Calfrac Announces Fourth Quarter Results

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CALGARY, March 5, 2020 /CNW/ - **Calfrac Well Services Ltd. ("Calfrac" or "the Company") (TSX-CFW)** announces its financial and operating results for the three months and year ended December 31, 2019.

HIGHLIGHTS

	Three Months Ended December 31,			Years Ended December 31,		
	2019	2018	Change	**2019**	2018	Change
(C$000s, except per share and unit data)	***($)***	*($)*	*(%)*	***($)***	*($)*	*(%)*
(unaudited)						
Revenue	**317,085**	498,858	(36)	**1,620,955**	2,256,426	(28)
Operating income(1)	**20,997**	61,992	(66)	**152,744**	311,825	(51)
Per share – basic	**0.15**	0.43	(65)	**1.06**	2.16	(51)
Per share – diluted	**0.14**	0.42	(67)	**1.05**	2.12	(50)
Adjusted EBITDA(1)	**26,882**	62,914	(57)	**159,119**	329,408	(52)
Per share – basic	**0.19**	0.44	(57)	**1.10**	2.29	(52)
Per share – diluted	**0.18**	0.43	(58)	**1.09**	2.24	(51)
Net loss attributable to the shareholders of Calfrac before foreign exchange gains or losses(2)	**(49,855)**	(5,913)	NM	**(152,369)**	11,162	NM
Per share – basic	**(0.34)**	(0.04)	NM	**(1.05)**	0.08	NM
Per share – diluted	**(0.34)**	(0.04)	NM	**(1.05)**	0.08	NM
Net loss attributable to the shareholders of Calfrac	**(49,400)**	(3,462)	NM	**(156,203)**	(18,188)	NM
Per share – basic	**(0.34)**	(0.02)	NM	**(1.08)**	(0.13)	NM
Per share – diluted	**(0.34)**	(0.02)	NM	**(1.08)**	(0.13)	NM
Working capital (end of period)				**248,772**	329,871	(25)
Total equity (end of period)				**368,623**	513,820	(28)
Weighted average common shares outstanding (000s)						
Basic	**144,720**	144,288	—	**144,565**	144,042	—
Diluted	**145,335**	146,328	(1)	**145,475**	146,829	(1)

(1) *Refer to "Non-GAAP Measures" on pages 23 and 24 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.*

(3) *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 2 of the financial statements for additional information on the impact to the Company's financial information.*

PRESIDENT'S MESSAGE

Calfrac's President and Chief Operating Officer, Lindsay Link commented on the results: "Calfrac's results in 2019 reflected the challenging market conditions present, and I am proud of the resilience of our team in meeting those challenges during the year. Looking forward to 2020, I believe Calfrac's focus on delivering on our Brand Promise: Do It Better, Do It Safely and Do It On Time will continue to yield positive results. I'd like to thank all of our employees and their families for all they do for Calfrac every day."

During the quarter, Calfrac:

- marketed an average of 15 fleets in the United States and five fleets in Canada;
- delivered further improvement in safety and efficiency results, and;
- completed its 2019 capital program with a total spend of $147.4 million.

FOURTH QUARTER 2019 OVERVIEW

In the fourth quarter of 2019, the Company:

- generated revenue of $317.1 million, a decrease of 36 percent from the fourth quarter in 2018, resulting primarily from lower pricing and activity in Canada and the United States;
- recorded an impairment of PP&E and inventory totalling $5.3 million compared to $4.1 million in the fourth

quarter of 2018;

- revised its thresholds for capitalization of major components relating to field equipment, which resulted in a decrease to operating expenses and an increase to capital expenditures totaling $10.9 million;
- reported adjusted EBITDA of $26.9 million versus $62.9 million in the fourth quarter of 2018;
- reported a net loss attributable to shareholders of Calfrac of $49.4 million or $0.34 per share diluted, compared to a net loss of $3.5 million or $0.02 per share diluted in 2018;
- reported period-end working capital of $248.8 million versus $329.9 million at December 31, 2018; and
- incurred capital expenditures, net of disposals, of $34.4 million primarily to support the Company's United States fracturing operations.

Subsequent to the quarter, Calfrac executed an exchange offer of US$120.0 million of new 10.875% second lien secured notes due March 15, 2026 to holders of its existing 8.50% senior unsecured notes due June 15, 2026. The exchange will result in reduced leverage of approximately $130.0 million and a reduction of $7.3 million in annual debt service costs.

CONSOLIDATED HIGHLIGHTS

Three Months Ended December 31,	**2019**	2018	Change
(C$000s, except operational information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**317,085**	498,858	(36)
Expenses			
Operating	**281,278**	416,886	(33)
Selling, general and administrative (SG&A)	**14,810**	19,980	(26)
	296,088	436,866	(32)
Operating income(1)	**20,997**	61,992	(66)
Operating income (%)	**6.6**	12.4	(47)
Adjusted EBITDA(1)	**26,882**	62,914	(57)
Adjusted EBITDA (%)	**8.5**	12.6	(33)
Fracturing revenue per job ($)	**29,039**	38,264	(24)
Number of fracturing jobs	**10,104**	12,068	(16)
Active pumping horsepower, end of period (000s)	**1,269**	1,328	(4)
Idle pumping horsepower, end of period (000s)	**141**	42	236
Total pumping horsepower, end of period (000s)	**1,410**	1,370	3
Coiled tubing revenue per job ($)	**27,018**	29,567	(9)
Number of coiled tubing jobs	**609**	715	(15)
Active coiled tubing units, end of period (#)	**20**	22	(9)
Idle coiled tubing units, end of period (#)	**8**	7	14
Total coiled tubing units, end of period (#)	**28**	29	(3)
Cementing revenue per job ($)	**47,379**	46,403	2
Number of cementing jobs	**128**	130	(2)
Active cementing units, end of period (#)	**13**	11	18
Idle cementing units, end of period (#)	**6**	12	(50)
Total cementing units, end of period (#)	**19**	23	(17)

(1) *Refer to "Non-GAAP Measures" on pages 23 and 24 for further information.*

Revenue in the fourth quarter of 2019 was $317.1 million, a decrease of 36 percent from the same period in 2018. The Company's fracturing job count decreased by 16 percent while consolidated revenue per fracturing job decreased by 24 percent mainly due to a combination of lower activity and pricing in North America. Cementing activity in Argentina was higher by 2 percent while coiled tubing activity decreased by 15 percent as a result of lower activity in Canada, Argentina and Russia.

Since the end of 2018, Calfrac has decreased the number of active fracturing fleets as well as its operating and corporate cost structure in order to respond to the decline in fracturing activity in Canada and the United States. Consequently, the Company's operating footprint was more closely aligned with the 16 percent decline in job count experienced in 2019 as compared to the prior year. Additionally, uncertainty surrounding Argentina's change in government impacted activity levels in that country during the fourth quarter.

Pricing in Canada and the United States decreased by over 15 percent, while pricing in Russia was consistent with the fourth quarter of 2018. In Argentina, the mix of service line revenue changed during the fourth quarter of 2019 resulting in more favorable contract pricing compared to the same period in 2018.

Adjusted EBITDA of $26.9 million for the fourth quarter of 2019 decreased from $62.9 million in the comparable period in 2018 primarily due to lower utilization and pricing in Canada and the United States. Adjusted EBITDA for the three months ended December 31, 2019 included the full-year impact of a change in capitalization thresholds for the rebuild and replacement of major components of property, plant and equipment. The change in thresholds lowers the level at which rebuild and replacement costs are capitalized, and the impact of this change was a $10.9 million increase to fourth-quarter and full-year 2019 Adjusted EBITDA, with approximately $2.1 million related directly to the fourth quarter. These changes did not affect any prior reporting periods.

Net loss attributable to shareholders of Calfrac was $49.4 million or $0.34 per share diluted compared to a net loss of $3.5 million or $0.02 per share diluted in the same period last year. Depreciation during the fourth quarter of 2019 increased by $20.4 million compared to the same period in 2018 primarily due to changes in the Company's depreciation policy and the adoption of IFRS 16 as of January 1, 2019. Impairment of property, plant and equipment and inventory of $5.3 million and restructuring costs of $3.6 million also contributed to the decrease in net income.

Three Months Ended	**December 31, 2019**	September 30, 2019	Change
(C$000s, except operational information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**317,085**	399,220	(21)
Expenses			
Operating	**281,278**	333,505	(16)
SG&A	**14,810**	18,694	(21)

	296,088	352,199	(16)
Operating income[(1)]	**20,997**	47,021	(55)
Operating income (%)	**6.6**	11.8	(44)
Adjusted EBITDA[(1)]	**26,882**	43,028	(38)
Adjusted EBITDA (%)	**8.5**	10.8	(21)
Fracturing revenue per job ($)	**29,039**	28,748	1
Number of fracturing jobs	**10,104**	12,745	(21)
Active pumping horsepower, end of period (000s)	**1,269**	1,337	(5)
Idle pumping horsepower, end of period (000s)	**141**	72	96
Total pumping horsepower, end of period (000s)	**1,410**	1,409	—
Coiled tubing revenue per job ($)	**27,018**	23,477	15
Number of coiled tubing jobs	**609**	993	(39)
Active coiled tubing units, end of period (#)	**20**	21	(5)
Idle coiled tubing units, end of period (#)	**8**	8	—
Total coiled tubing units, end of period (#)	**28**	29	(3)
Cementing revenue per job ($)	**47,379**	46,238	2
Number of cementing jobs	**128**	142	(10)
Active cementing units, end of period (#)	**13**	14	(7)
Idle cementing units, end of period (#)	**6**	9	(33)
Total cementing units, end of period (#)	**19**	23	(17)

(1) *Refer to "Non-GAAP Measures" on pages 23 and 24 for further information.*

Revenue in the fourth quarter of 2019 was $317.1 million, a decrease of 21 percent from the third quarter of 2019, primarily due to lower fracturing activity in North America as customers exhausted their budgets and lower activity in Argentina due to uncertainty following the change in government. Revenue per fracturing job was consistent with the third quarter of 2019.

