



## Third Quarter Interim Report

For the three and nine months ended  
September 30, 2018

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## HIGHLIGHTS

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
(C\$000s, except per share and unit data)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
(unaudited)						
Revenue	<b>630,128</b>	448,090	41	<b>1,757,568</b>	1,042,249	69
Operating income <sup>(1)</sup>	<b>115,331</b>	78,196	47	<b>249,833</b>	135,331	85
Per share – basic	<b>0.80</b>	0.57	40	<b>1.74</b>	0.99	76
Per share – diluted	<b>0.79</b>	0.57	39	<b>1.70</b>	0.98	73
Adjusted EBITDA <sup>(1)</sup>	<b>111,631</b>	81,113	38	<b>266,494</b>	142,610	87
Per share – basic	<b>0.77</b>	0.59	31	<b>1.85</b>	1.04	78
Per share – diluted	<b>0.76</b>	0.59	29	<b>1.81</b>	1.03	76
Net income (loss) attributable to the shareholders of Calfrac before foreign exchange gains or losses <sup>(2)</sup>	<b>29,741</b>	17,564	69	<b>17,075</b>	(13,826)	NM
Per share – basic	<b>0.21</b>	0.13	62	<b>0.12</b>	(0.10)	NM
Per share – diluted	<b>0.20</b>	0.13	54	<b>0.12</b>	(0.10)	NM
Net income (loss) attributable to the shareholders of Calfrac	<b>14,878</b>	7,822	90	<b>(14,726)</b>	(32,074)	(54)
Per share – basic	<b>0.10</b>	0.06	67	<b>(0.10)</b>	(0.23)	(57)
Per share – diluted	<b>0.10</b>	0.06	67	<b>(0.10)</b>	(0.23)	(57)
Working capital (end of period)				<b>386,843</b>	334,606	16
Total equity (end of period)				<b>516,899</b>	477,188	8
Weighted average common shares outstanding (000s)						
Basic	<b>144,237</b>	136,606	6	<b>143,959</b>	136,588	5
Diluted	<b>146,858</b>	138,105	6	<b>147,103</b>	138,158	6

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.

<sup>(2)</sup> Net income (loss) attributable to the shareholders of Calfrac before foreign exchange (FX) gains or losses is on an after-tax basis. Management believes that this is a useful supplemental measure as it provides an indication of the financial results generated by Calfrac without the impact of FX fluctuations, which are not fully controllable by the Company. This measure does not have any standardized meaning prescribed under IFRS and, accordingly, may not be comparable to similar measures used by other companies.

## CEO MESSAGE

Fernando Aguilar, Calfrac's President & Chief Executive Officer commented "The excellent results delivered by Calfrac in the third quarter reflect the hard work put in by our employees and the strength of our relationships with our valued customers and industry partners. My thanks to all involved for a job well done!"

During the quarter, Calfrac:

- reported consolidated third-quarter revenue and operating income that were 41% and 47% higher than the comparative quarter in 2017;
- generated \$25.8 million of free cash flow and reduced borrowings on its credit facility by \$20.0 million; and
- completed the reactivation of the Company's North American asset base with a 17<sup>th</sup> fleet in the United States.

## THIRD QUARTER 2018 OVERVIEW

### CONSOLIDATED HIGHLIGHTS

Three Months Ended September 30,	2018	2017	Change
(C\$000s, except operational information)	(\$)	(\$)	(%)
(unaudited)			
Revenue	630,128	448,090	41
Expenses			
Operating	491,912	353,982	39
Selling, general and administrative (SG&A)	22,885	15,912	44
	514,797	369,894	39
Operating income <sup>(1)</sup>	115,331	78,196	47
Operating income (%)	18.3	17.5	5
Adjusted EBITDA <sup>(1)</sup>	111,631	81,113	38
Adjusted EBITDA (%)	17.7	18.1	(2)
Fracturing revenue per job (\$)	40,048	29,412	36
Number of fracturing jobs	14,674	13,673	7
Active pumping horsepower, end of period (000s)	1,344	1,057	27
Idle pumping horsepower, end of period (000s)	49	338	(86)
Total pumping horsepower, end of period (000s)	1,393	1,395	—
Coiled tubing revenue per job (\$)	28,270	26,526	7
Number of coiled tubing jobs	938	961	(2)
Active coiled tubing units, end of period (#)	22	21	5
Idle coiled tubing units, end of period (#)	8	11	(27)
Total coiled tubing units, end of period (#)	30	32	(6)
Cementing revenue per job (\$)	46,030	45,454	1
Number of cementing jobs	109	126	(13)
Active cementing units, end of period (#)	11	12	(8)
Idle cementing units, end of period (#)	12	13	(8)
Total cementing units, end of period (#)	23	25	(8)

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.

Revenue in the third quarter of 2018 was \$630.1 million, an increase of 41 percent from the same period in 2017. The Company's fracturing job count increased by 7 percent mainly due to a larger scale of operations and higher activity in the United States. During the quarter, Calfrac pumped approximately 640,000 tons of sand in the United States and 340,000 tons in Canada, representing growth of 71 percent and 6 percent, respectively, from the prior year. Consolidated revenue per fracturing job increased by 36 percent primarily due to a combination of better pricing, larger job sizes and job mix. The number of cementing jobs decreased by 13 percent due primarily to lower cementing activity in northern Argentina.

Pricing in the United States increased while pricing in Russia was consistent with the third quarter of 2017. In Argentina, the transition to more unconventional activity does not allow for a meaningful pricing comparison to the third quarter in 2017 as the style of job is significantly different than conventional activity. Net pricing in Canada was relatively consistent with the comparable quarter as any pricing reductions were the result of lower sand and related transportation costs.

Adjusted EBITDA of \$111.6 million for the third quarter of 2018 increased from \$81.1 million in the comparable period in 2017 primarily due to significantly higher utilization in the United States and to a lesser extent Argentina. This was offset partially by a higher annual bonus provision of \$7.7 million.

Net income attributable to shareholders of Calfrac was \$14.9 million or \$0.10 per share diluted compared to net income of \$7.8 million or \$0.06 per share diluted in the same period last year. These net incomes included foreign exchange losses of \$8.2 million and \$13.6 million in the third quarter of 2018 and 2017, respectively.

Three Months Ended	September 30, 2018	June 30, 2018	Change
(C\$000s, except operational information) (unaudited)	(\$)	(\$)	(%)
Revenue	630,128	544,602	16
Expenses			
Operating	491,912	453,751	8
SG&A	22,885	24,323	(6)
	514,797	478,074	8
Operating income <sup>(1)</sup>	115,331	66,528	73
Operating income (%)	18.3	12.2	50
Adjusted EBITDA <sup>(1)</sup>	111,631	81,910	36
Adjusted EBITDA (%)	17.7	15.0	18
Fracturing revenue per job (\$)	40,048	46,830	(14)
Number of fracturing jobs	14,674	10,817	36
Active pumping horsepower, end of period (000s)	1,344	1,313	2
Idle pumping horsepower, end of period (000s)	49	80	(39)
Total pumping horsepower, end of period (000s)	1,393	1,393	—
Coiled tubing revenue per job (\$)	28,270	30,189	(6)
Number of coiled tubing jobs	938	876	7
Active coiled tubing units, end of period (#)	22	22	—
Idle coiled tubing units, end of period (#)	8	8	—
Total coiled tubing units, end of period (#)	30	30	—
Cementing revenue per job (\$)	46,030	47,290	(3)
Number of cementing jobs	109	68	60
Active cementing units, end of period (#)	11	11	—
Idle cementing units, end of period (#)	12	12	—
Total cementing units, end of period (#)	23	23	—

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.

Revenue in the third quarter of 2018 was \$630.1 million, an increase of 16 percent from the second quarter of 2018, primarily due to higher activity in Canada as a result of the normal seasonal ramp up post spring break-up. Revenue in the United States and Argentina was also up sequentially due to higher activity levels and job sizes. Revenue per fracturing job decreased by 14 percent primarily due to job mix in Canada. Net pricing in all operating regions was largely consistent with the second quarter of 2018.

In Canada, third-quarter revenue increased by 40 percent from the second quarter to \$184.0 million with the Company experiencing strong activity as spring break-up conditions abated. Calfrac's Canadian division was nearly fully utilized through most of the quarter until weather and ground conditions slowed activity in the latter part of September. Operating income as a percentage of revenue was 15 percent versus 8 percent in the second quarter primarily due to higher equipment utilization.

In the United States, revenue in the third quarter of 2018 increased by 5 percent from the second quarter to \$359.3 million, mainly as a result of the addition of the 17<sup>th</sup> fleet that was activated at the beginning of the third quarter. The U.S. division's operating income margin increased to 25 percent in the third quarter from 20 percent in the second quarter of 2018. The improved results were driven by continued strong utilization across all of its operating districts as well as excellent productivity and cost management.

In Russia, revenue of \$25.7 million in the third quarter of 2018 was consistent with the second quarter with a slight increase in fracturing revenue, offset by lower coiled tubing revenue. The operating income position in the third quarter was primarily due to higher fracturing equipment utilization.

