(1)]	131,779	135,362	(3)
Net income	38,568	72,450	(47)
Per share – basic	1.06	2.00	(47)
– diluted	1.06	1.98	(46)
Cash flow from operations [(2)]	87,642	101,932	(14)
Per share – basic	2.40	2.81	(15)
– diluted	2.40	2.79	(14)
EBITDA [(3)]	97,789	109,533	(11)
Per share – basic	2.68	3.02	(11)
– diluted	2.68	3.00	(11)
Capital expenditures	91,939	155,478	(41)
Working capital	92,156	31,225	195
Total assets	558,910	454,190	23
Shareholders' equity	350,915	303,510	16
Market capitalization at year-end	655,497	804,184	(18)
Weighted average shares (basic) outstanding (#)	36,463	36,286	–
OPERATING AS AT DECEMBER 31 (UNAUDITED)			
Fracturing spreads			
Conventional fracturing	24	21	14
Coalbed methane	4	4	–
Total	28	25	12
Coiled tubing units	18	14	29
Cementing units	16	13	23

1. Gross margin is defined as revenue less operating expenses excluding depreciation. Gross margin is a measure that does not have any standardized meaning prescribed under GAAP, and accordingly, may not be comparable to similar measures used by other companies.
2. Cash flow is defined as "funds provided by operations," as reflected in the consolidated statement of cash flows. Cash flow and cash flow per share are measures that provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Management utilizes these measures to assess the Company's ability to finance operating activities and capital expenditures. Cash flow and cash flow per share are not measures that have any standardized meaning prescribed under GAAP, and accordingly, may not be comparable to similar measures used by other companies.
3. EBITDA is defined as income before interest, taxes, depreciation and amortization. EBITDA is presented because it is frequently used by securities analysts and others for evaluating companies and their ability to service debt. EBITDA is a measure that does not have any standardized meaning prescribed under GAAP, and accordingly, may not be comparable to similar measures used by other companies.

TOTAL HORSEPOWER AT YEAR-END 2007

242,000

HORSEPOWER

Development of tight gas and shale gas reservoirs is a major North American trend – and this requires more pumping capacity. Calfrac moved with this trend throughout 2007, steadily adding pumper units to its fracturing fleet.

INCREASE IN TOTAL HORSEPOWER FROM 2006

48

PERCENT

Deeper, more technically challenging jobs typically take longer, pay better and demand powerful, modern equipment. Calfrac has stepped up and is competing successfully against the world's biggest well service providers, increasing the ratio of its work done on deeper wells. Last year included a 670-tonne job, our biggest ever.

2007 CONSOLIDATED FRACTURING REVENUE PER JOB

$62,466

The proof our approach works: Calfrac's average revenue per job increased by an impressive 10 percent year-over-year. That's a strong foundation for sustainable financial performance.

LET'S TALK

KEY ISSUES DISCUSSED WITH DOUG RAMSAY, PRESIDENT AND CHIEF EXECUTIVE OFFICER

We were proactive early, not reactive late. We kept our focus on our customers and the issues that mattered to them. We found ways to work with them through these tougher times.

D.R. Ramsay

Doug Ramsay
President and Chief Executive Officer

January 2008

ABOUT CALFRAC

Q: Please give us the 30-second "elevator pitch" on why investors should choose Calfrac out of the many players in the Canadian oil and natural gas service and supply sector.

A: First, our focus on pressure pumping services – a focus that enables us to be the best at what we do, and not attempt to be all things to all people. Second, our geographical diversity, with a strong base of operations in Canada plus growing activities in the U.S., Russia, Mexico and Argentina. We're a technology leader in fluids, equipment and applications, and that helps us succeed in these diverse markets.

We have an experienced management team in the pressure pumping services business. These are strong business people who have been through more than one cycle – who understand how to navigate through the tougher times and profit from them. Importantly, we have the financial strength to pursue opportunities and achieve growth, including a strong balance sheet and revenues. In addition, Calfrac has a strong and active customer base that utilizes pressure pumping companies that have the ability to provide high levels of service while maintaining a top tier health, safety and environmental record. Lastly, we maintain a disciplined approach to mergers and acquisitions.

ABOUT THE ENERGY MARKET

Q: Last year became a virtual minefield of challenges in western Canada, from lower drilling activity to the announcement of higher royalties in Alberta. How did Calfrac outperform most of the Canadian service and supply sector in 2007?

A: We were proactive early, not reactive late. We kept our focus on our customers and the issues that mattered to them. We found ways to work with them through these tougher times. We involved our management early in planning for cost-cutting – which included trimming about 100 staff in Canada – and equipment reallocation to higher-performing markets that we had nurtured. Diversifying early – geographically and in services – got us into position to outperform in 2007.

Providing additional protection against downside risk was our practice of seeking long-term agreements with significant upstream players in Canada and the U.S. When demand for services decreases and prices weaken, we work with our customers to remain within our contracts while serving their needs. In some cases we found ways to even enhance and extend the contracts. This management practice boils down to something simple: when times are tougher, we're the last guys to leave the field.

Q: So then, how do you describe your results in 2007?

A: They're below what we had hoped going into the year. But all things considered, we're pleased with how we came through the year. We continued to make money, we continued to make important business decisions aimed at achieving growth, and we continued to make prudent investments. We're maintaining Calfrac's profitability and are managing through the cycle.

ABOUT GEOGRAPHICAL DIVERSIFICATION

Q: Geographical diversification is a big topic in the Canadian service and supply sector. What are Calfrac's attributes for competing internationally, an environment already heavily populated by large service providers with established brand names?

A: We have an experienced management team. Most of our senior people have worked internationally at leading service providers in the past. We bring a style of entrepreneurship that allows us to compete internationally. Calfrac has competed successfully against the largest service companies here in Canada,

Top: Proprietary high rate hydration units that provide improved product quality at high treating rates.

Inset: Nitrogen is added to acid blends and fracturing fluids to provide additional energy to assist in well clean up or to enhance the well flow rate. Nitrogen is also used for removing fluids from wellbores, purging vessels and pressure testing operations.

LET'S TALK

and employs the same philosophy internationally. We don't enter markets blindly. Instead we perform extensive due diligence. We do serious research, we have people to guide us in, we bring in the right equipment and technology, and we enter a new market anchored by at least one major contract.

Remember, we're not just starting to enter international markets. Calfrac went into the U.S. in 2002 – which means we just finished our sixth year of operations there. We moved beyond western Canada far earlier than many competitors – and we've proven our ability to succeed in international markets.

We utilize a structured Strategic Planning process with a time horizon of three to five years. This process identifies potential growth opportunities where we believe that Calfrac can be successful and then we adhere to a disciplined approach to realizing these opportunities.

Above: Calfrac's fluid/proppant blenders are designed to handle high viscosity fracturing fluids and increase proppant (sand) concentrations.

Below: Constant communication amongst field personnel is key component in the successful completion of all treatments.

Q: What are the advantages of geographical diversification?

A: Aside from the world simply being a lot bigger than western Canada, the main benefit is that the activity cycles are in different phases in various markets. Regional factors include weather and seasonality, geography, commodity focus and pricing, combining into offsetting rates of activity. This allows a downturn in Canada to be offset by higher activity and stronger margins in other markets. This helps to smooth out our revenue, cash flow and earnings throughout a year and over a period of years.

For example, our Russian market is all about oil – and oil is at a historical high. In the U.S., the market for natural gas is different from the market in Canada, with optimism remaining strong and activity levels high. Within the U.S., there are different regional activity cycles that can offset one another.

These various cycles create offsetting opportunities that allow the flexible operator with a presence in several markets to emphasize the best ones. Calfrac can add capacity or take away capacity – shallow gas, or deeper gas, or oil versus gas, by moving equipment from market to market. In this way, we can maximize utilization rates and achieve superior financial results. But as mentioned above, you can't just show up somewhere new and expect to be instantly busy and profitable.

ABOUT GROWING THROUGH THE CYCLE

Q: Can you point to some concrete benefits?

A: Definitely. In 2007, revenues were up significantly in the U.S. – as were other metrics that we keep confidential for competitive reasons. We maintained high utilization of equipment – higher than our competitors. Revenue per fracturing job was up significantly and considerably higher than in Canada. Some of the financial analysts who follow Calfrac noted that our U.S. cash flow was proportionately higher than our U.S. revenue, indicating not just amount of activity, but profitability.

Our performance continued to grow in the U.S. thanks to being selected to do larger, more technical jobs. We have proven to our customers that we can do these jobs effectively, increasing their drilling completion rates and well productivity. We're competing successfully against the world's biggest players and are even becoming a preferred supplier in certain markets.

Q: Looking forward, how do you foresee the Canadian market evolving in 2008, and what will be Calfrac's role?

A: We see Canada with a steady volume of business, with some margin compression due to price reductions. A major focus will be reducing costs. To support utilization rates and avoid idle capacity, we will continue to shift equipment into other more active regional or international markets. An acquisition of a small Canadian competitor that we completed in November 2007 has already seen most of its equipment moved to the U.S., Mexico and Russia.

With forecasts for a further drilling decline, we will compensate by concentrating on the workover and refracturing market – on recompleting already-producing wells. This is a natural focus during a drilling downturn, for our customers as well as ourselves. We intend to actively help our customers, using our engineering expertise to put together recompletion plans using new technologies and processes. In this way, we hope to maintain activity levels in western Canada.

Over the past few years, Calfrac has been working with some of the major companies involved in the Montney and Muska plays of western Canada developing the methodologies and technologies to economically exploit these reservoirs. Recently, initial activity has demonstrated tremendous future potential. As such, these plays should result in significant growth opportunities throughout 2008 and beyond.

Above: Calfrac field technicians install pressure control equipment designed to ensure safe well control conditions under a variety of circumstances.

Below: The efficient and successful execution of treatments requires accurate monitoring of all job parameters. Calfrac has specially equipped field computer vans to provide on-site, real-time analysis and supervision to ensure job specifications are followed precisely.

LET'S TALK

Above: Calfrac continues to lead the pressure pumping services sector by developing new technologies, fluid systems and engineering solutions to increase operational efficiency, reduce environmental impact and lower well completion costs.

Below: All Calfrac's equipment is specifically designed and manufactured with four factors in mind: efficiency, performance, reliability and environmental protection.

Q: Are there opportunities to be a consolidator in the Canadian oilfield services sector?

A: Absolutely. I mentioned one example just above. We think there will be further opportunities, particularly some of the new entrants into the market that may not have the same ingredients to be successful as we do. We foresee near-term opportunities to acquire equipment at attractive values. Our likely approach would be to take this equipment and redeploy it into growing international markets.

ABOUT OUR GROWTH PLAN

Q: What about your international growth prospects? How does Calfrac plan to strengthen its presence, and what are the criteria for choosing which opportunities to pursue?

A: We believe that our U.S. activities will continue to grow in 2008. We plan to increase activities and add service lines in the Piceance Basin, in Arkansas and Oklahoma. Again, it was important to become established early. It would be very difficult to gain entry now. We are solidly established in opportunity-rich areas of growth. For example, we deliberately avoided competing in one very crowded area, the Barnett Shale, in favour of an emerging area, the Fayetteville Shale. Before entering we performed a reservoir study, a customer base study and an employment study, to ensure the play would be sustainable. Now we're working for all the major producers there.

In Mexico, we'll work with our customer, Pemex, to build on our modest start. This is a unique North American market where we are building a presence from scratch. We learned what the market had to offer, and what we could offer the market, and we entered it on a small scale in order to control the business risks. We expect to expand that in 2008.

Russia is another good example of how Calfrac grows. We entered in late 2005 and have grown to three fracturing spreads and five coiled tubing units. After expanding quickly, in 2008 we're focusing on the cost side and improving efficiency. Measures include pushing for higher utilization rates, seeking local suppliers for services and equipment and continuing to emphasize local talent to minimize expatriate workers. We see good upside in Russia in both the oil and the natural gas regions. This is a longer-term play, in which the main energy companies work according to their plan. There is order, there is integrity in operations, there is a very good base of skilled and trained employees, the customers pay on a timely basis, and there is a large need for technical expertise and newer equipment.

In Argentina, we are working with a local partner. Our goal is to get a good feel for the market and expand as we see the market expand around us. We foresee gradual shifts in Argentina's regulatory environment that could create opportunities for producers to expand their activities, creating a growing need for services like ours. We view Argentina as a longer-term commitment creating the chance to grow gradually over the next number of years.

Q: How is Calfrac's financial situation, especially in relation to these ambitious growth plans?

A: We are financially strong. At December 31, 2007 we had cash of close to $40 million. We are careful about debt. We are positioned very well either to weather a longer downturn, to perform acquisitions or to expand organically, taking advantage of shorter equipment lead-times. As mentioned, we think acquisitions will come at good value. Our strong balance sheet will let us act on opportunities, and our geographical diversity creates the ability to move equipment to areas where it can be put to profitable use.

Our debt issue in February 2007 has provided us with tremendous flexibility. Substituting debt with light covenants for the previous bank debt – all of which was paid off – allows us to operate freely in markets and on initiatives that create value. In addition, we have access to $90 million in bank facilities, none of which are utilized. Our dividend is modest and sustainable under all foreseeable circumstances. Finally, our high percentage of closely held shares – about 35 percent of the total – protects all of Calfrac's shareholders against a discounted takeover offer during this period of lower share prices.

Q: So overall, what's your view of 2008?

A: We are mindful that these are tougher times, but we think 2008 will be a year of huge opportunity. Operators that are positioned well in this phase of the cycle will come out the other side much, much stronger. We're a strong company, we're well managed, we're opportunity-driven by good value and we're positioned to take advantage when the cycle improves. We're strong enough that we can create both short- and long-term value for shareholders – through acquisitions, through organic growth, or through preserving cash flow. Our management team knows the international markets intimately. We have the executive experience and trained personnel to execute all of our initiatives.

Above: Calfrac's quality state-of-the-art equipment uniquely combines several operating functions on one single unit. This multi-function approach means a smaller wellsite footprint that provides higher operating efficiency and less environmental impact.

Below: Our safety performance demonstrates our Company's resolve to operate safely. At Calfrac, no job is so important that we cannot take the time to do it safely and responsibly.

Calfrac field personnel conduct thorough quality control inspections of each aspect of set-up and assembly, thereby ensuring the safe and successful completion of the project.

Calfrac is a leading provider of oilfield pressure pumping services, including fracturing, coiled tubing, cementing and other well stimulation services, which are designed to enhance the recovery of hydrocarbons from oil and natural gas reservoirs in Canada, the United States, Russia, Mexico and Argentina. Calfrac designs, commissions and operates a specialized fleet of custom-designed equipment, and develops and utilizes innovative technologies, all with four key operating objectives: efficiency, performance, reliability and safety and environmental protection.

MULTIPLE MARKETS KEEP US STRONG THROUGHOUT THE COMMODITY PRICE CYCLE

OPERATIONS REVIEW

During 2007, Calfrac's capital program was primarily focused on enhancing the pumping capacity of its fracturing equipment fleet. At December 31, 2007, the Company's equipment fleet included 24 conventional and four coalbed methane (CBM) fracturing spreads, 18 coiled tubing units and 16 cementing units. The Company worked effectively to maximize equipment utilization by redistributing its fleet amongst the more active markets within existing operating regions as well as expanding into three new geographic markets: Arkansas in the United States, Mexico and Argentina.

CANADA

The operating environment for Calfrac's Canadian operations was very challenging during 2007. Lower natural gas prices, a stronger Canadian dollar and, later in the year, uncertainty related to Alberta's proposed new royalty regime negatively affected the drilling activity of the Company's customers in western Canada. Competitive pricing pressures were present in all markets and service lines, particularly in the CBM markets of central and southern Alberta.

In response, the Company proactively rationalized its operations beginning in early 2007 and, throughout the year, reallocated equipment to higher-activity regions within and outside of Canada in order to maximize crew utilization. The Company also opened a new operating base in Edson, Alberta during 2007 to provide fracturing and cementing services more efficiently to customers operating in the deeper reservoirs of northern Alberta.

Also helpful in Canada was Calfrac's long-term take-or-pay contractual relationship with a major customer, providing a base level of fracturing business during the past year and continuing to support a minimum level of activity in 2008. In addition, the Company has a large core group of customers that will provide a solid base of activity in the coming year. For 2008, the Company will manage through potentially lower drilling activity in Canada by focusing on improving its operating efficiencies, entering new geographic markets and focusing on the well recompletion market, which remains relatively strong as operators seek to maximize capital efficiencies in a time of reduced overall spending.

In November 2007, Calfrac purchased the fracturing assets of a local competitor. These assets were purchased at a discount to replacement cost. Many of these assets were redeployed to the United States to support the higher activity and horsepower requirements prevalent in that market. The asset acquisition was financed through the issuance of shares and a cash payment.

