Calfrac Announces Third Quarter Results and Reduced Capital Budget

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CALGARY, Oct. 31, 2019 /CNW/ - **Calfrac Well Services Ltd. ("Calfrac" or "the Company") (TSX-CFW)** announces its financial and operating results for the three and nine months ended September 30, 2019.

HIGHLIGHTS

On January 1, 2019, Calfrac applied IFRS 16 using the modified retrospective approach under which comparative information has not been restated and continues to be reported under IAS 17 and related interpretations. Please refer to note 1 of the financial statements for additional information on the impact to the Company's financial information.

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
	2019	2018	Change	**2019**	2018	Change
(C$000s, except per share and unit data)	***($)***	*($)*	*(%)*	***($)***	*($)*	*(%)*
(unaudited)						
Revenue	**399,220**	630,128	(37)	**1,303,870**	1,757,568	(26)
Operating income[1]	**47,021**	115,331	(59)	**131,747**	249,833	(47)
Per share – basic	**0.33**	0.80	(59)	**0.91**	1.74	(48)
Per share – diluted	**0.32**	0.79	(59)	**0.90**	1.70	(47)
Adjusted EBITDA[1]	**43,028**	111,631	(61)	**132,237**	266,494	(50)
Per share – basic	**0.30**	0.77	(61)	**0.92**	1.85	(50)
Per share – diluted	**0.30**	0.76	(61)	**0.91**	1.81	(50)
Net loss attributable to the shareholders of Calfrac before foreign exchange gains or losses[2]	**(25,578)**	29,741	NM	**(102,514)**	17,075	NM
Per share – basic	**(0.18)**	0.21	NM	**(0.71)**	0.12	NM
Per share – diluted	**(0.18)**	0.20	NM	**(0.71)**	0.12	NM
Net loss attributable to the shareholders of Calfrac	**(29,424)**	14,878	NM	**(106,803)**	(14,726)	NM
Per share – basic	**(0.20)**	0.10	NM	**(0.74)**	(0.10)	NM
Per share – diluted	**(0.20)**	0.10	NM	**(0.74)**	(0.10)	NM
Working capital (end of period)				**257,189**	386,843	(34)
Total equity (end of period)				**414,195**	516,899	(20)
Weighted average common shares outstanding (000s)						
Basic	**144,674**	144,237	—	**144,512**	143,959	—
Diluted	**145,334**	146,858	(1)	**145,713**	147,103	(1)

(1) Refer to "Non-GAAP Measures" on pages 20 and 21 for further information.

(2) Net income (loss) attributable to the shareholders of Calfrac before foreign exchange (FX) gains or losses is on an after-tax basis. Management believes that this is a useful supplemental measure as it provides an indication of the financial results generated by Calfrac without the impact of FX fluctuations, which are not fully controllable by the Company. This measure does not have any standardized meaning prescribed under IFRS and, accordingly, may not be comparable to similar measures used by other companies.

PRESIDENT'S MESSAGE

Calfrac's President and Chief Operating Officer, Lindsay Link commented on the results: "Calfrac's results in the third quarter reflect the hard work and commitment of our employees in a challenging marketplace. As we conclude 2019 and look ahead to 2020, I want to again thank our employees and their families for their ongoing efforts at Calfrac."

During the quarter, Calfrac:

- deployed an average of 15 fleets in the United States and five fleets in Canada;
- delivered further improvement in safety and efficiency results, and;
- announced a reduction of $10.0 million in its 2019 capital budget, now set at $139.6 million.

THIRD QUARTER 2019 OVERVIEW

CONSOLIDATED HIGHLIGHTS

Three Months Ended September 30,	**2019**	2018	Change
(C$000s, except operational information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**399,220**	630,128	(37)
Expenses			
Operating	**333,505**	491,912	(32)
Selling, general and administrative (SG&A)	**18,694**	22,885	(18)
	352,199	514,797	(32)
Operating income[1]	**47,021**	115,331	(59)
Operating income (%)	**11.8**	18.3	(36)
Adjusted EBITDA[1]	**43,028**	111,631	(61)
Adjusted EBITDA (%)	**10.8**	17.7	(39)
Fracturing revenue per job ($)	**28,748**	40,048	(28)
Number of fracturing jobs	**12,745**	14,674	(13)

Active pumping horsepower, end of period (000s)	**1,337**	1,344	(1)
Idle pumping horsepower, end of period (000s)	**72**	49	47
Total pumping horsepower, end of period (000s)	**1,409**	1,393	1
Coiled tubing revenue per job ($)	**23,477**	28,270	(17)
Number of coiled tubing jobs	**993**	938	6
Active coiled tubing units, end of period (#)	**21**	22	(5)
Idle coiled tubing units, end of period (#)	**8**	8	—
Total coiled tubing units, end of period (#)	**29**	30	(3)
Cementing revenue per job ($)	**46,238**	46,030	—
Number of cementing jobs	**142**	109	30
Active cementing units, end of period (#)	**14**	11	27
Idle cementing units, end of period (#)	**9**	12	(25)
Total cementing units, end of period (#)	**23**	23	—

(1) Refer to "Non-GAAP Measures" on pages 20 and 21 for further information.

Revenue in the third quarter of 2019 was $399.2 million, a decrease of 37 percent from the same period in 2018. The Company's fracturing job count decreased by 13 percent while consolidated revenue per fracturing job decreased by 28 percent due to a combination of a larger proportion of Calfrac's customers providing their own sand, particularly in the United States, and lower pricing in North America. The number of cementing jobs increased by 30 percent due to higher cementing activity in Argentina while coiled tubing activity was 6 percent higher due to increased activity in Canada and Argentina, offset partially by lower activity in Russia.

Despite having similar active fracturing capacity, Calfrac's capital allocation, head count and operating cost structure were much more closely aligned with the 13 percent decline in job count experienced in 2019 as compared to the prior year.

Pricing in Canada and the United States decreased by over 15 percent, while pricing in Russia was consistent with the third quarter of 2018. In Argentina, the mix of customer contracts during the third quarter in 2019 provided more favorable pricing than in the comparable quarter in 2018.

Adjusted EBITDA of $43.0 million for the third quarter of 2019 decreased from $111.6 million in the comparable period in 2018 primarily due to lower utilization and pricing in Canada and the United States.

Net loss attributable to shareholders of Calfrac was $29.4 million or $0.20 per share diluted compared to net income of $14.9 million or $0.10 per share diluted in the same period last year. The third quarter of 2019 included higher depreciation of $9.9 million primarily due to a change in depreciation policy and the adoption of IFRS 16 as of January 1, 2019.

Three Months Ended	**September 30, 2019**	June 30, 2019	Change
(C$000s, except operational information) (unaudited)	***($)***	*($)*	*(%)*
Revenue	**399,220**	429,638	(7)
Expenses			
Operating	**333,505**	371,368	(10)
SG&A	**18,694**	17,167	9
	352,199	388,535	(9)
Operating income(1)	**47,021**	41,103	14
Operating income (%)	**11.8**	9.6	23
Adjusted EBITDA(1)	**43,028**	45,123	(5)
Adjusted EBITDA (%)	**10.8**	10.5	3
Fracturing revenue per job ($)	**28,748**	44,767	(36)
Number of fracturing jobs	**12,745**	8,852	44
Active pumping horsepower, end of period (000s)	**1,337**	1,346	(1)
Idle pumping horsepower, end of period (000s)	**72**	59	22
Total pumping horsepower, end of period (000s)	**1,409**	1,405	—
Coiled tubing revenue per job ($)	**23,477**	22,339	5
Number of coiled tubing jobs	**993**	823	21
Active coiled tubing units, end of period (#)	**21**	21	—
Idle coiled tubing units, end of period (#)	**8**	8	—
Total coiled tubing units, end of period (#)	**29**	29	—
Cementing revenue per job ($)	**46,238**	41,595	11
Number of cementing jobs	**142**	134	6
Active cementing units, end of period (#)	**14**	14	—
Idle cementing units, end of period (#)	**9**	9	—
Total cementing units, end of period (#)	**23**	23	—

(1) Refer to "Non-GAAP Measures" on pages 20 and 21 for further information.

Revenue in the third quarter of 2019 was $399.2 million, a decrease of 7 percent from the second quarter of 2019, primarily due to lower fracturing activity in the United States. The seasonal increase in activity in Canada offset sequential revenue declines in Russia and Argentina. Revenue per fracturing job decreased by 36 percent as a result of job mix in Canada and the United States as the number of clients providing sand, chemicals and fuel outside of fracturing service agreements continued to grow.

In Canada, third-quarter revenue increased by 18 percent from the second quarter to $104.8 million. Activity in July and August was relatively strong coming out of spring break-up; however, customers reduced activity in September with some work being deferred into October. Operating income as a percentage of revenue was 15 percent compared to 9 percent in the second quarter due to better utilization combined with a reduced cost structure that was put in place to preserve operating margins at lower activity levels.

In the United States, revenue in the third quarter of 2019 was 13 percent lower than the second quarter at $224.4 million as downward pricing pressure continued in certain geographic markets. In addition, the number of clients procuring their own sand and chemicals grew significantly. Consequently, the U.S. division's operating income margin declined to 12.4 percent in the third quarter compared to 14.3 percent in the second quarter of 2019.

In Russia, revenue of $23.8 million in the third quarter of 2019 was 17 percent lower than the second quarter while the impact on operating income was minimized through lower operating costs.

In Argentina, revenue in the third quarter of 2019 decreased by 13 percent from the second quarter to $46.3 million, while operating income increased to $11.7 million from $3.8 million in the second quarter. The improvement in operating income was due to better pricing on contracted activity as compared to the second quarter combined with lower SG&A costs. In addition, the settlement of a previously completed contract resulted in a $3.4 million increase to operating income.

BUSINESS UPDATE AND OUTLOOK

Calfrac's operating results in the third quarter continued to be impacted by challenging market conditions across all of its geographies. While activity in Canada rebounded from seasonal lows, the general trend in the pressure pumping industry of lower activity and weaker pricing than was experienced in 2018 continued. In this environment, the Company remains focused on the business drivers that it can control, namely cost management and capital prudence. In keeping with that philosophy, the Company initiated a realignment of its operational and support functions in October, which included a reduction in headcount. The cost of this realignment is approximately $3.1 million and will be recognized in the fourth quarter. The Company expects to realize annualized cost savings of approximately $21.0 million as a result of this initiative.

CANADA

In Canada, activity levels met expectations throughout most of the quarter although operational and weather delays impacted workloads in the latter part of September with approximately $20.0 million of revenue being deferred into the fourth quarter.

As expected, a number of key clients increased their capital program spending during the third quarter which resulted in more stable activity levels. This activity allowed the Company to achieve savings in third-party field costs as there was a greater opportunity to efficiently plan and execute on its planned work commitments.