In Argentina, revenue in the third quarter of 2018 increased by 34 percent from the second quarter to \$61.1 million, while operating income of \$9.4 million improved compared to \$2.1 million generated in the second quarter. The significant improvement was achieved through a combination of improved utilization and cost management during the quarter.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*This Management's Discussion and Analysis (MD&A) for Calfrac Well Services Ltd. ("Calfrac" or the "Company") has been prepared by management as of October 24, 2018 and is a review of the Company's financial condition and results of operations based on International Financial Reporting Standards (IFRS).*

*The focus of this MD&A is a comparison of the financial performance for the three and nine months ended September 30, 2018 and 2017. It should be read in conjunction with the interim consolidated financial statements for the three and nine months ended September 30, 2018 as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2017.*

*Readers should also refer to the "Forward-Looking Statements" legal advisory at the end of this MD&A. All financial amounts and measures presented are expressed in Canadian dollars unless otherwise indicated. The definitions of certain non-GAAP measures used are included on pages 22 and 23.*

## CALFRAC'S BUSINESS

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

The Company's reportable business segments during the three and nine months ended September 30, 2018 were as follows:

Segment	Active	Idle	Total	Active Fleets
	(hhp)	(hhp)	(hhp)	(#)
United States	832,000	21,000	853,000	17
Canada	327,000	28,000	355,000	8
Argentina	108,000	—	108,000	5
Russia	77,000	—	77,000	7
Total	1,344,000	49,000	1,393,000	37

- The Company's United States segment provides fracturing services to oil companies operating in the Bakken oil shale play in North Dakota; in the Rockies area, including the Powder River Basin in Wyoming, as well as in Texas and New Mexico, where it services the Eagle Ford and Permian basins. Calfrac also provides fracturing services to natural gas-focused customers operating in the Marcellus and Utica shale plays in Pennsylvania, Ohio and West Virginia. During the third quarter of 2017, the Company restarted and expanded operations in Texas by re-opening its San Antonio base and commencing operations based out of Artesia, New Mexico servicing the Permian basin. At September 30, 2018, Calfrac's United States operations had combined active horsepower of approximately 832,000 and no active cementing or coiled tubing units. At the end of the third quarter, the United States segment had temporarily idled approximately 21,000 horsepower, ten cementing units and two coiled tubing units.
- The Canadian segment is focused on the provision of fracturing and coiled tubing services to a diverse group of oil and natural gas exploration and production companies operating in Alberta, northeast British Columbia, Saskatchewan and Manitoba. The Company's customer base in Canada ranges from large multinational public companies to small private companies. At September 30, 2018, Calfrac's Canadian operations had active horsepower of approximately 327,000 and 11 active coiled tubing units. At the end of the third quarter, the Canadian segment had temporarily idled approximately 28,000 horsepower and four coiled tubing units.
- The Argentinean segment provides pressure pumping services from its operating bases in Argentina. The Company provides fracturing, cementing and coiled tubing services to oil and natural gas companies operating in the Neuquén, Las Heras and Comodoro regions. The Company had approximately 108,000 active horsepower, 11 active cementing units and five active coiled tubing units in its Argentinean segment at September 30, 2018. At the end of the third quarter, the Argentinean segment had two idle cementing units and one idle coiled tubing unit.
- The Company's Russian segment provides fracturing and coiled tubing services in Western Siberia. During the third quarter of 2018, the Company operated under a mix of annual and multi-year agreements to provide services to a number of Russia's largest oil producers. At September 30, 2018, the Russian segment had seven deep coiled tubing units, of which six were active, and approximately 77,000 active horsepower forming seven fracturing spreads in Russia.

## CONSOLIDATED HIGHLIGHTS

	Three months ended Sep. 30,			Nine months ended Sep. 30,		
	2018	2017	Change	2018	2017	Change
<i>(C\$000s, except per share amounts)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(%)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(%)</i>
<i>(unaudited)</i>						
Revenue	<b>630,128</b>	448,090	41	<b>1,757,568</b>	1,042,249	69
Operating income <sup>(1)</sup>	<b>115,331</b>	78,196	47	<b>249,833</b>	135,331	85
Per share – basic	<b>0.80</b>	0.57	40	<b>1.74</b>	0.99	76
Per share – diluted	<b>0.79</b>	0.57	39	<b>1.70</b>	0.98	73
Adjusted EBITDA <sup>(1)</sup>	<b>111,631</b>	81,113	38	<b>266,494</b>	142,610	87
Per share – basic	<b>0.77</b>	0.59	31	<b>1.85</b>	1.04	78
Per share – diluted	<b>0.76</b>	0.59	29	<b>1.81</b>	1.03	76
Net income (loss) attributable to the shareholders of Calfrac	<b>14,878</b>	7,822	90	<b>(14,726)</b>	(32,074)	(54)
Per share – basic	<b>0.10</b>	0.06	67	<b>(0.10)</b>	(0.23)	(57)
Per share – diluted	<b>0.10</b>	0.06	67	<b>(0.10)</b>	(0.23)	(57)
As at						
				September 30,	December 31,	Change
				2018	2017	
<i>(C\$000s)</i>				<i>(\$)</i>	<i>(\$)</i>	<i>(%)</i>
<i>(unaudited)</i>						
Working capital, end of period				<b>386,843</b>	327,049	18
Total assets, end of period				<b>1,854,668</b>	1,777,966	4
Long-term debt, end of period				<b>1,017,879</b>	958,825	6
Total equity, end of period				<b>516,899</b>	543,645	(5)

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.

## THIRD QUARTER OVERVIEW

In the third quarter of 2018, the Company:

- generated revenue of \$630.1 million, an increase of 41 percent from the third quarter in 2017, resulting primarily from higher activity and a larger scale of operations in the United States;
- reported adjusted EBITDA of \$111.6 million versus \$81.1 million in the comparable period in 2017, mainly as a result of improved utilization in the United States and Argentina;
- reported net income attributable to shareholders of Calfrac of \$14.9 million or \$0.10 per share diluted, which included a foreign exchange loss of \$8.2 million, compared to net income of \$7.8 million or \$0.06 per share diluted in 2017, which included a foreign exchange loss of \$13.6 million;
- reported period-end working capital of \$386.8 million versus \$327.0 million at December 31, 2017; and
- incurred capital expenditures of \$34.5 million, focused on maintenance and sustaining activities to support the Company's North American fracturing operations.

In the nine months ended September 30, 2018, the Company:

- generated revenue of \$1.8 billion, an increase of 69 percent from the first nine months in 2017, resulting primarily from higher activity and a larger scale of operations in North America;
- reported adjusted EBITDA of \$266.5 million versus \$142.6 million in the comparable period in 2017, mainly as a result of improved utilization and pricing in North America;
- reported a net loss attributable to shareholders of Calfrac of \$14.7 million or \$0.10 per share diluted, which included a foreign exchange loss of \$41.4 million, compared to a net loss of \$32.1 million or \$0.23 per share diluted in 2017;
- incurred capital expenditures of \$128.3 million, focused on maintenance and sustaining activities to support the Company's North American fracturing operations;
- amended its revolving credit facility agreement to exercise \$100.0 million of accordion capacity, which increased its total borrowing capacity under these facilities from \$275.0 million to \$375.0 million;
- closed a private offering of US\$650.0 million aggregate principal amount of 8.50 percent senior notes due 2026 and repaid all of its outstanding 7.50 percent senior notes due 2020;
- repaid in full the remaining \$196.5 million principal amount of its second lien senior secured term loan facility with Alberta Investment Management Corporation (AIMCo); and
- activated four fleets in its U.S. operations, including two in New Mexico, one in North Dakota and one in Colorado, as well as one large fracturing fleet in Canada.

## FINANCIAL OVERVIEW – THREE MONTHS ENDED SEPTEMBER 30, 2018 VERSUS 2017

### CANADA

Three Months Ended September 30,	2018	2017	Change
(C\$000s, except operational information)	(\$)	(\$)	(%)
(unaudited)			
Revenue	<b>184,046</b>	180,953	2
Expenses			
Operating	<b>152,610</b>	133,990	14
SG&A	<b>3,790</b>	2,545	49
	<b>156,400</b>	136,535	15
Operating income <sup>(1)</sup>	<b>27,646</b>	44,418	(38)
Operating income (%)	<b>15.0</b>	24.5	(39)
Fracturing revenue per job (\$)	<b>20,873</b>	20,287	3
Number of fracturing jobs	<b>8,093</b>	8,153	(1)
Active pumping horsepower, end of period (000s)	<b>327</b>	277	18
Idle pumping horsepower, end of period (000s)	<b>28</b>	150	(81)
Total pumping horsepower, end of period (000s)	<b>355</b>	427	(17)
Coiled tubing revenue per job (\$)	<b>22,139</b>	22,243	—
Number of coiled tubing jobs	<b>663</b>	591	12
Active coiled tubing units, end of period (#)	<b>11</b>	9	22
Idle coiled tubing units, end of period (#)	<b>4</b>	4	—
Total coiled tubing units, end of period (#)	<b>15</b>	13	15

<sup>(1)</sup> Refer to “Non-GAAP Measures” on pages 22 and 23 for further information.

### REVENUE

Revenue from Calfrac’s Canadian operations during the third quarter of 2018 was \$184.0 million versus \$181.0 million in the same period of 2017. During the third quarter in the previous year, the Company achieved full utilization from seven operating fleets as its customers ramped up activity in response to an improved commodity price outlook. In the third quarter of 2018, the number of fracturing jobs was consistent with the comparable period in 2017 despite operating an eighth fracturing crew, as the Company experienced significant weather-related delays in September in Central Alberta and Saskatchewan. The number of coiled tubing jobs increased by 12 percent from the third quarter in 2017, primarily due to a larger operating scale.

### OPERATING INCOME

Operating income in Canada during the third quarter of 2018 was \$27.6 million compared to \$44.4 million in the same period of 2017. The decrease in operating income was primarily due to lower fracturing crew utilization as the Company operated one additional fracturing fleet compared to the same quarter in 2017, despite overall activity being consistent year-over-year. Pricing for proppant trended lower towards the end of the quarter as supply improved, however, this lower pricing did not meaningfully impact third quarter profitability due to inventory levels and purchase timing. Third-quarter operating income was also negatively impacted by \$1.4 million of provincial sales tax assessments in British Columbia. The \$1.2 million increase in SG&A expenses compared to the third quarter in 2017 was primarily due to the reinstatement of compensation that was scaled back through the downturn and other costs attributed to the year-over-year growth in the business.

## UNITED STATES

Three Months Ended September 30,	2018	2017	Change
(C\$000s, except operational and exchange rate information)	(\$)	(\$)	(%)
(unaudited)			
Revenue	359,335	193,817	85
Expenses			
Operating	265,083	153,783	72
SG&A	5,705	2,950	93
	270,788	156,733	73
Operating income <sup>(1)</sup>	88,547	37,084	139
Operating income (%)	24.6	19.1	29
Fracturing revenue per job (\$)	59,856	39,260	52
Number of fracturing jobs	5,988	4,858	23
Active pumping horsepower, end of period (000s)	832	588	41
Idle pumping horsepower, end of period (000s)	21	188	(89)
Total pumping horsepower, end of period (000s)	853	776	10
Active coiled tubing units, end of period (#)	—	—	—
Idle coiled tubing units, end of period (#)	2	5	(60)
Total coiled tubing units, end of period (#)	2	5	(60)
Active cementing units, end of period (#)	—	—	—
Idle cementing units, end of period (#)	10	11	(9)
Total cementing units, end of period (#)	10	11	(9)
US\$/C\$ average exchange rate <sup>(2)</sup>	1.3070	1.2528	4

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.

