



2022
CONSOLIDATED
FINANCIAL
STATEMENTS
CALFRAC WELL SERVICES



Years Ended December 31, 2022 and 2021

DO IT SAFELY, DO IT RIGHT, DO IT PROFITABLY

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, 2022 and December 31, 2021.

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 three 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.



Patrick G. Powell
Chief Executive Officer



Michael D. Olinek
Chief Financial Officer

March 15, 2023
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, 2022 and 2021, 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, 2022 and 2021;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of comprehensive income (loss) for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p>Assessment of impairment indicators on property, plant and equipment (PP&E)</p>	
<p><i>Refer to 'Note 2 – Summary of Significant Accounting Policies' and 'Note 5 – Property, Plant and Equipment' to the consolidated financial statements.</i></p>	
<p>The Company's total PP&E as at December 31, 2022 amounted to \$543.5 million. At each reporting period management assesses whether there are indicators of impairment or impairment reversals. If indicators of impairment exist, the recoverable amount of the assets or cash-generating unit (CGU) is estimated and an impairment loss is recognized for the amount by which the carrying value of the assets or CGU exceeds its recoverable amount. If indicators of impairment reversal exist, the Company estimates the recoverable amount of the assets or CGU to determine if the impairment loss previously recognized should be reversed. Management applies significant judgment in assessing whether indicators of impairment or impairment reversal exist. Internal and external factors, such as (i) a significant change in the market capitalization of the Company's share price; (ii) changes in conditions of PP&E, (iii) changes in oil and gas prices (iv) changes in forecasted earnings of the CGUs and (v) changes in interest rates, are evaluated by management in determining whether there are any indicators of impairment or impairment reversal.</p>	
<p>We determined that this is a key audit matter due to (i) the significance of the PP&E balance and (ii) significant management judgment; and (iii) the significant audit effort and subjectivity in applying audit procedures to evaluate management's assessment as to whether there are indicators of impairment or impairment reversal.</p>	<p>Our approach to addressing the matter involved the following procedures, among others:</p> <ul style="list-style-type: none"> • Evaluated reasonableness of management's assessment of indicators of impairment or impairment reversal, which included the following procedures: <ul style="list-style-type: none"> ◦ Assessed the reasonableness of internal and external factors such as: <ul style="list-style-type: none"> ▪ significant changes in the market capitalization of the Company's share price, which may indicate a change in value of the Company's PP&E ▪ significant changes in the conditions of the PP&E, which may indicate a change in value of the PP&E; and ▪ changes in oil and gas prices, forecasted earnings of the CGUs and changes in interest rates by considering the current and past performance of the CGUs, external market data and evidence obtained in other areas of the audit, as applicable • Assessed the completeness of external or internal factors that could be considered as indicators of impairment or impairment reversal of the Company's PP&E, by considering evidence obtained in other areas of the audit.

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 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 15, 2023

CONSOLIDATED BALANCE SHEETS

	Note	As at December 31,	
		2022	2021
(C\$000s)		(\$)	(\$)
ASSETS			
Current assets			
Cash and cash equivalents		8,498	—
Accounts receivable		238,769	189,835
Income taxes recoverable		—	2,859
Inventories	3	108,866	101,840
Prepaid expenses and deposits		12,297	12,999
		368,430	307,533
Assets classified as held for sale	4	45,940	—
		414,370	307,533
Non-current assets			
Property, plant and equipment	5	543,475	563,423
Right-of-use assets	12	22,908	22,005
Deferred income tax assets	10	15,000	—
		581,383	585,428
Total assets		995,753	892,961
LIABILITIES			
Current liabilities			
Bank overdraft		—	1,351
Accounts payable and accrued liabilities		171,603	127,441
Income taxes payable		964	—
Current portion of long-term debt	7	2,534	—
Current portion of lease obligations	12	9,749	8,004
		184,850	136,796
Liabilities directly associated with assets classified as held for sale	4	18,852	—
		203,702	136,796
Non-current liabilities			
Long-term debt	7	329,186	388,479
Lease obligations	12	13,443	12,560
Deferred income tax liabilities	10	26,450	26,286
		369,079	427,325
Total liabilities		572,781	564,121

	Note	As at December 31,	
		2022	2021
(C\$000s)		(\$)	(\$)
EQUITY			
Equity attributable to the shareholders of Calfrac			
Capital stock	8	865,059	801,178
Conversion rights on convertible notes	7	212	4,764
Contributed surplus		70,141	68,258
Warrants	9	36,558	40,282
Loan receivable for purchase of common shares		—	(2,500)
Accumulated deficit		(580,544)	(592,221)
Accumulated other comprehensive income		31,546	9,079
Total equity		422,972	328,840
Total liabilities and equity		995,753	892,961

Commitments (note 11); Contingencies (note 21)

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors,



Ronald P. Mathison, Director



Charles Pellerin, Director

CONSOLIDATED STATEMENTS OF OPERATIONS

	Note	Years Ended December 31,	
		2022	2021
<i>(C\$000s, except per share data)</i>			
		<i>(\$)</i>	<i>(\$)</i>
	4		Revised ⁽¹⁾
Revenue	17	1,499,220	880,249
Cost of sales	18	1,344,614	915,587
Gross profit (loss)		154,606	(35,338)
Expenses			
Selling, general and administrative		62,199	42,761
Foreign exchange (gains) losses		(2,972)	4,658
Loss on disposal of property, plant and equipment		5,333	405
Impairment of property, plant and equipment	5	10,670	—
Impairment of inventory	3	8,477	—
Impairment of other assets		64	705
Interest		46,555	37,739
		130,326	86,268
Income (loss) before income tax		24,280	(121,606)
Income tax expense (recovery)			
Current		5,443	158
Deferred		(16,466)	(27,033)
		(11,023)	(26,875)
Net income (loss) from continuing operations		35,303	(94,731)
Net income (loss) from discontinued operations	4	(23,626)	11,919
Net income (loss) for the period		11,677	(82,812)
Earnings (loss) per share – basic	8		
Continuing operations		0.83	(2.52)
Discontinued operations		(0.55)	0.32
		0.27	(2.21)
Earnings (loss) per share – diluted	8		
Continuing operations		0.47	(2.52)
Discontinued operations		(0.28)	0.14
		0.19	(2.21)

See accompanying notes to the consolidated financial statements.

