Calfrac Announces Fourth Quarter Results

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CALGARY, Feb. 28, 2019 /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, 2018.

HIGHLIGHTS

	Three Months Ended December 31,			Years Ended December 31,		
	2018	2017	Change	**2018**	2017	Change
(C$000s, except per share and unit data) (unaudited)	***($)***	*($)*	*(%)*	***($)***	*($)*	*(%)*
Revenue	**498,858**	485,456	3	**2,256,426**	1,527,705	48
Operating income(1)	**61,992**	44,789	38	**311,825**	180,120	73
Per share – basic	**0.43**	0.32	34	**2.16**	1.31	65
Per share – diluted	**0.42**	0.31	35	**2.12**	1.29	64
Adjusted EBITDA(1)	**62,914**	49,213	28	**329,408**	191,823	72
Per share – basic	**0.44**	0.35	26	**2.29**	1.39	65
Per share – diluted	**0.43**	0.34	26	**2.24**	1.38	62
Net income (loss) attributable to the shareholders of Calfrac before foreign exchange gains or losses(2)	**(5,913)**	41,779	NM	**11,162**	27,953	(60)
Per share – basic	**(0.04)**	0.30	NM	**0.08**	0.20	(60)
Per share – diluted	**(0.04)**	0.29	NM	**0.08**	0.20	(60)
Net income (loss) attributable to the shareholders of Calfrac	**(3,462)**	38,013	NM	**(18,188)**	5,939	NM
Per share – basic	**(0.02)**	0.27	NM	**(0.13)**	0.04	NM
Per share – diluted	**(0.02)**	0.26	NM	**(0.13)**	0.04	NM
Working capital (end of period)				**329,871**	327,049	1
Total equity (end of period)				**513,820**	543,645	(5)
Weighted average common shares outstanding (000s)						
Basic	**144,288**	140,856	2	**144,042**	137,664	5
Diluted	**146,328**	143,799	2	**146,829**	139,462	5

(1) Refer to "Non-GAAP Measures" on pages 22 and 23 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.

CEO MESSAGE

Fernando Aguilar, Calfrac's President & Chief Executive Officer commented "Despite volatility in commodity markets and activity levels, Calfrac once again delivered strong results including substantial debt reduction. Though 2018 is behind us, I would like to thank all our employees and their families for a successful year."

During the quarter, Calfrac:

- reported consolidated fourth-quarter revenue and operating income that were 3 percent and 38 percent higher than the comparative quarter in 2017;
- generated $109.5 million of discretionary cash flow, net of $39.2 million of interest paid and capital expenditures of $31.5 million, which was used to reduced borrowings on its credit facility by $75.0 million and increase cash on hand by $34.5 million; and

- announced a 2019 capital budget of $149.0 million which will be focused on supporting the Company's operations as well as the implementation of a new Enterprise Resource Planning (ERP) software system.

FOURTH QUARTER 2018 OVERVIEW

In the fourth quarter of 2018, the Company:

- generated revenue of $498.9 million, an increase of 3 percent from the fourth quarter in 2017, resulting primarily from higher activity in Canada and larger job sizes in the United States;
- recorded reactivation costs of $2.9 million compared to $7.4 million in the fourth quarter of 2017;
- reported adjusted EBITDA of $62.9 million versus $49.2 million in the fourth quarter of 2017;
- reported a net loss attributable to shareholders of Calfrac of $3.5 million or $0.02 per share diluted, compared to net income of $38.0 million or $0.26 per share diluted in 2017, which included a $76.3 million property, plant and equipment impairment reversal;
- reported period-end working capital of $329.9 million versus $327.0 million at December 31, 2017; and
- incurred capital expenditures of $31.5 million primarily to support the Company's United States fracturing operations.

CONSOLIDATED HIGHLIGHTS

Three Months Ended December 31,	**2018**	2017	Change
(C$000s, except operational information) (unaudited)	***($)***	*($)*	*(%)*
Revenue	**498,858**	485,456	3
Expenses			
Operating	**416,886**	408,666	2
Selling, general and administrative (SG&A)	**19,980**	32,001	(38)
	436,866	440,667	(1)
Operating income(1)	**61,992**	44,789	38
Operating income (%)	**12.4**	9.2	35
Adjusted EBITDA(1)	**62,914**	49,213	28
Adjusted EBITDA (%)	**12.6**	10.1	25
Fracturing revenue per job ($)	**38,264**	37,409	2
Number of fracturing jobs	**12,068**	11,925	1
Active pumping horsepower, end of period (000s)	**1,328**	1,115	19
Idle pumping horsepower, end of period (000s)	**42**	280	(85)
Total pumping horsepower, end of period (000s)	**1,370**	1,395	(2)
Coiled tubing revenue per job ($)	**29,567**	28,038	5
Number of coiled tubing jobs	**715**	872	(18)
Active coiled tubing units, end of period (#)	**22**	21	5
Idle coiled tubing units, end of period (#)	**7**	9	(22)
Total coiled tubing units, end of period (#)	**29**	30	(3)
Cementing revenue per job ($)	**46,403**	43,413	7
Number of cementing jobs	**130**	140	(7)
Active cementing units, end of period (#)	**11**	12	(8)
Idle cementing units, end of period (#)	**12**	11	9
Total cementing units, end of period (#)	**23**	23	—

(1) *Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.*

Revenue in the fourth quarter of 2018 was $498.9 million, an increase of 3 percent from the same period in 2017. The Company's fracturing job count increased by 1 percent while consolidated revenue per fracturing job increased by only 2 percent. During the quarter, Calfrac pumped approximately 560,000 tons of sand in the United States and 290,000 tons in Canada, representing growth of 15 percent and 33 percent, respectively, from the prior year. However, the larger job sizes were offset by lower pricing and job mix. The number of cementing jobs decreased by 7 percent due to lower cementing activity in northern Argentina.

Pricing in the United States and, to a lesser extent, Canada decreased while pricing in Russia was consistent with the fourth quarter of 2017. In Argentina, the transition to more unconventional activity does not allow for a meaningful pricing comparison to the fourth quarter in 2017 as the type of job is significantly different than conventional activity. Net pricing in Canada was flat to slightly lower versus the comparable quarter as the pricing reductions given in the fourth quarter of 2018 offset all of the pricing gains made during the first three quarter of the year.

Adjusted EBITDA of $62.9 million for the fourth quarter of 2018 increased from $49.2 million in the comparable period in 2017 primarily due to lower total compensation awards being recorded in the fourth quarter of 2018 compared to 2017, combined with higher utilization in Argentina and a larger operating scale in the United States.

Net loss attributable to shareholders of Calfrac was $3.5 million or $0.02 per share diluted compared to income of $38.0 million or $0.26 per share diluted in the same period last year, which included a $76.3 million property, plant and equipment impairment reversal. The net loss in 2018 included a foreign exchange gain of $3.3 million while the fourth quarter of 2017 had a foreign exchange loss of $8.1 million.

Three Months Ended	**December 31, 2018**	September 30, 2018	Change
(C$000s, except operational information) (unaudited)	***($)***	*($)*	*(%)*
Revenue	**498,858**	630,128	(21)
Expenses			
Operating	**416,886**	491,912	(15)
SG&A	**19,980**	22,885	(13)
	436,866	514,797	(15)
Operating income(1)	**61,992**	115,331	(46)
Operating income (%)	**12.4**	18.3	(32)
Adjusted EBITDA(1)	**62,914**	111,631	(44)
Adjusted EBITDA (%)	**12.6**	17.7	(29)
Fracturing revenue per job ($)	**38,264**	40,048	(4)
Number of fracturing jobs	**12,068**	14,674	(18)
Active pumping horsepower, end of period (000s)	**1,328**	1,344	(1)
Idle pumping horsepower, end of period (000s)	**42**	49	(14)
Total pumping horsepower, end of period (000s)	**1,370**	1,393	(2)
Coiled tubing revenue per job ($)	**29,567**	28,270	5
Number of coiled tubing jobs	**715**	938	(24)
Active coiled tubing units, end of period (#)	**22**	22	—
Idle coiled tubing units, end of period (#)	**7**	8	(13)
Total coiled tubing units, end of period (#)	**29**	30	(3)
Cementing revenue per job ($)	**46,403**	46,030	1
Number of cementing jobs	**130**	109	19
Active cementing units, end of period (#)	**11**	11	—
Idle cementing units, end of period (#)	**12**	12	—
Total cementing units, end of period (#)	**23**	23	—

(1) *Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.*

Revenue in the fourth quarter of 2018 was $498.9 million, a decrease of 21 percent from the third quarter of 2018, primarily due to lower activity in North America and Argentina, and to a lesser extent, lower pricing in Canada. Revenue in the United States and Argentina was higher sequentially due to increased activity and job sizes. Revenue per fracturing job decreased by 4 percent primarily due to job mix in Canada. Average net pricing in Canada and the United States was down slightly on a sequential basis but did not have a significant impact on operating results in the fourth quarter.

In Canada, fourth-quarter revenue decreased by 21 percent from the third quarter to $145.1 million as several of the Company's major customers completed the majority of their 2018 capital programs during the early part of the fourth quarter. Operating income as a percentage of revenue was 11 percent versus 15 percent in the third quarter primarily due to lower equipment utilization.

In the United States, revenue in the fourth quarter of 2018 decreased by 22 percent from the third quarter to $279.3 million, mainly as a result of lower utilization of its active fleets in all of its operating areas. The U.S. division's operating income margin decreased to 18 percent in the fourth quarter from 25 percent in the third quarter of 2018. The weaker results were due to the sharp decline in crude oil prices that occurred during the fourth quarter of 2018 and the resulting decrease in customer completions activity.

In Russia, revenue of $24.9 million in the fourth quarter of 2018 was consistent with the third quarter with a slight increase in fracturing revenue, offset by lower coiled tubing revenue. The operating loss position in the fourth quarter was primarily due to higher operating costs as colder temperatures resulted in a switch to higher cost arctic fuel.

