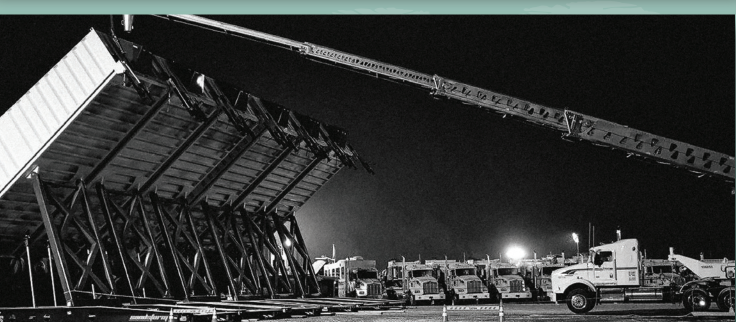
# 2017 ANNUAL REPORT | CALFRAC WELL SERVICES



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## CALFRAC WELL SERVICES LTD.

**ANNUAL GENERAL MEETING**

May 8, 2018

3:30 pm

McMurray Room

Calgary Petroleum Club

319 – 5th Avenue SW

Calgary, Alberta

# LETTER TO SHAREHOLDERS

As we expected, 2017 was a year of transition and significant growth at Calfrac. The fundamentals of our business improved throughout the year, and have set the stage for strong performance in 2018. At the global level, oil inventories continue to normalize due to production cuts by OPEC and non-OPEC players, and with robust demand growth globally, oil prices have reset closer to the level needed to balance the market. However, with spending growth almost exclusively focused in North America, the impact on oil markets from declines and lack of investment in other oil-producing regions remains a possible catalyst for still higher prices in the years to come. The cash flows and spending of our customer base have similarly improved rapidly through 2017, and are expected to continue growing in 2018. This higher level of investment drove a rapid reactivation of Calfrac's equipment, especially in the United States, where the Company grew from three active fleets in late 2016 to 14 fleets today. The pace of growth was significant, and tested our abilities as a group. I am proud to say that in spite of the rapid growth in 2017, Calfrac's reputation for safe and efficient execution in the field remains excellent, and will continue to be a hallmark of our business as we move into 2018 and beyond.

I would like to extend a special thanks to all of our employees for their hard work in 2017. From our newest hire to those we have re-hired during this period of growth, as well as those that have been with us for many years; your efforts to safely execute our business plan are the reason Calfrac has emerged so quickly from a generational downturn in our industry.

## CANADIAN OPERATIONS

The Western Canadian Sedimentary Basin (WCSB) rig count tracked roughly in line with 2015 levels over the past year, an increase of nearly 50 percent from 2016. This increase in activity was felt in our business in Canada, with operations in all areas of the WCSB experiencing acceleration through the year. This activity peaked in the third quarter, when we reported nearly full utilization and excellent financial results. The final months of the year were marked by substantial volatility in Canadian gas prices, which on some days hit record low levels. This volatility has impacted the cash flow and expected spending of some producers in the WCSB for 2018, but on balance we remain optimistic about Calfrac's operations in Canada. Pricing for our services recovered to acceptable levels through the summer of 2017, and we expect market conditions to remain supportive through 2018 driven by higher levels of activity in liquids-rich areas of the basin. However, with the risks posed by natural gas prices, we do not currently expect to reactivate any equipment above the eight fleets currently operating in Canada. We have added a number of strong clients to our roster over the last year, and the partnerships we have developed and continue to strengthen are based on execution, culture and shared benefits. It is partnerships with these operational and financial leaders that allow us to focus on safety and execution and deliver results to our shareholders.

Our goal in Canada in 2018 is to continue to deliver strong service to our key clients, while optimizing our cost structure and developing opportunities for growth.

## UNITED STATES OPERATIONS

The pressure pumping segment in the United States has seen a remarkable rebound through 2017, with the land rig count up over 140 percent from the trough in the second quarter of 2016. Likewise, demand for fracturing services has rebounded materially, which when coupled with the ongoing increases in job size and pace of operations, has allowed Calfrac to reactivate the vast majority of its idle equipment in 2017. In addition to restarting operations in San Antonio, Calfrac established its first base of operations in the Permian Basin, located in Artesia, New Mexico. Our outlook in the United States is very constructive, as we expect to activate all remaining equipment with 16 fracturing fleets deployed by the end of the second quarter. Potential exists for the activation of more fleets later in the year using some idle equipment from our Canadian operations.

Pricing improved consistently through 2017, and we expect that with producer cash flow and spending trending up due to better commodity prices, opportunities to improve pricing will be available in 2018 as well. However, while pricing is important to profitability, so too is utilization and productivity, which is largely dictated by the operations of our clients. By choosing to align Calfrac with the most efficient operators, we are not as reliant on pricing to deliver financial results. By working together closely with our customers, we are able to create further efficiencies and drive down operating costs to the benefit of both our customers and Calfrac in both the short and long-term.

In 2018, the goal for our operations in the United States is to optimize every facet of our business. Areas of focus for the year ahead include our client portfolio, geographic focus and cost structure, all while maintaining the safe and efficient execution in the field which we are known for.

## RUSSIAN OPERATIONS

Once again, Calfrac's Russian operations generated consistent financial performance, as activity and costs were generally in line with our forecasts. As we move into 2018, the improved price of oil has had a small positive impact on activity, which appears to be tracking in line with to slightly ahead of last year. As always, our management team in country is focused on safe and productive operations with an excellent list of customers, and looking for opportunities to grow where possible.

## LATIN AMERICAN OPERATIONS

In Latin America, Calfrac's operations are now solely focused in Argentina, as the Company has now exited the Mexican market and redeployed those idle assets to our U.S. operations. During 2017, the slowdown in activity continued until mid-year, when rig count and overall demand for our services began to increase. This increased level of activity is encouraging, but for Calfrac's operations in Argentina to become sustainably profitable, further acceleration in activity is needed which should drive pricing improvements. Additionally, the adoption of the operating model that is found in North American unconventional plays is ongoing; we expect that 2018 will be a year of further transition in Argentina. While we remain optimistic on the long-term potential of the Argentine market for Calfrac and our shareholders, we have undertaken a change in senior leadership in country to better position our operation as that market evolves.

## LICENSE TO OPERATE KEY TO FIELD PERFORMANCE

Looking ahead into 2018 and beyond, we believe that conducting operations in a responsible and sustainable manner will only grow in importance. Against that backdrop, our focus on maintaining our License to Operate remains steadfast. We believe that safety, quality of service and productivity are inexorably linked, all require time and dedication to improve. Our API Q2 certification demonstrates our commitment to maintaining the processes and procedures that reduce the variability of outcomes. Simply put; we aim to do an outstanding job, no matter where or for what client, every time we go to work. Our aim of constant improvement in our services must be supported by reliable data; we are advancing our ability to gather and analyze operational data to pick out trends and take proactive measures to improve our business. Our partnerships in technology allow us to stay at the leading edge of innovation in our industry, from water treatment to equipment design to fluid chemistry. Finally, our ability to execute relies on our strong supply chain expertise - and the ability to anticipate and react to the unexpected.

## LOGISTICS SUPPORT CRITICAL TO SUCCESS

With the rapid acceleration in activity seen in 2017, the logistics requirements in support of pressure pumping have materially increased. Calfrac's investments in the expertise and assets needed to meet this demand paid off handsomely in 2017, and should continue to do so in the future. Our ability to manage significant amounts of sand, chemicals and parts anywhere in North America has been an ongoing competitive advantage, with our Canadian operations recording no significant lost time due to sand delays during 2017. Although we do not manage all of our sand internally in the United States, the expertise and connections we have cultivated allow our team to work to mitigate the impact of supply chain issues as they arise.

## LIQUIDITY AND BALANCE SHEET

During 2017, our balance sheet was also impacted by the changes in our business. Our confidence in Calfrac's business prospects improved on an almost daily basis, and that confidence was key to the extension of our revolving credit facility, which now matures in 2020. With the prospect of free cash flow in 2018 and almost all of our equipment expected to be in the field in the first half of the year, we believe our patience in examining options for our balance sheet will be rewarded in the longer term.

## LOOKING FORWARD

After a year of material change and growth, 2018 for Calfrac will be defined by a number of themes; improving an already outstanding portfolio of customers, delivering safe and productive service to those clients at a fair price, and moving towards our goals of lower leverage and debt service costs while managing our asset base prudently for you, our shareholders.

Fernando Aguilar
President and Chief Executive Officer

*March 19, 2018*
*Calgary, Alberta, Canada*

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*This Management's Discussion and Analysis (MD&A) for Calfrac Well Services Ltd. ("Calfrac" or the "Company") has been prepared by management as of February 28, 2018 and is a review of the Company's financial condition and results of operations based on International Financial Reporting Standards (IFRS).*

*The focus of this MD&A is a comparison of the financial performance for the years ended December 31, 2017 and 2016. It should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017 as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2016.*

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

## CALFRAC'S BUSINESS

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

The Company's reportable business segments during the year ended December 31, 2017 were as follows:

- The Canadian segment is focused on the provision of fracturing and coiled tubing services to a diverse group of oil and natural gas exploration and production companies operating in Alberta, northeast British Columbia and Saskatchewan. The Company's customer base in Canada ranges from large multinational public companies to small private companies. At December 31, 2017, Calfrac's Canadian operations had active horsepower of approximately 277,000 and nine active coiled tubing units. At the end of the fourth quarter, the Canadian segment had temporarily idled approximately 143,000 horsepower and six coiled tubing units.

- The Company's United States segment provides fracturing services to oil companies operating in the Bakken oil shale play in North Dakota; in the Rockies area; and in Texas and New Mexico, where it services the Eagle Ford and Permian basins. Calfrac also provides fracturing services to natural gas focused customers operating in the Marcellus and Utica shale plays in Pennsylvania, Ohio and West Virginia. During the third quarter of 2016, the Company reactivated fracturing operations in North Dakota; and in the third quarter of 2017 restarted and expanded operations in Texas by re-opening its San Antonio base and commencing operations based out of Artesia, New Mexico servicing the Permian basin. At December 31, 2017, Calfrac's United States operations had combined active horsepower of approximately 653,000 and no active cementing or coiled tubing units. At the end of the fourth quarter, the United States segment had temporarily idled approximately 130,000 horsepower, nine cementing units and one coiled tubing unit.

- The Company's Russian segment provides fracturing and coiled tubing services in Western Siberia. During the fourth quarter of 2017, the Company operated under a mix of annual and multi-year agreements to provide services to a number of Russia's largest oil producers. At December 31, 2017, the Russian segment had seven deep coiled tubing units of which six were active and approximately 77,000 active horsepower forming seven fracturing spreads in Russia.

- The Latin America segment provides pressure pumping services from its operating bases in Argentina. The Company provides fracturing, cementing and coiled tubing services to oil and natural gas companies operating in the Neuquén, Las Heras and Comodoro regions. In Mexico, the Company closed its district bases in Reynosa and Villahermosa during the second quarter of 2017 and closed its district base in Poza Rica during the third quarter of 2017. The Company had approximately 115,000 horsepower, 14 cementing units and seven coiled tubing units in its Latin America segment at December 31, 2017. At the end of the fourth quarter, the Latin America segment had idled 7,000 horsepower, two cementing units and one coiled tubing unit.

# FINANCIAL OVERVIEW – YEAR ENDED DECEMBER 31, 2017 VERSUS 2016

## CONSOLIDATED HIGHLIGHTS

| Years Ended December 31, | 2017 | 2016 | Change |
|---|---|---|---|
| *(C$000s, except per share amounts)* *(unaudited)* | *($)* | *($)* | *(%)* |
| Revenue | **1,527,705** | 734,514 | 108 |
| Operating income (loss)[(1)] | **180,120** | (58,204) | NM |
| Per share – basic | **1.31** | (0.50) | NM |
| Per share – diluted | **1.29** | (0.50) | NM |
| Adjusted EBITDA[(1)] | **191,823** | (44,750) | NM |
| Per share – basic | **1.39** | (0.38) | NM |
| Per share – diluted | **1.38** | (0.38) | NM |
| Net income (loss) attributable to the shareholders of Calfrac | **5,939** | (198,097) | NM |
| Per share – basic | **0.04** | (1.69) | NM |
| Per share – diluted | **0.04** | (1.69) | NM |
| Working capital, end of period | **327,049** | 271,581 | 20 |
| Total assets, end of period | **1,777,966** | 1,613,004 | 10 |
| Long-term debt, end of period | **958,825** | 984,062 | (3) |
| Total equity, end of period | **543,645** | 497,458 | 9 |

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

## 2017 OVERVIEW

In 2017, the Company:

- generated revenue of $1.5 billion versus $734.5 million in 2016, resulting primarily from significantly higher activity and improved pricing in North America;
- incurred bonus and stock-based compensation costs of $20.2 million compared to $8.3 million in 2016;
- reactivated nine fracturing fleets in the United States, including two crews that began operating in the Permian basin from a new base in Artesia, New Mexico as well as the addition of two fracturing fleets in Canada and incurred reactivation costs totalling $23.8 million;
- reported adjusted EBITDA of $191.8 million versus negative $44.8 million in 2016, mainly as a result of significantly higher equipment utilization in North America combined with improved pricing for the Company's services in Canada and the United States;
- recorded a reversal of $76.3 million of the impairment loss with respect to property, plant and equipment that was previously recorded in the United States in 2015;
- reported net income attributable to shareholders of Calfrac of $5.9 million or $0.04 per share diluted, which included the $76.3 million property, plant and equipment impairment reversal, compared to a net loss of $198.1 million or $1.69 per share diluted in 2016;
- amended and extended its credit facilities to June 1, 2020 while maintaining sufficient liquidity;
- reopened its operating base in San Antonio and recommenced operations in the Eagle Ford; and
- incurred capital expenditures of $91.9 million primarily to support the Company's North American fracturing operations.

## CANADA

| Years Ended December 31, | **2017** | 2016 | Change |
|---|---|---|---|
| *(C$000s, except operational information)* | ***($)*** | *($)* | *(%)* |
| *(unaudited)* | | | |
| Revenue | **540,059** | 250,013 | 116 |
| Expenses | | | |
| Operating | **444,589** | 247,218 | 80 |
| SG&A | **10,727** | 7,785 | 38 |
| | **455,316** | 255,003 | 79 |
| Operating income (loss)[1] | **84,743** | (4,990) | NM |
| Operating income (loss) (%) | **15.7** | (2.0) | NM |
| Fracturing revenue per job ($) | **20,346** | 20,834 | (2) |
| Number of fracturing jobs | **24,104** | 10,654 | 126 |
| Active pumping horsepower, end of period (000s) | **277** | 206 | 34 |
| Idle pumping horsepower, end of period (000s) | **143** | 188 | (24) |
| Total pumping horsepower, end of period (000s) | **420** | 394 | 7 |
| Coiled tubing revenue per job ($) | **22,108** | 24,242 | (9) |
| Number of coiled tubing jobs | **2,079** | 1,157 | 80 |
| Active coiled tubing units, end of period (#) | **9** | 7 | 29 |
| Idle coiled tubing units, end of period (#) | **6** | 6 | — |
| Total coiled tubing units, end of period (#)[2] | **15** | 13 | 15 |

*[1] Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.*

## REVENUE

Revenue from Calfrac's Canadian operations during 2017 was $540.1 million versus $250.0 million in 2016. Calfrac responded to the significant improvement in Canadian completions activity by reactivating two 24-hour fleets during 2017. Through a combination of a larger operating scale combined with significantly improved utilization and better pricing, the Company increased its revenue by 116 percent. The number of fracturing and coiled tubing jobs increased by 126 percent and 80 percent, respectively, due to a more active and efficient customer base as compared to 2016. Revenue per fracturing job decreased by 2 percent from the prior year due to job mix and changes in completion design which were offset partially by higher pricing.

## OPERATING INCOME (LOSS)

The Company's Canadian division generated operating income of $84.7 million during 2017 compared to an operating loss of $5.0 million in 2016. The return to positive operating income was the result of significantly better utilization and improved pricing. The Company incurred reactivation costs of $3.4 million during 2017 primarily associated with the deployment of two fracturing crews during the year and one additional fracturing crew that commenced operations in the first quarter of 2018. The Canadian division's SG&A expenses increased by 38 percent year-over-year primarily due to a $1.4 million annual bonus provision that was recorded during the fourth quarter of 2017 combined with growth in business scale and overall activity.

## UNITED STATES

| Years Ended December 31, | **2017** | 2016 | Change |
|---|---|---|---|
| *(C$000s, except operational and exchange rate information)* | ***($)*** | *($)* | *(%)* |
| *(unaudited)* | | | |
| Revenue | **713,467** | 234,633 | 204 |
| Expenses | | | |
| Operating | **577,525** | 246,161 | 135 |
| SG&A | **14,152** | 14,770 | (4) |
| | **591,677** | 260,931 | 127 |
| Operating income (loss)(1) | **121,790** | (26,298) | NM |
| Operating income (loss) (%) | **17.1** | (11.2) | NM |
| Fracturing revenue per job ($) | **42,762** | 33,216 | 29 |
| Number of fracturing jobs | **16,457** | 7,014 | 135 |
| Active pumping horsepower, end of period (000s) | **653** | 252 | 159 |
| Idle pumping horsepower, end of period (000s) | **130** | 375 | (65) |
| Total pumping horsepower, end of period (000s)(2) | **783** | 627 | 25 |
| Active coiled tubing units, end of period (#) | **—** | — | — |
| Idle coiled tubing units, end of period (#) | **1** | 5 | (80) |
| Total coiled tubing units, end of period (#) | **1** | 5 | (80) |
| Active cementing units, end of period (#) | **—** | — | — |
| Idle cementing units, end of period (#) | **9** | 11 | (18) |
| Total cementing units, end of period (#) | **9** | 11 | (18) |
| US$/C$ average exchange rate(3) | **1.2986** | 1.3248 | (2) |

*(1) Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.*
*(2) The Company reactivated equipment that was previously identified as impaired based on the impairment provision at December 31, 2015.*
*(3) Source: Bank of Canada.*

### REVENUE

Revenue from Calfrac's United States operations increased to $713.5 million during 2017 from $234.6 million in 2016 due to significantly higher fracturing activity and improved pricing. Completions activity in the United States has shown meaningful improvement year-over-year, which allowed the Company to reactivate equipment throughout 2017. The Company responded to this increase in industry activity by activating nine fracturing crews since the end of 2016, including two crews servicing the Permian basin in New Mexico and Texas. The number of fracturing jobs completed during 2017 increased by 135 percent from 2016 due to higher activity across all operating areas as well as the larger geographic footprint. Revenue per job increased by 29 percent year-over-year due to customer and job mix, while higher pricing in all operating regions also had a positive impact on revenue per job during the period.