⁽¹⁾ All comparative amounts exclude the impact from the Company's Russia operations, which have been classified as held for sale and presented as discontinued operations.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Years Ended December 31,	
		2022	2021
(C\$000s)		(\$)	(\$)
CASH FLOWS PROVIDED BY (USED IN)			
OPERATING ACTIVITIES			
Net income (loss) for the period		11,677	(82,812)
Adjusted for the following:			
Depreciation		122,226	127,925
Stock-based compensation		2,776	2,272
Unrealized foreign exchange (gains) losses		(16,334)	718
Loss on disposal of property, plant and equipment		5,329	403
Impairment of property, plant and equipment	4, 5	16,676	—
Impairment of inventory	3, 4	38,736	—
Impairment of other assets	4	4,484	705
Interest		46,511	37,737
Interest paid		(33,049)	(25,127)
Deferred income taxes		(16,466)	(27,033)
Changes in items of working capital	14	(75,034)	(50,125)
Cash flows provided by (used in) operating activities		107,532	(15,337)
FINANCING ACTIVITIES			
Bridge loan proceeds	6	15,000	—
Issuance of long-term debt, net of debt issuance costs	7	17,762	59,555
Bridge loan repayments	6	(15,000)	
Long-term debt repayments	7	(45,000)	(6,050)
Lease obligation principal repayments	12	(9,166)	(7,836)
Proceeds on issuance of common shares from the exercise of warrants and stock options		2,871	183
Cash flows (used in) provided by financing activities		(33,533)	45,852
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	14	(79,810)	(63,434)
Proceeds on disposal of property, plant and equipment		3,576	938
Proceeds on disposal of right-of-use assets		1,909	1,202
Cash flows used in investing activities		(74,325)	(61,294)
Effect of exchange rate changes on cash and cash equivalents		20,070	(402)
Increase (decrease) in cash and cash equivalents		19,744	(31,181)
(Bank overdraft) cash and cash equivalents, beginning of period		(1,351)	29,830
Cash and cash equivalents (bank overdraft), end of period		18,393	(1,351)
Included in the cash and cash equivalents per the balance sheet		8,498	
Included in the assets held for sale/discontinued operations	4	9,895	

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Share Capital (\$)	Conversion Rights on Convertible Notes	Contributed Surplus (\$)	Warrants (\$)	Loan Receivable for Purchase of Common Shares (\$)	Accumulated Other Comprehensive Income (Loss) (\$)	Accumulated Deficit (\$)	Total Equity (\$)
<i>(C\$000s)</i>									
Balance – January 1, 2022		801,178	4,764	68,258	40,282	(2,500)	9,079	(592,221)	328,840
Net income		—	—	—	—	—	—	11,677	11,677
Other comprehensive income (loss):									
Cumulative translation adjustment		—	—	—	—	—	22,467	—	22,467
Comprehensive income (loss)		—	—	—	—	—	22,467	11,677	34,144
Stock options:									
Stock-based compensation recognized		—	—	2,776	—	—	—	—	2,776
Proceeds from issuance of shares	7	2,435	—	(893)	—	—	—	—	1,542
Conversion of 1.5 Lien Notes into shares	7	58,892	(4,552)	—	—	—	—	—	54,340
Reclassification of loan receivable		(2,500)	—	—	—	2,500	—	—	—
Warrants:									
Proceeds from issuance of shares	9	5,054	—	—	(3,724)	—	—	—	1,330
Balance – December 31, 2022		865,059	212	70,141	36,558	—	31,546	(580,544)	422,972
Balance – January 1, 2021		800,184	4,873	65,986	40,797	(2,500)	10,303	(509,409)	410,234
Net loss		—	—	—	—	—	—	(82,812)	(82,812)
Other comprehensive income (loss):									
Cumulative translation adjustment		—	—	—	—	—	(1,224)	—	(1,224)
Comprehensive loss		—	—	—	—	—	(1,224)	(82,812)	(84,036)
Stock options:									
Stock-based compensation recognized		—	—	2,272	—	—	—	—	2,272
Conversion of 1.5 Lien Notes into shares	7	296	(24)	—	—	—	—	—	272
Rescission of equity portion of 1.5 Lien Notes		—	(85)	—	—	—	—	—	(85)
Warrants:									
Proceeds from issuance of shares	8	698	—	—	(515)	—	—	—	183
Balance – December 31, 2021		801,178	4,764	68,258	40,282	(2,500)	9,079	(592,221)	328,840

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,	
	2022	2021
<i>(C\$000s)</i>	<i>(\$)</i>	<i>(\$)</i>
Net income (loss) for the period	11,677	(82,812)
Other comprehensive income (loss)		
Items that may be subsequently reclassified to profit or loss:		
Change in foreign currency translation adjustment	22,467	(1,224)
Comprehensive income (loss)	34,144	(84,036)

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2022 and 2021

(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 was originally incorporated on June 28, 1999 and amalgamated with Denison Energy Inc. on March 24, 2004) and Dominion Land Projects Ltd. on January 1, 2011 under the Business Corporations Act (Alberta). The Company was continued under the Canada Business Corporations Act on December 17, 2020. The Company’s principal place of business is at Suite 500, 407 – 8th Avenue S.W., Calgary, Alberta, Canada, T2P 1E5. The Company provides specialized oilfield services from its continuing operations, including hydraulic fracturing, coiled tubing, cementing and other well completion services to the oil and natural gas industries in the United States, Canada, 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).

These financial statements were approved by the Board of Directors for issuance on March 15, 2023.

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

There were no new IFRS or IFRIC interpretations that became effective on or after January 1, 2022 that had a material impact on the Company.

(d) 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) Expected Credit Loss

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 expected credit loss is established based on expected and incurred losses and overall industry conditions. See note 13 for further information.

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, bank overdrafts, accounts payable and accrued liabilities, bank loan, and long-term debt.

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 Second Lien Notes is based on the closing market price at the reporting period's end-date, as described in note 7. The fair values of the remaining long-term debt 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 10 for further information on income taxes.

v) Share-Based Payments

The fair value of stock options and warrants 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 is recognized based on the market value of the Company's shares underlying these compensation programs.

See note 9 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.

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 is 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 5 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.

Management applies significant judgment in assessing whether indicators of impairment or impairment reversal exist that would necessitate either impairment testing or impairment reversal calculations. Internal and external factors such as (i) a significant change in the market capitalization of the Company's share price; (ii) changes in conditions of equipment, (iii) changes in oil and gas prices in the market, (iv) changes in forecasted earnings, and (v) changes in interest rates or other market rates of return, are evaluated by management in determining whether there are any indicators of impairment or impairment reversal.

(e) 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
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.

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.

(f) 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.
- **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. 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 loss. 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 13 for further information on financial instruments.

iii) Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. When a financial asset classified as amortized cost is derecognized, any gain or loss arising on derecognition is recognized directly in profit or loss and is presented together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in profit or loss. When a financial asset classified as fair value through other comprehensive income 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.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized directly in profit or loss.

When the Company uses equity instruments to extinguish a financial liability, the equity instruments are considered as consideration paid. The equity instruments are measured at the fair value, unless fair value is not reliably determinable, in which case the equity instruments issued are measured at the fair value of the liability extinguished. If the consideration paid exceeds the carrying value of the financial liability extinguished a gain is recognized in profit or loss.

iv) Compound Financial Instruments

The Company's compound financial instruments comprise of convertible notes, which can be converted into common shares at the sole discretion of the holder. The terms of the convertible notes enable the Company to defer, and pay in kind, any interest accrued on the notes at each interest payment date by increasing the unpaid principal amount. Each increase in the principal amount will correspondingly increase the amount of shares to be issued upon conversion.

The initial fair value of the liability component of the convertible notes is determined using a market interest rate for a comparable debt instrument without an equity conversion feature. The equity component is recognized in shareholders' equity as the difference between the initial principal amount and the fair value of the liability component, and is not subsequently remeasured. Directly attributable transaction costs are allocated on a proportional basis to the initial carrying amount of the separate components.