In Canada, fourth-quarter revenue decreased by 30 percent from the third quarter to $73.0 million due to lower activity as client's reduced their capital spending during the fourth quarter. Operating income as a percentage of revenue was 5 percent compared to 15 percent in the third quarter primarily due to lower utilization, offset partially by a lower operating cost structure.

In the United States, revenue in the fourth quarter of 2019 was 16 percent lower than the third quarter at $187.8 million as downward pricing pressure continued in certain geographic markets, offset partially by a slight reduction in the number of clients procuring their own sand. Operating income for the fourth quarter of $24.6 million included a $10.2 million reclassification of costs from operating expenses to capital expenditures due to a revision in the capitalization thresholds for major components.

In Russia, revenue of $24.2 million in the fourth quarter of 2019 was 2 percent higher than the third quarter while operating income was negatively impacted by higher winter fuel costs and additional expenses required to mobilize to a remote jobsite location.

In Argentina, revenue in the fourth quarter of 2019 decreased by 31 percent from the third quarter to $32.1 million, with a decrease in operating income to $5.8 million from $11.7 million in the third quarter. The decrease in revenue and operating income was primarily attributed to uncertainty surrounding Argentina's change in government, which impacted activity levels in that country during the fourth quarter. Operating income margins for the fourth quarter reflected a $3.0 million reversal of stamp taxes related to a prior period contract termination while the third quarter included $3.4 million of additional operating income resulting from the early settlement of a previously completed contract.

Adjusted EBITDA of $26.9 million for the fourth quarter of 2019 decreased from $43.0 million in the third quarter of 2019 primarily due to lower utilization and pricing in Canada and the United States. As noted above, the Company revised its capitalization thresholds for the rebuild and replacement of major components of property, plant and equipment and, as a result, a $10.9 million increase to full-year 2019 Adjusted EBITDA was recorded. These changes did not affect any prior reporting periods.

Net loss attributable to shareholders of Calfrac was $49.4 million or $0.34 per share diluted compared to a net loss of $29.4 million or $0.20 per share diluted in the third quarter of 2019. Depreciation during the fourth quarter of 2019 increased by $10.3 million compared to the third quarter primarily due to changes in the Company's depreciation policy for major components. Impairment of property, plant and equipment and inventory of $5.3 million and restructuring costs of $3.6 million also contributed to the increased net loss quarter-over-quarter.

BUSINESS UPDATE AND OUTLOOK

Calfrac's operating results during the fourth quarter were impacted by budget exhaustion by customers in both Canada and the United States as well as the onset of winter conditions in Russia. Due to the recent change of government in Argentina, typical end-of-year slowdowns were magnified due to higher levels of uncertainty around energy policy and client leadership. Overall, fourth-quarter activity was in-line with the outlook communicated in Calfrac's third-quarter MD&A. Further pricing erosion was observed, mostly in the Texas and Pennsylvania markets of the United States, as budget exhaustion and lower natural gas prices impacted market dynamics. Encouragingly, budgets have been replenished and a strong supply response has been observed in the North American pressure pumping market although we believe these impacts will take time to fully impact Calfrac's results.

CANADA

In Canada, activity met expectations throughout most of the quarter although weather-related delays caused some slowdowns and a small amount of work was deferred into 2020.

After a strong October, utilization decreased significantly during November and December which impacted profitability levels for the quarter. Given the strong activity that is planned for the first quarter of 2020, the Company's ability to materially reduce costs was limited, especially with respect to field labour and equipment-related costs.

Customer programs did not fully get underway until the middle of January, but since that time, Calfrac's Canadian operations have experienced high levels of utilization. The Company expects that this will continue until the onset of road bans impacts operating tempo in some areas. Based on current information, Calfrac expects seasonally strong activity levels through the second and third quarter for its Canadian asset base.

As compared to the first quarter of 2019, rig count and completions activity are expected to be higher in 2020, but Calfrac does not intend to add capacity to its Canadian operations in the near term without a meaningful improvement in pricing and returns. The pressure pumping market in Canada for the first quarter is under supplied, however, sustained levels of high crew utilization combined with improved returns would be required to justify the decision to deploy incremental fracturing crews in the Western Canadian Sedimentary Basin.

UNITED STATES

As expected, activity in the fourth quarter in the United States was lower than the third quarter as planned customer program completion along with weaker natural gas prices impacted demand for completion crews. Additionally, Calfrac declined to participate in bids where pricing had fallen below a level needed to sustain operations.

Activity in the first quarter has tracked our expectations with programs in Texas beginning at a good pace. Programs in the Bakken are typically slower to ramp-up in the winter months, but are expected to be fully underway before the end of the quarter.

During the fourth quarter and early in 2020, a number of players in the fracturing market retired assets or went as far as to cease operations. Calfrac believes that this is direct evidence of the unsustainable returns in the space at present, and the reduction of supply is an encouraging development. While the Company believes that much of the equipment that has exited the industry was not relevant to current operations, the removal of equipment and reduction in competitors moves the U.S. pressure pumping market closer to balance. Calfrac believes that a modest increase in activity could sufficiently tighten the competitive balance in order to establish pricing traction, however, current consensus does not contemplate any meaningful acceleration in the near term.

Calfrac is currently marketing 14 fracturing spreads in the United States, with no plans for expansion in the near term. As previously discussed, weaker natural gas prices have impacted the cash flow and spending plans for our clients in Pennsylvania, and the Company has redeployed one of the four spreads that was previously working in this region to another basin.

RUSSIA

The onset of winter prevented any significant acceleration in activity in Calfrac's Russian operations in the fourth quarter. Weather conditions also slowed operations in January and February, but Calfrac expects activity levels will improve through the end of the quarter and remain strong through the summer period. A reduced operating footprint is likely to improve profitability in 2020 relative to prior years.

ARGENTINA

The Company's operations in Argentina weakened as expected during the fourth quarter due, in part, to normal year-end slowdowns that were magnified by the uncertainty surrounding the change in government and subsequent impacts on a key customer. Activity ramped up through January and current expectations are for activity levels in the year ahead to resemble those experienced in 2019. Calfrac's ability to market two full-time shale fracturing crews has broadened the Company's operating footprint in this market and positions Calfrac as a supplier of choice for many producers.

CORPORATE

Early in 2020, Calfrac successfully executed a debt exchange transaction that reduced leverage and annual debt service costs by approximately $130.0 million and $7.3 million, respectively. Calfrac's corporate focus remains squarely on supporting the delivery of outstanding service quality to its clients in all operating areas. Cost controls, capital prudence and liquidity remain paramount for management in addition to supporting a top-tier operation.

FINANCIAL OVERVIEW – THREE MONTHS ENDED DECEMBER 31, 2019 VERSUS 2018

CANADA

Three Months Ended December 31,	**2019**	2018	Change
(C$000s, except operational information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**73,009**	145,085	(50)
Expenses			
Operating	**67,171**	124,957	(46)
SG&A	**2,414**	3,472	(30)
	69,585	128,429	(46)
Operating income[(1)]	**3,424**	16,656	(79)
Operating income (%)	**4.7**	11.5	(59)
Fracturing revenue per job ($)	**15,348**	20,265	(24)
Number of fracturing jobs	**4,160**	6,537	(36)
Active pumping horsepower, end of period (000s)	**236**	289	(18)
Idle pumping horsepower, end of period (000s)	**36**	17	112
Total pumping horsepower, end of period (000s)	**272**	306	(11)
Coiled tubing revenue per job ($)	**21,741**	23,492	(7)
Number of coiled tubing jobs	**405**	517	(22)
Active coiled tubing units, end of period (#)	**11**	11	—
Idle coiled tubing units, end of period (#)	**3**	3	—
Total coiled tubing units, end of period (#)	**14**	14	—

(1) Refer to "Non-GAAP Measures" on pages 23 and 24 for further information.

REVENUE

Revenue from Calfrac's Canadian operations during the fourth quarter of 2019 was $73.0 million compared to $145.1 million in the same period of 2018 primarily due to lower activity and pricing. In the fourth quarter of 2019, the number of fracturing jobs was 36 percent lower than the comparable period in 2018 due to lower industry activity in response to government mandated production cuts. Activity in October was relatively strong; however, activity in November and December was reduced as a result of customers exhausting their full-year capital budgets. Revenue per job decreased by 24 percent due to certain customers providing their own sand and fuel, combined with lower pricing. The number of coiled tubing jobs decreased by 22 percent from the fourth quarter in 2018, while revenue per job decreased by 7 percent due to job mix.

OPERATING INCOME

Operating income in Canada during the fourth quarter of 2019 was $3.4 million compared to $16.7 million in the same period of 2018. The significant decline in operating income was due to the lower revenue base and pricing, offset partially by 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 fourth quarter in order to better align costs with the expected level of activity. Pricing was lower compared to the fourth 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 $2.2 million of lease payments no longer being recognized as operating costs during the fourth quarter of 2019. In addition, the $1.1 million decrease in SG&A expenses in the fourth quarter of 2019 compared to the fourth quarter in 2018 was primarily due to a reduction in corporate costs allocated to the Canadian division combined with lower personnel costs, offset partially by $0.7 million in restructuring costs.

