MANAGEMENT'S LETTER

To the Shareholders of Calfrac Well Services Ltd.

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

Management has prepared the Management's Discussion and Analysis (MD&A). The MD&A is based on the Company's financial results prepared in accordance with IFRS. The MD&A compares the audited financial results for the years ended December 31, 2019 and December 31, 2018.

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

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

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

Lindsay R. Link
President and Chief Operating Officer

Michael D. Olinek
Chief Financial Officer

March 4, 2020
Calgary, Alberta, Canada

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Calfrac Well Services Ltd.

OUR OPINION

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Calfrac Well Services Ltd. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What We Have Audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2019 and 2018;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Reynold Tetzlaff.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

March 4, 2020
Calgary, Alberta, Canada

CONSOLIDATED BALANCE SHEETS

As at December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
ASSETS		
Current assets		
Cash and cash equivalents	**42,562**	51,901
Accounts receivable	**216,647**	349,431
Income taxes recoverable	**1,608**	582
Inventories (note 3)	**127,620**	150,123
Prepaid expenses and deposits	**17,489**	17,527
	405,926	569,564
Non-current assets		
Property, plant and equipment (note 4)	**969,944**	1,116,677
Right-of-use assets (note 10)	**29,760**	—
Deferred income tax assets (note 8)	**120,292**	96,416
Total assets	**1,525,922**	1,782,657
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**143,225**	239,507
Current portion of lease obligations (note 10)	**13,929**	186
	157,154	239,693
Non-current liabilities		
Long-term debt (note 5)	**976,693**	989,614
Lease obligations (note 10)	**16,990**	552
Deferred income tax liabilities (note 8)	**6,462**	38,978
Total liabilities	**1,157,299**	1,268,837
Equity attributable to the shareholders of Calfrac		
Capital stock (note 6)	**509,235**	508,276
Contributed surplus	**44,316**	40,453
Loan receivable for purchase of common shares	**(2,500)**	(2,500)
Accumulated deficit	**(185,174)**	(28,971)
Accumulated other comprehensive income (loss)	**2,746**	(3,438)
Total equity	**368,623**	513,820
Total liabilities and equity	**1,525,922**	1,782,657

Commitments (note 9); Contingencies (note 20)
See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors,

Ronald P. Mathison, Director

Gregory S. Fletcher, Director

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31,	**2019**	2018
(C$000s, except per share data)	***($)***	*($)*
Revenue (note 16)	**1,620,955**	2,256,426
Cost of sales (note 17)	**1,659,564**	2,043,130
Gross (loss) profit	**(38,609)**	213,296
Expenses		
Selling, general and administrative	**69,874**	91,946
Foreign exchange losses	**6,341**	38,047
Loss on disposal of property, plant and equipment	**1,870**	160
Impairment of property, plant and equipment (note 4)	**2,165**	115
Impairment of inventory (note 3)	**3,744**	7,167
Interest	**85,826**	106,630
	169,820	244,065
Loss before income tax	**(208,429)**	(30,769)
Income tax expense (recovery)		
Current	**3,014**	4,342
Deferred	**(55,240)**	(8,934)
	(52,226)	(4,592)
Net loss	**(156,203)**	(26,177)
Net loss attributable to:		
Shareholders of Calfrac	**(156,203)**	(18,188)
Non-controlling interest	**—**	(7,989)
	(156,203)	(26,177)
Loss per share (note 6)		
Basic	**(1.08)**	(0.13)
Diluted	**(1.08)**	(0.13)

See accompanying notes to the consolidated financial statements.
Certain of the comparatives have been reclassified to conform with the current presentation (note 2e).

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Years Ended December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Net loss	**(156,203)**	(26,177)
Other comprehensive income (loss)		
Items that may be subsequently reclassified to profit or loss:		
Change in foreign currency translation adjustment	**6,184**	(7,379)
Comprehensive loss	**(150,019)**	(33,556)
Comprehensive loss attributable to:		
Shareholders of Calfrac	**(150,019)**	(26,560)
Non-controlling interest	**—**	(6,996)
	(150,019)	(33,556)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity Attributable to the Shareholders of Calfrac							
	Share Capital	Contributed Surplus	Loan Receivable for Purchase of Common Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total	Non-Controlling Interest	**Total Equity**
(C$000s)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	***($)***
Balance – Jan. 1, 2019	**508,276**	**40,453**	**(2,500)**	**(3,438)**	**(28,971)**	**513,820**	**—**	**513,820**
Net loss	—	—	—	—	(156,203)	(156,203)	—	**(156,203)**
Other comprehensive income (loss):								
Cumulative translation adjustment	—	—	—	6,184	—	6,184	—	**6,184**
Comprehensive income (loss)	—	—	—	6,184	(156,203)	(150,019)	—	**(150,019)**
Stock options:								
Stock-based compensation recognized	—	3,030	—	—	—	3,030	—	**3,030**
Proceeds from issuance of shares (note 6)	252	(56)	—	—	–	196	—	**196**
Performance share units:								
Stock-based compensation recognized	—	1,596	—	—	—	1,596	—	**1,596**
Shares issued (note 6)	707	(707)	—	—	—	—		**—**
Balance – Dec. 31, 2019	**509,235**	**44,316**	**(2,500)**	**2,746**	**(185,174)**	**368,623**	**—**	**368,623**
Balance – Jan. 1, 2018	501,456	35,094	(2,500)	2,728	21,268	558,046	(14,401)	543,645
Net loss	—	—	—	—	(18,188)	(18,188)	(7,989)	(26,177)
Other comprehensive income (loss):								
Cumulative translation adjustment	—	—	—	(8,372)	—	(8,372)	993	(7,379)
Comprehensive loss	—	—	—	(8,372)	(18,188)	(26,560)	(6,996)	(33,556)
Stock options:								
Stock-based compensation recognized	—	4,637	—	—	—	4,637	—	4,637
Proceeds from issuance of shares (note 6)	1,820	(453)	—	—	–	1,367	—	1,367
Performance share units:								
Stock-based compensation recognized	—	1,175	—	—	—	1,175	—	1,175
Acquisition:								
Shares issued (notes 6 and 13)	1,250	—	—	—	—	1,250	—	1,250
Shares to be issued (notes 6 and 13)	3,750	—	—	—	—	3,750	—	3,750
Loss on acquisition	—	—	—	—	(5,799)	(5,799)	—	(5,799)
Purchase of non-controlling interest	—	—	—	2,206	(26,252)	(24,046)	21,397	(2,649)
Balance – Dec. 31, 2018	508,276	40,453	(2,500)	(3,438)	(28,971)	513,820	—	513,820