In Argentina, revenue in the fourth quarter of 2018 decreased by 19 percent from the third quarter to $49.6 million, while operating income declined to $4.4 million from $9.4 million in the third quarter. The decline was due to lower activity in Neuquén as the same level of operational efficiencies were not achieved in the fourth quarter due to a lower drilled and uncompleted well inventory.

BUSINESS UPDATE AND OUTLOOK

Calfrac's fourth-quarter results reflect the strength of Calfrac's global platform, impacted by seasonal and market-specific issues at year-end.

CANADA

In Canada, the fourth quarter began with very strong utilization and revenue due, in part, to weather-related delays during the third quarter that deferred activity into October. However, a significant widening of differentials for Canadian light oil and condensate was experienced during the fourth quarter which resulted in the deferral or cancellation of planned completion programs, and consequently, increased pricing pressure throughout the entire industry. In spite of these challenges, Calfrac's Canadian division delivered higher revenue and operating income as compared to the prior year.

At the beginning of 2019, Calfrac made the decision to suspend operations for one fleet in its Canadian division based on weaker demand for fracturing services. The Company expects acceptable utilization on its remaining seven fleets through the balance of the first quarter, but lower pricing relative to 2018 is anticipated to negatively impact operating income. The majority of this recently idled equipment has already been redeployed to support Calfrac's operations in the United States. Recent cold weather and schedule shifts have impacted utilization in February, however activity is projected to recover in March, and prospects for utilization during spring break-up appear to be improving. As always, weather and road bans will ultimately determine how much activity can be serviced in the weeks ahead.

Beyond the first quarter, Calfrac's client base is uncertain as to the scope and timing of their capital spending programs for the remainder of 2019. As such, Calfrac has unusually low visibility into its activity levels beyond spring break-up. The Company will continue to monitor the market and will remain mindful of retaining an industry-leading position in Canada while delivering acceptable financial returns for its stakeholders.

UNITED STATES

The fourth quarter saw a continuation of solid performance from Calfrac's operations in the United States. While budget exhaustion and lower crude oil prices impacted activity and pricing, the Company was able to deliver financial results that were slightly better than the same quarter in 2017. As expected, utilization was lower during the final weeks of the quarter due to normal seasonal patterns as well as budget exhaustion and lower commodity prices. Some pricing pressures were observed but they had limited impact on the reported fourth-quarter financial results.

Thus far in the first quarter, activity has been solid, although recent periods of cold weather have had an impact on operating cadence in North Dakota and Pennsylvania as programs have been paused.

Based on steady rig activity and a growing inventory of drilled but uncompleted wells, the Company's outlook in the United States remains strong as oil takeaway capacity additions in the Permian Basin are expected to increase completion activity in that basin during the second half of the year. Calfrac's strong presence throughout multiple basins in the United States and across several top-tier producers should lead to strong utilization over the short-run, and the Company will monitor producer plans for opportunities to further optimize its operational and financial performance in the United States.

RUSSIA

Calfrac's operations in Russia posted break-even results in the fourth quarter, as weather and client activity levels continued to impede the operation. However, after a successful tender season, the Company expects 2019 operating results to more closely resemble levels seen in 2017.

ARGENTINA

Calfrac's operations in Argentina again delivered strong year-on-year improvement in operating and financial results, due to higher activity and productivity across the operation.

Calfrac's outlook for Argentina in 2019 remains positive, as contracted work volumes are expected to be higher along with further improvements in cost management and productivity. The Company is in the process of transferring some previously idle cementing assets from the United States to further enhance Calfrac's service offering in Argentina.

CORPORATE

Calfrac demonstrated its ability to generate cash and reduce leverage during the fourth quarter, and will remain focused on cash generation in 2019. While uncertainty remains elevated, particularly in Canada, the Company's operating footprint and strategic approach is expected to generate cash in 2019 across a wide range of outcomes, with debt reduction continuing to be the Company's top priority. Calfrac will continue to focus on delivering safe and effective service in the field while bringing innovative ideas around products and logistics that, taken together, will be the catalyst for success for our clients, our employees and our investors.

As announced in December 2018, the Company's Board of Directors approved a 2019 capital budget of $149.0 million, consisting of $126.0 million of maintenance capital, $11.0 million in refurbishment capital and $12.0 million in corporate initiatives, consisting primarily of costs for the implementation of an ERP system in North America and Argentina. In addition, approximately $6.0 million of Calfrac's 2018 budget is forecast to be spent in 2019.

FINANCIAL OVERVIEW – THREE MONTHS ENDED DECEMBER 31, 2018 VERSUS 2017

CANADA

Three Months Ended December 31,	**2018**	2017	Change
(C$000s, except operational information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**145,085**	136,776	6
Expenses			
Operating	**124,957**	118,200	6
SG&A	**3,472**	3,884	(11)
	128,429	122,084	5
Operating income[(1)]	**16,656**	14,692	13
Operating income (%)	**11.5**	10.7	7
Fracturing revenue per job ($)	**20,265**	21,042	(4)
Number of fracturing jobs	**6,537**	5,928	10
Active pumping horsepower, end of period (000s)	**289**	277	4
Idle pumping horsepower, end of period (000s)	**17**	143	(88)
Total pumping horsepower, end of period (000s)	**306**	420	(27)
Coiled tubing revenue per job ($)	**23,492**	23,030	2
Number of coiled tubing jobs	**517**	484	7
Active coiled tubing units, end of period (#)	**11**	9	22
Idle coiled tubing units, end of period (#)	**3**	6	(50)
Total coiled tubing units, end of period (#)	**14**	15	(7)

(1) *Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.*

REVENUE

Revenue from Calfrac's Canadian operations during the fourth quarter of 2018 was $145.1 million versus $136.8 million in the same period of 2017 primarily due to higher activity, offset partially by lower pricing. In the fourth quarter of 2018, the number of fracturing jobs was 10 percent higher than the comparable period in 2017. In both 2018 and 2017, activity slowed towards the second half of the fourth quarter due to its customers exhausting their full-year capital budgets. In response, Calfrac offered pricing incentives in order to accelerate certain planned first-quarter 2019 projects into

November and December, which resulted in slightly lower average pricing in the fourth quarter of 2018 versus the same period in 2017. The number of coiled tubing jobs increased by 7 percent from the fourth quarter in 2017 primarily due to a larger operating scale and a greater focus on the conventional coiled tubing market in western Canada.

OPERATING INCOME

Operating income in Canada during the fourth quarter of 2018 was $16.7 million compared to $14.7 million in the same period of 2017. The increase in operating income was due to lower proppant costs as pricing for sand trended lower towards the end of the third quarter in 2018 as supply improved, the benefit of which was realized during the back half of the fourth quarter. In addition, the $0.4 million decrease in SG&A expenses compared to the fourth quarter in 2017 was primarily due to a full-year bonus accrual being recorded in the fourth quarter of 2017, offset partially by severance costs of $0.3 million that were accrued during the fourth quarter in 2018.

UNITED STATES

Three Months Ended December 31,	**2018**	2017	Change
(C$000s, except operational and exchange rate information) (unaudited)	***($)***	*($)*	*(%)*
Revenue	**279,324**	267,659	4
Expenses			
Operating	**223,055**	212,593	5
SG&A	**4,741**	5,537	(14)
	227,796	218,130	4
Operating income[1]	**51,528**	49,529	4
Operating income (%)	**18.4**	18.5	(1)
Fracturing revenue per job ($)	**55,492**	50,429	10
Number of fracturing jobs	**5,034**	5,276	(5)
Active pumping horsepower, end of period (000s)	**854**	653	31
Idle pumping horsepower, end of period (000s)	**25**	130	(81)
Total pumping horsepower, end of period (000s)	**879**	783	12
Active coiled tubing units, end of period (#)	**—**	—	—
Idle coiled tubing units, end of period (#)	**2**	1	100
Total coiled tubing units, end of period (#)	**2**	1	100
Active cementing units, end of period (#)	**—**	—	—
Idle cementing units, end of period (#)	**10**	9	11
Total cementing units, end of period (#)	**10**	9	11
US$/C$ average exchange rate[2]	**1.3204**	1.2713	4

(1) *Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.*

(2) *Source: Bank of Canada.*

REVENUE

Revenue from Calfrac's United States operations increased to $279.3 million during the fourth quarter of 2018 from $267.7 million in the comparable quarter of 2017 despite a 5 percent decrease in the number of fracturing jobs completed period-over-period. The sharp decline in crude oil prices that occurred during the fourth quarter in 2018 caused some customers to slow their completions activity during the quarter, with Colorado and Permian-based activity experiencing the largest activity declines. This was partially offset by increased activity in North Dakota and south Texas year-over-year. The decline in activity was more than offset by the 10 percent increase in revenue per job year-over-year due to the impact of job mix as the Company's operations in Texas and New Mexico resulted in the completion of larger overall job sizes. The 4 percent appreciation in the U.S. dollar versus the Canadian dollar also contributed to the increase in revenue.

OPERATING INCOME

The Company's United States operations generated operating income of $51.5 million during the fourth quarter of 2018 compared to $49.5 million in the same period in 2017. The improvement in operating results was primarily due to better utilization in North Dakota and Pennsylvania, offset partially by lower utilization in Artesia and Colorado. Operating results in the fourth quarter of 2018 included $2.9 million of fleet reactivation costs, while $6.0 million was incurred in the comparable quarter in 2017. SG&A expenses decreased by 14 percent in the fourth quarter of 2018 primarily due to a full year bonus accrual recorded in the fourth quarter in 2017.