UNITED STATES

Three Months Ended December 31,	**2019**	2018	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**187,770**	279,324	(33)
Expenses			
Operating	**160,012**	223,055	(28)
SG&A	**4,164**	4,741	(12)
	164,176	227,796	(28)
Operating income[(1)]	**23,594**	51,528	(54)
Operating income (%)	**12.6**	18.4	(32)
Fracturing revenue per job ($)	**34,402**	55,492	(38)
Number of fracturing jobs	**5,435**	5,034	8
Active pumping horsepower, end of period (000s)	**830**	854	(3)
Idle pumping horsepower, end of period (000s)	**93**	25	272
Total pumping horsepower, end of period (000s)	**923**	879	5
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 (#)	**5**	10	(50)
Total cementing units, end of period (#)	**5**	10	(50)
US$/C$ average exchange rate[(2)]	**1.3200**	1.3204	—

(1) Refer to "Non-GAAP Measures" on pages 23 and 24 for further information.
(2) Source: Bank of Canada.

REVENUE

Revenue from Calfrac's United States operations decreased to $187.8 million during the fourth quarter of 2019 from $279.3 million in the comparable quarter of 2018. The significant decrease in revenue can be attributed to a combination of a 38 percent decrease in revenue per job, offset partially by an 8 percent increase in the number of fracturing jobs completed period-over-period. The significant decrease in revenue per job was primarily due to the impact of nearly half of Calfrac's United States activity involving customers providing their own sand, combined with lower pricing in all operating areas. The 8 percent increase in activity was driven by a change in job mix in Pennsylvania and North Dakota that resulted in more jobs completed at a lower average job size while Calfrac's Texas and Colorado operations completed fewer jobs period-over-period.

OPERATING INCOME

The Company's United States operations generated operating income of $23.6 million during the fourth quarter of 2019 compared to $51.5 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 fourth quarter of 2019 was down significantly from the comparable quarter in 2018. The number of jobs completed was 8 percent higher primarily due to customer and job mix which resulted in more jobs at a lower average revenue per job. The reported operating income was positively impacted by the adoption of IFRS 16 at the beginning of 2019 which resulted in $2.6 million of lease payments no longer being recognized as operating costs during the fourth quarter of 2019. SG&A expenses decreased by 12 percent primarily due to a lower bonus accrual recorded in the quarter, offset partially by $0.8 million in restructuring costs. Additionally, the Company revised its thresholds for capitalization of major components relating to field equipment effective October 1, 2019. Due to this change, certain costs that were previously classified as operating expenses are now classified as capital expenditures. This resulted in a decrease to operating expenses in the United States totaling $10.2 million relating to the 2019 fiscal year and was recorded during the fourth quarter of 2019.

RUSSIA

Three Months Ended December 31,	**2019**	2018	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**24,244**	24,892	(3)
Expenses			
Operating	**25,688**	24,211	6
SG&A	**702**	941	(25)
	26,390	25,152	5
Operating loss[1]	**(2,146)**	(260)	NM
Operating loss (%)	**(8.9)**	(1.0)	NM
Fracturing revenue per job ($)	**83,972**	76,039	10
Number of fracturing jobs	**263**	285	(8)
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 ($)	**46,940**	38,338	22
Number of coiled tubing jobs	**46**	84	(45)
Active coiled tubing units, end of period (#)	**3**	6	(50)
Idle coiled tubing units, end of period (#)	**4**	1	300
Total coiled tubing units, end of period (#)	**7**	7	—
Rouble/C$ average exchange rate[2]	**0.0207**	0.0199	4

(1) Refer to "Non-GAAP Measures" on pages 23 and 24 for further information.
(2) Source: Bank of Canada.

REVENUE

Revenue from Calfrac's Russian operations decreased by 3 percent during the fourth quarter of 2019 to $24.2 million from $24.9 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 warmer than normal weather during November and December restricted access to job locations and deferred planned work into 2020. Revenue per fracturing job increased by 10 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 45 percent primarily due to lower than expected utilization with Calfrac's main customer.

OPERATING LOSS

The Company's Russian division generated an operating loss of $2.1 million during the fourth quarter of 2019 versus a loss of $0.3 million in the comparable quarter in 2018. The negative operating result was due to lower utilization combined with higher equipment repairs and subcontractor costs to set up remote operations. The fourth quarter experienced lower field activity for both fracturing and coiled tubing services due to weather-related access issues.

ARGENTINA

Three Months Ended December 31,	**2019**	2018	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**32,062**	49,557	(35)
Expenses			
Operating	**26,819**	42,711	(37)
SG&A	**(577)**	2,489	NM
	26,242	45,200	(42)
Operating income[1]	**5,820**	4,357	34
Operating income (%)	**18.2**	8.8	107
Active pumping horsepower, end of period (000s)	**138**	108	28
Idle pumping horsepower, end of period (000s)	**—**	—	—
Total pumping horsepower, end of period (000s)	**138**	108	28
Active cementing units, end of period (#)	**13**	11	18
Idle cementing units, end of period (#)	**1**	2	(50)
Total cementing units, end of period (#)	**14**	13	8
Active coiled tubing units, end of period (#)	**6**	5	20
Idle coiled tubing units, end of period (#)	**—**	1	(100)
Total coiled tubing units, end of period (#)	**6**	6	—
US$/C$ average exchange rate[2]	**1.3200**	1.3204	—

(1) Refer to "Non-GAAP Measures" on pages 23 and 24 for further information.
(2) Source: Bank of Canada and Bloomberg.

REVENUE

Calfrac's Argentinean operations generated total revenue of $32.1 million during the fourth quarter of 2019 compared to $49.6 million in the comparable quarter in 2018. This 35 percent decline in revenue was primarily due to the completion of one of its bundled service contracts in the Vaca Muerta shale play where Calfrac provided sand. This contract was replaced with another contract with a customer that provided their own sand. Fracturing activity increased by 16 percent while revenue per job decreased by 38 percent as a result of the change in customer mix. Uncertainty surrounding the change in government and leadership at a key customer also negatively impacted activity levels in the fourth quarter of 2019. Cementing revenue was consistent with the comparable period while coiled tubing revenue decreased slightly from the fourth quarter in 2018 despite an increase in the number of jobs completed 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 $5.8 million during the fourth quarter of 2019 compared to $4.4 million during the comparable quarter in 2018. The Company was able to generate higher operating income due to better pricing on contracted activity as compared to the fourth quarter in 2018. The $3.1 million decrease in SG&A expenses from the fourth quarter in 2018 was mainly due to the reversal of a US$2.3 million stamp tax accrual resulting from terminated customer contracts.

CORPORATE

Three Months Ended December 31,	2019	2018	Change
(C$000s)	***($)***	*($)*	*(%)*
(unaudited)			
Expenses			
Operating	**1,588**	1,952	(19)
SG&A	**8,107**	8,337	(3)
	9,695	10,289	(6)
Operating loss[1]	**(9,695)**	(10,289)	(6)
% of Revenue	**3.1**	2.1	48

(1) *Refer to "Non-GAAP Measures" on pages 23 and 24 for further information.*

OPERATING LOSS
Corporate expenses for the fourth quarter of 2019 were $9.7 million compared to $10.3 million in the fourth quarter of 2018. The decrease was primarily due to a lower bonus provision when compared to the same period in 2018, offset partially by $1.7 million in restructuring costs recorded during the fourth quarter in 2019. The increase in stock-based compensation was mainly due to a a reversal that was recorded during the fourth quarter in 2018. 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 December 31, 2019, depreciation expense increased by $20.4 million to $68.9 million from $48.5 million in the corresponding quarter of 2018. The increase was primarily due to depreciation on assets placed into service in the United States. In addition, the adoption of IFRS 16 at the beginning of 2019 resulted in a $4.8 million increase to depreciation expense and the revision to the Company's capitalization thresholds resulted in an additional $2.2 million of depreciation recorded in the fourth quarter of 2019. Also, contributing to the higher depreciation was the impact of 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 $2.3 million.

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 $8.1 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 December 31, 2018.

The Company revised its thresholds for capitalization of major components relating to field equipment. Due to this change, certain costs that were previously classified as operating expenses are now classified as capital expenditures. This resulted in a decrease to operating expenses and an increase to capital expenditures totaling $10.9 million relating to the 2019 fiscal year and was recorded during the fourth quarter of 2019. This did not have any impact on prior periods.

FOREIGN EXCHANGE GAINS
The Company recorded a foreign exchange gain of $0.1 million during the fourth quarter of 2019 versus a gain of $3.3 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.

IMPAIRMENT
A comparison of the recoverable amounts of each CGU with their respective carrying amounts resulted in no impairment against property, plant and equipment in the fourth quarter of 2019 (2018 - $nil). Furthermore, the Company carried out a comprehensive review of its property, plant and equipment and identified assets that were permanently idle or obsolete, and therefore, no longer able to generate cash inflows. These assets were written down to their recoverable amount resulting in an impairment charge of $2.2 million for the three months ended December 31, 2019 (three months ended December 31, 2018 - $0.1 million).

The Company reviews the carrying value of its inventory on an ongoing basis for obsolescence and to verify that the carrying value exceeds the net realizable amount. For the three months ended December 31, 2019, the Company recorded an impairment charge of $3.2 million to write-down inventory to its net realizable amount in the United States and Argentina (three months ended December 31, 2018 - $4.0 million).