Looking into the fourth quarter, the Company expects to remain active in western Canada throughout the first half of the quarter, but anticipates that activity will slow meaningfully in the final weeks of the year as customers complete their 2019 capital programs. The onset of winter weather conditions will, as always, impact schedules and costs during the fourth quarter.

Calfrac believes its Canadian Division is sized appropriately for current market conditions, as the Company's operational capacity has been reduced by almost 40 percent since the end of 2018. With the significant horsepower reductions across the industry, Calfrac does not anticipate further structural price erosion in the Canadian marketplace, but will continue to monitor market conditions and is prepared to further reduce its operating scale should market conditions deteriorate further.

UNITED STATES

Activity increased in the United States during the third quarter as total job count was higher by four percent on a sequential basis. The trend for clients to self-source sand and chemicals continued to grow which negatively impacted overall revenue during the quarter. In addition, pricing weakened from levels seen in the prior quarter. However, the impact of these reductions was partially mitigated during the quarter by the Company's ongoing prudent management of costs.

While activity has remained near third-quarter levels thus far in the fourth quarter, Calfrac expects utilization to fall significantly in the latter half of the quarter as E&P capital programs for 2019 are concluded. Preliminary discussions with customers indicate that activity in 2020 will likely resemble current levels through the early part of the year.

Although market conditions remain challenged in the United States, it is expected that the fundamentals for the pressure pumping industry will not deteriorate significantly in 2020 due to the horsepower reduction by the larger players in the market.

RUSSIA

Activity levels in Russia did not improve from the prior quarter due to the ongoing industry challenges resulting from the Transneft pipeline egress issue. While drilling rig count activity has recently increased, the Company does not anticipate that this market development will impact completion activity in the fourth quarter. However, the increased drilling activity is expected to drive higher equipment utilization during the first quarter of 2020 although the timing of a resumption of full market activity is not yet certain.

ARGENTINA

The Company's operations in Argentina delivered positive results despite a number of factors. As previously disclosed, Calfrac executed a change in clients and work programs as the third quarter began, and the results of the country's presidential primary election caused a significant depreciation in the value of the Argentinean peso, which further unsettled planned capital spending in that country. Calfrac expects that uncertainty to impact activity levels throughout the fourth quarter. While the full impact of policy changes from a newly elected government in the country are unlikely to be understood immediately, the value of energy self-sufficiency in Argentina and specifically the potential national wealth creation from the development of the Vaca Muerta are unlikely to change materially under a change in leadership.

CORPORATE

Calfrac remains focused on effectively managing its cost structure and capital expenditures as well as ensuring that the Company's operating footprint is appropriately sized to deliver safe and effective service to our clients while investing in the people and equipment that make Calfrac the service company of choice.

FINANCIAL OVERVIEW – THREE MONTHS ENDED SEPTEMBER 30, 2019 VERSUS 2018

CANADA

Three Months Ended September 30,	**2019**	2018	Change
(C$000s, except operational information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**104,759**	184,046	(43)
Expenses			
Operating	**85,281**	152,610	(44)
SG&A	**4,048**	3,790	7
	89,329	156,400	(43)
Operating income[(1)]	**15,430**	27,646	(44)
Operating income (%)	**14.7**	15.0	(2)
Fracturing revenue per job ($)	**13,881**	20,873	(33)
Number of fracturing jobs	**6,537**	8,093	(19)
Active pumping horsepower, end of period (000s)	**257**	327	(21)
Idle pumping horsepower, end of period (000s)	**48**	28	71
Total pumping horsepower, end of period (000s)	**305**	355	(14)
Coiled tubing revenue per job ($)	**18,489**	22,139	(16)
Number of coiled tubing jobs	**734**	663	11
Active coiled tubing units, end of period (#)	**11**	11	—
Idle coiled tubing units, end of period (#)	**3**	4	(25)
Total coiled tubing units, end of period (#)	**14**	15	(7)

[(1)] Refer to "Non-GAAP Measures" on pages 20 and 21 for further information.

REVENUE

Revenue from Calfrac's Canadian operations during the third quarter of 2019 was $104.8 million compared to $184.0 million in the same period of 2018 primarily due to lower activity and pricing. In the third quarter of 2019, the number of fracturing jobs was 19 percent lower than the comparable period in 2018 due to lower industry activity and a smaller operating footprint. Activity in July and August was relatively strong; however, customers reduced activity in September with some work being deferred into October. Revenue per job decreased by 33 percent due to certain customers providing their own sand and fuel, combined with lower pricing. The number of coiled tubing jobs increased by 11 percent from the third quarter in 2018, while revenue per job decreased by 16 percent due to job mix.

OPERATING INCOME

Operating income in Canada during the third quarter of 2019 was $15.4 million compared to $27.6 million in the same period of 2018. The Canadian division's operating margins on a percentage of revenue basis were consistent with the same quarter in 2018 despite a lower revenue base and pricing due to the implementation of cost control measures earlier in the year. At the beginning of 2019, the Company made the decision to idle one fracturing fleet due to weaker demand for its fracturing services and also reduced its fixed cost structure accordingly. In addition, the Canadian division continued its revised field work schedule during the third quarter in order to better align costs with the expected level of activity. Pricing was lower compared to the third quarter in 2018, however, the impact was mitigated by reductions in logistical and material costs. The reported operating income was impacted positively by the adoption of IFRS 16 at the beginning of 2019, which resulted in $2.1 million of lease payments no longer being recognized as operating costs during the third quarter of 2019. In addition, the $0.3 million increase in SG&A expenses in the third quarter of 2019 compared to the third quarter in 2018 was primarily due to a bad debt expense of $1.3 million, offset partially by a lower bonus accrual.

UNITED STATES

Three Months Ended September 30,	**2019**	2018	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**224,424**	359,335	(38)
Expenses			
Operating	**191,923**	265,083	(28)
SG&A	**4,684**	5,705	(18)
	196,607	270,788	(27)
Operating income[(1)]	**27,817**	88,547	(69)
Operating income (%)	**12.4**	24.6	(50)
Fracturing revenue per job ($)	**39,302**	59,856	(34)
Number of fracturing jobs	**5,699**	5,988	(5)
Active pumping horsepower, end of period (000s)	**877**	832	5
Idle pumping horsepower, end of period (000s)	**12**	21	(43)
Total pumping horsepower, end of period (000s)	**889**	853	4
Active coiled tubing units, end of period (#)	**—**	—	—
Idle coiled tubing units, end of period (#)	**1**	2	(50)
Total coiled tubing units, end of period (#)	**1**	2	(50)
Active cementing units, end of period (#)	**—**	—	—
Idle cementing units, end of period (#)	**9**	10	(10)
Total cementing units, end of period (#)	**9**	10	(10)

US$/C$ average exchange rate[2]	**1.3204**	1.3070	1

[1] Refer to "Non-GAAP Measures" on pages 20 and 21 for further information.
[2] Source: Bank of Canada.

REVENUE
Revenue from Calfrac's United States operations decreased to $224.4 million during the third quarter of 2019 from $359.3 million in the comparable quarter of 2018. The significant decrease in revenue can be attributed to a combination of a 34 percent decrease in revenue per job and a 5 percent decrease in the number of fracturing jobs completed period-over-period. The significant decrease in revenue per job was primarily due to the impact of approximately half of Calfrac's United States activity involving customers providing their own sand, combined with lower pricing in all operating areas. Overall, activity decreased by 5 percent, although San Antonio and Pennsylvania completed more jobs in the third quarter in 2019 compared to the same period in 2018. The number of jobs completed in Colorado decreased relative to the same period in 2018 as a result of the Company transferring a crew to San Antonio, which resulted in higher activity but did not fully offset revenue as the new customer provided its own sand. Lower producer spending and excess pumping capacity in the Permian basin continued to negatively impact the Company's Artesia operations during the quarter as the total number of jobs completed by Calfrac was lower by 47 percent year-over-year. Activity was also lower in North Dakota primarily due to wet weather in September combined with a less efficient mix of customers than the same period in 2018.

OPERATING INCOME
The Company's United States operations generated operating income of $27.8 million during the third quarter of 2019 compared to $88.5 million in the same period in 2018. The year-over-year decline in operating results was primarily due to lower realized pricing and decreased utilization. Pricing in the third quarter of 2019 was down significantly from peak pricing realized in the third quarter of 2018. In addition, activity was 5 percent lower which also contributed to the decline in operating profitability. The reported operating income was positively impacted by the adoption of IFRS 16 at the beginning of 2019 which resulted in $3.1 million of lease payments no longer being recognized as operating costs during the third quarter of 2019. SG&A expenses decreased by 18 percent primarily due to a lower bonus accrual recorded in the quarter.

RUSSIA

Three Months Ended September 30,	**2019**	2018	Change
(C$000s, except operational and exchange rate information) (unaudited)	***($)***	*($)*	*(%)*
Revenue	**23,781**	25,667	(7)
Expenses			
Operating	**23,267**	23,341	—
SG&A	**718**	758	(5)
	23,985	24,099	—
Operating (loss) income[1]	**(204)**	1,568	NM
Operating (loss) income (%)	**(0.9)**	6.1	NM
Fracturing revenue per job ($)	**86,941**	68,452	27
Number of fracturing jobs	**241**	321	(25)
Active pumping horsepower, end of period (000s)	**65**	77	(16)
Idle pumping horsepower, end of period (000s)	**12**	—	NM
Total pumping horsepower, end of period (000s)	**77**	77	—
Coiled tubing revenue per job ($)	**44,202**	40,596	9
Number of coiled tubing jobs	**64**	91	(30)
Active coiled tubing units, end of period (#)	**4**	6	(33)
Idle coiled tubing units, end of period (#)	**3**	1	200
Total coiled tubing units, end of period (#)	**7**	7	—
Rouble/C$ average exchange rate[2]	**0.0204**	0.0200	2

[1] Refer to "Non-GAAP Measures" on pages 20 and 21 for further information.
[2] Source: Bank of Canada.

REVENUE
Revenue from Calfrac's Russian operations decreased by 7 percent during the third quarter of 2019 to $23.8 million from $25.7 million in the corresponding three-month period of 2018. The decrease in revenue was attributable to lower activity with its primary customer in Khanty-Mansiysk as the Company focused its operations in this area. The number of jobs completed continued to be impacted by the reduction in pipeline egress capacity that occurred during the second quarter. Revenue per fracturing job increased by 27 percent primarily due to sand being provided by Calfrac for all of its jobs while the comparable period included some jobs where sand was provided by customers. Coiled tubing activity decreased by 30 percent primarily due to lower than expected utilization with Calfrac's main customer.

OPERATING (LOSS) INCOME
The Company's Russian division generated an operating loss of $0.2 million during the third quarter of 2019 versus operating income of $1.6 million in the comparable quarter in 2018. The negative operating result was the due to significantly lower utilization, offset partially by cost control measures that resulted in lower personnel and fuel costs. The third quarter experienced lower field activity for both fracturing and coiled tubing services with Calfrac's major customer in Western Siberia being impacted by the issues associated with the contamination of the Transneft pipeline network.