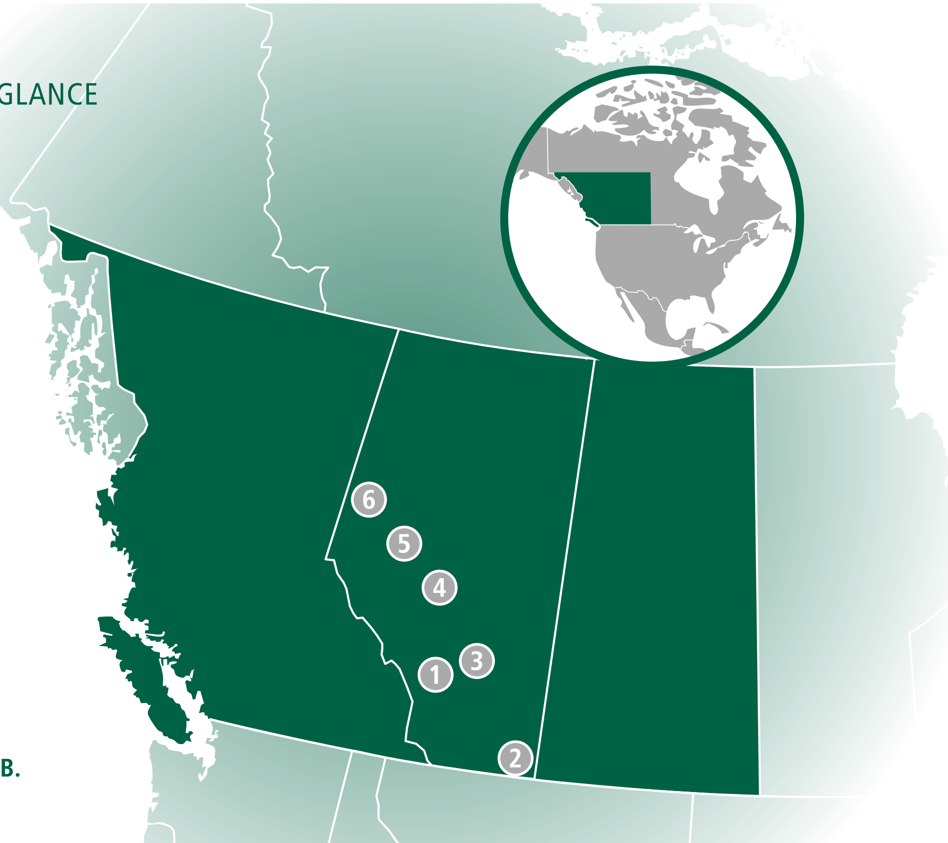
WESTERN CANADIAN OPERATIONS AT A GLANCE

Employees: Approx. 630

2007 Revenues: $249.5 MM

Environment: Drilling of new wells is expected to decline from 2007 due primarily to concerns related to the price of natural gas, high value of the Canadian dollar and Alberta royalty regime changes. Well recompletion activity is planned to increase in 2008.

Fracturing Spreads	
Conventional	14
Coalbed Methane	4
Coiled Tubing Units	13
Cementing Units	14

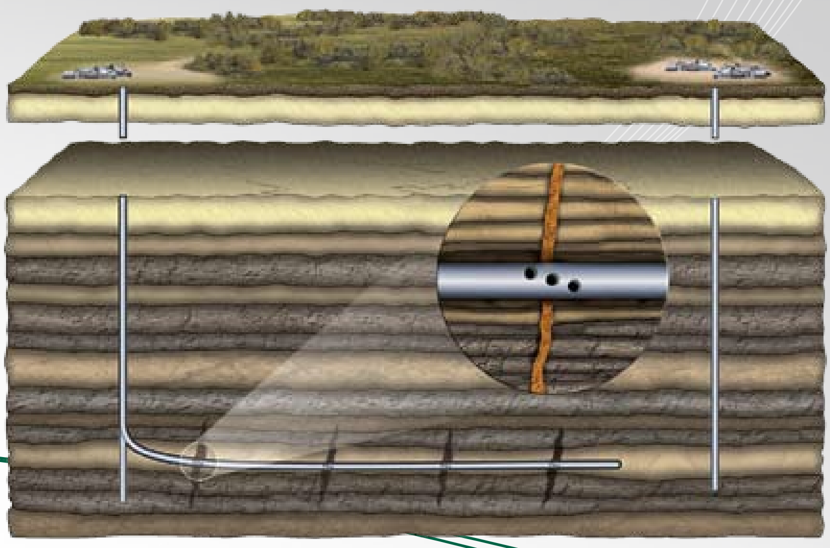


1 Calgary, AB.*
2 Medicine Hat, AB.
3 Strathmore, AB.
4 Red Deer, AB.
5 Edson, AB.
6 Grande Prairie, AB.

*Corporate and Canadian Head Office

MONTNEY SHALE PLAY

The Montney Formation is considered a "tight" reservoir and is comprised of silt to clay-sized mudstone, with a mixture of laminated siltstone and shale. Industry activity in the Montney formation is focused in the Swan Lake/Bissette, Saturn and Dawson Creek areas of northeastern British Columbia, as well as the Edson area in Alberta. Production is generally from zones that are more than 1,800 metres in depth and have reservoir temperatures that are often higher than 70°C. Calfrac has extensive experience providing fracturing, coiled tubing and cementing services in the Montney formation.



Calfrac's combination fracturing pumper and blender combines two units into one, which reduces the amount of equipment needed on site and lowers the operating costs of a treatment.

UNITED STATES

Calfrac's operations in the United States expanded into the Arkansas pressure pumping market during 2007, supported by a long-term contractual agreement with a leading U.S. oil and natural gas company. Calfrac commenced fracturing operations in March 2007 and augmented its equipment fleet with the deployment of a second multi-pumper fracturing spread in June and the start-up of cementing operations during the third quarter. Calfrac's operations in the DJ Basin experienced strong activity throughout 2007 due to a larger and more diverse customer base. Utilization of the Company's fracturing equipment fleet was higher than the previous year and is projected to remain high throughout 2008.

The Company's fracturing operations based in Grand Junction, Colorado were impacted by gas takeaway issues during the past year, which curtailed natural gas completion activity. As a result, Calfrac focused on strengthening its contractual base of customers in order to be well-positioned for the resumption of normal completion activity levels in 2008 with the commissioning of the Express Pipeline in January 2008.

The Company's growing operations in the United States were a major driver of the Company's overall financial and operating performance in 2007 and are expected to improve further in 2008.

MEXICO

In July 2007, Calfrac was awarded a three-year contract by Pemex, Mexico's state oil company, to provide hydraulic fracturing services in the Burgos field of northern Mexico. Most of the required equipment for this new international operation was redeployed from the Company's existing North American equipment fleet. A new district office in Reynosa, Mexico was opened in October 2007 and fracturing operations began in November 2007. This operation furthers Calfrac's corporate strategy of expansion into new geographic markets that are not as dependent on natural gas drilling activity in Canada and the United States, with the new operations anchored by the support of a long-term contract with an established customer. The Company is continuing to pursue additional growth opportunities within this new pumping services market.

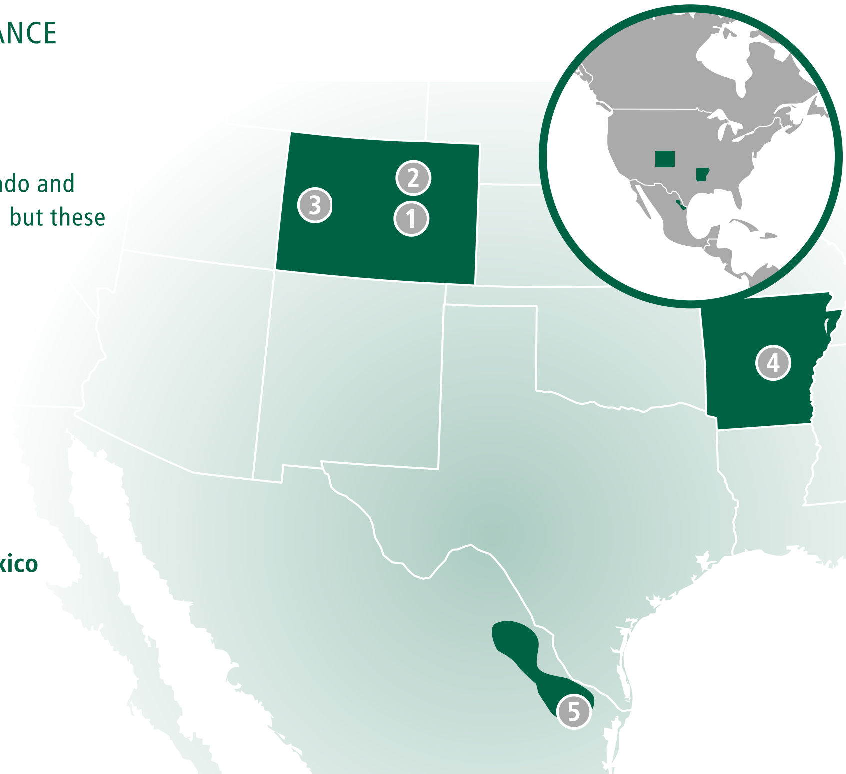
U.S. & MEXICO OPERATIONS AT A GLANCE

Employees: Approx. 270

2007 Revenues: $146.8 MM

Environment: Drilling activity levels in Colorado and Arkansas are anticipated to be robust in 2008, but these markets are facing increased competition.

Fracturing Spreads	
Conventional	7
Cementing Units	2

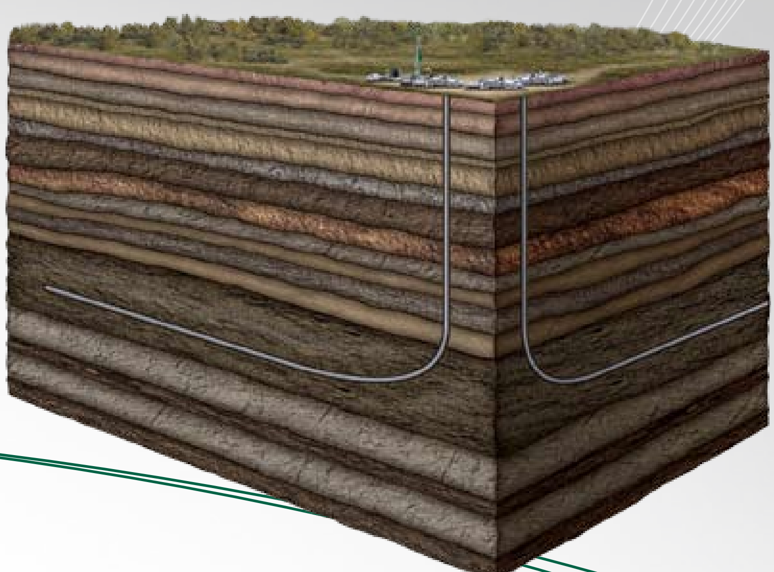


1 **Denver, Col.***
2 **Platteville, Col.**
3 **Grand Junction, Col.**
4 **Beebe, Ark.**
5 **Reynosa, Mexico**

*USA Head Office

FAYETTEVILLE SHALE PLAY

The Fayetteville shale play is an unconventional gas reservoir located on the Arkansas side of the Arkoma Basin in the United States. This play ranges in thickness from 50 to 550 feet and the depth ranges from 1,500 to 6,500 feet. Calfrac expanded into the Arkansas pressure-pumping market in March of 2007. The Company augmented its initial fracturing operations with a second multi-pumper fracturing spread in June and introduced cementing operations during the third quarter of 2007. Calfrac anticipates growing its operations in the Fayetteville region as the activity in Arkansas increases.



Above: Calfrac's Russian operations will help drive continued corporate growth and mitigate the impact of the slow down in activity in Canada.

RUSSIA

Calfrac continued to broaden the scale of its operations in Russia with the addition of two multi-pumper fracturing spreads and two coiled tubing units during the first half of 2007. At December 31, 2007, the Company operated three conventional fracturing spreads and five deep coiled tubing units, across its two operating bases in Western Siberia.

During the second quarter, Calfrac recorded a significant achievement by pumping a 670-tonne fracturing job in Khanty-Mansiysk, Western Siberia. This was the largest in Company history and believed to be one of the largest jobs ever completed in Russia.

In 2008, Calfrac will operate in the Russian well services market under the terms of two annual agreements negotiated with one of Russia's largest oil and natural gas companies. It is expected that this geographic market will remain active in the coming year, mitigating uncertainty in the Canadian pressure pumping market.

ARGENTINA

The Company has partnered with an experienced local management team in Argentina to provide cementing services in this new market. A negotiated arrangement with an oil and natural gas company based in Argentina will support these operations, which are expected to commence early in the second quarter of 2008. Selected cementing assets from Canada have been redeployed to Argentina and the remainder of the required equipment is being constructed locally. Argentina is the Company's fifth geographic platform and provides another operating region in which to increase Calfrac's overall equipment utilization.

RUSSIA OPERATIONS AT A GLANCE

Employees: Approx. 560

2007 Revenues: $64.0 MM

Environment: Recently signed two annual contracts with one of Russia's leading oil and natural gas companies for the provision of fracturing and coiled tubing services in 2008.

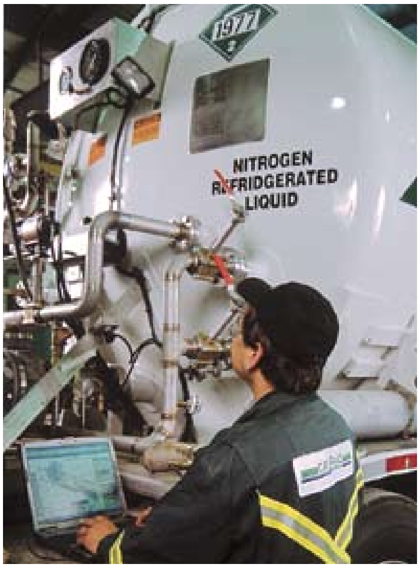
Fracturing Spreads	
Conventional	3
Coiled Tubing Units	5

1 **Moscow, Russia***
2 **Khanty-Mansiysk, Russia**
3 **Noyabrsk, Russia**

*Russian Head Office

OPERATIONS OUTLOOK

The pressure pumping market in western Canada are expected to be highly competitive across all service lines during 2008. In response to these market challenges, Calfrac intends to maintain its focus on operating cost efficiencies in order to maximize profitability from this geographic region. If necessary, the Company will further rationalize its operations and transfer underutilized equipment and crews to more active operating regions. Calfrac expects that drilling activity in the Deep Basin markets of northern Alberta and northeastern British Columbia as well as the shallow gas regions of southern Alberta will be relatively strong during 2008. Additionally, it is anticipated that some of the planned reduction in new drilling activity in Alberta will be offset by an increase in the number of well recompletions, as upstream companies in the Western Canada Sedimentary Basin shift their focus to enhancing production from existing natural gas wells.



Calfrac employs expert technicians and highly trained maintenance personnel to ensure its unique fleet of specialty oilfield services equipment continues to operate safely and efficiently.

The Company's operations in the United States are expected to remain very robust in 2008 despite a more competitive price environment. With the commissioning of the Express Pipeline in early 2008, it is anticipated that fracturing activity in the Grand Junction district will increase significantly from the previous year. Calfrac's operations in eastern Colorado, which service customers in the DJ Basin, are expected to continue to be a significant contributor to the operating and financial results of the United States. Activity in the Fayetteville region is expected to improve as the Company's fracturing and cementing customer base in Arkansas continues to grow. Overall, Calfrac's United States operations are expected to be a major driver of the Company's consolidated financial and operating performance in 2008.

In November 2007, Calfrac began its hydraulic fracturing operations in the Burgos field of northern Mexico pursuant to the terms of a three-year agreement signed with Pemex in July 2007. For 2008, the Company will continue to transition from the start-up phase of operations and grow the financial and operating results of this region. Additionally, Calfrac will prudently pursue other opportunities to expand its presence within the pressure pumping markets of Mexico.

Calfrac recently signed two annual contracts with one of Russia's largest oil and natural gas companies. These agreements as well as other negotiated contracts will ensure that the Company's current Western Siberian equipment fleet consisting of three multi-pumper fracturing spreads and five deep coiled tubing units will be highly utilized throughout 2008. Since these operations began in late 2005, the Company has organically grown its operating scale through the deployment of additional equipment. For 2008, Calfrac will strive to improve the operating and financial performance of this geographic segment by focusing primarily on enhancing the efficiency of these operations.

In Argentina, Calfrac has partnered with an experienced local management team and plans to commence cementing operations in this country early in the second quarter of 2008. The Company has entered this new market with the support of an arrangement negotiated with an oil and natural gas company in Argentina. The equipment for this venture was primarily redeployed from Calfrac's Canadian operations and augmented by the construction of certain support equipment locally. This expansion extends the Company's strategy of diversification into new regions that are not dependant upon the natural gas drilling markets of North America.