RUSSIA

Three Months Ended December 31,	**2018**	2017	Change
(C$000s, except operational and exchange rate information) (unaudited)	***($)***	*($)*	*(%)*
Revenue	**24,892**	34,988	(29)
Expenses			
Operating	**24,211**	29,675	(18)
SG&A	**941**	1,319	(29)
	25,152	30,994	(19)
Operating (loss) income[1]	**(260)**	3,994	NM
Operating (loss) income (%)	**(1.0)**	11.4	NM
Fracturing revenue per job ($)	**76,039**	85,651	(11)
Number of fracturing jobs	**285**	350	(19)
Pumping horsepower, end of period (000s)	**77**	77	—
Coiled tubing revenue per job ($)	**38,338**	39,767	(4)
Number of coiled tubing jobs	**84**	126	(33)
Active coiled tubing units, end of period (#)	**6**	6	—
Idle coiled tubing units, end of period (#)	**1**	1	—
Total coiled tubing units, end of period (#)	**7**	7	—

Rouble/C$ average exchange rate[2]	**0.0199**	0.0218	(9)

[1] *Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.*
[2] *Source: Bank of Canada.*

REVENUE

Revenue from Calfrac's Russian operations decreased by 29 percent during the fourth quarter of 2018 to $24.9 million from $35.0 million in the corresponding three-month period of 2017. The decrease in revenue was attributable to a decrease in fracturing activity in Noyabrsk and Usinsk, offset partially by higher activity in Khanty-Mansiysk. Revenue per fracturing job decreased by 11 percent primarily due to job mix as the Company did not perform any work in Usinsk which typically had significantly larger job sizes. Coiled tubing activity decreased by 33 percent, primarily due to lower utilization than expected with one of its customers. The 9 percent depreciation of the Russian rouble in the fourth quarter of 2018 versus the same period in 2017 also contributed to the decrease in reported revenue.

OPERATING (LOSS) INCOME

The Company's Russian division generated an operating loss of $0.3 million during the fourth quarter of 2018 versus income of $4.0 million in the comparable quarter in 2017. The decrease was primarily due to lower equipment utilization in Noyabrsk combined with the impact of the expiration of its contract in Usinsk at the end of the first quarter in 2018, as this region contributed positively to operating income in 2017. SG&A expenses were $0.4 million lower than the comparable quarter in 2017 due to a lower annual bonus provision.

ARGENTINA

Three Months Ended December 31,	**2018**	2017	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**49,557**	46,033	8
Expenses			
Operating	**42,711**	46,233	(8)
SG&A	**2,489**	2,877	(13)
	45,200	49,110	(8)
Operating income (loss)[1]	**4,357**	(3,077)	NM
Operating income (loss) (%)	**8.8**	(6.7)	NM
Active pumping horsepower, end of period (000s)	**108**	108	—
Idle pumping horsepower, end of period (000s)	**—**	7	NM
Total pumping horsepower, end of period (000s)	**108**	115	(6)
Active cementing units, end of period (#)	**11**	12	(8)
Idle cementing units, end of period (#)	**2**	2	—
Total cementing units, end of period (#)	**13**	14	(7)
Active coiled tubing units, end of period (#)	**5**	6	(17)
Idle coiled tubing units, end of period (#)	**1**	1	—
Total coiled tubing units, end of period (#)	**6**	7	(14)
US$/C$ average exchange rate[2]	**1.3204**	1.2713	4

[1] *Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.*
[2] *Source: Bank of Canada and Bloomberg.*

REVENUE

Calfrac's Argentinean operations generated total revenue of $49.6 million during the fourth quarter of 2018 versus $46.0 million in the comparable three-month period in 2017. Revenue in Argentina was 8 percent higher than the comparable quarter primarily due to the completion of significantly larger jobs in Neuquén and in southern Argentina. The Company's revenue per job increased by 95 percent in the fourth quarter of 2018, primarily due to a greater proportion of activity in the Vaca Muerta, while job mix in the south also resulted in larger job sizes year-over-year. Coiled tubing revenue in Argentina decreased from the fourth quarter in 2017 as more of the Company's coiled tubing equipment was allocated to unconventional fracturing work. Cementing revenue was relatively consistent with the comparable period in 2017 as lower cementing activity in northern Argentina was offset by increased cementing activity in southern Argentina.

OPERATING INCOME (LOSS)

The Company's operations in Argentina generated operating income of $4.4 million during the fourth quarter of 2018 compared to a loss of $3.1 million during the fourth quarter in 2017. The Company achieved positive operating income through a combination of improved utilization and crew efficiencies during the quarter as it continued to transition to unconventional operations in Argentina. SG&A expenses were 13 percent lower during the fourth quarter in 2018 compared to the fourth quarter in 2017 primarily due to a $0.6 million adjustment to bad debt expense recorded in 2018, offset partially by higher personnel expenses in 2018.

CORPORATE

Three Months Ended December 31,	**2018**	2017	Change
(C$000s)	***($)***	*($)*	*(%)*
(unaudited)			
Expenses			
Operating	**1,952**	1,965	(1)
SG&A	**8,337**	18,384	(55)
	10,289	20,349	(49)
Operating loss[1]	**(10,289)**	(20,349)	(49)
% of Revenue	**2.1**	4.2	(50)

(1) *Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.*

OPERATING LOSS

Corporate expenses for the fourth quarter of 2018 were $10.3 million compared to $20.3 million in the fourth quarter of 2017. Operating expenses were consistent with the comparable quarter in 2017. SG&A expenses decreased by $10.0 million primarily due to a lower share price at the end of 2018 which decreased stock-based compensation expense by $8.5 million versus the same period in 2017. In addition, the fourth quarter in 2017 included a full-year bonus provision resulting in a comparative decrease of $2.3 million in the fourth quarter in 2018.

DEPRECIATION

For the three months ended December 31, 2018, depreciation expense increased by $3.9 million to $40.4 million from $36.5 million in the corresponding quarter of 2017. The increase in depreciation was primarily due to the $76.3 million impairment reversal that was recorded during the fourth quarter of 2017, combined with capital expenditures related to the continued activation of fleets in North America during 2017 and 2018. In addition, the 4 percent appreciation in the U.S. dollar relative to the Canadian dollar resulted in higher reported depreciation during the fourth quarter in 2018. This was offset partially by the impact of fully depreciated assets in Canada which reduced depreciation expense during the quarter.

FOREIGN EXCHANGE GAINS AND LOSSES

The Company recorded a foreign exchange gain of $3.3 million during the fourth quarter of 2018 versus a loss of $8.1 million in the comparative three-month period of 2017. 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 gain for the fourth quarter of 2018 was largely attributable to U.S. dollar-denominated assets held in Canada as the U.S. dollar appreciated against the Canadian dollar during the quarter.

IMPAIRMENT

A comparison of the recoverable amounts of each cash generating unit (CGU) with their respective carrying amounts resulted in no impairment against property, plant and equipment in the fourth quarter of 2018 while in 2017 the same comparison supported an impairment reversal of $76.3 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, 2018, the Company recorded an impairment charge of $4.0 million to write-down inventory to its net realizable amount in Canada and the United States as well as write-off obsolete spare parts inventory in Mexico due to the closure of operations in that country.

INTEREST

The Company's net interest expense of $21.0 million for the fourth quarter of 2018 was consistent with the comparable period of 2017 despite a change in the debt mix. The higher interest rate on its US$650.0 million 8.50 percent senior notes during the fourth quarter compared to its US$600.0 million 7.50 percent senior notes that were repaid during the second quarter of 2018 resulted in an increase in reported interest expense. The stronger U.S. dollar during the fourth quarter in 2018 compared to the same period in 2017 also contributed to the higher reported interest expense related to its senior notes. This was offset by the impact of replacing a portion of its $200.0 million second lien term loan that carried an interest rate of 9.0% with lower interest rate credit facility borrowings.

INCOME TAXES

The Company recorded income tax recovery of $4.6 million during the fourth quarter of 2018 compared to an expense of $14.7 million in the comparable period of 2017. The recovery position was the result of pre-tax losses during the quarter in Canada, the United States and Argentina.

SUMMARY OF QUARTERLY RESULTS

Three Months Ended	Mar. 31, 2017	Jun. 30, 2017	Sep. 30, 2017	Dec. 31, 2017	Mar. 31, 2018	Jun. 30, 2018	Sep. 30, 2018	**Dec. 31, 2018**
(C$000s, except per share and operating data) (unaudited)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	***($)***
Financial								
Revenue	268,815	325,344	448,090	485,456	582,838	544,602	630,128	**498,858**
Operating income (loss)(1)	20,395	36,740	78,196	44,789	67,974	66,528	115,331	**61,992**
Per share – basic	0.15	0.27	0.57	0.32	0.47	0.46	0.80	**0.43**
Per share – diluted	0.15	0.27	0.57	0.31	0.46	0.45	0.79	**0.42**
Adjusted EBITDA(1)	21,584	39,913	81,113	49,213	72,953	81,910	111,631	**62,914**
Per share – basic	0.16	0.29	0.59	0.35	0.51	0.57	0.77	**0.44**
Per share – diluted	0.16	0.29	0.59	0.34	0.50	0.56	0.76	**0.43**
Net income (loss) attributable to the shareholders of Calfrac	(19,547)	(20,349)	7,822	38,013	3,234	(32,838)	14,878	**(3,462)**
Per share – basic	(0.14)	(0.15)	0.06	0.27	0.02	(0.23)	0.10	**(0.02)**
Per share – diluted	(0.14)	(0.15)	0.06	0.26	0.02	(0.23)	0.10	**(0.02)**
Capital expenditures	12,965	22,358	22,093	34,518	51,334	42,404	34,542	**31,484**
Working capital (end of period)	278,818	293,411	334,606	327,049	360,654	361,613	386,843	**329,871**
Total equity (end of period)	485,452	463,180	477,188	543,645	546,018	507,607	516,899	**513,820**
Operating (end of period)								
Active pumping horsepower (000s)	727	874	1,057	1,115	1,259	1,313	1,344	**1,328**
Idle pumping horsepower (000s)	493	443	338	280	134	80	49	**42**
Total pumping horsepower (000s)	1,220	1,317	1,395	1,395	1,393	1,393	1,393	**1,370**
Active coiled tubing units (#)	20	21	21	21	22	22	22	**22**
Idle coiled tubing units (#)	12	11	11	9	8	8	8	**7**
Total coiled tubing units (#)	32	32	32	30	30	30	30	**29**