INTEREST
The Company's net interest expense of $21.5 million for the fourth quarter of 2019 was $0.5 million higher than the comparable period in 2018. The increase in interest expense was due to the adoption of IFRS 16, which resulted in a $0.5 million increase in interest expense during the fourth quarter in 2019.

INCOME TAXES
The Company recorded an income tax recovery of $23.4 million during the fourth quarter of 2019 compared to a recovery of $4.6 million in the comparable period of 2018. The recovery position was the result of pre-tax losses incurred during the quarter. The effective recovery rate was 32 percent in 2019.

SUMMARY OF QUARTERLY RESULTS

Three Months Ended	Mar. 31, 2018	Jun. 30, 2018	Sep. 30, 2018	Dec. 31, 2018	Mar 31, 2019	Jun. 30, 2019	Sep. 30, 2019	**Dec. 31, 2019**
(C$000s, except per share and operating data)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	***($)***
(unaudited)								
Financial								
Revenue	582,838	544,602	630,128	498,858	475,012	429,638	399,220	**317,085**
Operating income[1]	67,974	66,528	115,331	61,992	43,623	41,103	47,021	**20,997**
Per share – basic	0.47	0.46	0.80	0.43	0.30	0.28	0.33	**0.15**
Per share – diluted	0.46	0.45	0.79	0.42	0.30	0.28	0.32	**0.14**
Adjusted EBITDA[1]	72,953	81,910	111,631	62,914	44,086	45,123	43,028	**26,882**
Per share – basic	0.51	0.57	0.77	0.44	0.31	0.31	0.30	**0.19**
Per share – diluted	0.50	0.56	0.76	0.43	0.30	0.31	0.30	**0.18**
Net income (loss) attributable to the shareholders of Calfrac	3,234	(32,838)	14,878	(3,462)	(36,334)	(41,045)	(29,424)	**(49,400)**
Per share – basic	0.02	(0.23)	0.10	(0.02)	(0.25)	(0.28)	(0.20)	**(0.34)**
Per share – diluted	0.02	(0.23)	0.10	(0.02)	(0.25)	(0.28)	(0.20)	**(0.34)**
Capital expenditures	51,334	42,404	34,542	31,484	28,218	37,784	38,885	**34,418**
Working capital (end of period)	360,654	361,613	386,843	329,871	276,785	291,056	257,189	**248,772**
Total equity (end of period)	546,018	507,607	516,899	513,820	481,675	443,361	414,195	**368,623**
Operating (end of period)								
Active pumping horsepower (000s)	1,259	1,313	1,344	1,328	1,344	1,346	1,337	**1,269**
Idle pumping horsepower (000s)	134	80	49	42	36	59	72	**141**
Total pumping horsepower (000s)	1,393	1,393	1,393	1,370	1,380	1,405	1,409	**1,410**
Active coiled tubing units (#)	22	22	22	22	21	21	21	**20**
Idle coiled tubing units (#)	8	8	8	7	8	8	8	**8**
Total coiled tubing units (#)	30	30	30	29	29	29	29	**28**
Active cementing units (#)	12	11	11	11	11	14	14	**13**
Idle cementing units (#)	11	12	12	12	12	9	9	**6**
Total cementing units (#)	23	23	23	23	23	23	23	**19**

(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 23 and 24 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.

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.

FINANCIAL OVERVIEW – YEARS ENDED DECEMBER 31, 2019 VERSUS 2018

CANADA

Years Ended December 31,	**2019**	2018	Change
(C$000s, except operational information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**397,583**	650,731	(39)
Expenses			
Operating	**345,315**	549,448	(37)
Selling, general and administrative (SG&A)	**11,579**	14,121	(18)
	356,894	563,569	(37)
Operating income[(1)]	**40,689**	87,162	(53)
Operating income (%)	**10.2**	13.4	(24)
Fracturing revenue per job ($)	**16,573**	21,156	(22)
Number of fracturing jobs	**21,046**	28,038	(25)
Active pumping horsepower, end of period (000s)	**236**	289	(18)
Idle pumping horsepower, end of period (000s)	**36**	17	112
Total pumping horsepower, end of period (000s)	**272**	306	(11)
Coiled tubing revenue per job ($)	**19,839**	22,809	(13)
Number of coiled tubing jobs	**2,339**	2,299	2
Active coiled tubing units, end of period (#)	**11**	11	—
Idle coiled tubing units, end of period (#)	**3**	3	—
Total coiled tubing units, end of period (#)	**14**	14	—

(1) Refer to "Non-GAAP Measures" on pages 23 and 24 for further information.

REVENUE
Revenue from Calfrac's Canadian operations in 2019 was $397.6 million versus $650.7 million in 2018. Through the majority of 2019, a number of key clients in Calfrac's Canadian division were less active compared to 2018, as takeaway capacity issues and government mandated production curtailment impacted spending plans. Although the Company continued to work for a top tier customer mix in 2019, the number of fracturing jobs decreased by 25 percent. Revenue per fracturing job decreased by 22 percent from the prior year primarily due to lower pricing and job mix. Coiled tubing activity increased by 2 percent although revenue per job decreased by 13 percent resulting in lower coiled tubing revenue year-over-year.

OPERATING INCOME
The Company's Canadian division generated operating income of $40.7 million in 2019 compared to $87.2 million in 2018. The decrease was due to lower pricing and utilization. Despite the lower revenue base, the Company generated an 10 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 $8.8 million of lease payments no longer being recognized as operating costs in 2019. In addition, the $2.5 million reduction in SG&A expenses compared to 2018 was due to headcount reductions, a lower annual bonus provision and a reduction in corporate costs allocated to the Canadian division, offset partially by restructuring costs of $0.7 million and a bad debt expense of $1.3 million that were recorded in 2019.

UNITED STATES

Years Ended December 31,	**2019**	2018	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**930,404**	1,296,675	(28)
Expenses			
Operating	**786,864**	1,014,151	(22)
SG&A	**17,335**	20,176	(14)
	804,199	1,034,327	(22)
Operating income[(1)]	**126,205**	262,348	(52)
Operating income (%)	**13.6**	20.2	(33)
Fracturing revenue per job ($)	**42,832**	58,333	(27)
Number of fracturing jobs	**21,687**	22,176	(2)
Active pumping horsepower, end of period (000s)	**830**	854	(3)
Idle pumping horsepower, end of period (000s)	**93**	25	272
Total pumping horsepower, end of period (000s)	**923**	879	5
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 (#)	**5**	10	(50)
Total cementing units, end of period (#)	**5**	10	(50)
US$/C$ average exchange rate[(2)]	**1.3269**	1.2957	2

(1) Refer to "Non-GAAP Measures" on pages 23 and 24 for further information.
(2) Source: Bank of Canada.

REVENUE
Revenue from Calfrac's United States operations decreased to $930.4 million in 2019 from $1.3 billion in 2018 primarily due to lower pricing and fracturing activity. Completions activity in the United States decreased during 2019 as customers continued to focus on spending within their operating cash flows. As a result, the number of fracturing jobs completed declined by 2 percent year-over-year, with lower activity in Artesia and Colorado being partially offset by higher activity in Pennsylvania, North Dakota and San Antonio. Revenue per job decreased 27 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 $126.2 million in 2019 compared to $262.3 million in 2018. The 52 percent decrease was primarily the

result of lower pricing and utilization of active equipment. Although the Company had 17 active fleets available in 2019, only an average of 14 active crews were utilized during that period and exited the year with 10 active fleets. The lower utilization levels were primarily related to Calfrac's Texas operations, and to a lesser extent, in 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 $12.9 million of reactivation costs 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 $12.7 million of lease payments no longer being recognized as operating costs in 2019. SG&A expenses decreased by 14 percent primarily due to a lower bonus provision recorded in 2019. Additionally, the Company revised its thresholds for capitalization of major components relating to field equipment effective January 1, 2019. Due to this change, certain costs that were previously classified as operating expenses are now classified as capital expenditures. This resulted in a decrease to operating expenses in the United States totaling $10.2 million relating to the 2019 fiscal year and was recorded during the fourth quarter of 2019.

RUSSIA

Years Ended December 31,	**2019**	2018	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**105,807**	106,819	(1)
Expenses			
Operating	**107,597**	103,938	4
SG&A	**3,215**	3,326	(3)
	110,812	107,264	3
Operating loss(1)	**(5,005)**	(445)	NM
Operating loss (%)	**(4.7)**	(0.4)	NM
Fracturing revenue per job ($)	**86,397**	78,176	11
Number of fracturing jobs	**1,094**	1,167	(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 ($)	**44,619**	39,065	14
Number of coiled tubing jobs	**253**	399	(37)
Active coiled tubing units, end of period (#)	**3**	6	(50)
Idle coiled tubing units, end of period (#)	**4**	1	NM
Total coiled tubing units, end of period (#)	**7**	7	—
Rouble/C$ average exchange rate(2)	**0.0205**	0.0207	(1)

(1) Refer to "Non-GAAP Measures" on pages 23 and 24 for further information.

(2) Source: Bank of Canada.

REVENUE

Revenue from Calfrac's Russian operations in 2019 of $105.8 million was consistent with 2018. The slight decrease in revenue, which is generated in roubles, was mostly related to a 37 percent reduction in coiled tubing activity, combined with the 1 percent depreciation of the Russian rouble in 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. This was partially offset by the 6 percent reduction in fracturing activity. The Company idled one fracturing spread and two coiled tubing units during 2019 to align with activity levels.

OPERATING LOSS

The Company's Russian division incurred an operating loss of $5.0 million in 2019 compared to a loss of $0.4 million 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 while the fourth quarter was impacted by higher equipment repairs and subcontractor costs compared to the same period in 2018.