<sup>(2)</sup> Source: Bank of Canada.

## REVENUE

Revenue from Calfrac's United States operations increased to \$359.3 million during the third quarter of 2018 from \$193.8 million in the comparable quarter of 2017. The Company recorded a 23 percent increase in the number of fracturing jobs completed period-over-period, driven by higher demand and more active equipment operating in the field as compared to the same quarter in 2017. Revenue per job increased 52 percent year-over-year due to the impact of job mix as the Company's operations in Texas and New Mexico resulted in the completion of larger overall job sizes. Higher pricing combined with the 4 percent appreciation in the U.S. dollar versus the Canadian dollar also contributed to the increase in revenue.

## OPERATING INCOME

The Company's United States operations generated operating income of \$88.5 million during the third quarter of 2018 compared to \$37.1 million in the same period in 2017. The significant increase was primarily the result of improved utilization and pricing in North Dakota and Pennsylvania, as well as solid operational performance in Texas and New Mexico. The Company's operations in the Permian basin were in the start-up phase during the third quarter of 2017 and did not achieve the same scale and efficiencies that were realized in 2018. Operating results in the third quarter of 2018 did not include any fleet reactivation costs while \$8.0 million was incurred in the comparable quarter in 2017. SG&A expenses increased by 93 percent in the third quarter of 2018 primarily due to higher personnel and other costs attributed to the year-over-year growth in the business. Additionally, the Company allocated a greater proportion of SG&A costs that directly related to its operating divisions during the period.



## RUSSIA

Three Months Ended September 30,	2018	2017	Change
(C\$000s, except operational and exchange rate information)	(\$)	(\$)	(%)
(unaudited)			
Revenue	25,667	29,758	(14)
Expenses			
Operating	23,341	24,299	(4)
SG&A	758	754	1
	24,099	25,053	(4)
Operating income <sup>(1)</sup>	1,568	4,705	(67)
Operating income (%)	6.1	15.8	(61)
Fracturing revenue per job (\$)	68,452	73,027	(6)
Number of fracturing jobs	321	336	(4)
Pumping horsepower, end of period (000s)	77	70	10
Coiled tubing revenue per job (\$)	40,596	40,789	—
Number of coiled tubing jobs	91	128	(29)
Active coiled tubing units, end of period (#)	6	6	—
Idle coiled tubing units, end of period (#)	1	1	—
Total coiled tubing units, end of period (#)	7	7	—
Rouble/C\$ average exchange rate <sup>(2)</sup>	0.0200	0.0213	(6)

<sup>(1)</sup> Refer to “Non-GAAP Measures” on pages 22 and 23 for further information.

<sup>(2)</sup> Source: Bank of Canada.

## REVENUE

Revenue from Calfrac’s Russian operations decreased by 14 percent during the third quarter of 2018 to \$25.7 million from \$29.8 million in the corresponding three-month period of 2017. The decrease in revenue was attributable to a decrease in fracturing activity in Noyabrsk and Usinsk, offset partially by higher activity in Khanty-Mansiysk. Revenue per fracturing job decreased by 6 percent primarily due to job mix as the Company did not perform any work in Usinsk, which typically had significantly larger job sizes. Coiled tubing activity decreased by 29 percent, primarily due to lower utilization than expected with one of its customers. The 6 percent depreciation of the Russian rouble in the third quarter of 2018 versus the same period in 2017 also contributed to the decrease in reported revenue.

## OPERATING INCOME

The Company’s Russian division generated operating income of \$1.6 million during the third quarter of 2018 versus \$4.7 million in the comparable quarter in 2017. The decrease was primarily due to lower equipment utilization in Noyabrsk combined with the impact of not operating in Usinsk during the third quarter in 2018, as this region contributed positively to operating income in 2017. SG&A expenses were consistent with the comparable quarter in 2017.

**ARGENTINA**

Three Months Ended September 30,	2018	2017	Change
(C\$000s, except operational and exchange rate information) (unaudited)	(\$)	(\$)	(%)
Revenue	<b>61,080</b>	43,562	40
Expenses			
Operating	<b>49,301</b>	40,977	20
SG&A	<b>2,363</b>	2,593	(9)
	<b>51,664</b>	43,570	19
Operating income (loss) <sup>(1)</sup>	<b>9,416</b>	(8)	NM
Operating income (loss) (%)	<b>15.4</b>	0.0	NM
Total pumping horsepower, end of period (000s)	<b>108</b>	122	(11)
Active cementing units, end of period (#)	<b>11</b>	12	(8)
Idle cementing units, end of period (#)	<b>2</b>	2	—
Total cementing units, end of period (#)	<b>13</b>	14	(7)
Active coiled tubing units, end of period (#)	<b>5</b>	6	(17)
Idle coiled tubing units, end of period (#)	<b>1</b>	1	—
Total coiled tubing units, end of period (#)	<b>6</b>	7	(14)
US\$/C\$ average exchange rate <sup>(2)</sup>	<b>1.3070</b>	1.2528	4

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.

<sup>(2)</sup> Source: Bank of Canada and Bloomberg.

**REVENUE**

Calfrac's Argentinean operations generated total revenue of \$61.1 million during the third quarter of 2018 versus \$43.6 million in the comparable three-month period in 2017. Revenue in Argentina was 40 percent higher than the comparable quarter primarily due to the completion of significantly larger jobs in Neuquen and higher fracturing activity in southern Argentina. The Company's revenue per job increased by 114 percent in the third quarter of 2018 primarily due to a greater proportion of activity in the Vaca Muerta while activity in the south was up 23 percent quarter-over-quarter. Coiled tubing revenue in Argentina increased year-over-year due to the completion of larger coiled tubing jobs during the third quarter of 2018 in unconventional gas plays. Cementing revenue was relatively consistent with the comparable period in 2017 as lower cementing activity in northern Argentina was offset by increased cementing activity in southern Argentina.

**OPERATING INCOME (LOSS)**

The Company's operations in Argentina generated operating income of \$9.4 million during the third quarter of 2018 compared to operating at near break-even during the third quarter in 2017. The Company achieved positive operating income through a combination of improved utilization and crew efficiencies during the quarter as it continued to transition to unconventional operations in Argentina. SG&A expenses were 9 percent lower during the third quarter in 2018 compared to the third quarter in 2017 primarily due to lower personnel expenses.

## CORPORATE

Three Months Ended September 30,	2018	2017	Change
(C\$000s)	(\$)	(\$)	(%)
(unaudited)			
Expenses			
Operating	1,577	933	69
SG&A	10,269	7,070	45
	11,846	8,003	48
Operating loss <sup>(1)</sup>	(11,846)	(8,003)	48
% of Revenue	1.9	1.8	6

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.

## OPERATING LOSS

Corporate expenses for the third quarter of 2018 were \$11.8 million compared to \$8.0 million in the third quarter of 2017. Operating expenses were \$0.6 million higher primarily due to higher personnel costs during the quarter. SG&A expenses increased by \$3.2 million primarily due to the reinstatement of compensation that was scaled back through the downturn, offset partially by a higher allocation of costs that were directly attributed to the Company's operating divisions. The remaining increase related to higher stock-based compensation expense of \$0.9 million recorded during the quarter.

## DEPRECIATION

For the three months ended September 30, 2018, depreciation expense increased by \$12.0 million to \$42.6 million from \$30.6 million in the corresponding quarter of 2017. The increase in depreciation was primarily due to the \$76.3 million impairment reversal that was recorded during the fourth quarter of 2017, combined with capital expenditures related to the continued activation of fleets in North America during 2017 and 2018.

## FOREIGN EXCHANGE GAINS AND LOSSES

The Company recorded a foreign exchange loss of \$8.2 million during the third quarter of 2018 versus a loss of \$13.6 million in the comparative three-month period of 2017. Foreign exchange gains and losses arise primarily from the translation of net monetary assets or liabilities that were held in U.S. dollars in Canada, net monetary assets or liabilities that were held in pesos in Argentina, and liabilities held in Canadian dollars in Russia. The Company's foreign exchange loss for the third quarter of 2018 was largely attributable to the change in the functional currency of its Argentina subsidiary from pesos to U.S. dollars effective July 1, 2018. U.S. dollar-denominated assets held in Canada also contributed to the foreign exchange loss during the quarter.

## INTEREST

The Company's net interest expense of \$21.8 million for the third quarter of 2018 was \$0.7 million higher than in the comparable period of 2017. This increase was due to the higher interest rate on its US\$650.0 million 8.50 percent senior notes during the third quarter compared to its US\$600.0 million 7.50 percent senior notes that were repaid during the second quarter of 2018. This was offset by the impact of replacing its \$200.0 million second lien term loan that carried an interest rate of 9.0% with lower interest rate credit facility debt.

## INCOME TAXES

The Company recorded income tax expense of \$20.0 million during the third quarter of 2018 compared to an expense of \$0.8 million in the comparable period of 2017. The expense position was the result of pre-tax income generated during the quarter in the United States and Argentina, offset partially by losses in Canada and Russia.

