CALFRAC

2020
Q4 MANAGEMENT'S DISCUSSION & ANALYSIS
CALFRAC WELL SERVICES

Three and Twelve Months Ended December 31, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) for Calfrac Well Services Ltd. ("Calfrac" or the "Company") has been prepared by management as of March 3, 2021 and is a review of the Company's financial condition and results of operations based on International Financial Reporting Standards (IFRS).

The focus of this MD&A is a comparison of the financial performance for the years ended December 31, 2020 and 2019. It should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2020 as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2019.

Readers should also refer to the "Forward-Looking Statements" legal advisory at the end of this MD&A. All financial amounts and measures presented are expressed in Canadian dollars unless otherwise indicated. The definitions of certain non-GAAP measures used are included on pages 28 and 29.

CALFRAC'S BUSINESS

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

The Company's reportable business segments during the three months ended December 31, 2020 were as follows:

Segment	Active	Idle	Total	Crewed Fleets
	(000's hhp)	*(000's hhp)*	*(000's hhp)*	*(#)*
United States	516	354	870	7
Canada	202	73	275	4
Argentina	118	5	123	5
Russia	65	12	77	5
Total	901	444	1,345	21

- The Company's United States segment provides fracturing services to oil companies operating in the Bakken shale play in North Dakota; in the Rockies area, including the Powder River Basin in Wyoming, as well as in Texas and New Mexico, where it services the Eagle Ford and Permian basins. Calfrac also provides fracturing services to natural gas-focused customers operating in the Marcellus and Utica shale plays in Pennsylvania, Ohio and West Virginia. At December 31, 2020, Calfrac's United States operations had combined active horsepower of approximately 516,000 and no active cementing or coiled tubing units. At the end of the fourth quarter, the United States segment had temporarily idled approximately 354,000 horsepower, three cementing units and one coiled tubing unit.

- The Canadian segment is focused on the provision of fracturing and coiled tubing services to a diverse group of oil and natural gas exploration and production companies operating in Alberta, northeast British Columbia, Saskatchewan and Manitoba. The Company's customer base in Canada ranges from large multinational public companies to small private companies. At December 31, 2020, Calfrac's Canadian operations had active horsepower of approximately 202,000 and eight active coiled tubing units. At the end of the fourth quarter, the Canadian segment had temporarily idled approximately 73,000 horsepower and five coiled tubing units.

- The Argentinean segment provides pressure pumping services from its operating bases in Argentina. The Company provides fracturing, cementing and coiled tubing services to oil and natural gas companies operating in the Neuquén, Las Heras and Comodoro regions. The Company had approximately 118,000 active horsepower, 12 active and one idle cementing units and five active and one idle coiled tubing units in its Argentinean segment at December 31, 2020.

- The Company's Russian segment provides fracturing and coiled tubing services in Western Siberia. During the fourth quarter of 2020, the Company operated under multi-year agreements to provide services to Russia's largest oil producer. At December 31, 2020, the Russian segment had seven deep coiled tubing units, of which four were active, and approximately 65,000 active horsepower forming five fracturing spreads in Russia.

RECAPITALIZATION TRANSACTION AND AMENDED CREDIT FACILITIES

On December 18, 2020, Calfrac announced the completion of its previously disclosed amended recapitalization transaction (“Recapitalization Transaction”). The Recapitalization Transaction was implemented pursuant to a plan of arrangement (the “Plan”) under the Canada Business Corporations Act (“CBCA”). The Plan was approved by an order of the Court of Queen's Bench of Alberta dated October 30, 2020; and an order giving full effect to the Plan in the United States was entered effective December 1, 2020 (see Note 5 for additional information).

As a result of the Plan, Calfrac:

- reduced indebtedness by approximately $576.0 million, primarily representing the face value of the senior unsecured notes that were exchanged for common equity in the Company;
- reduced annual interest costs by approximately $51.0 million;
- secured an increase in liquidity of $60.0 million through the issuance of 1.5 lien payment-in-kind convertible notes (“1.5 Lien Notes”). These notes bear interest at 10.0 percent per annum, paid semi-annually and are due on December 18, 2023;
- issued two share purchase warrants for every Calfrac share held to registered shareholders as of the close of business on December 17, 2020. Each warrant allows the holder to purchase a share of common equity from the Company for $0.05 per share or $2.50 per share after the 50:1 share and warrant consolidation that was completed in conjunction with the Recapitalization Transaction. These warrants have a three-year term following the effective date, expiring on December 18, 2023 and are listed for trading on the TSX under the symbol “CFW.WT”;
- completed a tender offer for Calfrac shares using its existing liquidity where 121,231 post-consolidation shares were repurchased for $0.9 million in cash;
- executed an amendment to the Company's credit facility agreement, which included a waiver of the Funded Debt to Adjusted EBITDA covenant through the end of the second quarter of 2021 and an increase to the covenant threshold for the third and fourth quarter of 2021 to 4.5x and 3.5x, respectively; and,
- executed a share and warrant consolidation at a 50:1 ratio, resulting in approximately 37.4 million shares outstanding at closing, before giving effect to future warrant exercises, equity-linked compensation or conversion of the 1.5 Lien Notes.

RESPONSE TO COVID-19 AND OPEC+ SUPPLY PRESSURES

During 2020, the global economy slowed significantly in response to the worldwide COVID-19 pandemic, while the oil industry was also impacted by the oil supply war between the Organization of the Petroleum Exporting Countries and Russia (OPEC+).

In early March 2020, an oil supply war between Saudi Arabia and Russia erupted due to the inability of OPEC+ to agree on proposed oil production output quotas. As a result, WTI and Brent crude prices fell nearly 30 percent. Prior to this time, crude oil prices had already fallen by 30 percent since the start of the year due to a decrease in demand, and a resulting surplus of oil inventory.

In the midst of this, the COVID-19 outbreak developed rapidly in 2020 and significant measures were put in place by governments around the world to prevent the transmission of the virus. This included limiting the movement of people, travel restrictions, temporarily closing businesses and schools as well as cancelling events. This had an immediate significant impact on businesses and led to severe global socioeconomic disruption and extreme global capital market volatility. With respect to the oil market specifically, demand for fuel plummeted as people around the world significantly limited their movements in response to the COVID-19 pandemic.

In early April, OPEC and Russia engaged in negotiations to cut oil production and reached an agreement to curtail oil production starting May 1 in an effort to help balance the oil market that had been severely impacted by the COVID-19 induced slump and ill-timed battle for market share. These production cuts stabilized global oil markets, but surplus inventory and the restoration of demand resulted in a slow recovery of prices towards pre-COVID-19 levels.

The volatile economic environment has made estimates and judgments required in the preparation of Calfrac's financial statements increasingly complex and subject to a higher degree of measurement uncertainty. The ongoing effects of market uncertainty have and are expected to continue to materially reduce client spending and demand for the Company's services, resulting in decreased revenue and cash flows. Additional uncertainties include increased risk of accounts receivable collections and impairment charges to property, plant and equipment.

The Company proactively addressed the rapid and unforeseen deterioration in 2020 business conditions that resulted from the COVID-19 global pandemic and the delayed response by the OPEC+ group to global oil markets earlier in the year. The measures and actions taken included significant headcount reductions, salary reductions, restrictions on discretionary spending, reduction of compensation programs and bonuses, and reduction to capital spending. These measures remain in place as demand for the Company's services continue to recover from the lows experienced during 2020, and will position the Company to realize improved returns as market conditions improve.

FINANCIAL OVERVIEW – YEARS ENDED DECEMBER 31, 2020 VERSUS 2019

CONSOLIDATED HIGHLIGHTS

Years Ended December 31,	**2020**	2019	Change
(C$000s, except per share amounts)	*($)*	*($)*	*(%)*
(unaudited)			
Revenue	**705,436**	1,620,955	(56)
Operating income[1]	**21,997**	152,744	(86)
Per share – basic[2]	**5.21**	52.83	(90)
Per share – diluted[2]	**0.41**	52.50	(99)
Adjusted EBITDA[1]	**23,809**	159,119	(85)
Per share – basic[2]	**5.64**	55.03	(90)
Per share – diluted[2]	**0.44**	54.69	(99)
Net loss	**(324,235)**	(156,203)	108
Per share – basic[2]	**(76.78)**	(54.03)	42
Per share – diluted[2]	**(76.78)**	(54.03)	42
Working capital, end of year	**161,448**	248,772	(35)
Total assets, end of year	**912,463**	1,525,922	(40)
Long-term debt, end of year	**324,633**	976,693	(67)
Total equity, end of year	**410,234**	368,623	11

(1) Refer to "Non-GAAP Measures" on pages pages 28 and 29 for further information.
(2) Comparative amounts were adjusted to reflect the Company's fifty-to-one common share consolidation that occurred on December 18, 2020.

2020 OVERVIEW

In 2020, the Company:

- generated revenue of $705.4 million, a decrease of 56 percent from 2019, resulting primarily from lower pricing and activity in Canada and the United States and the impact of a lengthy government mandated shutdown in Argentina due to the COVID-19 pandemic;
- executed an exchange offer by issuing new US$120.0 million second lien secured notes ("Second Lien Notes") that bear interest at 10.875 percent per annum and are due on March 15, 2026 to previous holders of its 8.5 percent senior unsecured notes that were due on June 15, 2026 that tendered such notes at an exchange price of US$550 for each US$1,000 of senior unsecured notes, resulting in US$218.2 million of senior unsecured notes being exchanged for US$120.0 million of Second Lien Notes;
- completed the settlement of the Company's remaining US$431.8 million senior unsecured notes, including all accrued and unpaid interest, for common shares of the Company, in addition to the issuance of $60.0 million of 1.5 Lien Notes. These notes bear interest at 10.0 percent per annum and are due on December 18, 2023;
- amended its revolving credit facility, resulting in a reduction in capacity from $375.0 million to $290.0 million, including a waiver of its Funded Debt to EBITDA covenant through the end of June 30, 2021 and an increase in the covenant threshold for the three months ended September 30, 2021 and December 31, 2021 to 4.5x and 3.5x, respectively;
- aligned its operating footprint in Canada and the United States in response to lower activity levels;
- reported adjusted EBITDA of $23.8 million versus $159.1 million in 2019;
- recorded a gain on the settlement of debt of $226.3 million and a gain on debt exchange of $130.4 million;
- recorded an impairment of assets totaling $255.6 million;

- recorded a write-off of the Company's deferred tax asset in the first quarter and the recognition of a deferred tax liability in the fourth quarter related to the Company's Recapitalization Transaction, which resulted in a deferred income tax expense of $167.8 million in 2020;
- reported a net loss of $324.2 million or $76.78 per share diluted, compared to a net loss of $156.2 million or $54.03 per share diluted in 2019;
- reported period-end working capital of $161.4 million versus $248.8 million at December 31, 2019, which is consistent with the reduced operating footprint in Canada and the United States; and
- incurred capital expenditures of $44.6 million primarily to support the Company's North American fracturing operations, compared to $139.3 million in 2019.