Active cementing units (#)	12	12	12	12	12	11	11	**11**
Idle cementing units (#)	13	13	13	11	11	12	12	**12**
Total cementing units (#)	25	25	25	23	23	23	23	**23**

(1) *Refer to "Non-GAAP Measures" on pages 22 and 23 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, 2018 VERSUS 2017

CANADA

Years Ended December 31,	**2018**	2017	Change
(C$000s, except operational information) (unaudited)	***($)***	*($)*	*(%)*
Revenue	**650,731**	540,059	20
Expenses			
Operating	**549,448**	444,589	24
SG&A	**14,121**	10,727	32
	563,569	455,316	24
Operating income(1)	**87,162**	84,743	3
Operating income (%)	**13.4**	15.7	(15)
Fracturing revenue per job ($)	**21,156**	20,346	4
Number of fracturing jobs	**28,038**	24,104	16
Active pumping horsepower, end of period (000s)	**289**	277	4
Idle pumping horsepower, end of period (000s)	**17**	143	(88)
Total pumping horsepower, end of period (000s)	**306**	420	(27)
Coiled tubing revenue per job ($)	**22,809**	22,108	3
Number of coiled tubing jobs	**2,299**	2,079	11
Active coiled tubing units, end of period (#)	**11**	9	22
Idle coiled tubing units, end of period (#)	**3**	6	(50)
Total coiled tubing units, end of period (#)	**14**	15	(7)

(1) *Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.*

REVENUE

Revenue from Calfrac's Canadian operations in 2018 was $650.7 million versus $540.1 million in 2017. Completions activity in Canada improved during 2018 when compared to 2017 primarily due to a stronger first half of the year. The number of fracturing and coiled tubing jobs increased by 16 percent and 11 percent, respectively, due to a larger operating scale, combined with a more active and efficient customer base as compared to the same period in 2017. Revenue per fracturing job increased by 4 percent from the prior year while coiled tubing revenue per job was up 3 percent, primarily due to higher pricing during the first half of 2018 and the completion of larger jobs, which were offset partially by job mix.

OPERATING INCOME

The Company's Canadian division generated operating income of $87.2 million during 2018 compared to $84.7 million in 2017. The increase was due to improved utilization and better pricing during the first six months of 2018 compared to the same period in 2017, while second half utilization was lower year-over-year. The 13 percent operating income margin was negatively impacted by higher than expected third-party sand transportation costs during the first quarter, while higher costs for diesel fuel and products reduced operating income margins during the second quarter. Pricing for proppant trended lower towards the end of 2018 as supply improved, however, this lower pricing did not meaningfully impact profitability until the fourth quarter. Operating income in 2018 was negatively impacted by $1.4 million of provincial sales tax assessments in British Columbia and $0.3 million in severance costs. The $3.4 million increase in SG&A expenses compared to 2017 was primarily due to the reinstatement of compensation that was scaled back during 2016, combined with the Company allocating a greater proportion of its corporate SG&A costs that directly related to its operating divisions during 2018.

UNITED STATES

Years Ended December 31,	**2018**	2017	Change
(C$000s, except operational and exchange rate information) (unaudited)	***($)***	*($)*	*(%)*
Revenue	**1,296,675**	713,467	82
Expenses			
Operating	**1,014,151**	577,525	76
SG&A	**20,176**	14,152	43
	1,034,327	591,677	75
Operating income(1)	**262,348**	121,790	115
Operating income (%)	**20.2**	17.1	18
Fracturing revenue per job ($)	**58,333**	42,762	36
Number of fracturing jobs	**22,176**	16,457	35
Active pumping horsepower, end of period (000s)	**854**	653	31

Idle pumping horsepower, end of period (000s)	**25**	130	(81)
Total pumping horsepower, end of period (000s)	**879**	783	12
Active coiled tubing units, end of period (#)	**—**	—	—
Idle coiled tubing units, end of period (#)	**2**	1	100
Total coiled tubing units, end of period (#)	**2**	1	100
Active cementing units, end of period (#)	**—**	—	—
Idle cementing units, end of period (#)	**10**	9	11
Total cementing units, end of period (#)	**10**	9	11
US$/C$ average exchange rate(2)	**1.2957**	1.2986	—

(1) *Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.*
(2) *Source: Bank of Canada.*

REVENUE

Revenue from Calfrac's United States operations increased to $1.3 billion in 2018 from $713.5 million in 2017 primarily due to significantly higher fracturing activity and improved pricing in 2018. Completions activity in the United States significantly improved year-over-year, which allowed the Company to reactivate equipment throughout 2017 and 2018, including the start-up of operations in Texas and New Mexico. The Company activated a 17th fleet in the United States during the third quarter of 2018, representing the full reactivation of its entire operating fleet, although not all fleets were fully utilized during the fourth quarter. The result was a 35 percent increase in the number of fracturing jobs completed year-over-year. Activity was significantly higher in all operating areas with the exception of Colorado. Revenue per job increased 36 percent due to improved pricing combined with the impact of job mix as the Company's operations in Texas resulted in larger overall job sizes.

OPERATING INCOME

The Company's United States division generated operating income of $262.3 million in 2018 compared to $121.8 million in 2017. The significant increase was primarily the result of improved utilization and pricing in North Dakota and Pennsylvania as well as the addition of operations in Texas and New Mexico that did not commence until the third quarter of 2017. The operating income of 20 percent during 2018 was negatively impacted by market-driven logistical issues that resulted in higher than normal transportation and sand costs during the first three months of the year. These conditions abated during the second quarter; however, cost inflation continued, with products and fuel experiencing the largest increases. The third quarter saw a reversal of this trend with sand and transportation costs trending lower, however, most of these savings were passed through to customers and had little impact on profitability. Operating results included $12.9 million of reactivation costs in 2018 compared to $20.4 million in 2017. SG&A expenses increased by 43 percent in 2018 primarily due to higher personnel costs combined with growth in business scale and increased activity.

RUSSIA

Years Ended December 31,	**2018**	2017	Change
(C$000s, except operational and exchange rate information) (unaudited)	***($)***	*($)*	*(%)*
Revenue	**106,819**	123,965	(14)
Expenses			
Operating	**103,938**	106,852	(3)
SG&A	**3,326**	3,700	(10)
	107,264	110,552	(3)
Operating (loss) income(1)	**(445)**	13,413	NM
Operating (loss) income (%)	**(0.4)**	10.8	NM
Fracturing revenue per job ($)	**78,176**	77,590	1
Number of fracturing jobs	**1,167**	1,349	(13)
Pumping horsepower, end of period (000s)	**77**	77	—
Coiled tubing revenue per job ($)	**39,065**	42,690	(8)
Number of coiled tubing jobs	**399**	452	(12)
Active coiled tubing units, end of period (#)	**6**	6	—
Idle coiled tubing units, end of period (#)	**1**	1	—
Total coiled tubing units, end of period (#)	**7**	7	—
Rouble/C$ average exchange rate(2)	**0.0207**	0.0223	(7)

(1) *Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.*
(2) *Source: Bank of Canada.*

REVENUE

Revenue from Calfrac's Russian operations in 2018 decreased by 14 percent to $106.8 million from $124.0 million in 2017. The decrease in revenue, which is generated in roubles, was partially related to lower fracturing activity, combined with the 7 percent depreciation of the Russian rouble in 2018 versus 2017. Revenue per fracturing job was consistent with the comparable period in 2017. The decrease in revenue was also due to a 12 percent reduction in coiled tubing activity.

OPERATING (LOSS) INCOME

The Company's Russia division incurred an operating loss of $0.4 million in 2018 compared to income of $13.4 million in the same period in 2017 primarily due to lower fracturing and coiled tubing crew utilization. Calfrac's operations in 2018 were impacted by weather-related delays and lower activity with one of its customers in Western Siberia. The Company shut down its operations in Usinsk following the expiry of its contract in that area at the end of the first quarter and reallocated equipment to Noyabrsk. Activity in Noyabrsk in 2018 was negatively impacted by production cuts resulting from Russia's cooperation with OPEC members during the year.

ARGENTINA

Years Ended December 31,	2018	2017	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**202,201**	150,214	35
Expenses			
Operating	**178,796**	142,658	25
SG&A	**10,569**	10,660	(1)
	189,365	153,318	24
Operating income (loss)(1)	**12,836**	(3,104)	NM
Operating income (loss) (%)	**6.3**	(2.1)	NM
Active pumping horsepower, end of period (000s)	**108**	108	—
Idle pumping horsepower, end of period (000s)	—	7	NM
Total pumping horsepower, end of period (000s)	**108**	115	(6)
Active cementing units, end of period (#)	**11**	12	(8)
Idle cementing units, end of period (#)	**2**	2	—
Total cementing units, end of period (#)	**13**	14	(7)
Active coiled tubing units, end of period (#)	**5**	6	(17)
Idle coiled tubing units, end of period (#)	**1**	1	—
Total coiled tubing units, end of period (#)	**6**	7	(14)
US$/C$ average exchange rate(2)	**1.2957**	1.2986	—
Argentinean peso/C$ average exchange rate(2)	**0.0463**	0.0782	(41)

(1) *Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.*

(2) *Source: Bank of Canada and Bloomberg.*

REVENUE

Calfrac's Argentinean operations generated total revenue of $202.2 million in 2018 versus $150.2 million in 2017. The 35 percent improvement in year-over-year revenue was primarily due to higher fracturing activity in the Vaca Muerta shale play. The increase in fracturing revenue was partially offset by lower cementing activity in northern Argentina combined with the impact of union strikes in southern Argentina that occurred during the first quarter of 2018. Coiled tubing revenue in Argentina increased year-over-year due to increased activity in unconventional resource plays in Neuquén, which also resulted in higher revenue per job.