ADVANCING TECHNOLOGIES AND ENHANCING SAFETY

Calfrac advanced its research and technology commitment in 2007 through the start-up of its Calgary-based research and development laboratory. This facility provides field support, quality assurance, product development as well as research and development to further advance Calfrac's fluid system technologies. The laboratory is staffed by chemical specialists knowledgeable in fracture stimulation, acidizing and cementing technologies.

NEW TECHNOLOGY

The increased utilization and growth of Calfrac's slick water fracturing system for shale gas and tight gas sand reservoirs continued through 2007. Based on the Company's experience in the United States, Calfrac introduced slick water fracturing to several Canadian customers that applied this technology throughout various geological formations. This form of fracturing enables the completion of additional, previously uneconomic horizons, and facilitates multiple staged treatments in horizontal wells. Slick water fracturing technology is providing economic stimulation of reservoirs that have generally lower quality. Calfrac is developing innovative lab-scale testing equipment to study and develop new formulations that can be used to maximize slick water fracturing.

In January 2008, the Company completed the acquisition of the remaining 70 percent interest in ChemErgy Ltd. which it did not previously own and ChemErgy became a wholly-owned subsidiary of Calfrac. It was an important accomplishment for Calfrac to secure the exclusive and worldwide rights to the jointly developed technology, and to gain control over its chemical supply chain. Calfrac is now well-positioned to ensure that all service lines in all operating jurisdictions can offer customers the high levels of service they have come to expect. This, in conjunction with the new laboratory services at the Calgary Technology and Training Center, are integral to Calfrac's commitment to providing the latest technologies for its customers.

Calfrac's development of a new hydrocarbon gelling system saw significant advancement during 2007. This new system will provide customers with an alternative to the conventional gelled hydrocarbon systems. Fracturing systems and methods of treating the more unconventional reservoirs require constant improvements in fluid technology to achieve economic results in formations that were bypassed or deemed uneconomic in the past. These reservoirs – including very tight sands and shale – are becoming the new target reservoirs for many of Calfrac's customers. Their productivity can be maximized only through application of new technologies in the form of improved chemical formulations, equipment and highly skilled manpower.

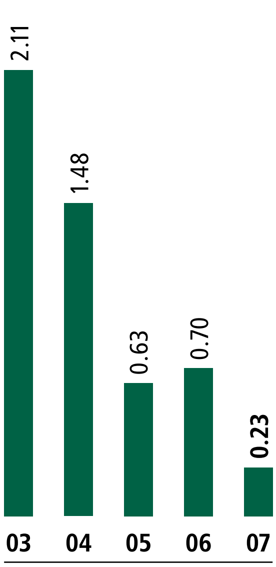
Safe handling of cryogenic liquid nitrogen is essential to completing high rate nitrogen fracturing through coiled tubing treatments.

HEALTH, SAFETY AND ENVIRONMENT

The Company continues to utilize the Calfrac Management System, a comprehensive and integrated approach to manage, monitor and report on health, safety and environmental matters including incidents. This system is based on business and industry best practices that meet or exceed all regulatory standards and provides guidelines to ensure that a consistent approach is achieved across all global operations. As Calfrac continues to grow the scope and scale of its operations, it remains committed to providing a safe work environment for its employees, third-party contractors and customers.

The Company recorded no fatalities, life-threatening occupational injuries or major environmental incidents throughout 2007, reduced its annual Lost Time Injury Rate to 0.23 and decreased the number of preventable vehicle accidents by 31 percent. Additionally, Calfrac developed and implemented a Fatigue Management Program for all field personnel to increase their awareness of fatigue-related issues. The Company continued to reinforce other key safe work practice methods as well as emergency response procedures.

LOST TIME INJURY RATE PER YEAR



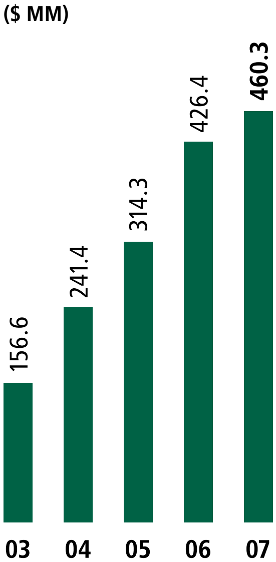

CALFRAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) for Calfrac Well Services Ltd. ("Calfrac" or the "Company") has been prepared by management as of February 27, 2008 and is a review of the financial condition and results of operations of the Company based on accounting principles generally accepted in Canada. Its focus is primarily a comparison of the financial performance for the three months and years ended December 31, 2007 and 2006 and should be read in conjunction with the audited consolidated financial statements and accompanying notes for those periods as well as the MD&A for the three months and year ended December 31, 2006. Readers should also refer to the "Forward-Looking Statements" legal advisory located at the end of this MD&A. The annual consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

All financial amounts and measures presented in this MD&A are expressed in Canadian dollars unless otherwise indicated. The definitions of certain non-GAAP measures used within this MD&A have been included at the end of this MD&A.

REVENUE
($ MM)



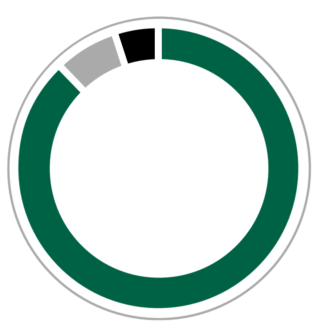
2007 HIGHLIGHTS

Calfrac is an independent provider of specialized oilfield services in Canada, the United States, Russia, Mexico and Argentina, including fracturing, coiled tubing, cementing and other well stimulation services. The Company has established a leadership position through an expanding geographic network, larger operating fleet and growing customer base. For the year ended December 31, 2007, Calfrac:

- increased revenue by 8 percent to $460.3 million from $426.4 million in 2006;
- earned net income of $38.6 million or $1.06 per share (basic);
- recorded cash flow from operations before changes in non-cash working capital of $87.6 million or $2.40 per share (basic) compared to $101.9 million or $2.81 per share (basic) in 2006;
- achieved EBITDA of $97.8 million versus $109.5 million a year ago; and
- incurred capital expenditures of $91.9 million primarily to expand the pumping capacity of its fracturing equipment fleet.

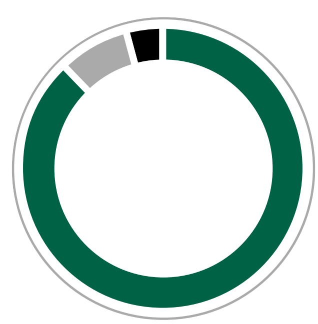
BUSINESS ENVIRONMENT

REVENUE MIX 2006



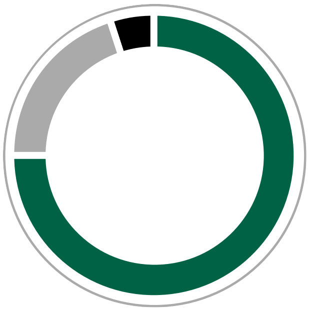
- Fracturing Services : 88%
- Coiled Tubing Services : 7%
- Cementing Services : 5%

REVENUE MIX 2007



- Fracturing Services : 88%
- Coiled Tubing Services : 8%
- Cementing Services : 4%

GEOGRAPHICAL MIX 2006



- Canada : 75%
- United States : 20%
- Russia : 5%

GEOGRAPHICAL MIX 2007

- Canada : 54%
- United States and Mexico : 32%
- Russia : 14%

Calfrac's financial and operating performance during 2007 was primarily driven by its natural gas fracturing operations within Canada and the United States. In 2007, the number of wells drilled in western Canada decreased by 19 percent to 18,606 from 22,979 wells drilled in 2006. The drilling activity in the Western Canada Sedimentary Basin was dampened by a continuation of depressed natural gas prices, uncertainty related to proposed changes to Alberta's royalty regime and the significant rise in the value of the Canadian dollar. These factors resulted in increased price competition and lower activity levels within the Canadian pressure pumping services sector, especially in the coalbed methane (CBM) fracturing markets of Alberta.

Overall drilling activity in the United States during 2007 was strong leading to significant increases in the Company's U.S. annual revenue. New drilling activity in the shale gas basins within the United States, such as the Barnett and Fayetteville plays in Texas and Arkansas, respectively, was robust throughout the past year. However, gas takeaway issues in the Piceance Basin negatively impacted drilling activity in western Colorado and deferred well completion activity until the commissioning of the Express Pipeline in early 2008.

OIL AND GAS AVERAGE BENCHMARK PRICES

YEARS ENDED DECEMBER 31,	**2007**	2006
	$	$
AECO price (Cdn$/mcf)	**6.49**	6.54
WTI price (US$/bbl)	**72.32**	66.25

The 2007 AECO average spot price was $6.49 per thousand cubic feet, a 1 percent decline from 2006. The West Texas Intermediate benchmark crude oil price increased by 9 percent in 2007 to average US$72.32 per barrel compared to US$66.25 per barrel a year ago. The comparatively low average natural gas prices experienced during 2006 and 2007, combined with the appreciation of the Canadian dollar, negatively impacted the cash flows and drilling activity of the Company's customers in western Canada. As a result, the pressure pumping service sector experienced strong price competition within this market.

U.S./CANADIAN DOLLAR EXCHANGE RATES

YEARS ENDED DECEMBER 31,	2007	2006
	$	$
Average U.S./Canadian dollar exchange rate	**0.930**	0.882
Decrease in operating income caused solely by fluctuations in exchange rates (millions)	**3.9**	1.3

Due to the Company's significant operations in the United States and Russia, the impact of currency fluctuations should be evaluated when analyzing the consolidated financial statements. The value of the Canadian dollar increased by 5 percent year-over-year to average US$0.930 in 2007 compared to an average of US$0.882 in 2006. As a result, Calfrac's reported operating income for 2007 and 2006 was lowered by $3.9 million and $1.3 million, respectively.

2007 PERFORMANCE SUMMARY

REVENUE

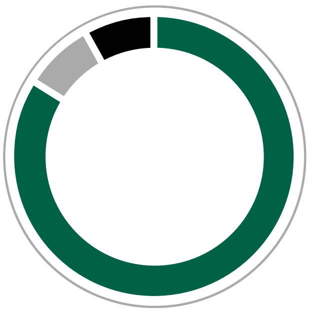
CANADA

Revenue from Canadian operations for 2007 decreased by 22 percent to $249.5 million from $318.0 million in 2006 primarily as a result of decreased fracturing activity in western Canada, a higher percentage of shallow gas jobs performed, which tend to have lower revenues on a per job basis, and competitive pricing pressures across all service lines, especially in the CBM fracturing market. Canadian fracturing revenue totalled $215.7 million, a decrease of $62.5 million or 22 percent from 2006. During 2007, the Company completed 4,481 Canadian fracturing jobs for average revenue of $48,130 per job compared to 5,238 jobs for $53,105 per job in the prior year. This decrease in fracturing job count during 2007 correlates closely with the decline in overall industry drilling activity experienced in western Canada during the same period. The revenue per job for Canadian fracturing operations was lower in 2007 due primarily to significant price competition in the CBM market and a higher proportion of shallow gas fracturing jobs completed during the current year, which tend to have lower per job revenues.

The Company's revenue from coiled tubing operations decreased by $2.0 million in 2007 to $16.2 million from $18.2 million in the previous year. In 2007, 3,798 jobs were completed for average revenue of $4,258 per job compared to 5,875 jobs for $3,102 per job in 2006. Canadian coiled tubing revenue per job increased year-over-year primarily as a result of a proportionate increase in the number of deeper coiled tubing jobs completed in western Canada during 2007.

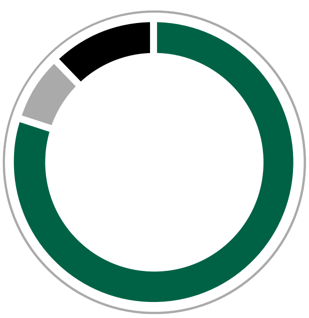
For the year ended December 31, 2007, revenue from Calfrac's cementing operations totalled $17.6 million versus $21.6 million in 2006. This 19 percent decrease was due primarily to a larger percentage of cementing jobs being completed in the shallower regions of southern Alberta and competitive pricing pressures. During 2007, the Company completed 1,933 jobs for average revenue of $9,121 per job compared to 1,974 jobs for average revenue of $10,959 per job in 2006.

EXPENSES 2006



- Operating : 84%
- Selling, General and Administrative : 8%
- Interest, Depreciation & Other 8%

EXPENSES 2007



- Operating : 80%
- Selling, General and Administrative : 8%
- Interest, Depreciation & Other : 12%

UNITED STATES AND MEXICO

During 2007, revenue from Calfrac's United States operations was $145.1 million, up by 68 percent from $86.3 million in 2006. The Company had revenue of $1.7 million from its recently initiated operations in Mexico. For the year ended December 31, 2007, the Company completed 1,679 U.S. fracturing jobs for average revenue of $85,940 per job compared to 1,284 jobs for $67,037 per job recorded in the previous year. The substantial increase in total and per job revenue during 2007 from the prior year was primarily due to the commencement of fracturing operations in Arkansas, combined with strong levels of activity in the DJ Basin, only somewhat offset by lower activity in the Piceance Basin and a stronger Canadian dollar.

RUSSIA

In Russia, Calfrac's revenue from operations increased year-over-year by $41.9 million to $64.0 million in 2007 primarily as a result of a larger fleet of equipment and operating scale. The Company deployed two additional multi-pumper fracturing spreads and two deep coiled tubing units into Western Siberia during the first half of 2007 and currently operates three fracturing spreads and five coiled tubing units in this geographical market. The Company believes that these operations have attained sufficient size to generate solid operating and financial results into 2008.

GROSS MARGIN

Consolidated gross margin for the year ended December 31, 2007 decreased by 3 percent to $131.8 million from $135.4 million in 2006 primarily due to improved financial performance from Calfrac's United States and Russia operations being slightly more than offset by the impact of competitive pricing pressures and lower activity levels in western Canada. Consolidated gross margin as a percentage of revenue decreased to 29 percent from 32 percent in 2006 mainly due to pricing pressures and lower activity levels in the Canadian market.

EXPENSES

OPERATING EXPENSES

Calfrac's operating expenses in 2007 increased by 13 percent to $328.5 million from $291.1 million in the prior year primarily due to higher activity in the United States and Russia as well as costs related to new district locations, offset partially by lower activity in Canada and the impact of a stronger Canadian dollar. During the past year, the Company incurred higher expenses related to the commencement of new district operations in Edson, Alberta; Beebe, Arkansas; Reynosa, Mexico; and Purpe, Russia.

SELLING, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSES

SG&A expenses for the Company in 2007 totalled $31.7 million, an increase of 12 percent or $3.3 million from the previous year. These higher costs were primarily a result of the growth in Calfrac's scale of operations and revenue base in North America and Russia offset slightly by lower bonus expenses due to lower Company profitability. As a percentage of revenue, SG&A expenses were 7 percent in 2007, consistent with 2006.

INTEREST, DEPRECIATION AND OTHER EXPENSES

Net interest expense increased to $9.5 million in 2007 from $2.3 million in 2006 mainly as a result of interest pertaining to the issuance of US$135.0 million of senior unsecured notes in February 2007 offset slightly by interest earned on the Company's cash balances. In 2007, depreciation expense increased by 44 percent or $11.4 million to $37.1 million primarily as a result of the deployment of three fracturing spreads, four coiled tubing units, three cementing units and other related equipment as well as a full year of depreciation on 2006 equipment additions.

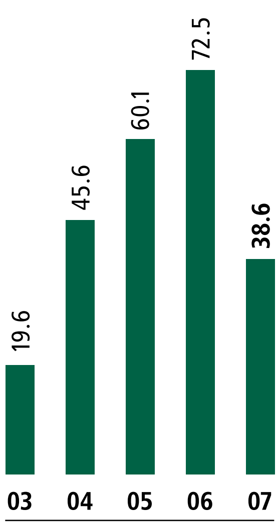
INCOME TAX

During 2007, Calfrac recorded an income tax expense of $12.7 million compared to $9.0 million in the prior year. Current tax expense for the year ended December 31, 2007 decreased to $3.9 million from $7.5 million in 2006. The Company recorded future income tax expense of $8.8 million for the year ended December 31, 2007, up from $1.5 million in 2006. For 2007, the effective rate of income tax increased to 25 percent from 11 percent in the previous year primarily due to a higher proportion of the Company's profits being earned in the United States and Russia, which are taxed at full statutory rates, and to lower taxable net earnings in Canada, which have a significantly lower effective income tax rate due to tax attributes from the amalgamation with Denison Energy Inc.