### OPERATING INCOME (LOSS)

The Company's United States division generated operating income of $121.8 million during 2017 after incurring an operating loss of $26.3 million during 2016. Strong utilization combined with a larger number of active fleets resulted in the significant year-over-year improvement in operating income. The operating results in 2017 also included reactivation costs of $20.4 million, and bonus expenses of $4.1 million of which $1.3 million was recorded in SG&A, while the operating loss in 2016 included restructuring costs and bad debt expenses of $3.1 million and $0.5 million, respectively.

## RUSSIA

| Years Ended December 31, | **2017** | 2016 | Change |
|---|---|---|---|
| *(C$000s, except operational and exchange rate information)* | ***($)*** | *($)* | *(%)* |
| *(unaudited)* | | | |
| Revenue | **123,965** | 95,860 | 29 |
| Expenses | | | |
| Operating | **106,852** | 84,317 | 27 |
| SG&A | **3,700** | 2,530 | 46 |
| | **110,552** | 86,847 | 27 |
| Operating income[(1)] | **13,413** | 9,013 | 49 |
| Operating income (%) | **10.8** | 9.4 | 15 |
| Fracturing revenue per job ($) | **77,590** | 68,949 | 13 |
| Number of fracturing jobs | **1,349** | 1,098 | 23 |
| Pumping horsepower, end of period (000s) | **77** | 70 | 10 |
| Coiled tubing revenue per job ($) | **42,690** | 41,813 | 2 |
| Number of coiled tubing jobs | **452** | 482 | (6) |
| Active coiled tubing units, end of period (#) | **6** | 6 | — |
| Idle coiled tubing units, end of period (#) | **1** | 1 | — |
| Total coiled tubing units, end of period (#) | **7** | 7 | — |
| Rouble/C$ average exchange rate[(2)] | **0.0223** | 0.0198 | 13 |

*(1) Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.*
*(2) Source: Bank of Canada.*

## REVENUE

Revenue from Calfrac's Russian operations during 2017 increased by 29 percent to $124.0 million from $95.9 million in the comparable period in 2016. The increase in revenue, which is generated in roubles, was partially related to higher fracturing activity combined with the 13 percent appreciation of the Russian rouble in 2017 versus 2016. The improvement in fracturing revenue was partially offset by lower coiled tubing activity. Revenue per fracturing job increased by 13 percent due to the currency appreciation.

## OPERATING INCOME

Operating income in Russia improved to $13.4 million during 2017 from $9.0 million in 2016 primarily due to higher fracturing crew utilization, combined with the 13 percent appreciation of the rouble. SG&A expenses increased by $1.2 million during the period compared to 2016 due to the appreciation of the rouble and a higher annual bonus provision.

## LATIN AMERICA

| Years Ended December 31, | **2017** | 2016 | Change |
|---|---|---|---|
| *(C$000s, except operational and exchange rate information)* *(unaudited)* | **($)** | *($)* | *(%)* |
| Revenue | **150,214** | 154,008 | (2) |
| Expenses | | | |
| Operating | **142,658** | 140,250 | 2 |
| SG&A | **10,660** | 16,285 | (35) |
| | **153,318** | 156,535 | (2) |
| Operating loss(1) | **(3,104)** | (2,527) | 23 |
| Operating loss (%) | **(2.1)** | (1.6) | 31 |
| Active pumping horsepower, end of period (000s) | **108** | 131 | (18) |
| Idle pumping horsepower, end of period (000s) | **7** | — | NM |
| Total pumping horsepower, end of period (000s) | **115** | 131 | (12) |
| Active cementing units, end of period (#) | **12** | 14 | (14) |
| Idle cementing units, end of period (#) | **2** | — | NM |
| Total cementing units, end of period (#) | **14** | 14 | — |
| Active coiled tubing units, end of period (#) | **6** | 7 | (14) |
| Idle coiled tubing units, end of period (#) | **1** | — | NM |
| Total coiled tubing units, end of period (#) | **7** | 7 | — |
| Mexican peso/C$ average exchange rate(2) | **0.0688** | 0.0711 | (3) |
| Argentinean peso/C$ average exchange rate(2) | **0.0782** | 0.0899 | (13) |

*(1) Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.*
*(2) Source: Bank of Canada and Bloomberg.*

### REVENUE

Calfrac's Latin American operations generated total revenue of $150.2 million during 2017 versus $154.0 million in 2016. In Argentina, revenue was slightly higher than in 2016 as improved fracturing revenue offset the reduction in cementing revenue. The number of fracturing jobs completed in Argentina increased by 35 percent, primarily due to higher work volumes in the Vaca Muerta shale play. The improvement was partially offset by lower cementing activity resulting from a decrease in overall levels of drilling activity in Argentina. Coiled tubing revenue was consistent year-over-year as the impact of higher activity was offset by the completion of smaller jobs. In Mexico, revenue decreased by $6.3 million primarily due to lower fracturing activity with Calfrac's major customer during the first half of 2017, followed by the decision to shut down operations during the second half of 2017.

### OPERATING LOSS

The Company's Latin America division had an operating loss of $3.1 million during 2017, compared to a loss of $2.5 million in 2016. The larger operating loss in 2017 was primarily due to lower pricing and higher labour costs. In addition, the Company's start-up of operations in the Vaca Muerta unconventional gas play, although a positive for activity, has not yet resulted in the operational efficiencies required to generate operating income. Restructuring costs of $0.7 million were also recognized during 2017. SG&A expenses in 2016 contained a bad debt provision of $4.6 million relating to work performed in Mexico.

## CORPORATE

| Years Ended December 31, | **2017** | 2016 | Change |
|---|---|---|---|
| *(C$000s)* | ***($)*** | *($)* | *(%)* |
| *(unaudited)* | | | |
| Expenses | | | |
| Operating | **4,633** | 4,709 | (2) |
| SG&A | **32,089** | 28,693 | 12 |
| | **36,722** | 33,402 | 10 |
| Operating loss[1] | **(36,722)** | (33,402) | 10 |
| % of Revenue | **2.4** | 4.5 | (47) |

[1] *Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.*

## OPERATING LOSS

The Company's corporate expenses increased by 10 percent in 2017 compared to 2016 due to a higher annual bonus provision, offset partially by lower stock-based compensation expense. SG&A expenses were 12 percent higher primarily due to a $4.4 million annual bonus provision recorded during the fourth quarter of 2017, combined with higher costs associated with growth in the Company. Expenses related to stock options and deferred share units were $2.8 million higher due to additional options granted during the year and a higher share price at the end of 2017. However, these increases were more than offset by lower costs associated with restricted share units and performance share units, as the Company reversed $6.6 million of the liability associated with these units during the first half 2017. Operating expenses were 2 percent lower primarily as a result of a decrease in occupancy costs.

## DEPRECIATION

Depreciation expense for the year ended December 31, 2017 decreased by 14 percent to $130.8 million from $152.8 million in 2016. The decrease in depreciation was primarily due to a one-time depreciation charge of $21.5 million that was recorded in the fourth quarter of 2016. Excluding this one-time charge, depreciation expense was consistent on a year-over-year basis.

## FOREIGN EXCHANGE LOSSES

The Company recorded a foreign exchange loss of $34.3 million during 2017 versus a loss of $19.3 million in 2016. Foreign exchange gains and losses arise primarily from the translation of net monetary assets or liabilities that were held in U.S. dollars in Canada and Latin America and liabilities held in Canadian dollars in Russia. The Company's foreign exchange loss during the year was largely attributable to the translation of U.S. dollar-denominated assets held in Canada as the U.S. dollar depreciated against the Canadian dollar during the year. In addition, the translation of U.S. dollar-denominated liabilities held in Argentina contributed to the foreign exchange loss as the value of the Argentinean peso depreciated against the U.S. dollar during 2017.

## IMPAIRMENT

A substantial improvement in the commodity price environment occurred in the fourth quarter of 2017, and since December 2017, crude oil prices have averaged more than US$60 per barrel. The current and expected commodity price environment combined with the significant improvement in the operating and financial results of the Company's United States cash-generating unit (CGU) was an indicator that the impairment loss previously recorded in December 2015 may no longer exist. In addition, the Company reviewed each of its CGUs for potential impairment. A comparison of the recoverable amounts of each CGU with their respective carrying amounts resulted in no impairment against property, plant and equipment and supported the reversal of the impairment loss that was previously recorded in the United States CGU, after taking into account normal depreciation that would have been charged if no impairment had occurred. As a result, an impairment reversal of $76.3 million was recorded in 2017.

## INTEREST

The Company's net interest expense was $85.5 million in 2017 versus $80.1 million in 2016 due to a full year of interest on the $200.0 million secured second lien term loan. This increase was offset partially by lower average credit facility borrowings during the year and the impact of a stronger Canadian dollar relative to the U.S. dollar, which resulted in lower reported interest on the Company's U.S. dollar-denominated unsecured notes.

## INCOME TAXES

The Company recorded an income tax recovery of $7.7 million during 2017 compared to a recovery of $109.6 million in 2016. There were significant adjustments recorded during the fourth quarter in 2017 due to the impact of tax reform in the United States and Argentina. In the United States, a reduction in the federal tax rate from 35 percent to 21 percent required a reduction to the deferred tax liability of $16.1 million and, in Argentina, a reduction in the tax rates required a reduction to the deferred tax asset of $7.3 million. The net adjustment for these items was recorded as a tax recovery of $8.8 million. A normalized effective tax recovery rate for the year is 12 percent as pre-tax losses in Canada and Argentina were offset almost entirely by pre-tax income in the United States and Russia.

# LIQUIDITY AND CAPITAL RESOURCES

| | Years Ended Dec. 31, | |
|---|---|---|
| | **2017** | 2016 |
| *(C$000s)* *(unaudited)* | ***($)*** | *($)* |
| Cash provided by (used in): | | |
| Operating activities | **(13,898)** | (79,591) |
| Financing activities | **49,840** | 125,075 |
| Investing activities | **(76,009)** | (52,134) |
| Effect of exchange rate changes on cash and cash equivalents | **(17,101)** | (7,438) |
| Decrease in cash and cash equivalents | **(57,168)** | (14,088) |

## OPERATING ACTIVITIES

The Company's cash used by operating activities for the year ended December 31, 2017 was $13.9 million versus $79.6 million in 2016. The decrease in cash used by operations was primarily due to significantly improved operating results in Canada and the United States offset by working capital requiring $117.2 million of cash in 2017 compared to working capital contributing $49.9 million of cash in 2016. At December 31, 2017, Calfrac's working capital was approximately $327.0 million compared to $271.6 million at December 31, 2016.

## FINANCING ACTIVITIES

Net cash provided by financing activities for the year ended December 31, 2017 was $49.8 million compared to $125.1 million in 2016. During the year ended December 31, 2017, the Company received net funds from borrowings of $20.8 million and received net proceeds of $29.1 million related to shares issued during the year.

On September 27, 2017, Calfrac amended and extended its credit facilities to June 1, 2020. The amendment included a voluntary reduction in the total facilities from $300.0 million to $275.0 million. The facilities consist of an operating facility of $27.5 million and a syndicated facility of $247.5 million. The Company's credit facilities mature on June 1, 2020 and can be extended by one or more years at the Company's request and lenders' acceptance. The Company also may prepay principal without penalty. The interest rates are based on the parameters of certain bank covenants. For prime-based loans and U.S. base-rate loans, the rate ranges from prime or U.S. base rate plus 0.50 percent to prime plus 2.50 percent. For LIBOR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 1.50 percent to 3.50 percent above the respective base rates. The accordion feature of the syndicated facility remains at $200.0 million, and is available to the Company during the term of the agreement. The Company incurs interest at the high end of the ranges outlined above if its net Total Debt to Adjusted EBITDA ratio is above 5.00:1.00. Additionally, until such a time as the Company's net Total Debt to Adjusted EBITDA ratio is below 5.00:1.00, certain restrictions will apply including the following: (a) acquisitions will be subject to majority lender consent; (b) distributions will be restricted other than those relating to the Company's share unit plans, and no increase in the rate of dividends will be permitted; and (c) the Company will be prohibited from utilizing advances under the credit facilities to redeem or repay subordinated debt. As at December 31, 2017, the Company's net Total Debt to Adjusted EBITDA ratio, which excludes any benefit from the equity cure, was 4.97:1.00.

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

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

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

iii. 25 percent of the net book value of property, plant and equipment (PP&E) of the parent company and its U.S. operating subsidiary. The value of PP&E excludes assets under construction and is limited to $125.0 million.

As at December 31, 2017, the Company had used $2.7 million of its credit facilities for letters of credit and had $25.0 million of borrowings under its credit facilities, leaving $247.3 million in available liquidity under its credit facilities. As described above, the Company's credit facilities are subject to a monthly borrowing base calculation which could result in a lower liquidity amount.

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

| Years ended December 31, except as indicated in notes below | **2017** | 2016 |
|---|---|---|
| Working capital ratio not to fall below | **1.15x** | 1.15x |
| Funded Debt to Adjusted EBITDA not to exceed(1)(2)(3) | **3.00x** | 5.00x |
| Funded Debt to Capitalization not to exceed(2)(4) | **0.30x** | 0.30x |

*(1) Funded Debt to Adjusted EBITDA covenant is 3.00x for all quarters ended during the term of the agreement.*
*(2) Funded Debt is defined as Total Debt excluding all outstanding senior unsecured notes and the second lien senior secured term loan facility. Total Debt includes bank loans and long-term debt (before unamortized debt issuance costs and debt discount) plus outstanding letters of credit. For the purposes of the Total Debt to Adjusted EBITDA ratio, the Funded Debt to Capitalization Ratio and the Funded Debt to Adjusted EBITDA ratio, the amount of Total Debt or Funded Debt, as applicable, is reduced by the amount of cash on hand with lenders (excluding any cash held in a segregated account for the purposes of a potential equity cure).*
*(3) Adjusted EBITDA is defined as net income or loss for the period adjusted for interest, taxes, depreciation and amortization, non-cash stock-based compensation, non-controlling interest relating to Colombia, and gains and losses that are extraordinary or non-recurring.*
*(4) Capitalization is Total Debt plus equity attributable to the shareholders of Calfrac.*

Proceeds from equity offerings may be applied, as an equity cure, in the calculation of Adjusted EBITDA towards the Funded Debt to Adjusted EBITDA covenant for any of the quarters ending prior to and including June 30, 2020, subject to certain conditions including:

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

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

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

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

On December 6, 2016, Calfrac closed a bought deal private placement of 21,055,000 common shares for net proceeds of approximately $56.6 million. On December 22, 2015, Calfrac closed a bought deal private placement of 20,370,370 common shares for net proceeds of approximately $25.2 million. $50.0 million of the net proceeds from these offerings were held in a segregated account pending an election to use them as an equity cure. On April 3, 2017, the Company elected to use the first of its two fully-funded $25.0 million equity cures effective as of the quarter ending on June 30, 2017. The September 2017 amendments to the credit facilities provided that the Company can utilize two equity cures during the term of the credit facilities subject to the conditions described above, and confirmed that the previously funded $25.0 million equity cure may continue to be held in a segregated account to be used as an equity cure if required at a future date. To utilize an equity cure, the Company must provide notice of any such election to the lending syndicate at any time prior to the filing of its quarterly financial statements for the applicable quarter on SEDAR. Throughout the period ending on June 30, 2020, amounts used as an equity cure will increase Adjusted EBITDA over the relevant twelve-month rolling period and will also serve to reduce Funded Debt. The funds that were removed from the segregated account and utilized as an equity cure for the quarter ending on June 30, 2017, as described above, were used for general working capital and corporate purposes. When the remaining funds are removed from the segregated account, as an equity cure or otherwise, they are expected to be used to fund capital expenditures, to reduce outstanding indebtedness, and/or to be used for general working capital and corporate purposes.

As shown in the table below, at December 31, 2017, the Company was in compliance with the financial covenants associated with its credit facilities.

| | Covenant | **Actual** |
|---|---|---|
| As at December 31, | 2017 | **2017** |
| Working capital ratio not to fall below | 1.15x | **2.33x** |
| Funded Debt to Adjusted EBITDA not to exceed | 3.00x | **0.02x** |
| Funded Debt to Capitalization not to exceed | 0.30x | **0.00x** |

The Company's credit facilities also contain certain restrictions with respect to dispositions of property or assets in Canada and the United States. For such dispositions occurring on or prior to December 31, 2018, majority lender consent is required if the aggregate market value exceeds $40.0 million and for such dispositions occurring in a calendar year commencing January 1, 2019, majority lender consent is required if the aggregate market value exceeds $20.0 million. There are no restrictions pertaining to dispositions of property or assets outside of Canada and the United States, except that to the extent that advances under the credit facilities exceed $50.0 million at the time of any such dispositions, Calfrac must use the resulting proceeds to reduce the advances to less than $50.0 million before using the balance for other purposes.