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
CASH FLOWS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net loss	**(156,203)**	(26,177)
Adjusted for the following:		
Depreciation	**261,227**	190,475
Stock-based compensation	**4,626**	5,812
Unrealized foreign exchange losses	**2,041**	11,465
Loss on disposal of property, plant and equipment	**1,870**	160
Impairment of property, plant and equipment (note 4)	**2,165**	115
Impairment of inventory (note 3)	**3,744**	7,167
Interest	**85,826**	106,630
Interest paid	**(80,728)**	(88,329)
Deferred income taxes	**(55,240)**	(8,934)
Changes in items of working capital (note 12)	**62,696**	(13,638)
Cash flows provided by operating activities	**132,024**	184,746
FINANCING ACTIVITIES		
Issuance of long-term debt, net of debt issuance costs	**83,632**	1,061,728
Long-term debt repayments	**(59,760)**	(1,120,992)
Lease obligation principal repayments	**(20,047)**	(176)
Proceeds on issuance of common shares	**196**	1,367
Cash flows provided by (used in) financing activities	**4,021**	(58,073)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment (note 12)	**(147,370)**	(157,187)
Proceeds on disposal of property, plant and equipment	**7,224**	7,380
Proceeds on disposal of right-of-use assets	**1,254**	—
Other	**—**	(7)
Cash flows used in investing activities	**(138,892)**	(149,814)
Effect of exchange rate changes on cash and cash equivalents	**(6,492)**	22,293
Decrease in cash and cash equivalents	**(9,339)**	(848)
Cash and cash equivalents, beginning of year	**51,901**	52,749
Cash and cash equivalents, end of year	**42,562**	51,901

See accompanying notes to the consolidated financial statements.
Certain of the comparatives have been reclassified to conform with the current presentation (note 2e).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2019 and 2018

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

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

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

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

With the exception of IFRS 16 *Leases* and the changes in policy relating to major components of field equipment (both disclosed in note 2), the Company has consistently applied the same accounting policies throughout the periods presented, as if these policies had always been in effect.

These financial statements were approved by the Board of Directors for issuance on March 4, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of Measurement

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

(b) Principles of Consolidation

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

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

(c) Changes in Accounting Standards and Disclosures

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

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

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

- Leases with a remaining lease term of twelve months or less as at January 1, 2019 are considered short-term leases. As such, payments for such leases will be expensed as incurred.

- Leases of low value based on the value of the asset when it is new, regardless of the age of the asset, will be expensed as incurred.

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

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

See note 10 for further information on leases.

Prior to January 1, 2019, the Company applied IAS 17 *Leases* to its accounting for leases.

(d) Changes in Accounting Estimates

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

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

(e) Revisions and Adjustments

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

The change in accounting policy was adopted on a retrospective basis, with each prior period presented in the statements of operations being restated to reflect the change. The change in policy resulted in a reclassification of loss on disposal of property, plant and equipment to depreciation expense on the statement of operations of $30,157 for the year ended December 31, 2018.

(f) Critical Accounting Estimates and Judgments

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

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

i) Allowance for Doubtful Accounts

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

ii) Depreciation

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

iii) Fair Value of Financial Instruments

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

The fair values of these financial instruments, except long-term debt, approximate their carrying amounts due to their short-term maturity. The fair value of the senior unsecured notes is based on the closing market price at the reporting period's end-date, as described in note 5. The fair values of the remaining long-term debt and lease obligations approximate their carrying values.

iv) Income Taxes

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

See note 8 for further information on income taxes.

v) Share-Based Payments

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.

See note 7 for further information on share-based payments.

vi) Functional Currency

Management applies judgment in determining the functional currency of its foreign subsidiaries. Judgment is made regarding the currency that influences and determines sales prices, labour, material and other costs as well as financing and receipts from operating income. See note 2(g) for information regarding a change in the functional currency of one of the Company's subsidiaries.

vii) Cash-Generating Units

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

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

Property, plant and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount. The recoverable amount of cash-generating units are determined based on the higher of fair value less costs of disposal and value in use calculations. These calculations require the use of judgment applied by management regarding forecasted activity levels, expected future results, and discount rates. See note 4 for further information on impairment of property, plant and equipment.