OPERATING INCOME (LOSS)

The Company's operations in Argentina generated operating income of $12.8 million in 2018 compared to a loss of $3.1 million in 2017. The Company has continued to improve its operating margins throughout the transition to unconventional operations in Argentina mainly due to improved utilization. There were a number of one-time costs recorded in 2018, including $0.8 million in restructuring charges and a $0.4 million adjustment to bad debt expense. Similarly, the Company had $1.6 million in one-time costs in 2017 related to the retrofitting of equipment and $0.7 million of restructuring costs.

CORPORATE

Years Ended December 31,	2018	2017	Change
(C$000s)	***($)***	*($)*	*(%)*
(unaudited)			
Expenses			
Operating	**6,322**	4,633	36
SG&A	**43,754**	32,089	36
	50,076	36,722	36
Operating loss(1)	**(50,076)**	(36,722)	36
% of Revenue	**2.2**	2.4	(8)

(1) *Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.*

OPERATING LOSS

Corporate expenses in 2018 were $50.1 million compared to $36.7 million in the comparable period in 2017. Operating expenses were $1.7 million higher primarily due to higher personnel costs during the year. SG&A expenses increased by $11.7 million primarily due to a $6.5 million increase in stock-based compensation expense. The remaining increase related to the reinstatement of compensation that was scaled back during 2016, offset partially by the higher allocation of costs that were directly attributed to the Company's operating divisions.

DEPRECIATION

Depreciation expense in 2018 increased by $29.5 million to $160.3 million from $130.8 million in 2017. The increase in depreciation was primarily due to the $76.3 million impairment reversal that was recorded during the fourth quarter of 2017, combined with capital expenditures related to the continued activation of fleets in North America during 2017 and 2018.

FOREIGN EXCHANGE LOSSES

The Company recorded a foreign exchange loss of $38.0 million in 2018 versus a loss of $34.3 million in 2017. Foreign exchange gains and losses arise primarily from the translation of net monetary assets or liabilities that were held in U.S. dollars in Canada and Argentina, 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 2018 was largely attributable to the translation of U.S. dollar-denominated liabilities held in Argentina during the first six months of 2018 as the peso devalued against the U.S. dollar during that time period. As disclosed in note 2 to the consolidated financial statements, the Company changed the functional currency of its Argentina subsidiary from Argentinean pesos to U.S. dollars effective July 1, 2018, which resulted in no further foreign exchange losses on its U.S. dollar-denominated liabilities held in Argentina in the last six months of the year. The consolidated foreign exchange loss was partially offset by a foreign exchange gain on U.S. dollar-denominated assets held in Canada.

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 2018 while in 2017 the same comparison supported an impairment reversal of $76.3 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, 2018, the Company recorded an impairment charge of $7.2 million to write-down inventory to its net realizable amount in Canada, United States and Argentina as well as write-off obsolete spare parts inventory in Mexico due to the closure of operations in that country.

INTEREST

The Company's interest expense was $106.6 million in 2018 versus $85.5 million in 2017. The $21.1 million increase was partially due to the repayment of the Company's second lien term loan during the period which resulted in the write-off of the remaining deferred financing costs of $5.8 million. In addition, the Company closed a private offering of US$650.0 million aggregate principal amount of 8.50 percent senior notes during the second quarter, which were used 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 $10.4 million during the second quarter in 2018 and the write-off of the remaining $5.0 million unamortized deferred finance costs.

INCOME TAXES

The Company recorded an income tax recovery of $4.6 million in 2018 compared to a recovery of $7.7 million in 2017. The mix of earnings, combined with certain items that do not fluctuate with income, resulted in the recovery position.

LIQUIDITY AND CAPITAL RESOURCES

	Years Ended December 31,	
	2018	2017
(C$000s)	***($)***	*($)*
(unaudited)		
Cash provided by (used in):		
Operating activities	**184,746**	(13,898)
Financing activities	**(58,073)**	49,840
Investing activities	**(149,814)**	(76,009)
Effect of exchange rate changes on cash and cash equivalents	**22,293**	(17,101)
Decrease in cash and cash equivalents	**(848)**	(57,168)

OPERATING ACTIVITIES

The Company's cash provided by operating activities for the year ended December 31, 2018 was $184.7 million versus cash used of $13.9 million during 2017. The significant increase in cash provided by operations was primarily due to improved operating results in the United States while working capital required $13.6 million of cash in 2018 compared to $117.2 million in 2017. At December 31, 2018, Calfrac's working capital was $329.9 million compared to $327.0 million at December 31, 2017.

FINANCING ACTIVITIES

Net cash used by financing activities for the year ended December 31, 2018 was $58.1 million compared to net cash provided by financing activities of $49.8 million in 2017. During the year ended December 31, 2018, the Company received net funds from the issuance of senior notes of $822.1 million, had net borrowings under its credit facilities of $90.0 million (net of $5.0 million of debt issuance costs), proceeds of $1.4 million from the issuance of common shares, repaid senior notes totalling $773.8 million and made principal payments under its term loan of $197.0 million.

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.

On May 9, 2018, Calfrac amended its credit facilities to exercise $100.0 million of accordion capacity which increased its total facility capacity from $275.0 million to $375.0 million. The facilities consist of an operating facility of $27.5 million and a syndicated facility of $347.5 million. The Company's credit facilities mature on June 1, 2020 and can be extended by one or more years at the Company's request and lenders' acceptance. The Company also may prepay principal without penalty. The interest rates are based on the parameters of certain bank covenants. For prime-based loans and U.S. base-rate loans, the rate ranges from prime or U.S. base rate plus 0.50 percent to prime plus 2.50 percent. For LIBOR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 1.50 percent to 3.50 percent above the respective base rates. The remaining accordion feature of the syndicated facility was reduced to $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 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 no increase in the rate of dividends will be permitted; and (c) the Company will be prohibited from utilizing advances under the credit facilities to redeem or repay subordinated debt. As at December 31, 2018, the Company's net Total Debt to Adjusted EBITDA ratio was 2.92:1.00.

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

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

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

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

As at December 31, 2018, the Company had used $0.9 million of its credit facilities for letters of credit and had $120.0 million of borrowings under its credit facilities, leaving $254.1 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, 2018 was higher than the available capacity.

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

Working capital ratio not to fall below	**1.15x**
Funded Debt to Adjusted EBITDA not to exceed(1)(2)	**3.00x**
Funded Debt to Capitalization not to exceed(1)(3)	**0.30x**

(1) Funded Debt is defined as Total Debt excluding all outstanding senior unsecured notes. 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, 2020, subject to certain conditions including:

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

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

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

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

The September 2017 amendments to the credit facilities provided that the Company can utilize two equity cures during the term of the credit facilities subject to the conditions described above. 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, 2020 will increase Adjusted EBITDA over the relevant twelve-month rolling period and will also serve to reduce Funded Debt.

As shown in the table below, at December 31, 2018, the Company was in compliance with the financial covenants associated with its credit facilities.

As at December 31,	Covenant 2018	**Actual 2018**
Working capital ratio not to fall below	1.15x	**2.38x**
Funded Debt to Adjusted EBITDA not to exceed	3.00x	**0.23x**
Funded Debt to Capitalization not to exceed	0.30x	**0.05x**

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

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

(1) The Fixed Charge Coverage Ratio is defined as cash flow to interest expense. Cash flow is a non-GAAP measure and does not have a standardized meaning under IFRS and is defined under the indenture as net income (loss) attributable to the shareholders of Calfrac before depreciation, extraordinary gains or losses, unrealized foreign exchange gains or losses, gains or losses on disposal of property, plant and equipment, impairment or reversal of impairment of assets, restructuring charges, provision for settlement of litigation, stock-based compensation, interest, and income taxes. 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, 2018 this basket was not utilized. The indenture also restricts the ability to incur additional indebtedness if the Fixed Charge Coverage Ratio determined on a pro forma basis for the most recently ended four fiscal quarter period for which internal financial statements are available is not at least 2:1. As is the case with restricted payments, there are a number of exceptions to this prohibition on the incurrence of additional indebtedness, including the incurrence of additional debt under credit facilities up to the greater of $375.0 million or 30 percent of the Company's consolidated tangible assets.

As at December 31, 2018, the Company's Fixed Charge Coverage Ratio of 3.86:1 was higher than the required 2:1 ratio so the aforementioned prohibitions will not be applicable as long as the Company remains above this ratio.

INVESTING ACTIVITIES

Calfrac's net cash used for investing activities was $149.8 million for the year ended December 31, 2018 versus $76.0 million in 2017. Cash outflows relating to capital expenditures were $157.2 million in 2018 compared to $86.4 million in 2017. Capital expenditures were primarily to support the Company's North American fracturing operations. The Company disposed of assets in 2018 for proceeds of $7.4 million compared to $10.5 million in 2017.

As announced in December 2018, Calfrac's Board of Directors have approved a capital budget of $149.0 million, which includes $126.0 million of maintenance capital, $11.0 million of refurbishment capital and $12.0 million related to corporate initiatives. In addition, approximately $6.0 million remaining from Calfrac's 2018 capital program is expected to be spent in 2019.

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, 2018 was a gain of $22.3 million versus a loss of $17.1 million in 2017. These gains and losses relate to movements of cash and cash equivalents held by the Company in a foreign currency during the period.

With its working capital position, available credit facilities 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, 2018, the Company had cash and cash equivalents of $51.9 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 February 27, 2019, the Company had issued and outstanding 144,573,047 common shares, 209,851 equity-based performance share units and 10,667,545 options to purchase common shares.