CANADA

Years Ended December 31,	**2020**	2019	Change
(C$000s, except operational information) *(unaudited)*	***($)***	*($)*	*(%)*
Revenue	**230,448**	397,583	(42)
Expenses			
Operating	**188,656**	345,315	(45)
Selling, general and administrative (SG&A)	**7,924**	11,579	(32)
	196,580	356,894	(45)
Operating income[(1)]	**33,868**	40,689	(17)
Operating income (%)	**14.7**	10.2	44
Fracturing revenue per job ($)	**19,844**	16,573	20
Number of fracturing jobs	**10,508**	21,046	(50)
Active pumping horsepower, end of period (000s)	**202**	236	(14)
Idle pumping horsepower, end of period (000s)	**73**	36	103
Total pumping horsepower, end of period (000s)	**275**	272	1
Coiled tubing revenue per job ($)	**19,563**	19,839	(1)
Number of coiled tubing jobs	**1,092**	2,339	(53)
Active coiled tubing units, end of period (#)	**8**	11	(27)
Idle coiled tubing units, end of period (#)	**5**	3	67
Total coiled tubing units, end of period (#)	**13**	14	(7)

(1) Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.

REVENUE

Revenue from Calfrac's Canadian operations during 2020 was $230.4 million versus $397.6 million in 2019. In 2020, the number of fracturing jobs decreased by 50 percent due to a smaller operating footprint after the first quarter of 2020 and an overall decrease in market activity. Revenue per fracturing job increased by 20 percent from 2019 primarily due to job mix as larger average job sizes were completed. Despite revenue per job staying consistent, coiled tubing activity decreased by 53 percent which resulted in lower year-over-year coiled tubing revenue.

OPERATING INCOME

The Company's Canadian division generated operating income of $33.9 million compared to $40.7 million in 2019. The decrease was due to the significantly lower revenue base and a non-cash termination charge of $2.1 million to exit a take-or-pay product purchase commitment. Despite the lower revenue base, the Company achieved a 15 percent operating income margin due to its continued focus on controlling operating costs combined with $10.9 million of Canadian Emergency Wage Subsidy that was received in response to the ongoing COVID-19 pandemic. This increase was partially offset by $1.6 million in restructuring costs recorded in 2020 compared to $0.7 million of restructuring expenses that were recorded in 2019. The $3.7 million reduction in SG&A expenses compared to 2019 was primarily due to lower headcount, compensation reductions and limitations on discretionary spending. In addition, a bad-debt provision of $1.4 million was recorded in 2020 versus a $1.3 million provision that was recorded in 2019.

UNITED STATES

Years Ended December 31,	**2020**	2019	Change
(C$000s, except operational and exchange rate information) *(unaudited)*	***($)***	*($)*	*(%)*
Revenue	**306,090**	930,404	(67)
Expenses			
Operating	**289,243**	786,864	(63)
SG&A	**12,818**	17,335	(26)
	302,061	804,199	(62)
Operating income[1]	**4,029**	126,205	(97)
Operating income (%)	**1.3**	13.6	(90)
Fracturing revenue per job ($)	**29,282**	42,832	(32)
Number of fracturing jobs	**10,453**	21,687	(52)
Active pumping horsepower, end of period (000s)	**516**	830	(38)
Idle pumping horsepower, end of period (000s)	**354**	93	281
Total pumping horsepower, end of period (000s)	**870**	923	(6)
Active coiled tubing units, end of period (#)	**—**	—	—
Idle coiled tubing units, end of period (#)	**1**	1	—
Total coiled tubing units, end of period (#)	**1**	1	—
Active cementing units, end of period (#)	**—**	—	—
Idle cementing units, end of period (#)	**3**	5	(40)
Total cementing units, end of period (#)	**3**	5	(40)
US$/C$ average exchange rate[2]	**1.3415**	1.3269	1

(1) Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.
(2) Source: Bank of Canada.

REVENUE

Revenue from Calfrac's United States operations decreased to $306.1 million in 2020 from $930.4 million in 2019 primarily due to lower fracturing activity and pricing. The Company's fracturing activity in the United States decreased during 2020 by 52 percent as customers curtailed spending in all of Calfrac's operating regions in response to low commodity prices. Revenue per job decreased 32 percent due to lower pricing, combined with changes in job mix.

OPERATING INCOME

The Company's United States division generated operating income of $4.0 million during 2020 compared to $126.2 million in 2019. The 97 percent decrease was primarily the result of the significant decline in the Company's revenue base as customers reduced their drilling and completions activity in response to the reduction in commodity prices. The Company began 2020 with 10 active fracturing fleets in the United States and increased its operating scale to a peak of 14 fleets before reducing to four crewed fleets in the second quarter. The Company exited the fourth quarter with seven active fleets versus operating an average of 14 fleets during 2019. Operating results also included $3.9 million of reactivation costs, primarily in the fourth quarter. SG&A expenses decreased by 26 percent, primarily due to lower personnel costs resulting from headcount and compensation reductions. The Company recorded $2.4 million of restructuring costs during 2020 compared to $0.8 million in 2019.

RUSSIA

Years Ended December 31,	2020	2019	Change
(C$000s, except operational and exchange rate information)	*($)*	*($)*	*(%)*
(unaudited)			
Revenue	**100,407**	105,807	(5)
Expenses			
Operating	**86,441**	107,597	(20)
SG&A	**3,033**	3,215	(6)
	89,474	110,812	(19)
Operating income (loss)[1]	**10,933**	(5,005)	NM
Operating income (loss) (%)	**10.9**	(4.7)	NM
Fracturing revenue per job ($)	**80,733**	86,397	(7)
Number of fracturing jobs	**1,119**	1,094	2
Active pumping horsepower, end of period (000s)	**65**	65	—
Idle pumping horsepower, end of period (000s)	**12**	12	—
Total pumping horsepower, end of period (000s)	**77**	77	—
Coiled tubing revenue per job ($)	**46,824**	44,619	5
Number of coiled tubing jobs	**215**	253	(15)
Active coiled tubing units, end of period (#)	**4**	3	33
Idle coiled tubing units, end of period (#)	**3**	4	(25)
Total coiled tubing units, end of period (#)	**7**	7	—
Rouble/C$ average exchange rate[2]	**0.0186**	0.0205	(9)

[1] *Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.*
[2] *Source: Bank of Canada.*

REVENUE

Revenue from Calfrac's Russian operations in 2020 of $100.4 million was 5 percent lower than in 2019. The slight decrease in revenue, which is generated in roubles, was mostly related to the 9 percent decline of the Russian rouble in 2020 versus 2019 combined with a 15 percent reduction in coiled tubing activity due to lower utilization with Calfrac's main customer. Fracturing activity increased by 2 percent as the Company began operations in the Erginskoye field in Western Siberia at the end of the second quarter. Revenue per fracturing job was 7 percent lower than in 2019 due to the 9 percent depreciation of the Russian rouble, partially offset by job mix as the Company completed more multi-stage wells during 2020 as compared to 2019.

OPERATING INCOME (LOSS)

The Company's Russian division generated operating income of $10.9 million during 2020 compared to a loss of $5.0 million in 2019. Utilization in the first quarter of 2020 was negatively impacted by warmer than normal weather which restricted access to job locations. The second, third and fourth quarters experienced improved profitability due to better utilization, combined with cost reduction measures that were implemented throughout 2020, and lower fuel costs. The operating results for 2020 also included $0.4 million in restructuring expenses.

ARGENTINA

Years Ended December 31,	2020	2019	Change
(C$000s, except operational and exchange rate information)	*($)*	*($)*	*(%)*
(unaudited)			
Revenue	**68,491**	187,161	(63)
Expenses			
Operating	**68,050**	153,479	(56)
SG&A	**6,918**	7,554	(8)
	74,968	161,033	(53)
Operating (loss) income[1]	**(6,477)**	26,128	NM
Operating (loss) income (%)	**(9.5)**	14.0	NM
Fracturing revenue per job ($)	**58,612**	120,514	(51)
Number of fracturing jobs	**680**	974	(30)
Active pumping horsepower, end of period (000s)	**118**	138	(14)
Idle pumping horsepower, end of period (000s)	**5**	—	NM
Total pumping horsepower, end of period (000s)	**123**	138	(11)
Coiled tubing revenue per job ($)	**75,499**	38,668	95
Number of coiled tubing jobs	**162**	676	(76)
Active coiled tubing units, end of period (#)	**5**	6	(17)
Idle coiled tubing units, end of period (#)	**1**	—	NM
Total coiled tubing units, end of period (#)	**6**	6	—
Cementing revenue per job ($)	**53,529**	43,778	22
Number of cementing jobs	**240**	522	(54)
Active cementing units, end of period (#)	**12**	13	(8)
Idle cementing units, end of period (#)	**1**	1	—
Total cementing units, end of period (#)	**13**	14	(7)
US$/C$ average exchange rate[2]	**1.3415**	1.3269	1

[1] Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.
[2] Source: Bank of Canada.

REVENUE

Calfrac's Argentinean operations generated total revenue of $68.5 million during 2020 versus $187.2 million in 2019. The 63 percent decline in revenue was primarily due to the shutdown of the oilfield industry in Argentina due to the COVID-19 pandemic, which affected all of the Company's operating regions and service lines. Activity in the first quarter of 2020 was higher than the fourth quarter of 2019 despite some schedule gaps in the Vaca Muerta region. However, the Argentinean government mandated a complete shutdown of all oilfield activity in mid-March in response to the COVID-19 pandemic. Although this shutdown continued throughout most of the second quarter, some activity resumed in southern Argentina during June and continued into the third and fourth quarters. In the fourth quarter, fracturing activity recommenced in the Vaca Muerta shale play as customers gradually resumed completions activity.

OPERATING (LOSS) INCOME

The Company's operations in Argentina incurred an operating loss of $6.5 million during 2020 compared to operating income of $26.1 million in 2019. The loss was attributable to the unprecedented revenue disruption caused by the government-mandated shutdown of all oilfield activity in response to the COVID-19 pandemic during the second and third quarters of 2020. The Company generated operating income in the fourth quarter of 2020 as equipment utilization improved. The 8 percent decline in SG&A expenses was primarily due to headcount reductions and other cost savings initiatives. The reduction in SG&A expenses would have been 30 percent excluding a US$2.3 million stamp tax accrual reversal that was recorded in the fourth quarter of 2019.

CORPORATE

Years Ended December 31,	**2020**	2019	Change
(C$000s)	***($)***	*($)*	*(%)*
(unaudited)			
Expenses			
Operating	**2,167**	5,081	(57)
SG&A	**18,189**	30,192	(40)
	20,356	35,273	(42)
Operating loss(1)	**(20,356)**	(35,273)	(42)
% of Revenue	**2.9**	2.2	32

(1) Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.