## SUMMARY OF QUARTERLY RESULTS

Three Months Ended	Dec. 31,	Mar. 31,	Jun. 30,	Sep. 30,	Dec. 31,	Mar. 31,	Jun. 30,	Sep. 30,
	2016	2017	2017	2017	2017	2018	2018	2018
<i>(C\$000s, except per share and operating data)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
<i>(unaudited)</i>								
<b>Financial</b>								
Revenue	192,846	268,815	325,344	448,090	485,456	582,838	544,602	<b>630,128</b>
Operating income (loss) <sup>(1)</sup>	(18,291)	20,395	36,740	78,196	44,789	67,974	66,528	<b>115,331</b>
Per share – basic	(0.15)	0.15	0.27	0.57	0.32	0.47	0.46	<b>0.80</b>
Per share – diluted	(0.15)	0.15	0.27	0.57	0.31	0.46	0.45	<b>0.79</b>
Adjusted EBITDA <sup>(1)</sup>	(13,717)	21,584	39,913	81,113	49,213	72,953	81,910	<b>111,631</b>
Per share – basic	(0.11)	0.16	0.29	0.59	0.35	0.51	0.57	<b>0.77</b>
Per share – diluted	(0.11)	0.16	0.29	0.59	0.34	0.50	0.56	<b>0.76</b>
Net income (loss) attributable to the shareholders of Calfrac	(61,493)	(19,547)	(20,349)	7,822	38,013	3,234	(32,838)	<b>14,878</b>
Per share – basic	(0.51)	(0.14)	(0.15)	0.06	0.27	0.02	(0.23)	<b>0.10</b>
Per share – diluted	(0.51)	(0.14)	(0.15)	0.06	0.26	0.02	(0.23)	<b>0.10</b>
Capital expenditures	15,708	12,965	22,358	22,093	34,518	51,334	42,404	<b>34,542</b>
Working capital (end of period)	271,581	278,818	293,411	334,606	327,049	360,654	361,613	<b>386,843</b>
Total equity (end of period)	497,458	485,452	463,180	477,188	543,645	546,018	507,607	<b>516,899</b>

### Operating (end of period)

Active pumping horsepower (000s)	659	727	874	1,057	1,115	1,259	1,313	<b>1,344</b>
Idle pumping horsepower (000s)	563	493	443	338	280	134	80	<b>49</b>
Total pumping horsepower (000s)	1,222	1,220	1,317	1,395	1,395	1,393	1,393	<b>1,393</b>
Active coiled tubing units (#)	19	20	21	21	21	22	22	<b>22</b>
Idle coiled tubing units (#)	13	12	11	11	9	8	8	<b>8</b>
Total coiled tubing units (#)	32	32	32	32	30	30	30	<b>30</b>
Active cementing units (#)	14	12	12	12	12	12	11	<b>11</b>
Idle cementing units (#)	11	13	13	13	11	11	12	<b>12</b>
Total cementing units (#)	25	25	25	25	23	23	23	<b>23</b>

<sup>(1)</sup> Refer to “Non-GAAP Measures” on pages 22 and 23 for further information.

## SEASONALITY OF OPERATIONS

The Company’s North American business is seasonal. The lowest activity is typically experienced during the second quarter of the year when road weight restrictions are in place due to spring break-up weather conditions and access to well sites in Canada and North Dakota is reduced (refer to “Business Risks - Seasonality” in the 2017 Annual Report).

## FOREIGN EXCHANGE FLUCTUATIONS

The Company’s consolidated financial statements are reported in Canadian dollars. Accordingly, the quarterly results are directly affected by fluctuations in the exchange rates for United States, Russian and Argentinean currency (refer to “Business Risks - Foreign Exchange Fluctuations” in the 2017 Annual Report).

## FINANCIAL OVERVIEW – NINE MONTHS ENDED SEPTEMBER 30, 2018 VERSUS 2017

### CANADA

Nine Months Ended September 30,	2018	2017	Change
(C\$000s, except operational information)	(\$)	(\$)	(%)
(unaudited)			
Revenue	505,646	403,284	25
Expenses			
Operating	424,491	326,390	30
SG&A	10,649	6,843	56
	435,140	333,233	31
Operating income <sup>(1)</sup>	70,506	70,051	1
Operating income (%)	13.9	17.4	(20)
Fracturing revenue per job (\$)	21,427	20,119	7
Number of fracturing jobs	21,501	18,176	18
Active pumping horsepower, end of period (000s)	327	277	18
Idle pumping horsepower, end of period (000s)	28	150	(81)
Total pumping horsepower, end of period (000s)	355	427	(17)
Coiled tubing revenue per job (\$)	22,611	21,829	4
Number of coiled tubing jobs	1,782	1,595	12
Active coiled tubing units, end of period (#)	11	9	22
Idle coiled tubing units, end of period (#)	4	4	—
Total coiled tubing units, end of period (#)	15	13	15

<sup>(1)</sup> Refer to “Non-GAAP Measures” on pages 22 and 23 for further information.

### REVENUE

Revenue from Calfrac’s Canadian operations during the first nine months in 2018 was \$505.6 million versus \$403.3 million in the same period in 2017. Completions activity in Canada during the first nine months of 2018 improved when compared to the same period in 2017 primarily due to a stronger first half of the year, while adverse weather conditions resulted in activity delays in the latter part of the third quarter. The number of fracturing and coiled tubing jobs increased by 18 percent and 12 percent, respectively, due to a larger operating scale, combined with a more active and efficient customer base as compared to the same period in 2017. Revenue per fracturing job increased by 7 percent from the prior year while coiled tubing revenue per job was up 4 percent, primarily due to higher pricing during the first half of 2018, and to a lesser extent, job mix.

### OPERATING INCOME

The Company’s Canadian division generated operating income of \$70.5 million during the first nine months of 2018 compared to \$70.1 million in 2017. The increase was due to improved utilization and better pricing during the first six months of 2018 compared to the same period in 2017, while third quarter utilization was lower year-over-year. The 14 percent operating income margin was negatively impacted by higher than expected third-party sand transportation costs during the first quarter, while higher costs for diesel fuel and products reduced operating income margins during the second quarter. Pricing for proppant trended lower towards the end of the third quarter as supply improved, however, this lower pricing did not meaningfully impact profitability due to inventory levels and purchase timing. Third-quarter operating income was also negatively impacted by \$1.4 million of provincial sales tax assessments in British Columbia. The \$3.8 million increase in SG&A expenses compared to the first nine months of 2017 was primarily due to the full reinstatement of compensation. Additionally, the Company allocated a greater proportion of SG&A costs that directly related to its operating divisions during the period.

## UNITED STATES

Nine Months Ended September 30,	2018	2017	Change
(C\$000s, except operational and exchange rate information) (unaudited)	(\$)	(\$)	(%)
Revenue	<b>1,017,351</b>	445,807	128
Expenses			
Operating	<b>791,096</b>	364,931	117
SG&A	<b>15,435</b>	8,615	79
	<b>806,531</b>	373,546	116
Operating income <sup>(1)</sup>	<b>210,820</b>	72,261	192
Operating income (%)	<b>20.7</b>	16.2	28
Fracturing revenue per job (\$)	<b>59,167</b>	39,144	51
Number of fracturing jobs	<b>17,142</b>	11,181	53
Active pumping horsepower, end of period (000s)	<b>832</b>	588	41
Idle pumping horsepower, end of period (000s)	<b>21</b>	188	(89)
Total pumping horsepower, end of period (000s)	<b>853</b>	776	10
Active coiled tubing units, end of period (#)	<b>—</b>	—	—
Idle coiled tubing units, end of period (#)	<b>2</b>	5	(60)
Total coiled tubing units, end of period (#)	<b>2</b>	5	(60)
Active cementing units, end of period (#)	<b>—</b>	—	—
Idle cementing units, end of period (#)	<b>10</b>	11	(9)
Total cementing units, end of period (#)	<b>10</b>	11	(9)
US\$/C\$ average exchange rate <sup>(2)</sup>	<b>1.2876</b>	1.3072	(1)

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.

<sup>(2)</sup> Source: Bank of Canada.

## REVENUE

Revenue from Calfrac's United States operations increased to \$1.0 billion during the first nine months in 2018 from \$445.8 million in the comparable period in 2017 due to significantly higher fracturing activity and improved pricing. Completions activity in the United States significantly improved year-over-year, which allowed the Company to reactivate equipment throughout 2017 and 2018, including the start-up of operations in Texas and New Mexico. The Company activated a 17<sup>th</sup> fleet in the United States during the third quarter of 2018, representing the full reactivation of its entire operating fleet. The result was a 53 percent increase in the number of fracturing jobs completed period-over-period. Revenue per job increased 51 percent year-over-year due to improved pricing combined with the impact of job mix as the Company's operations in Texas resulted in larger overall job sizes.

## OPERATING INCOME

The Company's United States division generated operating income of \$210.8 million during the first nine months in 2018 compared to \$72.3 million during the same period in 2017. The significant increase was primarily the result of improved utilization and pricing in North Dakota and Pennsylvania as well as the addition of operations in Texas and New Mexico that did not commence until the third quarter of 2017. The operating income of 21 percent during the first nine months of 2018 was negatively impacted by market-driven logistical issues that resulted in higher than normal transportation and sand costs during the first three months of the year. These conditions abated during the second quarter; however, cost inflation continued, with products and fuel experiencing the largest increases. The third quarter saw a reversal of this trend with sand and transportation costs trending lower, however, most of these savings were passed through to customers and had little impact on profitability. Operating results included \$10.0 million of reactivation costs during the first nine months of 2018 compared to \$14.4 million in the comparable period in 2017. SG&A expenses increased by 79 percent in the first nine months of 2018 primarily due to higher personnel costs combined with growth in business scale and increased activity.

## RUSSIA

Nine Months Ended September 30,	2018	2017	Change
(C\$000s, except operational and exchange rate information) (unaudited)	(\$)	(\$)	(%)
Revenue	<b>81,927</b>	88,977	(8)
Expenses			
Operating	<b>79,727</b>	77,177	3
SG&A	<b>2,385</b>	2,382	—
	<b>82,112</b>	79,559	3
Operating (loss) income <sup>(1)</sup>	<b>(185)</b>	9,418	NM
Operating (loss) income (%)	<b>(0.2)</b>	10.6	NM
Fracturing revenue per job (\$)	<b>78,867</b>	74,766	5
Number of fracturing jobs	<b>882</b>	999	(12)
Pumping horsepower, end of period (000s)	<b>77</b>	70	10
Coiled tubing revenue per job (\$)	<b>39,259</b>	43,820	(10)
Number of coiled tubing jobs	<b>315</b>	326	(3)
Active coiled tubing units, end of period (#)	<b>6</b>	6	—
Idle coiled tubing units, end of period (#)	<b>1</b>	1	—
Total coiled tubing units, end of period (#)	<b>7</b>	7	—
Rouble/C\$ average exchange rate <sup>(2)</sup>	<b>0.0210</b>	0.0224	(6)

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.

<sup>(2)</sup> Source: Bank of Canada.