The liability component of the convertible notes is subsequently measured at amortized cost using the effective interest rate method, until extinguished on conversion or maturity of the notes. Derecognition of the liability component of the convertible notes is treated in the same manner as detailed above.

(g) 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.

(h) 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 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.

(i) 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.

(j) 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.

(k) Leases

Under IFRS 16 *Leases*, 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.

(l) 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.

(m) 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.

(n) 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 17 for further information on revenue.

(o) 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. The fair value of the deferred share units is recognized based on the market value of the Company's shares underlying these compensation programs.

(p) 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.

(q) Non-current Assets Held for Sale and Discontinued Operations

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets that are carried at fair value, which are specifically exempt from this requirement.

An impairment loss is recognized for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognized. A gain or loss not previously recognized by the date of the sale of the non-current asset is recognized at the date of derecognition.

Non-current assets are not depreciated or amortized while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognized.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities directly associated with assets classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

(r) Recently Issued Accounting Standards Not Yet Applied

The Company did not adopt any recently issued accounting standards before the mandatory effective date that have a material impact to the Company.

3. INVENTORIES

As at December 31, (C\$000s)	2022 (\$)	2021 (\$)
Spare parts	54,511	59,573
Chemicals	27,049	26,577
Sand and proppant	22,417	9,414
Coiled tubing	4,751	5,481
Other	138	795
	108,866	101,840

For the year ended December 31, 2022, the cost of inventories recognized as an expense and included in cost of sales was approximately \$573,000 (year ended December 31, 2021 – \$396,000).

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, 2022, the Company recorded an impairment charge of \$8,477 to write-down inventory to its net realizable amount in Canada and the United States (year ended December 31, 2021 – \$nil). The inventory impaired was primarily related to spare parts.

Years Ended December 31, (C\$000s)	2022 (\$)	2021 (\$)
United States	5,562	—
Canada	2,915	—
	8,477	—

4. ASSETS HELD FOR SALE

During the first quarter of 2022, management committed to a plan to sell its Russian division. The associated assets and liabilities were consequently presented as held for sale in these financial statements, effective March 31, 2022, in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

In conjunction with the ongoing sale process and in light of the additional Canadian sanctions and restrictions that were issued in relation to the Russian oil and gas industry during the second quarter, the Company recorded an impairment of \$42.8 million at June 30, 2022 to write-down the Russian division's current and long-term assets to their expected recoverable amount. At September 30, 2022 and again at December 31, 2022, the Company further adjusted the Russian division's current and long-term assets to reflect their revised expected recoverable amount. Management will continue to revisit the fair value of the net assets at each reporting period and upon the close of the transaction.

The evolving laws and sanctions from the governments of Canada, the U.S., and other western nations as well as domestic laws and sanctions of the Russian Federation have impacted the Company's efforts to divest the Russia division. Within this dynamic context, the Company continues to make progress toward a sale of its Russian subsidiary and is seeking to complete this transaction as soon as possible while complying with all applicable laws and sanctions.

It is management's judgement, that based on the facts and circumstances, the Company continues to control and therefore consolidate the Russian subsidiary.

Years Ended December 31, (C\$000s)	2022 (\$)	2021 (\$)
Impairment of property, plant and equipment	6,006	—
Impairment of inventory	30,259	—
Impairment of other assets	4,420	—
	40,685	—

(a) Financial Information

The financial performance and cash flow information of the Russia operating division for the years ended December 31, 2022 and 2021 are:

Years Ended December 31,	2022	2021
(C\$000s)	(\$)	(\$)
Revenue	117,257	122,146
Expenses	98,698	108,894
Impairment charges	40,685	—
(Loss) income before income tax	(22,126)	13,252
Income tax expense	1,500	1,333
Net (loss) income from discontinued operations	(23,626)	11,919
Years Ended December 31,	2022	2021
(C\$000s)	(\$)	(\$)
Net cash provided by operating activities	12,453	6,457
Net cash provided by (used in) financing activities	—	—
Net cash used in investing activities	(369)	(4,648)
Effect of exchange rate changes on cash and cash equivalents	3,864	156
Increase in cash and cash equivalents from discontinued operations	15,948	1,965

(b) Assets and Liabilities of Disposal Group Held for Sale

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operations as at December 31, 2022:

(C\$000s)	(\$)
Assets classified as held for sale	
Cash and cash equivalents	9,895
Accounts receivable	31,964
Income taxes recoverable	834
Inventories	2,069
Prepaid expenses and deposits	1,178
	45,940
Liabilities directly associated with assets classified as held for sale	
Accounts payable and accrued liabilities	18,852
	18,852

The Company is not expecting to repatriate any of its cash held in Russia other than through any proceeds received through a sale of its Russian business.

No deferred tax asset is recognized for the assets held for sale/discontinued operations.

The cumulative foreign exchange gains recognized in other comprehensive income in relation to the discontinued operations as at December 31, 2022 was \$6,251.

5. PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 2022	Opening Net Book Value	Assets Classified as Held for Sale	Additions	Disposals	Impairment	Depreciation	Foreign Exchange Adjustments	Closing Net Book Value
(C\$000s)	(\$)		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Assets under construction ⁽¹⁾	22,945	(890)	23,931	—	—	—	1,663	47,649
Field equipment	459,757	(3,619)	63,375	(8,119)	(10,670)	(103,808)	24,400	421,316
Buildings	38,950	—	—	—	—	(4,225)	(2,190)	32,535
Land	33,424	—	—	—	—	—	5,154	38,578
Shop, office and other equipment	1,362	—	—	—	—	(738)	53	677
Computers and computer software	7,010	—	515	—	—	(4,897)	11	2,639
Leasehold improvements	(25)	—	119	—	—	(18)	5	81
	563,423	(4,509)	87,940	(8,119)	(10,670)	(113,686)	29,096	543,475

⁽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, 2022	Cost	Accumulated Depreciation	Net Book Value
(C\$000s)	(\$)	(\$)	(\$)
Assets under construction	47,649	—	47,649
Field equipment	2,391,688	(1,970,372)	421,316
Buildings	90,583	(58,048)	32,535
Land	38,578	—	38,578
Shop, office and other equipment	27,832	(27,155)	677
Computers and computer software	45,415	(42,776)	2,639
Leasehold improvements	8,832	(8,751)	81
	2,650,577	(2,107,102)	543,475

Year Ended December 31, 2021	Opening Net Book Value	Additions	Disposals	Depreciation	Foreign Exchange Adjustments	Closing Net Book Value
(C\$000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Assets under construction ⁽¹⁾	15,179	7,879	—	—	(113)	22,945
Field equipment	506,290	62,394	(3,258)	(110,244)	4,575	459,757
Buildings	46,903	144	—	(4,220)	(3,877)	38,950
Land	35,103	29	770	—	(2,478)	33,424
Shop, office and other equipment	2,388	—	—	(918)	(108)	1,362
Computers and computer software	12,133	253	—	(5,341)	(35)	7,010
Leasehold improvements	492	—	—	(45)	(472)	(25)
	618,488	70,699	(2,488)	(120,768)	(2,508)	563,423

⁽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, 2021	Cost	Accumulated Depreciation	Net Book Value
<i>(C\$000s)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Assets under construction	22,945	—	22,945
Field equipment	2,336,369	(1,876,612)	459,757
Buildings	90,211	(51,261)	38,950
Land	33,424	—	33,424
Shop, office and other equipment	27,832	(26,470)	1,362
Computers and computer software	44,900	(37,890)	7,010
Leasehold improvements	8,713	(8,738)	(25)
	2,564,394	(2,000,971)	563,423

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

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

As at December 31, 2022, the Company determined that there are no events or changes in circumstances indicating that an estimate of the recoverable amount of property, plant and equipment is required for the year ended December 31, 2022.