OPERATING LOSS

Corporate expenses during 2020 were $20.4 million compared to $35.3 million in 2019. The decrease was primarily due to lower personnel costs resulting from headcount and compensation reductions, combined with $1.6 million in government subsidies that were received in 2020. The reduction in personnel costs was partially offset by $0.8 million of severance costs that were recorded in 2020 as compared to $4.4 million of retirement and severance payments in 2019. In addition, the Company's stock-based compensation expense was $3.6 million lower than 2019. This decrease was primarily due to a lower average share price during 2020, offset partially by the cancellation of all outstanding stock options in conjunction with the Recapitalization Transaction that closed in December 2020.

DEPRECIATION

Depreciation expense during 2020 decreased by $89.2 million to $172.0 million from $261.2 million in 2019. The decrease was primarily due to the impact of the $227.2 million of property, plant and equipment (PP&E) impairment charges that were recorded during the first six months of 2020, combined with lower sustaining capital expenditures. The remaining reduction in depreciation was the result of the Company decreasing its useful life estimates and salvage values effective January 1, 2019 for certain components of its fracturing equipment. This resulted in a one-time depreciation charge of $9.5 million during the first quarter in 2019 relating to assets in use at the end of the previous quarter.

FOREIGN EXCHANGE LOSSES

The Company recorded a foreign exchange loss of $15.5 million during 2020 versus a loss of $6.3 million in the comparable period in 2019. Foreign exchange gains and losses arise primarily from the translation of net monetary assets or liabilities that were held in U.S. dollars in Canada, net monetary assets or liabilities that were held in pesos in Argentina, and liabilities held in Canadian dollars in Russia. The Company's foreign exchange loss in 2020 was largely attributable to net monetary assets that were held in pesos in Argentina as the peso devalued against the U.S. dollar during this period, combined with liabilities held in Canadian dollars in Russia due to the decline in the Russian rouble versus the Canadian dollar.

IMPAIRMENT

The Company tested each of its cash generating units (CGUs) for potential impairment at March 31, 2020, at June 30, 2020 and again at December 31, 2020. A complete summary of the impairment charges recorded during 2020 are as follows:

	Years Ended Dec. 31,	
	2020	2019
(C$000s)	***($)***	*($)*
Canada	**132,483**	1,921
United States	**15,380**	244
Argentina	**52,466**	—
Russia	**26,879**	—
	227,208	2,165

In addition, the Company also carried out a comprehensive review of its inventory to identify individual items that were permanently idle or obsolete, with potential for impairment in value. This resulted in an inventory write-down of $27.9 million (year ended December 31, 2019 – $3.7 million). The inventory write-down by CGU is as follows:

	Years Ended Dec. 31,	
	2020	2019
(C$000s)	***($)***	*($)*
Canada	**6,200**	656
United States	**10,668**	2,108
Argentina	**11,000**	980
	27,868	3,744

INTEREST

The Company's interest expense of $91.3 million in 2020 includes $47.3 million of accrued interest that was forgiven as part of the Recapitalization Transaction (see Note 5). Reported interest expense was $5.4 million higher than in 2019 due to the write-off of $4.4 million and $7.4 million of deferred finance costs related to the portion of senior unsecured notes exchanged during the first quarter in 2020 and the settlement of senior unsecured notes in the fourth quarter in 2020, respectively. This was offset partially by lower cash interest expenses resulting from the debt exchange that was completed during the first quarter in 2020, which reduced debt by approximately $130.0 million.

INCOME TAXES

The Company recorded an income tax expense of $168.6 million in 2020 compared to a $52.2 million tax recovery in 2019. The expense position was primarily the result of the de-recognition of the Company's deferred tax asset during the first quarter of 2020 and the recording of a deferred tax liability of $54.2 million during the fourth quarter of 2020 as a result of the Recapitalization Transaction. This liability was recorded due to the utilization of tax basis in the United States.

LIQUIDITY AND CAPITAL RESOURCES

	Years Ended Dec. 31,	
	2020	2019
(C$000s) *(unaudited)*	***($)***	*($)*
Cash provided by (used in):		
Operating activities	**24,520**	132,024
Financing activities	**8,602**	4,021
Investing activities	**(42,518)**	(138,892)
Effect of exchange rate changes on cash and cash equivalents	**(3,336)**	(6,492)
Decrease in cash and cash equivalents	**(12,732)**	(9,339)

OPERATING ACTIVITIES

The Company's cash provided by operating activities for the year ended December 31, 2020 was $24.5 million versus cash provided of $132.0 million during the same period in 2019. The decrease in cash provided by operations was primarily due to lower activity and pricing, combined with a lower inflow of cash from working capital during the year. Working capital provided $4.6 million of cash in 2020 compared to $62.7 million in 2019. At December 31, 2020, Calfrac's working capital was $161.4 million compared to $248.8 million at December 31, 2019.

FINANCING ACTIVITIES

Net cash provided by financing activities for the year ended December 31, 2020 was $8.6 million compared to net cash provided of $4.0 million in 2019. During the year ended December 31, 2020, the Company issued $60.0 million of 1.5 Lien Notes, repaid $28.9 million on a net basis under its credit facilities, incurred expenses of $7.6 million related to the issuance of 1.5 Lien Notes, paid lease principal payments of $14.1 million and repurchased common shares for a total of $0.9 million.

On December 18, 2020, Calfrac completed the Recapitalization Transaction and the new financing of $60.0 million 1.5 Lien Notes. The completion of the Recapitalization Transaction significantly reduced the Company's total debt, will reduce annual interest expense and provide additional liquidity to fund ongoing operations.

In conjunction with the completion of the Recapitalization Transaction, the Company amended its revolving credit facility agreement to reduce its total facility capacity from $375.0 million to 290.0 million and, as part of the amended agreement, the Company's Funded Debt to Adjusted EBITDA covenant is waived for the quarters ended December 31, 2020 through

June 30, 2021 and is 4.50x for the quarter ended September 30, 2021, 3.50x for the quarter ended December 31, 2021 ("Covenant Relief Period") and 3.00x for each quarter end thereafter. The Covenant Relief Period terminates on the earlier of December 31, 2021 and any prior quarter end for which Calfrac has requested early termination and has provided a compliance certificate to its lenders certifying compliance with all financial covenants and where the Funded Debt to Adjusted EBITDA ratio is less than 3.00x at such quarter end. The facilities consist of an operating facility of $30.9 million and a syndicated facility of $259.1 million. The Company's credit facilities mature on June 1, 2022, and can be extended by one or more years at the Company's request and lenders' acceptance. The Company may also prepay principal without penalty. The interest rates are based on the parameters of certain bank covenants. For prime-based loans and U.S. base-rate loans, the rate ranges from prime or U.S. base rate plus 1.00 percent to prime plus 3.50 percent. For LIBOR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 2.00 percent to 4.50 percent above the respective base rates. The Company incurs interest at the high end of the ranges outlined above during the Covenant Relief Period or if its net Total Debt to Adjusted EBITDA ratio is above 4.00:1.00. Additionally, in the event that the Company's net Total Debt to Adjusted EBITDA ratio is above 5.00:1.00, certain restrictions apply including the following: (a) acquisitions are subject to majority lender consent; (b) distributions are restricted other than those relating to the Company's equity compensation plans; and (c) no increase in the rate of dividends are permitted. As at December 31, 2020, the Company's net Total Debt to Adjusted EBITDA ratio exceeded the 5.00:1.00 threshold.

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

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

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

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

At December 31, 2020, the Company had used $0.8 million of its credit facilities for letters of credit and had $130.0 million of borrowings under its credit facilities, leaving $159.2 million in available capacity under its credit facilities. As described above, the Company's credit facilities are subject to a monthly borrowing base, as determined using the previous month's results, which at December 31, 2020 resulted in liquidity of $80.4 million. Under the terms of the Company's amended credit facility agreement, Calfrac must maintain a minimum liquidity amount of $15.0 million during the Covenant Relief Period.

The Company's credit facilities contain certain financial covenants. Weakened market conditions attributable to the COVID-19 pandemic and continued low price of oil and natural gas have required many oil and gas service companies to seek covenant relief from their lenders. As per the amended credit facility agreement, the Company's Funded Debt to Adjusted EBITDA covenant is waived for the quarters ended December 31, 2020 through June 30, 2021 and is 4.50x for the quarter ended September 30, 2021, 3.50x for the quarter ended December 31, 2021 and 3.00x for each quarter end thereafter. As shown in the table below, the Company was in full compliance with its financial covenants associated with its credit facilities as at December 31, 2020.

	Covenant	**Actual**
As at December 31,	2020	**2020**
Working capital ratio not to fall below	1.15x	**2.66x**
Funded Debt to Adjusted EBITDA not to exceed[(1)(2)]	N/A	**14.45x**
Funded Debt to Capitalization not to exceed[(1)(3)]	0.30x	**0.16x**

[(1)] Funded Debt is defined as Total Debt excluding all outstanding second lien senior notes, 1.5 Lien Notes, and lease obligations. Total Debt includes bank loans and long-term debt (before unamortized debt issuance costs and debt discount) plus outstanding letters of credit. For the purposes of the Total Debt to Adjusted EBITDA ratio, the Funded Debt to Capitalization Ratio and the Funded Debt to Adjusted EBITDA ratio, the amount of Total Debt or Funded Debt, as applicable, is reduced by the amount of cash on hand with lenders (excluding any cash held in a segregated account for the purposes of a potential equity cure).
[(2)] Adjusted EBITDA is defined as net income or loss for the period adjusted for interest, taxes, depreciation and amortization, non-cash stock-based compensation, and gains and losses that are extraordinary or non-recurring.
[(3)] Capitalization is Total Debt plus equity.

On February 24, 2020, Calfrac executed an exchange offer of US$120.0 million of new 10.875% Second Lien Notes due March 15, 2026 to holders of its existing 8.50% senior unsecured notes ("Unsecured Notes") due June 15, 2026. The Second Lien Notes are secured by a second lien on the same assets that secure obligations under the Company's existing senior secured credit facility and 1.5 Lien Notes. The exchange was completed at an exchange price of US$550 for each US$1,000 of Unsecured Notes, resulting in US$218.2 million being exchanged for US$120.0 million of Second Lien Notes. The exchange resulted in reduced debt of approximately $130.0 million and a reduction in annual debt service costs of approximately $7.3 million.

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

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

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

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

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

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

The Company's credit facilities also require majority lender consent for dispositions of property or assets in Canada and the United States if the aggregate market value exceeds $20.0 million ($10.0 million during the Covenant Relief Period). 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 indentures governing the Second Lien Notes and the 1.5 Lien Notes contain 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 indentures, in circumstances where:

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

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

iii. there is insufficient room for such payment within a builder basket included in the indentures; and in the case of the 1.5 Lien Notes indenture, at least one year has passed since their issue date.

[(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 indentures as net income (loss) 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 in each of these indentures. As at December 31, 2020 these baskets were not utilized. The indentures also restrict 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. The indenture governing the 1.5 Lien Notes includes restrictions on certain investments including certain investments in subsidiary entities, however the indenture includes several exceptions to this prohibition, including a general basket of US$10.0 million and baskets related to prepayment and build commitments which aggregate over US$12.0 million. This indenture also contains a restriction that any indebtedness incurred in excess of $290.0 million under the credit facilities basket shall be junior in priority to the 1.5 Lien Notes.