## REVENUE

Revenue from Calfrac's Russian operations during the first nine months in 2018 decreased by 8 percent to \$81.9 million from \$89.0 million in the comparable period in 2017. The decrease in revenue, which is generated in roubles, was partially related to lower fracturing activity combined with the 6 percent depreciation of the Russian rouble in 2018 versus 2017. Revenue per fracturing job increased by 5 percent due to the impact of providing sand to a significant customer during the first nine months of 2018 and not in the comparable period in 2017. The decrease in revenue was also due to a 3 percent reduction in coiled tubing activity.

## OPERATING (LOSS) INCOME

The Company's Russia division incurred an operating loss of \$0.2 million during the first nine months in 2018 compared to income of \$9.4 million in the same period in 2017 primarily due to lower fracturing crew utilization. Calfrac's operations during the first nine months of 2018 were impacted by weather-related delays and lower activity with one of its customers in Western Siberia.

## ARGENTINA

Nine Months Ended September 30,	2018	2017	Change
(C\$000s, except operational and exchange rate information) (unaudited)	(\$)	(\$)	(%)
Revenue	<b>152,644</b>	104,181	47
Expenses			
Operating	<b>136,085</b>	96,424	41
SG&A	<b>8,080</b>	7,783	4
	<b>144,165</b>	104,207	38
Operating loss <sup>(1)</sup>	<b>8,479</b>	(26)	NM
Operating loss (%)	<b>5.6</b>	0.0	NM
Total pumping horsepower, end of period (000s)	<b>108</b>	122	(11)
Active cementing units, end of period (#)	<b>11</b>	12	(8)
Idle cementing units, end of period (#)	<b>2</b>	2	—
Total cementing units, end of period (#)	<b>13</b>	14	(7)
Active coiled tubing units, end of period (#)	<b>5</b>	6	(17)
Idle coiled tubing units, end of period (#)	<b>1</b>	1	—
Total coiled tubing units, end of period (#)	<b>6</b>	7	(14)
US\$/C\$ average exchange rate <sup>(2)</sup>	<b>1.2876</b>	1.3072	(1)
Argentinean peso/C\$ average exchange rate <sup>(2)</sup>	<b>0.0535</b>	0.0808	(34)

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.

<sup>(2)</sup> Source: Bank of Canada and Bloomberg.

## REVENUE

Calfrac's Argentinean operations generated total revenue of \$152.6 million during the first nine months of 2018 versus \$104.2 million in the comparable period in 2017. Revenue in Argentina was 47 percent higher than the comparable quarter, primarily due to higher activity in the Vaca Muerta shale play. The increase in revenue was partially offset by lower cementing activity in northern Argentina combined with the impact of union strikes in southern Argentina during the first quarter of 2018. Coiled tubing revenue in Argentina increased year-over-year due to increased activity in unconventional resource plays in Neuquen, which also resulted in higher revenue per job.

## OPERATING INCOME (LOSS)

The Company's operations in Argentina generated operating income of \$8.5 million during the first nine months of 2018, compared to near break-even in the comparable period in 2017. The Company has continued to improve its operating margins throughout the transition to unconventional operations in Argentina mainly due to improved utilization. There were a number of one-time costs recorded during the first nine months of 2018, including \$0.8 million in restructuring charges, a \$1.6 million inventory write-down and \$0.2 million in bad debt expense. Similarly, the Company had \$1.6 million in one-time costs during the first nine months of 2017 related to the retrofitting of equipment and \$0.4 million of restructuring costs.



## CORPORATE

Nine Months Ended September 30,	2018	2017	Change
(C\$000s)	(\$)	(\$)	(%)
(unaudited)			
Expenses			
Operating	4,370	2,668	64
SG&A	35,417	13,705	158
	39,787	16,373	143
Operating loss <sup>(1)</sup>	(39,787)	(16,373)	143
% of Revenue	2.3	1.6	44

<sup>(1)</sup> Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.

## OPERATING LOSS

Corporate expenses for the first nine months in 2018 were \$39.8 million compared to \$16.4 million in the comparable period in 2017. Operating expenses were \$1.7 million higher primarily due to higher personnel costs during the period. SG&A expenses increased by \$21.7 million primarily due to a \$15.0 million increase in stock-based compensation expense. The remaining increase related to the full reinstatement of compensation that was scaled back during the downturn, offset partially by the higher allocation of costs that were directly attributed to the Company's operating divisions.

## DEPRECIATION

Depreciation expense for first nine months in 2018 increased by 27 percent to \$119.9 million from \$94.3 million in the comparable period in 2017. The increase in depreciation was primarily due to the \$76.3 million impairment reversal that was recorded during the fourth quarter of 2017, combined with capital expenditures related to the continued activation of fleets in North America during 2017 and 2018.

## FOREIGN EXCHANGE LOSSES

The Company recorded a foreign exchange loss of \$41.4 million during the first nine months in 2018 versus a loss of \$26.2 million in the same period in 2017. Foreign exchange gains and losses arise primarily from the translation of net monetary assets or liabilities that were held in U.S. dollars in Canada and Argentina, net monetary assets or liabilities that were held in pesos in Argentina, and liabilities held in Canadian dollars in Russia. The Company's foreign exchange loss for the first nine months of 2018 was largely attributable to the translation of U.S. dollar-denominated liabilities held in Argentina during the first six months of 2018 as the peso devalued against the U.S. dollar during that time period. As disclosed in note X to the consolidated financial statements, the Company changed the functional currency of its Argentina subsidiary from pesos to U.S. dollars effective July 1, 2018, which resulted in no further foreign exchange losses on its U.S. dollar-denominated liabilities held in Argentina in the third quarter. The consolidated foreign exchange loss was partially offset by U.S. dollar-denominated assets held in Canada.

## INTEREST

The Company's interest expense was \$85.6 million during the first nine months in 2018 versus \$64.5 million in 2017. The \$21.1 million increase was partially due to the repayment of the Company's second lien term loan during the period which resulted in the write-off of the remaining deferred financing costs of \$5.8 million. In addition, the Company closed a private offering of US\$650.0 million aggregate principal amount of 8.50 percent senior notes during the second quarter, which were used to repay all of its outstanding 7.50 percent senior notes due 2020. The early repayment of these notes resulted in a make-whole interest payment of \$10.4 million during the second quarter in 2018 and the write-off of the remaining \$5.0 million unamortized deferred finance costs. The increase was offset partially by the impact of a stronger Canadian dollar relative to the U.S. dollar compared to the same period in 2017, which resulted in lower reported interest on the Company's U.S. dollar-denominated unsecured notes.

## INCOME TAXES

The Company was in a neutral tax position during the first nine months in 2018 compared to having a recovery of \$22.4 million in the comparable period in 2017. The mix of earnings, combined with certain items that do not fluctuate with income, resulted in the tax-neutral position.

## LIQUIDITY AND CAPITAL RESOURCES

	Three Months Ended Sep. 30,		Nine Months Ended Sep. 30,	
	2018	2017	2018	2017
(C\$000s)	(\$)	(\$)	(\$)	(\$)
(unaudited)				
Cash provided by (used in):				
Operating activities	37,394	9,255	51,879	(58,910)
Financing activities	(22,128)	8,509	16,954	51,053
Investing activities	(33,882)	(15,973)	(114,839)	(44,371)
Effect of exchange rate changes on cash and cash equivalents	23,057	(7,577)	10,704	(14,102)
Increase (decrease) in cash and cash equivalents	4,441	(5,786)	(35,302)	(66,330)

### OPERATING ACTIVITIES

The Company's cash provided by operating activities for the three months ended September 30, 2018 was \$37.4 million versus cash provided of \$9.3 million in the third quarter of 2017. The increase was primarily due to improved operating results in the United States and a lower working capital requirement (\$41.3 million versus \$64.5 million). At September 30, 2018, Calfrac's working capital was approximately \$386.8 million compared to \$327.0 million at December 31, 2017.

### FINANCING ACTIVITIES

Net cash used by financing activities for the three months ended September 30, 2018 was \$22.1 million compared to cash provided of \$8.5 million in the comparable period in 2017. During the three months ended September 30, 2018, the Company had net repayments under its credit facilities of \$20.0 million and debt issuance costs of \$2.0 million.

On May 30, 2018, Calfrac closed a private offering of US\$650.0 million aggregate principal amount of 8.50 percent senior notes due 2026. Fixed interest on the notes is payable on June 15 and December 15 of each year. The notes will mature on June 15, 2026. The Company used a portion of the net proceeds from the offering of the notes to repay all of its outstanding 7.50 percent senior notes due 2020.

On May 31, 2018 the Company repaid in full the remaining \$196.5 million principal amount of its second lien senior secured term loan facility with AIMCo. The term loan, which had a maturity date of September 30, 2020, provided Calfrac the right to prepay the loan prior to June 10, 2018 with a nominal prepayment premium.

On May 9, 2018, Calfrac amended its credit facilities to exercise \$100.0 million of accordion capacity which increased its total facility capacity from \$275.0 million to \$375.0 million. The facilities consist of an operating facility of \$27.5 million and a syndicated facility of \$347.5 million. The Company's credit facilities mature on June 1, 2020 and can be extended by one or more years at the Company's request and lenders' acceptance. The Company also may prepay principal without penalty. The interest rates are based on the parameters of certain bank covenants. For prime-based loans and U.S. base-rate loans, the rate ranges from prime or U.S. base rate plus 0.50 percent to prime plus 2.50 percent. For LIBOR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 1.50 percent to 3.50 percent above the respective base rates. The remaining accordion feature of the syndicated facility was reduced to \$100.0 million, and is available to the Company during the term of the agreement. The Company incurs interest at the high end of the ranges outlined above if its net Total Debt to Adjusted EBITDA ratio is above 4.00:1.00. Additionally, in the event that the Company's net Total Debt to Adjusted EBITDA ratio is above 5.00:1.00, certain restrictions would apply including the following: (a) acquisitions will be subject to majority lender consent; (b) distributions will be restricted other than those relating to the Company's share unit plans, and no increase in the rate of dividends will be permitted; and (c) the Company will be prohibited from utilizing advances under the credit facilities to redeem or repay subordinated debt. As at September 30, 2018, the Company's net Total Debt to Adjusted EBITDA ratio was 3.26:1.00.

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

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

- ii. 100 percent of unencumbered cash of the parent company and its U.S. operating subsidiary, excluding any cash held in a segregated account for the purposes of a potential equity cure; and
- iii. 25 percent of the net book value of property, plant and equipment (PP&E) of the parent company and its U.S. operating subsidiary. The value of PP&E excludes assets under construction and is limited to \$125.0 million.