ARGENTINA

Three Months Ended September 30,	**2019**	2018	Change
(C$000s, except operational and exchange rate information) (unaudited)	***($)***	*($)*	*(%)*
Revenue	**46,256**	61,080	(24)
Expenses			
Operating	**31,924**	49,301	(35)
SG&A	**2,672**	2,363	13
	34,596	51,664	(33)
Operating income[1]	**11,660**	9,416	24
Operating income (%)	**25.2**	15.4	64
Active pumping horsepower, end of period (000s)	**138**	108	28
Idle pumping horsepower, end of period (000s)	**—**	—	—
Total pumping horsepower, end of period (000s)	**138**	108	28
Active cementing units, end of period (#)	**14**	11	27
Idle cementing units, end of period (#)	**—**	2	(100)
Total cementing units, end of period (#)	**14**	13	8
Active coiled tubing units, end of period (#)	**6**	5	20
Idle coiled tubing units, end of period (#)	**1**	1	—
Total coiled tubing units, end of period (#)	**7**	6	17
US$/C$ average exchange rate[2]	**1.3204**	1.3070	1

[1] Refer to "Non-GAAP Measures" on pages 20 and 21 for further information.
[2] Source: Bank of Canada and Bloomberg.

REVENUE
Calfrac's Argentinean operations generated total revenue of $46.3 million during the third quarter of 2019 compared to $61.1 million in the comparable quarter in 2018. This 24 percent decline in revenue was primarily due to the completion of one of its bundled service contracts in the Vaca Muerta shale play during the quarter where Calfrac provided sand. This contract was replaced with another contract with a customer that provides its own sand. Cementing revenue was higher than the comparable period due to increased activity with one of the Company's customers in the Neuquén region. Coiled tubing revenue decreased from the third quarter in 2018 as activity was weighted to lower margin contract work in 2019, compared to higher margin call-out work in 2018.

OPERATING INCOME
The Company's operations in Argentina generated operating income of $11.7 million during the third quarter of 2019 compared to $9.4 million during the third quarter in 2018. The Company was able to generate higher operating income due to better pricing on contracted activity as compared to the third quarter in 2018. In addition, the settlement of a previously completed contract resulted in a $3.4 million increase to operating income. The $0.3 million increase in SG&A expenses from the third quarter in 2018 was mainly due to higher personnel costs.

CORPORATE

Three Months Ended September 30,	**2019**	2018	Change
(C$000s)	***($)***	*($)*	*(%)*
(unaudited)			
Expenses			
Operating	**1,110**	1,577	(30)
SG&A	**6,572**	10,269	(36)
	7,682	11,846	(35)
Operating loss(1)	**(7,682)**	(11,846)	(35)
% of Revenue	**1.9**	1.9	0

(1) Refer to "Non-GAAP Measures" on pages 20 and 21 for further information.

OPERATING LOSS
Corporate expenses for the third quarter of 2019 were $7.7 million compared to $11.8 million in the third quarter of 2018. The decrease was primarily due to lower stock-based compensation expense and a lower bonus provision when compared to the same period in 2018. The reduction in stock-based compensation was mainly due to a lower share price and fewer restricted share units outstanding. The implementation of IFRS 16 also resulted in lower reported corporate expenses as lease payments related to corporate office space are no longer recorded in SG&A.

DEPRECIATION
For the three months ended September 30, 2019, depreciation expense increased by $9.9 million to $58.7 million from $48.8 million in the corresponding quarter of 2018. The increase was primarily due to the Company decreasing its useful life estimates and salvage values, effective January 1, 2019, for certain components of its fracturing equipment. Higher depreciation on these components, combined with additions during the quarter, increased depreciation expense by approximately $4.0 million. In addition, the adoption of IFRS 16 at the beginning of 2019 resulted in a $5.3 million increase to depreciation expense. The 1 percent appreciation in the U.S. dollar relative to the Canadian dollar also contributed to the increase in reported depreciation expense.

Effective April 1, 2019, the Company revised its policy regarding the derecognition of major components relating to field equipment. The change in accounting policy was adopted on a retrospective basis, with each prior period presented in the statements of operations being restated to reflect the change. The change in policy resulted in $6.2 million of loss on disposal of property, plant and equipment being reclassified to depreciation expense on the statement of operations for the three months ended September 30, 2018.

FOREIGN EXCHANGE LOSSES
The Company recorded a foreign exchange loss of $5.0 million during the third quarter of 2019 versus a loss of $8.2 million in the comparative three-month period of 2018. Foreign exchange gains and losses arise primarily from the translation of net monetary assets or liabilities that were held in U.S. dollars in Canada, net monetary assets or liabilities that were held in pesos in Argentina, and liabilities held in Canadian dollars in Russia. The Company's foreign exchange loss for the third quarter of 2019 was largely attributable to net monetary assets that were held in pesos in Argentina as the peso devalued by 36 percent against the U.S. dollar during the third quarter.

INTEREST
The Company's net interest expense of $21.6 million for the third quarter of 2019 was $0.2 million lower than the comparable period in 2018. The reduction in interest expense was due to lower average credit facility borrowings during the third quarter as compared to the same quarter in 2018. This was partially offset by the adoption of IFRS 16, which resulted in a further $0.5 million in interest expense during the third quarter in 2019.

INCOME TAXES
The Company recorded an income tax recovery of $10.8 million during the third quarter of 2019 compared to an expense of $20.0 million in the comparable period of 2018. The recovery position was the result of pre-tax losses incurred during the quarter.

SUMMARY OF QUARTERLY RESULTS

Three Months Ended	Dec. 31, 2017	Mar. 31, 2018	Jun. 30, 2018	Sep. 30, 2018	Dec. 31, 2018	Mar 31, 2019	Jun. 30, 2019	**Sep. 30, 2019**
(C$000s, except per share and operating data)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	***($)***
(unaudited)								
Financial								
Revenue	485,456	582,838	544,602	630,128	498,858	475,012	429,638	**399,220**
Operating income(1)	44,789	67,974	66,528	115,331	61,992	43,623	41,103	**47,021**
Per share – basic	0.32	0.47	0.46	0.80	0.43	0.30	0.28	**0.33**
Per share – diluted	0.31	0.46	0.45	0.79	0.42	0.30	0.28	**0.32**
Adjusted EBITDA(1)	49,213	72,953	81,910	111,631	62,914	44,086	45,123	**43,028**
Per share – basic	0.35	0.51	0.57	0.77	0.44	0.31	0.31	**0.30**
Per share – diluted	0.34	0.50	0.56	0.76	0.43	0.30	0.31	**0.30**
Net income (loss) attributable to the shareholders of Calfrac	38,013	3,234	(32,838)	14,878	(3,462)	(36,334)	(41,045)	**(29,424)**
Per share – basic	0.27	0.02	(0.23)	0.10	(0.02)	(0.25)	(0.28)	**(0.20)**
Per share – diluted	0.26	0.02	(0.23)	0.10	(0.02)	(0.25)	(0.28)	**(0.20)**
Capital expenditures	34,518	51,334	42,404	34,542	31,484	28,218	37,784	**38,885**
Working capital (end of period)	327,049	360,654	361,613	386,843	329,871	276,785	291,056	**257,189**
Total equity (end of period)	543,645	546,018	507,607	516,899	513,820	481,675	443,361	**414,195**
Operating (end of period)								
Active pumping horsepower (000s)	1,115	1,259	1,313	1,344	1,328	1,344	1,346	**1,337**
Idle pumping horsepower (000s)	280	134	80	49	42	36	59	**72**
Total pumping horsepower (000s)	1,395	1,393	1,393	1,393	1,370	1,380	1,405	**1,409**
Active coiled tubing units (#)	21	22	22	22	22	21	21	**21**
Idle coiled tubing units (#)	9	8	8	8	7	8	8	**8**
Total coiled tubing units (#)	30	30	30	30	29	29	29	**29**
Active cementing units (#)	12	12	11	11	11	11	14	**14**
Idle cementing units (#)	11	11	12	12	12	12	9	**9**
Total cementing units (#)	23	23	23	23	23	23	23	**23**

(1) With the adoption of IFRS 16, the accounting treatment for operating leases when Calfrac is the lessee, changed effective January 1, 2019. Calfrac adopted IFRS 16 using the modified retrospective approach and the comparative information was not restated. As a result, the Company's 2019 Operating Income and Adjusted EBITDA are not comparable to periods prior to January 1, 2019. Refer to "Non-GAAP Measures" on pages 20 and 21 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" in the 2018 Annual Report).

FOREIGN EXCHANGE FLUCTUATIONS
The Company's consolidated financial statements are reported in Canadian dollars. Accordingly, the quarterly results are directly affected by fluctuations in the exchange rates for United States, Russian and Argentinean currency (refer to "Business Risks - Fluctuations in Foreign Exchange Rates" in the 2018 Annual Report).

FINANCIAL OVERVIEW – NINE MONTHS ENDED SEPTEMBER 30, 2019 VERSUS 2018

CANADA

Nine Months Ended September 30,	2019	2018	Change
(C$000s, except operational information) (unaudited)	***($)***	*($)*	*(%)*
Revenue	**324,574**	505,646	(36)
Expenses			
Operating	**278,144**	424,491	(34)
Selling, general and administrative (SG&A)	**9,165**	10,649	(14)
	287,309	435,140	(34)
Operating income(1)	**37,265**	70,506	(47)
Operating income (%)	**11.5**	13.9	(17)
Fracturing revenue per job ($)	**16,874**	21,427	(21)
Number of fracturing jobs	**16,886**	21,501	(21)
Active pumping horsepower, end of period (000s)	**257**	327	(21)
Idle pumping horsepower, end of period (000s)	**48**	28	71
Total pumping horsepower, end of period (000s)	**305**	355	(14)
Coiled tubing revenue per job ($)	**19,441**	22,611	(14)
Number of coiled tubing jobs	**1,934**	1,782	9
Active coiled tubing units, end of period (#)	**11**	11	—
Idle coiled tubing units, end of period (#)	**3**	4	(25)
Total coiled tubing units, end of period (#)	**14**	15	(7)

(1) *Refer to "Non-GAAP Measures" on pages 20 and 21 for further information.*

REVENUE
Revenue from Calfrac's Canadian operations during the first nine months in 2019 was $324.6 million versus $505.6 million in the comparable period in 2018. Through the first three quarters of the year, a number of key clients in Calfrac's Canadian division were less active compared to 2018, as takeaway capacity issues impacted spending plans. The number of fracturing jobs decreased by 21 percent, while revenue per fracturing job decreased by 21 percent from the prior year, primarily due to lower pricing and job mix.