ADVISORIES

FORWARD-LOOKING STATEMENTS

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

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

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

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

BUSINESS RISKS

The business of Calfrac is subject to certain risks and uncertainties. Prior to making any investment decision regarding Calfrac, investors should carefully consider, among other things, the risk factors set forth in the Company's most recently filed Annual Information Form, which are specifically incorporated by reference herein. The Annual Information Form is available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR), which can be accessed at www.sedar.com. Copies of the Annual Information Form may also be obtained on request without charge from Calfrac at 411 - 8th Avenue S.W., Calgary, Alberta, Canada, T2P 1E3, or at www.calfrac.com, or by facsimile at 403-266-7381.

NON-GAAP MEASURES

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

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

	Three Months Ended Dec. 31,		**Years Ended Dec. 31,**	
	2018	2017	**2018**	2017
(C$000s)	***($)***	*($)*	***($)***	*($)*
(unaudited)				
Net (loss) income	**(3,462)**	35,871	**(26,177)**	586
Add back (deduct):				
Depreciation	**40,391**	36,486	**160,318**	130,793
Foreign exchange (gains) losses	**(3,342)**	8,099	**38,047**	34,273
Loss on disposal of property, plant and equipment	**7,887**	4,966	**30,317**	13,039
Impairment (reversal of impairment) of property, plant and equipment	**115**	(76,296)	**115**	(76,296)
Impairment of inventory	**3,978**	—	**7,167**	—
Interest	**20,999**	20,962	**106,630**	85,450
Income taxes	**(4,574)**	14,701	**(4,592)**	(7,725)
Operating income	**61,992**	44,789	**311,825**	180,120

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,**	
	2018	2017	**2018**	2017
(C$000s)			***($)***	*($)*
(unaudited)				
Net (loss) income	**(3,462)**	35,871	**(26,177)**	586
Add back (deduct):				
Depreciation	**40,391**	36,486	**160,318**	130,793
Unrealized foreign exchange losses	**(4,345)**	8,438	**11,465**	34,646
Non-recurring realized foreign exchange losses(1)	**—**	—	**29,288**	—
Loss on disposal of property, plant and equipment	**7,887**	4,966	**30,317**	13,039
Impairment (reversal of impairment) of property, plant and equipment	**115**	(76,296)	**115**	(76,296)
Impairment of inventory	**3,978**	—	**7,167**	—
Provision for settlement of litigation	**—**	—	**—**	(139)
Restructuring charges	**281**	563	**1,076**	1,131
Stock-based compensation	**1,644**	1,380	**5,812**	4,985
Losses attributable to non-controlling interest	**—**	2,142	**7,989**	5,353
Interest	**20,999**	20,962	**106,630**	85,450
Income taxes	**(4,574)**	14,701	**(4,592)**	(7,725)
Adjusted EBITDA	**62,914**	49,213	**329,408**	191,823

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

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 2018 fourth-quarter results at 10:00 a.m. (Mountain Time) on Thursday, February 28, 2019. The conference call dial-in number is 1-888-231-8191 or 647-427-7450. The seven-day replay numbers are 1-855-859-2056 or 416-849-0833 (once connected, enter 9367823). 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,	**2018**	2017
(C$000s)	***($)***	*($)*
ASSETS		
Current assets		
Cash and cash equivalents	**51,901**	52,749
Accounts receivable	**349,431**	359,955
Income taxes recoverable	**582**	1,759
Inventories (note 1)	**150,123**	145,072
Prepaid expenses and deposits	**17,527**	16,803
	569,564	576,338
Non-current assets		
Property, plant and equipment (note 2)	**1,116,677**	1,114,685
Deferred income tax assets	**96,416**	86,943
Total assets	**1,782,657**	1,777,966
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**239,507**	246,943
Current portion of long-term debt (note 3)	**—**	2,169
Current portion of finance lease obligations	**186**	177
	239,693	249,289
Non-current liabilities		
Long-term debt (note 3)	**989,614**	958,825
Finance lease obligations	**552**	737
Deferred income tax liabilities	**38,978**	25,470
Total liabilities	**1,268,837**	1,234,321
Equity attributable to the shareholders of Calfrac		
Capital stock (note 4)	**508,276**	501,456
Contributed surplus	**40,453**	35,094
Loan receivable for purchase of common shares	**(2,500)**	(2,500)
(Deficit) retained earnings	**(28,971)**	21,268
Accumulated other comprehensive (loss) income	**(3,438)**	2,728
	513,820	558,046
Non-controlling interest	**—**	(14,401)
Total equity	**513,820**	543,645
Total liabilities and equity	**1,782,657**	1,777,966

Contingencies (note 7)
See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended Dec. 31,		**Years Ended Dec. 31,**	
	2018	2017	**2018**	2017
(C$000s, except per share data)	***($)***	*($)*	***($)***	*($)*
Revenue	**498,858**	485,456	**2,256,426**	1,527,705
Cost of sales	**457,277**	445,153	**2,012,973**	1,407,050
Gross profit	**41,581**	40,303	**243,453**	120,655
Expenses				
Selling, general and administrative	**19,980**	32,000	**91,946**	71,328
Foreign exchange (gains) losses	**(3,342)**	8,099	**38,047**	34,273
Loss on disposal of property, plant and equipment	**7,887**	4,966	**30,317**	13,039
Impairment (reversal of impairment) of property, plant and equipment (note 2)	**115**	(76,296)	**115**	(76,296)
Impairment of inventory (note 1)	**3,978**	—	**7,167**	—
Interest	**20,999**	20,962	**106,630**	85,450
	49,617	(10,269)	**274,222**	127,794
(Loss) income before income tax	**(8,036)**	50,572	**(30,769)**	(7,139)
Income tax expense (recovery)				

Current	**2,390**	811	**4,342**	3,018
Deferred	**(6,964)**	13,890	**(8,934)**	(10,743)
	(4,574)	14,701	**(4,592)**	(7,725)
Net (loss) income	**(3,462)**	35,871	**(26,177)**	586
Net (loss) income attributable to:				
Shareholders of Calfrac	**(3,462)**	38,013	**(18,188)**	5,939
Non-controlling interest	**—**	(2,142)	**(7,989)**	(5,353)
	(3,462)	35,871	**(26,177)**	586
(Loss) earnings per share (note 4)				
Basic	**(0.02)**	0.27	**(0.13)**	0.04
Diluted	**(0.02)**	0.26	**(0.13)**	0.04

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	Three Months Ended Dec. 31,		Years Ended Dec. 31,	
	2018	2017	**2018**	2017
(C$000s)	***($)***	*($)*	***($)***	*($)*
Net (loss) income	**(3,462)**	35,871	**(26,177)**	586
Other comprehensive (loss) income				
Items that may be subsequently reclassified to profit or loss:				
Change in foreign currency translation adjustment	**(1,278)**	474	**(7,379)**	11,586
Comprehensive (loss) income	**(4,740)**	36,345	**(33,556)**	12,172
Comprehensive (loss) income attributable to:				
Shareholders of Calfrac	**(4,740)**	38,466	**(26,560)**	17,403
Non-controlling interest	**—**	(2,121)	**(6,996)**	(5,231)
	(4,740)	36,345	**(33,556)**	12,172

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, 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 (note 5)	—	4,637	—	—	—	4,637	—	**4,637**
Proceeds from issuance of shares (note 4)	1,820	(453)	—	—	–	1,367	—	**1,367**
Performance share units:								
Stock-based compensation recognized (note 5)	—	1,175	—	—	—	1,175	—	**1,175**
Acquisition:								
Shares issued	1,250	—	—	—	—	1,250	—	**1,250**
Shares to be issued	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**
Balance – Jan. 1, 2017	466,445	36,040	(2,500)	(8,736)	15,329	506,578	(9,120)	497,458
Net income (loss)	—	—	—	—	5,939	5,939	(5,353)	586
Other comprehensive income (loss):								
Cumulative translation adjustment	—	—	—	11,464	—	11,464	122	11,586
Comprehensive income (loss)	—	—	—	11,464	5,939	17,403	(5,231)	12,172
Warrants:								
Proceeds from issuance of shares (notes 4 and 5)	34,539	(5,830)	—	—	—	28,709	—	28,709
Stock options:								
Stock-based compensation recognized (note 5)	—	4,985	—	—	—	4,985	—	4,985
Proceeds from issuance of shares (note 4)	472	(101)	—	—	—	371	—	371

Share cancellation – non-controlling interest	—	—	—	—	—	—	(50)	(50)
Balance – Dec. 31, 2017	501,456	35,094	(2,500)	2,728	21,268	558,046	(14,401)	543,645