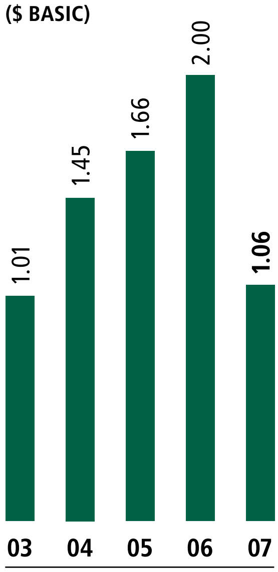
NET INCOME

For the year ended December 31, 2007, Calfrac's net income was $38.6 million or $1.06 per share (basic) compared to $72.5 million or $2.00 per share (basic) in 2006. The decline in net income was primarily due to a lower gross margin combined with higher depreciation, interest and income tax expenses as well as the realization of foreign exchange losses instead of foreign exchange gains that were recorded in 2006.

NET INCOME
($ MM)

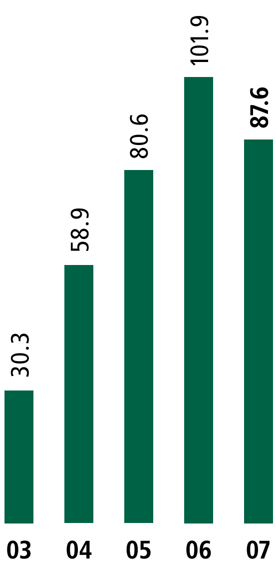


NET INCOME PER SHARE
($ BASIC)



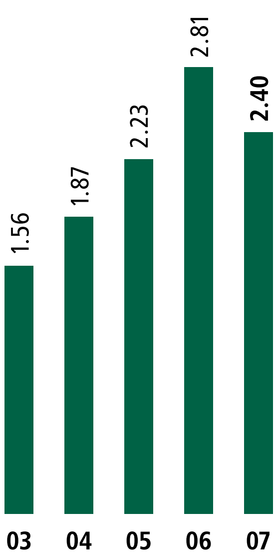
CASH FLOW

($ MM)



CASH FLOW PER SHARE

($ BASIC)



CASH FLOW

The Company's cash flow from operations before changes in non-cash working capital was $87.6 million in 2007, a 14 percent decrease from the previous year. This reduction was primarily a result of:

- a 13 percent increase in operating expenses to $328.5 million; and
- net interest expense that rose to $9.5 million from $2.3 million in the prior year;

partially offset by:

- total revenue increasing by 8 percent or $33.9 million to $460.3 million; and
- a $3.7 million decrease in the current income tax provision to $3.9 million.

In 2007 and 2006, cash flow was used to partially finance the Company's capital expenditures program.

LIQUIDITY AND CAPITAL RESOURCES

YEARS ENDED DECEMBER 31,	**2007**	2006
(000s)	**($)**	($)
Cash provided (used in):		
Operating activities	**79,483**	110,518
Financing activities	**89,918**	42,756
Investing activities	**(123,610)**	(136,881)
Effect of exchange rate changes on cash and cash equivalents	**(12,267)**	–
Increase in cash and cash equivalents	**33,524**	16,393

OPERATING ACTIVITIES

The Company's 2007 cash flow from operations, excluding changes in non-cash working capital, was $87.6 million compared to $101.9 million in 2006. The decrease in cash flow was primarily due to lower revenues in Canada resulting from lower activity levels and competitive pricing pressures partially offset by improved financial performance of Calfrac's operations in the United States and Russia. As at December 31, 2007, Calfrac had working capital of $92.2 million compared to working capital of $31.2 million in 2006. The increase in working capital was primarily due to a higher cash balance as a result of the issuance of the senior unsecured notes in February 2007.

FINANCING ACTIVITIES

Total long-term debt increased to $129.5 million at December 31, 2007 from $60.0 million at the end of the prior year. On February 13, 2007, Calfrac completed a private placement of senior unsecured notes for an aggregate principal amount of US$135.0 million. These notes are due on February 15, 2015 and bear interest at 7.75 percent per annum. The Company has additional available credit facilities of $90.0 million with a syndicate of Canadian chartered banks. The operating line of credit is $25.0 million with advances bearing interest at either the bank's prime rate, U.S. base rate, LIBOR plus 1 percent or bankers' acceptances plus 1 percent. The revolving term loan is $65.0 million and bears interest at either the bank's prime rate plus 0.25 percent, U.S. base rate plus 0.25 percent, LIBOR plus 1.25 percent or bankers' acceptances plus 1.25 percent. At this date, the Company has unused credit facilities in the amount of $90.0 million.

At December 31, 2007, the Company also had cash and cash equivalents of $39.1 million. A portion of these funds were invested in short term investments, none of which were exposed to the liquidity issues surrounding asset-backed securities.

The common shares of the Company trade on the Toronto Stock Exchange and, at this date, Calfrac has 37,372,832 common shares outstanding. The Company pays semi-annual dividends to shareholders of $0.05 per common share at the discretion of the Board of Directors and they qualify as "eligible dividends" as defined by the Canada Revenue Agency. These dividends are funded by cash flow from operations, excluding changes in non-cash working capital, and totalled $3.7 million in 2007 and $3.6 million in 2006.

INVESTING ACTIVITIES

During 2007, net cash used for investing activities decreased to $123.6 million from $136.9 million in 2006. For the year ended December 31, 2007, capital expenditures totalled $91.9 million, down from $155.5 million in the prior year. In 2007, capital expenditures were primarily related to increasing the pumping capacity of the Company's fracturing equipment fleet throughout Canada, the United States, Mexico and Russia as well as supplementing the fracturing and coiled tubing fleet in Russia. A portion of these expenditures was related to the completion of the 2006 capital program, including:

- the completion of two additional fracturing spreads;
- one new deep coiled tubing unit deployed to Russia and another into western Canada; and
- the deployment of four cementing units. Two units were deployed into the Deep Basin markets in Canada and the remaining two units were transferred to Calfrac's operations in Arkansas.

In November 2007, the Company purchased certain fracturing assets of a Canadian competitor for total consideration of $24.9 million. The purchase price for the acquisition was satisfied through the payment of an aggregate of approximately $13.9 million in cash and the issuance of 597,526 common shares.

With its strong working capital position, available credit facilities and anticipated cash flow from operations, the Company expects to have adequate resources to fund its financial obligations and budgeted plans for 2008 and beyond.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

		PAYMENT DUE BY PERIOD			
	TOTAL	LESS THAN 1 YEAR	1 – 3 YEARS	4 – 5 YEARS	AFTER 5 YEARS
(000s)	($)	($)	($)	($)	($)
Operating leases	24,985	7,250	7,741	4,796	5,198
Purchase obligations	44,007	16,999	25,907	1,101	–
Total contractual obligations	68,992	24,249	33,648	5,897	5,198

As outlined on the previous page, Calfrac has various contractual obligations related to the leasing of vehicles, equipment and facilities as well as raw material purchase commitments.

GREEK LEGAL PROCEEDINGS

As described in note 17 to the annual consolidated financial statements, the Company is involved in a number of legal proceedings in Greece. Management evaluates the likelihood of potential liabilities being incurred and the amount of such liabilities after careful examination of available information and discussions with its legal advisors. As these proceeding have yet to reach a status where the direction of a court's decision can be determined with any reliability, management is unable to evaluate the Company's potential exposure to these legal proceedings at this time.

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

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

DC&P is designed to ensure that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and 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 GAAP.

In accordance with the requirements of Multilateral Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings", an evaluation of the design and operating effectiveness of DC&P was carried out under the supervision of the CEO and CFO as at the end of the period covered by this report.

Based on this evaluation, the CEO and CFO have concluded that, subject to the inherent limitations noted below, the Company's DC&P is designed and operating effectively to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities.

The Company's management, including the CEO and CFO, does not expect that the Company's DC&P will prevent or detect all misstatements or instances of fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and misstatements or instances of fraud, if any, within the Company have been detected. Likewise, ICFR, no matter how well designed, has inherent limitations. Therefore, ICFR can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

There was no change to the Company's ICFR that occurred during the most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

ACCOUNTING POLICIES AND ESTIMATES

CHANGES IN ACCOUNTING POLICIES

The following changes in accounting policies were adopted during 2007:

FOREIGN CURRENCY TRANSLATION

During the first quarter of 2007, the Company's U.S. subsidiaries were reclassified from integrated to self-sustaining foreign operations. As a result, the Company prospectively adopted the current rate method of translating its U.S. operations into Canadian dollars whereby assets and liabilities are translated at the rate of exchange at the balance sheet date, revenues and expenses are translated at average monthly exchange rates, and gains and losses in translation are deferred and included in the shareholders' equity section as accumulated other comprehensive income in accordance with the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, *Comprehensive Income*. Prior to this reclassification, the Company's U.S. operations were translated into Canadian dollars using the temporal method, which the Company continues to follow in respect of its other foreign operations. Under the temporal method, monetary assets and liabilities are translated at the rate of exchange at the balance sheet date, while non-monetary items are translated at the historical rate applicable on the date of the transaction giving rise to the non-monetary balance. Revenues and expenses are translated at monthly average exchange rates and gains or losses in translation are recognized in income as they occur.

COMPREHENSIVE INCOME

On January 1, 2007, the Company adopted CICA Handbook Section 1530, *Comprehensive Income*. The new standard introduced comprehensive income, which consists of net income and other comprehensive income (OCI). For the Company, OCI is currently comprised of the changes in the foreign currency translation adjustment balance.

The cumulative changes in OCI are included in accumulated other comprehensive income (AOCI), which is presented as a new category within shareholders' equity in the consolidated balance sheets. The Company's consolidated financial statements now include a statement of AOCI, which provides the continuity of the AOCI balance.

FINANCIAL INSTRUMENTS

On January 1, 2007, the Company adopted CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. This standard establishes the recognition and measurement criteria for financial assets, liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related-party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables" or "other financial liabilities" as defined by the standard.

Cash equivalents are designated as "held-for-trading" and are measured at fair value. Accounts receivable are designated as "loans and receivables" and are carried at cost. Accounts payable are designated as "other financial liabilities" and are carried at cost. Long-term debt is designated as "other financial liabilities" and carried at amortized cost using the effective interest rate method. The financing costs associated with the Company's US$135.0 million private placement of senior unsecured notes on February 13, 2007 are included in the amortized cost of the debt. These costs are amortized to interest expense over the term of the debt.

RECENT ACCOUNTING PRONOUNCEMENTS

Management is assessing new Canadian and U.S. accounting pronouncements that have been issued and are not yet effective. These new pronouncements are set out below.

CICA Handbook Section 1535, *Capital Disclosures,* establishes disclosure requirements about an entity's capital and how it is managed, the purpose of which is to enable financial statement users to evaluate an entity's objectives, policies and processes for managing capital. The Company has not yet determined the impact on the financial position, results of operations or cash flows from adopting CICA Handbook Section 1535.

CICA Handbook Section 3862, *Financial Instruments – Disclosures,* and CICA Handbook Section 2863, *Financial Instruments – Presentation*, replace CICA Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*. These new sections revise and enhance current disclosure requirements for financial instruments but do not change the existing presentation requirements. The new disclosures will provide additional information on the nature and extent of risks arising from financial instruments and how an entity manages those risks. The Company has not yet determined the impact on the financial position, results of operations or cash flows from adopting CICA Handbook Section 3862.

CICA Handbook Section 3031, *Inventories,* which supersedes CICA Handbook Section 3030, *Inventories,* provides more extensive guidance on measurement and expands disclosure requirements. These changes include the disclosure of inventories carried at net realizable value, the amount of inventories recognized as an expense and the amount of any inventory write-downs. The Company has not yet determined the impact on the financial position, results of operations or cash flows from adopting CICA Handbook Section 3031.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, "Fair Value Measurements". SFAS No. 157 defines fair value, establishes a framework for measuring fair value under U.S. GAAP and expands disclosures about fair value measurements. The statement is effective for fair value measures already required or permitted by other standards for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company has not yet determined the impact on its financial position, results of operations or cash flows from SFAS No. 157.

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective for years beginning on or after November 15, 2007 and interim periods within that fiscal period. The Company has not yet determined the impact on the financial position, results of operations or cash flows from SFAS No. 159.

In December 2007, FASB issued SFAS No. 141 (R), "Business Combinations (Revised 2007)" and SFAS No. 160, "Non-Controlling Interests in Consolidated Financial Statements – An Amendment of Accounting Research Bulletin (ARB) No. 51". These standards require the use of fair value accounting for business combinations and non-controlling interests. Equity securities issued as consideration in a business combination will be recorded at fair value as of the acquisition date as opposed to being valued over a period which includes a few days prior to and after the terms of the business combination have been agreed to and announced. In addition, entities will no longer have the ability to capitalize any direct and incremental costs incurred in the business combination. Instead, these transaction costs will be required to be expensed under the new standards. The period of one year to complete the accounting for a business combination remains unchanged. Non-controlling interests will require initial measurements at fair value and will be classified as a separate component of equity. SFAS No. 141(R) is to be applied prospectively and is effective for the Company for business combinations for which the acquisition date is on or after January 1, 2009. SFAS No. 160 is effective for the Company on January 1, 2009 and is to be applied prospectively, with the exception of the presentation and disclosure requirements, which will require retrospective application for all periods presented. The Company has not yet determined the impact on the financial position, results of operations or cash flows from SFAS No. 141(R) and SFAS No. 160.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This MD&A is based on the Company's annual consolidated financial statements that have been prepared in accordance with Canadian GAAP. Management is required to make assumptions, judgements and estimates in the application of GAAP. 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 judgements be made concerning the reported amount of revenues and expenses and the carrying values of assets and liabilities. These estimates are based on historical experience and management's judgement. Anticipating 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 following accounting policies and practices involve the use of estimates that have a significant impact on the Company's financial results.

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 impacting the operation of the Company's property and equipment.

STOCK-BASED COMPENSATION

As described in note 9 to the annual consolidated financial statements, 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 volatility of the Company's shares and anticipated dividends.

INCOME TAXES

As described in notes 10 and 11 to the annual consolidated financial statements, the amount of the future tax asset and deferred tax credit in respect of the income tax pools available to the Company have been based on tax filings to date. The income tax rates used to calculate the amount of the future asset have been based on available information on future income tax rates. The income tax authorities have not audited all of these pools so far as they relate to the Company.

RISK FACTORS

Calfrac's consolidated financial results are affected by numerous risks, including those listed below. A comprehensive listing of business risks pertaining to the Company's operations is contained within the most recently filed Annual Information Form, which is available at www.sedar.com.

VOLATILITY OF INDUSTRY CONDITIONS

The demand, pricing and terms for fracturing, coiled tubing, cementing and other well stimulation services largely depend on the level of exploration and development activity for North American and Russian natural gas and, to a lesser extent, oil. Industry conditions are influenced by numerous factors over which the Company has no control, including oil and natural gas prices, expectations about future oil and natural gas prices, the cost of exploring for, producing and delivering oil and natural gas, the decline rates for current production, the discovery rates of new oil and natural gas reserves, available pipeline and other oil and natural gas transportation capacity, weather conditions, political, military, regulatory and economic conditions, and the ability of oil and natural gas companies to raise equity capital or debt financing. A material decline in global oil and natural gas prices or North American 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.

SEASONALITY

Calfrac's financial results are directly affected by the seasonal nature of the North American oil and natural gas industry. The first quarter incorporates most of the winter drilling season when a disproportionate amount of the activity takes place in western Canada. During the second quarter, soft ground conditions typically curtail oilfield activity in all of the Company's Canadian operating areas such that many rigs are unable to move due to road bans. This period of spring breakup occurs earlier in southeast Alberta than in northern Alberta and northeast British Columbia. Consequently, the second quarter is normally the Company's weakest three-month revenue period in western Canada. Additionally, if an unseasonably warm winter prevents sufficient freezing, Calfrac may not be able to access wellsites during the peak winter season and, as a result, the Company's operating results and financial condition may be adversely affected. The demand for fracturing and other 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 revenues. The volatility in the weather and temperature can therefore create unpredictability in activity and utilization rates, which can have a material adverse effect on Calfrac's business, financial condition, results of operations and cash flows.

CONCENTRATION OF CUSTOMER BASE

The Company's customer base consists of approximately 300 oil and natural gas exploration and production companies, ranging from large multi-national public companies to small private companies. Notwithstanding Calfrac's broad customer base, it has two significant customers that individually accounted for 23 percent and 11 percent of its revenue in the year ended December 31, 2007. The Company currently has four multi-year agreements to provide fracturing services to these customers, which expire in February 2009, March 2009, February 2010 and February 2011. Each of these agreements includes a base level of commitments by these customers. However, there can be no assurance that Calfrac's relationships 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.