The indenture governing the senior unsecured notes, which is available on SEDAR, contains restrictions on the Company's ability to pay dividends, purchase and redeem shares of the Company and make certain restricted investments, that are not defined as Permitted Investments under the indenture, in circumstances where:

i. the Company is in default under the indenture or the making of such payment would result in a default;

ii. the Company is not meeting the Fixed Charge Coverage Ratio[1] under the indenture of at least 2:1 for the most recent four fiscal quarters, with the restricted payments regime commencing once internal financial statements are available which show that the ratio is not met on a pro forma basis for the most recently ended four fiscal quarter period; or

iii. there is insufficient room for such payment within a builder basket included in the indenture.

*[1] The Fixed Charge Coverage Ratio is defined as cash flow to interest expense. Cash flow is a non-GAAP measure and does not have a standardized meaning under IFRS and is defined under the indenture as net income (loss) attributable to the shareholders of Calfrac before depreciation, extraordinary gains or losses, unrealized foreign exchange gains or losses, gains or losses on disposal of property, plant and equipment, impairment or reversal of impairment of assets, restructuring charges, provision for settlement of litigation, stock-based compensation, interest, and income taxes.*

These limitations on restricted payments are tempered by the existence of a number of exceptions to the general prohibition, including a basket allowing for restricted payments in an aggregate amount of up to US$20.0 million. As at December 31, 2017 this basket was not utilized. The indenture also restricts the ability to incur additional indebtedness if the Fixed Charge Coverage Ratio determined on a pro forma basis for the most recently ended four fiscal quarter period for which internal financial statements are available is not at least 2:1. As is the case with restricted payments, there are a number of exceptions to this prohibition on the incurrence of additional indebtedness, including the incurrence of additional debt under credit facilities up to the greater of $175.0 million or 30 percent of the Company's consolidated tangible assets. At December 31, 2017, the Company was able to incur additional indebtedness in excess of $400.0 million pursuant to the aforementioned exception.

As at December 31, 2017, the Company's Fixed Charge Coverage Ratio of 2.24:1 was higher than the required 2:1 ratio and the aforementioned prohibitions will not be applicable as long as the Company remains above this ratio.

On June 10, 2016, the Company closed a $200.0 million second lien senior secured term loan financing with Alberta Investment Management Corporation (AIMCo). The term loan matures on September 30, 2020 and bears interest at the rate of 9 percent annually and is payable quarterly. In addition, amortization payments equal to 1 percent of the original principal amount are payable annually in equal quarterly installments, with the balance due on the maturity date. In conjunction with the funding of the term loan, a total of 6,934,776 warrants to purchase common shares of the Company were issued to AIMCo, entitling it to acquire 6,934,776 common shares at a price of $4.14 per common share at any time prior to June 10, 2019. No amendments were made to the available commitment, term, covenants or interest rates payable under Calfrac's existing credit facilities as part of the required approvals for the term loan. On November 6, 2017, AIMCo. exercised all of its warrants resulting in cash proceeds of $28.7 million. The proceeds were used to reduce borrowings under the Company's credit facilities.

## INVESTING ACTIVITIES

Calfrac's net cash used for investing activities was $76.0 million for the year ended December 31, 2017 versus $52.1 million in 2016. Cash outflows relating to capital expenditures were $86.4 million in 2017 compared to $56.1 million in 2016. Capital expenditures were primarily to support the Company's North American fracturing operations. The Company disposed of assets during the year for proceeds of $10.5 million compared to $3.9 million in 2016.

As announced in December 2017, Calfrac's Board of Directors have approved a 2018 capital budget of $132.0 million, consisting of sustaining and maintenance capital of $104.0 million, refurbishment capital of $22.0 million and corporate initiatives of $6.0 million.

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

The effect of changes in foreign exchange rates on the Company's cash and cash equivalents during year ended December 31, 2017 was a loss of $17.1 million versus a loss of $7.4 million in 2016. These losses relate to cash and cash equivalents held by the Company in a foreign currency.

With its working capital position, available credit facilities and anticipated funds provided by operations, the Company expects to have adequate resources to fund its financial obligations and planned capital expenditures for 2018 and beyond.

At December 31, 2017, the Company had cash and cash equivalents of $52.7 million of which $25.0 million was held in a segregated account at the Company's discretion, so that it may be utilized as an equity cure if required in the calculation of Adjusted EBITDA for purposes of the Company's bank covenants.

## OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares. Employees have been granted options to purchase common shares under the Company's shareholder-approved stock option plan. The number of shares reserved for issuance under the stock option plan and performance share unit plan is equal to 10 percent of the Company's issued and outstanding common shares. As at February 23, 2018, there were 143,923,491 common shares issued and outstanding and 10,749,775 options to purchase common shares.

# SUMMARY OF QUARTERLY RESULTS

| Three Months Ended | Mar. 31, 2016 | Jun. 30, 2016 | Sep. 30, 2016 | Dec. 31, 2016 | Mar. 31, 2017 | Jun. 30, 2017 | Sep. 30, 2017 | **Dec. 31, 2017** |
|---|---|---|---|---|---|---|---|---|
| *(C$000s, except per share and operating data) (unaudited)* | *($)* | *($)* | *($)* | *($)* | *($)* | *($)* | *($)* | ***($)*** |
| **Financial** | | | | | | | | |
| Revenue | 216,138 | 150,605 | 174,925 | 192,846 | 268,815 | 325,344 | 448,090 | **485,456** |
| Operating income (loss)[1] | (11,623) | (15,898) | (12,392) | (18,291) | 20,395 | 36,740 | 78,196 | **44,789** |
| Per share – basic | (0.10) | (0.14) | (0.11) | (0.15) | 0.15 | 0.27 | 0.57 | **0.32** |
| Per share – diluted | (0.10) | (0.14) | (0.11) | (0.15) | 0.15 | 0.27 | 0.57 | **0.31** |
| Adjusted EBITDA[1] | (5,883) | (14,095) | (11,055) | (13,717) | 21,584 | 39,913 | 81,113 | **49,213** |
| Per share – basic | (0.05) | (0.12) | (0.10) | (0.11) | 0.16 | 0.29 | 0.59 | **0.35** |
| Per share – diluted | (0.05) | (0.12) | (0.10) | (0.11) | 0.16 | 0.29 | 0.59 | **0.34** |
| Net income (loss) attributable to the shareholders of Calfrac | (54,071) | (41,671) | (40,862) | (61,493) | (19,547) | (20,349) | 7,822 | **38,013** |
| Per share – basic | (0.47) | (0.36) | (0.35) | (0.51) | (0.14) | (0.15) | 0.06 | **0.27** |
| Per share – diluted | (0.47) | (0.36) | (0.35) | (0.51) | (0.14) | (0.15) | 0.06 | **0.26** |
| Capital expenditures | 7,723 | 8,370 | 6,907 | 15,708 | 12,965 | 22,358 | 22,093 | **34,518** |
| Working capital (end of period) | 261,072 | 306,346 | 269,081 | 271,581 | 278,818 | 293,411 | 334,606 | **327,049** |
| Total equity (end of period) | 576,465 | 543,530 | 501,926 | 497,458 | 485,452 | 463,180 | 477,188 | **543,645** |
| | | | | | | | | |
| **Operating (end of period)** | | | | | | | | |
| Active pumping horsepower (000s) | 640 | 582 | 644 | 659 | 727 | 874 | 1,057 | **1,115** |
| Idle pumping horsepower (000s) | 586 | 640 | 578 | 563 | 493 | 443 | 338 | **280** |
| Total pumping horsepower (000s) | 1,226 | 1,222 | 1,222 | 1,222 | 1,220 | 1,317 | 1,395 | **1,395** |
| Active coiled tubing units (#) | 18 | 19 | 20 | 19 | 20 | 21 | 21 | **21** |
| Idle coiled tubing units (#) | 14 | 13 | 12 | 13 | 12 | 11 | 11 | **9** |
| Total coiled tubing units (#) | 32 | 32 | 32 | 32 | 32 | 32 | 32 | **30** |
| Active cementing units (#) | 14 | 14 | 14 | 14 | 12 | 12 | 12 | **12** |
| Idle cementing units (#) | 11 | 11 | 11 | 11 | 13 | 13 | 13 | **11** |
| Total cementing units (#) | 25 | 25 | 25 | 25 | 25 | 25 | 25 | **23** |

[1] *Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.*

## SEASONALITY OF OPERATIONS

The Company's North American business is seasonal. The lowest activity is typically experienced during the second quarter of the year when road weight restrictions are in place due to spring break-up weather conditions and access to well sites in Canada and North Dakota is reduced (refer to "Business Risks - Seasonality" on page 33).

## FOREIGN EXCHANGE FLUCTUATIONS

The Company's consolidated financial statements are reported in Canadian dollars. Accordingly, the quarterly results are directly affected by fluctuations in the exchange rates for United States, Russian, Mexican and Argentinean currency (refer to "Business Risks - Foreign Exchange Fluctuations" on page 32).

# FINANCIAL OVERVIEW – THREE MONTHS ENDED DECEMBER 31, 2017 VERSUS 2016

## CONSOLIDATED HIGHLIGHTS

| Three Months Ended December 31, | **2017** | 2016 | Change |
|---|---|---|---|
| *(C$000s, except per share amounts)* | ***($)*** | *($)* | *(%)* |
| *(unaudited)* | | | |
| Revenue | **485,456** | 192,846 | 152 |
| Operating income (loss)(1) | **44,789** | (18,291) | NM |
| Per share – basic | **0.32** | (0.15) | NM |
| Per share – diluted | **0.31** | (0.15) | NM |
| Adjusted EBITDA(1) | **49,213** | (13,717) | NM |
| Per share – basic | **0.35** | (0.11) | NM |
| Per share – diluted | **0.34** | (0.11) | NM |
| Net income (loss) attributable to the shareholders of Calfrac | **38,013** | (61,493) | NM |
| Per share – basic | **0.27** | (0.51) | NM |
| Per share – diluted | **0.26** | (0.51) | NM |
| Working capital, end of period | **327,049** | 271,581 | 20 |
| Total assets, end of period | **1,777,966** | 1,613,004 | 10 |
| Long-term debt, end of period | **958,825** | 984,062 | (3) |
| Total equity, end of period | **543,645** | 497,458 | 9 |

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

## FOURTH QUARTER 2017 OVERVIEW

In the fourth quarter of 2017, the Company:

- generated revenue of $485.5 million, an increase of 152 percent from the fourth quarter in 2016, resulting primarily from higher activity and a larger scale of operations in North America;
- recorded $22.6 million in total compensation awards that were approved by the Board of Directors to recognize the Company's strong 2017 performance. This amount could not reliably be estimated until Calfrac's full-year financial results were finalized;
- recorded reactivation costs of $7.4 million compared to $1.5 million in the fourth quarter of 2016;
- would have generated adjusted EBITDA of $71.8 million, excluding the $22.6 million in total compensation awards noted above;
- reported adjusted EBITDA of $49.2 million, which included $14.4 million of annual bonus expenses and $8.2 million of stock-based compensation costs versus negative $13.7 million, which included $4.3 million of stock-based compensation costs and no bonus expense in the comparable period in 2016, mainly as a result of improved utilization and pricing in North America;
- recorded a reversal of the impairment loss with respect to property, plant and equipment of $76.3 million that was previously recorded in the United States in 2015;
- reported net income attributable to shareholders of Calfrac of $38.0 million or $0.26 per share diluted, which included the $76.3 million property, plant and equipment impairment reversal, compared to a net loss of $61.5 million or $0.51 per share diluted in 2016;
- reported period-end working capital of $327.0 million versus $271.6 million at December 31, 2016;
- incurred capital expenditures of $34.5 million primarily to support the Company's North American fracturing operations; and
- activated approximately 60,000 horsepower representing one fleet servicing South Texas.

## CANADA

| Three Months Ended December 31, | **2017** | 2016 | Change |
|---|---|---|---|
| *(C$000s, except operational information)* | ***($)*** | *($)* | *(%)* |
| *(unaudited)* | | | |
| Revenue | **136,776** | 72,327 | 89 |
| Expenses | | | |
| Operating | **118,200** | 68,918 | 72 |
| SG&A | **3,884** | 1,941 | 100 |
| | **122,084** | 70,859 | 72 |
| Operating income[1] | **14,692** | 1,468 | 901 |
| Operating income (%) | **10.7** | 2.0 | 435 |
| Fracturing revenue per job ($) | **21,042** | 16,415 | 28 |
| Number of fracturing jobs | **5,928** | 3,855 | 54 |
| Active pumping horsepower, end of period (000s) | **277** | 206 | 34 |
| Idle pumping horsepower, end of period (000s) | **143** | 188 | (24) |
| Total pumping horsepower, end of period (000s) | **420** | 394 | 7 |
| Coiled tubing revenue per job ($) | **23,030** | 24,456 | (6) |
| Number of coiled tubing jobs | **484** | 370 | 31 |
| Active coiled tubing units, end of period (#) | **9** | 7 | 29 |
| Idle coiled tubing units, end of period (#) | **6** | 6 | — |
| Total coiled tubing units, end of period (#) | **15** | 13 | 15 |

*[1] Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.*

### REVENUE

Revenue from Calfrac's Canadian operations during the fourth quarter of 2017 was $136.8 million versus $72.3 million in the same period of 2016. Completions activity in Canada improved dramatically year-over-year, which allowed the Company to reactivate equipment throughout 2017. Since the end of the fourth quarter of 2016, the Company has reactivated 71,000 horsepower or two large fracturing crews and two deep coiled tubing units. Through a combination of this broader operating scale and significantly improved utilization and better pricing, the Company increased its revenue in the fourth quarter of 2017 by 89 percent from the comparative quarter in 2016. The number of fracturing jobs increased by 54 percent mainly due to a more active and efficient customer base versus the same period in 2016. The number of coiled tubing jobs increased by 31 percent from the fourth quarter in 2016, primarily due to higher activity, as well as a larger scale of operations in western Canada.

### OPERATING INCOME

Operating income in Canada during the fourth quarter of 2017 was $14.7 million compared to $1.5 million in the same period of 2016. The increase was due to significantly improved utilization and better pricing compared to the fourth quarter of 2016. The Company incurred reactivation costs of $1.4 million during the fourth quarter of 2017 associated with the planned deployment of one incremental fracturing crew at the beginning of the first quarter of 2018. In addition, a $2.2 million bonus provision was recorded in operating expenses during the fourth quarter of 2017. The $1.9 million increase in SG&A expenses compared to the fourth quarter in 2016 was primarily due to a $1.4 million annual bonus expense that was recorded during the fourth quarter of 2017, combined with growth in business scale and increased activity.

## UNITED STATES

| Three Months Ended December 31, | **2017** | 2016 | Change |
|---|---|---|---|
| *(C$000s, except operational and exchange rate information)* | ***($)*** | *($)* | *(%)* |
| *(unaudited)* | | | |
| Revenue | **267,659** | 57,956 | 362 |
| Expenses | | | |
| Operating | **212,593** | 62,330 | 241 |
| SG&A | **5,537** | 2,865 | 93 |
| | **218,130** | 65,195 | 235 |
| Operating income (loss)[1] | **49,529** | (7,239) | NM |
| Operating income (loss) (%) | **18.5** | (12.5) | NM |
| Fracturing revenue per job ($) | **50,429** | 36,868 | 37 |
| Number of fracturing jobs | **5,276** | 1,572 | 236 |
| Active pumping horsepower, end of period (000s) | **653** | 252 | 159 |
| Idle pumping horsepower, end of period (000s) | **130** | 375 | (65) |
| Total pumping horsepower, end of period (000s)[2] | **783** | 627 | 25 |
| Active coiled tubing units, end of period (#) | **—** | — | — |
| Idle coiled tubing units, end of period (#) | **1** | 5 | (80) |
| Total coiled tubing units, end of period (#) | **1** | 5 | (80) |
| Active cementing units, end of period (#) | **—** | — | — |
| Idle cementing units, end of period (#) | **9** | 11 | (18) |
| Total cementing units, end of period (#) | **9** | 11 | (18) |
| US$/C$ average exchange rate[3] | **1.2713** | 1.3344 | (5) |

*[1] Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.*
*[2] The Company reactivated equipment that was previously identified as impaired based on the impairment provision at December 31, 2015.*
*[3] Source: Bank of Canada.*

## REVENUE

Revenue from Calfrac's United States operations increased to $267.7 million during the fourth quarter of 2017 from $58.0 million in the comparable quarter of 2016. Completions activity in the United States has shown significant improvement year-over-year, which allowed the Company to reactivate equipment throughout 2017. The Company has successfully responded to the rebound in industry activity in the United States by activating nine fracturing crews since the start of 2017, including expansion into the Permian basin during the third quarter of 2017. The result was a 236 percent increase in the number of fracturing jobs completed period-over-period. Revenue per job increased 37 percent year-over-year due to job mix and improved pricing. The 5 percent depreciation in the U.S. dollar versus the Canadian dollar partially offset the revenue improvement.

## OPERATING INCOME (LOSS)

The Company's United States operations generated operating income of $49.5 million during the fourth quarter of 2017 compared to an operating loss of $7.2 million in the same period in 2016. The turnaround to positive operating income was primarily the result of improved utilization and pricing in Colorado, North Dakota and Pennsylvania, as well as operations in Texas that were also accretive to operating income during the quarter. Operating income included $6.0 million of costs associated with the reactivation of one fleet during the fourth quarter of 2017 and one additional fracturing crew that commenced operations in the first quarter of 2018. SG&A expenses increased by 93 percent in the fourth quarter of 2017 due to a $1.3 million annual bonus expense that was recorded during the quarter, combined with growth in business scale and increased activity.