OPERATING INCOME
The Company's Canadian division generated operating income of $37.3 million during the first nine months in 2019 compared to $70.5 million in the same period in 2018. The decrease was due to lower pricing and utilization combined with a smaller operating scale. Despite the lower revenue base, the Company generated an 11 percent operating income margin through its focus on controlling operating costs during periods of lower activity. The Canadian division idled one fleet at the beginning of 2019 and revised its field work schedule beginning in the second quarter in order to better align with expected activity levels, which helped improve profitability. The reported operating income was positively impacted by the adoption of IFRS 16 at the beginning of 2019 which resulted in $6.6 million of lease payments no longer being recognized as operating costs during the first nine months of 2019. In addition, the $1.5 million reduction in SG&A expenses compared to 2018 was primarily due to headcount reductions and a lower annual bonus provision.

UNITED STATES

Nine Months Ended September 30,	2019	2018	Change
(C$000s, except operational and exchange rate information) (unaudited)	***($)***	*($)*	*(%)*
Revenue	**742,634**	1,017,351	(27)
Expenses			
Operating	**626,852**	791,096	(21)
SG&A	**13,171**	15,435	(15)
	640,023	806,531	(21)
Operating income(1)	**102,611**	210,820	(51)
Operating income (%)	**13.8**	20.7	(33)
Fracturing revenue per job ($)	**45,651**	59,167	(23)
Number of fracturing jobs	**16,252**	17,142	(5)
Active pumping horsepower, end of period (000s)	**877**	832	5
Idle pumping horsepower, end of period (000s)	**12**	21	(43)
Total pumping horsepower, end of period (000s)	**889**	853	4
Active coiled tubing units, end of period (#)	**—**	—	—
Idle coiled tubing units, end of period (#)	**1**	2	(50)
Total coiled tubing units, end of period (#)	**1**	2	(50)
Active cementing units, end of period (#)	**—**	—	—
Idle cementing units, end of period (#)	**9**	10	(10)
Total cementing units, end of period (#)	**9**	10	(10)
US$/C$ average exchange rate(2)	**1.3292**	1.2876	3

(1) *Refer to "Non-GAAP Measures" on pages 20 and 21 for further information.*
(2) *Source: Bank of Canada.*

REVENUE
Revenue from Calfrac's United States operations decreased to $742.6 million during the first nine months in 2019 from $1.0 billion in the comparable period in 2018 primarily due to lower pricing and fracturing activity. Completions activity in the United States decreased during the first nine months of 2019 as customers continued to focus on spending within operating cash flows. As a result, the number of fracturing jobs completed declined by 5 percent period-over-period, with lower activity in Artesia and Colorado being partially offset by higher activity in Pennsylvania, North Dakota and San Antonio. Revenue per job decreased 23 percent due to lower pricing combined with the impact of job mix and certain customers providing their own sand.

OPERATING INCOME
The Company's United States division generated operating income of $102.6 million during the first nine months in 2019 compared to $210.8 million in the comparable period in 2018. The 51 percent decrease was primarily the result of lower pricing and utilization of active equipment. Although the Company had 17 active fleets available during the first nine months of 2019, only an average of 14 active crews were utilized during that period. The lower utilization levels were primarily associated with Calfrac's Texas operations, and to a lesser extent North Dakota, as extreme weather impacted customer activity during the first quarter in that operating region while wet weather negatively impacted parts of the third quarter. The prior year's operating results included $10.0 million of reactivation costs during the first nine months in 2018 while 2019 did not include any of such costs. The reported operating income was also positively impacted by the adoption of IFRS 16 at the beginning of 2019, which resulted in $10.1 million of lease payments no longer being recognized as operating costs during the first nine months of 2019. SG&A expenses decreased by 15 percent primarily due to a lower bonus provision recorded in the first nine months of 2019.

RUSSIA

Nine Months Ended September 30,	2019	2018	Change
(C$000s, except operational and exchange rate information) (unaudited)	***($)***	*($)*	*(%)*
Revenue	**81,563**	81,927	—
Expenses			
Operating	**81,909**	79,727	3
SG&A	**2,513**	2,385	5
	84,422	82,112	3
Operating loss(1)	**(2,859)**	(185)	NM
Operating loss (%)	**(3.5)**	(0.2)	NM
Fracturing revenue per job ($)	**87,165**	78,867	11
Number of fracturing jobs	**831**	882	(6)

Active pumping horsepower, end of period (000s)	**65**	77	(16)
Idle pumping horsepower, end of period (000s)	**12**	—	NM
Total pumping horsepower, end of period (000s)	**77**	77	—
Coiled tubing revenue per job ($)	**44,103**	39,259	12
Number of coiled tubing jobs	**207**	315	(34)
Active coiled tubing units, end of period (#)	**4**	6	(33)
Idle coiled tubing units, end of period (#)	**3**	1	200
Total coiled tubing units, end of period (#)	**7**	7	—
Rouble/C$ average exchange rate[2]	**0.0204**	0.0210	(3)

[1] Refer to "Non-GAAP Measures" on pages 20 and 21 for further information.

[2] Source: Bank of Canada.

REVENUE

Revenue from Calfrac's Russian operations during the first nine months in 2019 of $81.6 million was consistent with the comparable period in 2018. The slight decrease in revenue, which is generated in roubles, was mostly related to higher fracturing activity and larger jobs sizes, offset by a 34 percent reduction in coiled tubing activity, combined with the 3 percent depreciation of the Russian rouble in the first nine months of 2019 versus 2018. Revenue per fracturing job was 11 percent higher than the comparable period in 2018 due to proppant being provided for all jobs completed with a major customer for the full period in 2019. The Company idled two coiled tubing units during the first nine months of 2019 to align with activity levels.

OPERATING LOSS

The Company's Russian division incurred an operating loss of $2.9 million during the first nine months of 2019 compared to a loss of $0.2 million in the same period in 2018. Calfrac's operations in the first quarter of 2019 were impacted by extremely cold temperatures experienced for portions of January and February, combined with higher equipment repair expenses. In addition, the Company closed its operations in Noyabrsk during the first quarter and incurred mobilization costs to transfer equipment to Khanty-Mansiysk to work for an existing customer in that region. The second and third quarters experienced lower activity for both fracturing and coiled tubing services as Calfrac's major customer in Western Siberia was impacted by the issues associated with the contamination of the Transneft pipeline network.

ARGENTINA

Nine Months Ended September 30,	**2019**	2018	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**155,099**	152,644	2
Expenses			
Operating	**126,660**	136,085	(7)
SG&A	**8,131**	8,080	1
	134,791	144,165	(7)
Operating income[1]	**20,308**	8,479	140
Operating income (%)	**13.1**	5.6	134
Active pumping horsepower, end of period (000s)	**138**	108	28
Idle pumping horsepower, end of period (000s)	**—**	—	—
Total pumping horsepower, end of period (000s)	**138**	108	28
Active cementing units, end of period (#)	**14**	11	27
Idle cementing units, end of period (#)	**—**	2	(100)
Total cementing units, end of period (#)	**14**	13	8
Active coiled tubing units, end of period (#)	**6**	5	20
Idle coiled tubing units, end of period (#)	**1**	1	—
Total coiled tubing units, end of period (#)	**7**	6	17
US$/C$ average exchange rate[2]	**1.3292**	1.2876	3

[1] Refer to "Non-GAAP Measures" on pages 20 and 21 for further information.

[2] Source: Bank of Canada and Bloomberg.

REVENUE

Calfrac's Argentinean operations generated total revenue of $155.1 million during the first nine months in 2019 versus $152.6 million in the same period in 2018. The 2 percent improvement in year-over-year revenue was primarily due to higher fracturing activity in the Vaca Muerta shale play and a significant improvement in cementing activity. This was partially offset by lower coiled tubing revenue as activity was weighted to lower margin contract work in 2019 compared to higher margin call-out work in 2018.

OPERATING INCOME

The Company's operations in Argentina generated operating income of $20.3 million in the first nine months of 2019 compared to $8.5 million in the comparable period in 2018. The Company has continued to improve its operating margins throughout the transition to unconventional operations in Argentina mainly due to improved utilization and a focus on reducing costs. The Company added additional operating capacity during the second quarter in 2019 supported by higher unconventional fracturing activity which also contributed to the year-over-year improvement in operating income.

CORPORATE

Nine Months Ended September 30,	**2019**	2018	Change
(C$000s)	***($)***	*($)*	*(%)*
(unaudited)			
Expenses			
Operating	**3,493**	4,370	(20)
SG&A	**22,085**	35,417	(38)
	25,578	39,787	(36)
Operating loss[1]	**(25,578)**	(39,787)	(36)
% of Revenue	**2.0**	2.3	(13)

[1] Refer to "Non-GAAP Measures" on pages 20 and 21 for further information.

OPERATING LOSS

Corporate expenses during the first nine months in 2019 were $25.6 million compared to $39.8 million in the comparable period in 2018. The decrease was primarily due to lower stock-based compensation expense and a lower bonus provision when compared to the same period in 2018. The reduction in stock-based compensation was mainly due to a lower share price and fewer restricted share units outstanding. The implementation of IFRS 16 also resulted in lower reported corporate expenses as lease payments related to corporate office space are no longer recorded in SG&A.

DEPRECIATION

Depreciation expense for the first nine months in 2019 increased by $50.3 million to $192.3 million from $142.0 million in the comparable period in 2018. The increase was primarily due to the Company decreasing its useful life estimates and salvage values, effective January 1, 2019, for certain components of its fracturing equipment. This resulted in a one-time depreciation charge of $9.5 million during the first quarter relating to assets in use at the end of the prior quarter. The resulting accelerated depreciation rate on these components, combined with additions during the first nine months of 2019 increased depreciation expense by a further $21.1 million. In addition, the adoption of IFRS 16 at the beginning of 2019 resulted in a $16.1 million increase to depreciation expense. The 3 percent appreciation in the U.S. dollar relative to the Canadian dollar also contributed to the increase in reported depreciation expense.

Effective April 1, 2019, the Company revised its policy regarding the derecognition of major components relating to field equipment. The change in accounting policy was adopted on a retrospective basis, with each prior period presented in the statements of operations being restated to reflect the change. The change in policy resulted in $22.0 million of loss on disposal of property, plant and equipment being reclassified to depreciation expense on the statement of operations for the nine months ended September 30, 2018.

FOREIGN EXCHANGE LOSSES

The Company recorded a foreign exchange loss of $6.5 million during the first nine months in 2019 versus a loss of $41.4 million in the same period in 2018. Foreign exchange gains and losses arise primarily from the translation of net monetary assets or liabilities that were held in U.S. dollars in Canada, net monetary assets or liabilities that were held in pesos in Argentina, and liabilities held in Canadian dollars in Russia. The Company's foreign exchange loss for the first nine months in 2019 was largely attributable to net monetary assets that were held in pesos in Argentina as the peso devalued by 54 percent against the U.S. dollar during the nine months ended September 30, 2019.