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 Calfrac operates are product and service quality and availability, technical knowledge and experience, reputation for safety and price. The Company competes with large national and multi-national oilfield service companies that have greater financial and other resources than Calfrac. These companies offer a wide range of well stimulation services in all geographic regions in which the Company operates. In addition, Calfrac competes with several regional competitors. As a result of competition, the Company may suffer from a significant reduction in revenue or be unable to pursue additional business opportunities.

SOURCES, PRICING AND AVAILABILITY OF RAW MATERIALS AND COMPONENT PARTS

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

GOVERNMENT REGULATIONS

The Company's operations are subject to a variety of federal, provincial, state and local laws, regulations and guidelines, including laws and regulations relating to health and safety, the conduct of operations, taxation, the protection of the environment and the manufacture, management, transportation and disposal of certain materials used in its operations. Calfrac has invested financial and managerial resources to ensure such compliance and expects to continue to make such investments in the future. Such laws or regulations are subject to change and could result in material expenditures that could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. It is impossible for the Company to predict the cost or impact of such laws and regulations on its future operations.

INCOME TAX ATTRIBUTES

The Company has reduced its Canadian income tax liabilities from March 2004 through the end of 2007 by using tax attributes estimated at $220 million for federal income tax purposes and $170 million for provincial income tax purposes arising from the reorganization of Denison Energy Inc. ("Denison"). The Canada Revenue Agency has not audited any of the tax returns in which the above-mentioned tax attributes were used to reduce the incurrence of Canadian current and future income tax liabilities. Once these attributes are fully realized, Canadian income for future periods will be subject to statutory income tax rates in Canada.

OPERATIONAL RISKS

Calfrac's operations are subject to hazards inherent in the oil and natural gas industry such as equipment defects, malfunction and failures, and natural disasters that 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 and other environmental damages. The Company continuously monitors its activities for quality control and safety, and although Calfrac maintains insurance coverage that it believes to be adequate and customary in the industry, such insurance may not be adequate to cover potential liabilities and may not be available in the future at rates that the Company considers reasonable and commercially justifiable.

REGULATIONS AFFECTING THE OIL AND NATURAL GAS INDUSTRY

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

FLUCTUATIONS IN FOREIGN EXCHANGE RATES

The Company incurs a significant amount of its expenses in U.S. dollars and these expenditures are directly affected by the Canadian/U.S. dollar exchange rate, which fluctuates over time. Net income from Calfrac's United States operations is denominated in U.S. dollars, so that a decrease in the value of the U.S. dollar will decrease the Canadian dollar amount of net income from U.S. operations. Russian and Mexican revenue is earned in U.S. dollars, but is paid in Russian rubles and Mexican pesos, respectively. Conversion rates of the Russian ruble and the Mexican peso to or from U.S. dollars will also affect the Company's net income. Calfrac also incurs expenses in Russian rubles and Mexican pesos for its operations in those countries.

LIABILITIES OF PRIOR OPERATIONS

The Company transferred the Canadian oil and natural gas assets, mining leases, mining environmental services and related assets and liabilities of Denison to two new public companies that provided indemnities to Calfrac for all claims or losses relating to Denison's prior business, except for matters related to specific liabilities retained by the Company. Despite these indemnities, it is possible that Calfrac may be found responsible for claims or losses relating to the assets and liabilities transferred by Denison and that the claims or losses may not be within the scope of the indemnities or the indemnifying party may lack sufficient financial resources to satisfy its obligations pursuant to the indemnities. Because of the nature of Denison's former operations, these claims or losses could include substantial environmental claims. The Company cannot predict the outcome or ultimate impact of any legal or regulatory proceedings that may relate to Denison's prior ownership or operation of these assets.

GREEK LEGAL PROCEEDINGS

The Company is involved in several legal proceedings with former employees of Denison Mines Inc. relating to the cessation of its oil and natural gas operations in Greece during 1998 and 1999. The Company intends to defend itself against the claims of the former employees; however, the direction and financial consequences of decisions in these proceedings cannot be determined at this time.

MANAGEMENT STEWARDSHIP

The successful operation of the Company's business depends upon the abilities, expertise, judgement, discretion, integrity and good faith of its executive officers, employees and consultants. In addition, the Company's ability to expand its services depends upon its ability to attract qualified personnel as needed. The demand for skilled oilfield employees is high and the supply is limited. If the Company loses the services of one or more of its executive officers or key employees, it may have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

CAPITAL-INTENSIVE INDUSTRY

Calfrac's business plan is subject to availability of additional financing for future costs of operations or expansion that may not be available or may not be available on favourable terms. The Company's activities may also be financed partially or wholly with debt, which may increase its debt levels above industry standards. The level of the Company's indebtedness from time to time could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise. 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 or, if available, on favourable terms.

FOREIGN OPERATIONS

Some of the Company's operations and related assets are located in countries outside of Canada and the United States, some of which may be considered politically or economically unstable. Activities in such countries may require protracted negotiation with host governments, national oil 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, governmental regulation and the risk of actions by terrorist or insurgent groups, any of which could adversely affect the economies of exploration or development projects and the demand for the Company's services, which may have a material adverse effect on its business, financial condition, results of operations and cash flows.

CLIMATE CHANGE INITIATIVES

Canada is a signatory to the United Nations Framework Convention on Climate Change and has adopted the Kyoto Protocol established thereunder to set legally binding targets to reduce nation-wide emissions of carbon dioxide, methane, nitrous oxide and other so-called greenhouse gases. On April 26, 2007, the Government of Canada released the Regulatory Framework for Air Emissions which outlines proposed new requirements governing the emission of greenhouse gases and industrial air pollutants in accordance with the government's Notice of Intent to Develop and Implement Regulations and Other Measures to Reduce Air Emission released on October 19, 2006. The framework introduces further, but not full, detail on new greenhouse gas and industrial air pollutant limits and compliance mechanisms that will apply to various industrial sectors, including oil and natural gas producers. Future federal legislation, together with provincial emission reduction requirements, such as those in effect in Alberta's Climate Change and Emissions Management Act, may require the reduction of emissions or emissions intensity from the Company's operations and facilities. Mandatory emissions reductions 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 mandatory emissions reductions may also impair the Company's ability to provide its services economically. The Company is unable to predict the impact of current and pending emission reduction legislation on the Company and it is possible that it may have a material adverse effect on its business, financial condition, results of operations and cash flows.

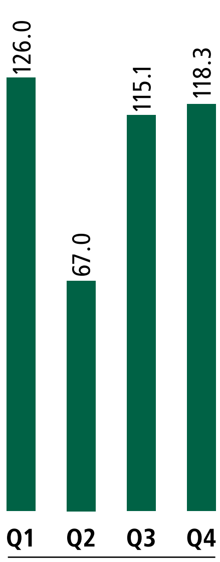
DEMAND FOR OIL AND NATURAL GAS

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 liquid hydrocarbons. The Company cannot predict the impact of changing demand for oil and natural gas products, and any major decline may have a material adverse effect on its business, financial condition, results of operations and cash flows.

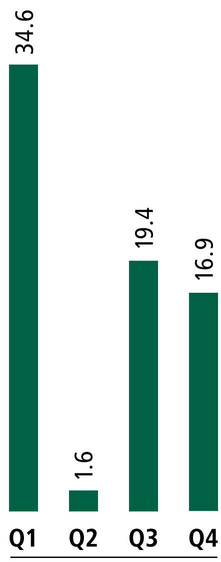
QUARTERLY RESULTS

(unaudited)

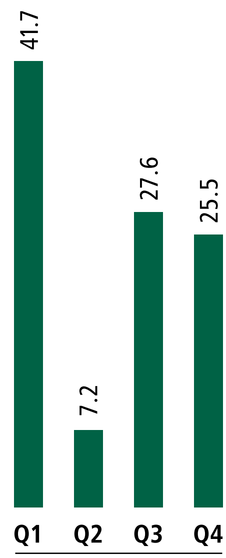
REVENUE 2006
($ MM)



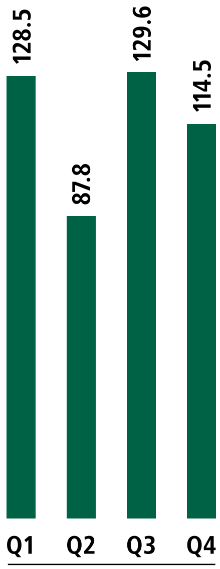
NET INCOME 2006
($ MM)



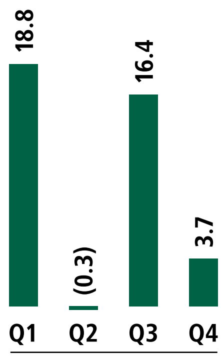
CASH FLOW 2006
($ MM)



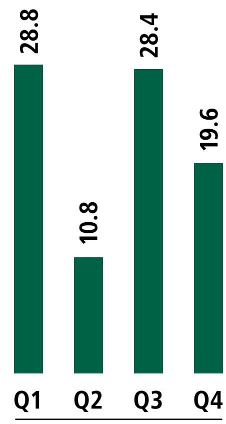
REVENUE 2007
($ MM)



NET INCOME 2007
($ MM)



CASH FLOW 2007
($ MM)



QUARTERS ENDED	MAR. 31	JUNE 30	SEPT. 30	DEC. 31	TOTAL
(000s, except per share and unit data)	($)	($)	($)	($)	($)
(unaudited)					
2007					
Revenue	**128,507**	**87,778**	**129,585**	**114,450**	**460,320**
Gross margin [1]	**38,222**	**22,095**	**42,851**	**28,612**	**131,779**
Net income (loss)	**18,777**	**(303)**	**16,441**	**3,653**	**38,568**
Per share – basic	**0.52**	**(0.01)**	**0.45**	**0.10**	**1.06**
– diluted	**0.52**	**(0.01)**	**0.45**	**0.10**	**1.06**
Cash flow from operations [2]	**28,827**	**10,835**	**28,398**	**19,582**	**87,642**
Per share – basic	**0.79**	**0.30**	**0.78**	**0.53**	**2.40**
– diluted	**0.79**	**0.30**	**0.78**	**0.53**	**2.40**
EBITDA [3]	**30,324**	**14,569**	**34,107**	**18,790**	**97,789**
Per share – basic	**0.84**	**0.40**	**0.94**	**0.51**	**2.68**
– diluted	**0.83**	**0.40**	**0.93**	**0.51**	**2.68**
Capital expenditures	**48,521**	**19,972**	**11,345**	**12,101**	**91,939**
Working capital (end of period)	**105,549**	**86,971**	**99,696**	**92,156**	**92,156**
Shareholders' equity (end of period)	**326,184**	**321,218**	**336,858**	**350,915**	**350,915**
Fracturing spreads (#)					
Conventional fracturing	**23**	**23**	**24**	**24**	**24**
Coalbed methane	**4**	**4**	**4**	**4**	**4**
Total	**27**	**27**	**28**	**28**	**28**
Coiled tubing units (#)	**14**	**15**	**17**	**18**	**18**
Cementing units (#)	**15**	**15**	**16**	**16**	**16**

1. Gross margin is defined as revenue less operating expenses excluding depreciation. Gross margin is a measure that does not have any standardized meaning prescribed under GAAP and, accordingly, may not be comparable to similar measures used by other companies.
2. Cash flow is defined as "funds provided by operations" as reflected in the consolidated statements of cash flows. Cash flow and cash flow per share are measures that provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Management utilizes these measures to assess the Company's ability to finance operating activities and capital expenditures. Cash flow and cash flow per share are not measures that have any standardized meaning prescribed under GAAP and, accordingly, may not be comparable to similar measures used by other companies.
3. EBITDA is defined as income before interest, taxes, depreciation and amortization. EBITDA is presented because it is frequently used by securities analysts and others for evaluating companies and their ability to service debt. EBITDA is a measure that does not have any standardized meaning prescribed under GAAP and, accordingly, may not be comparable to similar measures used by other companies.

QUARTERS ENDED	MAR. 31	JUNE 30	SEPT. 30	DEC. 31	TOTAL
(000s, except per share and unit data)	($)	($)	($)	($)	($)
(unaudited)					
2006					
Revenue	126,010	66,973	115,112	118,322	426,418
Gross margin(1)	49,927	14,446	36,500	34,488	135,362
Net income	34,556	1,569	19,418	16,907	72,450
Per share – basic	0.95	0.04	0.54	0.47	2.00
– diluted	0.94	0.04	0.53	0.46	1.98
Cash flow from operations(2)	41,656	7,208	27,560	25,507	101,932
Per share – basic	1.15	0.20	0.76	0.70	2.81
– diluted	1.13	0.20	0.76	0.70	2.79
EBITDA(3)	42,736	8,761	29,614	28,421	109,533
Per share – basic	1.18	0.24	0.82	0.78	3.02
– diluted	1.16	0.24	0.81	0.78	3.00
Capital expenditures	50,631	36,501	23,931	44,415	155,478
Working capital (end of period)	37,071	28,741	31,158	31,225	31,225
Shareholders' equity (end of period)	271,084	267,559	287,616	303,510	303,510
Fracturing spreads (#)					
Conventional fracturing	18	19	19	21	21
Coalbed methane	4	4	4	4	4
Total	22	23	23	25	25
Coiled tubing units (#)	12	14	14	14	14
Cementing units (#)	9	11	11	13	13

1. Gross margin is defined as revenue less operating expenses excluding depreciation. Gross margin is a measure that does not have any standardized meaning prescribed under GAAP and, accordingly, may not be comparable to similar measures used by other companies.

2. Cash flow is defined as "funds provided by operations" as reflected in the consolidated statement of cash flows. Cash flow and cash flow per share are measures that provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Management utilizes these measures to assess the Company's ability to finance operating activities and capital expenditures. Cash flow and cash flow per share are not measures that have any standardized meaning prescribed under GAAP and, accordingly, may not be comparable to similar measures used by other companies.

3. EBITDA is defined as income before interest, taxes, depreciation and amortization. EBITDA is presented because it is frequently used by securities analysts and others for evaluating companies and their ability to service debt. EBITDA is a measure that does not have any standardized meaning prescribed under GAAP and, accordingly, may not be comparable to similar measures used by other companies.

FOURTH QUARTER 2007 PERFORMANCE SUMMARY

For the three months ended December 31, 2007, the Company:

- earned revenue of $114.5 million compared to $118.3 million in the same period of 2006;
- recorded net income of $3.7 million or $0.10 per share (basic) versus $16.9 million or $0.47 per share (basic) in the same period of 2006; and
- realized cash flow from operations before changes in non-cash working capital of $19.6 million or $0.53 per share (basic) compared to $25.5 million or $0.70 per share (basic) in the same period of 2006.

REVENUE

CANADA

Revenue from Canadian operations for the fourth quarter of 2007 decreased by 20 percent to $63.5 million from $79.8 million in the same three-month period of 2006. Canadian fracturing revenue for the quarter totalled $53.8 million, a decrease of 22 percent from the $68.8 million earned in the corresponding quarter of 2006. This decrease was primarily due to lower fracturing activity levels in the deeper basins of western Canada than in the previous year and relatively high activity levels in the CBM and shallow gas regions of Alberta. During the fourth quarter of 2007, the Company completed 1,287 Canadian fracturing jobs for average revenue of $41,806 per job compared to 1,244 jobs for average revenue of $55,295 per job in the same period of 2006. The decline in per job revenues from the previous year was primarily due to significant competitive pricing pressures in the Canadian market and a higher percentage of total activity being derived from CBM fracturing operations.

For the three months ended December 31, 2007, revenue from Canadian coiled tubing operations decreased by 12 percent to $4.6 million from $5.2 million for the same period in 2006. During the fourth quarter of 2007, the Company completed 862 jobs for average revenue of $5,305 per job compared to 1,922 jobs for average revenue of $2,694 per job in 2006. The increase in the average revenue per job was due primarily to higher activity in the deeper, more technically challenging basins of western Canada.

Revenue from Calfrac's cementing operations in the fourth quarter of 2007 was $5.1 million, a 13 percent decrease from the $5.9 million recorded in the fourth quarter of 2006. The Company completed 820 jobs for average revenue of $6,221 per job in the fourth quarter of 2007 compared to 480 jobs for average revenue of $12,234 per job in the same period of 2006. The decrease in the average cementing revenue per job was primarily due to a higher proportion of shallow cementing jobs completed as compared to the prior year's quarter as well as the impact of competitive pricing in western Canada.

UNITED STATES AND MEXICO

During the fourth quarter of 2007, revenue from the Company's United States operations increased by 8 percent to $31.5 million from $29.0 million in the same period of 2006. In Mexico, Calfrac recorded revenue of $1.7 million during the three months ended December 31, 2007. These operations commenced in 2007 and, accordingly, there is no comparable revenue in the 2006 period. The increase in U.S. revenue was due primarily to the commencement of fracturing operations in Arkansas during March 2007 offset by lower activity levels in western and eastern Colorado and a weaker U.S. dollar. On a year-over-year basis, the appreciation of the Canadian dollar negatively impacted reported revenues by approximately

$5.1 million. For the three months ended December 31, 2007, the Company completed 412 U.S. fracturing jobs for average revenue of $74,898 per job compared to 385 jobs for average revenue of $75,427 per job in the fourth quarter of 2006. The lower revenue per job was mainly due to competitive pricing pressures in the Piceance Basin and a stronger Canadian dollar offset slightly by Calfrac's entry into the Arkansas fracturing market during 2007.