At September 30, 2018, the Company had used \$0.8 million of its credit facilities for letters of credit and had \$195.0 million of borrowings under its credit facilities, leaving \$179.2 million in available capacity under its credit facilities. As described above, the Company's credit facilities are subject to a monthly borrowing base, as determined using the previous month's results, which at September 30, 2018 resulted in a liquidity amount of \$138.5 million.

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

Working capital ratio not to fall below	<b>1.15x</b>
Funded Debt to Adjusted EBITDA not to exceed <sup>(1)(2)</sup>	<b>3.00x</b>
Funded Debt to Capitalization not to exceed <sup>(1)(3)</sup>	<b>0.30x</b>

<sup>(1)</sup> Funded Debt is defined as Total Debt excluding all outstanding senior unsecured notes. Total Debt includes bank loans and long-term debt (before unamortized debt issuance costs and debt discount) plus outstanding letters of credit. For the purposes of the Total Debt to Adjusted EBITDA ratio, the Funded Debt to Capitalization Ratio and the Funded Debt to Adjusted EBITDA ratio, the amount of Total Debt or Funded Debt, as applicable, is reduced by the amount of cash on hand with lenders (excluding any cash held in a segregated account for the purposes of a potential equity cure).

<sup>(2)</sup> Adjusted EBITDA is defined as net income or loss for the period adjusted for interest, taxes, depreciation and amortization, non-cash stock-based compensation, non-controlling interest, and gains and losses that are extraordinary or non-recurring.

<sup>(3)</sup> Capitalization is Total Debt plus equity attributable to the shareholders of Calfrac.

Proceeds from equity offerings may be applied, as an equity cure, in the calculation of Adjusted EBITDA towards the Funded Debt to Adjusted EBITDA covenant for any of the quarters ending prior to and including June 30, 2020 subject to certain conditions including:

- i. the Company is only permitted to use the proceeds of a common share issuance to increase Adjusted EBITDA a maximum of two times;
- ii. the Company cannot use the proceeds of a common share issuance to increase Adjusted EBITDA in consecutive quarter ends;
- iii. the maximum proceeds of each common share issuance permitted to be attributed to Adjusted EBITDA cannot exceed the greater of 50 percent of Adjusted EBITDA on a trailing four-quarter basis and \$25.0 million; and
- iv. if proceeds are not used immediately as an equity cure they must be held in a segregated bank account pending an election to use them for such purpose, and if they are removed from such account but not used as an equity cure they will no longer be eligible for such use.

On December 6, 2016, Calfrac closed a bought deal private placement of 21,055,000 common shares for net proceeds of approximately \$56.6 million. On December 22, 2015, Calfrac closed a bought deal private placement of 20,370,370 common shares for net proceeds of approximately \$25.2 million. \$50.0 million of the net proceeds from these offerings were held in a segregated account pending an election to use them as an equity cure. On April 3, 2017, the Company elected to use the first of its two fully-funded \$25.0 million equity cures effective as of the quarter ending on June 30, 2017. The September 2017 amendments to the credit facilities provided that the Company can utilize two equity cures during the term of the credit facilities subject to the conditions described above. To utilize an equity cure, the Company must provide notice of any such election to the lending syndicate at any time prior to the filing of its quarterly financial statements for the applicable quarter on SEDAR. Amounts used as an equity cure prior to June 30, 2020 will increase Adjusted EBITDA over the relevant twelve-month rolling period and will also serve to reduce Funded Debt. The funds that were removed from the segregated account and utilized as an equity cure for the quarter ending on June 30, 2017, as described above, were used for general working capital and corporate purposes. On April 30, 2018, the remaining \$25.0 million was removed from the segregated account without being designated as an equity cure. This decision was based on the Company's Adjusted EBITDA performance during its most recent four-quarter period prior to such removal, combined with the supportive commodity price environment and visibility on future activity at the time. The funds were used to reduce outstanding indebtedness.

As shown in the table below, at September 30, 2018, the Company was in compliance with the financial covenants associated with its credit facilities.

	Covenant	Actual
As at September 30,	2018	2018
Working capital ratio not to fall below	1.15x	<b>2.39x</b>
Funded Debt to Adjusted EBITDA not to exceed	3.00x	<b>0.59x</b>
Funded Debt to Capitalization not to exceed	0.30x	<b>0.12x</b>

The Company's credit facilities also contain certain restrictions with respect to dispositions of property or assets in Canada and the United States. For such dispositions occurring on or prior to December 31, 2018, majority lender consent is required if the aggregate market value exceeds \$40.0 million, and for such dispositions occurring in a calendar year commencing January 1, 2019, majority lender consent is required if the aggregate market value exceeds \$20.0 million. There are no restrictions pertaining to dispositions of property or assets outside of Canada and the United States, except that to the extent that advances under the credit facilities exceed \$50.0 million at the time of any such dispositions, Calfrac must use the resulting proceeds to reduce the advances to less than \$50.0 million before using the balance for other purposes.

The indenture governing the senior unsecured notes, which is available on SEDAR, contains restrictions on the Company's ability to pay dividends, purchase and redeem shares of the Company and make certain restricted investments, that are not defined as Permitted Investments under the indenture, in circumstances where:

- i. the Company is in default under the indenture or the making of such payment would result in a default;
- ii. the Company is not meeting the Fixed Charge Coverage Ratio<sup>(1)</sup> under the indenture of at least 2:1 for the most recent four fiscal quarters, with the restricted payments regime commencing once internal financial statements are available which show that the ratio is not met on a pro forma basis for the most recently ended four fiscal quarter period; or
- iii. there is insufficient room for such payment within a builder basket included in the indenture.

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

These limitations on restricted payments are tempered by the existence of a number of exceptions to the general prohibition, including a basket allowing for restricted payments in an aggregate amount of up to US\$20.0 million. As at September 30, 2018 this basket was not utilized. The indenture also restricts the ability to incur additional indebtedness if the Fixed Charge Coverage Ratio determined on a pro forma basis for the most recently ended four fiscal quarter period for which internal financial statements are available is not at least 2:1. As is the case with restricted payments, there are a number of exceptions to this prohibition on the incurrence of additional indebtedness, including the incurrence of additional debt under credit facilities up to the greater of \$375.0 million or 30 percent of the Company's consolidated tangible assets.

As at September 30, 2018, the Company's Fixed Charge Coverage Ratio of 3.70:1 was higher than the required 2:1 ratio so the aforementioned prohibitions will not be applicable as long as the Company remains above this ratio.

## INVESTING ACTIVITIES

Calfrac's net cash used for investing activities was \$33.9 million for the three months ended September 30, 2018 versus \$16.0 million in the comparable period in 2017. Cash outflows relating to capital expenditures were \$36.0 million during the third quarter in 2018 compared to \$18.2 million in 2017. Capital expenditures were primarily to support the Company's North American fracturing operations. The Company disposed of assets during the third quarter for proceeds of \$2.1 million compared to \$2.2 million in the comparable quarter in 2017.

Calfrac's Board of Directors has approved a \$13.0 million increase to its 2018 capital budget bringing the total budget to \$168.0 million. The increase is to fund the purchase of major components that will be placed into service in 2019.

## EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS

The effect of changes in foreign exchange rates on the Company's cash and cash equivalents during the three months ended September 30, 2018 was a gain of \$23.1 million versus a loss of \$7.6 million during the comparable period in 2017. These gains and losses relate to movements of cash and cash equivalents held by the Company in a foreign currency during the period.

With its working capital position, available credit facilities and anticipated funds provided by operations, the Company expects to have adequate resources to fund its financial obligations and planned capital expenditures for 2018 and beyond.

At September 30, 2018, the Company had cash and cash equivalents of \$17.4 million.

## OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares. Employees have been granted both performance share units as well as options to purchase common shares under the Company's shareholder-approved equity compensation plans. The number of shares reserved for issuance under the performance share unit plan and stock option plan is equal to 10 percent of the Company's issued and outstanding common shares. As at October 24, 2018, there were 144,456,157 common shares issued and outstanding, 314,716 equity-based performance share units issued and outstanding and 9,981,170 options to purchase common shares.

## BUSINESS UPDATE AND OUTLOOK

Calfrac's third-quarter results reflect the strength of Calfrac's global platform, with a strong focus on customer quality, productivity and cost management.

### CANADA

In Canada, the third quarter began on solid footing as spring break-up conditions abated. For most of the quarter, Calfrac's Canadian division operated at high utilization, until the middle of September when weather and ground conditions slowed activity, resulting in the deferral of approximately \$10.0 million in revenue into the fourth quarter.

Sand pricing trended lower towards the end of the quarter as sand supply improved, however, this lower pricing did not meaningfully impact third quarter profitability due to inventory levels and purchase timing.

During the third quarter, a number of instances of pricing significantly below market levels occurred in the Canadian marketplace. The Company sees no value in this undisciplined behavior and continues to focus on maintaining long-term relationships with top-tier clients based on service, safety and mutual benefit. The commitments Calfrac has made to its customer base for the upcoming quarters are intact and the Company looks forward to the safe and efficient execution of those commitments.

Utilization is expected to be strong for the first half of the fourth quarter, with a normal seasonal deceleration taking place through the latter weeks of the quarter, even though a small amount of customer spending has been moved forward from 2019.

Despite broad improvement in commodity price levels during 2018, a lack of consistent market access has caused differentials to widen significantly across almost the entire hydrocarbon complex in Canada. While customer capital spending plans remain under review, the Company expects that its Canadian customer base will execute 2019 programs that are similar in size and scope to those seen in 2018. Visibility on the first quarter of 2019 remains relatively strong with utilization expected to achieve the high level normally seen in that quarter, and the Company expects further clarity on programs as customer budgets are finalized in the weeks ahead.

### UNITED STATES

The Company's operations in the United States delivered strong results during the third quarter due primarily to success in managing fleet down-time combined with excellent productivity and cost management in the field. As expected, Calfrac deployed its 17<sup>th</sup> fracturing fleet in South Texas that was active through the end of the quarter. The Company was able to find work at acceptable returns for two of the three fleets that were expected to experience longer periods of inactivity in the third quarter. The third fleet, located in New Mexico, was idle for the latter half of the quarter and is not expected to recommence operations until the late stages of the fourth quarter. For the most part, Calfrac has kept this crew engaged by supporting other fleets across the division.