ARGENTINA

Years Ended December 31,	**2019**	2018	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**187,161**	202,201	(7)
Expenses			
Operating	**153,479**	178,796	(14)
SG&A	**7,554**	10,569	(29)
	161,033	189,365	(15)
Operating income(1)	**26,128**	12,836	104
Operating income (%)	**14.0**	6.3	122
Active pumping horsepower, end of period (000s)	**138**	108	28
Idle pumping horsepower, end of period (000s)	**—**	—	—
Total pumping horsepower, end of period (000s)	**138**	108	28
Active cementing units, end of period (#)	**13**	11	18
Idle cementing units, end of period (#)	**1**	2	(50)
Total cementing units, end of period (#)	**14**	13	8
Active coiled tubing units, end of period (#)	**6**	5	20
Idle coiled tubing units, end of period (#)	**—**	1	(100)
Total coiled tubing units, end of period (#)	**6**	6	—
US$/C$ average exchange rate(2)	**1.3269**	1.2957	2

(1) Refer to "Non-GAAP Measures" on pages 23 and 24 for further information.

(2) Source: Bloomberg.

REVENUE

Calfrac's Argentinean operations generated total revenue of $187.2 million in 2019 versus $202.2 million in 2018. The 7 percent decline in year-over-year revenue was primarily due to the change in customer mix that occurred during the third quarter of 2019. The Company completed of one of its bundled service contracts in the Vaca Muerta shale play during the third quarter where Calfrac provided sand and replaced it with another contract with a customer that provides its own sand. During 2019, the Company achieved 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 $26.1 million in 2019 compared to $12.8 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 pricing 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

Years Ended December 31,	**2019**	2018	Change
(C$000s)	***($)***	*($)*	*(%)*
(unaudited)			
Expenses			
Operating	**5,081**	6,322	(20)
SG&A	**30,192**	43,754	(31)
	35,273	50,076	(30)
Operating loss[(1)]	**(35,273)**	(50,076)	(30)
% of Revenue	**2.2**	2.2	—

[(1)] *Refer to "Non-GAAP Measures" on pages 23 and 24 for further information.*

OPERATING LOSS

Corporate expenses in 2019 were $35.3 million compared to $50.1 million 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. This was partially offset by $4.4 million of retirement and severance payments in 2019. The $7.3 million 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 in 2019 increased by $70.7 million to $261.2 million from $190.5 million 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 2019 increased depreciation expense by a further $23.5 million. In addition, the adoption of IFRS 16 at the beginning of 2019 resulted in a $20.9 million increase to depreciation expense. The Company also recorded an additional $9.2 million of depreciation on assets placed into service in the United States. Fluctuations in the U.S. dollar relative to the Canadian dollar also contributed to the increase in reported depreciation.

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 $30.2 million of loss on disposal of property, plant and equipment being reclassified to depreciation expense on the statement of operations for the year ended December 31, 2018.

The Company revised its thresholds for capitalization of major components relating to field equipment. Due to this change, certain costs that were previously classified as operating expenses are now classified as capital expenditures. This resulted in a decrease to operating expenses and an increase to capital expenditures totaling $10.9 million relating to the 2019 fiscal year and was recorded during the fourth quarter of 2019. This did not have any impact on prior periods.

FOREIGN EXCHANGE LOSSES

The Company recorded a foreign exchange loss of $6.3 million in 2019 versus a loss of $38.0 million 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 in 2019 was largely attributable to net monetary assets that were held in pesos in Argentina as the peso devalued by 59 percent against the U.S. dollar during 2019 and U.S. dollar denominated assets held in Canada as the United States dollar depreciated against the Canadian dollar during 2019.

IMPAIRMENT

A comparison of the recoverable amounts of each CGU with their respective carrying amounts resulted in no impairment against property, plant and equipment in 2019 (2018 - $nil) . Furthermore, the Company carried out a comprehensive review of its property, plant and equipment and identified assets that were permanently idle or obsolete, and therefore, no longer able to generate cash inflows. These assets were written down to their recoverable amount resulting in an impairment charge of $2.2 million for the year ended December 31, 2019 (year ended December 31, 2018 - $0.1 million).

The Company reviews the carrying value of its inventory on an ongoing basis for obsolescence and to verify that the carrying value exceeds the net realizable amount. For the year ended December 31, 2019, the Company recorded an impairment charge of $3.7 million to write-down inventory to its net realizable amount in the United States and Argentina (year ended December 31, 2018 - $7.2 million).

INTEREST

The Company's interest expense of $85.8 million in 2019 was $20.8 million lower than 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. Interest expense in 2019 also included $2.1 million related to the adoption of IFRS 16. Excluding these one-time items, interest expense was $1.7 million lower than 2018 primarily due to lower average debt levels.

INCOME TAXES

The Company recorded an income tax recovery of $52.2 million in 2019 compared to a $4.6 million tax recovery in 2018. The recovery position was the result of pre-tax losses across all divisions in 2019. The effective recovery rate was 25 percent in 2019.

LIQUIDITY AND CAPITAL RESOURCES

	Years Ended December 31,	
	2019	2018
(C$000s)	***($)***	*($)*
(unaudited)		
Cash provided by (used in):		
Operating activities	**132,024**	184,746
Financing activities	**4,021**	(58,073)
Investing activities	**(138,892)**	(149,814)
Effect of exchange rate changes on cash and cash equivalents	**(6,492)**	22,293
Decrease in cash and cash equivalents	**(9,339)**	(848)

OPERATING ACTIVITIES

The Company's cash provided by operating activities for the year ended December 31, 2019 was $132.0 million versus $184.7 million during 2018. The decrease in cash provided by operations was primarily due to lower activity and pricing in North America offset partially by working capital providing $62.7 million of cash in 2019 compared to using $13.6 million in 2018. At December 31, 2019, Calfrac's working capital was $248.8 million compared to $329.9 million at December 31, 2018.

FINANCING ACTIVITIES

Net cash provided by financing activities for the year ended December 31, 2019 was $4.0 million compared to net cash used of $58.1 million in 2018. During the year ended December 31, 2019, the Company had net borrowings under its credit facilities of $23.9 million, proceeds from the issuance of shares of $0.2 million and lease principal payments of $20.0 million.

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

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 December 31, 2019, the Company's net Total Debt to Adjusted EBITDA ratio was 6.96:1.00.

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 December 31, 2019, the Company had used $0.8 million of its credit facilities for letters of credit and had $148.0 million of borrowings under its credit facilities, leaving $226.2 million in available capacity under its credit facilities. As described above, the Company's credit facilities are subject to a monthly borrowing base, as determined using the previous month's results, which at December 31, 2019 resulted in a liquidity amount of $123.2 million.

As shown in the table below, at December 31, 2019, the Company was in compliance with the financial covenants associated with its credit facilities.

As at December 31,	Covenant 2019	**Actual 2019**
Working capital ratio not to fall below	1.15x	**2.83x**
Funded Debt to Adjusted EBITDA not to exceed(1)(2)	3.00x	**0.80x**
Funded Debt to Capitalization not to exceed(1)(3)	0.30x	**0.08x**

(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 forma effect to such restricted payment as if it had been made at the beginning of the applicable four fiscal quarter period; or

iii. there is insufficient room for such payment within a builder basket included in the 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 December 31, 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 plus a general basket equal to the greater of 4 percent of consolidated tangible assets and US$60.0 million.

As at December 31, 2019, the Company's Fixed Charge Coverage Ratio of 1.85:1 was below the required 2:1 ratio. Failing to meet the Fixed Charge Coverage Ratio is not an event of default under the indenture, and the baskets highlighted in the preceding paragraph provide sufficient flexibility for the Company to incur additional indebtedness and make anticipated restricted payments which may be required to conduct its operations.

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 $138.9 million for the year ended December 31, 2019 versus $149.8 million in 2018. Cash outflows relating to capital expenditures were $147.4 million in 2019 compared to $157.2 million in 2018. In addition to supporting ongoing operations globally, a portion of capital spending in 2019 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 2020 capital budget of $100.5 million, which is comprised primarily of maintenance capital.

EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS

The effect of changes in foreign exchange rates on the Company's cash and cash equivalents during the year ended December 31, 2019 was a loss of $6.5 million versus a gain of $22.3 million 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 December 31, 2019, the Company had cash and cash equivalents of $42.6 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 March 3, 2020, the Company had issued and outstanding 145,149,528 common shares, 485,798 equity-based performance share units and 12,172,402 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. Operating income for the period was calculated as follows:

	Three Months Ended Dec. 31,		**Years Ended Dec. 31,**	
	2019	2018	**2019**	2018
(C$000s)	***($)***	*($)*	***($)***	*($)*
(unaudited)				

Net loss	**(49,400)**	(3,462)	**(156,203)**	(26,177)
Add back (deduct):				
Depreciation[1]	**68,932**	48,522	**261,227**	190,475
Foreign exchange (gains) losses	**(128)**	(3,342)	**6,341**	38,047
Loss (gain) on disposal of property, plant and equipment[1]	**(1,886)**	(244)	**1,870**	160
Impairment of property, plant and equipment	**2,165**	115	**2,165**	115
Impairment of inventory	**3,160**	3,978	**3,744**	7,167
Interest	**21,512**	20,999	**85,826**	106,630
Income taxes	**(23,358)**	(4,574)	**(52,226)**	(4,592)
Operating income	**20,997**	61,992	**152,744**	311,825

[1] Comparatives have been reclassified to conform to the current financial statement presentation.