## RUSSIA

| Three Months Ended December 31, | **2017** | 2016 | Change |
|---|---|---|---|
| *(C$000s, except operational and exchange rate information)* *(unaudited)* | ***($)*** | *($)* | *(%)* |
| Revenue | **34,988** | 24,400 | 43 |
| Expenses | | | |
| Operating | **29,675** | 22,705 | 31 |
| SG&A | **1,319** | 752 | 75 |
| | **30,994** | 23,457 | 32 |
| Operating income[(1)] | **3,994** | 943 | 324 |
| Operating income (%) | **11.4** | 3.9 | 192 |
| Fracturing revenue per job ($) | **85,651** | 71,753 | 19 |
| Number of fracturing jobs | **350** | 267 | 31 |
| Pumping horsepower, end of period (000s) | **77** | 70 | 10 |
| Coiled tubing revenue per job ($) | **39,767** | 46,392 | (14) |
| Number of coiled tubing jobs | **126** | 113 | 12 |
| Active coiled tubing units, end of period (#) | **6** | 6 | — |
| Idle coiled tubing units, end of period (#) | **1** | 1 | — |
| Total coiled tubing units, end of period (#) | **7** | 7 | — |
| Rouble/C$ average exchange rate[(2)] | **0.0218** | 0.0212 | 3 |

*(1) Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.*
*(2) Source: Bank of Canada.*

### REVENUE

Revenue from Calfrac's Russian operations increased by 43 percent during the fourth quarter of 2017 to $35.0 million from $24.4 million in the corresponding three-month period of 2016. The increase in revenue was largely attributable to a 31 percent increase in fracturing activity as the Company did not encounter as many weather-related delays during the fourth quarter of 2017 as compared to 2016. Revenue per fracturing job increased by 19 percent primarily due to the impact of providing sand to a significant customer during the fourth quarter of 2017 and not in the comparable quarter. Coiled tubing activity increased by 12 percent, however, the impact on revenue was partially offset by lower revenue per job as a result of a change in customer mix.

### OPERATING INCOME

The Company's Russian operations generated operating income of $4.0 million during the fourth quarter of 2017 compared to $0.9 million in the corresponding period of 2016. This increase was primarily due to improved fracturing crew utilization resulting from fewer weather-related delays and the impact of converting one fleet in Khanty-Mansiysk to 24-hour operations. SG&A expenses were $0.6 million higher than the comparable quarter in 2016 primarily due to an annual bonus provision that was recorded during the fourth quarter of 2017.

## LATIN AMERICA

| Three Months Ended December 31, | **2017** | 2016 | Change |
|---|---|---|---|
| *(C$000s, except operational and exchange rate information)* | *($)* | *($)* | *(%)* |
| *(unaudited)* | | | |
| Revenue | **46,033** | 38,163 | 21 |
| Expenses | | | |
| Operating | **46,233** | 38,236 | 21 |
| SG&A | **2,877** | 2,800 | 3 |
| | **49,110** | 41,036 | 20 |
| Operating loss[1] | **(3,077)** | (2,873) | 7 |
| Operating loss (%) | **(6.7)** | (7.5) | (11) |
| Active pumping horsepower, end of period (000s) | **108** | 131 | (18) |
| Idle pumping horsepower, end of period (000s) | **7** | — | NM |
| Total pumping horsepower, end of period (000s) | **115** | 131 | (12) |
| Active cementing units, end of period (#) | **12** | 14 | (14) |
| Idle cementing units, end of period (#) | **2** | — | NM |
| Total cementing units, end of period (#) | **14** | 14 | — |
| Active coiled tubing units, end of period (#) | **6** | 7 | (14) |
| Idle coiled tubing units, end of period (#) | **1** | — | NM |
| Total coiled tubing units, end of period (#) | **7** | 7 | — |
| Mexican peso/C$ average exchange rate[2] | **0.0671** | 0.0674 | — |
| Argentinean peso/C$ average exchange rate[2] | **0.0724** | 0.0863 | (16) |

*[1] Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.*
*[2] Source: Bank of Canada and Bloomberg.*

### REVENUE

Calfrac's Latin American operations generated total revenue of $46.0 million during the fourth quarter of 2017 versus $38.2 million in the comparable three-month period in 2016. Revenue in Latin America was 21 percent higher than the comparable quarter primarily due to higher activity in the Vaca Muerta shale play. The improvement was partially offset by lower cementing work volumes in Argentina resulting from a decrease in overall levels of drilling activity. Coiled tubing activity in Argentina increased year-over-year, but the impact was partially offset by the completion of smaller jobs.

### OPERATING LOSS

The Company's operations in Latin America generated an operating loss of $3.1 million during the fourth quarter of 2017 compared to $2.9 million in the fourth quarter of 2016. Although the Company improved its revenue during the quarter, profitability was negatively impacted by the continued transition to unconventional operations in Argentina.

## CORPORATE

| Three Months Ended December 31, | **2017** | 2016 | Change |
|---|---|---|---|
| *(C$000s)* | ***($)*** | *($)* | *(%)* |
| *(unaudited)* | | | |
| Expenses | | | |
| Operating | **1,965** | 1,075 | 83 |
| SG&A | **18,384** | 9,515 | 93 |
| | **20,349** | 10,590 | 92 |
| Operating loss(1) | **(20,349)** | (10,590) | 92 |
| % of Revenue | **4.2** | 5.5 | (24) |

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

### OPERATING LOSS

Corporate expenses for the fourth quarter of 2017 were $20.3 million compared to $10.6 million in the fourth quarter of 2016. Operating expenses were $0.9 million higher as a result of a $1.2 million annual bonus provision recorded during the quarter offset partially by lower district personnel and occupancy costs. SG&A expenses increased by $8.9 million primarily due to a $4.4 million bonus provision, combined with a $3.9 million increase in stock-based compensation expense relating to vested restricted share units and performance share units that were recorded during the quarter. The remaining increase related to higher costs associated with operational growth.

### DEPRECIATION

For the three months ended December 31, 2017, depreciation expense decreased by $16.8 million to $36.5 million in the corresponding quarter of 2016. The decrease in depreciation was primarily due to a one-time depreciation charge of $21.5 million that was recorded in the fourth quarter of 2016. Excluding this one-time charge, depreciation increased by 15 percent due to the 100,000 horsepower that was commissioned primarily in the second half of 2017, combined with capital expenditures related to the continued activation of fleets in North America during 2017.

### FOREIGN EXCHANGE GAINS AND LOSSES

The Company recorded a foreign exchange loss of $8.1 million during the fourth quarter of 2017 versus a gain of $0.3 million in the comparative three-month period of 2016. Foreign exchange gains and losses arise primarily from the translation of net monetary assets or liabilities that were held in U.S. dollars in Canada and Latin America, and liabilities held in Canadian dollars in Russia. The Company's fourth-quarter 2017 foreign exchange loss was largely attributable to the translation of U.S. dollar-denominated liabilities held in Argentina as the value of the Argentinean peso depreciated against the U.S. dollar during the fourth quarter.

### IMPAIRMENT

A substantial improvement in the commodity price environment occurred in the fourth quarter of 2017, and since December 2017 crude oil prices have averaged more than US$60 per barrel. The current and expected commodity price environment combined with the significant improvement in the operating and financial results of the Company's United States cash-generating unit (CGU) was an indicator that the impairment loss previously recorded in December 2015 may no longer exist. In addition, the Company reviewed each of its CGUs for potential impairment. A comparison of the recoverable amounts of each CGU with their respective carrying amounts resulted in no impairment against property, plant and equipment and supported the reversal of the impairment loss that was previously recorded in the United States CGU, after taking into account normal depreciation that would have been charged if no impairment had occurred. A reversal of impairment loss of $76.3 million was recorded in the fourth quarter of 2017 versus no impairment or reversal being recorded in the comparable quarter of 2016.

### INTEREST

The Company's net interest expense of $21.0 million for the fourth quarter of 2017 was $1.1 million lower than in the comparable period of 2016. This decrease was primarily due to lower credit facility borrowings and the impact of a stronger Canadian dollar relative to the U.S. dollar, which resulted in lower reported interest on the Company's U.S. dollar-denominated unsecured notes.

## INCOME TAXES

The Company recorded an income tax expense of $14.7 million during the fourth quarter of 2017 compared to a recovery of $32.2 million in the comparable period of 2016. The Company had an effective tax rate of 29 percent during the fourth quarter of 2017, however, there were a number of tax adjustments recorded during the quarter. These adjustments were primarily due to the tax rate changes in Argentina and the United States that were announced during December 2017. In the United States, a reduction in the Federal tax rate from 35 percent to 21 percent required a reduction to the deferred tax liability of $16.1 million, and in Argentina, a reduction in the tax rates required a reduction to the deferred tax asset of $7.3 million. The net adjustment for these items was recorded as a tax recovery of $8.8 million. After normalization for these adjustments, the effective tax rate was 44 percent during the fourth quarter of 2017, compared to a tax recovery rate of 34 percent in the comparable quarter in 2016. The effective tax rate in 2017 was higher due to significantly higher earnings in the United States as a result of the reversal of the impairment of $76.3 million that was recorded during the fourth quarter of 2017. This resulted in taxable income in the United States, offset partially by tax losses in Canada and Argentina which had lower statutory tax rates than the United States.

# OUTLOOK

Calfrac's fourth-quarter results reflect the rapid improvement in business fundamentals across North America, offset somewhat by a slowdown in the Company's Canadian operations later in the quarter. With less than 300,000 horsepower remaining idle in the Company, the relative revenue impact of incremental reactivations is expected to be lower in 2018 than was seen in 2017, as the Company approaches full utilization of its asset base.

## CANADA

In Canada, the fourth quarter was marked by a number of changes to work mix due to customer budget exhaustion, as well as both cold and warm weather that impacted operations. The 2017 work programs for a number of Calfrac's larger Canadian clients were completed in October due, in large part, to high levels of field productivity during the second and third quarters. Although some newer clients were added to the mix during the period, the repositioning of equipment and people did impact productivity during the latter part of the quarter. Weather impacts were meaningful in December, with early warm weather causing road bans to be enacted in some areas, while extreme cold during the holiday period delayed a number of operations into January.

Oil and liquids pricing improved sequentially in the fourth quarter, but low prices and short-term volatility were still present in Canadian natural gas markets, causing a number of downward budget revisions for 2018. While further spending reductions by gas-weighted clients are likely in 2018, the Company expects that incremental activity in liquids-driven areas should replace a meaningful segment of these reductions. Pricing in the Canadian market softened slightly during the fourth quarter as larger programs were completed, and the Company did observe that some spot market work was bid at a discount to market prices. However, there were no meaningful impacts to pricing for 2018 as a result of bidding activity in the fourth quarter.

Early in the first quarter of 2018, the Company deployed an incremental fracturing fleet in Canada focused on servicing the Montney and Deep Basin areas, where Calfrac has added a number of high quality clients. With eight fleets running, the Company is confident in its ability to service its client base across Western Canada throughout 2018. Due to strong demand, Calfrac is in the process of transferring 30,000 currently idle horsepower from its Canadian operations into the United States. The Company expects this transfer to be complete early in the second quarter and the equipment will support existing operations in the United States.

After the transfer, Calfrac's Canadian operation will retain approximately 70,000 horsepower of idle equipment, and will prudently analyze the commercial and strategic options across all of its active operations for opportunities to deploy this equipment. Regardless of where Calfrac's assets are deployed, the Company's mission of consistently delivering safe and productive service to a top-tier client base will remain unchanged.

Cost inflation was in line with expectations in Canada during the fourth quarter, and although cost mix evolved during the quarter, no major areas of inflation were noted. Moving into 2018, the Company will continue to work with its client base to manage the impact of any cost inflation.

Activity in the first quarter has commenced at a robust pace, with the Company fielding a number of requests for service over and above its committed work volumes. Calfrac expects its Canadian operations to remain fully booked into spring break-up, with very good prospects for project work in the second quarter. As always the impact of weather and road conditions will determine how much work can be serviced in the spring months.

Issues relating to sand logistics have not impacted Calfrac's Canadian operations to date in the first quarter. The Company's investments in supply chain expertise and partnerships have proved prescient, and at this point Calfrac expects no major disruptions to first-quarter work programs due to sand supply and logistics.

### UNITED STATES

The United States showed sequential improvement in the fourth quarter as a result of fleet reactivations, aided by cost management and strong productivity in operating fleets. The Company reactivated one incremental spread during the quarter as it restarted operations in San Antonio, and exited 2017 with 13 active fleets.

Today, Calfrac's United States operations are nearly fully reactivated and the Company expects to have 16 fleets deployed by the end of the second quarter, representing approximately 800,000 horsepower.

Cost inflation in the United States is expected to continue in 2018, especially in the Permian basin as activity remains very high in that region. The emergence of regional sand supply in some markets may provide some cost relief, but it remains too early to definitively judge the financial impacts of that industry trend. Calfrac's expertise in logistics is anticipated to help mitigate the impact of supply chain issues throughout the year.

Sand supply and delivery issues have been more challenging in the United States during the first quarter, but the impact on Calfrac has been modest, and largely manageable. Calfrac does not expect these issues to be fully resolved until weather and related rail congestion issues abate, which is currently expected to occur in the second quarter.

In the year ahead, the focus for the Company's U.S. division will be to manage the remaining growth in operating scale and optimize all aspects of its business, including client mix, geographic footprint and cost structure. As the United States pressure pumping market appears to be undersupplied from a supply and demand perspective, pricing is expected to move higher in the quarters ahead. As always, Calfrac's mission will be the delivery of top tier service quality and HS&E performance to its strong portfolio of clients that are focused on maintaining the highest levels of operating efficiency.

### RUSSIA

Calfrac's Russian operations generated meaningful year-on-year improvement in both operational and financial results in the fourth quarter of 2017 as utilization levels remained strong relative to the same period in 2016. The higher activity was due primarily to less adverse weather conditions, rather than higher client spending or pricing. Calfrac expects that its financial performance in Russia during 2018 will be relatively consistent with 2017, before the impact of any foreign currency changes.

### LATIN AMERICA

Revenue increases in Argentina during the fourth quarter were due primarily to an acceleration of activity in the Vaca Muerta shale play. As the market continues to improve, the Company aims to realize better profitability in its operations in the region. As well, the transition to higher productivity operations is slowly occurring in the country which could further improve profitability.

In Mexico, due to reduced activity levels, the Company has ceased all operations in the country and has redeployed idle assets to its operations in the United States.

### CORPORATE

With continued improvement in operating and financial results, Calfrac's focus at the corporate level will be the ongoing optimization of its entire portfolio of clients, assets and capital. The Company does not forecast significant administrative headcount growth in 2018, and expects that incremental working capital investments should subside through the year, with any resulting free cash flow being primarily used for the reduction of debt levels.

As announced in December 2017, Calfrac's Board of Directors has approved a 2018 capital budget of $132.0 million, consisting of sustaining and maintenance capital of $104.0 million, refurbishment capital of $22.0 million and corporate initiatives of $6.0 million.

## NON-GAAP MEASURES

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

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

| | Three Months Ended Dec. 31, | | Years Ended Dec. 31, | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| *(C$000s)* *(unaudited)* | ***($)*** | *($)* | ***($)*** | *($)* |
| Net income (loss) | **35,871** | (63,356) | **586** | (203,557) |
| Add back (deduct): | | | | |
| Depreciation | **36,486** | 53,272 | **130,793** | 152,822 |
| Foreign exchange losses | **8,099** | (256) | **34,273** | 19,319 |
| Loss (gain) on disposal of property, plant and equipment | **4,966** | (1,011) | **13,039** | (491) |
| Reversal of impairment of property, plant and equipment | **(76,296)** | — | **(76,296)** | — |
| Impairment of inventory | — | 3,225 | — | 3,225 |
| Interest | **20,962** | 22,084 | **85,450** | 80,110 |
| Income taxes | **14,701** | (32,249) | **(7,725)** | (109,632) |
| Operating income (loss) | **44,789** | (18,291) | **180,120** | (58,204) |

Adjusted EBITDA is defined in the Company's credit facilities for covenant purposes as net income or loss for the period adjusted for interest, income taxes, depreciation and amortization, unrealized foreign exchange losses (gains), non-cash stock-based compensation, non-controlling interest, and gains and losses that are extraordinary or non-recurring. Adjusted EBITDA is presented because it is used in the calculation of the Company's bank covenants. Adjusted EBITDA for the period was calculated as follows:

| | Three Months Ended Dec. 31, | | Years Ended Dec. 31, | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| *(C$000s)* *(unaudited)* | | | ***($)*** | *($)* |
| Net income (loss) | **35,871** | (63,356) | **586** | (203,557) |
| Add back (deduct): | | | | |
| Depreciation | **36,486** | 53,272 | **130,793** | 152,822 |
| Unrealized foreign exchange losses | **8,438** | 163 | **34,646** | 22,490 |
| Loss (gain) on disposal of property, plant and equipment | **4,966** | (1,011) | **13,039** | (491) |
| Reversal of impairment of property, plant and equipment | **(76,296)** | — | **(76,296)** | — |
| Impairment of inventory | **—** | 3,225 | **—** | 3,225 |
| Provision for settlement of litigation | **—** | — | **(139)** | — |
| Restructuring charges | **563** | 3,475 | **1,131** | 7,892 |
| Stock-based compensation | **1,380** | 664 | **4,985** | 2,361 |
| Losses attributable to non-controlling interest[(1)] | **2,142** | 16 | **5,353** | 30 |
| Interest | **20,962** | 22,084 | **85,450** | 80,110 |
| Income taxes | **14,701** | (32,249) | **(7,725)** | (109,632) |
| Adjusted EBITDA[(2)] | **49,213** | (13,717) | **191,823** | (44,750) |

*[(1)] The definition of Adjusted EBITDA excluded non-controlling interest related to Argentina during 2016.*
*[(2)] Adjusted EBITDA for the purposes of the funded debt to Adjusted EBITDA covenant includes an additional $25.0 million for the year ended December 31, 2017 as the Company elected to use the first of its two fully funded equity cures effective the quarter ended June 30, 2017.*

# CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

| | Payment Due by Period | | | | |
|---|---|---|---|---|---|
| As at December 31, 2017 | **Total** | < 1 Year | 1 - 3 Years | 4 - 5 Years | After 5 Years |
| *(C$000s)* | ***($)*** | *($)* | *($)* | *($)* | *($)* |
| *(unaudited)* | | | | | |
| Operating and finance leases | **39,694** | 19,491 | 19,696 | 507 | — |
| Purchase obligations | **333,991** | 182,802 | 149,608 | 1,581 | — |
| Total contractual obligations | **373,685** | 202,293 | 169,304 | 2,088 | — |

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

## GREEK LITIGATION

As described in note 18 to the annual consolidated financial statements, the Company and one of its Greek subsidiaries are involved in a number of legal proceedings in Greece. Management regularly evaluates the likelihood of potential liabilities being incurred and the amounts of such liabilities after careful examination of available information and discussions with its legal advisors. Management is of the view that it is improbable there will be a material financial impact to the Company as a result of these claims. Consequently, no provision was recorded in the consolidated financial statements.

# CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This MD&A is based on the Company's consolidated financial statements for the year ended December 31, 2017 which were prepared in accordance with IFRS. Management is required to make assumptions, judgments and estimates in the application of IFRS. Calfrac's significant accounting policies are described in note 2 to the annual consolidated financial statements.

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

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

## ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE

The Company performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, financial condition of the customer and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based on specific situations and overall industry conditions. In situations where the creditworthiness of a customer is uncertain, services are provided on receipt of cash in advance or services are declined. Calfrac's management believes that the provision for doubtful accounts receivable, which was $4.6 million at December 31, 2017, is adequate.

## DEPRECIATION

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

Effective October 1, 2016, the Company revised its useful life depreciation estimate and salvage value of certain of its components relating to equipment. This change was adopted as a change in accounting estimate on a prospective basis starting October 1, 2016.

## FINANCIAL INSTRUMENTS

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

## FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial instruments included in the consolidated balance sheets, except long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of the senior unsecured notes based on the closing market price at December 31, 2017 was $743.1 million before deduction of unamortized debt issuance costs (December 31, 2016 – $702.9 million). The carrying value of the senior unsecured notes at December 31, 2017 was $752.7 million before deduction of unamortized debt issuance costs and debt discount (December 31, 2016 – $805.6 million). The fair values of the remaining long-term debt and finance lease obligations approximate their carrying values, as described in note 11 to the annual consolidated financial statements.

## CREDIT RISK

Substantial amounts of the Company's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risks. The Company mitigates this risk through its credit policies and practices, including the use of credit limits and approvals, and by monitoring its customers' financial condition. At December 31, 2017, the Company had a provision for doubtful accounts receivable of $4.6 million (December 31, 2016 – $7.6 million).

Payment terms with customers vary by country and contract. Standard payment terms, however, are 30 days from invoice date. The Company's aged trade and accrued accounts receivable at December 31, 2017 and 2016, excluding the provision for doubtful accounts, are as follows:

| As at December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)*<br>*(unaudited)* | ***($)*** | *($)* |
| Current | **232,963** | 84,833 |
| 31 - 60 days | **80,176** | 33,687 |
| 61 - 90 days | **22,051** | 7,707 |
| 91+ days | **13,454** | 15,098 |
| Total | **348,644** | 141,325 |

The Company's accounts receivable that were greater than 90 days included $8.3 million from customers operating in Russia for which no provision has been made. Although the timing is uncertain, collection is expected in its entirety.

## INTEREST RATE RISK

The Company is exposed to cash flow risk due to fluctuating interest payments required to service any floating-rate debt. The increase or decrease in annual interest expense for each 1 percentage point change in the interest rate on floating-rate debt at December 31, 2017 amounts to $0.3 million (2016 – $nil).

The Company's effective interest rate for the year ended December 31, 2017 was 8.6 percent (December 31, 2016 – 8.3 percent).

## LIQUIDITY RISK

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

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

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

| At December 31, 2016 | Total | < 1 Year | 1 - 3 Years | 4 - 6 Years | 7 - 9 Years | Thereafter |
|---|---|---|---|---|---|---|
| *(C$000s)* | *($)* | *($)* | *($)* | *($)* | *($)* | *($)* |
| *(unaudited)* | | | | | | |
| Accounts payable and accrued liabilities | 114,529 | 114,529 | — | — | — | — |
| Long-term debt[1] | 1,308,242 | 81,079 | 1,227,163 | — | — | — |

[1] *Principal and interest*

## FOREIGN EXCHANGE RISK

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

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

| At December 31, 2017 | Impact to Net Income | Impact to Other Comprehensive Income |
|---|---|---|
| *(C$000s)* | *($)* | *($)* |
| 1% change in value of U.S. dollar | **1,168** | **2,870** |
| 1% change in value of Russian rouble | **—** | **498** |

| At December 31, 2016 | Impact to Net Income | Impact to Other Comprehensive Income |
|---|---|---|
| *(C$000s)* | *($)* | *($)* |
| 1% change in value of U.S. dollar | 1,015 | 3,072 |
| 1% change in value of Russian rouble | — | 506 |

## IMPAIRMENT

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

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

A substantial improvement in the commodity price environment occurred in the fourth quarter of 2017, and since December 2017, crude oil prices have averaged more than US$60 per barrel. The current and expected commodity price environment combined with the significant improvement in the operating and financial results of the Company's United States CGU unit was an indicator that the impairment loss previously recorded in December 2015 may no longer exist. In addition, the Company reviewed each of its CGUs for potential impairment. A comparison of the recoverable amounts of each CGU with their respective carrying amounts resulted in no impairment against property, plant and equipment and supported the reversal of a portion of the impairment loss that was previously recorded in the United States CGU. A reversal of impairment loss of $76.3 million was recorded in 2017 (year ended December 31, 2016 – $nil).

## INCOME TAXES

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

### STOCK-BASED COMPENSATION

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

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

### FUNCTIONAL CURRENCY

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

### CASH-GENERATING UNITS

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

## RELATED-PARTY TRANSACTIONS

In November 2010, the Company loaned a senior officer $2.5 million to purchase common shares of the Company on the Toronto Stock Exchange (TSX). The loan is on a non-recourse basis and is secured by the common shares acquired with the loan proceeds. The loan was amended in February 2015 to extend the term by five years to November 8, 2020 and change the interest rate to the prescribed rate under the Income Tax Act (Canada), which rate was 1.0 percent per annum at the time of the amendment. The loan was subsequently amended in December 2016 to make it non-interest bearing, effective February 24, 2015. The market value of the shares that secure the loan was approximately $1.0 million as at December 31, 2017 (December 31, 2016 – $0.8 million). In accordance with applicable accounting standards regarding share purchase loans receivable, this loan is classified as a reduction of shareholders' equity due to its non-recourse nature. In addition, the shares purchased with the loan proceeds are considered to be, in substance, stock options.

The Company leases certain premises from an entity controlled by one of its directors. The rent charged for these premises during the year ended December 31, 2017 was $1.7 million (year ended December 31, 2016 – $1.5 million), as measured at the exchange amount.

As disclosed in note 7, the Company issued common shares under a private placement in 2016. Of the 21,055,000 shares issued, 3,508,700 were purchased by directors or entities controlled by directors of the Company for gross proceeds of $10.0 million.

## CHANGES IN ACCOUNTING POLICIES

No new IFRS or interpretations from the International Financial Reporting Interpretations Committee came into effect for the year beginning on or after January 1, 2017 that had a material impact on the Company.

## RECENT ACCOUNTING PRONOUNCEMENTS

In January 2016, the IASB issued IFRS 16 *Leases*, which requires lessees to recognize all leases on the balance sheet. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted for companies that also apply IFRS 15 *Revenue from Contracts with Customers*. The Company is currently evaluating the impact of the standard on its financial statements.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will come into effect for annual periods beginning on or after January 1, 2018. The Company has completed its assessment and evaluation of the standard and determined that it will not have a material impact on its consolidated financial statements to the recognition of revenue but will have an impact on the disclosures associated with revenue.

In July 2014, the IASB completed the final elements of IFRS 9 *Financial Instruments*. The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9, as amended, includes a principle based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially reformed approach to hedge accounting. IFRS 9 will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has completed its initial assessment and evaluation of the impact of the standard on its financial statements and does not expect the standard to significantly impact its consolidated financial statements.

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

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

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

In accordance with the requirements of National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings," an evaluation of the effectiveness of DC&P and ICFR was carried out under the supervision of the CEO and CFO at December 31, 2017. Based on this evaluation, the CEO and CFO have concluded that the Company's DC&P and ICFR are effectively designed and operating as intended.

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

## BUSINESS RISKS

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

### VOLATILITY OF INDUSTRY CONDITIONS

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

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

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

## ACCESS TO CAPITAL

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

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

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

## VOLATILITY IN CREDIT MARKETS

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

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

## EMPLOYEES

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

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

## EQUIPMENT LEVELS

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

## COMPETITION

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

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

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

## FLUCTUATIONS IN FOREIGN EXCHANGE RATES

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

## FOREIGN OPERATIONS

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

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

## CONCENTRATION OF CUSTOMER BASE

The Company's customer base consists of approximately 130 oil and natural gas exploration and production companies, ranging from large multi-national public companies to small private companies. Notwithstanding the Company's broad customer base, it had ten significant customers that collectively accounted for approximately 54 percent of its revenue for the year ended December 31, 2017 and, of such customers, four accounted for approximately 29 percent of the Company's revenue for the year ended December 31, 2017. There can be no assurance that the Company's relationship with these customers will continue, and a significant reduction or total loss of the business from these customers, if not offset by sales to new or existing customers, would have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

## MERGER AND ACQUISITION ACTIVITY

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

## OPERATIONAL RISKS

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

## SEASONALITY

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

## LEGAL PROCEEDINGS

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

## FEDERAL, STATE AND PROVINCIAL LEGISLATIVE AND REGULATORY INITIATIVES

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

Legislative and regulatory requirements currently in place or scheduled to become effective in certain provinces and/or states in 2018 include requirements regarding local government consultation, wellhead and pad setbacks, public and landowner notification and involvement, withdrawal of water for use in hydraulic fracturing of horizontal wells, baseline testing of nearby water wells, restrictions on which additives may be used, reporting with respect to spills, mandatory visual and noise mitigation measures as well as temporary or permanent bans on hydraulic fracturing. These types of requirements could subject the Company to increased costs, delays, limits on the productivity of certain wells and, possibly, limits on its ability to deploy its technology. The adoption of any future federal, provincial, state or local laws or implementing regulations in any of the jurisdictions in which the Company operates which impose additional permitting, disclosure or regulatory obligations related to, or otherwise limiting, the hydraulic fracturing process could make it more difficult to complete oil and natural gas wells and could affect the Company's ability to utilize proprietary technological developments to compete effectively in the pressure pumping industry. Such results could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

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

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

## ENVIRONMENT LAWS AND REGULATIONS

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

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

## SAFETY STANDARDS

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

## MANAGEMENT STEWARDSHIP

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

## LIABILITIES OF PRIOR OPERATIONS

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

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

## NEW TECHNOLOGIES AND CUSTOMER EXPECTATIONS

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

## INTELLECTUAL PROPERTY

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

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

## CONFIDENTIAL INFORMATION

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

## GROWTH-RELATED RISKS

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

## CAPITAL-INTENSIVE INDUSTRY

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

## CREDIT RISK

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

## CLIMATE CHANGE INITIATIVES

Future federal legislation, including potential international or bilateral requirements enacted under Canadian law, together with mandatory carbon pricing programs and emission reduction requirements, such as those contemplated by the federal government's Pan Canadian Framework on Clean Growth and Climate Change and draft Greenhouse Gas Pollution Pricing Act, and in effect under Alberta's Carbon Competitiveness Incentive Regulation and Climate Leadership Act, and potential further federal or provincial requirements may impose additional costs on the Company's operations and require the reduction of emissions or emissions intensity from the Company's operations and facilities. Taxes on greenhouse gas emissions and mandatory emissions reduction requirements may result in increased operating costs and capital expenditures for oil and natural gas producers, thereby decreasing the demand for the Company's services. The Alberta carbon levy, mandatory emissions reduction programs and the industry emissions cap in Alberta may also impair the Company's ability to provide its services economically and reduce the demand for the Company's services. The Company is unable to predict the impact of current and pending climate change and emissions reduction legislation on the Company and it is possible that such legislation would have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

## BENEFITS OF ACQUISITIONS AND DISPOSITIONS

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

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

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

## DEMAND FOR OIL AND NATURAL GAS

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

## DIVIDENDS

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

## TAX ASSESSMENTS

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

# ADVISORIES

## FORWARD-LOOKING STATEMENTS

In order to provide Calfrac shareholders and potential investors with information regarding the Company and its subsidiaries, including management's assessment of Calfrac's plans and future operations, certain statements contained in this MD&A, including statements that contain words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "forecast" or similar words suggesting future outcomes, are forward-looking statements.

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

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

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

## ADDITIONAL INFORMATION

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

# MANAGEMENT'S LETTER

**To the Shareholders of Calfrac Well Services Ltd.**

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

Management has prepared the Management's Discussion and Analysis (MD&A). The MD&A is based on the Company's financial results prepared in accordance with IFRS. The MD&A compares the audited financial results for the years ended December 31, 2017 and December 31, 2016.

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

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

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

Fernando Aguilar
President and Chief Executive Officer

Michael D. Olinek
Chief Financial Officer

*February 28, 2018*
*Calgary, Alberta, Canada*

# INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of Calfrac Well Services Ltd.**

We have audited the accompanying consolidated financial statements of Calfrac Well Services Ltd., which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016 and the consolidated statements of operations, consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Calfrac Well Services Ltd. as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

*February 28, 2018*
*Calgary, Alberta, Canada*

# CONSOLIDATED BALANCE SHEETS

| As at December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)* | ***($)*** | *($)* |
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents (note 3) | **52,749** | 109,917 |
| Accounts receivable | **359,955** | 158,709 |
| Income taxes recoverable | **1,759** | 3,715 |
| Inventories (note 4) | **145,072** | 99,601 |
| Prepaid expenses and deposits | **16,803** | 16,992 |
| | **576,338** | 388,934 |
| Non-current assets | | |
| Property, plant and equipment (note 5) | **1,114,685** | 1,153,882 |
| Deferred income tax assets (note 9) | **86,943** | 70,188 |
| Total assets | **1,777,966** | 1,613,004 |
| **LIABILITIES AND EQUITY** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | **246,943** | 114,529 |
| Current portion of long-term debt (note 6) | **2,169** | 2,520 |
| Current portion of finance lease obligations | **177** | 304 |
| | **249,289** | 117,353 |
| Non-current liabilities | | |
| Long-term debt (note 6) | **958,825** | 984,062 |
| Finance lease obligations | **737** | — |
| Deferred income tax liabilities | **25,470** | 14,131 |
| Total liabilities | **1,234,321** | 1,115,546 |
| Equity attributable to the shareholders of Calfrac | | |
| Capital stock (note 7) | **501,456** | 466,445 |
| Contributed surplus | **35,094** | 36,040 |
| Loan receivable for purchase of common shares (note 14) | **(2,500)** | (2,500) |
| Retained earnings | **21,268** | 15,329 |
| Accumulated other comprehensive income (loss) | **2,728** | (8,736) |
| | **558,046** | 506,578 |
| Non-controlling interest | **(14,401)** | (9,120) |
| Total equity | **543,645** | 497,458 |
| Total liabilities and equity | **1,777,966** | 1,613,004 |

*Commitments (note 10); Contingencies (note 18)*
*See accompanying notes to the consolidated financial statements.*

Approved by the Board of Directors,

Ronald P. Mathison, Director

Gregory S. Fletcher, Director

# CONSOLIDATED STATEMENTS OF OPERATIONS

| Years Ended December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s, except per share data)* | ***($)*** | *($)* |
| Revenue | **1,527,705** | 734,514 |
| Cost of sales (note 15) | **1,407,050** | 875,477 |
| Gross profit (loss) | **120,655** | (140,963) |
| Expenses | | |
| Selling, general and administrative | **71,328** | 70,063 |
| Foreign exchange losses | **34,273** | 19,319 |
| Loss (gain) on disposal of property, plant and equipment | **13,039** | (491) |
| Reversal of impairment of property, plant and equipment (note 5) | **(76,296)** | — |
| Impairment of inventory (note 4) | **—** | 3,225 |
| Interest | **85,450** | 80,110 |
| | **127,794** | 172,226 |
| Loss before income tax | **(7,139)** | (313,189) |
| Income tax expense (recovery) (note 9) | | |
| Current | **3,018** | 2,567 |
| Deferred | **(10,743)** | (112,199) |
| | **(7,725)** | (109,632) |
| Net income (loss) | **586** | (203,557) |
| | | |
| Net income (loss) attributable to: | | |
| Shareholders of Calfrac | **5,939** | (198,097) |
| Non-controlling interest | **(5,353)** | (5,460) |
| | **586** | (203,557) |
| | | |
| Earnings (loss) per share (note 7) | | |
| Basic | **0.04** | (1.69) |
| Diluted | **0.04** | (1.69) |

*See accompanying notes to the consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| Years Ended December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)* | ***($)*** | *($)* |
| **Net income (loss)** | **586** | (203,557) |
| **Other comprehensive income** | | |
| **Items that may be subsequently reclassified to profit or loss:** | | |
| Change in foreign currency translation adjustment | **11,586** | 12,469 |
| Comprehensive income (loss) | **12,172** | (191,088) |
| **Comprehensive income (loss) attributable to:** | | |
| Shareholders of Calfrac | **17,403** | (185,779) |
| Non-controlling interest | **(5,231)** | (5,309) |
| | **12,172** | (191,088) |