As at December 31, 2020, the Company's Fixed Charge Coverage Ratio of 0.30:1 was below the required 2:1 ratio. Failing to meet the Fixed Charge Coverage Ratio is not an event of default under the indentures, and the baskets highlighted in the preceding paragraph provide sufficient flexibility for the Company to incur additional indebtedness and make anticipated restricted payments which may be required to conduct its operations.

INVESTING ACTIVITIES

Calfrac's net cash used for investing activities was $42.5 million for the year ended December 31, 2020 versus $138.9 million in 2019. Cash outflows relating to capital expenditures were $46.2 million in 2020 compared to $147.4 million in 2019. Calfrac's Board of Directors have approved a 2021 capital budget of approximately $55.0 million, which is comprised primarily of maintenance capital.

EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS

The effect of changes in foreign exchange rates on the Company's cash and cash equivalents during the year ended December 31, 2020 was a loss of $3.3 million versus a loss of $6.5 million in 2019. These 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 2021 and beyond.

At December 31, 2020, the Company had cash on hand of $29.8 million.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares. In connection with the approval of the Recapitalization Transaction, shareholders approved an omnibus incentive plan which permits the granting of various types of equity awards, including stock options, share appreciation rights, restricted shares, restricted share units, deferred share units and other share-based awards as determined by the Board of Directors. The number of shares reserved under the omnibus incentive plan is equal to 10 percent of the Company's issued and outstanding common shares. As at March 3, 2021, the Company had not issued any equity awards under the omnibus incentive plan.

SUMMARY OF QUARTERLY RESULTS

Three Months Ended	Mar 31, 2019	Jun. 30, 2019	Sep. 30, 2019	Dec. 31, 2019	Mar. 31, 2020	Jun. 30, 2020	Sep. 30, 2020	**Dec. 31, 2020**
(C$000s, except per share and operating data) (unaudited)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	***($)***
Financial								
Revenue	475,012	429,638	399,220	317,085	305,515	91,423	127,776	**180,722**
Operating income (loss)[1]	43,623	41,103	47,021	20,997	5,698	(7,307)	8,009	**15,597**
Per share – basic[2]	15.10	14.23	16.25	7.25	1.97	(2.52)	2.76	**1.91**
Per share – diluted[2]	14.92	14.07	16.18	7.22	1.96	(2.52)	2.75	**0.27**
Adjusted EBITDA[1]	44,086	45,123	43,028	26,882	6,812	(5,185)	8,467	**13,715**
Per share – basic[2]	15.26	15.62	14.87	9.29	2.35	(1.79)	2.91	**1.68**
Per share – diluted[2]	15.07	15.45	14.80	9.25	2.34	(1.79)	2.91	**0.24**
Net income (loss)	(36,334)	(41,045)	(29,424)	(49,400)	(122,857)	(277,275)	(50,000)	**125,897**
Per share – basic[2]	(12.58)	(14.21)	(10.17)	(17.07)	(42.38)	(95.61)	(17.20)	**15.43**
Per share – diluted[2]	(12.58)	(14.21)	(10.17)	(17.07)	(42.38)	(95.61)	(17.20)	**2.19**
Capital expenditures	28,218	37,784	38,885	34,418	29,283	6,068	2,792	**6,487**
Working capital (end of period)	276,785	291,056	257,189	248,772	233,125	157,165	127,989	**161,448**
Total equity (end of period)	481,675	443,361	414,195	368,623	239,099	(34,195)	(81,033)	**410,234**
Operating (end of period)								
Active pumping horsepower (000s)	1,344	1,346	1,337	1,269	1,242	780	840	**901**
Idle pumping horsepower (000s)	36	59	72	141	174	572	505	**444**
Total pumping horsepower (000s)	1,380	1,405	1,409	1,410	1,416	1,352	1,345	**1,345**
Active coiled tubing units (#)	21	21	21	20	20	16	15	**17**
Idle coiled tubing units (#)	8	8	8	8	7	11	12	**10**
Total coiled tubing units (#)	29	29	29	28	27	27	27	**27**
Active cementing units (#)	11	14	14	13	13	13	12	**12**
Idle cementing units (#)	12	9	9	6	3	3	4	**4**
Total cementing units (#)	23	23	23	19	16	16	16	**16**

(1) Refer to “Non-GAAP Measures” on pages 28 and 29 for further information.
(2) Comparative amounts were adjusted to reflect the Company’s fifty-to-one common share consolidated that occurred on December 18, 2020.

SEASONALITY OF OPERATIONS

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

FOREIGN EXCHANGE FLUCTUATIONS

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

FINANCIAL OVERVIEW – THREE MONTHS ENDED DECEMBER 31, 2020 VERSUS 2019

CONSOLIDATED HIGHLIGHTS

Three Months Ended December 31,	**2020**	2019	Change
(C$000s, except per share amounts) *(unaudited)*	***($)***	*($)*	*(%)*
Revenue	**180,722**	317,085	(43)
Operating income[1]	**15,597**	20,997	(26)
Per share – basic	**1.91**	7.25	(74)
Per share – diluted	**0.27**	7.22	(96)
Adjusted EBITDA[1]	**13,715**	26,882	(49)
Per share – basic	**1.68**	9.29	(82)
Per share – diluted	**0.24**	9.25	(97)
Net income (loss)	**125,897**	(49,400)	NM
Per share – basic	**15.43**	(17.07)	NM
Per share – diluted	**2.19**	(17.07)	NM
Working capital, end of period	**161,448**	248,772	(35)
Total assets, end of period	**912,463**	1,525,922	(40)
Long-term debt, end of period	**324,633**	976,693	(67)
Total equity, end of period	**410,234**	368,623	11

[1] Refer to "Non-GAAP Measures" on pages pages 28 and 29 for further information.

FOURTH QUARTER 2020 OVERVIEW

In the fourth quarter of 2020, the Company:

- generated revenue of $180.7 million, a decrease of 43 percent from the fourth quarter in 2019, resulting primarily from lower pricing and activity in Canada and the United States;
- completed the exchange of the Company's remaining US$431.8 million senior unsecured notes, including all accrued and unpaid interest, for common shares of the Company, in addition to the issuance of $60.0 million of 1.5 Lien Notes. These notes bear interest at 10.0 percent per annum and are due on December 18, 2023;
- reported adjusted EBITDA of $13.7 million versus $26.9 million in the fourth quarter of 2019;
- reported net income of $125.9 million or $2.19 per share diluted, which included a gain on the settlement of debt of $226.3 million and a deferred income tax expense of $54.2 million, compared to a net loss of $49.4 million or $17.07 per share diluted in 2019;
- reported period-end working capital of $161.4 million versus $248.8 million at December 31, 2019, which is consistent with the reduced operating footprint in Canada and the United States; and
- incurred capital expenditures of $6.5 million primarily to support the Company's United States fracturing operations.

Subsequent to the end of fourth quarter of 2020, the Company announced the modification of its prior disclosure on one matter relating to voting procedures for the Plan of Arrangement, where Calfrac recently became aware that one institutional shareholder of the Company purchased approximately $1.0 million of 1.5 Lien Notes pursuant to the pro rata offering made to qualified holders of Calfrac's senior unsecured notes. As disclosed in the Company's March 1, 2021 press release, Calfrac and the institutional shareholder intend to rescind the subscription and cancel the applicable 1.5 Lien Notes following which the institutional shareholder will be returned its initial purchase price. Calfrac has advised applicable regulators and announced its intention to make an application to the Court of Queen's Bench of Alberta in relation to this matter.

CANADA

Three Months Ended December 31,	**2020**	2019	Change
(C$000s, except operational information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**53,347**	73,009	(27)
Expenses			
Operating	**42,403**	67,171	(37)
SG&A	**1,870**	2,414	(23)
	44,273	69,585	(36)
Operating income(1)	**9,074**	3,424	165
Operating income (%)	**17.0**	4.7	262
Fracturing revenue per job ($)	**28,525**	15,348	86
Number of fracturing jobs	**1,697**	4,160	(59)
Active pumping horsepower, end of period (000s)	**202**	236	(14)
Idle pumping horsepower, end of period (000s)	**73**	36	103
Total pumping horsepower, end of period (000s)	**275**	272	1
Coiled tubing revenue per job ($)	**19,894**	21,741	(8)
Number of coiled tubing jobs	**242**	405	(40)
Active coiled tubing units, end of period (#)	**8**	11	(27)
Idle coiled tubing units, end of period (#)	**5**	3	67
Total coiled tubing units, end of period (#)	**13**	14	(7)

(1) *Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.*

REVENUE

Revenue from Calfrac's Canadian operations during the fourth quarter of 2020 was $53.3 million compared to $73.0 million in the same period of 2019. The lower revenue was mainly related to a smaller operating footprint as operator activity was relatively strong in October and December with a slight pullback in activity experienced in November. In the fourth quarter of 2020, the number of fracturing jobs was 59 percent lower than the comparable period in 2019 as a higher proportion of customer activity was in the Montney shale play, which has larger average job sizes but a lower number of stages compared to the Viking oil play, which was more active during the fourth quarter of 2019. Revenue per job increased by 86 percent, mainly due to job mix, combined with a shift in customer mix, as the majority of activity completed in the quarter was focused on larger pad style jobs. The number of coiled tubing jobs decreased by 40 percent from the fourth quarter in 2019 as the number of coiled tubing crews was reduced, while revenue per job decreased by 8 percent due to job mix.

OPERATING INCOME

Operating income in Canada during the fourth quarter of 2020 was $9.1 million compared to $3.4 million in the same period of 2019. Despite a 27 percent decrease in revenue, the Company's operating income was 17 percent compared to 5 percent in the comparable quarter. The improved operating income was due to a combination of strong equipment utilization through the majority of the quarter, the continuation of cost savings initiatives, primarily related to headcount reductions, and the $2.8 million Canadian Emergency Wage Subsidy that was received and recorded as a reduction of operating costs during the quarter. In addition, a $0.7 million bad-debt provision was recorded during the quarter, while the comparable quarter in 2019 included $0.7 million in restructuring costs.

UNITED STATES

Three Months Ended December 31,	**2020**	2019	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**67,283**	187,770	(64)
Expenses			
Operating	**63,689**	160,012	(60)
SG&A	**2,590**	4,164	(38)
	66,279	164,176	(60)
Operating income[1]	**1,004**	23,593	(96)
Operating income (%)	**1.5**	12.6	(88)
Fracturing revenue per job ($)	**26,838**	34,402	(22)
Number of fracturing jobs	**2,507**	5,435	(54)
Active pumping horsepower, end of period (000s)	**516**	830	(38)
Idle pumping horsepower, end of period (000s)	**354**	93	281
Total pumping horsepower, end of period (000s)	**870**	923	(6)
Active coiled tubing units, end of period (#)	**—**	—	—
Idle coiled tubing units, end of period (#)	**1**	1	—
Total coiled tubing units, end of period (#)	**1**	1	—
Active cementing units, end of period (#)	**—**	—	—
Idle cementing units, end of period (#)	**3**	5	(40)
Total cementing units, end of period (#)	**3**	5	(40)
US$/C$ average exchange rate[2]	**1.3030**	1.3200	(1)

[1] Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.
[2] Source: Bank of Canada.