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

	Three Months Ended Dec. 31,		Years Ended Dec. 31,	
	2019	2018	**2019**	2018
(C$000s)			***($)***	*($)*
(unaudited)				
Net loss	**(49,400)**	(3,462)	**(156,203)**	(26,177)
Add back (deduct):				
Depreciation	**68,932**	48,522	**261,227**	190,475
Unrealized foreign exchange losses	**859**	(4,345)	**2,041**	11,465
Non-recurring realized foreign exchange losses[1]	**—**	—	**—**	29,288
(Gain) loss on disposal of property, plant and equipment	**(1,886)**	(244)	**1,870**	160
Impairment of property, plant and equipment	**2,165**	115	**2,165**	115
Impairment of inventory	**3,160**	3,978	**3,744**	7,167
Restructuring charges	**3,564**	281	**6,049**	1,076
Stock-based compensation	**1,334**	1,644	**4,626**	5,812
Losses attributable to non-controlling interest	**—**	—	**—**	7,989
Interest	**21,512**	20,999	**85,826**	106,630
Income taxes	**(23,358)**	(4,574)	**(52,226)**	(4,592)
Adjusted EBITDA[2]	**26,882**	62,914	**159,119**	329,408

[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 $21.9 million of lease payments 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.

FOURTH QUARTER CONFERENCE CALL

Calfrac will be conducting a conference call for interested analysts, brokers, investors and news media representatives to review its 2019 fourth-quarter results at 10:00 a.m. (Mountain Time) on Thursday, March 5, 2020. 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

As at December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
ASSETS		
Current assets		
Cash and cash equivalents	**42,562**	51,901
Accounts receivable	**216,647**	349,431
Income taxes recoverable	**1,608**	582
Inventories	**127,620**	150,123
Prepaid expenses and deposits	**17,489**	17,527
	405,926	569,564
Non-current assets		
Property, plant and equipment (note 1)	**969,944**	1,116,677
Right-of-use assets	**29,760**	—
Deferred income tax assets	**120,292**	96,416
Total assets	**1,525,922**	1,782,657
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**143,225**	239,507
Current portion of lease obligations	**13,929**	186
	157,154	239,693
Non-current liabilities		
Long-term debt (note 2)	**976,693**	989,614
Lease obligations	**16,990**	552
Deferred income tax liabilities	**6,462**	38,978
Total liabilities	**1,157,299**	1,268,837
Equity attributable to the shareholders of Calfrac		
Capital stock (note 3)	**509,235**	508,276
Contributed surplus	**44,316**	40,453
Loan receivable for purchase of common shares	**(2,500)**	(2,500)
Accumulated deficit	**(185,174)**	(28,971)
Accumulated other comprehensive income (loss)	**2,746**	(3,438)
Total equity	**368,623**	513,820
Total liabilities and equity	**1,525,922**	1,782,657

Contingencies (note 6)
See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended Dec. 31,		Years Ended Dec. 31,	
	2019	2018	**2019**	2018
(C$000s, except per share data)	***($)***	*($)*	***($)***	*($)*
Revenue	**317,085**	498,858	**1,620,955**	2,256,426
Cost of sales	**350,211**	465,408	**1,659,564**	2,043,130
Gross (loss) profit	**(33,126)**	33,450	**(38,609)**	213,296
Expenses				
Selling, general and administrative	**14,809**	19,980	**69,874**	91,946
Foreign exchange (gains) losses	**(128)**	(3,342)	**6,341**	38,047
(Gain) loss on disposal of property, plant and equipment	**(1,886)**	(244)	**1,870**	160
Impairment of property, plant and equipment (note 1)	**2,165**	115	**2,165**	115
Impairment of inventory	**3,160**	3,978	**3,744**	7,167
Interest	**21,512**	20,999	**85,826**	106,630
	39,632	41,486	**169,820**	244,065
Loss before income tax	**(72,758)**	(8,036)	**(208,429)**	(30,769)
Income tax expense (recovery)				
Current	**(599)**	2,390	**3,014**	4,342
Deferred	**(22,759)**	(6,964)	**(55,240)**	(8,934)
	(23,358)	(4,574)	**(52,226)**	(4,592)
Net loss	**(49,400)**	(3,462)	**(156,203)**	(26,177)
Net loss attributable to:				
Shareholders of Calfrac	**(49,400)**	(3,462)	**(156,203)**	(18,188)
Non-controlling interest	**—**	—	**—**	(7,989)
	(49,400)	(3,462)	**(156,203)**	(26,177)
Loss per share (note 3)				
Basic	**(0.34)**	(0.02)	**(1.08)**	(0.13)
Diluted	**(0.34)**	(0.02)	**(1.08)**	(0.13)

See accompanying notes to the consolidated financial statements.
Certain of the comparatives have been reclassified to conform with the current presentation.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended Dec. 31,		Years Ended Dec. 31,	
	2019	2018	**2019**	2018
(C$000s)	***($)***	*($)*	***($)***	*($)*
Net loss	**(49,400)**	(3,462)	**(156,203)**	(26,177)
Other comprehensive income (loss)				
Items that may be subsequently reclassified to profit or loss:				
Change in foreign currency translation adjustment	**2,494**	(1,278)	**6,184**	(7,379)
Comprehensive loss	**(46,906)**	(4,740)	**(150,019)**	(33,556)
Comprehensive loss attributable to:				
Shareholders of Calfrac	**(46,906)**	(4,740)	**(150,019)**	(26,560)
Non-controlling interest	**—**	—	**—**	(6,996)
	(46,906)	(4,740)	**(150,019)**	(33,556)

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$000s)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	***($)***
Balance – Jan. 1, 2019	**508,276**	**40,453**	**(2,500)**	**(3,438)**	**(28,971)**	**513,820**	**—**	**513,820**
Net loss	—	—	—	—	(156,203)	(156,203)	—	**(156,203)**
Other comprehensive income (loss):								
Cumulative translation adjustment	—	—	—	6,184	—	6,184	—	**6,184**
Comprehensive income (loss)	—	—	—	6,184	(156,203)	(150,019)	—	**(150,019)**
Stock options:								
Stock-based compensation recognized	—	3,030	—	—	—	3,030	—	**3,030**
Proceeds from issuance of shares (note 3)	252	(56)	—	—	–	196	—	**196**
Performance share units:								
Stock-based compensation recognized	—	1,596	—	—	—	1,596	—	**1,596**
Shares issued (note 3)	707	(707)	—	—	—	—	—	**—**
Balance – Dec. 31, 2019	**509,235**	**44,316**	**(2,500)**	**2,746**	**(185,174)**	**368,623**	**—**	**368,623**
Balance – Jan. 1, 2018	501,456	35,094	(2,500)	2,728	21,268	558,046	(14,401)	543,645
Net loss	—	—	—	—	(18,188)	(18,188)	(7,989)	(26,177)

Other comprehensive income (loss):								
Cumulative translation adjustment	—	—	—	(8,372)	—	(8,372)	993	(7,379)
Comprehensive loss	—	—	—	(8,372)	(18,188)	(26,560)	(6,996)	(33,556)
Stock options:								
Stock-based compensation recognized	—	4,637	—	—	—	4,637	—	4,637
Proceeds from issuance of shares (note 3)	1,820	(453)	—	—	–	1,367	—	1,367
Performance share units:								
Stock-based compensation recognized	—	1,175	—	—	—	1,175	—	1,175
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 – Dec. 31, 2018	508,276	40,453	(2,500)	(3,438)	(28,971)	513,820	—	513,820

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended Dec. 31, 2019	2018	**Years Ended Dec. 31, 2019**	2018
(C$000s)	***($)***	*($)*	***($)***	*($)*
CASH FLOWS PROVIDED BY (USED IN)				
OPERATING ACTIVITIES				
Net loss	**(49,400)**	(3,462)	**(156,203)**	(26,177)
Adjusted for the following:				
Depreciation	**68,932**	48,522	**261,227**	190,475
Stock-based compensation	**1,334**	1,644	**4,626**	5,812
Unrealized foreign exchange losses (gains)	**859**	(4,345)	**2,041**	11,465
(Gain) loss on disposal of property, plant and equipment	**(1,886)**	(244)	**1,870**	160
Impairment of property, plant and equipment (note 1)	**2,165**	115	**2,165**	115
Impairment of inventory	**3,160**	3,978	**3,744**	7,167
Interest	**21,512**	20,999	**85,826**	106,630
Interest paid	**(37,888)**	(39,163)	**(80,728)**	(88,329)
Deferred income taxes	**(22,759)**	(6,964)	**(55,240)**	(8,934)
Changes in items of working capital	**29,763**	111,787	**62,696**	(13,638)
Cash flows provided by operating activities	**15,792**	132,867	**132,024**	184,746
FINANCING ACTIVITIES				
Issuance of long-term debt, net of debt issuance costs	**28,624**	—	**83,632**	1,061,728
Long-term debt repayments	**(6,580)**	(75,000)	**(59,760)**	(1,120,992)
Lease obligation principal repayments	**(4,459)**	(44)	**(20,047)**	(176)
Proceeds on issuance of common shares	**—**	17	**196**	1,367
Cash flows provided by (used in) financing activities	**17,585**	(75,027)	**4,021**	(58,073)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(40,410)**	(35,404)	**(147,370)**	(157,187)
Proceeds on disposal of property, plant and equipment	**6,951**	429	**7,224**	7,380
Proceeds on disposal of right-of-use assets	**724**	—	**1,254**	—
Other	**—**	—	**—**	(7)
Cash flows used in investing activities	**(32,735)**	(34,975)	**(138,892)**	(149,814)
Effect of exchange rate changes on cash and cash equivalents	**(2,237)**	11,589	**(6,492)**	22,293
(Decrease) increase in cash and cash equivalents	**(1,595)**	34,454	**(9,339)**	(848)
Cash and cash equivalents, beginning of period	**44,157**	17,447	**51,901**	52,749
Cash and cash equivalents, end of period	**42,562**	51,901	**42,562**	51,901