RUSSIA

Calfrac's revenue from operations in Russia during the fourth quarter of 2007 increased by 89 percent to $17.9 million from $9.4 million in the same three-month period of 2006, due primarily to a larger equipment fleet and higher fracturing and coiled tubing activity levels offset slightly by a stronger Canadian dollar. If the U.S./Canadian dollar exchange rate for the fourth quarter of 2007 had remained consistent with the same period in 2006, the reported revenue for the Company's Russian operations would have increased by approximately $2.9 million.

GROSS MARGIN

Fourth quarter consolidated gross margin was $28.6 million in 2007, a 17 percent decrease from the $34.5 million recorded in the corresponding period in 2006. As a percentage of revenue, consolidated gross margin was 25 percent in the fourth quarter of 2007 compared to 29 percent in the same period of 2006. The decrease in consolidated gross margin was primarily a result of lower activity levels and competitive pricing pressures in Canada, extremely cold weather in Russia during December 2007, which increased operating costs, and start-up expenses in Mexico, all of which were offset slightly by improved financial results in the United States.

EXPENSES

OPERATING EXPENSES

During the fourth quarter of 2007, operating costs increased by 2 percent to $85.8 million from $83.8 million in the corresponding three-month period of 2006, due primarily to higher levels of activity and broader scale of operations in the United States and Russia as well as start-up expenses related to the Company's new operations in Mexico, all of which were offset by lower activity levels in Canada combined with the impact of a stronger Canadian dollar.

SG&A EXPENSES

SG&A expenses were $8.7 million for the quarter ended December 31, 2007 compared to $7.9 million in the same period of 2006. As a percentage of revenue, SG&A expenses for the fourth quarter of 2007 increased slightly to 8 percent from 7 percent in the same period of 2006. The increase in SG&A expenses during the fourth quarter of 2007 was primarily related to higher administrative costs to support broader worldwide operations partially offset by a reduction in bonus expenses due to lower Company profitability and a weaker U.S. dollar.

INTEREST, DEPRECIATION AND OTHER EXPENSES

The Company recorded net interest expense of $2.3 million for the quarter ended December 31, 2007 compared to $0.7 million in the comparable period of 2006. The higher interest expense in 2007 was mainly related to the issuance of senior unsecured notes in February 2007 for US$135.0 million offset partially by interest earned on the Company's surplus cash.

Depreciation expense in the fourth quarter of 2007 increased by 38 percent to $10.5 million from $7.6 million in the corresponding quarter of 2006 mainly as a result of the Company's larger fleet of equipment operating in North America and Russia.

INCOME TAX

The Company recorded income tax expense of $2.3 million for the quarter ended December 31, 2007 compared to $3.2 million in the same period of 2006. Total income tax expense was lower than in the respective quarter of 2006 primarily due to lower profitability in Canada. During the fourth quarter of 2007, the Company recorded a current tax recovery of $2.2 million compared to an expense of $2.9 million in 2006. Calfrac recorded a future income tax expense of $4.6 million for the three months ended December 31, 2007, compared to $0.3 million in the same quarter of 2006. The effective income tax rate for the three months ended December 31, 2007 was 39 percent compared to 16 percent in the same period of 2006. The increase in total income tax expense and overall rate was a result of a greater proportion of the Company's earnings being generated from the United States, where Calfrac's operations are subject to income tax at full statutory rates.

NET INCOME

During the fourth quarter of 2007, the Company's net income totalled $3.7 million or $0.10 per share (basic), a 78 percent decrease from the $16.9 million or $0.47 per share (basic) recorded in the same quarter of 2006. Net income during the fourth quarter of 2007 decreased as compared to the same period in 2006 primarily as a result of lower gross margin combined with higher depreciation and interest expenses as well as the realization of foreign exchange losses instead of the foreign exchange gains that were recorded in 2006.

CASH FLOW

Cash flow from operations before changes in non-cash working capital for the three months ended December 31, 2007 decreased by 23 percent to $19.6 million or $0.53 per share (basic) from $25.5 million or $0.70 per share (basic) in 2006. The decline in cash flow from operations was mainly due to lower profitability from the Company's Canadian operations.

LIQUIDITY AND CAPITAL RESOURCES

During the fourth quarter of 2007, the Company incurred capital expenditures of $12.1 million compared to $44.4 million in the same three-month period of 2006. The majority of these costs related to the completion of the Company's 2007 capital program, which included the deployment of one coiled tubing unit during the quarter. Calfrac also acquired certain fracturing assets of a Canadian competitor in November 2007 for a total cost of $24.9 million. The purchase price for the acquisition was satisfied through the payment of an aggregate of approximately $13.9 million in cash and the issuance of 597,526 common shares.

At December 31, 2007, the Company also had cash and cash equivalents of $39.1 million. A portion of these funds were invested in short term investments, none of which were exposed to the liquidity issues surrounding asset-backed securities.

OUTLOOK

Calfrac believes that the long-term fundamentals for natural gas prices are strong, but the appreciation of the Canadian dollar during the last year and uncertainty surrounding the proposed new royalty regime in Alberta may negatively affect 2008 drilling activity levels in the Western Canada Sedimentary Basin. The Petroleum Services Association of Canada estimates that 14,500 wells will be drilled during 2008, a decrease of 22 percent from 2007, which was substantially lower than 2006.

The Company anticipates that this significant forecast reduction in activity may lead to increased price competition, higher levels of merger and acquisition activity and a possible consolidation in the Canadian pressure pumping service sector during 2008. Drilling activity in the deeper, more technical areas of northern Alberta and northeast British Columbia as well as the shallow gas regions of southern Alberta are forecast to remain a focus for natural gas producers in the coming year. Additionally, well recompletion activity in 2008 is expected to increase and offset some of the decline in new drilling activity. Calfrac anticipates that the lower levels of activity experienced in the CBM market during 2007 will continue into 2008, but be mitigated somewhat by the Company's long-term contracts.

Overall, strong demand is expected for the Company's services in the United States during 2008 and these operations are expected to continue to be a major driver of the Company's consolidated financial performance. During the fourth quarter of 2007, the Company began to experience stronger competitive pricing pressures throughout its fracturing operations, and these lower pricing levels are expected to remain essentially unchanged in the upcoming year. Natural gas takeaway issues in the Piceance Basin are believed to have been resolved with the commissioning of the Express Pipeline in January 2008. This should lead to significant increases in activity on a year-over-year basis. Drilling activity levels in the Julesburg Basin in 2008 are anticipated to remain comparable with the previous year. Additionally, the Company's growing customer base in Arkansas is expected to result in strong fracturing and cementing activity levels throughout 2008.

In Mexico, Calfrac plans to continue to grow its operations through the start-up phase and improve its financial and operating performance. As well, the Company intends to pursue new opportunities to expand its operating presence within this new geographical market.

Calfrac's Russia operations in 2008 will be supported by two recently signed annual contracts with one of Russia's largest oil and natural gas companies. Consequently, the Company's current equipment fleet of three multi-pumper fracturing spreads and five deep coiled tubing units is expected to be highly utilized throughout 2008. Unlike past years, in which the Company has grown its operating scale through the deployment of additional equipment, in 2008 Calfrac will focus on improving its operating efficiencies to enhance the financial performance of this geographic segment.

In Argentina, Calfrac plans to commence cementing operations early in the second quarter of 2008, anchored by negotiated arrangements with an oil and natural gas company in that country. The Company has redeployed certain cementing equipment from its Canadian operations and has constructed the remaining support equipment locally. This fifth geographical market continues Calfrac's strategy of diversification into new regions that are not dependant upon the natural gas drilling markets of North America.

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 Annual Report, including statements that contain words such as "anticipates", "can", "may", "expect", "believe", "intend", "forecast", "will", or similar words suggesting future outcomes, are forward-looking statements. These statements include, but are not limited to, future capital expenditures, future financial resources, future oil and gas well activity, outcome of specific events, trends in the oil and natural gas industry and the Company's growth prospects, including, without limitation, its international growth strategy and prospects. These statements are derived from certain assumptions and analyses made by the Company based on its experience and interpretation of historical trends, current conditions, expected future developments and other factors that it believes are appropriate in the circumstances. These 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 as prevailing economic conditions; commodity prices; sourcing, pricing and availability of raw materials, component parts, equipment, suppliers, facilities and skilled personnel; dependence on major customers; uncertainties in weather and temperature affecting the duration of the service periods and the activities that can be completed; regional competition; and other factors, many of which are beyond the control of the Company. Readers are cautioned that the foregoing list of risks and uncertainties is not exhaustive. Further information about these risks and uncertainties may be found under the heading "Risk Factors" in this Annual Report.

Consequently, all of the forward-looking statements made in this Annual Report 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. 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.

NON-GAAP MEASURES

Certain measures in this Annual Report do not have any standardized meaning as prescribed under Canadian GAAP, such as gross margin, cash flow from operations, cash flow, cash flow per share (basic), cash flow per share (diluted), EBITDA, EBITDA per share (basic) and EBITDA per share (diluted) and, therefore, are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other entities. These measures have been described and presented in this Annual Report in order to provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Management's use of these measures has been disclosed further in this Annual Report as these measures are discussed and presented.

ADDITIONAL INFORMATION

Further information regarding Calfrac Well Services Ltd. can be accessed on the Company's website at www.calfrac.com or under the Company's public filings found at www.sedar.com.

D.R. Ramsay

DOUGLAS R. RAMSAY
President & Chief Executive Officer

February 27, 2008
Calgary, Alberta

TOM J. MEDVEDIC
Senior Vice President, Finance &
Chief Financial Officer

February 27, 2008
Calgary, Alberta

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 judgements 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 Canadian generally accepted accounting principles ("GAAP") 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 Canadian GAAP. The MD&A compares the audited financial results for the years ended December 31, 2007 and December 31, 2006.

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 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 Canadian GAAP and provide an independent professional opinion.

The Audit Committee of the Board of Directors, which is comprised of three 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.

D.R. Ramsay

DOUGLAS R. RAMSAY
President & Chief Executive Officer

TOM J. MEDVEDIC
Senior Vice President, Finance &
Chief Financial Officer

February 27, 2008
Calgary, Alberta

AUDITORS' REPORT

TO THE SHAREHOLDERS OF CALFRAC WELL SERVICES LTD.

We have audited the consolidated balance sheets of Calfrac Well Services Ltd. as at December 31, 2007 and 2006 and the consolidated statements of operations and retained earnings, comprehensive income and accumulated other comprehensive income and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

February 27, 2008
Calgary, Alberta

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31,	2007	2006
(000s)	($)	($)
ASSETS		
Current assets		
Cash and cash equivalents (note 4)	**39,104**	5,580
Accounts receivable	**86,980**	84,481
Income taxes recoverable	**786**	–
Inventory	**25,013**	13,387
Prepaid expenses and deposits	**5,611**	7,463
	157,494	110,911
Capital assets (note 3)	**388,987**	327,832
Long-term investment	**928**	396
Goodwill	**6,003**	6,003
Future income taxes (note 10)	**5,498**	9,048
	558,910	454,190
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	**65,338**	77,344
Income taxes payable	**–**	2,342
	65,338	79,686
Long-term debt (note 5)	**129,535**	60,000
Other long-term liabilities	**1,882**	4,743
Future income taxes (note 10)	**7,135**	–
Deferred credit (note 11)	**4,105**	6,251
	207,995	150,680
SHAREHOLDERS' EQUITY		
Capital stock (note 6)	**155,254**	139,841
Shares held in trust (note 7)	**(2,199)**	(3,869)
Contributed surplus (note 8)	**6,025**	4,393
Retained earnings	**198,039**	163,145
Accumulated other comprehensive income (loss) (note 2)	**(6,204)**	–
	350,915	303,510
	558,910	454,190

Commitments and contingencies (notes 13 and 17)
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 AND RETAINED EARNINGS

YEARS ENDED DECEMBER 31, (000s, except per share data)	2007 ($)	2006 ($)
Revenue	**460,320**	426,418
Expenses		
Operating	**328,541**	291,056
Selling, general and administrative	**31,685**	28,350
Depreciation	**37,107**	25,699
Interest, net	**9,450**	2,341
Equity share of income from long-term investments	**(532)**	(72)
Foreign exchange losses (gains)	**2,299**	(2,516)
Loss on disposal of capital assets	**538**	67
	409,088	344,925
Income before income taxes	**51,232**	81,493
Income taxes (note 10)		
Current	**3,865**	7,538
Future	**8,799**	1,505
	12,664	9,043
Net income for the year	**38,568**	72,450
Retained earnings, beginning of year	**163,145**	94,322
Dividends	**(3,674)**	(3,627)
Retained earnings, end of year	**198,039**	163,145
Earnings per share (note 6)		
Basic	**1.06**	2.00
Diluted	**1.06**	1.98

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, (000s)	2007 ($)	2006 ($)
Net income for the year	**38,568**	72,450
Other comprehensive income (loss)		
Change in foreign currency translation adjustment	**(6,204)**	–
Comprehensive income	**32,364**	72,450
Accumulated other comprehensive income, beginning of year	–	–
Other comprehensive income (loss) for the year	**(6,204)**	–
Accumulated other comprehensive income (loss), end of year	**(6,204)**	–

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31,	2007	2006
(000s)	($)	($)
CASH PROVIDED BY (USED IN):		
Operating activities		
Net income for the year	**38,568**	72,450
Items not involving cash		
Depreciation	**37,107**	25,699
Amortization of debt issue costs	**570**	–
Stock-based compensation	**2,592**	2,283
Equity share of income from long-term investments	**(532)**	(72)
Loss on disposal of capital assets	**538**	67
Future income taxes	**8,799**	1,505
Funds provided by operations	**87,642**	101,932
Net change in non-cash operating assets and liabilities (note 16)	**(8,159)**	8,586
	79,483	110,518
FINANCING ACTIVITIES		
Issuance of long-term debt (note 5)	**199,949**	56,583
Long-term debt repayments	**(107,546)**	(7,198)
Dividends	**(3,674)**	(3,627)
Purchase of common shares (note 7)	**(2,207)**	(3,869)
Net proceeds on issuance of common shares	**3,396**	867
	89,918	42,756
INVESTING ACTIVITIES		
Purchase of capital assets	**(91,939)**	(155,478)
Proceeds on disposal of capital assets	**416**	4,289
Acquisition of subsidiary (note 15)	**(13,854)**	–
Net change in non-cash working capital from purchase of capital assets	**(18,233)**	14,308
	(123,610)	(136,881)
Effect of exchange rate changes on cash and cash equivalents	**(12,267)**	–
Increase in cash position	**33,524**	16,393
Cash and cash equivalents (bank indebtedness), beginning of year	**5,580**	(10,813)
Cash and cash equivalents, end of year	**39,104**	5,580

See accompanying Notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2007 and 2006
(000s)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Calfrac Well Services Ltd. (the "Company") was formed through the amalgamation of Calfrac Well Services Ltd. (predecessor company originally incorporated on June 28, 1999) and Denison Energy Inc. on March 24, 2004 under the Business Corporations Act (Alberta). The Company provides specialized oilfield services, including fracturing, coiled tubing, cementing and other well stimulation services to the oil and natural gas industries in Canada, the United States, Russia, Mexico and Argentina.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements necessarily involves the use of estimates and approximations that have been made using careful judgement. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(A) PRINCIPLES OF CONSOLIDATION

These financial statements include the accounts of the Company and its subsidiaries in Canada, the United States, Russia, Cyprus, Mexico and Argentina.

(B) FOREIGN CURRENCY TRANSLATION

During the first quarter of 2007, the Company's U.S. subsidiaries were reclassified from integrated to self-sustaining foreign operations. As a result, the Company prospectively adopted the current rate method of translating its U.S. operations into Canadian dollars whereby assets and liabilities are translated at the rate of exchange at the balance sheet date, revenues and expenses are translated at average monthly exchange rates, and gains and losses in translation are deferred and included in the shareholders' equity section as accumulated other comprehensive income in accordance with the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, *Comprehensive Income*. Prior to this reclassification, the Company's U.S. operations were translated into Canadian dollars using the temporal method, which the Company continues to follow in respect of its other foreign operations. Under the temporal method, monetary assets and liabilities are translated at the rate of exchange at the balance sheet date, while non-monetary items are translated at the historical rate applicable on the date of the transaction giving rise to the non-monetary balance. Revenues and expenses are translated at monthly average exchange rates and gains or losses in translation are recognized in income as they occur.