INTEREST

The Company's interest expense of $64.3 million during the first nine months in 2019 was $21.3 million lower than the comparable period in 2018, primarily due to $21.2 million in one-time charges associated with the debt refinancing transactions that were completed in the second quarter in 2018. Excluding these one-time items, interest expense was consistent with the same period in 2018.

INCOME TAXES

The Company recorded an income tax recovery of $28.9 million during the first nine months in 2019 compared to a neutral tax position in the comparable period in 2018. The recovery position was primarily the result of pre-tax losses, offset partially by a $9.8 million income tax expense related to the planned reduction in the Alberta corporate tax rates, which reduced the Company's deferred tax asset.

LIQUIDITY AND CAPITAL RESOURCES

	Three Months Ended Sep. 30,		**Nine Months Ended Sep. 30,**	
	2019	2018	**2019**	2018
(C$000s)	***($)***	*($)*		
(unaudited)				
Cash provided by (used in):				
Operating activities	**55,071**	37,394	**116,232**	51,879
Financing activities	**(17,758)**	(22,128)	**(13,564)**	16,954
Investing activities	**(36,211)**	(33,882)	**(106,157)**	(114,839)
Effect of exchange rate changes on cash and cash equivalents	**1,862**	23,057	**(4,255)**	10,704
Increase (decrease) in cash and cash equivalents	**2,964**	4,441	**(7,744)**	(35,302)

OPERATING ACTIVITIES

The Company's cash provided by operating activities for the three months ended September 30, 2019 was $55.1 million versus cash provided of $37.4 million in the third quarter of 2018. The increase in cash from operations was primarily due to the release of working capital during the period. In the same period in 2018, stronger operating results were offset by cash used for working capital. At September 30, 2019, Calfrac's working capital was approximately $257.2 million compared to $329.9 million at December 31, 2018.

FINANCING ACTIVITIES

Net cash used in financing activities for the three months ended September 30, 2019 was $17.8 million compared to $22.1 million in the comparable period in 2018. During the three months ended September 30, 2019, the Company had net repayments under its credit facilities of $12.8 million and lease principal payments of $5.0 million.

On April 30, 2019, Calfrac amended and extended its credit facilities while maintaining its total facility capacity at $375.0 million. The facilities consist of an operating facility of $40.0 million and a syndicated facility of $335.0 million. The Company's credit facilities were extended by a term of two years and mature on June 1, 2022 and can be extended by one or more years at the Company's request and lenders' acceptance. The Company may also prepay principal without penalty. The interest rates are based on the parameters of certain bank covenants. For prime-based loans and U.S. base-rate loans, the rate ranges from prime or U.S. base rate plus 0.50 percent to prime plus 2.50 percent. For LIBOR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 1.50 percent to 3.50 percent above the respective base rates. The accordion feature of the syndicated facility remains at $100.0 million, and is available to the Company during the term of the agreement. The Company incurs interest at the high end of the ranges outlined above if its net Total Debt to Adjusted EBITDA ratio is above 4.00:1.00. Additionally, in the event that the Company's net Total Debt to Adjusted EBITDA ratio is above 5.00:1.00, certain restrictions apply including the following: (a) acquisitions are subject to majority lender consent; (b) distributions are restricted other than those relating to the Company's share unit plans; and (c) no increase in the rate of dividends are permitted. As at September 30, 2019, the Company's net Total Debt to Adjusted EBITDA ratio was 5.33:1.00.

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

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

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

iii 25 percent of the net book value of property, plant and equipment (PP&E) of the parent company and its U.S. operating subsidiary. The value of PP&E excludes assets under construction and is limited to $150.0 million

At September 30, 2019, the Company had used $0.9 million of its credit facilities for letters of credit and had $124.9 million of borrowings under its credit facilities, leaving $249.3 million in available capacity under its credit facilities. As described above, the Company's credit facilities are subject to a monthly borrowing base, as determined using the previous month's results, which at September 30, 2019 resulted in a liquidity amount of $145.6 million.

As shown in the table below, at September 30, 2019, the Company was in compliance with the financial covenants associated with its credit facilities.

	Covenant	**Actual**
As at September 30,	2019	**2019**
Working capital ratio not to fall below	1.15x	**2.54x**
Funded Debt to Adjusted EBITDA not to exceed(1)(2)	3.00x	**0.50x**
Funded Debt to Capitalization not to exceed(1)(3)	0.30x	**0.06x**

(1) Funded Debt is defined as Total Debt excluding all outstanding senior unsecured notes and lease obligations. Total Debt includes bank loans and long-term debt (before unamortized debt issuance costs and debt discount) plus outstanding letters of credit. For the purposes of the Total Debt to Adjusted EBITDA ratio, the Funded Debt to Capitalization Ratio and the Funded Debt to Adjusted EBITDA ratio, the amount of Total Debt or Funded Debt, as applicable, is reduced by the amount of cash on hand with lenders (excluding any cash held in a segregated account for the purposes of a potential equity cure).

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

(3) Capitalization is Total Debt plus equity attributable to the shareholders of Calfrac.

Proceeds from equity offerings may be applied, as an equity cure, in the calculation of Adjusted EBITDA towards the Funded Debt to Adjusted EBITDA covenant for any of the quarters ending prior to and including June 30, 2022, subject to certain conditions including:

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

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

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

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

The Company can utilize two equity cures during the term of the credit facilities subject to the conditions described above. To utilize an equity cure, the Company must provide notice of any such election to the lending syndicate at any time prior to the filing of its quarterly financial statements for the applicable quarter on SEDAR. Amounts used as an equity cure prior to June 30, 2022 will increase Adjusted EBITDA over the relevant twelve-month rolling period and will also serve to reduce Funded Debt.

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

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

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

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

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

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

These limitations on restricted payments are tempered by the existence of a number of exceptions to the general prohibition, including a basket allowing for restricted payments in an aggregate amount of up to US$20.0 million. As at September 30, 2019 this basket was not utilized. The indenture also restricts the ability to incur additional indebtedness if the Fixed Charge Coverage Ratio determined on a pro forma basis for the most recently ended four fiscal quarter period for which internal financial statements are available is not at least 2:1. As is the case with restricted payments, there are a number of exceptions to this prohibition on the incurrence of additional indebtedness, including the incurrence of additional debt under credit facilities up to the greater of $375.0 million or 30 percent of the Company's consolidated tangible assets.

As at September 30, 2019, the Company's Fixed Charge Coverage Ratio of 2.29:1 was higher than the required 2:1 ratio so the aforementioned prohibitions will not be applicable as long as the Company remains above this ratio.

On May 31, 2018, the Company repaid in full the remaining $196.5 million principal amount of its second lien senior secured term loan facility with Alberta Investment Management Corporation (AIMCo). The term loan, which had a maturity date of September 20, 2020, provided Calfrac the right to prepay the loan prior to June 10, 2018 with a nominal prepayment premium.

On May 30, 2018, Calfrac closed a private offering of US$650.0 million aggregate principal amount of its 8.50 percent senior notes due 2026. Fixed interest on the notes is payable on June 15 and December 15 of each year. The notes will mature on June 15, 2026. The Company used a portion of the net proceeds from the offering of the notes to repay all of its outstanding 7.50 percent senior notes due 2020.

INVESTING ACTIVITIES
Calfrac's net cash used for investing activities was $36.2 million for the three months ended September 30, 2019 versus $33.9 million in the comparable period in 2018. Cash outflows relating to capital expenditures were $37.2 million during the third quarter in 2019 compared to $36.0 million in 2018. In addition to supporting ongoing operations globally, a portion of capital spending in the quarter funded the acquisition of incremental fracturing equipment in Argentina, which improved the Company's footprint and flexibility in the market.

Calfrac's Board of Directors have approved a $10.0 million reduction in its 2019 capital budget, which is now set to $139.6 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 the three months ended September 30, 2019 was a gain of $1.9 million versus a gain of $23.1 million during the comparable period in 2018. These gains relate to movements of cash and cash equivalents held by the Company in a foreign currency during the period.

With its working capital position, available credit facilities and anticipated funds provided by operations, the Company expects to have adequate resources to fund its financial obligations and planned capital expenditures for 2019 and beyond.

At September 30, 2019, the Company had cash and cash equivalents of $44.2 million.

OUTSTANDING SHARE DATA
The Company is authorized to issue an unlimited number of common shares. Employees have been granted both performance share units as well as options to purchase common shares under the Company's shareholder-approved equity compensation plans. The number of shares reserved for issuance under the performance share unit plan and stock option plan is equal to 10 percent of the Company's issued and outstanding common shares. As at October 29, 2019, the Company had issued and outstanding 144,888,888 common shares, 720,543 equity-based performance share units and 10,258,670 options to purchase common shares.

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

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

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

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 in the Company's most recently filed Annual Information Form, which are specifically incorporated by reference herein. The Annual Information Form is available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR), which can be accessed at www.sedar.com. Copies of the Annual Information Form may also be obtained on request without charge from Calfrac at 411 - 8th Avenue S.W., Calgary, Alberta, Canada, T2P 1E3, or at www.calfrac.com, or by facsimile at 403-266-7381.

NON-GAAP MEASURES

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

Operating income (loss) is defined as net income (loss) before depreciation, foreign exchange gains or losses, gains or losses on disposal of property, plant and equipment, impairment of inventory, impairment of property, plant and equipment, interest, and income taxes. Management believes that operating income is a useful supplemental measure as it provides an indication of the financial results generated by Calfrac's business segments prior to consideration of how these segments are financed or taxed. In addition, management believes this measure allows investors to more accurately compare the Company's performance with its peers by providing an indication of its financial results prior to consideration of the age or size of its asset base, or the investment and accounting policies associated with its assets. Operating income (loss) for the period was calculated as follows:

	Three Months Ended Sep. 30,		**Nine Months Ended Sep. 30,**	
	2019	2018	**2019**	2018
(C$000s)	***($)***	*($)*	***($)***	*($)*
(unaudited)				
Net (loss) income	**(29,424)**	14,878	**(106,803)**	(22,715)
Add back (deduct):				
Depreciation	**58,669**	48,818	**192,295**	141,953
Foreign exchange losses	**5,038**	8,240	**6,469**	41,389
Loss on disposal of property, plant and equipment	**1,322**	486	**3,756**	404
Impairment of inventory	**584**	1,131	**584**	3,189
Interest	**21,605**	21,817	**64,314**	85,631
Income taxes	**(10,773)**	19,961	**(28,868)**	(18)
Operating income	**47,021**	115,331	**131,747**	249,833

Certain of the comparatives have been reclassified to conform with the current financial statement presentation (note 1c).