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

(g) Foreign Currency Translation

i) Functional and Presentation Currency

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

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

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

Entity	**Functional Currency**
United States	U.S. dollar
Russia	Russian rouble
Argentina	U.S. dollar

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

On July 1, 2018, the functional currency of Calfrac Well Services (Argentina) S.A, a subsidiary of the Company, changed to the U.S. dollar from the Argentinean peso. The change was implemented as a result of the acquisition of Vision Sur SRL, the entity that held the non-controlling interest in Calfrac Well Services (Argentina) S.A. (as disclosed in note 13). The Company has full decision making authority over Calfrac Well Services (Argentina) S.A., which is now a wholly-owned subsidiary. In addition, an analysis was performed by management which determined that the majority of its business transactions are now either conducted in U.S. dollars or are being indexed to the U.S. dollar. Revenue has transitioned over time whereby now nearly all revenue contracts are priced in U.S. dollars. A large portion of expenses that in prior periods were priced in Argentinean pesos are now either priced in U.S. dollars or are being indexed to U.S. dollars. The debt balances are also denominated in U.S. dollars.

On the date of the change in functional currency, all assets, liabilities and equity were translated into U.S. dollars at the exchange rate as of that date. The Company has adopted a policy to translate equity items at the historical rate when translating from functional currency to presentation currency.

ii) Transactions and Balances

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

(h) Financial Instruments

The impairment model under IFRS 9 *Financial Instruments* 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.

i) Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

The Company reclassifies financial assets when and only when its business model for managing those assets changes.

The Company does not have any hedging arrangements.

ii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement of financial assets depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its financial assets:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented together with foreign exchange gains and losses. Impairment losses are presented as separate line item in profit or loss.

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other gains and losses. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains or losses and impairment expenses are presented as separate line item in profit or loss.

- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or less. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss is recognized in profit or loss and presented net within other gains or losses in the period in which it arises.

See note 11 for further information on financial instruments.

(i) Cash and Cash Equivalents

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

(j) Inventory

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

(k) Property, Plant and Equipment

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

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

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

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

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

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

(l) Borrowing Costs

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

(m) Non-Controlling Interests

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

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

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

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

(o) Income Taxes

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

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

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

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

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

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

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

(p) Revenue Recognition

Under IFRS 15 *Revenue from Contracts with Customers*, the Company recognizes revenue for services rendered when the performance obligations have been completed, as control of the services transfer to the customer, when the services performed have been accepted by the customer, and collectability is reasonably assured. The consideration for services rendered is measured at the fair value of the consideration received and allocated based on their standalone selling prices. The standalone selling prices are determined based on the agreed upon list prices at which the Company sells its services in separate transactions. Payment terms with customers vary by country and contract. Standard payment terms are 30 days from invoice date.

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

Revenue is measured net of returns, trade discounts and volume discounts.

The Company does not expect to have any revenue contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

See note 16 for further information on revenue.

(q) Stock-Based Compensation Plans

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

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

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

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

(r) Business Combinations

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

Acquisition costs are expensed as incurred.

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

(s) Recently Issued Accounting Standards Not Yet Applied

There are no recently issued accounting standards not yet applied that are applicable to the Company.

3. INVENTORIES

As at December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Spare equipment parts	**83,146**	90,409
Chemicals	**20,547**	25,024
Sand and proppant	**9,864**	17,558
Coiled tubing	**9,290**	9,860
Other	**4,773**	7,272
	127,620	150,123

For the year ended December 31, 2019, the cost of inventories recognized as an expense and included in cost of sales was approximately $574,000 (year ended December 31, 2018 – $830,000).

The Company reviews the carrying value of its inventory on an ongoing basis for obsolescence and to verify that the carrying value exceeds the net realizable amount. For the year ended December 31, 2019, the Company recorded an impairment charge of $3,744 to write-down inventory to its net realizable amount in Canada, United States and Argentina (year ended December 31, 2018 – $7,167).

Years Ended December 31,	2019	2018
(C$000s)	*($)*	*($)*
United States	**2,108**	2,218
Canada	**656**	699
Argentina	**980**	447
Mexico	**—**	3,803
	3,744	7,167

4. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

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

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

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

The cash flows were prepared on a five-year basis, using a discount rate ranging from 13.2 percent to 21.2 percent depending on the CGU. Discount rates are derived from the Company's weighted average cost of capital, adjusted for risk factors specific to each CGU. Cash flows beyond that five-year period have been extrapolated using a steady 2.0 percent growth rate.

A comparison of the recoverable amounts of each cash-generating unit with their respective carrying amounts resulted in no impairment against property, plant and equipment for the year ended December 31, 2019 (year ended December 31, 2018 – $nil).

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

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

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

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

The impairment losses by CGU are as follows:

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

5. LONG-TERM DEBT

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

The fair value of the senior unsecured notes, as measured based on the closing quoted market price at December 31, 2019, was $342,078 (December 31, 2018 – $661,492). The carrying value of the revolving term loan facility approximates its fair value as the interest rate is not significantly different from current interest rates for similar loans.