*See accompanying notes to the consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Equity Attributable to the Shareholders of Calfrac | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share Capital | Contributed Surplus | Loan Receivable for Purchase of Common Shares | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total | Non-Controlling Interest | **Total Equity** |
| *(C$000s)* | *($)* | *($)* | *($)* | *($)* | *($)* | *($)* | *($)* | ***($)*** |
| **Balance – Jan. 1, 2017** | **466,445** | **36,040** | **(2,500)** | **(8,736)** | **15,329** | **506,578** | **(9,120)** | **497,458** |
| Net income (loss) | — | — | — | — | 5,939 | 5,939 | (5,353) | **586** |
| Other comprehensive income: | | | | | | | | |
| Cumulative translation adjustment | — | — | — | 11,464 | — | 11,464 | 122 | **11,586** |
| Comprehensive income (loss) | — | — | — | 11,464 | 5,939 | 17,403 | (5,231) | **12,172** |
| Stock options: | | | | | | | | |
| Stock-based compensation recognized (note 8) | — | 4,985 | — | — | — | 4,985 | — | **4,985** |
| Proceeds from issuance of shares | 472 | (101) | — | — | – | 371 | — | **371** |
| Warrants: | | | | | | | | |
| Proceeds from issuance of shares (notes 7 and 8) | 34,539 | (5,830) | — | — | — | 28,709 | — | **28,709** |
| Share cancellation – non-controlling interest | — | — | — | — | — | — | (50) | **(50)** |
| **Balance – Dec. 31, 2017** | **501,456** | **35,094** | **(2,500)** | **2,728** | **21,268** | **558,046** | **(14,401)** | **543,645** |
| Balance – Jan. 1, 2016 | 409,809 | 27,849 | (2,500) | (21,054) | 213,426 | 627,530 | (3,811) | 623,719 |
| Net loss | — | — | — | — | (198,097) | (198,097) | (5,460) | (203,557) |
| Other comprehensive income: | | | | | | | | |
| Cumulative translation adjustment | — | — | — | 12,318 | — | 12,318 | 151 | 12,469 |
| Comprehensive income (loss) | — | — | — | 12,318 | (198,097) | (185,779) | (5,309) | (191,088) |
| Warrants: | | | | | | | | |
| Fair value of warrants issued (note 8) | — | 5,830 | — | — | — | 5,830 | — | 5,830 |
| Stock options: | | | | | | | | |
| Stock-based compensation recognized (note 8) | — | 2,361 | — | — | — | 2,361 | — | 2,361 |
| Proceeds from issuance of shares (note 7) | 56,636 | — | — | — | — | 56,636 | — | 56,636 |
| Balance – Dec. 31, 2016 | 466,445 | 36,040 | (2,500) | (8,736) | 15,329 | 506,578 | (9,120) | 497,458 |

*See accompanying notes to the consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| Years Ended December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)* | ***($)*** | *($)* |
| **CASH FLOWS PROVIDED BY (USED IN)** | | |
| **OPERATING ACTIVITIES** | | |
| Net income (loss) | **586** | (203,557) |
| Adjusted for the following: | | |
| Depreciation | **130,793** | 152,822 |
| Stock-based compensation | **4,985** | 2,361 |
| Unrealized foreign exchange losses | **34,646** | 22,490 |
| Loss (gain) on disposal of property, plant and equipment | **13,039** | (491) |
| Reversal of impairment of property, plant and equipment (note 5) | **(76,296)** | — |
| Impairment of inventory (note 4) | **—** | 3,225 |
| Interest | **85,450** | 80,110 |
| Deferred income taxes | **(10,743)** | (112,199) |
| Interest paid | **(79,170)** | (74,258) |
| Changes in items of working capital (note 12) | **(117,188)** | 49,906 |
| Cash flows used in operating activities | **(13,898)** | (79,591) |
| **FINANCING ACTIVITIES** | | |
| Bank loan proceeds | **—** | 4,977 |
| Issuance of long-term debt, net of debt issuance costs | **52,637** | 214,897 |
| Issuance of finance lease obligations | **971** | — |
| Bank loan repayments | **—** | (17,712) |
| Long-term debt repayments | **(32,500)** | (131,546) |
| Finance lease obligation repayments | **(348)** | (371) |
| Proceeds on issuance of common shares (notes 7 and 8) | **29,080** | 56,636 |
| Dividends paid (note 7) | **—** | (1,806) |
| Cash flows provided by financing activities | **49,840** | 125,075 |
| **INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment (note 12) | **(86,415)** | (56,074) |
| Proceeds on disposal of property, plant and equipment | **10,456** | 3,940 |
| Other | **(50)** | — |
| Cash flows used in investing activities | **(76,009)** | (52,134) |
| Effect of exchange rate changes on cash and cash equivalents | **(17,101)** | (7,438) |
| Decrease in cash and cash equivalents | **(57,168)** | (14,088) |
| Cash and cash equivalents, beginning of period | **109,917** | 124,005 |
| Cash and cash equivalents, end of period (note 3) | **52,749** | 109,917 |

*See accompanying notes to the consolidated financial statements.*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2017 and 2016

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

## 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

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

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

The Company has consistently applied the same accounting policies throughout the periods presented, as if these policies had always been in effect.

These financial statements were approved by the Board of Directors for issuance on February 28, 2018.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of Measurement

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

(b) Principles of Consolidation

These financial statements include the accounts of the Company and its wholly-owned subsidiaries in Canada, the United States, Russia, Mexico, and its 80-percent-owned subsidiary in Argentina. All inter-company transactions, balances and resulting unrealized gains and losses are eliminated upon consolidation.

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

(c) Critical Accounting Estimates and Judgments

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

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

i) Allowance for Doubtful Accounts

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

ii) Depreciation

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

iii) Fair Value of Financial Instruments

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

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

iv) Income Taxes

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

See note 9 for further information on income taxes.

v) Share-Based Payments

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

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

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

vi) Functional Currency

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

vii) Cash-Generating Units

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

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

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

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

(d) Foreign Currency Translation

i) Functional and Presentation Currency

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

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

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

| Entity | Functional Currency |
|---|---|
| United States | U.S. dollar |
| Russia | Russian rouble |
| Argentina | Argentinean peso |
| Mexico | Mexican peso |

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

ii) Transactions and Balances

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

(e) Financial Instruments

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

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

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

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

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

(f) Cash and Cash Equivalents

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

(g) Inventory

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

(h) Property, Plant and Equipment

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

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

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

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

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

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

On October 1, 2016, the Company revised its useful life depreciation estimate and salvage value for certain of its components relating to field equipment. This change was adopted as a change in accounting estimate on a prospective basis, which resulted in a one-time depreciation charge of $21,471 to the statement of operations during 2016.

(i) Borrowing Costs

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

(j) Non-Controlling Interests

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

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

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

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

(l) Income Taxes

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

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

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

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

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

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

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

(m) Revenue Recognition

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

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

(n) Stock-Based Compensation Plans

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

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

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

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

(o) Business Combinations

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

Acquisition costs are expensed as incurred.

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

(p) Changes in Accounting Policy and Disclosure

There were no new IFRS or IFRIC interpretations that became effective on or after January 1, 2017 that had a material impact on the Company.

(q) Recently Issued Accounting Standards Not Yet Applied

In January 2016, the IASB issued IFRS 16 *Leases*, which requires lessees to recognize all leases on the balance sheet. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted for companies that also apply IFRS 15 *Revenue from Contracts with Customers*. The Company is currently evaluating the impact of the standard on its financial statements.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will come into effect for annual periods beginning on or after January 1, 2018. The Company has completed its assessment and evaluation of the standard and determined that it will not have a material impact on the recognition of revenue but will have an impact on the disclosures associated with revenue.

In July 2014, the IASB completed the final elements of IFRS 9 *Financial Instruments*. The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9, as amended, includes a principle based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially reformed approach to hedge accounting. IFRS 9 will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has completed its initial assessment and evaluation of the impact of the standard on its financial statements and does not expect the standard to significantly impact its consolidated financial statements.

## 3. CASH AND CASH EQUIVALENTS

On December 6, 2016, the Company received net proceeds of $56,636 from a private placement offering of common shares as described in further detail in note 7.

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

On April 3, 2017, the Company elected to use the first of its two fully-funded $25,000 equity cures effective as of the quarter ending on June 30, 2017. As at December 31, 2017, $25,000 remains in a segregated account.

## 4. INVENTORIES

| As at December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)* | ***($)*** | *($)* |
| Spare equipment parts | **77,392** | 60,852 |
| Chemicals | **24,309** | 17,504 |
| Sand and proppant | **22,356** | 7,258 |
| Coiled tubing | **12,252** | 9,164 |
| Other | **8,763** | 4,823 |
| | **145,072** | 99,601 |

For the year ended December 31, 2017, the cost of inventories recognized as an expense and included in cost of sales was approximately $560,000 (year ended December 31, 2016 – $274,000).

The Company reviews the carrying value of its inventory on an ongoing basis for obsolescence and to verify that the carrying value exceeds the net realizable amount. For the year ended December 31, 2017, the Company determined there was no impairment to write-off obsolete inventory and write-down inventory to its net realizable amount (year ended December 31, 2016 – $3,225).

| Years Ended December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)* | ***($)*** | *($)* |
| Canada | **—** | 2,169 |
| United States | **—** | 1,056 |
| | **—** | 3,225 |

# 5. PROPERTY, PLANT AND EQUIPMENT

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

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

| Year Ended December 31, 2016 | Opening Net Book Value | Additions | Disposals | Depreciation | Foreign Exchange Adjustments | Closing Net Book Value |
|---|---|---|---|---|---|---|
| *(C$000s)* | *($)* | *($)* | *($)* | *($)* | *($)* | *($)* |
| Assets under construction[1] | 195,449 | (41,080) | — | — | 2,836 | 157,205 |
| Field equipment | 980,002 | 66,678 | (2,827) | (141,899) | (20,831) | 881,123 |
| Field equipment under finance lease | 1,598 | — | — | (119) | (320) | 1,159 |
| Buildings | 66,488 | 10,160 | (167) | (4,882) | (4,990) | 66,609 |
| Land | 42,529 | 489 | (400) | — | (4,843) | 37,775 |
| Shop, office and other equipment | 7,935 | 634 | (18) | (2,420) | (127) | 6,004 |
| Computers and computer software | 4,102 | 1,156 | — | (3,075) | (1,090) | 1,093 |
| Leasehold improvements | 3,169 | 670 | (37) | (427) | (461) | 2,914 |
| | 1,301,272 | 38,707 | (3,449) | (152,822) | (29,826) | 1,153,882 |

| As at December 31, 2016 | Cost | Accumulated Depreciation | Net Book Value |
|---|---|---|---|
| *(C$000s)* | *($)* | *($)* | *($)* |
| Assets under construction | 157,205 | — | 157,205 |
| Field equipment | 1,805,182 | (924,059) | 881,123 |
| Field equipment under finance lease | 2,781 | (1,622) | 1,159 |
| Buildings | 89,437 | (22,828) | 66,609 |
| Land | 37,775 | — | 37,775 |
| Shop, office and other equipment | 24,684 | (18,680) | 6,004 |
| Computers and computer software | 24,854 | (23,761) | 1,093 |
| Leasehold improvements | 9,533 | (6,619) | 2,914 |
| | 2,151,451 | (997,569) | 1,153,882 |

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

Property, plant and equipment are tested for impairment in accordance with the accounting policy in note 2. The Company reviews the carrying value of its property, plant and equipment at each reporting period for indicators of impairment. As well, the Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset or cash-generating unit (CGU) other than goodwill may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount of that CGU to determine if the reversal of impairment loss is supported.

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

The significant improvement in the operating and financial results of the Company's United States CGU was an indicator that the impairment loss previously recorded in December 2015 may no longer exist. As a result, the Company estimated the recoverable amount of its property, plant and equipment.

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

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

The main commodity price assumptions over the forecast periods were:

- WTI Crude Oil (US$/bbl) increased from $57 in 2018 to $71 in 2022
- Henry Hub Gas (US$/mmBtu) increased from $3.00 in 2018 to $3.89 in 2022
- AECO Gas (C$/mcf) increased from $2.43 in 2018 to $3.67 in 2022

Revenue and operating income growth rates for each CGU were based on a combination of commodity price assumptions, historical results and forecasted activity levels, which incorporated pricing, utilization and cost improvements over the period. The revenue and operating income cumulative annual growth rates (CAGR) over the forecast period from 2018 to 2022, by CGU, are outlined below:

| | Canada | United States | Russia | Argentina |
|---|---|---|---|---|
| Revenue CAGR | 0% | 2% | 6% | 23% |
| Operating income CAGR | 1% | 4% | 10% | 59% |

The cash flows were prepared on a five-year basis, using a discount rate ranging from 12.8 percent to 25.0 percent depending on the CGU. Discount rates are derived from the Company's weighted average cost of capital, adjusted for risk factors specific to each CGU. Cash flows beyond that five-year period have been extrapolated using a steady 2.0 percent growth rate.

| | Canada | United States | Russia | Argentina |
|---|---|---|---|---|
| Discount rate | 14.5% | 12.8% | 13.0% | 25.0% |

A comparison of the recoverable amounts of each cash-generating unit with their respective carrying amounts resulted in no impairment against property, plant and equipment and supported the reversal of the impairment loss that was previously recorded in the United States CGU, after taking into account normal depreciation that would have been charged if no impairment had occurred. For the year ended December 31, 2017, a reversal of impairment loss of $76,296 was recognized (year ended December 31, 2016 – $nil).

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

| | Impairment or Reduction in Impairment Reversal | | | |
|---|---|---|---|---|
| | Canada | United States | Russia | Argentina |
| *(C$000s)* | *($)* | *($)* | *($)* | *($)* |
| 10% increase in expected future cash flows | None | None | None | None |
| 10% decrease in expected future cash flows | None | None | None | None |
| 1% decrease in discount rate | None | None | None | None |
| 1% increase in discount rate | None | None | None | None |

The Company also assessed fair value using market data to validate the impairment reversal and market data also supported the reversal of impairment.

Assumptions that are valid at the time of preparing the impairment test at December 31, 2017 may change significantly when new information becomes available. The Company will continue to monitor and update its assumptions and estimates with respect to property, plant and equipment impairment on an ongoing basis.

## 6. LONG-TERM DEBT

| As at December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)* | ***($)*** | *($)* |
| US$600,000 senior unsecured notes due December 1, 2020, bearing interest at 7.50% payable semi-annually | **752,700** | 805,620 |
| $200,000 second lien senior secured term loan facility due September 30, 2020, bearing interest at 9% payable quarterly, secured by the Canadian and U.S. assets of the Company on a second priority basis | **197,000** | 199,000 |
| $247,500 extendible revolving term loan facility, secured by Canadian and U.S. assets of the Company | **25,000** | — |
| Less: unamortized debt issuance costs | **(13,875)** | (18,736) |
| | **960,825** | 985,884 |
| US$135 mortgage maturing May 2018 bearing interest at U.S. prime less 1%, repayable at US$33 per month principal and interest, secured by certain real property | **169** | 698 |
| | **960,994** | 986,582 |
| Less: current portion of long-term debt | **(2,169)** | (2,520) |
| | **958,825** | 984,062 |

The fair value of the senior unsecured notes, as measured based on the closing quoted market price at December 31, 2017, was $743,111 (December 31, 2016 – $702,903). The carrying values of the mortgage obligation, revolving term loan facilities and the second lien term loan approximate their fair values as the interest rates are not significantly different from current interest rates for similar loans.

On September 27, 2017, the Company amended and extended its credit facilities to June 1, 2020. The amendment included a voluntary reduction in the total facilities from $300,000 to $275,000. The facilities consist of an operating facility of $27,500 and a revolving term loan facility of $247,500. The Company's credit facilities mature on June 1, 2020 and can be extended by one or more years at the Company's request and lenders' acceptance. The Company also may prepay principal without penalty. The interest rates are based on the parameters of certain bank covenants. For prime-based loans and U.S. base-rate loans, the rate ranges from prime or U.S. base rate plus 0.50 percent to prime plus 2.50 percent. For LIBOR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 1.50 percent to 3.50 percent above the respective base rates. The facility maintains its accordion feature at $200,000, which is available to the Company during the term of the agreement. The Company will incur interest at the high end of the ranges outlined above until its net Total Debt to Adjusted EBITDA ratio is below 5.00:1.00. Additionally, until such a time as the Company's net Total Debt to Adjusted EBITDA ratio is below 5.00:1.00, certain restrictions will apply including the following: (a) acquisitions will be subject to majority lender consent; (b) distributions will be restricted other than those relating to the Company's share unit plans, and no increase in the rate of dividends will be permitted; and (c) the Company will be prohibited from utilizing advances under the credit facilities to redeem or repay subordinated debt. As at December 31, 2017, the Company's net Total Debt to Adjusted EBITDA ratio, which excludes any benefit from the equity cure, was 4.97:1.00.

Debt issuance costs related to this facility are amortized over its term.

On June 10, 2016, the Company entered into a $200,000 second lien senior secured term loan facility. The term loan matures on September 30, 2020, and bears interest at 9 percent per annum, payable quarterly. Amortization payments equal to 1 percent of the original principal amount are payable annually, in equal quarterly installments, with the balance due on the final maturity date. The proceeds from the term loan were made available in a single draw, and amounts borrowed under the term loan that are repaid or prepaid are not available for re-borrowing. The term loan is secured by the Canadian and U.S. assets of the Company on a second priority basis, subordinate only to the revolving term loan facility.

Interest on long-term debt (including the amortization of debt issuance costs and debt discount) for the year ended December 31, 2017 was $85,520 (year ended December 31, 2016 – $78,069).

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

| | 2017 |
|---|---|
| *(C$000s)* | *($)* |
| Balance, January 1 | 986,582 |
| Issuance of long-term debt, net of debt issuance costs | 52,637 |
| Long-term debt repayments | (32,500) |
| Amortization of debt issuance costs and debt discount | 6,769 |
| Foreign exchange adjustments | (52,494) |
| Balance, December 31 | 960,994 |

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

| As at December 31, 2017 | Amount |
|---|---|
| *(C$000s)* | *($)* |
| 2018 | 2,169 |
| 2019 | 2,000 |
| 2020 | 970,700 |
| 2021 | — |
| 2022 | — |
| Thereafter | — |
| | 974,869 |

At December 31, 2017, the Company had utilized $2,664 of its loan facility for letters of credit and had $25,000 outstanding under its revolving term loan facility, leaving $247,336 in available credit, subject to a monthly borrowing base calculation, which could result in a lower amount of available credit.