REVENUE

Revenue from Calfrac's United States operations decreased to $67.3 million during the fourth quarter of 2020 from $187.8 million in the comparable quarter of 2019. The significant decrease in revenue can be attributed to a combination of a 54 percent reduction in the number of fracturing jobs completed and a 22 percent decrease in revenue per job period-over-period. Activity was lower in all operating regions compared to the same period in 2019 and the Company responded by reducing its operating footprint during 2020 from a peak of 14 fleets in the first quarter, down to four fleets to start the fourth quarter. The Company was able reactivate three fleets during the fourth quarter, in response to customer requirements, although these additional fleets did not generate revenue for the full quarter. Pricing in all operating areas continued to be challenged during the fourth quarter despite an improvement in oil prices during the quarter.

OPERATING INCOME

The Company's United States operations generated operating income of $1.0 million during the fourth quarter of 2020 compared to $23.6 million in the same period in 2019. The decrease in operating income was due to the significant reduction in revenue compared to the fourth quarter of 2019 as the Company reduced its operating footprint in response to the deterioration in the market. The lower operating income as a percentage of revenue was the result of lower pricing during the quarter along with $3.9 million in costs associated with the reactivation of crews for which a full quarter of revenue was not achieved. SG&A expenses decreased by 38 percent, primarily due to headcount and compensation reductions that were enacted in 2020. In addition, the operating results for the fourth quarter of 2019 included a $10.2 million reduction to operating expenses related to a change in the capitalization of major components policy. This reflected the fiscal year total of which approximately $8.2 million related to prior quarters. The fourth quarter of 2019 recorded $0.8 million in restructuring costs.

RUSSIA

Three Months Ended December 31,	**2020**	2019	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**26,949**	24,244	11
Expenses			
Operating	**21,843**	25,688	(15)
SG&A	**660**	702	(6)
	22,503	26,390	(15)
Operating income (loss)[1]	**4,446**	(2,146)	NM
Operating income (loss) (%)	**16.5**	(8.9)	NM
Fracturing revenue per job ($)	**74,317**	83,972	(11)
Number of fracturing jobs	**324**	263	23
Active pumping horsepower, end of period (000s)	**65**	65	—
Idle pumping horsepower, end of period (000s)	**12**	12	—
Total pumping horsepower, end of period (000s)	**77**	77	—
Coiled tubing revenue per job ($)	**47,838**	46,940	2
Number of coiled tubing jobs	**60**	46	30
Active coiled tubing units, end of period (#)	**4**	3	33
Idle coiled tubing units, end of period (#)	**3**	4	(25)
Total coiled tubing units, end of period (#)	**7**	7	—
Rouble/C$ average exchange rate[2]	**0.0171**	0.0207	(17)

[1] Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.
[2] Source: Bank of Canada.

REVENUE

Revenue from Calfrac's Russian operations increased by 11 percent during the fourth quarter of 2020 to $26.9 million from $24.2 million in the corresponding three-month period of 2019. The increase in revenue was attributable to a 23 percent increase in fracturing activity as a higher percentage of multi-stage wells were completed in the Erginskoye field in Western Siberia. Revenue per fracturing job decreased by 11 percent due to a 17 percent decline in the Russian rouble, offset partially by the completion of larger jobs. Coiled tubing activity increased by 30 percent, primarily due to the Company operating one additional coiled tubing unit as compared to the same period in 2019. Despite the decline in the Russian rouble, revenue per coiled tubing job was 2 percent higher than the comparable quarter, primarily due to a higher percentage of milling jobs completed in the Erginskoye field, which increased the average duration of jobs.

OPERATING INCOME (LOSS)

The Company's Russian division generated operating income of $4.4 million during the fourth quarter of 2020, versus an operating loss of $2.1 million in the comparable quarter in 2019. The improved operating performance was primarily due to better utilization of its operating fleets, combined with the continuation of cost reductions, primarily related to reduced headcount and cost savings on the price of fuel.

ARGENTINA

Three Months Ended December 31,	**2020**	2019	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**33,143**	32,062	3
Expenses			
Operating	**26,344**	26,819	(2)
SG&A	**1,323**	(577)	NM
	27,667	26,242	5
Operating (loss) income[1]	**5,476**	5,820	(6)
Operating (loss) income (%)	**16.5**	18.2	(9)
Fracturing revenue per job ($)	**60,188**	83,330	(28)
Number of fracturing jobs	**359**	246	46
Active pumping horsepower, end of period (000s)	**118**	138	(14)
Idle pumping horsepower, end of period (000s)	**5**	—	NM
Total pumping horsepower, end of period (000s)	**123**	138	(11)
Coiled tubing revenue per job ($)	**82,005**	34,743	136
Number of coiled tubing jobs	**52**	158	(67)
Active coiled tubing units, end of period (#)	**5**	6	(17)
Idle coiled tubing units, end of period (#)	**1**	—	NM
Total coiled tubing units, end of period (#)	**6**	6	—
Cementing revenue per job ($)	**43,697**	47,379	(8)
Number of cementing jobs	**85**	128	(34)
Active cementing units, end of period (#)	**12**	13	(8)
Idle cementing units, end of period (#)	**1**	1	—
Total cementing units, end of period (#)	**13**	14	(7)
US$/C$ average exchange rate[2]	**1.3030**	1.3200	(1)

(1) Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.
(2) Source: Bank of Canada.

REVENUE

Calfrac's Argentinean operations generated total revenue of $33.1 million during the fourth quarter of 2020 compared to $32.1 million in the comparable quarter in 2019. Operations increased significantly during the fourth quarter following the recommencement of activity in the Neuquén region, which resulted in revenue being comparable with the fourth quarter of 2019. The Company resumed fracturing activity in the Vaca Muerta shale play with activity being consistent with fourth-quarter 2019 levels. The 46 percent increase in the number of completed fracturing jobs and the 28 percent decrease in fracturing revenue per job was primarily due to changes in job mix. Cementing activity decreased by 34 percent from the comparable quarter in 2019, primarily due to a slower restart of operations in southern Argentina. Coiled tubing activity decreased by 67 percent primarily due to changes in job mix, but was offset partially by higher subcontractor revenue due to a change in customer mix.

OPERATING INCOME

The Company's operations in Argentina generated an operating income of $5.5 million during the fourth quarter of 2020, consistent with the comparable quarter of 2019. The Company was able to significantly improve its operating income from the third quarter of 2020 due to a recommencement of fracturing activity in the Vaca Muerta shale play following the government-mandated shutdown of oilfield activity in response to the COVID-19 pandemic. SG&A expenses were $1.9 million higher than the comparable quarter in 2019 primarily due to the reversal of a US$2.3 million stamp tax accrual related to terminated customer contracts that was recorded in 2019. Excluding this one time item, SG&A expenses were lower than the fourth quarter of 2019 primarily due to a reduction in headcount.

CORPORATE

Three Months Ended December 31,	**2020**	2019	Change
(C$000s) *(unaudited)*	***($)***	*($)*	*(%)*
Expenses			
Operating	**303**	1,588	(81)
SG&A	**4,100**	8,107	(49)
	4,403	9,695	(55)
Operating loss[(1)]	**(4,403)**	(9,695)	(55)
% of Revenue	**2.4**	3.1	(23)

[(1)] Refer to "Non-GAAP Measures" on pages 28 and 29 for further information.

OPERATING LOSS

Corporate expenses for the fourth quarter of 2020 were $4.4 million compared to $9.7 million in the fourth quarter of 2019. The decrease was primarily due to lower personnel costs resulting from headcount and compensation reductions, combined with $0.4 million in government subsidies received during the fourth quarter of 2020. The Company's stock-based compensation expense was $1.0 million lower than the fourth quarter in 2019 primarily due to a lower average share price during 2020. Additionally, the fourth quarter of 2019 included $1.9 million of restructuring costs, while no provision was recorded in the same period of 2020.

DEPRECIATION

For the three months ended December 31, 2020, depreciation expense decreased by $38.1 million to $30.8 million from $68.9 million in the corresponding quarter in 2019. During the first six months of 2020, the Company recorded PP&E impairment charges of $227.2 million which resulted in the reduction of depreciation expense during the fourth quarter. The year-over-year decrease in capital expenditures relating to major component purchases, which have a shorter useful life and a corresponding higher rate of depreciation, also contributed to the decrease in fourth-quarter depreciation expense. The fourth quarter in 2019 included $8.8 million of additional depreciation resulting from changes in capitalization thresholds in that quarter.

FOREIGN EXCHANGE GAINS AND LOSSES

The Company recorded a foreign exchange loss of $5.7 million during the fourth quarter of 2020, versus a gain of $0.1 million in the comparative three-month period of 2019. 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 foreign exchange loss during the fourth quarter was primarily due to the revaluation of net monetary assets that were held in U.S. dollars as the Canadian dollar strengthened relative to the U.S. dollar.

INTEREST

The Company's net interest expense of $24.9 million for the fourth quarter of 2020 was $3.4 million higher than the comparable period in 2019. The increase in interest expense was primarily due to the write-off of $7.4 million in deferred finance costs associated with the senior unsecured notes that were settled in conjunction with the Recapitalization Transaction. This increase was partially offset by lower cash interest expense resulting from the debt exchange that was completed during the first quarter in 2020, which reduced debt by approximately $130.0 million and the Recapitalization Transaction that was completed on December 18, 2020.

INCOME TAXES

The Company recorded an income tax expense of $54.8 million during the fourth quarter of 2020 compared to a recovery of $23.4 million in the comparable period of 2019. The deferred tax expense of $54.2 million was recorded due to the utilization of tax basis in the United States as a result of the Recapitalization Transaction. The current income tax expense of $0.6 million was due to current tax obligations in Russia and certain state taxes in the United States as well as withholding taxes recorded in Canada.

IMPAIRMENT

The Company tested each of its CGUs for potential impairment at December 31, 2020 and determined that there was no impairment. The impairment losses by CGU recorded during the three months ended December 31, 2020 and the comparative period are as follows:

	Three Months Ended Dec. 31,	
	2020	2019
(C$000s)	***($)***	*($)*
Canada	—	1,921
United States	—	244
	—	2,165

BUSINESS UPDATE AND OUTLOOK

Calfrac's operating results during the fourth quarter were driven by improved activity in all operating regions, including a significant increase in activity in Argentina as it returned to more typical activity levels after a government-mandated shutdown of operations during the second and third quarters.