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

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

On April 30, 2019, Calfrac amended and extended its credit facilities while maintaining its total facility capacity at $375,000. The facilities consist of an operating facility of $40,000 and a syndicated facility of $335,000. The Company's credit facilities were extended by a term of two years and mature on June 1, 2022 and can be extended by one or more years at the Company's request and lenders' acceptance. The Company may also prepay principal without penalty. The interest rates are based on the parameters of certain bank covenants. For prime-based loans and U.S. base-rate loans, the rate ranges from prime or U.S. base rate plus 0.50 percent to prime plus 2.50 percent. For LIBOR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 1.50 percent to 3.50 percent above the respective base rates. The accordion feature of the syndicated facility remains at $100,000, and is available to the Company during the term of the agreement. The Company incurs interest at the high end of the ranges outlined above if its net Total Debt to Adjusted EBITDA ratio is above 4.00:1.00. Additionally, in the event that the Company's net Total Debt to Adjusted EBITDA ratio is above 5.00:1.00, certain restrictions would apply including the following: (a) acquisitions will be subject to majority lender consent; (b) distributions will be restricted other than those relating to the Company's share unit plans; and (c) no increase in the rate of dividends will be permitted. As at December 31, 2019, the Company's net Total Debt to Adjusted EBITDA ratio was 6.96:1.00 (December 31, 2018 – 2.92:1:00).

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

Interest on long-term debt (including the amortization of debt issuance costs and debt discount) for the year ended December 31, 2019 was $83,665 (year ended December 31, 2018 – $106,940).

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

	2019
(C$000s)	*($)*
Balance, January 1	989,614
Issuance of long-term debt, net of debt issuance costs	83,632
Long-term debt repayments	(59,760)
Amortization of debt issuance costs and debt discount	5,457
Foreign exchange adjustments	(42,250)
Balance, December 31	976,693

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

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

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

See note 14 for further details on the covenants in respect of the Company's long-term debt.

6. CAPITAL STOCK

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

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

The weighted average number of common shares outstanding for the year ended December 31, 2019 was 144,564,590 basic and 145,474,733 diluted (year ended December 31, 2018 – 144,041,910 basic and 146,828,943 diluted). The difference between basic and diluted shares is attributable to the dilutive effect of stock options issued by the Company as disclosed in note 7, and the shares to be issued as disclosed in note 13.

7. SHARE-BASED PAYMENTS

(a) Stock Options

Years Ended December 31,		2019		2018
Continuity of Stock Options	**Options**	**Average Exercise Price**	Options	Average Exercise Price
	(#)	*($)*	*(#)*	*($)*
Balance, January 1	**9,392,095**	**4.70**	9,616,173	5.30
Granted	**4,470,150**	**1.68**	1,419,319	5.79
Exercised for common shares	**(98,675)**	**1.99**	(483,974)	2.83
Forfeited	**(630,562)**	**4.71**	(481,673)	7.19
Expired	**(930,000)**	**10.58**	(677,750)	15.11
Balance, December 31	**12,203,008**	**3.16**	9,392,095	4.70

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

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

Stock options vest equally over three to four years and expire five years from the date of grant. The exercise price of outstanding options range from $1.22 to $8.72 with a weighted average remaining life of 2.81 years. When stock options are exercised, the proceeds together with the compensation expense previously recorded in contributed surplus, are added to capital stock.

The weighted average fair value of options granted during 2019, determined using the Black-Scholes valuation method, was $0.68 per option (year ended December 31, 2018 – $2.55 per option). The Company applied the following assumptions in determining the fair value of options on the date of grant:

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

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

(b) Share Units

Years Ended December 31,		**2019**			2018	
Continuity of Stock Units	**Deferred Share Units**	**Performance Share Units**	**Restricted Share Units**	Deferred Share Units	Performance Share Units	Restricted Share Units
	(#)	*(#)*	*(#)*	*(#)*	*(#)*	*(#)*
Balance, January 1	**145,000**	**1,108,300**	**3,139,150**	145,000	683,665	4,275,183
Granted	**145,000**	**1,159,106**	**—**	145,000	765,100	—
Exercised	**(145,000)**	**(556,683)**	**(1,998,600)**	(145,000)	(232,249)	(866,933)
Forfeited	**—**	**(416,159)**	**(1,140,550)**	—	(108,216)	(269,100)
Balance, December 31	**145,000**	**1,294,564**	**—**	145,000	1,108,300	3,139,150

Years Ended December 31,	**2019**	2018
	($)	*($)*
Expense (recovery) from:		
Stock options	**3,030**	4,637
Deferred share units	**196**	390
Performance share units	**1,908**	2,324
Restricted share units	**(197)**	4,921
Total stock-based compensation expense	**4,937**	12,272

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

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

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

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

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

8. INCOME TAXES

The components of income tax expense (recovery) are:

Years Ended December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Current income tax expense	**3,014**	4,342
Deferred income tax recovery	**(55,240)**	(8,934)
	(52,226)	(4,592)

The provision for income taxes in the consolidated statements of operations varies from the amount that would be computed by applying the expected 2019 tax rate of 26.5 percent (year ended December 31, 2018 – 27.0 percent) to income before income taxes.

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

Years Ended December 31,	**2019**	2018
(C$000s except percentages)	***($)***	*($)*
Loss before income tax	**(208,429)**	(30,769)
Income tax rate (%)	**26.5**	27.0
Computed expected income tax recovery	**(55,234)**	(8,308)
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses/non-taxable income	**(10,088)**	(1,759)
Foreign tax rate and other foreign differences	**4,925**	653
Translation of foreign subsidiaries	**(134)**	2,526
Deferred income tax adjustment from tax rate changes	**7,712**	(482)
Other non-income taxes	**923**	2,417
Derecognition of tax losses	**2,610**	3,343
Other	**(2,940)**	(2,982)
	(52,226)	(4,592)

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

As at December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Property, plant and equipment	**(138,546)**	(186,343)
Losses carried forward	**218,135**	209,744
Canadian exploration expenses	**5,156**	5,374
Deferred compensation payable	**304**	3,820
Deferred financing and share issuance costs	**2,260**	5,176
Other	**26,521**	19,667
	113,830	57,438

Loss carry-forwards expire at various dates ranging from December 31, 2020 to December 31, 2039.