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended Dec. 31,		Years Ended Dec. 31,	
	2018	2017	**2018**	2017
(C$000s)	***($)***	*($)*	***($)***	*($)*
CASH FLOWS PROVIDED BY (USED IN)				
OPERATING ACTIVITIES				
Net (loss) income	**(3,462)**	35,871	**(26,177)**	586
Adjusted for the following:				
Depreciation	**40,391**	36,486	**160,318**	130,793
Stock-based compensation	**1,644**	1,380	**5,812**	4,985
Unrealized foreign exchange (gains) losses	**(4,345)**	8,438	**11,465**	34,646
Loss on disposal of property, plant and equipment	**7,887**	4,966	**30,317**	13,039
Impairment (reversal of impairment) of property, plant and equipment (note 2)	**115**	(76,296)	**115**	(76,296)
Impairment of inventory	**3,978**	—	**7,167**	—
Interest	**20,999**	20,962	**106,630**	85,450
Interest paid	**(39,163)**	(33,403)	**(88,329)**	(79,170)
Deferred income taxes	**(6,964)**	13,890	**(8,934)**	(10,743)
Changes in items of working capital	**111,787**	32,718	**(13,638)**	(117,188)
Cash flows provided by (used in) operating activities	**132,867**	45,012	**184,746**	(13,898)
FINANCING ACTIVITIES				
Issuance of long-term debt, net of debt issuance costs	**—**	(117)	**1,061,728**	52,637
Issuance of finance lease obligations	**—**	793	**—**	971
Long-term debt repayments	**(75,000)**	(30,623)	**(1,120,992)**	(32,500)
Finance lease obligation repayments	**(44)**	(48)	**(176)**	(348)
Proceeds on issuance of common shares (note 4 and 5)	**17**	28,782	**1,367**	29,080
Cash flows (used in) provided by financing activities	**(75,027)**	(1,213)	**(58,073)**	49,840
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(35,404)**	(36,487)	**(157,187)**	(86,415)
Proceeds on disposal of property, plant and equipment	**429**	4,899	**7,380**	10,456
Other	**—**	(50)	**(7)**	(50)
Cash flows used in investing activities	**(34,975)**	(31,638)	**(149,814)**	(76,009)
Effect of exchange rate changes on cash and cash equivalents	**11,589**	(2,999)	**22,293**	(17,101)
Increase (decrease) in cash and cash equivalents	**34,454**	9,162	**(848)**	(57,168)
Cash and cash equivalents, beginning of period	**17,447**	43,587	**52,749**	109,917
Cash and cash equivalents, end of period	**51,901**	52,749	**51,901**	52,749

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2018 and 2017

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

1. INVENTORIES

As at December 31,	**2018**	2017
(C$000s)	***($)***	*($)*
Spare equipment parts	**90,409**	77,392
Chemicals	**25,024**	24,309
Sand and proppant	**17,558**	22,356
Coiled tubing	**9,860**	12,252
Other	**7,272**	8,763
	150,123	145,072

For the year ended December 31, 2018, the cost of inventories recognized as an expense and included in cost of sales was approximately $830,000 (year ended December 31, 2017 – $560,000).

The Company reviews the carrying value of its inventory on an ongoing basis for obsolescence and to verify that the carrying value exceeds the net realizable amount. For the year ended December 31, 2018, the Company recorded an impairment charge of $7,167 to write-down inventory to its net realizable amount in Canada, United States and Argentina as well as write-off obsolete spare parts inventory in Mexico due to the closure of operations in that country (year ended December 31, 2017 – $nil).

Years Ended December 31,	**2018**	2017
(C$000s)	***($)***	*($)*
Mexico	**3,803**	—
United States	**2,218**	—
Canada	**699**	—

Argentina	**447**	—
	7,167	—

2. PROPERTY, PLANT AND EQUIPMENT

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**

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**

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

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

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

Property, plant and equipment are tested for impairment in accordance with the 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 decrease in crude oil prices during the fourth quarter of 2018 combined with the impact of significant oil and natural gas differentials in Canada which are expected to affect completion activity and pricing in Canada were an indicator of impairment and the Company estimated 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

The main commodity price assumptions over the forecast periods were:

- WTI Crude Oil (US$/bbl) increased from $60 in 2019 to $73 in 2023
- Henry Hub Gas (US$/mmBtu) increased from $3.03 in 2019 to $3.68 in 2023
- AECO Gas (C$/mcf) increased from $1.85 in 2019 to $3.21 in 2023

Revenue and operating income growth rates for each CGU were based on a combination of commodity price assumptions, historical results and forecasted activity levels, which incorporated pricing, utilization and cost improvements over the period. The revenue and operating income cumulative annual growth rates (CAGR) over the forecast period from 2019 to 2023, by CGU, are outlined below:

	Canada	United States	Russia	Argentina
Revenue CAGR	3 %	4 %	9 %	17 %
Operating income CAGR	8 %	5 %	NM	40 %

The cash flows were prepared on a five-year basis, using a discount rate ranging from 13.1 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.

	Canada	United States	Russia	Argentina
Discount rate	13.3 %	13.1 %	15.7 %	21.2 %

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, 2018 (year ended December 31, 2017 – reversal of impairment $76,296). The Company's 2017 year end impairment test supported the reversal of the impairment loss that was previously recorded in the United States CGU, after taking into account normal depreciation that would have been charged if no impairment had occurred.

A 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, 2018 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.

3. LONG-TERM DEBT

	December 31, 2018	December 31, 2017
(C$000s)	***($)***	*($)*
US$650,000 senior unsecured notes (December 31, 2017 – US$600,000) due June 15, 2026, bearing interest at 8.50% payable semi-annually	**886,730**	752,700
$200,000 second lien senior secured term loan facility due September 30, 2020, bearing interest at 9% payable quarterly, secured by the Canadian and U.S. assets of the Company on a second		

priority basis	**—**	197,000
$347,500 extendible revolving term loan facility, secured by Canadian and U.S. assets of the Company	**120,000**	25,000
Less: unamortized debt issuance costs	**(17,116)**	(13,875)
	989,614	960,825
US$nil mortgage matured on May 2018 bearing interest at U.S. prime less 1%, repayable at US$33 per month principal and interest, secured by certain real property	**—**	169
	989,614	960,994
Less: current portion of long-term debt	**—**	(2,169)
	989,614	958,825

The fair value of the senior unsecured notes, as measured based on the closing quoted market price at December 31, 2018, was $661,492 (December 31, 2017 – $743,111). 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% of the aggregate principal amount of the notes at a redemption price of 108.50% 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.

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.

On May 9, 2018, the Company amended its credit facilities to exercise $100,000 of accordion capacity, bringing the total facilities from $275,000 to $375,000. The facilities consist of an operating facility of $27,500 and a revolving term loan facility of $347,500. The Company's credit facilities mature on June 1, 2020 and can be extended by one or more years at the Company's request and lenders' acceptance. The Company also may prepay principal without penalty. The interest rates are based on the parameters of certain bank covenants. For prime-based loans and U.S. base-rate loans, the rate ranges from prime or U.S. base rate plus 0.50 percent to prime plus 2.50 percent. For LIBOR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 1.50 percent to 3.50 percent above the respective base rates. The accordion feature of the revolving term loan facility was reduced to $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) the Company will be prohibited from utilizing advances under the credit facilities to redeem or repay subordinated debt. As at December 31, 2018, the Company's net Total Debt to Adjusted EBITDA ratio was 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, 2018 was $106,940 (year ended December 31, 2017 – $85,520).

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

	2018
(C$000s)	*($)*
Balance, January 1	960,994
Issuance of long-term debt, net of debt issuance costs	1,061,728
Long-term debt repayments	(1,120,992)
Amortization of debt issuance costs and debt discount	19,363
Foreign exchange adjustments	68,521
Balance, December 31	989,614

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

As at December 31, 2018	Amount
(C$000s)	*($)*
2019	—
2020	120,000
2021	—
2022	—
2023	—
Thereafter	886,730
	1,006,730

At December 31, 2018, the Company had utilized $887 of its loan facility for letters of credit and had $120,000 outstanding under its revolving term loan facility, leaving $254,113 in available credit, subject to a monthly borrowing base, as determined using the previous month's results, which at December 31, 2018 resulted in a liquidity amount that was higher than the available capacity.

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

4. CAPITAL STOCK

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

Years Ended December 31,	**2018**		2017	
Continuity of Common Shares	**Shares**	**Amount**	Shares	Amount
	(#)	***($000s)***	*(#)*	*($000s)*
Balance, beginning of period	**143,755,741**	**501,456**	136,634,590	466,445
Issued upon exercise of stock options	**483,974**	**1,820**	186,375	472
Issued upon exercise of warrants (note 5)	**—**	**—**	6,934,776	34,539
Issued on acquisition	**222,817**	**1,250**	—	—
Balance, end of period	**144,462,532**	**504,526**	143,755,741	501,456
Shares to be issued	**668,449**	**3,750**	—	—
	145,130,981	**508,276**	143,755,741	501,456

The weighted average number of common shares outstanding for the year ended December 31, 2018 was 144,041,910 basic and 146,828,943 diluted (year ended December 31, 2017 – 137,663,943 basic and 139,461,872 diluted). The difference between basic and diluted shares is attributable to the dilutive effect of stock options and warrants issued by the Company as disclosed in note 5, and the shares to be issued.

5. SHARE-BASED PAYMENTS

(a) Stock Options

Years Ended December 31,	**2018**		2017	
Continuity of Stock Options	**Options**	**Average Exercise Price**	Options	Average Exercise Price
	(#)	***($)***	*(#)*	*($)*
Balance, January 1	**9,616,173**	**5.30**	7,246,386	6.62
Granted during the period	**1,419,319**	**5.79**	4,195,100	4.76
Exercised for common shares	**(483,974)**	**2.83**	(186,375)	1.99
Forfeited	**(481,673)**	**7.19**	(855,638)	8.12
Expired	**(677,750)**	**15.11**	(783,300)	12.30
Balance, December 31	**9,392,095**	**4.70**	9,616,173	5.30

The weighted average share price at the date of exercise for stock options exercised during 2018 was $7.01 (2017 – $4.76).