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 Sep. 30,		**Nine Months Ended Sep. 30,**	
	2019	2018	**2019**	2018
(C$000s)			***($)***	*($)*
(unaudited)				
Net loss	**(29,424)**	14,878	**(106,803)**	(22,715)
Add back (deduct):				
Depreciation	**58,669**	48,818	**192,295**	141,953
Unrealized foreign exchange losses	**(249)**	(26,306)	**1,182**	15,810
Non-recurring realized foreign exchange losses[(1)]	**—**	29,288	**—**	29,288
Loss on disposal of property, plant and equipment	**1,322**	486	**3,756**	404
Impairment of inventory	**584**	1,131	**584**	3,189
Restructuring charges	**10**	16	**2,485**	795
Stock-based compensation	**1,284**	1,542	**3,292**	4,168
Losses attributable to non-controlling interest	**—**	—	**—**	7,989
Interest	**21,605**	21,817	**64,314**	85,631
Income taxes	**(10,773)**	19,961	**(28,868)**	(18)
Adjusted EBITDA[(2)]	**43,028**	111,631	**132,237**	266,494

(1) The Company recognized a one-time realized foreign exchange loss resulting from the capitalization of intercompany debt held by its Argentinean subsidiary

(2) For bank covenant purposes, EBITDA includes an additional $17.0 million of lease payments of that would have been recorded as operating expenses prior to the adoption of IFRS 16 on January 1, 2019.

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.

THIRD QUARTER CONFERENCE CALL

Calfrac will be conducting a conference call for interested analysts, brokers, investors and news media representatives to review its 2019 third-quarter results at 10:00 a.m. (Mountain Time) on Thursday, October 31, 2019. The conference call dial-in number is 1-888-231-8191 or 647-427-7450. The seven-day replay numbers are 1-855-859-2056 or 416-849-0833 (once connected, enter 7085442). A webcast of the conference call may be accessed via the Company's website at www.calfrac.com.

CONSOLIDATED BALANCE SHEETS

	September 30,	December 31,
	2019	2018
(C$000s) (unaudited)	***($)***	*($)*
ASSETS		
Current assets		
Cash and cash equivalents	**44,157**	51,901
Accounts receivable	**244,210**	349,431
Income taxes recoverable	**1,254**	582
Inventories	**137,846**	150,123
Prepaid expenses and deposits	**23,057**	17,527
	450,524	569,564
Non-current assets		
Property, plant and equipment	**1,020,515**	1,116,677
Right-of-use assets (note 5)	**33,428**	—
Deferred income tax assets	**111,525**	96,416
Total assets	**1,615,992**	1,782,657
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**177,539**	239,507
Current portion of lease obligations (note 5)	**15,796**	186
	193,335	239,693
Non-current liabilities		
Long-term debt (note 2)	**969,394**	989,614
Lease obligations (note 5)	**18,493**	552
Deferred income tax liabilities	**20,575**	38,978
Total liabilities	**1,201,797**	1,268,837
Equity attributable to the shareholders of Calfrac		

Capital stock (note 3)	**509,235**	508,276
Contributed surplus	**42,982**	40,453
Loan receivable for purchase of common shares	**(2,500)**	(2,500)
Accumulated deficit	**(135,774)**	(28,971)
Accumulated other comprehensive income (loss)	**252**	(3,438)
Total equity	**414,195**	513,820
Total liabilities and equity	**1,615,992**	1,782,657

Contingencies (note 7)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended Sept. 30,		**Nine Months Ended Sept. 30,**	
	2019	2018	**2019**	2018
(C$000s, except per share data) (unaudited)	***($)***	*($)*	***($)***	*($)*
Revenue	**399,220**	630,128	**1,303,870**	1,757,568
Cost of sales	**392,174**	540,730	**1,309,353**	1,577,722
Gross profit (loss)	**7,046**	89,398	**(5,483)**	179,846
Expenses				
Selling, general and administrative	**18,694**	22,885	**55,065**	71,966
Foreign exchange losses	**5,038**	8,240	**6,469**	41,389
Loss on disposal of property, plant and equipment	**1,322**	486	**3,756**	404
Impairment of inventory	**584**	1,131	**584**	3,189
Interest	**21,605**	21,817	**64,314**	85,631
	47,243	54,559	**130,188**	202,579
(Loss) income before income tax	**(40,197)**	34,839	**(135,671)**	(22,733)
Income tax expense (recovery)				
Current	**965**	2,271	**3,613**	1,952
Deferred	**(11,738)**	17,690	**(32,481)**	(1,970)
	(10,773)	19,961	**(28,868)**	(18)
Net (loss) income	**(29,424)**	14,878	**(106,803)**	(22,715)
Net (loss) income attributable to:				
Shareholders of Calfrac	**(29,424)**	14,878	**(106,803)**	(14,726)
Non-controlling interest	**—**	—	**—**	(7,989)
	(29,424)	14,878	**(106,803)**	(22,715)
(Loss) earnings per share (note 3)				
Basic	**(0.20)**	0.10	**(0.74)**	(0.10)
Diluted	**(0.20)**	0.10	**(0.74)**	(0.10)

See accompanying notes to the consolidated financial statements.

Certain of the comparatives have been reclassified to conform with the current presentation (note 2c).

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	Three Months Ended Sept. 30,		**Nine Months Ended Sept. 30,**	
	2019	2018	**2019**	2018
(C$000s) (unaudited)	***($)***	*($)*	***($)***	*($)*
Net (loss) income	**(29,424)**	14,878	**(106,803)**	(22,715)
Other comprehensive income (loss)				
Items that may be subsequently reclassified to profit or loss:				
Change in foreign currency translation adjustment	**(1,026)**	(3,717)	**3,690**	(6,101)
Comprehensive (loss) income	**(30,450)**	11,161	**(103,113)**	(28,816)
Comprehensive (loss) income attributable to:				
Shareholders of Calfrac	**(30,450)**	11,161	**(103,113)**	(21,820)
Non-controlling interest	**—**	—	**—**	(6,996)
	(30,450)	11,161	**(103,113)**	(28,816)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity Attributable to the Shareholders of Calfrac							
	Share Capital	Contributed Surplus	Loan Receivable for Purchase of Common Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total	Non-Controlling Interest	**Total Equity**
(C$000s) (unaudited)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	***($)***
Balance – Jan. 1, 2019	**508,276**	**40,453**	**(2,500)**	**(3,438)**	**(28,971)**	**513,820**	**—**	**513,820**
Net loss	—	—	—	—	(106,803)	(106,803)	—	**(106,803)**
Other comprehensive income (loss):								
Cumulative translation adjustment	—	—	—	3,690	—	3,690	—	**3,690**
Comprehensive income (loss)	—	—	—	3,690	(106,803)	(103,113)	—	**(103,113)**
Stock options:								
Stock-based compensation recognized	—	2,195	—	—	—	2,195	—	**2,195**
Proceeds from issuance of shares (note 3)	252	(56)	—	—	–	196	—	**196**
Performance share units:								
Stock-based compensation recognized	—	1,097	—	—	—	1,097	—	**1,097**
Shares issued (note 3)	707	(707)				—		**—**
Balance – Sept. 30, 2019	**509,235**	**42,982**	**(2,500)**	**252**	**(135,774)**	**414,195**	**—**	**414,195**
Balance – Jan. 1, 2018	501,456	35,094	(2,500)	2,728	21,268	558,046	(14,401)	543,645
Net loss	—	—	—	—	(14,726)	(14,726)	(7,989)	(22,715)
Other comprehensive income (loss):								
Cumulative translation adjustment	—	—	—	(7,094)	—	(7,094)	993	(6,101)
Comprehensive loss	—	—	—	(7,094)	(14,726)	(21,820)	(6,996)	(28,816)
Stock options:								
Stock-based compensation recognized	—	3,379	—	—	—	3,379	—	3,379
Proceeds from issuance of shares (note 3)	1,797	(447)	—	—	—	1,350	—	1,350
Performance share units:								
Stock-based compensation recognized	—	789	—	—	—	789	—	789

Acquisition:								
Shares issued (note 3)	1,250	—	—	—	—	1,250	—	1,250
Shares to be issued (note 3)	3,750	—	—	—	—	3,750	—	3,750
Loss on acquisition	—	—	—	—	(5,799)	(5,799)	—	(5,799)
Purchase of non-controlling interest	—	—	—	2,206	(26,252)	(24,046)	21,397	(2,649)
Balance – Sept. 30, 2018	508,253	38,815	(2,500)	(2,160)	(25,509)	516,899	—	516,899

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2019	2018	**2019**	2018
(C$000s) (unaudited)	***($)***	*($)*	***($)***	*($)*
CASH FLOWS PROVIDED BY (USED IN)				
OPERATING ACTIVITIES				
Net (loss) income	**(29,424)**	14,878	**(106,803)**	(22,715)
Adjusted for the following:				
Depreciation	**58,669**	48,818	**192,295**	141,953
Stock-based compensation	**1,284**	1,542	**3,292**	4,168
Unrealized foreign exchange (gains) losses	**(249)**	(26,306)	**1,182**	15,810
Loss on disposal of property, plant and equipment	**1,322**	486	**3,756**	404
Impairment of inventory	**584**	1,131	**584**	3,189
Interest	**21,605**	21,817	**64,314**	85,631
Interest paid	**(2,654)**	(1,328)	**(42,840)**	(49,166)
Deferred income taxes	**(11,738)**	17,690	**(32,481)**	(1,970)
Changes in items of working capital	**15,672**	(41,334)	**32,933**	(125,425)
Cash flows provided by operating activities	**55,071**	37,394	**116,232**	51,879
FINANCING ACTIVITIES				
Issuance of long-term debt, net of debt issuance costs	**13,850**	12,880	**55,008**	1,061,728
Long-term debt repayments	**(26,625)**	(35,000)	**(53,180)**	(1,045,992)
Lease obligation principal repayments	**(4,983)**	(45)	**(15,588)**	(132)
Proceeds on issuance of common shares	**—**	37	**196**	1,350
Cash flows (used in) provided by financing activities	**(17,758)**	(22,128)	**(13,564)**	16,954
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(37,200)**	(36,009)	**(106,960)**	(121,783)
Proceeds on disposal of property, plant and equipment	**989**	2,127	**803**	6,951
Other	**—**	—	**—**	(7)
Cash flows used in investing activities	**(36,211)**	(33,882)	**(106,157)**	(114,839)
Effect of exchange rate changes on cash and cash equivalents	**1,862**	23,057	**(4,255)**	10,704
Increase (decrease) in cash and cash equivalents	**2,964**	4,441	**(7,744)**	(35,302)
Cash and cash equivalents, beginning of period	**41,193**	13,006	**51,901**	52,749
Cash and cash equivalents, end of period	**44,157**	17,447	**44,157**	17,447

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2019 and 2018

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as noted below, these condensed consolidated interim financial statements follow the same accounting policies and methods of application as the most recent annual financial statements.

For 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.

(a) Changes in Accounting Policies and Disclosure

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

In accordance with the transition provisions in IFRS 16, the Company elected to adopt the new standard using the modified retrospective approach by recognizing the cumulative effect of initially applying the new standard on January 1, 2019 using the simplified right-of-use asset measurement method. Comparatives for the prior reporting period are not restated, as permitted under the specific transitional provisions in the standard. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019. The associated ROU asset is measured at the lease liability amount on January 1, 2019, resulting in no adjustment to the opening balance of retained earnings.