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

Years Ended December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Balance, beginning of year	**57,438**	61,473
Charged (credited) to the consolidated statements of operations or accumulated other comprehensive income:		
Property, plant and equipment	**47,798**	(10,350)
Losses carried forward	**8,391**	(3,099)
Canadian exploration expenses	**(217)**	(65)
Deferred compensation payable	**(3,517)**	2,411
Deferred financing and share issuance costs	**(2,916)**	4,547
Other	**6,853**	2,521
Balance, end of year	**113,830**	57,438

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

Years Ended December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Tax losses (capital)	**40,878**	31,234
Tax losses (income)	**45,412**	43,604

Deferred tax assets are only recognized to the extent that it is probable that the assets can be utilized. The Company expects to have sufficient taxable income in succeeding years to fully utilize its deferred tax assets before they expire.

9. COMMITMENTS

The Company has lease commitments for premises, equipment, vehicles and storage facilities under agreements requiring aggregate minimum payments over the five years following December 31, 2019, as follows:

	Right-of-Use Asset Recognized	No Right-of-Use Asset Recognized	Total
(C$000s)	*($)*	*($)*	*($)*
2020	21,901	9,137	31,038
2021	8,140	8,014	16,154
2022	4,063	2,884	6,947
2023	1,961	1,302	3,263
2024	1,967	66	2,033
Thereafter	298	35	333
	38,330	21,438	59,768

The Company recognizes right-of-use assets for its leases, except for short-term leases, low value leases, leases with variable payments, or service contracts that are out of scope of IFRS 16.

The Company has obligations for the purchase of products, services and property, plant and equipment over the next five years following December 31, 2019, as follows:

(C$000s)	*($)*
2020	118,234
2021	24,374
2022	2,987
2023	—
2024	—
	145,595

10. LEASES

The Company's leasing activities comprise of buildings and various field equipment including railcars and motor vehicle leases. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

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

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

The Company recognizes a lease liability equal to the present value of the lease payments during the lease term that are not yet paid. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate. Lease payments to be made under reasonably certain extension options are also included in the measurement of the lease liability. The Company initially estimates and recognizes amounts expected to be payable under residual value guarantees as part of the lease liability. Typically, the expected residual value at the commencement of the lease is equal to or higher than the guaranteed amount, and the Company does not expect to pay anything under the guarantees.

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

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

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

(C$000s)	*($)*
Operating lease commitments disclosed as at December 31, 2018	34,564
Add: leases disclosed as purchase obligations as at December 31, 2018	14,667
Less: leases that do not meet the definition of a lease under IFRS 16	(9,259)
Less: low value leases recognized as an expense	(857)
Less: short-term leases recognized as an expense	(540)
Add: residual value guarantees on leases	8,801
Less: discounted using the Company's incremental borrowing rate at January 1, 2019	(3,197)
Add: finance lease obligations recognized as at December 31, 2018	738
Lease obligation recognized as at January 1, 2019	**44,917**
Current portion of lease obligation	24,318
Non-current portion of lease obligation	20,599
Lease obligation recognized as at January 1, 2019	**44,917**

The following table sets out the movement in the right-of-use assets by class of underlying asset:

Year Ended December 31, 2019	**Opening Net Book Value**	**Additions**	**Disposals**	**Impairment**	**Depreciation**	**Foreign Exchange Adjustments**	**Closing Net Book Value**
(C$000s)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Field equipment	**33,702**	**10,287**	**(4,346)**	**—**	**(14,115)**	**(1,125)**	**24,403**
Buildings	**11,215**	**2,803**	**(1,649)**	**—**	**(6,850)**	**(162)**	**5,357**
	44,917	**13,090**	**(5,995)**	**—**	**(20,965)**	**(1,287)**	**29,760**

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

	2019
(C$000s)	*($)*
Balance, January 1	44,917
Additions	13,090
Disposals/retirements	(5,766)
Principal portion of payments	(20,047)
Foreign exchange adjustments	(1,275)
Balance, December 31	30,919

The following additional disclosures regarding the Company's leases are:

	2019
(C$000s)	*($)*
Interest expense on lease obligations	2,082
Expense relating to short-term leases (included in operating and selling, general and administrative expense)	45,803
Expense relating to low value leases (included in operating and selling, general and administrative expense)	2,044
Expense relating to variable lease payments (included in operating and selling, general and administrative expense)	9,145
Income from subleasing of right-of-use assets	415
Total cash outflow for lease obligations	21,893

11. FINANCIAL INSTRUMENTS

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

(a) Fair Values of Financial Assets and Liabilities

The fair values of financial instruments included in the consolidated balance sheets, except long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of the senior unsecured notes based on the closing market price at December 31, 2019 was $342,078 before deduction of unamortized debt issuance costs (December 31, 2018 – $661,492). The carrying value of the senior unsecured notes at December 31, 2019 was $844,220 before deduction of unamortized debt issuance costs and debt discount (December 31, 2018 – $886,730). The fair values of the remaining long-term debt approximate their carrying values, as described in note 5.