CANADA

In Canada, activity remained strong throughout the quarter leading to a sequential increase in revenue and operating income. In particular, activity levels in December were only marginally impacted due to weather and Christmas holidays. This high utilization and the Company's continued focus on cost management, combined with the impact of the government wage subsidy program, resulted in a year-over-year and sequential improvement in profitability.

Calfrac's Canadian division has increased its operating footprint to four fracturing crews and four coiled tubing units for the first quarter of 2021 in order to service increased demand from its major clients. It is not expected that this footprint will continue throughout the year, and Calfrac plans to revert back to three fracturing crews when work volumes subside. Excluding the impact of wage subsidies on reported results, pricing in the Canadian market remains below the level required to add fracturing capacity on a permanent basis. Consequently, the Company does not plan to add any further fracturing fleets to service spot market demand until the pricing for its services and the resulting incremental returns improve from current levels.

Second-quarter activity is expected to decrease from the first quarter due to the seasonal spring break-up, but the Company is anticipating that its core clients will remain active throughout 2021, which is expected to drive modest growth over 2020. For the first time in a number of years, the prices for light oil and natural gas in Canada are generating acceptable returns for producers. These improved economics may drive a further increase in demand for the Company's services as the year progresses.

UNITED STATES

During the fourth quarter, Calfrac's operations in the United States accelerated more rapidly than had been anticipated as producers restarted programs before year-end. Activity gains were focused primarily in North Dakota and Texas, areas that are expected to represent the majority of Calfrac's operating activity in 2021. Calfrac is currently staffed to operate seven fracturing fleets in the United States, the result of the accelerated restart of two incremental fleets later in the fourth quarter in addition to the planned restart of one fleet in November.

While commodity prices have improved in the early part of 2021, producers remained committed to maximizing free cash flow generation versus a growth-focused strategy. As a result, Calfrac plans to only add incremental fracturing capacity when both the economic return and the duration of the client's work programs meet the Company's internal requirements. Many industry observers expect that activity may increase throughout 2021, but significantly below the levels that were experienced in 2018 and 2019. As a result, Calfrac does not currently plan on adding further equipment to its operating footprint, and will continue to explore opportunities to improve utilization and financial returns.

RUSSIA

Calfrac's financial performance in Russia during the fourth quarter was very strong, although the shift to winter operating conditions did reduce activity levels in December. This decrease in equipment utilization is expected to continue throughout most of the first quarter until the winter weather abates. Calfrac is currently operating five fracturing fleets in Western Siberia along with four coiled tubing crews. Demand for the Company's services in Russia has increased and there may be future opportunities to reactivate additional equipment as the year progresses.

ARGENTINA

In Argentina, Calfrac's operations improved significantly in the fourth quarter as activity rebounded to pre-shutdown levels, aided by the restart of operations of the Company's shale fracturing fleet in the Vaca Muerta shale play in November. The recent introduction of a government program designed to incentivize domestic natural gas production is also anticipated to drive further activity improvement in Neuquén during 2021. Calfrac's current contracted work volumes for the year combined with recent changes in the competitive landscape in Argentina provide additional support for year-over-year growth in Argentina's operating and financial performance.

CORPORATE

After completing a lengthy and complex recapitalization process during the fourth quarter, Calfrac's corporate focus for 2021 is to continue to support the Company's operations while prudently managing all aspects of its cost structure. The Company continues to leverage its new Enterprise Resource Planning (ERP) system that was implemented during the second quarter of 2020 and is committed to evaluating other initiatives to drive further operating efficiencies, including technologies that reduce the cost and environmental impact of its operations. As such, Calfrac has dedicated approximately $5.0 million of its 2021 capital budget of $55.0 million to add dual fuel capability to certain of its existing fracturing pumps in North America.

NON-GAAP MEASURES

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

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

	Three Months Ended Dec.31,		Years Ended Dec. 31,	
	2020	2019	**2020**	2019
(C$000s)	***($)***	*($)*	***($)***	*($)*
(unaudited)				
Net income (loss)	**125,897**	(49,400)	**(324,235)**	(156,203)
Add back (deduct):				
Depreciation	**30,843**	68,932	**172,021**	261,227
Foreign exchange losses (gains)	**5,733**	(128)	**15,477**	6,341
(Gain) loss on disposal of property, plant and equipment	**(260)**	(1,886)	**24**	1,870
Impairment of property, plant and equipment	**—**	2,165	**227,208**	2,165
Impairment of inventory	**—**	3,160	**27,868**	3,744
Impairment of other assets	—	—	**507**	—
Gain on settlement of debt	**(226,319)**	—	**(226,319)**	—
Gain on exchange of debt	—	—	**(130,444)**	—
Interest	**24,913**	21,512	**91,267**	85,826
Income taxes	**54,790**	(23,358)	**168,623**	(52,226)
Operating income	**15,597**	20,997	**21,997**	152,744

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, 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,	
	2020	2019	**2020**	2019
(C$000s) *(unaudited)*			**($)**	($)
Net income (loss)	**125,897**	(49,400)	**(324,235)**	(156,203)
Add back (deduct):				
Depreciation	**30,843**	68,932	**172,021**	261,227
Unrealized foreign exchange losses	**3,435**	859	**8,319**	2,041
(Gain) loss on disposal of property, plant and equipment	**(260)**	(1,886)	**24**	1,870
Impairment of property, plant and equipment	**—**	2,165	**227,208**	2,165
Impairment of inventory	**—**	3,160	**27,868**	3,744
Impairment of other assets	**—**	—	**507**	—
Gain on settlement of debt	**(226,319)**	—	**(226,319)**	—
Gain on exchange of debt	**—**	—	**(130,444)**	—
Non-cash purchase commitment termination settlement	**—**	—	**2,082**	—
Restructuring charges	**4**	3,564	**5,377**	6,049
Stock-based compensation	**412**	1,334	**1,511**	4,626
Interest	**24,913**	21,512	**91,267**	85,826
Income taxes	**54,790**	(23,358)	**168,623**	(52,226)
Adjusted EBITDA(1)	**13,715**	26,882	**23,809**	159,119

(1)For bank covenant purposes, EBITDA includes the deduction of an additional $15.6 million of lease payments for the year ended December 31, 2020 (year ended December 31, 2019 – $21.9 million) that would have been recorded as operating expenses prior to the adoption of IFRS 16 on January 1, 2019.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

		Payment Due by Period			
As at December 31, 2020	**Total**	< 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
(C$000s) *(unaudited)*	**($)**	($)	($)	($)	($)
Leases	**42,818**	17,049	21,487	4,282	—
Purchase obligations	**52,527**	47,759	4,768	—	—
Total contractual obligations	**95,345**	64,808	26,255	4,282	—

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

GREEK LITIGATION

As described in note 21 to the consolidated financial statements, the Company and one of its Greek subsidiaries are involved in a number of legal proceedings in Greece. Management regularly evaluates the likelihood of potential liabilities being incurred and the amounts of such liabilities after careful examination of available information and discussions with its legal advisors. Management is of the view that it is improbable there will be a material financial impact to the Company as a result of these claims. Consequently, no provision was recorded in the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This MD&A is based on the Company's consolidated financial statements for the year ended December 31, 2020 which were prepared in accordance with IFRS. Management is required to make assumptions, judgments and estimates in the application of IFRS. Calfrac's significant accounting policies are described in note 2 to the annual consolidated financial statements.

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

Judgment is also used in the determination of the functional currency of each subsidiary and in the determination of CGUs, and the assessment of the Company's ability to continue as a going concern.

LOSS ALLOWANCE PROVISION

The Company performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, financial condition of the customer and anticipated industry conditions. In situations where the creditworthiness of a customer is uncertain, services are typically provided on receipt of cash in advance or services are declined. Customer payments are regularly monitored and a provision for doubtful accounts has been established based on the new impairment model under IFRS 9, which requires the recognition of impairment provisions based on expected and incurred credit losses rather than only incurred credit losses. The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected credit loss model to its trade accounts receivable. Lifetime expected credit losses are the result of all possible default events over the expected life of the financial instrument. Calfrac's management believes that the loss allowance provision for accounts receivable, which was $1.7 million at December 31, 2020, is adequate.

DEPRECIATION

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

FINANCIAL INSTRUMENTS

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

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial instruments included in the consolidated balance sheets, except long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The senior unsecured notes were settled on December 18, 2020. The fair value and carrying value of the senior unsecured notes at December 31, 2019 was $342.1 million and $844.2 million, respectively. The fair value of the Second Lien Notes, as measured based on the closing market price at December 31, 2020 was $106.7 million (December 31, 2019 – not applicable). The fair values of the remaining long-term debt and lease obligations approximate their carrying values, as described in note 12 to the annual consolidated financial statements.

CREDIT RISK

Substantial amounts of the Company's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risks. The Company mitigates this risk through its credit policies and practices, including the use of credit limits and approvals, and by monitoring its customers' financial condition. At December 31, 2020, the Company had a loss allowance provision for accounts receivable of $1.7 million (December 31, 2019 – $1.9 million).

Payment terms with customers vary by country and contract. Standard payment terms, however, are 30 days from invoice date. The Company's aged trade and accrued accounts receivable at December 31, 2020 and 2019, excluding any impaired accounts, are as follows:

As at December 31,	**2020**	2019
(C$000s) *(unaudited)*	*($)*	*($)*
Current	**97,000**	145,704
31 - 60 days	**20,303**	34,863
61 - 90 days	**10,111**	14,676
91+ days	**5,045**	14,888
Total	**132,459**	210,131

The Company's accounts receivable that were greater than 90 days included $2.5 million from customers operating in the United States and $2.5 million from customers operating in Russia for which no provision has been made. Although the timing is uncertain, collection is expected in its entirety.

INTEREST RATE RISK

The Company is exposed to cash flow risk due to fluctuating interest payments required to service any floating-rate debt. The increase or decrease in annual interest expense for each 1 percentage point change in the interest rate on floating-rate debt at December 31, 2020 amounts to $1.3 million (December 31, 2019 – $1.5 million).

The Company's effective interest rate for the year ended December 31, 2020 was 7.5 percent (December 31, 2019 – 8.5 percent).

LIQUIDITY RISK

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

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

At December 31, 2020	**Total**	**< 1 Year**	**1 - 3 Years**	**4 - 6 Years**	**7 - 9 Years**	**Thereafter**
(C$000s) *(unaudited)*	***($)***	*($)*	*($)*	*($)*	*($)*	*($)*
Accounts payable and accrued liabilities	**101,784**	101,784	—	—	—	—
Lease obligations[1]	**24,835**	8,543	12,053	3,512	727	—
Long-term debt[1]	**441,845**	23,078	246,885	171,882	—	—

At December 31, 2019	Total	< 1 Year	1 - 3 Years	4 - 6 Years	7 - 9 Years	Thereafter
(C$000s) *(unaudited)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Accounts payable and accrued liabilities	143,225	143,225	—	—	—	—
Lease obligations[1]	38,330	21,901	14,164	2,265		
Long-term debt[1]	1,478,310	79,898	374,795	1,023,617	—	—

[1] Principal and interest

FOREIGN EXCHANGE RISK

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

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

At December 31, 2020	Impact to Net Income
(C$000s)	*($)*
1% change in value of U.S. dollar	**1,638**
1% change in value of Argentinean peso	**18**
1% change in value of Russian rouble	**—**

At December 31, 2019	Impact to Net Income
(C$000s)	*($)*
1% change in value of U.S. dollar	1,052
1% change in value of Argentinean peso	36
1% change in value of Russian rouble	—

IMPAIRMENT

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

As described in note 4 to the consolidated financial statements, the Company reviews the carrying value of its property, plant and equipment at each reporting period for indicators of impairment. As well, the Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset or CGU other than goodwill may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount of that CGU to determine if the reversal of impairment loss is supported.