	Options Outstanding			Options Exercisable	
Exercise Price Per Option	Number of Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$1.34 – $2.19	2,807,900	2.02	$ 1.94	1,984,125	$ 1.95
$2.20 – $4.33	465,675	2.93	$ 3.34	160,500	$ 3.27
$4.34 – $4.89	3,553,251	3.00	$ 4.84	840,651	$ 4.84
$4.90 – $5.78	1,372,069	4.01	$ 5.73	9,775	$ 5.33
$5.79 – $20.81	1,193,200	1.15	$ 10.10	878,825	$ 10.39
$1.34 – $20.81	9,392,095	2.61	$ 4.70	3,873,876	$ 4.56

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

The weighted average fair value of options granted during 2018, determined using the Black-Scholes valuation method, was $2.55 per option (year ended December 31, 2017 – $2.11 per option). The Company applied the following assumptions in determining the fair value of options on the date of grant:

Years Ended December 31,	**2018**	2017
Expected life (years)	**3.00**	3.50
Expected volatility	**62.88 %**	64.39 %
Risk-free interest rate	**1.97 %**	1.07 %
Expected dividends	**$0.00**	$0.00

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

(b) Share Units

Years Ended December 31,	**2018**			2017		
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**	**683,665**	**4,275,183**	145,000	639,330	2,757,850
Granted during the period	**145,000**	**765,100**	**—**	145,000	124,000	2,622,400
Exercised	**(145,000)**	**(232,249)**	**(866,933)**	(145,000)	—	—
Forfeited	**—**	**(108,216)**	**(269,100)**	—	(79,665)	(1,105,067)
Balance, December 31	**145,000**	**1,108,300**	**3,139,150**	145,000	683,665	4,275,183

Years Ended December 31,	2018	2017
	($)	*($)*
Expense (recovery) from:		
Stock options	**4,637**	4,985
Deferred share units	**390**	899
Performance share units	**2,324**	(171)
Restricted share units	**4,921**	101
Total stock-based compensation expense	**12,272**	5,814

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, 2018, the liability pertaining to deferred share units was $354 (December 31, 2017 – $867).

The Company grants performance share units to a senior officer. The amount of the grants earned is linked to corporate performance and the grants vest on the approval of the Board of Directors at the meeting held to approve the consolidated financial statements for the year in respect of which performance is being evaluated. As with the deferred share units, performance share units are settled either in cash or Company shares purchased on the open market. At December 31, 2018, the liability pertaining to performance share units was $761 (December 31, 2017 – $1,389).

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, 2018, the liability pertaining to the cash-based component of performance share units was $200 (December 31, 2017 – $nil).

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, 2018, the liability pertaining to restricted share units was $3,158 (December 31, 2017 – $5,096).

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

(c) Warrants

In conjunction with the second lien senior secured term loan facility as disclosed in note 3, 6,934,776 warrants to purchase common shares of the Company were issued during 2016, entitling the holder to acquire up to 6,934,776 common shares at a price of $4.14 per common share. On November 6, 2017, all the warrants were exercised, for total proceeds of $28,709.

6. CAPITAL STRUCTURE

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

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

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

For the Twelve Months Ended December 31,	2018	2017
(C$000s)	***($)***	*($)*
Net income	**(26,177)**	586
Adjusted for the following:		
Depreciation	**160,318**	130,793
Foreign exchange losses	**38,047**	34,273
Loss on disposal of property, plant and equipment	**30,317**	13,039
Impairment (reversal of impairment) of property, plant and equipment	**115**	(76,296)
Impairment of inventory	**7,167**	—
Interest	**106,630**	85,450
Income taxes	**(4,592)**	(7,725)
Operating income	**311,825**	180,120

Net debt for this purpose is calculated as follows:

As at December 31,	2018	2017
(C$000s)	***($)***	*($)*
Long-term debt, net of debt issuance costs and debt discount (note 3)	**989,614**	960,994
Finance lease obligations	**738**	914
Less: cash and cash equivalents	**(51,901)**	(52,749)

Net debt	**938,451**	909,159

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, 2018, the net debt to operating income ratio was 3.01:1 (December 31, 2017 – 5.05:1) calculated on a 12-month trailing basis as follows:

For the Twelve Months Ended December 31,	**2018**	2017
(C$000s, except ratio)	***($)***	*($)*
Net debt	**938,451**	909,159
Operating income	**311,825**	180,120
Net debt to operating income ratio	**3.01:1**	5.05:1

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, 2018 and December 31, 2017, the Company was in compliance with its covenants with respect to its credit facilities.

As at December 31,	Covenant 2018	**Actual 2018**
Working capital ratio not to fall below	**1.15x**	**2.38x**
Funded Debt to Adjusted EBITDA not to exceed[1][2]	**3.00x**	**0.23x**
Funded Debt to Capitalization not to exceed[1][3]	**0.30x**	**0.05x**

(1) *Funded Debt is defined as Total Debt excluding all outstanding senior unsecured notes. 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 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:

For the Twelve Months Ended December 31,	**2018**	2017
(C$000s)	***($)***	*($)*
(unaudited)		
Net (loss) income	**(26,177)**	586
Add back (deduct):		
Depreciation	**160,318**	130,793
Unrealized foreign exchange losses	**11,465**	34,646
Non-recurring realized foreign exchange losses[1]	**29,288**	—
Loss on disposal of property, plant and equipment	**30,317**	13,039
Impairment (reversal of impairment) of property, plant and equipment	**115**	(76,296)
Impairment of inventory	**7,167**	—
Provision for settlement of litigation	**—**	(139)
Restructuring charges	**1,076**	1,131
Stock-based compensation	**5,812**	4,985
Losses attributable to non-controlling interest	**7,989**	5,353
Interest	**106,630**	85,450
Income taxes	**(4,592)**	(7,725)
Adjusted EBITDA	**329,408**	191,823

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

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

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

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

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

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, 2018, 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, 2018, the Company's Fixed Charge Coverage Ratio of 3.86:1 was higher than the required 2:1 ratio and the aforementioned prohibitions will not be applicable as long as the Company remains above this ratio.

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

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

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

On April 3, 2017, the Company elected to use the first of its two fully-funded $25,000 equity cures effective as of the quarter ending on June 30, 2017. On April 30, 2018, the remaining $25,000 was removed from the segregated account without being designated as an equity cure.

7. CONTINGENCIES

GREEK LITIGATION

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

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

In 1999, the largest group of plaintiffs received a ruling from the Athens Court of First Instance that their termination was invalid and that salaries in arrears amounting to approximately $10,689 (6,846 euros) plus interest were due to the former employees. This decision was appealed to the Athens

Court of Appeal, which allowed the appeal in 2001 and annulled the above-mentioned decision of the Athens Court of First Instance. The said group of former employees filed an appeal with the Supreme Court of Greece, which was heard on May 29, 2007. The Supreme Court of Greece allowed the appeal and sent the matter back to the Athens Court of Appeal for the consideration of the quantum of awardable salaries in arrears. On June 3, 2008, the Athens Court of Appeal rejected NAPC's appeal and reinstated the award of the Athens Court of First Instance, which decision was further appealed to the Supreme Court of Greece. The matter was heard on April 20, 2010 and a decision rejecting such appeal was rendered in June 2010. As a result of Denison's participation in the consortium that was named in the lawsuit, the Company has been served with three separate payment orders, one on March 24, 2015 and two others on December 29, 2015. The Company was also served with an enforcement order on November 23, 2015. Oppositions have been filed on behalf of the Company in respect of each of these orders which oppose the orders on the basis that they were improperly issued and are barred from a statute of limitations perspective. The salaries in arrears sought to be recovered through these orders are part of the $10,689 (6,846 euros) cited above and the interest being sought in respect of these orders is part of the $28,365 (18,168 euros) cited below. Provisional orders granting a temporary suspension of any enforcement proceedings have been granted in respect of all of the orders that have been served. The order served on March 24, 2015 was heard on November 24, 2015 and a decision was issued on November 25, 2016 accepting the Company's opposition on the basis that no lawful service of Judgment No 4528/2008 had taken place until the filing of the opponents' petition and/or the issuance of the payment order. The plaintiffs have filed an appeal against the above decision which was heard on October 16, 2018 and a decision in respect of this appeal is currently pending. A hearing in respect of the order served on November 23, 2015 took place on October 31, 2018 and a decision in respect of such order is currently pending. A hearing in respect of the orders served in December of 2015 scheduled for September 20, 2016 was adjourned until November 21, 2016 and two decisions were issued on January 9, 2017 accepting the Company's oppositions on a statute of limitations basis. The plaintiffs filed appeals against the above decisions which were heard on October 16, 2018 and decisions in respect of such appeals are pending.

NAPC is also the subject of a claim for approximately $4,468 (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 $902 (578 euros), amounted to $28,365 (18,168 euros) as at December 31, 2018.

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

8. SEGMENTED INFORMATION

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

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

	Canada	**United States**	**Russia**	**Argentina**	**Corporate**	**Consolidated**
(C$000s)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Three Months Ended 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**
Three Months Ended December 31, 2017						
Revenue	136,776	267,659	34,988	46,033	—	485,456
Operating income (loss)(1)	14,692	49,529	3,994	(3,077)	(20,349)	44,789
Segmented assets	624,845	881,716	116,146	155,259	—	1,777,966
Capital expenditures	9,863	21,095	884	2,676	—	34,518

	Canada	**United States**	**Russia**	**Argentina**	**Corporate**	**Consolidated**
(C$000s)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
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**
Year Ended December 31, 2017						
Revenue	540,059	713,467	123,965	150,214	—	1,527,705
Operating income (loss)(1)	84,743	121,790	13,413	(3,104)	(36,722)	180,120
Segmented assets	624,845	881,716	116,146	155,259	—	1,777,966
Capital expenditures	24,942	59,773	2,796	4,422	—	91,933

(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,**	
	2018	2017	**2018**	2017
(C$000s)	***($)***	*($)*	***($)***	*($)*
Net (loss) income	**(3,462)**	35,871	**(26,177)**	586
Add back (deduct):				
Depreciation	**40,391**	36,486	**160,318**	130,793
Foreign exchange (gains) losses	**(3,342)**	8,099	**38,047**	34,273
Loss on disposal of property, plant and equipment	**7,887**	4,966	**30,317**	13,039
Impairment (reversal of impairment) of property, plant and equipment	**115**	(76,296)	**115**	(76,296)
Impairment of inventory	**3,978**	—	**7,167**	—
Interest	**20,999**	20,962	**106,630**	85,450
Income taxes	**(4,574)**	14,701	**(4,592)**	(7,725)
Operating income	**61,992**	44,789	**311,825**	180,120

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

SOURCE Calfrac Well Services Ltd.

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