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

- Leases with a remaining lease term of twelve months or less as at January 1, 2019 are considered short-term leases. As such, payments for such leases will be expensed as incurred.
- Leases of low dollar value based on the value of the asset when it is new, regardless of the age of the asset, will be expensed as incurred.

Several key judgments and estimates were made such as assessing whether an arrangement contains a lease, determining the lease term, calculating the incremental borrowing rate and whether to account for the lease and any non-lease components as a single lease component.

The Company is subject to financial covenants relating to working capital, leverage and the generation of cash flow in respect of its operating and revolving credit facilities. The adoption of IFRS 16 has no impact on the Company's reported bank covenants as the effects of the new standard are excluded from the covenant calculations.

See note 5 for further information on leases.

(b) Changes in Accounting Estimates

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

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

(c) Changes in Accounting Policies

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

The change in accounting policy was adopted on a retrospective basis, with each prior period presented in the statements of operations being restated to reflect the change. The change in policy resulted in a reclassification of loss on disposal of property, plant and equipment to depreciation expense on the statement of operations of $6,180 for the three months ended September 30, 2018 and $22,026 for the nine months ended September 30, 2018.

2. LONG-TERM DEBT

	September 30, 2019	December 31, 2018
(C$000s)	***($)***	*($)*
US$650,000 senior unsecured notes due June 15, 2026, bearing interest at 8.50% payable semi-annually	**860,795**	886,730
$347,500 extendible revolving term loan facility, secured by Canadian and U.S. assets of the Company	**124,864**	120,000
Less: unamortized debt issuance costs	**(16,265)**	(17,116)
	969,394	989,614

The fair value of the senior unsecured notes, as measured based on the closing quoted market price at September 30, 2019, was $387,814 (December 31, 2018 – $661,492). The carrying value of the revolving term loan facility approximates its fair value as the interest rate is not significantly different from current interest rates for similar loans.

On May 30, 2018, the Company closed a private offering of US$650,000 aggregate principal amount of its 8.50 percent senior notes due 2026. Fixed interest on the notes is payable on June 15 and December 15 of each year. The notes will mature on June 15, 2026, and provide the Company with the option to redeem up to 10 percent of the aggregate principal amount of the notes at a redemption price of 108.50 percent of the principal amount with the proceeds of asset sales at any time prior to December 15, 2019. The Company used a portion of the net proceeds from the offering of the notes to repay all of its outstanding 7.50 percent senior notes due 2020. The early repayment of these notes resulted in a make-whole interest payment of $10,403 and the write-off of the remaining $5,023 unamortized deferred finance costs, recorded during 2018.

On May 31, 2018, the Company repaid in full the remaining $196,500 principal amount of its second lien senior secured term loan facility. The term loan, which had a maturity date of September 30, 2020, provided the Company the right to prepay the loan prior to June 10, 2018 with a nominal prepayment premium. The repayment of the second lien senior secured term loan facility resulted in the write-off of the remaining unamortized deferred finance costs of $5,787, recorded during 2018.

On April 30, 2019, Calfrac amended and extended its credit facilities while maintaining its total facility capacity at $375,000. The facilities consist of an operating facility of $40,000 and a syndicated facility of $335,000. The Company's credit facilities were extended by a term of two years and mature on June 1, 2022 and can be extended by one or more years at the Company's request and lenders' acceptance. The Company may also prepay principal without penalty. The interest rates are based on the parameters of certain bank covenants. For prime-based loans and U.S. base-rate loans, the rate ranges from prime or U.S. base rate plus 0.50 percent to prime plus 2.50 percent. For LIBOR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 1.50 percent to 3.50 percent above the respective base rates. The accordion feature of the syndicated facility remains at $100,000, and is available to the Company during the term of the agreement. The Company incurs interest at the high end of the ranges outlined above if its net Total Debt to Adjusted EBITDA ratio is above 4.00:1.00. Additionally, in the event that the Company's net Total Debt to Adjusted EBITDA ratio is above 5.00:1.00, certain restrictions would apply including the following: (a) acquisitions will be subject to majority lender consent; (b) distributions will be restricted other than those relating to the Company's share unit plans; and (c) no increase in the rate of dividends will be permitted. As at September 30, 2019, the Company's net Total Debt to Adjusted EBITDA ratio was 5.33:1.00 (December 31, 2018 – 2.92:1:00).

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

Interest on long-term debt (including the amortization of debt issuance costs and debt discount) for the nine months ended September 30, 2019 was $62,660 (nine months ended September 30, 2018 – $85,795).

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

	2019
(C$000s)	*($)*
Balance, January 1	989,614
Issuance of long-term debt, net of debt issuance costs	55,008
Long-term debt repayments	(53,180)
Amortization of debt issuance costs and debt discount	3,590
Foreign exchange adjustments	(25,638)
Balance, September 30	969,394

At September 30, 2019, the Company had utilized $861 of its loan facility for letters of credit and had $124,865 outstanding under its revolving term loan facility, leaving $249,274 in available credit, subject to a monthly borrowing base, as determined using the previous month's results, which at September 30, 2019, resulted in liquidity amount of $145,599.

See note 6 for further details on the covenants in respect of the Company's long-term debt.

3. CAPITAL STOCK

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

	Nine Months Ended September 30, 2019		Year Ended December 31, 2018	
Continuity of Common Shares	**Shares**	**Amount**	Shares	Amount
	(#)	***($000s)***	*(#)*	*($000s)*
Balance, beginning of period	**144,462,532**	**504,526**	143,755,741	501,456
Issued upon exercise of stock options	**98,675**	**252**	483,974	1,820
Issued upon vesting of performance share units	**104,865**	**707**	—	—
Issued on acquisition	**222,816**	**1,250**	222,817	1,250
Balance, end of period	**144,888,888**	**506,735**	144,462,532	504,526
Shares to be issued	**445,633**	**2,500**	668,449	3,750
	145,334,521	**509,235**	145,130,981	508,276

The weighted average number of common shares outstanding for the three months ended September 30, 2019 was 144,673,672 basic and 145,334,206 diluted (three months ended September 30, 2018 – 144,237,397 basic and 146,857,977 diluted). The weighted average number of common shares outstanding for the nine months ended September 30, 2019 was 144,512,322 basic and 145,712,546 diluted (nine months ended September 30, 2018 – 143,958,861 basic and 147,103,100 diluted). The difference between basic and diluted shares is attributable to the dilutive effect of stock options issued by the Company as disclosed in note 4.

4. SHARE-BASED PAYMENTS

(a) Stock Options

Nine Months Ended September 30,	**2019**		2018	
Continuity of Stock Options	**Options**	**Average Exercise Price**	Options	Average Exercise Price
	(#)	***($)***	*(#)*	*($)*

Balance, January 1	**9,392,095**	**4.70**	9,616,173	5.30
Granted during the period	**1,564,300**	**2.49**	1,419,319	5.79
Exercised for common shares	**(98,675)**	**1.99**	(476,599)	2.83
Forfeited	**(549,317)**	**4.85**	(479,073)	7.16
Expired	**(47,000)**	**19.07**	(97,650)	12.65
Balance, September 30	**10,261,403**	**4.31**	9,982,170	5.33

Stock options vest equally over three to four years and expire five years from the date of grant. The exercise price of outstanding options range from $1.34 to $13.70 with a weighted average remaining life of 2.22 years. When stock options are exercised, the proceeds together with the compensation expense previously recorded in contributed surplus, are added to capital stock.

The weighted average fair value of options granted during 2019, determined using the Black-Scholes valuation method, was $1.02 per option (nine months ended September 30, 2018 – $2.55 per option). The Company applied the following assumptions in determining the fair value of options on the date of grant:

Nine Months Ended September 30,	**2019**	2018
Expected life (years)	**3.00**	3.00
Expected volatility	**59.16%**	62.88%
Risk-free interest rate	**1.66%**	1.97%
Expected dividends	**$0.00**	$0.00

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

(b) Share Units

Nine Months Ended September 30,	**2019**			2018		
Continuity of Stock Units	**Deferred Share Units**	**Performance Share Units**	**Restricted Share Units**	Deferred Share Units	Performance Share Units	Restricted Share Units
	(#)	***(#)***	***(#)***	*(#)*	*(#)*	*(#)*
Balance, January 1	**145,000**	**1,108,300**	**3,139,150**	145,000	683,665	4,275,183
Granted during the period	**145,000**	**1,112,531**	**—**	145,000	765,100	—
Exercised	**(145,000)**	**(556,683)**	**(1,998,600)**	(145,000)	(232,249)	(866,933)
Forfeited	**—**	**(74,162)**	**(81,000)**	—	(108,216)	(269,100)
Balance, September 30	**145,000**	**1,589,986**	**1,059,550**	145,000	1,108,300	3,139,150

	Three Months Ended Sept. 30,		**Nine Months Ended Sept. 30,**	
	2019	2018	**2019**	2018
	($)	*($)*	***($)***	*($)*
Expense (recovery) from:				
Stock options	**826**	1,174	**2,195**	3,379
Deferred share units	**26**	66	**182**	507
Performance share units	**457**	577	**1,409**	2,289
Restricted share units	**(71)**	739	**(197)**	6,429
Total stock-based compensation expense	**1,238**	2,556	**3,589**	12,604

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 September 30, 2019, the liability pertaining to deferred share units was $152 (December 31, 2018 – $354).

The Company granted performance share units to a former senior officer who has since retired from the Company. These performance share units contain a cash-based component and an equity-based component. The cash-based component vests over three years based on corporate financial performance thresholds and are settled either in cash (equal to the market value of the underlying shares at the time of vesting) or in Company shares purchased on the open market. The equity-based component vests over three years without any further conditions and are settled in treasury shares issued by the Company. At September 30, 2019, the liability pertaining to the cash based component of performance share units was $nil (December 31, 2018 – $761).

In 2018, the Company expanded its performance share unit plan to its employees. These performance share units contain a cash-based component and an equity-based component. The cash-based component vests over three years based on corporate financial performance thresholds and are settled either in cash (equal to the market value of the underlying shares at the time of vesting) or in Company shares purchased on the open market. The equity-based component vests over three years without any further conditions and are settled in treasury shares issued by the Company. At September 30, 2019, the liability pertaining to the cash-based component of performance share units was $nil (December 31, 2018 – $200).

Prior to 2018, the Company granted restricted share units to its employees. These units vest over three years and are settled either in cash (equal to the market value of the underlying shares at the time of exercise) or in Company shares purchased on the open market. The fair value of the restricted share units is recognized over the vesting period, based on the current market price of the Company's shares. At September 30, 2019, the liability pertaining to restricted share units was $nil (December 31, 2018 – $3,158).

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

5. LEASES

The Company's leasing activities comprise of buildings and various field equipment including railcars and motor vehicle leases.