The Company will continue to monitor and update its assumptions and estimates with respect to property, plant and equipment impairment on an ongoing basis.

In addition, 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 derecognized and written off resulting in an impairment charge of \$10,670 for the year ended December 31, 2022 (year ended December 31, 2021 – \$nil).

The impairment losses by CGU are as follows:

Years Ended December 31,	2022	2021
<i>(C\$000s)</i>	<i>(\$)</i>	<i>(\$)</i>
United States	10,670	—
	10,670	—

6. BRIDGE LOAN

During the second quarter of 2022, the Company repaid and cancelled its \$25,000 secured bridge loan ("Bridge Loan") with G2S2 Capital Inc. ("G2S2"), a company controlled by George S. Arroyan, a member of the Board of Directors. Prior to repayment, the Company had drawn \$15,000. The loan was executed during the first quarter of 2022 to fund the Company's short-term working capital requirements during a period of improved activity in North America.

7. LONG-TERM DEBT

As at December 31, (C\$000s)	2022 (\$)	2021 (\$)
\$250,000 extendible revolving term loan facility, secured by the Canadian and U.S. assets of the Company on a first priority basis	170,000	190,000
\$2,606 1.5 Lien Notes due December 18, 2023, bearing interest at 10.00% payable semi-annually, secured by the Canadian and U.S. assets of the Company on a second priority basis ahead of the Second Lien Notes	2,534	55,385
US\$120,000 Second Lien Notes due March 15, 2026, bearing interest at 10.875% payable semi-annually, secured by the Canadian and U.S. assets of the Company on a second priority basis	162,528	152,136
Less: unamortized debt issuance costs	(3,342)	(9,042)
	331,720	388,479
Current portion	2,534	—
Long-term portion	329,186	388,479
	331,720	388,479

The fair value of the Second Lien Notes (as defined below), as measured based on the closing market price at December 31, 2022 was \$147,411 (December 31, 2021 – \$139,640). 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. As at December 31, 2022, there have been no trades in the 1.5 Lien Notes of which the Company is aware to provide an alternative fair value reference; however, the conversion price is significantly higher than the exercise price which indicates that the fair value of the 1.5 Lien Notes would be significantly higher than its carrying amount.

(a) 1.5 Lien Notes

On December 18, 2020, the Company issued \$60,000 of 1.5 lien senior secured 10 percent payment-in-kind convertible notes ("1.5 Lien Notes") due December 18, 2023 on a private placement basis. The terms of the 1.5 Lien Notes enable the holders to convert each \$1,000 principal amount into approximately 750 common shares at their discretion. Interest is payable in cash semi-annually on March 15 and September 15 of each year. On each interest payment date, the Company may elect to defer and pay in-kind any interest accrued as of such interest payment date by increasing the unpaid principal amount of the 1.5 Lien Notes as at such date (each, a "PIK Interest Payment"). Following each such increase in the principal amount of the 1.5 Lien Notes as a result of any PIK Interest Payment, the 1.5 Lien Notes will bear interest on such increased principal amount from and after the date of each such PIK Interest Payment. Upon repayment of the 1.5 Lien Notes, any interest which has accrued thereon but has not been capitalized as set forth above shall be paid in cash.

The liability portion of the 1.5 Lien Notes was recorded at an initial fair value of \$55,127 using a discount rate of 13.4 percent, representing the discount rate of a comparable debt instrument without a conversion feature. The remaining \$4,873 is the difference between the initial principal amount and the fair value of the liability component and was recorded as the equity portion of the conversion feature in shareholders' equity. The Company incurred transaction costs of \$7,596 associated with the issuance of the 1.5 Lien Notes which was allocated to debt issuance costs and share issuance costs on a proportional basis to the initial fair value of the liability and equity components.

During the fourth quarter of 2022, the Company completed the early conversion of its 1.5 Lien Notes resulting in \$44,834 of notes converted to shares at a price of \$1.3325 per share, leaving \$2,606 principal amount of 1.5 Lien Notes outstanding. As a result of the program, the Company issued 33,646,514 new common shares associated with the conversion of the participating 1.5 Lien Notes and paid \$2,262 in interest as an early conversion fee.

During the year ended December 31, 2022, \$56,052 principal amount of the 1.5 Lien Notes was converted into 42,065,259 common shares (including the early conversions discussed above). For accounting purposes, the conversion was recorded on a proportional basis as a reduction of the liability and equity portion of the 1.5 Lien Notes for \$54,339 and \$4,552 respectively, with a corresponding increase to share capital.

Since inception, the Company has opted to pay all interest payments on the 1.5 Lien Notes in cash rather than utilizing the payment-in-kind option.

(b) Revolving Credit Facility

The Company's revolving credit facilities consist of an operating facility of \$45,000 and a syndicated facility of \$205,000. On September 29, 2022, the Company amended its credit agreement, which included an extension of the the maturity date to July 1, 2024. The credit agreement can be extended by one or more years at the Company's request and lenders' acceptance. The Company may also prepay principal without penalty. The interest rates are based on the parameters of certain bank covenants. For prime-based loans and U.S. base-rate loans, the rate ranges from prime or U.S. base rate plus 1.00 percent to prime plus 3.50 percent. For SOFR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 2.00 percent to 4.50 percent above the respective base rates. The Company incurs interest at the high end of the ranges outlined above if its net Total Debt to Adjusted EBITDA ratio is above 4.00:1.00. As at December 31, 2022, the Company's net Total Debt to Adjusted EBITDA ratio was 1.38:1.00.

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, 2022 was \$46,756 (year ended December 31, 2021 – \$37,833).

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

	2022	2021
<i>(C\$000s)</i>	<i>(\$)</i>	<i>(\$)</i>
Balance, January 1	388,479	324,633
Issuance of long-term debt, net of debt issuance costs	17,762	59,555
Long-term debt repayments	(45,000)	(5,965)
Conversion of 1.5 Lien Notes into shares	(54,339)	(272)
Amortization of compound financial instrument discount	1,488	1,451
Amortization of debt issuance costs and debt discount	13,127	9,699
Foreign exchange adjustments	10,203	(622)
Balance, December 31	331,720	388,479

At December 31, 2022, the Company had utilized \$990 of its loan facility for letters of credit, had \$170,000 outstanding under its revolving term loan facility, leaving \$79,010 in available credit. The Company's credit facilities are subject to a monthly borrowing base, which at December 31, 2022 was above the maximum availability of \$250,000 under its credit facilities. See note 15 for further details on the covenants in respect of the Company's long-term debt.