(C) COMPREHENSIVE INCOME

The Company adopted CICA Handbook Section 1530, *Comprehensive Income* on January 1, 2007. The new standard introduced comprehensive income, which consists of net income and other comprehensive income (OCI). For the Company, OCI is currently comprised of the changes in the foreign currency translation adjustment balance.

The cumulative changes in OCI are included in accumulated other comprehensive income (AOCI), which is presented as a new category within shareholders' equity in the consolidated balance sheets. The Company's consolidated financial statements now include a statement of AOCI, which provides the continuity of the AOCI balance.

(D) FINANCIAL INSTRUMENTS

On January 1, 2007, the Company adopted CICA Section 3855, *Financial Instruments – Recognition and Measurement*. This standard establishes the recognition and measurement criteria for financial assets, liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related-party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables" or "other financial liabilities" as defined by the standard.

Cash equivalents are designated as "held-for-trading" and are measured at fair value. Accounts receivable are designated as "loans and receivables" and are carried at cost. Accounts payable are designated as "other financial liabilities" and are carried at cost. Long-term debt is designated as "other financial liabilities" and carried at amortized cost using the effective interest rate method. The financing costs associated with the Company's US$135,000 private placement of senior unsecured notes on February 13, 2007 are included in the amortized cost of the debt. These costs are amortized to interest expense over the term of the debt.

(E) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on deposit and short-term investments with original maturities within 90 days.

(F) INVENTORY

Inventory consists of chemicals, nitrogen, carbon dioxide, cement and proppants used to stimulate wells as well as spare equipment parts. Inventory is stated at the lower of cost, determined on a first-in, first-out or weighted average basis, and net realizable value.

(G) CAPITAL ASSETS

Capital assets are recorded at cost and are depreciated over their estimated economic useful lives using the straight-line method over the following periods:

Field equipment	10 years
Buildings	20 years
Shop, office and other equipment	5 years
Computers and computer software	3 years
Leasehold improvements	Term of the lease

(H) LONG-TERM INVESTMENTS

The Company uses the equity method of accounting for its investment in shares of a company over which it has significant influence. Under the equity method of accounting, investments are carried at their original cost plus the Company's cumulative share of earnings, less any dividends received.

(I) GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess of cost over the fair value of net assets acquired. Intangible assets are recognized apart from goodwill and are amortized over their estimated useful lives. Goodwill is assessed by the Company for impairment at least annually. The impairment test is carried out in two steps. In the first step, the carrying amount is compared with its fair value. When the fair value exceeds its carrying amount, goodwill is considered not to be impaired and performance of the second step of the impairment test is unnecessary. The second step compares the implied fair value of the goodwill with its carrying amount to measure the amount of the impairment loss, if any. The Company completed its annual assessment for goodwill impairment and determined there was no goodwill impairment for the years ended December 31, 2007 and 2006.

(J) INCOME TAXES

The Company follows the liability method of determining income taxes where future income taxes are determined based on temporary differences between the tax bases of assets or liabilities and their carrying amounts in the financial statements.

(K) REVENUE RECOGNITION

Revenue is recognized for services upon completion and for products upon delivery.

(L) 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 over their vesting period as a charge to compensation expense and a credit to contributed surplus.

(M) VARIABLE INTEREST ENTITIES

Canadian Accounting Guideline 15, "Consolidation of Variable Interest Entities" (VIE) requires consolidation of a VIE where an entity absorbs a majority of a VIE's losses, receives a majority of its returns, or both. Under these rules, it was determined that the Company is required to consolidate the Trust, which was established to purchase and hold Company stock as described in note 7.

(N) COMPARATIVES

Certain comparatives have been reclassified to conform with the financial statement presentation adopted in the current year.

(O) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The CICA has recently issued four new Handbook Sections that become effective for the Company beginning January 1, 2008.

Section 1535, *Capital Disclosures,* establishes disclosure requirements about an entity's capital and how it is managed, the purpose of which is to enable financial statement users to evaluate an entity's objectives, policies and processes for managing capital.

Section 3862, *Financial Instruments – Disclosures,* and Section 3863, *Financial Instruments – Presentation,* replace Section 3861, *Financial Instruments – Disclosure and Presentation*. These two new sections revise and enhance current disclosure requirements for financial instruments but do not change the existing presentation requirements. The new disclosures will provide additional information on the nature and extent of risks arising from financial instruments and how an entity manages those risks.

Section 3031, *Inventories*, which supersedes Section 3030, *Inventories,* provides more extensive guidance on measurement and expands disclosure requirements. These changes include the disclosure of inventories carried at net realizable value, the amount of inventories recognized as an expense and the amount of any inventory write-downs.

The Company has not yet determined the possible impact of these new pronouncements on its financial position, results of operations or cash flows.

3. CAPITAL ASSETS

AS AT DECEMBER 31,	2007	2006
(000s)	**($)**	($)
COST		
Assets under construction	**16,822**	78,080
Field equipment	**419,170**	290,445
Buildings	**20,678**	17,375
Land	**10,687**	9,252
Shop, office and other equipment	**5,745**	3,379
Computers and computer software	**5,514**	4,265
Leasehold improvements	**857**	830
	479,473	403,626
ACCUMULATED DEPRECIATION		
Assets under construction	**–**	–
Field equipment	**81,962**	69,805
Buildings	**2,227**	1,336
Land	**–**	–
Shop, office and other equipment	**2,097**	1,510
Computers and computer software	**3,841**	2,821
Leasehold improvements	**359**	322
	90,486	75,794
NET BOOK VALUE		
Assets under construction	**16,822**	78,080
Field equipment	**337,208**	220,640
Buildings	**18,451**	16,039
Land	**10,687**	9,252
Shop, office and other equipment	**3,648**	1,869
Computers and computer software	**1,673**	1,444
Leasehold improvements	**498**	508
	388,987	327,832

4. BANK INDEBTEDNESS

The Company has an operating loan facility of $25,000 bearing interest at the bank's prime rate. The facility is secured by a General Security Agreement over all Canadian assets of the Company. The balance outstanding on the facility has been netted against cash on deposit in these financial statements (December 31, 2007 – $518, December 31, 2006 – $3,407).

5. LONG-TERM DEBT

	2007	2006
(000s)	**($)**	($)
US$135,000 senior unsecured notes, due February 15, 2015 bearing interest at 7.75%, payable semi-annually	**129,535**	–
Extendible revolving capital equipment facility totaling $125,000 bearing interest at the bankers' acceptance rate plus stamping fees of 1.25%, requiring fixed principal payments of $2,400 per quarter commencing March 31, 2008, and a final payment of $24,000 on December 31, 2011, secured by a General Security Agreement over all Canadian assets of the Company	**–**	60,000
	129,535	60,000
Current portion of long-term debt	**–**	–
	129,535	60,000

In conjunction with the issuance of the US$135,000 of senior unsecured notes on February 13, 2007, the Company fully repaid amounts outstanding on its extendible revolving capital equipment facility. This facility was reduced to $65,000 and remains undrawn as at December 31, 2007.

Long-term debt as at December 31, 2007 is presented net of $4,290 of unamortized financing costs related to the issuance of the senior unsecured notes. Interest expense for the year ended December 31, 2007 includes amortization of debt issue costs in the amount of $570.

6. CAPITAL STOCK

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

The continuity of issued common shares and related values is as follows:

	SHARES	AMOUNT
	(#)	($000s)
December 31, 2005	36,333,276	138,767
Issued upon exercise of stock options	55,132	1,074
December 31, 2006	36,388,408	139,841
Issued on acquisition of subsidiary (note 15)	**597,526**	**11,058**
Issued upon exercise of stock options	**215,938**	**4 ,355**
December 31, 2007	**37,201,872**	**155,254**

The weighted average number of common shares outstanding for the year ended December 31, 2007 was 36,463,220 basic and 36,537,763 diluted (2006 – 36,286,332 basic and 36,547,182 diluted). The difference between basic and diluted shares is attributable to the dilutive effect of stock options issued by the Company and the shares held in trust (see note 7).

7. SHARES HELD IN TRUST

The Company has established a Trust to purchase and hold Company stock on behalf of certain employees who have elected to receive a portion of their annual bonus entitlement in the form of Company shares. At December 31, 2007, the Trust held 91,414 shares which were purchased on the open market at a cost of $2,199 (December 31, 2006 – 113,508 shares at a cost of $3,869). These shares vest with employees in March of the year following their purchase at which time they are distributed to those individuals participating in the plan. These shares are not considered outstanding for purposes of calculating basic earnings per share, but are included in the calculation of diluted earnings per share.

8. CONTRIBUTED SURPLUS

The continuity of contributed surplus is as follows:

	2007	2006
(000s)	**($)**	($)
Balance, January 1	**4,393**	2,317
Stock options expensed	**2,591**	2,283
Stock options exercised	**(959)**	(207)
Balance, December 31	**6,025**	**4,393**

9. STOCK-BASED COMPENSATION

(A) STOCK OPTIONS

CONTINUITY OF STOCK OPTIONS	**2007**		2006	
	Options	**Average exercise price**	Options	Average exercise price
	(#)	**($)**	(#)	($)
Outstanding, January 1	**1,505,796**	**22.15**	818,578	18.39
Granted during the year	**30,000**	**20.20**	776,550	25.89
Exercised for common shares	**(215,938)**	**15.73**	(55,132)	15.73
Forfeited	**(95,635)**	**26.46**	(34,200)	27.18
Balance, December 31	**1,224,223**	**22.90**	1,505,796	22.15

All stock options vest equally over three years and expire three and one-half years from the date of grant. The estimated fair value of options granted is determined by using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4 percent, average expected life of 2.83 years, expected volatility of 34–36 percent and expected dividends of $0.10 per annum. This amount is charged to compensation expense over the vesting period. When stock options are exercised, the proceeds, together with the amount of compensation expense previously recorded in contributed surplus, are added to capital stock.

(B) STOCK UNITS

The Company grants deferred stock units to its outside directors. These units vest one year from the date of grant and are settled in either 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 stock units is recognized equally over the one-year vesting period, based on the current market price of the Company's shares. During the year ended December 31, 2007, $435 of compensation expense was recognized for deferred stock units (2006 – $328).

The Company grants performance stock units to the Company's most senior officers who are not included in the stock option plan. The amount of the grants earned is linked to corporate performance and the grants vest one year from the date of grant. As with the deferred stock units, performance stock units are settled in either cash or Company shares purchased on the open market. During the year ended December 31, 2007, $278 of compensation expense was recognized for performance stock units (2006 – $265).

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

10. INCOME TAXES

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

AS AT DECEMBER 31,	2007	2006
(000s)	($)	($)
Capital assets	(24,500)	(14,715)
Canadian exploration expenses	9,929	11,081
Losses carried forward	9,536	5,405
Deferred compensation payable	1,116	2,939
Deferred financing and share issue costs	778	2,269
Other	1,504	2,069
	(1,637)	9,048

Net future income taxes of $(1,637) at December 31, 2007 (December 31, 2006 – $9,048) are represented by future income tax liabilities of $7,135 (December 31, 2006 – nil) less future income tax assets of $5,498 (December 31, 2006 – $9,048).

The provision for incomes taxes in the statement of operations and retained earnings varies from the amount that would be computed by applying the expected tax rate of 32.12 percent to income before income taxes. The main reasons for differences between such expected income tax expense and the amount actually recorded are:

AS AT DECEMBER 31,	2007	2006
(000s except percentages)	($)	($)
Income before tax	51,232	81,493
Income tax rate (%)	32.12	32.12
Computed expected income tax expense	16,456	26,176
Increase (decrease) in income taxes resulting from:		
Drawdown of deferred credit	(2,147)	(20,811)
Non-deductible expenses/non-taxable income	1,179	1,811
Foreign tax rate and other foreign differences	(569)	1,333
Translation of foreign subsidiaries	(3,158)	289
Foreign withholding taxes	266	1,071
Future income tax adjustment from tax rate reductions	528	87
Prior year tax losses and future tax benefits of foreign subsidiaries recognized in the current year	–	(673)
Other	109	(240)
	12,664	9,043

11. DEFERRED CREDIT

On the amalgamation of Denison Energy Inc. ("Denison") and the Company on March 24, 2004, a future income tax asset associated with Denison's income tax pools was recognized in the accounts. Denison had tax pools of approximately $220,000 for federal income tax purposes and $170,000 for provincial income tax purposes. After tax affecting these pools at applicable federal and provincial income tax rates, a future income tax asset of $70,771 was recorded. The fair value paid for the tax pools acquired was estimated to be $11,000. The difference between the future income tax asset recognized and the fair value of these tax pools was recorded as a deferred credit in the amount of $59,771. The deferred credit is reduced as these tax pools are utilized.

12. RELATED-PARTY TRANSACTIONS

During 2007, the Company purchased $26,620 (2006 – $26,890) of products and services from a company in which it holds a 30 percent equity interest (see also note 2 (H) and note 18). At December 31, 2007, accounts payable included $2,743 of indebtedness to the related party (December 31, 2006 – $7,234).

13. COMMITMENTS

The Company has lease commitments for premises, equipment, vehicles and storage facilities under agreements requiring aggregate minimum payments over the next five years, from December 31, 2007, as follows:

(000s)	($)
2008	7,250
2009	4,163
2010	3,578
2011	2,513
2012	2,283
Thereafter	5,198
	24,985

The Company has obligations for the purchase of products and services over the next four years that total approximately $44,000.

14. FINANCIAL INSTRUMENTS

The Company's financial instruments that are included in the consolidated balance sheet are comprised of cash, accounts receivable, current liabilities and long-term debt.

(A) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial instruments that are included in the consolidated balance sheet, except long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of long-term debt at December 31, 2007 was $128,138 (before deduction of unamortized debt issue costs of $4,290).

(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.

(C) INTEREST RATE RISK

The Company is exposed to interest rate cash flow risk on debt subject to floating interest rates. The Company's effective interest rate for the year ended December 31, 2007 was 8.55 percent (December 31, 2006 – 5.75 percent).

15. ACQUISITION

On November 14, 2007, the Company acquired all of the shares of 1361745 Alberta Ltd. for cash and share consideration totaling $24,912. The Company issued 597,526 common shares with a value of $11,058 in conjunction with the acquisition, in addition to $13,854 of cash. One-hundred percent of the consideration paid was assigned to capital assets, as the acquired company had no other assets or liabilities.

16. SUPPLEMENTAL INFORMATION

Changes in non-cash operating assets and liabilities for the years ended December 31 are as follows:

YEARS ENDED DECEMBER 31,	**2007**	2006
(000s)	**($)**	($)
Accounts receivable	**(2,499)**	3,105
Inventory	**(11,626)**	(7,242)
Prepaid expenses and deposits	**1,852**	(5,244)
Accounts payable and accrued liabilities	**10,103**	17,673
Income taxes payable	**(3,128)**	1,857
Other long-term liabilities	**(2,861)**	(1,563)
	(8,159)	8,586
Interest paid	**6,754**	2,418
Income taxes paid	**6,994**	5,681

17. CONTINGENCIES

Greek Operations

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, a consortium in which a Greek subsidiary of Denison participated, 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 have filed claims 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 compensation amounting to approximately $12,400 was 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 damages. On February 12, 2008 the scheduled hearing date for the appeal was postponed until June 3, 2008 to enable counsel to the Company to seek a judicial order entitling the Company to obtain certain employment information in respect of the plaintiffs which is required in order to assess the extent to which the plaintiffs have mitigated any damages which may otherwise be payable. The Company intends to vigorously defend the appeal decision before the Athens Court of Appeal both in relation to the merits of the plaintiffs' case and in respect of the quantum of any damages which may be awarded. In the event that an adverse ruling is issued by the Athens Court of Appeal, the Company intends to assess its rights of appeal to the Supreme Court of Greece as well as any other court in any jurisdiction where such an appeal is warranted.

Several other smaller groups of former employees have filed similar cases in various courts in Greece. One of these cases was heard by the Athens Court of First Instance on January 18, 2007. By judgement rendered November 23, 2007, the plaintiff's allegations were partially accepted, and the plaintiff was awarded damages of approximately $50, before interest. The Company has appealed this decision, but no date has been set for the hearing of such appeal. Another one of the lawsuits was heard by the Supreme Court of Greece on November 6, 2007, at which date the appeal of the plaintiffs was denied for technical reasons due to improper service. The remaining action has been postponed indefinitely pending the outcome of the lawsuit involving the largest group of plaintiffs discussed above.

The direction and financial consequence of the potential decision in these actions cannot be determined at this time.