The Company's financial results continued to be negatively impacted by the global economic slowdown due to events such as the OPEC+ crude oil supply war, the COVID-19 pandemic and the related global response to the COVID-19 demand reductions for crude oil. The Company performed an assessment on the recoverable amount of its property, plant and equipment as at March 31, 2020 and again at June 30, 2020 and recognized total impairment of $227.2 million as a result of those impairment tests. The Company is continually monitoring these macroeconomic challenges and has determined that as at December 31, 2020, the continued uncertainty and impact from the COVID-19 pandemic and the related global response to the COVID-19 demand reductions for crude oil are considered to be indicators of impairment.

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 three months ended December 31, 2020 and an impairment charge of $227.2 million recognized for the year ended December 31, 2020 (year ended December 31, 2019 – $2.2 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, 2020, the Company recorded an impairment charge of $27.9 million to write-down inventory to its net realizable amount in the United States and Argentina (year ended December 31, 2019 – $3.7 million).

INCOME TAXES

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

STOCK-BASED COMPENSATION

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

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

FUNCTIONAL CURRENCY

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

CASH-GENERATING UNITS

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

RELATED-PARTY TRANSACTIONS

In conjunction with the Recapitalization Transaction, the Company issued $60.0 million of 1.5 Lien Notes on a private placement basis. Participants in the private placement included entities controlled by George S. Armoyan, a member of the Board of Directors, and Ronald P. Mathison, the Executive Chairman of the Company. The related parties hold 43.5 percent and 18.7 percent, respectively, of the 1.5 Lien Notes.

In connection with the 1.5 Lien Notes offering, the Company issued 1,125,703 common shares to certain investors that backstopped the issuance of the 1.5 Lien Notes. Participating investors included entities controlled by George S. Armoyan, which collectively received 734,413 shares for their participation.

The Company leases certain premises from a company controlled by Ronald P. Mathison. The rent charged for these premises during the year ended December 31, 2020 was $1.5 million (year ended December 31, 2019 – $1.7 million), as measured at the exchange amount, which is based on market rates at the time the lease arrangements were made.

CHANGES IN ACCOUNTING POLICIES

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

RECENT ACCOUNTING PRONOUNCEMENTS

In October 2018, the IASB issued amendments to IFRS 3 *Business Combinations* to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments narrowed and clarified the definition of a business. The amendments include an election to use a concentration test. This is a simplified assessment that results in treatment of an acquisition as an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If an election to use a concentration test is not made, or the test failed, then the assessment focuses on the existence of a substantive process. The amendment makes clear that goodwill can only be recognized as a result of acquiring a business, not as a result of an asset acquisition. Adoption of the amendments are effective for business combinations that have an acquisition date on or after January 1, 2020.

In October 2018, the IASB issued amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to clarify what costs an entity considers in assessing whether a contract is onerous. The amendment specifies that the cost of fulfilling a contract comprises of the incremental or allocated costs that relate directly to the fulfillment of the contract. Adoption of the amendment is in effect for annual periods beginning on or after January 1, 2022.

In October 2018, the IASB issued amendments to IAS 16 *Property, Plant and Equipment*. The amendment changed the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Adoption of the amendment is in effect for annual periods beginning on or after January 1, 2022.

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

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

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

In accordance with the requirements of National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings," an evaluation of the effectiveness of DC&P and ICFR was carried out under the supervision of the CEO and CFO at December 31, 2020. Based on this evaluation, the CEO and CFO have concluded that the Company's DC&P and ICFR are effectively designed and operating as intended.

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

Effective April 6, 2020, the Company implemented a new Enterprise Resource Planning (ERP) system for its Canadian, United States and Argentinean divisions. While the implementation changed certain processes, it did not significantly affect the overall controls and procedures Calfrac follows in establishing internal controls over financial reporting.

BUSINESS RISKS

The business of Calfrac is subject to certain risks and uncertainties. Prior to making any investment decision regarding Calfrac, investors should carefully consider, among other things, the risk factors set forth below as well as in the Company's most recently filed Annual Information Form and in the Management Information Circular dated August 17, 2020, as supplemented by the Material Change Report dated September 25, 2020, with respect to the Recapitalization Transaction, which are specifically incorporated by reference herein, and are available at www.sedar.com.

VOLATILITY OF INDUSTRY CONDITIONS

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

The prices for oil and natural gas are subject to a variety of factors including: the demand for energy; the ability of OPEC to set and maintain production levels for oil; oil and gas production by non-OPEC countries; the decline rates for current production; global and domestic economic conditions, including currency fluctuations; political and economic uncertainty and socio-political unrest; cost of exporting, producing and delivering oil and gas; technological advances affecting energy consumption; weather conditions; the effect of worldwide energy conservation and greenhouse gas reduction measures; the impact of the COVID-19 pandemic; and government regulations. Any prolonged reduction in oil and natural gas prices would likely decrease the level of activity and expenditures in oil and gas exploration, development and production activities and, in turn, decrease the demand for the Company's services.

In addition to current and expected future oil and gas prices, the level of expenditures made by oil and gas companies are influenced by numerous factors over which the Company has no control, including but not limited to: general economic conditions; and the impact of the COVID-19 pandemic thereon; the cost of exploring for, producing and delivering oil and gas; the expected rates of current production; the discovery rates of new oil and gas reserves; cost and availability of drilling equipment; availability of pipeline and other oil and gas transportation capacity; natural gas storage levels; political, regulatory and economic conditions; taxation and royalty changes; government regulation; environmental regulation; ability of oil and gas companies to obtain credit, equity capital or debt financing; and currency fluctuations. A material decline in global oil and natural gas prices or North American, Argentinean and Russian activity levels as a result of any of the above factors could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

COVID-19 PANDEMIC

Given the rapid global spread of the COVID-19 pandemic, the Company's financial and operating performance could be materially adversely affected by any disruptions or suspensions of the Company's operations. Among other things, such disruptions or suspensions may result from operational changes by the Company's customers in response to the COVID-19 pandemic, directives and protocols introduced by governments and public health officials in the jurisdictions where the Company operates, slowdowns or stoppages in the performance of work due to labour shortages caused by mandatory quarantine orders or workers becoming infected with COVID-19, supply chain disruptions and the inability of counterparties to fulfill their contractual obligations on a timely basis or at all.

The Company has implemented a COVID-19 Pandemic Response Plan to provide strategic direction during the COVID-19 pandemic. While these measures may partially mitigate the impacts of the COVID-19 pandemic, minimize recovery time and reduce business losses, such measures cannot account for nor control all possible events that may materialize. As a result, the COVID-19 pandemic may continue to have adverse financial and operational implications for the Company.

The duration and extent of the impact from the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time, such as the severity, transmission rate and resurgence of the COVID-19 virus or strain variations thereof, the timing, extent and effectiveness of containment actions, including the availability and effectiveness of vaccines, approvals thereof and the speed of vaccine distribution, the speed and extent to which normal economic and operating conditions resume worldwide, and the impact of these and other factors on the Company's stakeholders, including our customers, vendors and employees. The situation is changing rapidly, and future impacts may materialize that are not yet known. There are no comparable recent events that provide guidance as to the effect the continued spread of the COVID-19 pandemic may have, and, as a result, the ultimate impact of the COVID-19 pandemic on the Company's business, financial condition, results of operations and cash flows is highly uncertain and subject to change.

In addition, continuing developments related to the COVID-19 pandemic or other unanticipated events could negatively impact the demand for, and price of, oil and gas, which in turn could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

ACCESS TO CAPITAL

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

The Company is required to comply with covenants under the Credit Agreement, the 1.5 Lien Notes Indenture and the Second Lien Notes Indenture. In the event that the Company does not comply with such covenants, the Company's access to capital could be restricted or repayment could be required. Such non-compliance could result from an impairment charge to the Company's capital assets, which is determined based on management's estimates and assumptions when certain internal and external factors indicate the need for the Company to assess its capital assets balance for impairment. If realized, these risks could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Even if the Company is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to the Company. If the Company is unable to repay amounts owing under the Credit Agreement, the 1.5 Lien Notes Indenture or the Second Lien Notes Indenture, the lenders could proceed to foreclose or otherwise realize upon any collateral granted to them to secure the indebtedness. The acceleration of the Company's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross-default or cross-acceleration provisions. In addition, operating and financial restrictions exist under the Credit Agreement, the 1.5 Lien Notes Indenture and the Second Lien Notes Indenture, which include restrictions on the payment of dividends, repurchase or making of other distributions with respect to the Company's securities, incurrence of additional indebtedness, provision of guarantees, making of capital expenditures and entering into of certain transactions, among others.

EQUIPMENT LEVELS

Because of the long-life nature of oilfield service equipment and the lag between when a decision to build additional equipment is made and when the equipment is placed into service, the quantity of oilfield service equipment in the industry does not always correlate with the level of demand for service equipment. Periods of high demand often spur increased capital expenditures on equipment, and those capital expenditures may add capacity that exceeds actual demand. Additionally, ESG factors have spurred increased investment in electric and Tier 4 emissions-rated fracturing pumps that could outstrip customer demand and/or exacerbate demand dynamics for conventional pressure pumping equipment. Such supply fundamentals could cause the Company or its competitors to lower pricing and could lead to a decrease in rates in the oilfield services industry generally, which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

VOLATILITY IN CREDIT MARKETS

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

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

EMPLOYEES

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

Other factors, including the COVID-19 pandemic, can also affect the Company's ability to find enough workers to meet its needs. The nature of the Company's work requires skilled workers who can perform physically demanding work. Volatility in the oilfield services industry and the demanding nature of the work, however, may prompt workers to pursue other kinds of jobs that offer a more desirable work environment and wages competitive to the Company's. The Company's success depends on its ability to continue to employ and retain skilled technical personnel and qualified oilfield personnel. If the Company is unable to do so, it could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

COMPETITION

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

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

The Company sources its raw materials, such as proppant, chemicals, nitrogen, carbon dioxide and diesel fuel, and its component parts from a variety of suppliers in North America, Argentina and Russia. Should the Company's current suppliers be unable to provide the necessary raw materials and component parts at a price acceptable to the Company or otherwise fail to deliver products in the quantities required, including as a result of the COVID-19 pandemic, any resulting cost increases or delays in the provision of services to the Company's clients could have a material adverse effect on its business, financial condition, results of operations and cash flows.