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

As at December 31, 2022	Amount
<i>(C\$000s)</i>	<i>(\$)</i>
2023	—
2024	170,000
2025	—
2026	162,528
2027	—
Thereafter	—
	332,528

8. CAPITAL STOCK

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

Years Ended December 31,	2022		2021	
Continuity of Common Shares	Shares	Amount	Shares	Amount
	(#)	(\$000s)	(#)	(\$000s)
Balance, beginning of period	37,700,972	801,178	37,408,490	800,184
Issued upon exercise of warrants	531,706	5,054	73,460	698
Conversion of 1.5 Lien Notes into shares (note 7)	42,065,259	58,892	219,136	296
Issued upon exercise of stock options	435,567	2,435	—	—
Reclassification of loan receivable	—	(2,500)	—	—
Cancellation of fractional shares upon 50:1 share consolidation	—	—	(114)	—
Balance, end of period	80,733,504	865,059	37,700,972	801,178

Years Ended December 31,	2022	2021
	(#)	(#)
Weighted average number of common shares outstanding		
Basic	42,609,234	37,543,761
Diluted	84,621,154	86,677,886

The difference between basic and diluted shares is attributable to: warrants issued as disclosed in note 9, the dilutive effect of the conversion of the 1.5 Lien Notes as disclosed in note 7, and the dilutive effect of stock options issued by the Company as disclosed in note 9. The convertible 1.5 Lien Notes are dilutive at the level of profit from continuing operations and in accordance with IAS 33 *Earnings per Share*, have been treated as dilutive for the purpose of diluted EPS. The diluted loss per share is lower than basic loss per share because of the effect of losses on discontinued operations.

Years Ended December 31,	2022	2021
	(#)	(#)
Net income (loss) from continuing operations		
Used in calculating basic earnings per share	35,303	(94,731)
Add: interest savings on convertible 1.5 Lien Notes, net of tax	4,097	4,545
Used in calculating dilutive earnings per share	39,400	(90,186)
Net income (loss) from discontinued operations	(23,626)	11,919
Net income (loss) used in calculating diluted earnings per share	15,774	(78,267)

9. SHARE-BASED PAYMENTS

(a) Stock Options

Years Ended December 31,	2022		2021	
Continuity of Stock Options	Options	Average Exercise Price	Options	Average Exercise Price
	(#)	(\$)	(#)	(\$)
Balance, beginning of period	3,300,000	3.54	—	—
Granted	1,020,000	8.32	3,600,000	3.54
Exercised for common shares	(435,567)	3.54	—	—
Forfeited	(296,664)	3.54	(300,000)	3.54
Balance, end of period	3,587,769	4.90	3,300,000	3.54

Stock options vest equally over three years and expire five years from the date of grant. The exercise price of outstanding options range from \$3.41 to \$10.00 with a weighted average remaining life of 3.86 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 2022, determined using the Black-Scholes valuation method, was \$4.58 per option (year ended December 31, 2021 – \$2.15 per option). The Company applied the following assumptions in determining the fair value of options on the date of grant:

Years Ended December 31,	2022	2021
Expected life (years)	3.00	3.00
Expected volatility (%)	84.60	99.99
Risk-free interest rate (%)	3.34	1.00
Expected dividends (\$)	—	—

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

(b) Share Units

Years Ended December 31,	2022	2021
Continuity of Deferred Share Units		
	(#)	(#)
Balance, beginning of period	107,400	2,400
Granted	127,000	105,000
Exercised	(1,600)	—
Balance, end of period	232,800	107,400

Years Ended December 31,	2022	2021
	(\$)	(\$)
Stock options	2,776	2,272
Deferred share units	579	279
Total stock-based compensation expense	3,355	2,551

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 on the first anniversary of the date 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, 2022, the liability pertaining to deferred share units was \$839 (December 31, 2021 – \$269).

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

(c) Warrants

The Company issued 5,824,433 warrants to shareholders of record (i.e. registered shareholders) as of market close on December 17, 2020. Each warrant is exercisable for a period of three years into one common share at a price of \$2.50 per common share, subject to customary adjustments and restrictions. The fair value of the warrants at issuance was estimated using a Black-Scholes pricing model, in the amount of \$40,797, and accounted for as a reduction of the gain on settlement of debt during the fourth quarter of 2020.

During the year ended December 31, 2022, 531,706 warrants were exercised for total proceeds of \$1,330.

Years Ended December 31,	2022		2021	
	Warrants (#)	Average Exercise Price (\$)	Warrants (#)	Average Exercise Price (\$)
Continuity of Warrants				
Balance, January 1	5,750,856	2.50	5,824,433	2.50
Exercised for common shares	(531,706)	2.50	(73,460)	2.50
Cancelled	—	—	(117)	2.50
Balance, December 31	5,219,150	2.50	5,750,856	2.50

10. INCOME TAXES

The components of income tax expense (recovery) are:

Years Ended December 31, (C\$000s)	2022 (\$)	2021 (\$)
Current income tax expense	5,443	158
Deferred income tax recovery	(16,466)	(27,033)
	(11,023)	(26,875)

The provision for income taxes in the consolidated statements of operations varies from the amount that would be computed by applying the expected 2022 tax rate of 23.0 percent (year ended December 31, 2021 – 23.0 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, (C\$000s except percentages)	2022 (\$)	2021 (\$) Revised ⁽¹⁾
Income (loss) before income tax from continuing operations	24,280	(121,606)
Income tax rate (%)	23.0	23.0
Computed expected income tax expense (recovery)	5,584	(27,969)
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses	2,358	6,387
Foreign tax rate and other foreign differences	2,053	(2,721)
Translation of foreign subsidiaries	146	1,275
Other non-income taxes	(333)	110
Recognition of tax losses	(20,876)	(5,421)
Other	45	1,464
	(11,023)	(26,875)

⁽¹⁾ All comparative amounts exclude the impact from the Company's Russia operations, which have been classified as held for sale and presented as discontinued operations.

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, (C\$000s)	2022 (\$)	2021 (\$)
Property, plant and equipment	(75,657)	(84,890)
Losses carried forward	52,351	46,547
Deferred compensation payable	952	—
Other	10,904	12,057
	(11,450)	(26,286)

Loss carry-forwards expire at various dates ranging from December 31, 2023 to December 31, 2042.

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

Years Ended December 31,	2022	2021
(C\$000s)	(\$)	(\$)
Balance, beginning of year	(26,286)	(53,841)
Charged (credited) to the consolidated statements of operations or accumulated other comprehensive income:		
Property, plant and equipment	9,233	11,049
Losses carried forward	5,805	9,535
Deferred compensation payable	952	—
Other	(1,154)	6,971
Balance, end of year	(11,450)	(26,286)

The Company has tax losses and attributes for which no deferred tax asset is recognized:

Years Ended December 31,	2022	2021
(C\$000s)	(\$)	(\$)
		Revised ⁽¹⁾
Tax losses (capital)	41,969	41,851
Tax losses (income)	36,348	51,953
Property, plant and equipment	21,234	21,194
Canadian exploration expenses	5,180	5,128
Deferred compensation payable	200	64
Deferred financing and share issuance costs	2,542	4,020
Other	18,206	11,264

⁽¹⁾ All comparative amounts exclude the impact from the Company's Russia operations, which have been classified as held for sale and presented as discontinued operations.