(b) Credit Risk

Substantial amounts of the Company's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risks. The Company mitigates this risk through its credit policies and practices including the use of credit limits and approvals, and by monitoring the financial condition of its customers. At December 31, 2019, the Company had a provision for doubtful accounts receivable of $1,931 (December 31, 2018 – $596).

IFRS 9 *Financial Instruments* requires an entity to estimate its expected credit loss for all trade accounts receivable even when they are not past due based on the expectation that certain receivables will be uncollectible. Based on the Company's assessment, a small increase in the allowance for doubtful accounts of approximately 0.13% was recorded, using the lifetime expected credit loss model. The expected credit loss rates are based on actual credit loss experience over the past several years for each operating segment.

The loss allowance provision for trade accounts receivable as at December 31, 2019 reconciles to the opening loss allowance provision as follows:

	2019
(C$000s)	*($)*
At January 1, 2019	596
Increase in loan loss allowance recognized in statement of operations during the year	15
Specific receivables deemed as uncollectible	1,342
Foreign exchange adjustments	(22)
At December 31, 2019	1,931

Payment terms with customers vary by country and contract. Standard payment terms are 30 days from invoice date. The Company's aged trade and accrued accounts receivable at December 31, 2019 and 2018, excluding any impaired accounts, are as follows:

As at December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Current	**145,704**	203,368
31 – 60 days	**34,863**	109,510
61 – 90 days	**14,676**	21,553
91+ days	**14,888**	8,936
Total	**210,131**	343,367

(c) Interest Rate Risk

The Company is exposed to cash flow risk due to fluctuating interest payments required to service any floating-rate debt. The increase or decrease in annual interest expense for each 1 percentage point change in interest rates on floating-rate debt at December 31, 2019 amounts to $1,480 (December 31, 2018 – $1,200).

The Company's effective interest rate for the year ended December 31, 2019 was 8.5 percent (year ended December 31, 2018 – 10.6 percent). During 2018, the Company incurred $21,213 of interest expense relating to the early repayment of its second lien term loan and 7.50 percent senior notes due 2020. Excluding these non-recurring costs, the effective interest rate for the year ended December 31, 2018 would have been 8.5 percent.

(d) Liquidity Risk

The Company's principal sources of liquidity are operating cash flows, existing or new credit facilities and new share equity. The Company monitors its liquidity to ensure it has sufficient funds to complete planned capital and other expenditures. The Company mitigates liquidity risk by maintaining adequate banking and credit facilities and monitoring its forecast and actual cash flows. The Company may also adjust its capital spending and dividends to maintain liquidity. See note 14 for further details on the Company's capital structure.

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

At December 31, 2019	**Total**	**<1 Year**	**1 – 3 Years**	**4 – 6 Years**	**7 – 9 Years**	**Thereafter**
(C$000s)	***($)***	***($)***	***($)***	***($)***	***($)***	***($)***
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*

At December 31, 2018	Total	<1 Year	1 – 3 Years	4 – 6 Years	7 – 9 Years	Thereafter
(C$000s)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Accounts payable and accrued liabilities	239,507	239,507	—	—	—	—
Long-term debt[1]	1,580,482	80,991	348,959	226,116	924,416	—

[1] *Principal and interest*

(e) Foreign Exchange Risk

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

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

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	**—**

At December 31, 2018	Impact to Net Income
(C$000s)	*($)*
1% change in value of U.S. dollar	562
1% change in value of Argentinean peso	(83)
1% change in value of Russian rouble	—

12. SUPPLEMENTAL CASH FLOW INFORMATION

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

Years Ended December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Accounts receivable	**132,783**	7,103
Inventory	**18,759**	(12,217)
Prepaid expenses and deposits	**38**	(724)
Accounts payable and accrued liabilities	**(87,858)**	(8,978)
Income taxes recoverable	**(1,026)**	1,178
	62,696	(13,638)
Income taxes paid	**4,040**	3,165

Purchase of property, plant and equipment is comprised of:

Years Ended December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Property, plant and equipment additions	**(139,305)**	(159,764)
Change in liabilities related to the purchase of property, plant and equipment	**(8,065)**	2,577
	(147,370)	(157,187)

13. ACQUISITION

On July 20, 2018, the Company acquired Vision Sur SRL, the entity that held the remaining 20 percent non-controlling interest in Calfrac Well Services (Argentina) S.A. As a result of the acquisition, Calfrac Well Services (Argentina) S.A. is now a wholly-owned subsidiary of the Company. The purchase price for Vision Sur SRL took into account the prior investments made in Calfrac Well Services (Argentina) S.A. by its shareholders, and consisted of share consideration valued at $5,000. Under the terms of the agreement, the purchase price is payable in four tranches, with 222,817 shares issued on the acquisition date, and the remaining 668,449 shares to be issued in three tranches with the final tranche payable on January 1, 2021. This arrangement also contained an agreement to issue additional contingent shares, ranging from 50,000 to 70,000 shares, if the operating income for Calfrac Well Services (Argentina) S.A. reaches certain target levels in 2019 and 2020. The value of the contingent consideration is not material on a consolidated basis. Acquisition costs were insignificant and expensed in the statement of operations.

During the period July 21, 2018 to December 31, 2018, the acquisition contributed immaterial income to the Company. The pro-forma estimated effects on revenue and operating income, had the acquisition occurred on January 1, 2018, would have been insignificant.