FEDERAL, STATE AND PROVINCIAL LEGISLATIVE AND REGULATORY INITIATIVES

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

Congress and state legislatures. The proposed statutes have historically aimed to repeal the exemption for hydraulic fracturing under the Safe Drinking Water Act or enact moratoriums and/or bans on the use of hydraulic fracturing in the hydrocarbon extraction process.

Legislative and regulatory requirements currently in place or scheduled to become effective in certain provinces and/or states in 2021 include requirements regarding local government consultation, wellhead and pad setbacks, public and landowner notification and involvement, withdrawal of water for use in hydraulic fracturing of horizontal wells, baseline testing of nearby water wells, restrictions on which additives may be used, reporting with respect to spills, mandatory visual and noise mitigation measures as well as temporary or permanent bans on hydraulic fracturing. These types of requirements could subject the Company to increased costs, delays, limits on the productivity of certain wells and, possibly, limits on its ability to deploy its technology. The adoption of any future federal, provincial, state or local laws or implementing regulations in any of the jurisdictions in which the Company operates which impose additional permitting, disclosure or regulatory obligations related to, or otherwise limiting, the hydraulic fracturing process could make it more difficult to complete oil and natural gas wells and could affect the Company's ability to utilize proprietary technological developments to compete effectively in the pressure pumping industry. Such results could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

In November 2020, the United States elected a new President who took office in January 2021. The new Democratic presidential administration has indicated its intention to curtail energy operations on federal lands and pursue other regulatory initiatives, executive actions and legislation in support of a broader climate change agenda, which may impact hydraulic fracturing operations and other oil and natural gas exploration and production activities.

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

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

FLUCTUATIONS IN FOREIGN EXCHANGE RATES

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

FOREIGN OPERATIONS

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

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

CONCENTRATION OF CUSTOMER BASE

The Company's customer base consists of over 76 oil and natural gas exploration and production companies, ranging from large multi-national public companies to small private companies. Notwithstanding the Company's broad customer base, it had ten significant customers that collectively accounted for approximately 64 percent of its revenue for the year ended December 31, 2020 and, of such customers, five accounted for approximately 44 percent of the Company's revenue for the year ended December 31, 2020 and the largest customer accounted for approximately 14 percent of the Company's revenue. There can be no assurance that the Company's relationship with these customers will continue, and a significant reduction or total loss of the business from these customers, if not offset by sales to new or existing customers, would have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

DEMAND FOR OIL AND NATURAL GAS

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

OPERATIONAL RISKS

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

SEASONALITY

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

LEGAL PROCEEDINGS

From time to time, the Company is involved in legal and administrative proceedings which are usually related to normal operational or labour issues. In addition, the Company is subject to ongoing legal proceedings relating to the Plan of Arrangement that implemented the Recapitalization Transaction, which was completed on December 18, 2020. The results of such proceedings, or any new proceedings that may be commenced with respect to the Company, its business, the Plan of Arrangement or related matters, cannot be determined with certainty. The Company's assessment of the likely outcome of such matters is based on advice from external legal advisors, which is based on their judgment of a number of factors including the applicable legal or administrative framework, precedents, relevant financial and operational information and other evidence and facts specific to the matter as known at the time of the assessment. If these matters, or any matters which the Company may be subject to in the future, were to be determined in a manner adverse to the Company or if the Company elects to settle one or more of such matters, it could have a material adverse effect on the Company, its business, financial condition, results of operations and cash flows.

ENVIRONMENT LAWS AND REGULATIONS

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

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

SAFETY STANDARDS

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

CORPORATE GOVERNANCE

In recent years, publicly traded companies have increasingly been subject to demands from activist shareholders advocating for changes to corporate governance practices, including executive compensation and ESG policies. There can be no assurance that activist shareholders will not publicly advocate for the Company to make changes to its approach to corporate governance. Responding to challenges from activist shareholders, such as proxy contests, media campaigns or other activities, could be costly and time-consuming, could have a negative impact on the Company's reputation and could divert the attention and resources of management and the board of directors, all of which could have an adverse effect on the Company's business, financial condition, results of operations and cash flows.

In addition to risks associated with activist shareholders, some institutional investors are placing an increased emphasis on ESG factors when allocating their capital. These investors may implement policies that discourage investment in companies that operate in the oil and natural gas industry. To the extent certain institutional investors implement policies that discourage investment in our industry, it could have an adverse effect on our financing costs and access to capital. Additionally, if our reputation is diminished as a result of negative perceptions about the oil and natural gas industry, it could result in increased operational or regulatory compliance costs, lower shareholder confidence or loss of public support for our business.

LOSS OF REPUTATION

As a result of the widespread usage, speed and global reach of social media and other internet resources used to generate, publish and discuss user-generated content, companies today are at risk of losing control over how they are perceived in the marketplace. Damage to the Company's reputation may result from the actual or perceived occurrence of any number of events related to the Company's operational or ESG performance and could include negative publicity with respect to the Company's handling of environmental matters and social issues. While the Company is committed to protecting its image and reputation, it does not have direct control over how others perceive it. Reputation loss may lead to decreased shareholder confidence and impediments to the Company's ability to conduct its operations, with the potential to adversely affect the Company's business, financial condition, results of operations and cash flows.

PLAN OF ARRANGEMENT

The Plan of Arrangement includes certain releases that became effective upon the implementation of the Recapitalization Transaction in favour of certain released parties, as set out in the Plan of Arrangement. Furthermore, the Plan of Arrangement also provides that, from and after the effective time of the Plan of Arrangement, all persons shall be deemed to have consented and agreed to all of the provisions of the Plan of Arrangement in its entirety. Without limiting the foregoing, pursuant to the Plan of Arrangement, the released parties shall be released and discharged from all released claims in accordance with the Plan of Arrangement, the transactions contemplated thereunder, and any other actions or matters related directly or indirectly to the foregoing, subject to applicable exceptions. Notwithstanding the foregoing, the Company may still be subject to legal actions with regards to such released claims and related matters. Such legal actions may be costly and could require the Company to defend such potential claims without recourse for legal costs incurred, even if the Company is successful.

LIABILITIES OF PRIOR OPERATIONS

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

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

NEW TECHNOLOGIES AND CUSTOMER EXPECTATIONS

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

INTELLECTUAL PROPERTY

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

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

CONFIDENTIAL INFORMATION

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

CAPITAL-INTENSIVE INDUSTRY

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

CREDIT RISK

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

CYBERSECURITY

Threats to information technology systems associated with cybersecurity risks and cyber incidents or attacks continue to grow. Cybersecurity attacks could include, but are not limited to, malicious software, attempts to gain unauthorized access to data and the unauthorized release, corruption or loss of data and personal information, account takeovers, and other electronic security breaches that could lead to disruptions in the Company's critical systems. Risks associated with these attacks include, among other things, loss of intellectual property, disruption of the Company's and the Company's customers' business operations and safety procedures, loss or damage to the Company's data delivery systems, unauthorized disclosure of personal information and increased costs to prevent, respond to or mitigate cybersecurity events. Although the Company uses various procedures and controls to mitigate its exposure to such risk, cybersecurity attacks are evolving and unpredictable. The occurrence of such an attack could go unnoticed for a period of time. Any such attack could have a material adverse effect on the Company's business, financial condition and results of operations.

CLIMATE CHANGE INITIATIVES

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

MERGER AND ACQUISITION ACTIVITY

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

KEY EMPLOYEES

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

BENEFITS OF ACQUISITIONS AND DISPOSITIONS

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

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

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

TAX ASSESSMENTS

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

GROWTH-RELATED RISKS

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

ADVISORIES

FORWARD-LOOKING STATEMENTS

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

In particular, forward-looking statements in this MD&A include, but are not limited to, statements with respect to the Recapitalization Transaction, including its expected benefits to the Company and impacts on its debt, liquidity and financial position, the appeals by Wilks Brothers, LLC, the anticipated rescission of a subscription for 1.5 Lien Notes by an institutional Shareholder and the Company's intention to return the investment and make a related application to the Court of Queen's Bench of Alberta, and the Company's expectations and intentions with respect to the foregoing and other matters relating to the Recapitalization Transaction, 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 indentures pursuant to which its 1.5 Lien Notes and Second Lien Notes were issued, and its ability to raise capital, treatment under government regulatory regimes, commodity prices, anticipated outcomes of specific events (including exposure and positioning under existing legal proceedings), expectations regarding trends in, and the growth prospects of, the global oil and natural gas industry, the Company's growth strategy and prospects, and the impact of changes in accounting policies and standards on the Company and its financial statements. These statements are derived from certain assumptions and analyses made by the Company based on its experience and perception of historical trends, current conditions, expected future developments and other factors that it believes are appropriate in the circumstances, including, but not limited to, the economic and political environment in which the Company operates, the Company's expectations for its current and prospective customers' capital budgets and geographical areas of focus, the Company's existing contracts and the status of current negotiations with key customers and suppliers, the effectiveness of cost reduction measures instituted by the Company 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: the Company's ability to continue to manage the effect of the COVID-19 pandemic on its operations; actions taken by Wilks Brothers, LLC, decisions by securities regulators and/or the courts; restrictions resulting from compliance with or breach of debt covenants and risk of acceleration of indebtedness, including under the Company's credit facilities, 1.5 Lien Notes indenture and/or Second Lien Notes indenture; failure to reach any additional agreements with the Company's lenders; the impact of events of defaults in respect of other material contracts of the Company, including but not limited to, cross-defaults resulting in acceleration of amounts payable thereunder or the termination of such agreements; failure to receive any applicable regulatory, court, third party and other stakeholder approvals or decisions in respect of the Recapitalization Transaction and the court orders granting enforcement thereof; global economic conditions, the level of exploration, development and production for oil and natural gas in Canada, the United States, Argentina and Russia; the demand for fracturing and other stimulation services for the completion of oil and natural gas wells; volatility in market prices for oil and natural gas and the effect of this volatility on the demand for oilfield services generally; the availability of capital on satisfactory terms; direct and indirect exposure to volatile credit markets, including credit rating risk; sourcing, pricing and availability of raw materials, component parts, equipment, suppliers, facilities and skilled personnel; excess oilfield equipment levels; regional competition; currency exchange rate risk; risks associated with foreign operations; 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 relating to legal and/or administrative proceedings; 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; failure to maintain the Company's safety standards and record; liabilities and risks associated with prior operations; the ability to integrate technological advances and match advances from competitors; intellectual property risk; third party credit risk; failure to realize anticipated benefits of acquisitions and dispositions. Further information about these and other risks and uncertainties may be found under "Business Risks" above.

Consequently, all of the forward-looking statements made in this MD&A are qualified by these cautionary statements and there can be no assurance that actual results or developments anticipated by the Company will be realized, or that they will have the expected consequences or effects on the Company or its business or operations. These statements speak only as of the respective date of this 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.

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.