Deferred tax assets are only recognized to the extent that it is probable that the assets can be utilized. The Company has concluded that the deferred tax assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for each subsidiary. The Company expects to have sufficient taxable income in succeeding years to fully utilize its deferred tax assets before they expire.

11. 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, 2022, as follows:

	Right-of-Use Asset Recognized	No Right-of-Use Asset Recognized	Total
(C\$000s)	(\$)	(\$)	(\$)
2023	10,693	5,887	16,580
2024	7,966	1,932	9,898
2025	3,467	1,376	4,843
2026	1,159	31	1,190
2027	995	—	995
Thereafter	663	—	663
	24,943	9,226	34,169

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 two years following December 31, 2022, as follows:

<i>(C\$000s)</i>	<i>(\$)</i>
2023	56,870
2024	5,458
	<u>62,328</u>

12. 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.

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

Year Ended December 31, 2022	Opening Net Book Value	Additions	Disposals	Depreciation	Foreign Exchange Adjustments	Closing Net Book Value
<i>(C\$000s)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Field equipment	13,599	10,099	(2,090)	(6,120)	655	16,143
Buildings	8,406	1,625	(1,192)	(2,221)	147	6,765
	<u>22,005</u>	<u>11,724</u>	<u>(3,282)</u>	<u>(8,341)</u>	<u>802</u>	<u>22,908</u>

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

	2022
<i>(C\$000s)</i>	<i>(\$)</i>
Interest expense on lease obligations	1,188
Expense relating to short-term leases (included in operating and selling, general and administrative expense)	43,972
Expense relating to low value leases (included in operating and selling, general and administrative expense)	506
Expense relating to variable lease payments (included in operating and selling, general and administrative expense)	4,683
Income from subleasing of right-of-use assets	(118)
Total cash outflow for lease obligations	<u>10,354</u>

The following table sets out the movement in the lease obligation:

	2022
<i>(C\$000s)</i>	<i>(\$)</i>
Balance, January 1	20,564
Additions	11,724
Disposals/retirements	(578)
Principal portion of payments	(9,166)
Foreign exchange adjustments	648
Balance, December 31	<u>23,192</u>

13. FINANCIAL INSTRUMENTS

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

(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 and carrying value of the Second

Lien Notes, as measured based on the closing market price at December 31, 2022 was \$147,411 and \$162,528, respectively (December 31, 2021 – \$139,640 and \$152,136).

The fair values of the remaining long-term debt approximate their carrying values, as described in note 7.

(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, 2022, the Company had a loss allowance provision for accounts receivable of \$481 (December 31, 2021 – \$569).

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 loan loss recovery of \$99 was recorded during the year ended December 31, 2022, using the lifetime expected credit loss model (year ended December 31, 2021 – \$1,390). The expected credit loss rates for each operating segment are based on actual credit losses experienced in the past.

The loss allowance provision for trade accounts receivable as at December 31, 2022 reconciles to the opening loss allowance provision as follows:

	2022
<i>(C\$000s)</i>	<i>(\$)</i>
At January 1, 2022	569
(Decrease) increase in loan loss allowance recognized in statement of operations	(99)
Foreign exchange adjustments	11
At December 31, 2022	481

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, 2022 and 2021, excluding any impaired accounts, are as follows:

As at December 31,	2022	2021
<i>(C\$000s)</i>	<i>(\$)</i>	<i>(\$)</i>
Current	203,689	135,043
31 – 60 days	27,633	26,405
61 – 90 days	2,352	13,716
91+ days	2,120	8,310
Total	235,794	183,474

(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, 2022 amounts to \$1,700 (December 31, 2021 – \$1,900).

The Company's effective interest rate for the year ended December 31, 2022 was 8.7 percent (year ended December 31, 2021 – 8.4 percent).

(d) Liquidity Risk

The Company's principal sources of liquidity are operating cash flows, existing or new credit facilities, new secured or unsecured debt, and new share equity. The Company monitors its liquidity to ensure it has sufficient funds to complete planned capital and other expenditures. The Company mitigates liquidity risk by maintaining adequate banking and credit facilities and monitoring its forecast and actual cash flows. The Company may also adjust its capital spending to maintain liquidity. See note 15 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, 2022	Total	<1 Year	1 – 3 Years	4 – 6 Years	7 – 9 Years	Thereafter
<i>(C\$000s)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Accounts payable and accrued liabilities	171,603	171,603	—	—	—	—
Lease obligations ⁽¹⁾	24,943	10,693	12,592	1,658	—	—
Long-term debt ⁽¹⁾	409,358	30,686	378,672	0	—	—
	605,904	212,982	391,264	1,658	—	—

⁽¹⁾ Principal and interest of current and long-term portion

At December 31, 2021	Total	<1 Year	1 – 3 Years	4 – 6 Years	7 – 9 Years	Thereafter
<i>(C\$000s)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Accounts payable and accrued liabilities	127,441	127,441	—	—	—	—
Lease obligations ⁽¹⁾	23,534	7,957	12,732	2,845	—	—
Long-term debt ⁽¹⁾	441,248	33,793	251,183	156,272	—	—
	592,223	169,191	263,915	159,117	—	—

⁽¹⁾ Principal and interest of current and long-term portion

(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 and Argentinean peso. The Company is also exposed to the impact of foreign currency fluctuations in its Canadian operations on purchases of products and property, plant and equipment from vendors in the United States. In addition, the Company's Second Lien Notes and related interest expense are denominated in U.S. dollars.

The amount of this debt and related interest expressed in Canadian dollars varies with fluctuations in the 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, 2022	Impact to Net Income
<i>(C\$000s)</i>	<i>(\$)</i>
1% change in value of U.S. dollar	1,560
1% change in value of Argentinean peso	105

At December 31, 2021	Impact to Net Income
<i>(C\$000s)</i>	<i>(\$)</i>
1% change in value of U.S. dollar	1,407
1% change in value of Argentinean peso	90

(f) Country Risk

The ongoing conflict between Russia and Ukraine has added a level of risk and uncertainty and additional restrictions around the operations of the Company's Russian subsidiary. As a result of these evolving circumstances, the risks, restrictions, and uncertainties surrounding, among other things, banking, the Company's ownership and control over its Russian subsidiary, the physical security of property, plant and equipment in Russia, the regulatory approvals to complete a sale transaction and overall business and operational risks are being monitored and addressed as the situation evolves. The impact of these risks will be reflected in the financial statements as required.

The situation in Russia remains dynamic and additional sanctions or restrictions may be issued against or by Russia as the conflict evolves. Additional sanctions or restrictions could have a material impact on the Company's assets, business,

financial condition and cash flows in Russia and the Company has determined that it will sell its Russian operations as noted in note 4.

(g) Cash Risk

The Company faces restrictions on the amount of cash that can be repatriated out of Argentina; however these restrictions are not expected to have a material impact the Company's liquidity position.