Calfrac expects utilization to remain high through the first part of the fourth quarter, but to trend lower through the latter part of November and into December. Looking into 2019, the Company expects all 17 fleets to be active before the end of January, with good visibility through most of the first half of 2019 as budgets reload and programs recommence.

Operating costs in the U.S. division improved in the third quarter due, in part, to lower sand costs across the supply network. As in Canada, these cost reductions had little impact on operating income generated during the quarter. Higher levels of productivity were primarily responsible for the improved profitability achieved in the quarter.

Based on current oil prices in the US\$70/bbl range, most producers in the United States are expected to experience meaningful improvements in cash flow in 2019, which should drive higher activity and spending, contributing to a tighter fracturing market moving forward. Local infrastructure issues in Texas may impact the timing of activity gains in the Permian and Delaware Basins, but Calfrac expects all three of its fleets in the region to be active throughout 2019.

## RUSSIA

Consistent with past years, Calfrac's Russian operations delivered better financial performance in the third quarter, as weather and ground conditions improved and customer delays were minimal. Activity continues at a high level but with the approach of winter, the Company expects a typical seasonal slowdown in the upcoming quarter. Tendering activity is underway for 2019 and while the results are not yet confirmed, the Company expects that activity levels in 2019 should improve over the current year and will be more in line with historical levels.

## ARGENTINA

Calfrac's operations in Argentina delivered a second consecutive quarter of significant improvement in profitability, driven by higher utilization across all areas, but specifically for the Company's equipment servicing the Vaca Muerta shale play. Cost management also provided further improvement, and the volatility in the value of the Argentinean peso had little impact on results, as field productivity and cost management are by far the most meaningful drivers of profitability in the region.

The outlook in Argentina remains positive, with 2019 expected to be incrementally better than 2018, again largely due to an increasing focus on the Vaca Muerta shale play, and further adoption of the high-productivity model of operations seen in North America.

## CORPORATE

The Company continues to focus on generating free cash flow in the quarters ahead, and further lowering debt in addition to the \$20.0 million paid down on its revolving credit facility in the third quarter. The Company will continue to manage its global portfolio of assets to provide optimal returns to our shareholders while managing market dynamics.

Calfrac's Board of Directors has approved a \$13.0 million increase to its 2018 capital budget bringing the total budget to \$168.0 million. The increase is to fund the purchase of major components that will be placed into service in 2019.

## NON-GAAP MEASURES

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

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

	Three Months Ended Sep. 30,		Nine Months Ended Sep. 30,	
	2018	2017	2018	2017
(C\$000s)	(\$)	(\$)	(\$)	(\$)
(unaudited)				
Net income (loss)	<b>14,878</b>	6,678	<b>(22,715)</b>	(35,285)
Add back (deduct):				
Depreciation	<b>42,638</b>	30,604	<b>119,927</b>	94,307
Foreign exchange losses	<b>8,240</b>	13,556	<b>41,389</b>	26,174
Loss on disposal of property, plant and equipment	<b>6,666</b>	5,405	<b>22,430</b>	8,073
Impairment of inventory	<b>1,131</b>	—	<b>3,189</b>	—
Interest	<b>21,817</b>	21,134	<b>85,631</b>	64,488
Income taxes	<b>19,961</b>	819	<b>(18)</b>	(22,426)
Operating income	<b>115,331</b>	78,196	<b>249,833</b>	135,331

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

	Three Months Ended Sep. 30,		Nine Months Ended Sep. 30,	
	2018	2017	2018	2017
(C\$000s)			(\$)	(\$)
(unaudited)				
Net income (loss)	<b>14,878</b>	6,678	<b>(22,715)</b>	(35,285)
Add back (deduct):				
Depreciation	<b>42,638</b>	30,604	<b>119,927</b>	94,307
Unrealized foreign exchange (gains) losses	<b>(26,306)</b>	13,814	<b>15,810</b>	26,208
Non-recurring realized foreign exchange losses <sup>(1)</sup>	<b>29,288</b>	—	<b>29,288</b>	—
Loss on disposal of property, plant and equipment	<b>6,666</b>	5,405	<b>22,430</b>	8,073
Impairment of inventory	<b>1,131</b>	—	<b>3,189</b>	—
Provision for settlement of litigation	—	—	—	(139)
Restructuring charges	<b>16</b>	213	<b>795</b>	568
Stock-based compensation	<b>1,542</b>	1,302	<b>4,168</b>	3,605
Losses attributable to non-controlling interest	—	1,144	<b>7,989</b>	3,211
Interest	<b>21,817</b>	21,134	<b>85,631</b>	64,488
Income taxes	<b>19,961</b>	819	<b>(18)</b>	(22,426)
Adjusted EBITDA	<b>111,631</b>	81,113	<b>266,494</b>	142,610

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

## CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

Calfrac has various contractual lease commitments related to vehicles, equipment and facilities as well as purchase obligations for products, services and property, plant and equipment as disclosed in the Company's 2017 annual consolidated financial statements.

## GREEK LITIGATION

As described in note 15 to the interim consolidated financial statements, the Company and one of its Greek subsidiaries are involved in a number of legal proceedings in Greece. Management regularly evaluates the likelihood of potential liabilities being incurred and the amounts of such liabilities after careful examination of available information and discussions with its legal advisors. Management is of the view that it is improbable there will be a material financial impact to the Company as a result of these claims. Consequently, no provision was recorded in the consolidated financial statements.



## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This MD&A is based on the Company's consolidated financial statements for the three and nine months ended September 30, 2018 which were prepared in accordance with IFRS. Management is required to make assumptions, judgments and estimates in the application of IFRS. Calfrac's significant accounting policies are described in note 2 to the annual consolidated financial statements.

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

Judgment is also used in the determination of the functional currency of each subsidiary and in the determination of cash-generating units.

### ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE

The Company performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, financial condition of the customer and anticipated industry conditions. In situations where the creditworthiness of a customer is uncertain, services are typically provided on receipt of cash in advance or services are declined. Customer payments are regularly monitored and a provision for doubtful accounts has been established based on the new impairment model under IFRS 9, which requires the recognition of impairment provisions based on expected and incurred credit losses rather than only incurred credit losses. The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected credit loss model to its trade accounts receivable. Lifetime expected credit losses are the result of all possible default events over the expected life of the financial instrument. Calfrac's management believes that the provision for doubtful accounts receivable, which was \$5.3 million at September 30, 2018, is adequate.

### DEPRECIATION

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

### FINANCIAL INSTRUMENTS

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

### FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial instruments included in the consolidated balance sheets, except long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of the senior unsecured notes based on the closing market price at September 30, 2018 was \$787.7 million before deduction of unamortized debt issuance costs and debt discount (December 31, 2017 – \$743.1 million). The carrying value of the senior unsecured notes at September 30, 2018 was \$841.4 million before deduction of unamortized debt issuance costs and debt discount (December 31, 2017 – \$752.7 million). The fair values of the remaining long-term debt and finance lease obligations approximate their carrying values, as described in note 4 to the interim consolidated financial statements.

### IMPAIRMENT

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

As described in note 5 to the annual consolidated financial statements, the Company reviews the carrying value of its property, plant and equipment at each reporting period for indicators of impairment. As well, the Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset or CGU other than goodwill may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount of that CGU to determine if the reversal of impairment loss is supported.



A substantial improvement in the commodity price environment occurred in the fourth quarter of 2017, and since December 2017, crude oil prices have averaged more than US\$60 per barrel. The current and expected commodity price environment combined with the significant improvement in the operating and financial results of the Company's United States CGU unit was an indicator that the impairment loss previously recorded in December 2015 may no longer exist. In addition, the Company reviewed each of its CGUs for potential impairment. A comparison of the recoverable amounts of each CGU with their respective carrying amounts resulted in no impairment against property, plant and equipment and supported the reversal of a portion of the impairment loss that was previously recorded in the United States CGU. A reversal of impairment loss of \$76.3 million was recorded in the fourth quarter of 2017. There were no further triggers or indications of impairment that warranted an assessment of impairment of the Company's property, plant and equipment during the three months ended September 30, 2018.

## 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. The realizability of deferred income tax assets is an estimate and requires judgments to be made by management. Estimates of the Company's future taxable income are considered in assessing the utilization of available tax losses. The Company's business is complex and the calculation of income taxes involves many complex factors as well as the Company's interpretation of relevant tax legislation and regulations.

## STOCK-BASED COMPENSATION

The fair value of stock options and equity-based performance share units are 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, cash-based performance share units and restricted share units is recognized based on the market value of the Company's shares underlying these compensation programs.

## FUNCTIONAL CURRENCY

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

## CASH-GENERATING UNITS

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

## RELATED-PARTY TRANSACTIONS

In November 2010, the Company loaned a senior officer \$2.5 million to purchase common shares of the Company on the Toronto Stock Exchange (TSX). The loan is on a non-recourse basis and is secured by the common shares acquired with the loan proceeds. The loan was amended in February 2015 to extend the term by five years to November 8, 2020 and change the interest rate to the prescribed rate under the Income Tax Act (Canada), which rate was 1.0 percent per annum at the time of the amendment. The loan was subsequently amended in December 2016 to make it non-interest bearing, effective February 24, 2015. The market value of the shares that secure the loan was approximately \$0.7 million as at September 30, 2018 (December 31, 2017 – \$1.0 million). In accordance with applicable accounting standards regarding share purchase loans receivable, this loan is classified as a reduction of shareholders' equity due to its non-recourse nature. In addition, the shares purchased with the loan proceeds are considered to be, in substance, stock options.

The Company leases certain premises from a company controlled by Ronald P. Mathison, one of the Company's directors. The rent charged for these premises during the nine months ended September 30, 2018 was \$1.3 million (nine months ended September 30, 2017 – \$1.3 million), as measured at the exchange amount, which is based on market rates.