Subsequent to the acquisition, the purchase agreement was amended to include a price adjustment mechanism. If the operating income of Calfrac Well Services (Argentina) S.A. reaches certain target levels in 2019 and 2020, additional shares may be issued or additional cash consideration may be paid. The amount of contingent consideration, if it becomes payable, is not expected to be material.

14. CAPITAL STRUCTURE

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

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

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

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

Net debt for this purpose is calculated as follows:

As at December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Long-term debt, net of debt issuance costs and debt discount (note 5)	**976,693**	989,614
Lease obligations	**30,919**	738
Less: cash and cash equivalents	**(42,562)**	(51,901)
Net debt	**965,050**	938,451

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

At December 31, 2019, the net debt to operating income ratio was 6.32:1 (December 31, 2018 – 3.01:1) calculated on a 12-month trailing basis as follows:

For the Twelve Months Ended December 31,	**2019**	2018
(C$000s, except ratio)	***($)***	*($)*
Net debt	**965,050**	938,451
Operating income	**152,744**	311,825
Net debt to operating income ratio	**6.32:1**	3.01:1

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

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

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

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

Years Ended December 31,	**2019**	2018
(C$000s)	***($)***	*($)*
Net loss	**(156,203)**	(26,177)
Add back (deduct):		
Depreciation	**261,227**	190,475
Unrealized foreign exchange losses	**2,041**	11,465
Non-recurring realized foreign exchange losses(1)	**—**	29,288
Loss on disposal of property, plant and equipment	**1,870**	160
Impairment of property, plant and equipment (note 4)	**2,165**	115
Impairment of inventory (note 3)	**3,744**	7,167
Restructuring charges	**6,049**	1,076
Stock-based compensation	**4,626**	5,812
Losses attributable to non-controlling interest	**—**	7,989
Interest	**85,826**	106,630
Income taxes	**(52,226)**	(4,592)
Adjusted EBITDA(2)	**159,119**	329,408

(1) The Company recognized a one-time realized foreign exchange loss resulting from the capitalization of inter-company debt held by its Argentinean subsidiary.
(2) For bank covenant purposes, EBITDA includes an additional $21,893 of lease payments that would have been recorded as operating expenses prior to the adoption of IFRS 16 on January 1, 2019.

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

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

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

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

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

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

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

These limitations on restricted payments are tempered by the existence of a number of exceptions to the general prohibition, including a basket allowing for restricted payments in an aggregate amount of up to US$20,000. As at December 31, 2019, this basket was not utilized.

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

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

The Company has measures in place to ensure that it has sufficient liquidity to navigate the cyclical nature of the oilfield services sector and safeguard the Company's ability to continue as a going concern. The Company negotiated amendments to its credit facilities to provide increased financial flexibility. These amendments include an "Equity Cure" feature pursuant to which proceeds from equity offerings may be applied as both an adjustment in the calculation of Adjusted EBITDA and as a reduction of Funded Debt towards the Funded Debt to Adjusted EBITDA ratio covenant for any of the quarters ending prior to and including June 30, 2022, subject to certain conditions including:

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

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

15. RELATED-PARTY TRANSACTIONS

The Company leases certain premises from a company controlled by Ronald P. Mathison, the Executive Chairman of the Company. The rent charged for these premises during the year ended December 31, 2019 was $1,742 (year ended December 31, 2018 – $1,742), as measured at the exchange amount which is based on market rates at the time the lease arrangements were made.

16. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company derives revenue from the provision of goods and services for the following major service lines and geographical regions:

	Canada	**United States**	**Russia**	**Argentina**	**Consolidated**
(C$000s)	*($)*	*($)*	*($)*	*($)*	*($)*
Year Ended December 31, 2019					
Fracturing	**348,789**	**928,902**	**94,519**	**117,381**	**1,489,591**
Coiled tubing	**46,403**	**—**	**11,288**	**26,139**	**83,830**
Cementing	**—**	**—**	**—**	**22,852**	**22,852**
Product sales	**2,391**	**1,502**	**—**	**—**	**3,893**
Subcontractor	**—**	**—**	**—**	**20,789**	**20,789**
	397,583	**930,404**	**105,807**	**187,161**	**1,620,955**
Year Ended December 31, 2018					
Fracturing	593,177	1,293,593	91,232	120,619	2,098,621
Coiled tubing	52,439	—	15,587	30,339	98,365
Cementing	—	—	—	16,869	16,869
Product sales	5,115	3,082	—	—	8,197
Subcontractor	—	—	—	34,374	34,374
	650,731	1,296,675	106,819	202,201	2,256,426

The Company recognizes all its revenue from contracts with customers and no other sources (such as lease rental income).

The Company does not incur material costs to obtain contracts with customers and consequently, does not recognize any contract assets. The Company does not have any contract liabilities associated with its customer contracts.

The Company's customer base consists of approximately 135 oil and natural gas exploration and production companies, ranging from large multi-national publicly traded companies to small private companies. Notwithstanding the Company's broad customer base, Calfrac had five significant customers that collectively accounted for approximately 32 percent of the Company's revenue for the year ended December 31, 2019 (year ended December 31, 2018 – four significant customers for approximately 32 percent) and, of such customers, one customer accounted for approximately 7 percent of the Company's revenue for the year ended December 31, 2019 (year ended December 31, 2018 – 11 percent).