14. SUPPLEMENTAL CASH FLOW INFORMATION

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

Years Ended December 31, (C\$000s)	2022 (\$)	2021 (\$)
Accounts receivable	(81,149)	(50,349)
Inventory	(47,831)	(18,724)
Prepaid expenses and deposits	(4,552)	3,346
Accounts payable and accrued liabilities	55,665	16,931
Income taxes recoverable	2,833	(1,329)
	(75,034)	(50,125)
Income taxes paid	3,954	2,820

Purchase of property, plant and equipment is comprised of:

Years Ended December 31, (C\$000s)	2022 (\$)	2021 (\$)
Property, plant and equipment additions	(88,313)	(70,699)
Change in liabilities related to the purchase of property, plant and equipment	8,503	7,265
	(79,810)	(63,434)

The repayment of the 1.5 Lien Notes in shares is a non-cash financing activity, see note 7.

15. 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, 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 Adjusted EBITDA. Adjusted EBITDA for this purpose is calculated on a 12-month trailing basis and is defined as follows:

For the Twelve Months Ended December 31, (C\$000s)	2022 (\$)	2021 (\$)
Net income (loss) from continuing operations	35,303	(94,731)
Adjusted for the following:		
Depreciation	122,027	127,431
Foreign exchange (gains) losses	(2,972)	4,658
Loss on disposal of property, plant and equipment	5,333	405
Impairment of property, plant and equipment	10,670	—
Impairment of inventory	8,477	—
Impairment of other assets	64	705
Litigation settlements related to the Canadian division	11,258	(700)
Restructuring charges	5,273	673
Stock-based compensation	2,776	2,272
Interest	46,555	37,739
Income taxes	(11,023)	(26,875)
Adjusted EBITDA from continuing operations	233,741	51,577

Net debt for this purpose is calculated as follows:

As at December 31, (C\$000s)	2022 (\$)	2021 (\$)
Long-term debt, net of debt issuance costs and debt discount	331,720	388,479
Lease obligations	23,192	20,564
(Deduct) add: (cash and cash equivalents) bank overdraft	(8,498)	1,351
Net debt	346,414	410,394

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

At December 31, 2022, the net debt to Adjusted EBITDA ratio was 1.48:1 (December 31, 2021 – 7.96:1) calculated on a 12-month trailing basis as follows:

For the Twelve Months Ended December 31, (C\$000s, except ratio)	2022 (\$)	2021 (\$)
Net debt	346,414	410,394
Adjusted EBITDA	233,741	51,577
Net debt to Adjusted EBITDA ratio	1.48	7.96

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. As per the amended credit facility agreement as disclosed in note 7, the Company's Funded Debt to Adjusted EBITDA covenant is 3.00x for the quarter ended December 31, 2022 and each quarter end thereafter. As shown in the table below, the Company was in compliance with its financial covenants associated with its credit facilities as at December 31, 2022.

As at December 31,	Covenant	Actual
	2022	2022
Working capital ratio not to fall below	1.15x	2.17x
Funded Debt to Adjusted EBITDA not to exceed ⁽¹⁾⁽²⁾	3.00x	0.69x
Funded Debt to Capitalization not to exceed ⁽¹⁾⁽³⁾	0.30x	0.22x

⁽¹⁾ *Funded Debt is defined as Total Debt excluding all outstanding Second Lien Notes, 1.5 Lien Notes, and lease obligations. Total Debt includes bank loans and long-term debt (before unamortized debt issuance costs and debt discount) plus outstanding letters of credit. For the purposes of the Total Debt to Adjusted EBITDA ratio, the Funded Debt to Capitalization Ratio and the Funded Debt to Adjusted EBITDA ratio, the amount of Total Debt or Funded Debt, as applicable, is reduced by the amount of cash on hand with lenders (excluding any cash held in a segregated account for a specified purpose, including a potential equity cure).*

⁽²⁾ *Adjusted EBITDA is defined as net income or loss for the period adjusted for interest, taxes, depreciation and amortization, foreign exchange losses (gains), non-cash stock-based compensation, and gains and losses that are extraordinary or non-recurring. For bank covenant purposes, Adjusted EBITDA includes the Company's discontinued Russia segment.*

⁽³⁾ *Capitalization is Total Debt plus equity.*

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

- i. Eligible North American accounts receivable, which is based on 75 percent of accounts receivable owing by companies rated BB+ or lower by Standard & Poor's (or a similar rating agency) and 85 percent of accounts receivable from companies rated BBB- or higher;
- ii. 100 percent of unencumbered cash of the parent company and its U.S. operating subsidiary, excluding any cash held in a segregated account for a specified purpose, including a potential equity cure; and
- iii. 35 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 indentures governing the Second Lien Notes and 1.5 Lien Notes (the "Indentures") contain restrictions on the Company's ability to pay dividends, purchase and redeem shares of the Company and make certain restricted investments, that are not defined as Permitted Investments under the Indentures, in circumstances where:

- i. the Company is in default under the Indentures or the making of such payment would result in a default;
- ii. the Company would not meet the Fixed Charge Coverage Ratio⁽¹⁾ under the Indentures of at least 2:1 for the most recent four fiscal quarters, after giving pro forma effect to such restricted payment as if it had been made at the beginning of the applicable four fiscal quarter period; or
- iii. there is insufficient room for such payment within the builder baskets included in the Indentures.

⁽¹⁾ *The Fixed Charge Coverage Ratio is defined as cash flow to interest expense. Cash flow is a non-GAAP measure and does not have a standardized meaning under IFRS and is defined under the Indentures as net income (loss) from continuing operations 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, 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 in the Indentures. As at December 31, 2022, the US\$20,000 basket was not utilized.

The Indentures also restrict the ability to incur 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 indebtedness, including debt under credit facilities up to the greater of \$375,000 or 30 percent of the Company's consolidated tangible assets as well as a general permitted debt basket equal to the greater of 4 percent of consolidated tangible assets and US\$60,000.

As at December 31, 2022, the Company's Fixed Charge Coverage Ratio was above the required 2:1 ratio.

The Company's credit facilities also require majority lender consent for dispositions of property or assets in Canada and the United States if the aggregate market value exceeds \$20,000 in a calendar year, subject to certain exceptions. There are no restrictions pertaining to dispositions of property or assets outside of Canada and the United States, except that if advances under the credit facilities exceed \$50,000 at the time of any such dispositions, the Company must use the resulting proceeds to reduce the advances to less than \$50,000 before using the balance for other purposes.

16. RELATED-PARTY TRANSACTIONS

As disclosed in note 7, the Company completed the early conversion of its 1.5 Lien Notes during the fourth quarter of 2022. Ronald P. Mathison, the Chairman of the Company, and entities controlled by George S. Armoyan, a member of the Board of Directors, who previously held a portion of the Company's 1.5 Lien Notes, participated in the early conversion and fully converted their holdings. Ronald P. Mathison received \$571 and George S. Armoyan received a \$1,175 early conversion incentive fee as a result of the early conversion program.

Certain entities controlled by George S. Armoyan hold US\$16,371 of the Company's Second Lien Notes (December 31, 2021 – US\$16,371).

The Company leases certain premises from a company controlled by Ronald P. Mathison. The rent charged for these premises during the year ended December 31, 2022 was \$957 (year ended December 31, 2021 – \$957), as measured at the exchange amount, which is based on market rates at the time the lease arrangements were made and is under the normal course of business.