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

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

The Company recognizes a lease liability equal to the present value of the lease payments during the lease term that are not yet paid. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate.

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

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

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

(C$000s)	*($)*

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

The recognized right-of-use assets relate to the following types of assets:

	September 30, 2019	January 1, 2019
(C$000s)	***($)***	*($)*
Buildings	**9,794**	11,215
Field equipment	**23,634**	33,702
	33,428	44,917

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

	2019
(C$000s)	*($)*
Balance, January 1	44,917
Additions	10,067
Disposals/retirements	(4,273)
Principal portion of payments	(15,588)
Foreign exchange adjustments	(834)
Balance, September 30	34,289

6. 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,	**September 30, 2019**	December 31, 2018
(C$000s)	***($)***	*($)*
Net loss	**(110,265)**	(26,177)
Adjusted for the following:		
Depreciation	**240,817**	190,475
Foreign exchange losses	**3,127**	38,047
Loss on disposal of property, plant and equipment	**3,512**	160
Impairment of property, plant and equipment	**115**	115
Impairment of inventory	**4,562**	7,167
Interest	**85,313**	106,630
Income taxes	**(33,442)**	(4,592)
Operating income	**193,739**	311,825

Net debt for this purpose is calculated as follows:

As at	**September 30, 2019**	December 31, 2018
(C$000s)	***($)***	*($)*
Long-term debt, net of debt issuance costs and debt discount (note 2)	**969,394**	989,614
Lease obligations	**34,289**	738
Less: cash and cash equivalents	**(44,157)**	(51,901)
Net debt	**959,526**	938,451

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

At September 30, 2019, the net debt to operating income ratio was 4.95:1 (December 31, 2018 – 3.01:1) calculated on a 12-month trailing basis as follows:

For the Twelve Months Ended	**September 30, 2019**	December 31, 2018
(C$000s, except ratio)	***($)***	*($)*
Net debt	**959,526**	938,451
Operating income	**193,739**	311,825
Net debt to operating income ratio	**4.95:1**	3.01:1

The Company is subject to certain financial covenants relating to working capital, leverage and the generation of cash flow in respect of its operating and revolving credit facilities. These covenants are monitored on a monthly basis. At September 30, 2019 and December 31, 2018, the Company was in compliance with its covenants with respect to its credit facilities.

As at September 30,	Covenant 2019	**Actual 2019**
Working capital ratio not to fall below	1.15x	**2.54x**
Funded Debt to Adjusted EBITDA not to exceed[(1)(2)]	3.00x	**0.50x**

Funded Debt to Capitalization not to exceed[1][3]	0.30x	**0.06x**

(1) *Funded Debt is defined as Total Debt excluding all outstanding senior unsecured notes and lease obligations. Total Debt includes bank loans and long-term debt (before unamortized debt issuance costs and debt discount) plus outstanding letters of credit. For the purposes of the Total Debt to Adjusted EBITDA ratio, the Funded Debt to Capitalization Ratio and the Funded Debt to Adjusted EBITDA ratio, the amount of Total Debt or Funded Debt, as applicable, is reduced by the amount of cash on hand with lenders (excluding any cash held in a segregated account for the purposes of a potential equity cure).*

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

(3) *Capitalization is Total Debt plus equity attributable to the shareholders of Calfrac.*

Adjusted EBITDA is defined as net income or loss for the period less interest, taxes, depreciation and amortization, unrealized foreign exchange losses (gains), non-cash stock-based compensation, non-controlling interest, and gains and losses that are extraordinary or non-recurring. Adjusted EBITDA is presented because it gives an indication of the results from the Company's principal business activities prior to consideration of how its activities are financed and the impact of foreign exchange, taxation and depreciation and amortization charges. Adjusted EBITDA for the period was calculated as follows:

	Three Months Ended Sept. 30,		**Nine Months Ended Sept. 30,**	
	2019	2018	**2019**	2018
(C$000s)			***($)***	*($)*
Net (loss) income	**(29,424)**	14,878	**(106,803)**	(22,715)
Add back (deduct):				
Depreciation	**58,669**	48,818	**192,295**	141,953
Unrealized foreign exchange (gains) losses	**(249)**	(26,306)	**1,182**	15,810
Non-recurring realized foreign exchange losses[1]	**—**	29,288	**—**	29,288
Loss on disposal of property, plant and equipment	**1,322**	486	**3,756**	404
Impairment of inventory	**584**	1,131	**584**	3,189
Restructuring charges	**10**	16	**2,485**	795
Stock-based compensation	**1,284**	1,542	**3,292**	4,168
Losses attributable to non-controlling interest	**—**	—	**—**	7,989
Interest	**21,605**	21,817	**64,314**	85,631
Income taxes	**(10,773)**	19,961	**(28,868)**	(18)
Adjusted EBITDA[2]	**43,028**	111,631	**132,237**	266,494

(1) *The Company recognized a one-time realized foreign exchange loss resulting from the capitalization of intercompany debt held by its Argentinean subsidiary*

(2) *For bank covenant purposes, EBITDA includes an additional $16,982 of lease payments that would have been recorded as operating expenses prior to the adoption of IFRS 16 on January 1, 2019.*

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

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

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

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

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

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

ii. the Company is not meeting the Fixed Charge Coverage Ratio[1] under the indenture of at least 2:1 for the most recent four fiscal quarters; or

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

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

These limitations on restricted payments are tempered by the existence of a number of exceptions to the general prohibition, including a basket allowing for restricted payments in an aggregate amount of up to US$20,000. As at September 30, 2019, this basket was not utilized.

The indenture also restricts the incurrence of additional indebtedness if the Fixed Charge Coverage Ratio determined on a pro forma basis for the most recently ended four fiscal quarter period for which internal financial statements are available is not at least 2:1. As is the case with restricted payments, there are a number of exceptions to this prohibition on the incurrence of additional indebtedness, including the incurrence of additional debt under credit facilities up to the greater of $375,000 or 30 percent of the Company's consolidated tangible assets.

As at September 30, 2019, the Company's Fixed Charge Coverage Ratio of 2.29:1 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, 2022, subject to certain conditions including:

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

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

7. CONTINGENCIES

GREEK LITIGATION

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

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

In 1999, the largest group of plaintiffs received a ruling from the Athens Court of First Instance that their termination was invalid and that salaries in arrears amounting to approximately $9,884 (6,846 euros) plus interest were due to the former employees. This decision was appealed to the Athens Court of Appeal, which allowed the appeal in 2001 and annulled the above-mentioned decision of the Athens Court of First Instance. The said group of former employees filed an appeal with the Supreme Court of Greece, which was heard on May 29, 2007. The Supreme Court of Greece allowed the appeal and sent the matter back to the Athens Court of Appeal for the consideration of the quantum of awardable salaries in arrears. On June 3, 2008, the Athens Court of Appeal rejected NAPC's appeal and reinstated the award of the Athens Court of First Instance, which decision was further appealed to the Supreme Court of Greece. The matter was heard on April 20, 2010 and a decision rejecting such appeal was rendered in June 2010. As a result of Denison's participation in the consortium that was named in the lawsuit, the Company has been served with three separate payment orders, one on March 24, 2015 and two others on December 29, 2015. The Company was also served with an enforcement order on November 23, 2015. Oppositions have been filed on behalf of the Company in respect of each of these orders which oppose the orders on the basis that they were improperly issued and are barred from a statute of limitations perspective. The salaries in arrears sought to be recovered through these orders are part of the $9,884 (6,846 euros) cited above and the interest being sought in respect of these orders is part of the $26,812 (18,570 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 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 was heard on October 16, 2018 and was rejected in June 2019. A hearing in respect of the order served on November 23, 2015 took place on October 31, 2018 and a decision in respect of such order is currently pending. 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 filed appeals against the above decisions which were heard on October 16, 2018 and were rejected in June 2019.

NAPC is also the subject of a claim for approximately $4,132 (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 $834 (578 euros), amounted to $26,812 (18,570 euros) as at September 30, 2019.

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

8. SEGMENTED INFORMATION

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

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

	Canada	**United States**	**Russia**	**Argentina**	**Corporate**	**Consolidated**
(C$000s)	***($)***	***($)***	***($)***	***($)***	***($)***	***($)***
Three Months Ended September 30, 2019						
Revenue	**104,759**	**224,424**	**23,781**	**46,256**	**—**	**399,220**
Operating income (loss)(1)	**15,430**	**27,817**	**(204)**	**11,660**	**(7,682)**	**47,021**
Segmented assets	**516,933**	**833,867**	**86,920**	**178,272**	**—**	**1,615,992**
Capital expenditures	**7,874**	**21,215**	**439**	**9,357**	**—**	**38,885**
Three Months Ended September 30, 2018						
Revenue	184,046	359,335	25,667	61,080	—	630,128
Operating income (loss)(1)	27,646	88,547	1,568	9,416	(11,846)	115,331
Segmented assets	641,578	968,507	96,225	148,358	—	1,854,668
Capital expenditures	9,677	22,627	1,242	996	—	34,542

	Canada	**United States**	**Russia**	**Argentina**	**Corporate**	**Consolidated**
(C$000s)	***($)***	***($)***	***($)***	***($)***	***($)***	***($)***
Nine Months Ended September 30, 2019						
Revenue	**324,574**	**742,634**	**81,563**	**155,099**	**—**	**1,303,870**
Operating income (loss)(1)	**37,265**	**102,611**	**(2,859)**	**20,308**	**(25,578)**	**131,747**
Segmented assets	**516,933**	**833,867**	**86,920**	**178,272**	**—**	**1,615,992**
Capital expenditures	**18,339**	**60,558**	**2,892**	**23,098**	**—**	**104,887**
Nine Months Ended September 30, 2018						
Revenue	505,646	1,017,351	81,927	152,644	—	1,757,568
Operating income (loss)(1)	70,506	210,820	(185)	8,479	(39,787)	249,833
Segmented assets	641,578	968,507	96,225	148,358	—	1,854,668
Capital expenditures	33,606	88,183	3,004	3,487	—	128,280

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

	Three Months Ended Sept. 30,		**Nine Months Ended Sept. 30,**	
	2019	2018	**2019**	2018
(C$000s)	***($)***	*($)*	***($)***	*($)*
Net (loss) income	**(29,424)**	14,878	**(106,803)**	(22,715)
Add back (deduct):				
Depreciation	**58,669**	48,818	**192,295**	141,953
Foreign exchange losses	**5,038**	8,240	**6,469**	41,389
Loss on disposal of property, plant and equipment	**1,322**	486	**3,756**	404
Impairment of inventory	**584**	1,131	**584**	3,189
Interest	**21,605**	21,817	**64,314**	85,631
Income taxes	**(10,773)**	19,961	**(28,868)**	(18)
Operating income	**47,021**	115,331	**131,747**	249,833

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

SOURCE Calfrac Well Services Ltd.

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