See accompanying notes to the consolidated financial statements.
Certain of the comparatives have been reclassified to conform with the current presentation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the years ended December 31, 2019 and 2018
(Amounts in text and tables are in thousands of Canadian dollars, except share data and certain other exceptions as indicated)

1. PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 2019	**Opening Net Book Value**	**Additions**	**Disposals**	**Impairment**	**Depreciation**	**Foreign Exchange Adjustments**	**Closing Net Book Value**
(C$000s)	***($)***	***($)***	***($)***	***($)***	***($)***	***($)***	***($)***
Assets under construction[(1)]	**78,780**	**(40,197)**	**—**	**—**	**—**	**(411)**	**38,172**
Field equipment	**929,669**	**175,254**	**(6,672)**	**(2,165)**	**(232,231)**	**(27,738)**	**836,117**
Field equipment under finance lease[(2)]	**898**	**—**	**(737)**	**—**	**(161)**	**—**	**—**
Buildings	**57,723**	**154**	**(1,708)**	**—**	**(4,807)**	**(3,124)**	**48,238**
Land	**41,966**	**170**	**(1,657)**	**—**	**—**	**(1,124)**	**39,355**
Shop, office and other equipment	**3,621**	**1,510**	**(83)**	**—**	**(1,238)**	**(245)**	**3,565**
Computers and computer software	**3,181**	**2,404**	**—**	**—**	**(1,622)**	**79**	**4,042**
Leasehold improvements	**839**	**10**	**—**	**—**	**(148)**	**(246)**	**455**
	1,116,677	**139,305**	**(10,857)**	**(2,165)**	**(240,207)**	**(32,809)**	**969,944**

(1) *Additions for assets under construction are net of transfers into the other categories of property, plant and equipment, when they become available for use.*
(2) *In the previous year 2018, the Company recognized lease assets and lease obligations in relation to leases that were classified as "finance leases" under IAS 17 Leases. These assets were presented in property, plant and equipment. On January 1, 2019, upon the adoption of IFRS 16 Leases, the Company's finance leases were transferred to "right-of-use assets".*

As at December 31, 2019	**Cost**	**Accumulated Depreciation**	**Net Book Value**
(C$000s)			
	($)	***($)***	***($)***
Assets under construction	**38,172**	**—**	**38,172**
Field equipment	**2,231,043**	**(1,394,926)**	**836,117**
Field equipment under finance lease	**1,683**	**(1,683)**	**—**
Buildings	**90,070**	**(41,832)**	**48,238**
Land	**39,355**	**—**	**39,355**
Shop, office and other equipment	**27,728**	**(24,163)**	**3,565**
Computers and computer software	**32,435**	**(28,393)**	**4,042**
Leasehold improvements	**8,713**	**(8,258)**	**455**
	2,469,199	**(1,499,255)**	**969,944**

Year Ended December 31, 2018	Opening Net Book Value	Additions	Disposals	Impairment	Depreciation	Foreign Exchange Adjustments	Closing Net Book Value
(C$000s)							
	($)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Assets under construction[1]	59,192	14,736	—	(43)	—	4,895	78,780
Field equipment	948,843	138,539	(37,634)	(72)	(152,688)	32,681	929,669
Field equipment under finance lease	959	—	—	—	(61)	—	898
Buildings	58,602	2,421	—	—	(4,808)	1,508	57,723
Land	40,050	—	—	—	—	1,916	41,966
Shop, office and other equipment	4,815	599	(63)	—	(1,365)	(365)	3,621
Computers and computer software	1,110	3,188	—	—	(1,135)	18	3,181
Leasehold improvements	1,114	281	—	—	(261)	(295)	839
	1,114,685	159,764	(37,697)	(115)	(160,318)	40,358	1,116,677

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

As at December 31, 2018	Cost	Accumulated Depreciation	Net Book Value
(C$000s)			
	($)	*($)*	*($)*
Assets under construction	78,780	—	78,780
Field equipment	2,062,461	(1,132,792)	929,669
Field equipment under finance lease	2,420	(1,522)	898
Buildings	91,624	(33,901)	57,723
Land	41,966	—	41,966
Shop, office and other equipment	26,301	(22,680)	3,621
Computers and computer software	30,031	(26,850)	3,181
Leasehold improvements	8,703	(7,864)	839
	2,342,286	(1,225,609)	1,116,677

Property, plant and equipment are tested for impairment in accordance with the Company's accounting policy. The Company reviews the carrying value of its property, plant and equipment at each reporting period for indicators of impairment. The Company's financial results have been negatively impacted by lower activity in certain CGUs combined with weaker pricing levels. The Company recognizes this is an indicator of impairment that warrants an assessment on the recoverable amount of its property, plant and equipment.

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

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

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

Revenue and operating income growth rates for each CGU were based on a combination of commodity price assumptions, historical results and forecasted activity levels, which incorporated pricing, utilization and cost improvements over the period. The cumulative annual growth rates for revenue over the forecast period from 2020 to 2024 ranged from 4.7 percent to 18.6 percent depending on the CGU.

The cash flows were prepared on a five-year basis, using a discount rate ranging from 13.2 percent to 21.2 percent depending on the CGU. Discount rates are derived from the Company's weighted average cost of capital, adjusted for risk factors specific to each CGU. Cash flows beyond that five-year period have been extrapolated using a steady 2.0 percent growth rate. A comparison of the recoverable amounts of each cash-generating unit with their respective carrying amounts resulted in no impairment against property, plant and equipment for the year ended December 31, 2019 (year ended December 31, 2018 – $nil).

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

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

Assumptions that are valid at the time of preparing the impairment test at December 31, 2019 may change significantly when new information becomes available. The Company will continue to monitor and update its assumptions and estimates with respect to property, plant and equipment impairment on an ongoing basis.

Furthermore, the Company carried out a comprehensive review of its property, plant and equipment and identified assets that were permanently idle or obsolete, and therefore, no longer able to generate cash inflows. These assets were written down to their recoverable amount resulting in an impairment charge of $2,165 for the year ended December 31, 2019 (year ended December 31, 2018 – $115).

The impairment losses by CGU are as follows:

Years Ended December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Canada	**1,921**	—
United States	**244**	—
Mexico	**—**	115
	2,165	115

2. LONG-TERM DEBT

As at December 31,	**December 31, 2019**	December 31, 2018
(C$000s)	***($)***	*($)*
US$650,000 senior unsecured notes due June 15, 2026, bearing interest at 8.50% payable semi-annually	**844,220**	886,730
$375,000 extendible revolving term loan facility, secured by Canadian and U.S. assets of the Company	**147,988**	120,000
Less: unamortized debt issuance costs	**(15,515)**	(17,116)
	976,693	989,614

The fair value of the senior unsecured notes, as measured based on the closing quoted market price at December 31, 2019, was $342,078 (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 December 31, 2019, the Company's net Total Debt to Adjusted EBITDA ratio was 6.96:1.00 (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 year ended December 31, 2019 was $83,665 (year ended December 31, 2018 – $106,940).

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	83,632
Long-term debt repayments	(59,760)
Amortization of debt issuance costs and debt discount	5,457
Foreign exchange adjustments	(42,250)
Balance, December 31	976,693

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

As at December 31, 2019	Amount
(C$000s)	*($)*
2020	—
2021	—
2022	147,988
2023	—
2024	—
Thereafter	844,220
	992,208

At December 31, 2019, the Company had utilized $844 of its loan facility for letters of credit and had $147,988 outstanding under its revolving term loan facility, leaving $226,168 in available credit, subject to a monthly borrowing base, as determined using the previous month's results, which at December 31, 2019, resulted in liquidity amount of $123,179.

See note 5 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.

Years Ended December 31,	**2019**		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 December 31, 2019 was 144,719,688 basic and 145,334,521 diluted (three months ended December 31, 2018 – 144,288,351 basic and 146,327,955 diluted). The weighted average number of common shares outstanding for the year ended December 31, 2019 was 144,564,590 basic and 145,474,733 diluted (year ended December 31, 2018 – 144,041,910 basic and 146,828,943 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, and the shares to be issued.

4. SHARE-BASED PAYMENTS

(a) Stock Options

Years Ended December 31,	**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	**4,470,150**	**1.68**	1,419,319	5.79
Exercised for common shares	**(98,675)**	**1.99**	(483,974)	2.83
Forfeited	**(630,562)**	**4.71**	(481,673)	7.19
Expired	**(930,000)**	**10.58**	(677,750)	15.11
Balance, December 31	**12,203,008**	**3.16**	9,392,095	4.70

The weighted average share price at the date of exercise for stock options exercised during 2019 was $2.73 (2018 – $7.01).