18. SUBSEQUENT EVENT

On January 11, 2008, the Company acquired the remaining 70 percent of the common shares of ChemErgy Ltd. ("ChemErgy") that it did not previously own for aggregate consideration of $6,638. The purchase price was satisfied through the payment to the vendors of $4,843 in cash, the transfer of real property previously owned by ChemErgy at a value of $512, and the issuance of 71,581 common shares of the Company at a deemed value of $1,283. ChemErgy's operations were subsequently wound up into the Company's and ChemErgy was dissolved on January 31, 2008. This acquisition is expected to generate synergies associated with bringing the Company's chemical supply and development requirements in-house.

19. SEGMENTED INFORMATION

The Company's activities are conducted in three geographic markets: Canada, the United States (including Mexico) and Russia. All activities are related to fracturing, coiled tubing, cementing and well stimulation services for the oil and natural gas industry.

	CANADA	RUSSIA	UNITED STATES AND MEXICO	INTERSEGMENT ELIMINATIONS	CONSOLIDATED
(000s)	($)	($)	($)	($)	($)
Year ended December 31, 2007					
Revenue	**249,473**	**64,041**	**146,806**	**–**	**460,320**
Operating income (1)	**41,788**	**12,070**	**46,236**	**–**	**100,094**
Segmented assets (2)	**399,057**	**105,806**	**190,047**	**(136,000)**	**558,910**
Capital expenditures	**23,810**	**32,022**	**36,107**	**–**	**91,939**
Goodwill	**6,003**	**–**	**–**	**–**	**6,003**
Year ended December 31, 2006					
Revenue	318,018	22,123	86,277	–	426,418
Operating income (loss) (1)	81,033	(2,389)	28,368	–	107,012
Segmented assets (2)	438,879	64,832	35,547	(85,068)	454,190
Capital expenditures	114,402	35,860	5,216	–	155,478
Goodwill	6,003	–	–	–	6,003

(1) Operating income (loss) is defined as revenue less operating expenses (excluding depreciation) and selling, general and administrative expenses.

(2) Assets operated by the Company's U.S. subsidiary during 2006 were acquired through a lease arrangement with the Canadian parent company. The cost base of these assets was $63,300 at December 31, 2006. During 2007, these assets were sold to the U.S. subsidiary by the parent company.

The following table sets forth consolidated revenue by service line:

YEARS ENDED DECEMBER 31,	2007	2006
(000s)	($)	($)
Fracturing	**403,844**	374,096
Coiled tubing	**37,992**	30,689
Cementing	**18,484**	21,633
	460,320	426,418

20. RECONCILIATION OF THE CONSOLIDATED FINANCIAL STATEMENTS TO UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with Canadian GAAP which, in most respects, conforms to U.S. GAAP. Any differences in accounting principles between Canadian GAAP and U.S. GAAP as they apply to the Company are not material, except as described below. The adjustments below are measurement differences only and do not reflect any disclosure differences that may exist between Canadian GAAP and U.S. GAAP.

The application of U.S. GAAP would not affect consolidated net income or the consolidated balance sheets as reported, except as discussed below.

(A) STOCK-BASED COMPENSATION

Under Canadian GAAP, the Company recognizes compensation cost for the fair value of stock option grants over the vesting period of these grants as a charge to compensation expense and a credit to contributed surplus. The Company also recognizes compensation cost, over their vesting period, for the fair value of deferred stock units and performance stock units, estimated based on the current market price of the Company's shares.

The Company uses the revised standards outlined under Statement of Financial Standards (SFAS) No.123R "Share-Based Payment" for U.S. GAAP. Under SFAS 123R, the Company is required to determine and incorporate a forfeiture multiplier into its calculation of stock-based compensation cost for its stock options and stock units. Under Canadian GAAP, the Company accounts for forfeitures as they occur. The Company estimates that the impact of any forfeiture multiplier would not result in a significant difference between Canadian and U.S. GAAP.

In addition, the fair value of the Company's stock units would be estimated using the Black-Scholes option pricing model, remeasured at each reporting date, as opposed to valuing the stock units based on the current market price of the Company's shares. The Company estimates that the impact of remeasuring stock units outstanding using the Black-Scholes model would not result in a significant difference between Canadian and U.S. GAAP.

(B) LONG-TERM DEBT ISSUE COSTS

Under Canadian GAAP, the Company includes financing costs in the amortized cost of long-term debt. These costs are amortized to interest expense over the term of the debt using the effective interest rate method. Under U.S. GAAP, financing costs associated with the long-term debt would be classified separately as a deferred long-term asset and amortized over the term of the debt, also using the effective interest rate method.

As a result the consolidated balance sheet as at December 31, 2007 would be adjusted to reflect a deferred long-term asset of $4,290 with an offsetting increase to long-term debt. There would be no adjustment required for 2006.

(C) FUTURE INCOME TAXES

On January 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation 48 "Accounting for Uncertainty in Income Taxes" which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109 "Accounting for Income Taxes". This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The cumulative effect, if any, of applying FIN 48 is to be reported as an adjustment to opening retained earnings in the year of adoption. The adoption of FIN 48 did not have a material impact on the consolidated financial statements.

The Company and its entities are subject to income taxation and related audits in Canadian and other tax jurisdictions. In Canada, the tax years from 2002 to 2007 remain open to examination, and the tax years from 2001 to 2007 remain open to examination in the U.S.

In addition, pursuant to Canadian GAAP, substantively enacted tax rates are used to calculate future income tax, whereas U.S. GAAP applies enacted tax rates. There are no differences for the years ended December 31, 2007 and 2006 relating to income tax rate differences.

(D) COMPREHENSIVE INCOME

SFAS No. 130, "Reporting Comprehensive Income" requires the reporting of comprehensive income in addition to net income. Comprehensive income includes net income plus other comprehensive income; specifically all changes in equity of a company during a period arising from non-owner sources. Under Canadian GAAP, comprehensive income is reported for periods beginning on or after January 1, 2007 therefore, for the year ended December 31, 2007, Canadian and U.S. GAAP are similar. For the year ended December 31, 2006, the Company had no items that would be included in comprehensive income and therefore, net income and comprehensive income are equivalent.

(E) STATEMENTS OF CASH FLOWS AND BALANCE SHEETS

The differences between Canadian GAAP and U.S. GAAP have not resulted in any significant variances concerning the consolidated statements of cash flows as reported, except that under U.S. GAAP the presentation of funds provided from operations as a sub-total in the operating activities section of the consolidated statements of cash flows would not be permitted.

In addition, under Canadian GAAP, bank overdrafts used to manage day-to-day cash can be classified as cash and cash equivalents. Under U.S. GAAP, bank overdrafts are liabilities that should be considered a form of short-term financing and classified as cash flows from financing activities. The effect of this is an outflow of cash from financing activities of $2,889 for the year ended December 31, 2007 (2006 outflow of cash from financing activities of $8,658). As a result, the consolidated balance sheet as at December 31, 2007 would be adjusted to reflect cash and cash equivalents of $39,622 (2006 – $8,987) and bank indebtedness of $518 (2006 – $3,407).

(F) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The following are standards and interpretations that have been issued by FASB which are not yet in effect for the years presented but would comprise U.S. GAAP when implemented:

In September 2006, FASB issued SFAS No. 157 "Fair Value Measurements". SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. The statement is effective for fair value measures already required or permitted by other standards for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years.

In February 2007, FASB issued SFAS No. 159, "Fair Value Option for Financial Assets and Financial Liabilities". SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective for years beginning on or after November 15, 2007 and interim periods within that fiscal period.

In December 2007, FASB issued SFAS No. 141 (R), "Business Combinations (Revised 2007)" and SFAS No. 160, "Non-Controlling Interests in Consolidated Financial Statements – An Amendment of Accounting Research Bulletin (ARB) No. 51". These standards require the use of fair value accounting for business combinations and non-controlling interests. Equity securities issued as consideration in a business combination will be recorded at fair value as of the acquisition date as opposed to being valued over a period which includes a few days prior to and after the terms of the business combination have been agreed to and announced. In addition, entities will no longer have the ability to capitalize any direct and incremental costs incurred in the business combination. Instead, these transaction costs will be required to be expensed under the new standards. The period of one year to complete the accounting for a business combination remains unchanged. Non-controlling interests will require initial measurement at fair value and will be classified as a separate component of equity. SFAS 141 (R) is to be applied prospectively and is effective for the Company for business combinations for which the acquisition date is on or after January 1, 2009. SFAS 160 is effective for the Company on January 1, 2009 and is to be applied prospectively, with the exception of the presentation and disclosure requirements, which will require retrospective application for all periods presented.

The Company has not yet determined the possible impact of these new pronouncements on its financial position, results of operations or cash flows.

HISTORICAL REVIEW

YEARS ENDED DECEMBER 31,	2007	2006	2005	2004	2003
(000s, except per share and unit data)	($)	($)	($)	($)	($)
FINANCIAL RESULTS					
Revenue	460,320	426,418	314,325	241,379	156,558
Gross margin (1)	131,779	135,362	109,098	83,783	53,090
Net income	38,568	72,450	60,113	45,630	19,649
Per share – basic (2)	1.06	2.00	1.66	1.45	1.01
– diluted (2)	1.06	1.98	1.64	1.45	1.01
Cash flow from operations (3)	87,642	101,932	80,592	58,946	30,309
Per share – basic (2)	2.40	2.81	2.23	1.87	1.56
– diluted (2)	2.40	2.79	2.20	1.87	1.56
EBITDA (4)	97,789	109,533	79,611	64,027	41,826
Per share – basic (2)	2.68	3.02	2.20	2.03	2.15
– diluted (2)	2.68	3.00	2.18	2.03	2.15
Capital expenditures	91,939	155,478	97,614	51,327	24,722
FINANCIAL POSITION					
Current assets	157,494	110,911	100,057	88,630	48,350
Total assets	558,910	454,190	336,815	266,196	130,319
Working capital	92,156	31,225	39,396	52,343	6,764
Long-term debt	129,535	60,000	8,000	3,958	23,781
Future income tax asset (liability)	(1,637)	9,048	32,129	53,311	(7,521)
Shareholders' equity	350,915	303,510	234,021	174,956	57,431
COMMON SHARE DATA (2)					
Common shares outstanding (#)					
At December 31	37,202	36,388	36,333	36,214	n/a
Weighted average	36,463	36,286	36,216	31,542	n/a
Share trading					
High ($)	25.58	46.21	41.00	23.75	n/a
Low ($)	16.00	18.07	22.50	11.60	n/a
Close ($)	17.62	22.10	40.30	23.63	n/a
Volume (#)	29,631	39,272	26,774	14,150	n/a
	(#)	(#)	(#)	(#)	(#)
OPERATING RESULTS					
Fracturing spreads					
Conventional fracturing	24	21	17	12	9
Coalbed methane	4	4	4	2	1
Total	28	25	21	14	10
Coiled tubing units	18	14	11	11	11
Cementing units	16	13	9	4	–

1. Gross margin is defined as revenue less operating expenses excluding depreciation and amortization. Gross margin is a measure that does not have any standardized meaning prescribed under GAAP, and accordingly, may not be comparable to similar measures used by other companies.
2. Historical per share information has been adjusted for the two-for-one stock split approved by shareholders on February 7, 2005.
3. Cash flow is defined as "funds provided by operations," as reflected in the consolidated statements of cash flows. Cash flow and cash flow per share are measures that provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Management utilizes these measures to assess the Company's ability to finance operating activities and capital expenditures. Cash flow and cash flow per share are not measures that have any standardized meaning prescribed under GAAP, and accordingly, may not be comparable to similar measures used by other companies.
4. EBITDA is defined as income before interest, taxes, depreciation and amortization. EBITDA is presented because it is frequently used by securities analysts and others for evaluating companies and their ability to service debt. EBITDA is a measure that does not have any standardized meaning prescribed under GAAP, and accordingly, may not be comparable to similar measures used by other companies.

CALFRAC BOARD OF DIRECTORS

Douglas R. Ramsay
Mr. Ramsay is one of Calfrac's founders and has served as a member of the board of directors and as President and Chief Executive Officer since 1999. Mr. Ramsay has an extensive background in the oil industry. Prior to 1994, Mr. Ramsay was the President of Canadian Fracmaster Ltd. where he spent 12 years enhancing the overall presence of Fracmaster Ltd. in Canada and worldwide.

Gregory S. Fletcher
Mr. Fletcher, a member of Calfrac's board of directors since May 2002, is an independent businessman involved in the oil and natural gas industry in western Canada. He has considerable business experience in the junior sector of the oil and natural gas industry and is currently President of Sierra Energy Inc., a private oil and natural gas company that he founded in 1997.

Ronald P. Mathison
Mr. Mathison is one of the Company's founders and has served as a member of its board of directors and as Chairman since the formation in 1999. He is the President and Chief Executive Officer of Matco Investments Ltd. and Matco Capital Ltd., private investment firms which specialize in the restructuring of financially troubled companies as well as providing capital and management expertise to such companies.

James S. Blair
Mr. Blair, a member of Calfrac's board of directors since May 2002, is Chairman and Chief Executive Officer of Glenogle Energy Inc., a private oil and natural gas exploration and development company. From 2002 until January 2008, Mr. Blair was the Chairman and Chief Executive Officer of ExAlta Energy Inc., a public oil and natural gas exploration company. Prior thereto, Mr. Blair was Senior Vice President and Chief Operating Officer of Husky Energy Inc., an integrated energy and energy-related company that ranks among Canada's largest petroleum companies.

Martin Lambert
Mr. Lambert, a member of Calfrac's board of directors since March 2004, is Managing Director of Matco Capital Ltd., and served as Chief Executive Officer of Bennett Jones LLP from 1996 to 2000. Mr. Lambert has been widely recognized as one of Canada's leading mergers and acquisitions lawyers.

R.T. (Tim) Swinton
Mr. Swinton, a member of Calfrac's board of directors since March 2004, is President of Western Provinces Resources Ltd., a private investment company. He has considerable business experience in the junior and service sectors of the oil and natural gas industry in western Canada.

BOARD OF DIRECTORS

Ronald P. Mathison - Chairman (1)(2)
President & Chief Executive Officer
Matco Investments Ltd.

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

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

Martin Lambert (3)(4)
Managing Director
Matco Capital Ltd.

R.T. (Tim) Swinton (1)(2)
Independent Businessman

Douglas R. Ramsay (4)
President & Chief Executive Officer
Calfrac Well Services Ltd.

OFFICERS

Douglas R. Ramsay
President & Chief Executive Officer

Gordon A. Dibb
Chief Operating Officer

Donald R. Battenfelder
President, Canadian Operating Division

John L. Grisdale
President, United States Operating Division

Robert L. Sutherland
President, Russian Operating Division

Tom J. Medvedic
Senior Vice President, Finance & Chief Financial Officer

Dwight M. Bobier
Senior Vice President, Technical Services

Stephen T. Dadge
Senior Vice President, Corporate Services

L. Lee Burleson
Vice President, Sales & Marketing, United States Operating Division

B. Mark Paslawski
Vice President, General Counsel and Corporate Secretary

F. Bruce Payne
Vice President, Operations, United States Operating Division

Michael D. Olinek
Corporate Controller

Matthew L. Mignault
Controller

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

HEAD OFFICE

411 Eighth Avenue S.W.
Calgary, Alberta T2P 1E3
Phone: (403) 266-6000
Toll Free: 1-866-770-3722
Fax: (403) 266-7381
Email: info@calfrac.com
Website: www.calfrac.com

AUDITORS

PRICEWATERHOUSECOOPERS LLP
Calgary, Alberta

BANKER

HSBC BANK CANADA
TORONTO-DOMINION BANK
Calgary, Alberta

LEGAL COUNSEL

BENNETT JONES LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

Trading Symbol: CFW

OPERATING BASES

ALBERTA, CANADA
Calgary – Head Office
Edson
Grande Prairie
Medicine Hat
Red Deer
Strathmore

COLORADO, UNITED STATES
Denver – Regional Office
Grand Junction
Platteville

ARKANSAS, UNITED STATES
Beebe

MEXICO
Mexico City – Regional Office
Reynosa

RUSSIA
Moscow – Regional Office
Khanty-Mansiysk
Noyabrsk

ARGENTINA
Buenos Aires – Regional Office
Catriel

REGISTRAR AND 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 at 1-800-564-6253 or (403) 267-6800, or by email at service@computershare.com, or write to: **COMPUTERSHARE TRUST COMPANY OF CANADA** Suite 600, 530 Eighth Avenue S.W. Calgary, Alberta T2P 3S8

ANNUAL MEETING

The Annual Meeting of Shareholders of Calfrac Well Services Ltd. will be held on May 12, 2008 at 3:30 p.m. (Calgary time) in the McMurray Room of the Calgary Petroleum Club, Calgary, Alberta.
All shareholders are cordially invited and encouraged to attend. Shareholders who are unable to attend the Meeting are requested to complete and return the Instrument of Proxy to Computershare Trust Company of Canada at their earliest convenience.

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411 Eighth Avenue S.W.
Calgary, Alberta T2P 1E3

Email: info@calfrac.com
www.calfrac.com