17. 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:

	United States	Canada	Argentina	Continuing Operations
(C\$000s)	(\$)	(\$)	(\$)	(\$)
Year Ended December 31, 2022				
Fracturing	805,615	395,802	146,359	1,347,776
Coiled tubing	—	45,308	39,513	84,821
Cementing	—	—	41,678	41,678
Product sales	252	1,170	—	1,422
Subcontractor	—	—	23,523	23,523
	805,867	442,280	251,073	1,499,220
Year Ended December 31, 2021				
Fracturing	428,570	254,517	103,415	786,502
Coiled tubing	—	25,401	23,237	48,638
Cementing	—	—	26,503	26,503
Product sales	(49)	340	—	291
Subcontractor	—	—	18,315	18,315
	428,521	280,258	171,470	880,249

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 94 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 four significant customers that collectively accounted for approximately 51 percent of the Company's revenue for the year ended December 31, 2022 (year ended December 31, 2021 – four significant customers for approximately 54 percent) and, of such customers, one customer accounted for approximately 26 percent of the Company's revenue for the year ended December 31, 2022 (year ended December 31, 2021 – 22 percent).

18. 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,	2022	2021
(C\$000s)	(\$)	(\$)
Product costs	438,847	273,084
Personnel costs	329,697	220,915
Depreciation on property, plant and equipment	113,686	120,275
Depreciation on right-of-use assets	8,341	7,156
Other operating costs ⁽¹⁾	454,043	294,157
Cost of sales from continuing operations	1,344,614	915,587

⁽¹⁾ Other operating costs consists of equipment repairs, subcontractor costs, fleet operating costs, field costs, occupancy costs and other district overhead costs.

During the year ended December 31, 2021, the Company qualified for the Canada Emergency Wage Subsidy (“CEWS”) and the Canada Emergency Rent Subsidy (“CERS”) programs and recognized \$7,735 as a reduction of salaries and wages expense and \$465 as a reduction in rent expense, respectively. Both programs ended in 2021.

19. 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,	2022	2021
(C\$000s)	(\$)	(\$)
Salaries and short-term employee benefits	366,987	249,765
Post-employment benefits (group retirement savings plan)	6,429	1,533
Share-based payments	3,355	2,551
Termination benefits	7,601	1,787
	384,372	255,636

20. COMPENSATION OF KEY MANAGEMENT

Key management is defined as the Company’s Board of Directors, Chief Executive Officer, President and Chief Operating Officer, and Chief Financial Officer. During 2021, it was defined as the Board of Directors, interim Chief Executive Officer, Chairman, President and Chief Operating Officer, and Chief Financial Officer.

Compensation awarded to key management comprised:

Years Ended December 31,	2022	2021
(C\$000s)	(\$)	(\$)
Salaries, fees and short-term benefits	3,252	1,930
Post-employment benefits (group retirement savings plan)	41	6
Share-based payments	1,397	974
Termination benefits	1,381	—
	6,071	2,910

In the event of termination, the President and Chief Operating Officer and the Chief Financial Officer are entitled to one year of annual compensation (inclusive of target bonus entitlement), and two years of annual compensation in the event of termination resulting from a change of control. The Chief Executive Officer is entitled to the minimum payment in lieu of notice as specified in the Alberta Employment Standards Code, and a payment equal to two times annual base salary and benefits in the event of termination resulting from a change of control.

On January 4, 2023, the President and Chief Operating Officer retired and this role was not replaced.

21. 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 \$9,162 (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 was 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.

Provisional orders granting a temporary suspension of any enforcement proceedings have been granted in respect of all of these orders on the basis they were improperly issued and are barred from a statute of limitations perspective. Hearings in respect of each of the orders have been held, and in each case, decisions were rendered accepting the Company's position. All of these decisions were appealed, but the favorable judgments have all been confirmed in the Company's favor. The plaintiffs have filed petitions for cassation (a form of appeal in Greece) against three of the appeal judgments, and will have 30 days to file a petition for cassation following the service of the remaining judgment in respect of the enforcement order once it has been certified. No hearings have been scheduled for the three pending cassation petitions.

NAPC is also the subject of a claim for approximately \$3,183 (2,201 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. That claim was upheld by judgment No. 99/2021 of the Administrative Court of Appeal in Komotini and a petition for cassation has been filed by NAPC partially challenging the aforementioned judgment and its quantum.

The maximum aggregate interest and penalties payable under the claims noted above, as well as three other immaterial claims against NAPC totaling \$835 (578 euros), amounted to \$30,577 (21,149 euros) as at December 31, 2022.

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.

VENDOR CONTRACT DISPUTE

A complaint for money damages was filed against the Company by a vendor in the United States District Court for the District of Delaware in July 2021. The complaint alleged the Company failed to satisfy certain volume commitments and associated shortfall payment obligations under a sand supply agreement for the Canadian division and the vendor was seeking at least US\$10.2 million in damages together with interest and unspecified other relief. The Company filed an answer to the complaint (as amended) and a counter-claim. During the fourth quarter of 2022, the Company and the vendor resolved the dispute and the case was dismissed.

22. SEGMENTED INFORMATION

The Company's activities in its continuing operations are conducted in three geographical segments: the United States, Canada, 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 Adjusted EBITDA, as defined below.

	United States	Canada	Argentina	Corporate	Continuing Operations
(C\$000s)	(\$)	(\$)	(\$)	(\$)	(\$)
Year Ended December 31, 2022					
Revenue	805,867	442,280	251,073	—	1,499,220
Adjusted EBITDA	144,672	79,762	30,979	(21,672)	233,741
Segmented assets	570,403	231,149	148,261	—	949,813
Capital expenditures	60,600	17,071	10,269	—	87,940
Year Ended December 31, 2021					
Revenue	428,521	280,258	171,470	—	880,249
Adjusted EBITDA	10,268	38,614	22,804	(20,109)	51,577
Segmented assets	494,268	224,274	108,589	—	827,131
Capital expenditures	42,033	12,189	12,353	—	66,575

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

Years Ended December 31,	2022	2021
(C\$000s)	(\$)	(\$)
Net income (loss) from continuing operations	35,303	(94,731)
Add back (deduct):		
Depreciation	122,027	127,431
Foreign exchange (gains) losses ⁽²⁾	(2,972)	4,658
Loss on disposal of property, plant and equipment	5,333	405
Impairment of property, plant and equipment	10,670	—
Impairment of inventory	8,477	—
Impairment of other assets	64	705
Litigation settlements related to the Canadian division	11,258	(700)
Restructuring charges	5,273	673
Stock-based compensation	2,776	2,272
Interest	46,555	37,739
Income taxes	(11,023)	(26,875)
Adjusted EBITDA from continuing operations ⁽¹⁾	233,741	51,577

⁽¹⁾ For bank covenant purposes, EBITDA includes \$16,440 income from discontinued operations for the year ended December 31, 2022 (year ended December 31, 2021 – \$14,373 income) and the deduction of an additional \$10,354 of lease payments for the year ended December 31, 2022 (year ended December 31, 2021 – \$8,968) that would have been recorded as operating expenses prior to the adoption of IFRS 16.

⁽²⁾ Adjusted EBITDA reflects a change in definition and excludes realized foreign exchange gains and losses.