	Options Outstanding			Options Exercisable	
Exercise Price Per Option	Number of Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$1.22 – $1.30	2,904,950	4.93	$ 1.24	—	$ —
$1.31 – $2.14	2,657,975	1.02	$ 1.93	2,591,950	$ 1.95
$2.15 – $4.33	1,857,925	3.57	$ 2.69	254,200	$ 3.33
$4.34 – $4.89	3,331,726	2.00	$ 4.84	1,641,776	$ 4.84
$4.90 – $8.72	1,450,432	2.77	$ 6.02	581,932	$ 6.36
$1.22 – $8.72	12,203,008	2.81	$ 3.16	5,069,858	$ 3.46

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 $1.22 to $8.72 with a weighted average remaining life of 2.81 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 $0.68 per option (year ended December 31, 2018 – $2.55 per option). The Company applied the following assumptions in determining the fair value of options on the date of grant:

Years Ended December 31,	**2019**	2018
Expected life (years)	**3.00**	3.00
Expected volatility	**59.09 %**	62.88 %
Risk-free interest rate	**1.62 %**	1.97 %
Expected dividends	**$0.00**	$0.00

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

(b) Share Units

Years Ended December 31,	**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	**145,000**	**1,159,106**	**—**	145,000	765,100	—
Exercised	**(145,000)**	**(556,683)**	**(1,998,600)**	(145,000)	(232,249)	(866,933)
Forfeited	**—**	**(416,159)**	**(1,140,550)**	—	(108,216)	(269,100)
Balance, December 31	**145,000**	**1,294,564**	**—**	145,000	1,108,300	3,139,150

	Three Months Ended Dec. 31,		**Years Ended Dec. 31,**	
	2019	2018	**2019**	2018
	($)	*($)*	***($)***	*($)*
Expense (recovery) from:				
Stock options	**835**	1,258	**3,030**	4,637
Deferred share units	**14**	(117)	**196**	390

Performance share units	**499**	35	**1,908**	2,324
Restricted share units	**—**	(1,508)	**(197)**	4,921
Total stock-based compensation expense	**1,348**	(332)	**4,937**	12,272

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

The Company grants deferred share units to its outside directors. These units vest in November of the year of grant and are settled either in cash (equal to the market value of the underlying shares at the time of exercise) or in Company shares purchased on the open market. The fair value of the deferred share units is recognized equally over the vesting period, based on the current market price of the Company's shares. At December 31, 2019, the liability pertaining to deferred share units was $166 (December 31, 2018 – $354).

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 December 31, 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 December 31, 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. CAPITAL STRUCTURE

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

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

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

For the Twelve Months Ended December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Net loss	**(156,203)**	(26,177)
Adjusted for the following:		
Depreciation	**261,227**	190,475
Foreign exchange losses	**6,341**	38,047
Loss on disposal of property, plant and equipment	**1,870**	160
Impairment of property, plant and equipment	**2,165**	115
Impairment of inventory	**3,744**	7,167
Interest	**85,826**	106,630
Income taxes	**(52,226)**	(4,592)
Operating income	**152,744**	311,825

Net debt for this purpose is calculated as follows:

As at December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Long-term debt, net of debt issuance costs and debt discount (note 2)	**976,693**	989,614
Lease obligations	**30,919**	738
Less: cash and cash equivalents	**(42,562)**	(51,901)
Net debt	**965,050**	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 December 31, 2019, the net debt to operating income ratio was 6.32:1 (December 31, 2018 – 3.01:1) calculated on a 12-month trailing basis as follows:

For the Twelve Months Ended December 31,	**2019**	2018
(C$000s, except ratio)	***($)***	*($)*
Net debt	**965,050**	938,451
Operating income	**152,744**	311,825
Net debt to operating income ratio	**6.32:1**	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 December 31, 2019 and December 31, 2018, the Company was in compliance with its covenants with respect to its credit facilities.

	Covenant	**Actual**
As at December 31,	2019	**2019**
Working capital ratio not to fall below	1.15x	**2.83x**
Funded Debt to Adjusted EBITDA not to exceed(1)(2)	3.00x	**0.80x**
Funded Debt to Capitalization not to exceed(1)(3)	0.30x	**0.08x**

(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 Dec. 31,		**Years Ended Dec. 31,**	
	2019	2018	**2019**	2018
(C$000s)			***($)***	*($)*
Net loss	**(49,400)**	(3,462)	**(156,203)**	(26,177)
Add back (deduct):				
Depreciation	**68,932**	48,522	**261,227**	190,475
Unrealized foreign exchange losses (gains)	**859**	(4,345)	**2,041**	11,465
Non-recurring realized foreign exchange losses[1]	**—**	—	**—**	29,288
(Gain) loss on disposal of property, plant and equipment	**(1,886)**	(244)	**1,870**	160
Impairment of property, plant and equipment (note 1)	**2,165**	115	**2,165**	115
Impairment of inventory	**3,160**	3,978	**3,744**	7,167
Restructuring charges	**3,564**	281	**6,049**	1,076
Stock-based compensation	**1,334**	1,644	**4,626**	5,812
Losses attributable to non-controlling interest	**—**	—	**—**	7,989
Interest	**21,512**	20,999	**85,826**	106,630
Income taxes	**(23,358)**	(4,574)	**(52,226)**	(4,592)
Adjusted EBITDA[2]	**26,882**	62,914	**159,119**	329,408

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

(2) For bank covenant purposes, EBITDA includes an additional $21,893 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 December 31, 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 December 31, 2019, the Company's Fixed Charge Coverage Ratio of 1.85:1 was less than the required 2:1 ratio. Failing to meet the Fixed Charge Coverage Ratio is not an event of default under the indenture, and the baskets highlighted in the preceding paragraphs provide sufficient flexibility for the Company to make anticipated restricted payments, such as dividends, and incur additional indebtedness as required to conduct its operations and satisfy its obligations.

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.

6. 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 $9,984 (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 $9,984 (6,846 euros) cited above and the interest being sought in respect of these orders is part of the $27,279 (18,706 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 opposition against 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 filed an appeal against the above decision which was heard on October 16, 2018 and was rejected in June 2019. The plaintiffs have filed a petition for cassation against appeal judgment, the hearing of which has not yet been scheduled. A hearing in respect of the order served on November 23, 2015 took place on October 31, 2018 and a decision was issued in October 2019 accepting the Company's opposition. The plaintiffs filed an appeal against this decision, the hearing of which has been scheduled for March 24, 2020. A hearing in respect of the orders served in December 2015 scheduled for September 20, 2016 was adjourned until November 21, 2016 and 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. The plaintiffs have filed petitions for cassation against appeal judgments, the hearings of which have not yet been scheduled.

NAPC is also the subject of a claim for approximately $4,174 (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 $843 (578 euros), amounted to $27,279 (18,706 euros) as at December 31, 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.

7. 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 December 31, 2019						
Revenue	**73,009**	**187,770**	**24,244**	**32,062**	**—**	**317,085**
Operating income (loss)(1)	**3,424**	**23,594**	**(2,146)**	**5,820**	**(9,695)**	**20,997**
Segmented assets	**486,067**	**773,137**	**90,727**	**175,991**	**—**	**1,525,922**
Capital expenditures	**3,639**	**24,443**	**41**	**6,295**	**—**	**34,418**
Three Months Ended December 31, 2018						
Revenue	145,085	279,324	24,892	49,557	—	498,858
Operating income (loss)(1)	16,656	51,528	(260)	4,357	(10,289)	61,992
Segmented assets	578,431	949,494	96,577	158,155	—	1,782,657
Capital expenditures	8,924	16,891	2,275	3,394	—	31,484

	Canada	United States	Russia	Argentina	Corporate	Consolidated
(C$000s)	***($)***	***($)***	***($)***	***($)***	***($)***	***($)***
Year Ended December 31, 2019						
Revenue	**397,583**	**930,404**	**105,807**	**187,161**	**—**	**1,620,955**
Operating income (loss)(1)	**40,689**	**126,205**	**(5,005)**	**26,128**	**(35,273)**	**152,744**
Segmented assets	**486,067**	**773,137**	**90,727**	**175,991**	**—**	**1,525,922**
Capital expenditures	**21,978**	**85,001**	**2,933**	**29,393**	**—**	**139,305**
Year Ended December 31, 2018						
Revenue	650,731	1,296,675	106,819	202,201	—	2,256,426
Operating income (loss)(1)	87,162	262,348	(445)	12,836	(50,076)	311,825
Segmented assets	578,431	949,494	96,577	158,155	—	1,782,657
Capital expenditures	42,530	105,074	5,279	6,881	—	159,764

(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 Dec. 31,		**Years Ended Dec. 31,**	
	2019	2018	**2019**	2018
(C$000s)	***($)***	*($)*	***($)***	*($)*
Net loss	**(49,400)**	(3,462)	**(156,203)**	(26,177)
Add back (deduct):				
Depreciation	**68,932**	48,522	**261,227**	190,475
Foreign exchange (gains) losses	**(128)**	(3,342)	**6,341**	38,047
(Gain) loss on disposal of property, plant and equipment	**(1,886)**	(244)	**1,870**	160
Impairment of property, plant and equipment	**2,165**	115	**2,165**	115
Impairment of inventory	**3,160**	3,978	**3,744**	7,167
Interest	**21,512**	20,999	**85,826**	106,630

Income taxes	**(23,358)**	(4,574)	**(52,226)**	(4,592)
Operating income	**20,997**	61,992	**152,744**	311,825

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

8. SUBSEQUENT EVENT

On February 24, 2020, the Company completed an exchange offer of US$120,000 of new 10.875% second lien secured notes ("New Notes") due March 15, 2026 to holders of its existing 8.50% senior unsecured notes ("Old Notes") due June 15, 2026. The New Notes are secured by a second lien on the same assets that secure obligations under the Company's existing senior secured credit facility. The exchange was completed at an average exchange price of US$550 per each US$1,000 of Old Notes resulting in US$218,182 being exchanged for US$120,000 of New Notes. The exchange will result in reduced leverage of approximately US$98,200 and a reduction of US$5,500 in annual debt service costs.

SOURCE Calfrac Well Services Ltd.

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