17. PRESENTATION OF EXPENSES

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

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

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

Years Ended December 31,	2019	2018
(C$000s)	*($)*	*($)*
Product costs	**448,203**	688,493
Personnel costs	**436,458**	486,838
Depreciation on property, plant and equipment	**240,262**	190,475
Depreciation on right-of-use assets (note 10)	**20,965**	—
Other operating costs	**513,676**	677,324
	1,659,564	2,043,130

18. EMPLOYEE BENEFITS EXPENSE

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

Years Ended December 31,	2019	2018
(C$000s)	*($)*	*($)*
Salaries and short-term employee benefits	**447,235**	492,538
Post-employment benefits (group retirement savings plan)	**9,888**	10,590
Share-based payments	**4,937**	12,272
Termination benefits	**6,520**	2,130
	468,580	517,530

19. COMPENSATION OF KEY MANAGEMENT

Key management is defined as the Company's Board of Directors, Executive Chairman, President and Chief Operating Officer, and Chief Financial Officer. During 2018, it was defined as the Company's Board of Directors, Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer. Compensation awarded to key management comprised:

Years Ended December 31,	2019	2018
(C$000s)	*($)*	*($)*
Salaries, fees and short-term benefits	**3,941**	3,633
Post-employment benefits (group retirement savings plan)	**41**	34
Share-based payments	**1,152**	2,977
Termination benefits	**2,441**	—
	7,575	6,644

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

20. CONTINGENCIES

GREEK LITIGATION

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

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

In 1999, the largest group of plaintiffs received a ruling from the Athens Court of First Instance that their termination was invalid and that salaries in arrears amounting to approximately $9,984 (6,846 euros) plus interest were due to the former employees. This decision was appealed to the Athens Court of Appeal, which allowed the appeal in 2001 and annulled the above-mentioned decision of the Athens Court of First Instance. The said group of former employees filed an appeal with the Supreme Court of Greece, which was heard on May 29, 2007. The Supreme Court of Greece allowed the appeal and sent the matter back to the Athens Court of Appeal for the consideration of the quantum of awardable salaries in arrears. On June 3, 2008, the Athens Court of Appeal rejected NAPC's appeal and reinstated the award of the Athens Court of First Instance, which decision was further appealed to the Supreme Court of Greece. The matter was heard on April 20, 2010 and a decision rejecting such appeal was rendered in June 2010. As a result of Denison's participation in the consortium that was named in the lawsuit, the Company has been served with three separate payment orders, one on March 24, 2015 and two others on December 29, 2015. The Company was also served with an enforcement order on November 23, 2015. Oppositions have been filed on behalf of the Company in respect of each of these orders which oppose the orders on the basis that they were improperly issued and are barred from a statute of limitations perspective. The salaries in arrears sought to be recovered through these orders are part of the $9,984 (6,846 euros) cited above and the interest being sought in respect of these orders is part of the $27,279 (18,706 euros) cited below. Provisional orders granting a temporary suspension of any enforcement proceedings have been granted in respect of all of the orders that have been served. The opposition against the order served on March 24, 2015 was heard on November 24, 2015 and a decision was issued on November 25, 2016 accepting the Company's opposition on the basis that no lawful service had taken place until the filing of the opponents' petition and/or the issuance of the payment order. The plaintiffs filed an appeal against the above decision which was heard on October 16, 2018 and was rejected in June 2019. The plaintiffs have filed a petition for cassation against appeal judgment, the hearing of which has not yet been scheduled. A hearing in respect of the order served on November 23, 2015 took place on October 31, 2018 and a decision was issued in October 2019 accepting the Company's opposition. The plaintiffs filed an appeal against this decision, the hearing of which has been scheduled for March 24, 2020. A hearing in respect of the orders served in December 2015 scheduled for September 20, 2016 was adjourned until November 21, 2016 and decisions were issued on January 9, 2017 accepting the Company's oppositions on a statute of limitations basis. The plaintiffs filed appeals against the above decisions which were heard on October 16, 2018 and were rejected in June 2019. The plaintiffs have filed petitions for cassation against appeal judgments, the hearings of which have not yet been scheduled.

NAPC is also the subject of a claim for approximately $4,174 (2,862 euros) plus associated penalties and interest from the Greek social security agency for social security obligations associated with the salaries in arrears that are the subject of the above-mentioned decision.

The maximum aggregate interest and penalties payable under the claims noted above, as well as three other immaterial claims against NAPC totaling $843 (578 euros), amounted to $27,279 (18,706 euros) as at December 31, 2019.

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

21. SEGMENTED INFORMATION

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

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

	Canada	United States	Russia	Argentina	Corporate	Consolidated
(C$000s)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Year Ended December 31, 2019						
Revenue	**397,583**	**930,404**	**105,807**	**187,161**	**—**	**1,620,955**
Operating income (loss)[(1)]	**40,689**	**126,205**	**(5,005)**	**26,128**	**(35,273)**	**152,744**
Segmented assets	**486,067**	**773,137**	**90,727**	**175,991**	**—**	**1,525,922**
Capital expenditures	**21,978**	**85,001**	**2,933**	**29,393**	**—**	**139,305**

Year Ended December 31, 2018						
Revenue	650,731	1,296,675	106,819	202,201	—	2,256,426
Operating income (loss)[(1)]	87,162	262,348	(445)	12,836	(50,076)	311,825
Segmented assets	578,431	949,494	96,577	158,155	—	1,782,657
Capital expenditures	42,530	105,074	5,279	6,881	—	159,764

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

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

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

22. SUBSEQUENT EVENT

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