See note 13 for further details on the covenants in respect of the Company's long-term debt.

# 7. CAPITAL STOCK

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

| Years Ended December 31, | | **2017** | | 2016 |
|---|---|---|---|---|
| Continuity of Common Shares | **Shares** | **Amount** | Shares | Amount |
| | ***(#)*** | ***($000s)*** | *(#)* | *($000s)* |
| Balance, beginning of period | **136,634,590** | **466,445** | 115,579,598 | 409,809 |
| Issued upon exercise of stock options | **186,375** | **472** | — | — |
| Issued upon exercise of warrants (note 8) | **6,934,776** | **34,539** | — | — |
| Shares from private placements | **—** | **—** | 21,055,000 | 56,636 |
| Shares cancelled | **—** | **—** | (8) | — |
| Balance, end of period | **143,755,741** | **501,456** | 136,634,590 | 466,445 |

The weighted average number of common shares outstanding for the year ended December 31, 2017 was 137,663,943 basic and 139,461,872 diluted (year ended December 31, 2016 – 116,906,108 basic and 117,325,647 diluted). The difference between basic and diluted shares is attributable to the dilutive effect of stock options and warrants issued by the Company as disclosed in note 8.

On December 6, 2016, the Company closed a bought deal private placement of 21,055,000 common shares for total gross proceeds of $60,007. Share issuance costs for the transaction were $3,371, resulting in net proceeds of $56,636.

A dividend of $0.015625 per common share, totalling $1,806, was declared on December 4, 2015 and paid on January 15, 2016.

During 2016, eight common shares were returned to the Company for cancellation. For accounting purposes, the cancellation of these shares was recorded as a reduction of capital stock in the amount of twenty-eight dollars, along with a corresponding increase to contributed surplus.

# 8. SHARE-BASED PAYMENTS

(a) Stock Options

| Years Ended December 31, | **2017** | | 2016 | |
|---|---|---|---|---|
| Continuity of Stock Options | **Options** | **Average Exercise Price** | Options | Average Exercise Price |
| | *(#)* | *($)* | *(#)* | *($)* |
| Balance, January 1 | **7,246,386** | **6.62** | 8,229,947 | 7.81 |
| Granted during the period | **4,195,100** | **4.76** | 436,500 | 2.03 |
| Exercised for common shares | **(186,375)** | **1.99** | — | — |
| Forfeited | **(855,638)** | **8.12** | (854,611) | 10.61 |
| Expired | **(783,300)** | **12.30** | (565,450) | 14.32 |
| Balance, December 31 | **9,616,173** | **5.30** | 7,246,386 | 6.62 |

The weighted average share price at the date of exercise for stock options exercised during 2017 was $4.12 (2016 – not applicable as no options were exercised).

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Exercise Price Per Option | Number of Options | Weighted Average Remaining Life (Years) | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| $1.34 – $2.03 | 3,247,125 | 2.92 | $ 1.94 | 1,568,150 | $ 1.97 |
| $2.04 – $4.33 | 504,400 | 3.94 | $ 3.33 | 71,875 | $ 3.15 |
| $4.34 – $5.09 | 3,770,700 | 4.00 | $ 4.84 | — | $ — |
| $5.10 – $11.19 | 1,261,100 | 2.16 | $ 9.49 | 610,350 | $ 9.64 |
| $11.20 – $20.81 | 832,848 | 0.97 | $ 15.31 | 651,692 | $ 15.21 |
| $1.34 – $20.81 | 9,616,173 | 3.13 | $ 5.30 | 2,902,067 | $ 6.58 |

Stock options vest equally over four years and expire five years from the date of grant. When stock options are exercised, the proceeds together with the compensation expense previously recorded in contributed surplus, are added to capital stock.

The weighted average fair value of options granted during 2017, determined using the Black-Scholes valuation method, was $2.11 per option (year ended December 31, 2016 – $0.84 per option). The Company applied the following assumptions in determining the fair value of options on the date of grant:

| Years Ended December 31, | **2017** | 2016 |
|---|---|---|
| Expected life (years) | **3.5** | 3.5 |
| Expected volatility | **64.39%** | 59.17% |
| Risk-free interest rate | **1.07%** | 0.63% |
| Expected dividends | **$0.00** | $0.00 |

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

(b) Share Units

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| Continuity of Stock Units | **Deferred Share Units** | **Performance Share Units** | **Restricted Share Units** | Deferred Share Units | Performance Share Units | Restricted Share Units |
| | *(#)* | *(#)* | *(#)* | *(#)* | *(#)* | *(#)* |
| Balance, January 1 | **145,000** | **639,330** | **2,757,850** | 72,500 | 238,995 | 812,828 |
| Granted during the period | **145,000** | **124,000** | **2,622,400** | 145,000 | 500,000 | 2,431,650 |
| Exercised | **(145,000)** | **—** | **—** | (72,500) | — | — |
| Forfeited | **—** | **(79,665)** | **(1,105,067)** | — | (99,665) | (486,628) |
| Balance, December 31 | **145,000** | **683,665** | **4,275,183** | 145,000 | 639,330 | 2,757,850 |

| Years Ended December 31, | 2017 | 2016 |
|---|---|---|
| | *($)* | *($)* |
| Expense (recovery) from: | | |
| Stock options | **4,985** | 2,361 |
| Deferred share units | **899** | 690 |
| Performance share units | **(171)** | 1,188 |
| Restricted share units | **101** | 4,055 |
| Total stock-based compensation expense | **5,814** | 8,294 |

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

The Company grants deferred share units to its outside directors. These units vest in November of the year of grant and are settled either in cash (equal to the market value of the underlying shares at the time of exercise) or in Company shares purchased on the open market. The fair value of the deferred share units is recognized equally over the vesting period, based on the current market price of the Company's shares. At December 31, 2017, the liability pertaining to deferred share units was $867 (December 31, 2016 – $690).

The Company grants performance share units to a senior officer. The amount of the grants earned is linked to corporate performance and the grants vest on the approval of the Board of Directors at the meeting held to approve the consolidated financial statements for the year in respect of which performance is being evaluated. As with the deferred share units, performance share units are settled either in cash or Company shares purchased on the open market. At December 31, 2017, the liability pertaining to performance share units was $1,389 (December 31, 2016 – $1,560).

The Company grants restricted share units to its employees. These units vest over three years and are settled either in cash (equal to the market value of the underlying shares at the time of exercise) or in Company shares purchased on the open market. The fair value of the restricted share units is recognized over the vesting period, based on the current market price of the Company's shares. At December 31, 2017, the liability pertaining to restricted share units was $5,096 (December 31, 2016 – $4,995).

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

(c) Warrants

In conjunction with the second lien senior secured term loan facility as disclosed in note 6, 6,934,776 warrants to purchase common shares of the Company were issued during 2016, entitling the holder to acquire up to 6,934,776 common shares at a price of $4.14 per common share. The warrants expire on June 10, 2019 and can be exercised at any time prior to such date. The fair value of the warrants issued was estimated using a Black-Scholes pricing model, in the amount of $5,830 and accounted for as a deferred finance cost during 2016. On November 6, 2017, all the warrants which were issued in conjunction with the senior secured second lien term loan facility were exercised, for total proceeds of $28,709.

# 9. INCOME TAXES

The components of income tax expense (recovery) are:

| Years Ended December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)* | ***($)*** | *($)* |
| Current income tax expense | **3,018** | 2,567 |
| Deferred income tax recovery | **(10,743)** | (112,199) |
| | **(7,725)** | (109,632) |

The provision for income taxes in the consolidated statements of operations varies from the amount that would be computed by applying the expected 2017 tax rate of 27.0 percent (year ended December 31, 2016 – 27.0 percent) to income before income taxes.

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

| Years Ended December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s except percentages)* | ***($)*** | *($)* |
| Loss before income tax | **(7,139)** | (313,189) |
| Income tax rate (%) | **27.0** | 27.0 |
| Computed expected income tax recovery | **(1,928)** | (84,561) |
| Increase (decrease) in income taxes resulting from: | | |
| Non-deductible expenses/non-taxable income | **(4,803)** | (6,466) |
| Foreign tax rate and other foreign differences | **4,328** | (19,153) |
| Translation of foreign subsidiaries | **752** | (326) |
| Deferred income tax adjustment from tax rate changes | **(8,582)** | — |
| Other non-income taxes | **544** | 353 |
| Derecognition of tax losses | **772** | 3,082 |
| Other | **1,192** | (2,561) |
| | **(7,725)** | (109,632) |

On December 22, 2017, the United States enacted comprehensive tax reform under the Tax Cut and Jobs Act ("Tax Act"). Beginning in 2018, the Federal corporate income tax rate will drop from 35% to 21%. The Company has revalued its deferred tax liability as at December 31, 2017 based on the new lower tax rate. The result of this revaluation was a deferred tax recovery for the year ended December 31, 2017 of $16,081 to reduce the deferred tax liability balance.

In addition, the Argentinean government enacted legislation to reform the tax system. The most significant change was a reduction in the corporate income tax rate from 35% to 30% in 2018 and 2019 and a further reduction to 25% in 2020 and beyond. The Company has revalued its deferred tax asset as at December 31, 2017 based on the new lower tax rates. The result of this revaluation was a deferred tax expense for the year ended December 31, 2017 of $7,345 to reduce the deferred tax asset balance.

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

| As at December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)* | ***($)*** | *($)* |
| Property, plant and equipment | **(175,993)** | (212,929) |
| Losses carried forward | **212,842** | 234,935 |
| Canadian exploration expenses | **5,439** | 5,616 |
| Deferred compensation payable | **1,409** | 1,936 |
| Deferred financing and share issuance costs | **629** | 1,505 |
| Other | **17,147** | 24,994 |
| | **61,473** | 56,057 |

Loss carry-forwards expire at various dates ranging from December 31, 2020 to December 31, 2037.

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

| Years Ended December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)* | ***($)*** | *($)* |
| Balance, beginning of year | **56,057** | (55,853) |
| Charged (credited) to the consolidated statements of operations or accumulated other comprehensive income: | | |
| Property, plant and equipment | **36,936** | (6,261) |
| Losses carried forward | **(22,093)** | 111,514 |
| Canadian exploration expenses | **(177)** | 232 |
| Deferred compensation payable | **(527)** | 1,564 |
| Deferred financing and share issuance costs | **(876)** | 1,140 |
| Other | **(7,847)** | 3,721 |
| Balance, end of year | **61,473** | 56,057 |

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

| Years Ended December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)* | ***($)*** | *($)* |
| Tax losses (capital) | **27,425** | 25,390 |
| Tax losses (income) | **39,357** | 40,632 |

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

Earnings retained by subsidiaries amounted to $23,619 at December 31, 2017 (December 31, 2016 – $nil). Provision has been made for withholding and other taxes that would become payable on the distribution of these earnings only to the extent that it is expected that these earnings will be distributed in the foreseeable future.

# 10. COMMITMENTS

The Company has lease commitments for premises, equipment, vehicles and storage facilities under agreements requiring aggregate minimum payments over the five years following December 31, 2017, as follows:

| *(C$000s)* | *($)* |
|---|---|
| 2018 | 19,491 |
| 2019 | 11,933 |
| 2020 | 6,440 |
| 2021 | 1,323 |
| 2022 | 507 |
| | 39,694 |

For the year ended December 31, 2017, $55,644 was recognized as an expense in the consolidated statements of operations in respect of operating leases (year ended December 31, 2016 – $36,449).

The Company has obligations for the purchase of products, services and property, plant and equipment over the next five years following December 31, 2017, as follows:

| *(C$000s)* | *($)* |
|---|---|
| 2018 | 182,802 |
| 2019 | 96,279 |
| 2020 | 50,682 |
| 2021 | 2,647 |
| 2022 | 1,581 |
| | 333,991 |

# 11. FINANCIAL INSTRUMENTS

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

(a) Fair Values of Financial Assets and Liabilities

The fair values of financial instruments included in the consolidated balance sheets, except long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of the senior unsecured notes based on the closing market price at December 31, 2017 was $743,111 before deduction of unamortized debt issuance costs (December 31, 2016 – $702,903). The carrying value of the senior unsecured notes at December 31, 2017 was $752,700 before deduction of unamortized debt issuance costs and debt discount (December 31, 2016 – $805,620). The fair values of the remaining long-term debt approximate their carrying values, as described in note 6.

(b) Credit Risk

Substantial amounts of the Company's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risks. The Company mitigates this risk through its credit policies and practices including the use of credit limits and approvals, and by monitoring the financial condition of its customers. At December 31, 2017, the Company had a provision for doubtful accounts receivable of $4,649 (December 31, 2016 – $7,551), primarily related to a customer in Mexico.

Payment terms with customers vary by country and contract. Standard payment terms are 30 days from invoice date. The Company's aged trade and accrued accounts receivable at December 31, 2017 and 2016, excluding any impaired accounts, are as follows:

| As at December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)* | ***($)*** | *($)* |
| Current | **232,963** | 84,833 |
| 31 – 60 days | **80,176** | 33,687 |
| 61 – 90 days | **22,051** | 7,707 |
| 91+ days | **13,454** | 15,098 |
| Total | **348,644** | 141,325 |

(c) Interest Rate Risk

The Company is exposed to cash flow risk due to fluctuating interest payments required to service any floating-rate debt. The increase or decrease in annual interest expense for each 1 percentage point change in interest rates on floating-rate debt at December 31, 2017 amounts to $252 (December 31, 2016 – $7).

The Company's effective interest rate for the year ended December 31, 2017 was 8.6 percent (year ended December 31, 2016 – 8.3 percent).

(d) Liquidity Risk

The Company's principal sources of liquidity are operating cash flows, existing or new credit facilities and new share equity. The Company monitors its liquidity to ensure it has sufficient funds to complete planned capital and other expenditures. The Company mitigates liquidity risk by maintaining adequate banking and credit facilities and monitoring its forecast and actual cash flows. The Company may also adjust its capital spending and dividends to maintain liquidity. See note 13 for further details on the Company's capital structure.

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

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

*[1] Principal and interest*

| At December 31, 2016 | Total | <1 Year | 1 – 3 Years | 4 – 6 Years | 7 – 9 Years | Thereafter |
|---|---|---|---|---|---|---|
| *(C$000s)* | *($)* | *($)* | *($)* | *($)* | *($)* | *($)* |
| Accounts payable and accrued liabilities | 114,529 | 114,529 | — | — | — | — |
| Long-term debt[1] | 1,308,242 | 81,079 | 1,227,163 | — | — | — |

*[1] Principal and interest*

(e) Foreign Exchange Risk

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

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

| At December 31, 2017 | **Impact to Net Income** | **Impact to Other Comprehensive Income** |
|---|---|---|
| *(C$000s)* | ***($)*** | ***($)*** |
| 1% change in value of U.S. dollar | **1,168** | **2,870** |
| 1% change in value of Russian rouble | **—** | **498** |

| At December 31, 2016 | Impact to Net Income | Impact to Other Comprehensive Income |
|---|---|---|
| *(C$000s)* | *($)* | *($)* |
| 1% change in value of U.S. dollar | 1,015 | 3,072 |
| 1% change in value of Russian rouble | — | 506 |

## 12. SUPPLEMENTAL CASH FLOW INFORMATION

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

| Years Ended December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)* | ***($)*** | *($)* |
| Accounts receivable | **(201,246)** | 63,286 |
| Inventory | **(45,471)** | 24,796 |
| Prepaid expenses and deposits | **189** | 1,025 |
| Accounts payable and accrued liabilities | **127,384** | (39,027) |
| Income taxes recoverable | **1,956** | (174) |
| | **(117,188)** | 49,906 |
| Income taxes paid | **1,062** | 2,742 |

Purchase of property, plant and equipment is comprised of:

| Years Ended December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)* | ***($)*** | *($)* |
| Property, plant and equipment additions | **(91,933)** | (38,707) |
| Change in liabilities related to purchase of property, plant and equipment | **5,518** | (17,367) |
| | **(86,415)** | (56,074) |

## 13. CAPITAL STRUCTURE

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

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

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

| For the Twelve Months Ended December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)* | ***($)*** | *($)* |
| Net income (loss) | **586** | (203,557) |
| Adjusted for the following: | | |
| Depreciation | **130,793** | 152,822 |
| Foreign exchange losses | **34,273** | 19,319 |
| Loss (gain) on disposal of property, plant and equipment | **13,039** | (491) |
| Reversal of impairment of property, plant and equipment | **(76,296)** | — |
| Impairment of inventory | **—** | 3,225 |
| Interest | **85,450** | 80,110 |
| Income taxes | **(7,725)** | (109,632) |
| Operating income (loss) | **180,120** | (58,204) |

Net debt for this purpose is calculated as follows:

| As at December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)* | ***($)*** | *($)* |
| Long-term debt, net of debt issuance costs and debt discount (note 6) | **960,994** | 986,582 |
| Finance lease obligations | **914** | 304 |
| Less: cash and cash equivalents | **(52,749)** | (109,917) |
| Net debt | **909,159** | 876,969 |

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

At December 31, 2017, the net debt to operating income ratio was 5.05:1 (December 31, 2016 – (15.07):1) calculated on a 12-month trailing basis as follows:

| For the Twelve Months Ended December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s, except ratio)* | ***($)*** | *($)* |
| Net debt | **909,159** | 876,969 |
| Operating income (loss) | **180,120** | (58,204) |
| Net debt to operating income ratio | **5.05:1** | (15.07):1 |

The Company is subject to certain financial covenants relating to working capital, leverage and the generation of cash flow in respect of its operating and revolving credit facilities. These covenants are monitored on a monthly basis. At December 31, 2017 and December 31, 2016, the Company was in compliance with its covenants with respect to its credit facilities.

| Years Ended December 31, except as indicated in notes below | **2017** | 2016 |
|---|---|---|
| Working capital ratio not to fall below | **1.15x** | 1.15x |
| Funded Debt to Adjusted EBITDA not to exceed[(1)(2)(3)] | **3.00x** | 5.00x |
| Funded Debt to Capitalization not to exceed[(2)(4)] | **0.30x** | 0.30x |

*[(1)] Funded Debt to Adjusted EBITDA covenant is 3.00x for all quarters ended during the term of the agreement.*
*[(2)] Funded Debt is defined as Total Debt excluding all outstanding senior unsecured notes and the second lien senior secured term loan facility. Total Debt includes bank loans and long-term debt (before unamortized debt issuance costs and debt discount) plus outstanding letters of credit. For the purposes of the Total Debt to Adjusted EBITDA ratio, the Funded Debt to Capitalization Ratio and the Funded Debt to Adjusted EBITDA ratio, the amount of Total Debt or Funded Debt, as applicable, is reduced by the amount of cash on hand with lenders (excluding any cash held in a segregated account for the purposes of a potential equity cure).*
*[(3)] Adjusted EBITDA is defined as net income or loss for the period adjusted for interest, taxes, depreciation and amortization, non-cash stock-based compensation, non-controlling interest relating to Colombia, and gains and losses that are extraordinary or non-recurring.*
*[(4)] Capitalization is Total Debt plus equity attributable to the shareholders of Calfrac.*

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

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

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

iii. 25 percent of the net book value of property, plant and equipment (PP&E) of the parent company and its U.S. operating subsidiary. The value of PP&E excludes assets under construction and is limited to $125,000.

Distributions are restricted other than those relating to the Company's share unit plans and dividend distributions, provided that the rate of dividends must not exceed $0.015625 per share quarterly.

The indenture governing the senior unsecured notes contains restrictions on the Company's ability to pay dividends, purchase and redeem shares of the Company, and make certain restricted investments in circumstances where

i. the Company is in default under the indenture or the making of such payment would result in a default;
ii. the Company is not meeting the Fixed Charge Coverage Ratio[1] under the indenture of at least 2:1 for the most recent four fiscal quarters; or
iii. there is insufficient room for such payment within a builder basket included in the indenture.

*[1] The Fixed Charge Coverage Ratio is defined as cash flow to interest expense. Cash flow is a non-GAAP measure and does not have a standardized meaning under IFRS and is defined under the indenture as net income (loss) attributable to the shareholders of Calfrac before depreciation, extraordinary gains or losses, unrealized foreign exchange gains or losses, gains or losses on disposal of property, plant and equipment, impairment or reversal of impairment of assets, restructuring charges, provision for settlement of litigation, stock-based compensation, interest, and income taxes.*

These limitations on restricted payments are tempered by the existence of a number of exceptions to the general prohibition, including a basket allowing for restricted payments in an aggregate amount of up to US$20,000. As at December 31, 2017, this basket was not utilized.

The indenture also restricts the incurrence of additional indebtedness if the Fixed Charge Coverage Ratio determined on a pro forma basis for the most recently ended four fiscal quarter period for which internal financial statements are available is not at least 2:1. As is the case with restricted payments, there are a number of exceptions to this prohibition on the incurrence of additional indebtedness, including the incurrence of additional debt under credit facilities up to the greater of $175,000 or 30 percent of the Company's consolidated tangible assets. At December 31, 2017, the Company was able to incur additional indebtedness of approximately $400,000 pursuant to the aforementioned exception.

As at December 31, 2017, the Company's Fixed Charge Coverage Ratio of 2.24:1 was higher than the required 2:1 ratio and the aforementioned prohibitions will not be applicable as long as the Company remains above this ratio.

The Company has measures in place to ensure that it has sufficient liquidity to navigate the cyclical nature of the oilfield services sector and safeguard the Company's ability to continue as a going concern. The Company negotiated amendments to its credit facilities to provide increased financial flexibility. These amendments include an "Equity Cure" feature pursuant to which proceeds from equity offerings may be applied as both an adjustment in the calculation of Adjusted EBITDA and as a reduction of Funded Debt towards the Funded Debt to Adjusted EBITDA ratio covenant for any of the quarters ending prior to and including June 30, 2020, subject to certain conditions including:

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

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

On April 3, 2017, the Company elected to use the first of its two fully-funded $25,000 equity cures effective as of the quarter ending on June 30, 2017. As at December 31, 2017, $25,000 remains in a segregated account.

## 14. RELATED-PARTY TRANSACTIONS

In November 2010, the Company lent a senior officer $2,500 to purchase common shares of the Company on the Toronto Stock Exchange. The loan is on a non-recourse basis and is secured by the common shares acquired with the loan proceeds. The loan was amended in February 2015 to extend the term by five years to November 8, 2020 and change the interest rate to the prescribed rate under the Income Tax Act (Canada), which rate was 1.0 percent per annum at the time of the amendment. The loan was subsequently amended in December 2016 to make it non-interest bearing, effective February 24, 2015. The market value of the shares that secure the loan was approximately $1,012 as at December 31, 2017 (December 31, 2016 – $805). In accordance with applicable accounting standards regarding share purchase loans receivable, this loan is classified as a reduction of shareholders' equity due to its non-recourse nature. In addition, the shares purchased with the loan proceeds are considered to be, in substance, stock options.

The Company leases certain premises from an entity controlled by a director of the Company. The rent charged for these premises during the year ended December 31, 2017 was $1,742 (year ended December 31, 2016 – $1,546).

As disclosed in note 7, the Company issued common shares under a private placement during 2016. Of the 21,055,000 shares issued, 3,508,700 were purchased by directors or entities controlled by directors of the Company for gross proceeds of $10,000.

## 15. PRESENTATION OF EXPENSES

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

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

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

Additional information on the nature of expenses is as follows:

| Years Ended December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)* | ***($)*** | *($)* |
| Product costs | **463,974** | 217,353 |
| Depreciation | **130,793** | 152,822 |
| Amortization of debt issuance costs and debt discount | **6,769** | 5,756 |
| Employee benefits expense (note 16) | **353,188** | 251,201 |

## 16. EMPLOYEE BENEFITS EXPENSE

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

| Years Ended December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)* | ***($)*** | *($)* |
| Salaries and short-term employee benefits | **345,542** | 235,015 |
| Post-employment benefits (group retirement savings plan) | **701** | — |
| Share-based payments | **5,814** | 8,294 |
| Termination benefits | **1,131** | 7,892 |
| | **353,188** | 251,201 |

## 17. COMPENSATION OF KEY MANAGEMENT

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

| Years Ended December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)* | ***($)*** | *($)* |
| Salaries, fees and short-term benefits | **1,721** | 1,644 |
| Post-employment benefits (group retirement savings plan) | **10** | — |
| Share-based payments | **2,242** | 2,420 |
| | **3,973** | 4,064 |

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

# 18. CONTINGENCIES

## GREEK LITIGATION

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

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

In 1999, the largest group of plaintiffs received a ruling from the Athens Court of First Instance that their termination was invalid and that salaries in arrears amounting to approximately $10,305 (6,846 euros) plus interest were due to the former employees. This decision was appealed to the Athens Court of Appeal, which allowed the appeal in 2001 and annulled the above-mentioned decision of the Athens Court of First Instance. The said group of former employees filed an appeal with the Supreme Court of Greece, which was heard on May 29, 2007. The Supreme Court of Greece allowed the appeal and sent the matter back to the Athens Court of Appeal for the consideration of the quantum of awardable salaries in arrears. On June 3, 2008, the Athens Court of Appeal rejected NAPC's appeal and reinstated the award of the Athens Court of First Instance, which decision was further appealed to the Supreme Court of Greece. The matter was heard on April 20, 2010 and a decision rejecting such appeal was rendered in June 2010. As a result of Denison's participation in the consortium that was named in the lawsuit, the Company has been served with three separate payment orders, one on March 24, 2015 and two others on December 29, 2015. The Company was also served with an enforcement order on November 23, 2015. Oppositions have been filed on behalf of the Company in respect of each of these orders which oppose the orders on the basis that they were improperly issued and are barred from a statute of limitations perspective. The salaries in arrears sought to be recovered through these orders are part of the $10,305 (6,846 euros) cited above and the interest being sought in respect of these orders is part of the $26,536 (17,629 euros) cited below. Provisional orders granting a temporary suspension of any enforcement proceedings have been granted in respect of all of the orders that have been served. The order served on March 24, 2015 was heard on November 24, 2015 and a decision was issued on November 25, 2016 accepting the Company's opposition on the basis that no lawful service of Judgment No 4528/2008 had taken place until the filing of the opponents' petition and/or the issuance of the payment order. The plaintiffs have filed an appeal against the above decision which has been scheduled to be heard on October 16, 2018. A hearing in respect of the order served on November 23, 2015 was adjourned until October 31, 2018. A hearing in respect of the orders served in December of 2015 scheduled for September 20, 2016 was adjourned until November 21, 2016 and two decisions were issued on January 9, 2017 accepting the Company's oppositions on a statute of limitations basis. The plaintiffs have filed appeals against the above decisions, which are scheduled to be heard on October 16, 2018.

NAPC is also the subject of a claim for approximately $4,308 (2,862 euros) plus associated penalties and interest from the Greek social security agency for social security obligations associated with the salaries in arrears that are the subject of the above-mentioned decision.

The maximum aggregate interest and penalties payable under the claims noted above, as well as three other immaterial claims against NAPC totaling $870 (578 euros), amounted to $26,536 (17,629 euros) as at December 31, 2017.

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

# 19. SEGMENTED INFORMATION

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

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

| | Canada | United States | Russia | Latin America | Corporate | Consolidated |
|---|---|---|---|---|---|---|
| *(C$000s)* | *($)* | *($)* | *($)* | *($)* | *($)* | *($)* |
| **Years Ended December 31, 2017** | | | | | | |
| Revenue[2] | **540,059** | **713,467** | **123,965** | **150,214** | **—** | **1,527,705** |
| Operating income (loss)[1] | **84,743** | **121,790** | **13,413** | **(3,104)** | **(36,722)** | **180,120** |
| Segmented assets[3] | **624,845** | **881,716** | **116,146** | **155,259** | **—** | **1,777,966** |
| Capital expenditures | **24,942** | **59,773** | **2,796** | **4,422** | **—** | **91,933** |
| Years Ended December 31, 2016 | | | | | | |
| Revenue[2] | 250,013 | 234,633 | 95,860 | 154,008 | — | 734,514 |
| Operating income (loss)[1] | (4,990) | (26,298) | 9,013 | (2,527) | (33,402) | (58,204) |
| Segmented assets[3] | 634,560 | 710,222 | 105,142 | 163,080 | — | 1,613,004 |
| Capital expenditures | 8,354 | 19,011 | 2,373 | 8,969 | — | 38,707 |

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

*[2] Argentina's revenue for the years ended December 31, 2017 and 2016 was $148,146 or 10% of consolidated revenue and $145,623 or 20% of consolidated revenue, respectively.*

*[3] Argentina's assets as at December 31, 2017 and 2016 were $150,850 or 9% of consolidated assets and $154,665 or 10% of consolidated assets, respectively.*

| Years Ended December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)* | *($)* | *($)* |
| Net income (loss) | **586** | (203,557) |
| Add back (deduct): | | |
| Depreciation | **130,793** | 152,822 |
| Foreign exchange losses | **34,273** | 19,319 |
| Loss (gain) on disposal of property, plant and equipment | **13,039** | (491) |
| Reversal of impairment of property, plant and equipment | **(76,296)** | — |
| Impairment of inventory | **—** | 3,225 |
| Interest | **85,450** | 80,110 |
| Income taxes | **(7,725)** | (109,632) |
| Operating income (loss) | **180,120** | (58,204) |

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

The following table sets forth consolidated revenue by service line:

| Years Ended December 31, | **2017** | 2016 |
|---|---|---|
| *(C$000s)* | ***($)*** | *($)* |
| Fracturing | **1,376,069** | 600,887 |
| Coiled tubing | **90,578** | 75,448 |
| Cementing | **25,278** | 36,308 |
| Product sales | **13,407** | — |
| Other | **22,373** | 21,871 |
| | **1,527,705** | 734,514 |

The Company's customer base consists of approximately 130 oil and natural gas exploration and production companies, ranging from large multi-national publicly traded companies to small private companies. Notwithstanding the Company's broad customer base, Calfrac had five significant customers that collectively accounted for approximately 35 percent of the Company's revenue for the year ended December 31, 2017 (year ended December 31, 2016 – five significant customers for approximately 42 percent) and, of such customers, one customer accounted for approximately 10 percent of the Company's revenue for the year ended December 31, 2017 (year ended December 31, 2016 – 12 percent).

# HISTORICAL REVIEW

| | **2017** | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| *(C$000s, except per share amounts)* | ***($)*** | *($)* | *($)* | *($)* | *($)* |
| *(unaudited)* | | | | | |
| **FINANCIAL RESULTS** | | | | | |
| Revenue | **1,527,705** | 734,514 | 1,495,205 | 2,496,931 | 1,563,814 |
| Operating income(1) | **180,120** | (58,204) | 29,384 | 357,210 | 188,076 |
| Per share - basic (2) | **1.31** | (0.50) | 0.31 | 3.80 | 2.06 |
| Per share - diluted (2) | **1.29** | (0.50) | 0.31 | 3.77 | 2.04 |
| Adjusted EBITDA(1) | **191,823** | (44,750) | 52,057 | 357,295 | 194,878 |
| Per share - basic(2) | **1.39** | (0.38) | 0.54 | 3.80 | 2.13 |
| Per share - diluted(2) | **1.38** | (0.38) | 0.54 | 3.77 | 2.12 |
| Net income (loss) attributable to the shareholders of Calfrac | **5,939** | (198,097) | (221,594) | 66,976 | 27,914 |
| Per share - basic (2) | **0.04** | (1.69) | (2.31) | 0.71 | 0.31 |
| Per share - diluted (2) | **0.04** | (1.69) | (2.31) | 0.71 | 0.31 |
| Capital expenditures | **91,933** | 38,707 | 157,934 | 177,585 | 170,517 |
| **FINANCIAL POSITION, END OF PERIOD** | | | | | |
| Current Assets | **576,338** | 388,934 | 495,179 | 819,298 | 590,515 |
| Total Assets | **1,777,966** | 1,613,004 | 1,815,823 | 2,157,367 | 1,869,931 |
| Working Capital | **327,049** | 271,581 | 305,952 | 441,234 | 319,934 |
| Long-Term Debt | **958,825** | 984,062 | 927,270 | 738,386 | 651,553 |
| Total Equity | **543,645** | 497,458 | 623,719 | 832,403 | 795,207 |
| **COMMON SHARE DATA** | | | | | |
| Common shares outstanding (000s), end of period(2) | **143,756** | 136,635 | 115,580 | 95,253 | 92,597 |
| Weighted average (diluted)(2) | **139,462** | 117,326 | 96,076 | 94,781 | 92,090 |
| **Share trading** | | | | | |
| High ($)(2) | **6.51** | 5.00 | 11.17 | 22.57 | 17.95 |
| Low ($)(2) | **2.23** | 1.06 | 1.37 | 8.60 | 11.71 |
| Close ($), end of period(2) | **5.98** | 4.76 | 2.29 | 10.01 | 15.50 |
| Volume (000s)(2) | **159,116** | 176,684 | 136,633 | 112,963 | 89,516 |
| **OPERATING, END OF PERIOD** | | | | | |
| Active pumping horsepower (000s) | **1,115** | 659 | 776 | 1,254 | 1,194 |
| Idle pumping horsepower (000s) | **280** | 563 | 524 | — | — |
| Total pumping horsepower (000s) | **1,395** | 1,222 | 1,300 | 1,254 | 1,194 |
| Active coiled tubing units (#) | **21** | 19 | 20 | 36 | 38 |
| Idle coiled tubing units (#) | **9** | 13 | 17 | — | — |
| Total coiled tubing units (#) | **30** | 32 | 37 | 36 | 38 |
| Active cementing units (#) | **12** | 14 | 23 | 31 | 31 |
| Idle cementing units (#) | **11** | 11 | 8 | — | — |
| Total cementing units (#) | **23** | 25 | 31 | 31 | 31 |

(1) *Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.*
(2) *Comparative amounts were adjusted to reflect the Company's two-for-one common share split that occurred on June 2, 2014.*

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

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

Douglas R. Ramsay (3)(4)
*Vice Chairman*
*Calfrac Well Services Ltd.*

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

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

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

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

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

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

## OFFICERS

Fernando Aguilar
*President & Chief Executive Officer*

Lindsay R. Link
*Chief Operating Officer*

Michael D. Olinek
*Chief Financial Officer*

Armando J. Bertolin
*Director General, Latin American Division*

Tom J. Medvedic
*President, Canadian Division*

Robert L. Sutherland
*President, Russian Division*

Fred L. Toney
*President, United States Division*

J. Michael Brown
*Vice President, Technical Services*

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

Chris K. Gall
*Vice President, Global Supply Chain*

Roderick P. Kuntz
*Vice President, HS&E*

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

Gordon T. Milgate
*Vice President, Operations, Canadian Division*

Edward L. Oke
*Vice President, Human Resources*

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

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

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

Scott A. Treadwell
*Vice President, Capital Markets & Strategy*

Matthew L. Mignault
*Corporate Controller*

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

## LEGAL COUNSEL

Bennett Jones LLP
Calgary, Alberta

## STOCK EXCHANGE LISTING

Trading Symbol: CFW

## REGISTRAR & TRANSFER AGENT

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

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

## FACILITIES & OPERATING BASES

### CANADA

#### ALBERTA
*Calgary - Corporate Head Office*
*Calgary - Technology and Training Centre*
*Edson*
*Grande Prairie*
*Medicine Hat*
*Red Deer*

#### BRITISH COLUMBIA
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