## CHANGES IN ACCOUNTING POLICIES

The IASB issued IFRS 15 *Revenue from Contracts with Customers*, a new standard for the recognition of revenue, which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard is required to be adopted either retrospectively or using a modified retrospective approach. In accordance with the transition provisions in IFRS 15, the Company has adopted the new standard using the

modified retrospective method; the cumulative effective of initially applying the standard is recognized as an adjustment to the opening balance of retained earnings as of January 1, 2018. Comparative prior year periods are not restated. The adoption of IFRS 15 did not result in any changes in the timing of revenue recognition for the Company's goods and services.

The IASB issued the final version of IFRS 9 *Financial Instruments*, which is effective for annual periods beginning on or after January 1, 2018. IFRS 9, as amended, addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces a substantially reformed approach to hedge accounting and a new impairment model for financial assets. The Company has adopted the standard retrospectively from January 1, 2018, with the transition provisions permitted under the standard. Differences in the carrying amount of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in the opening balance as of January 1, 2018. Comparative prior year periods are not restated. The adoption of IFRS 9 did not result in a significant change to the Company's consolidated financial statements.

Each of the Company's subsidiaries is measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Determination of functional currency is conducted through an analysis of the factors identified in IAS 21 *The Effects of Changes in Foreign Exchange Rates* and may involve certain judgments to determine the primary economic environment. The Company reconsiders the functional currency of its entities if there is a change in events and conditions which determine the primary economic environment.

On July 1, 2018, the functional currency of Calfrac Well Services (Argentina) S.A, a subsidiary of the Company, changed to the U.S. dollar from the Argentinean peso. The change was implemented as a result of the acquisition of the non-controlling interest of Calfrac Well Services (Argentina) S.A., Vision Sur SRL (as disclosed in note 9). As a wholly-owned subsidiary, the Company has full decision making authority over Calfrac Well Services (Argentina) S.A., thereby reducing its autonomy. In addition to an analysis performed by management which determined that the majority of its business transactions are now either conducted in U.S. dollars or are being indexed to the U.S. dollar, revenue has transitioned over time whereby now nearly all revenue contracts are prices in U.S. dollars, and in this quarter, a large portion of expenses that in prior periods were priced in Argentinean pesos are now either priced in U.S. dollars or are being indexed to U.S. dollars. The debt balances are also denominated in U.S. dollars.

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

## RECENT ACCOUNTING PRONOUNCEMENTS

In January 2016, the IASB issued IFRS 16 *Leases*, which requires lessees to recognize all leases on the balance sheet. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company has elected to adopt IFRS 16 using the modified retrospective approach by recognizing the cumulative effect of initially applying the new standard on January 1, 2019 using the simplified right-of-use asset measurement method, along with the application of various practical expedients. The Company is currently evaluating the impact of the standard on its financial statements.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's internal control over financial reporting that occurred during the interim period ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## BUSINESS RISKS

The business of Calfrac is subject to certain risks and uncertainties. Prior to making any investment decision regarding Calfrac, investors should carefully consider, among other things, the risk factors set forth in the Company's most recently filed Annual Information Form, which are specifically incorporated by reference herein.

The Annual Information Form is available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR), which can be accessed at [www.sedar.com](http://www.sedar.com). Copies of the Annual Information Form may also be obtained on request without charge from Calfrac at 411 – 8th Avenue S.W., Calgary, Alberta, Canada, T2P 1E3, or at [www.calfrac.com](http://www.calfrac.com), or by facsimile at 403-266-7381.

## ADVISORIES

### FORWARD-LOOKING STATEMENTS

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

In particular, forward-looking statements in this MD&A include, but are not limited to, statements with respect to expected operating strategies and targets, capital expenditure programs, future financial resources, anticipated equipment utilization levels, future oil and natural gas well activity in each of the Company's operating jurisdictions, results of acquisitions, the impact of environmental regulations and economic reforms and sanctions on the Company's business, future costs or potential liabilities, projections of market prices and costs, supply and demand for oilfield services, expectations regarding the Company's ability to maintain its competitive position, anticipated benefits of the Company's competitive position, expectations regarding the Company's financing activities and restrictions including with regard to its credit agreement and the indenture pursuant to which its senior notes were issued and its ability to raise capital, treatment under government regulatory regimes, commodity prices, anticipated outcomes of specific events (including exposure under existing legal proceedings), expectations regarding trends in, and the growth prospects of, the global oil and natural gas industry, the Company's growth strategy and prospects, and the impact of changes in accounting policies and standards on the Company and its financial statements. These statements are derived from certain assumptions and analyses made by the Company based on its experience and perception of historical trends, current conditions, expected future developments and other factors that it believes are appropriate in the circumstances, including, but not limited to, the economic and political environment in which the Company operates, the Company's expectations for its current and prospective customers' capital budgets and geographical areas of focus, the Company's existing contracts and the status of current negotiations with key customers and suppliers, the focus of the Company's customers on increasing the use of 24-hour operations in North America, the effectiveness of cost reduction measures instituted by the Company, the effect unconventional gas projects have had on supply and demand fundamentals for natural gas and the likelihood that the current tax and regulatory regime will remain substantially unchanged.

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

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

### ADDITIONAL INFORMATION

Further information regarding Calfrac Well Services Ltd., including the most recently filed Annual Information Form, can be accessed on the Company's website at [www.calfrac.com](http://www.calfrac.com) or under the Company's public filings found at [www.sedar.com](http://www.sedar.com).

## CONSOLIDATED BALANCE SHEETS

	September 30, 2018	December 31, 2017
(C\$000s) (unaudited)	(\$)	(\$)
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents (note 3)	17,447	52,749
Accounts receivable	473,491	359,955
Income taxes recoverable	1,536	1,759
Inventories	154,324	145,072
Prepaid expenses and deposits	19,510	16,803
	<b>666,308</b>	576,338
Non-current assets		
Property, plant and equipment	1,096,421	1,114,685
Deferred income tax assets	91,939	86,943
Total assets	<b>1,854,668</b>	1,777,966
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Accounts payable and accrued liabilities	279,281	246,943
Current portion of long-term debt (note 4)	—	2,169
Current portion of finance lease obligations	184	177
	<b>279,465</b>	249,289
Non-current liabilities		
Long-term debt (note 4)	1,017,879	958,825
Finance lease obligations	599	737
Deferred income tax liabilities	39,826	25,470
Total liabilities	<b>1,337,769</b>	1,234,321
Equity attributable to the shareholders of Calfrac		
Capital stock (notes 5 and 9)	508,253	501,456
Contributed surplus	38,815	35,094
Loan receivable for purchase of common shares (note 11)	(2,500)	(2,500)
(Deficit) retained earnings	(25,509)	21,268
Accumulated other comprehensive (loss) income	(2,160)	2,728
	<b>516,899</b>	558,046
Non-controlling interest	—	(14,401)
Total equity	<b>516,899</b>	543,645
Total liabilities and equity	<b>1,854,668</b>	1,777,966

Contingencies (note 15)

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2018	2017	2018	2017
<i>(C\$000s, except per share data) (unaudited)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Revenue	630,128	448,090	1,757,568	1,042,249
Cost of sales (note 13)	534,550	384,587	1,555,696	961,897
Gross profit	95,578	63,503	201,872	80,352
Expenses				
Selling, general and administrative	22,885	15,911	71,966	39,328
Foreign exchange losses	8,240	13,556	41,389	26,174
Loss on disposal of property, plant and equipment	6,666	5,405	22,430	8,073
Impairment of inventory	1,131	—	3,189	—
Interest	21,817	21,134	85,631	64,488
	60,739	56,006	224,605	138,063
Income (loss) before income tax	34,839	7,497	(22,733)	(57,711)
Income tax expense (recovery)				
Current	2,271	663	1,952	2,207
Deferred	17,690	156	(1,970)	(24,633)
	19,961	819	(18)	(22,426)
Net income (loss)	14,878	6,678	(22,715)	(35,285)
Net income (loss) attributable to:				
Shareholders of Calfrac	14,878	7,822	(14,726)	(32,074)
Non-controlling interest	—	(1,144)	(7,989)	(3,211)
	14,878	6,678	(22,715)	(35,285)
Earnings (loss) per share (note 5)				
Basic	0.10	0.06	(0.10)	(0.23)
Diluted	0.10	0.06	(0.10)	(0.23)

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2018	2017	2018	2017
<i>(C\$000s) (unaudited)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
<b>Net income (loss)</b>	<b>14,878</b>	6,678	<b>(22,715)</b>	(35,285)
<b>Other comprehensive income (loss)</b>				
<b>Items that may be subsequently reclassified to profit or loss:</b>				
Change in foreign currency translation adjustment	<b>(3,717)</b>	6,005	<b>(6,101)</b>	11,112
<b>Comprehensive income (loss)</b>	<b>11,161</b>	12,683	<b>(28,816)</b>	(24,173)
<b>Comprehensive income (loss) attributable to:</b>				
Shareholders of Calfrac	<b>11,161</b>	13,740	<b>(21,820)</b>	(21,063)
Non-controlling interest	—	(1,057)	<b>(6,996)</b>	(3,110)
	<b>11,161</b>	12,683	<b>(28,816)</b>	(24,173)

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity Attributable to the Shareholders of Calfrac							
	Share Capital	Contributed Surplus	Loan Receivable for Purchase of Common Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total	Non-Controlling Interest	Total Equity
<i>(C\$000s) (unaudited)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
<b>Balance – Jan. 1, 2018</b>	<b>501,456</b>	<b>35,094</b>	<b>(2,500)</b>	<b>2,728</b>	<b>21,268</b>	<b>558,046</b>	<b>(14,401)</b>	<b>543,645</b>
Net loss	—	—	—	—	(14,726)	(14,726)	(7,989)	(22,715)
Other comprehensive income (loss):								
Cumulative translation adjustment	—	—	—	(7,094)	—	(7,094)	993	(6,101)
Comprehensive loss	—	—	—	(7,094)	(14,726)	(21,820)	(6,996)	(28,816)
Stock options:								
Stock-based compensation recognized (note 6)	—	3,379	—	—	—	3,379	—	3,379
Proceeds from issuance of shares	1,797	(447)	—	—	—	1,350	—	1,350
Performance share units:								
Stock-based compensation recognized (note 6)	—	789	—	—	—	789	—	789
Acquisition:								
Shares issued (notes 5 and 9)	1,250	—	—	—	—	1,250	—	1,250
Shares to be issued (notes 5 and 9)	3,750	—	—	—	—	3,750	—	3,750
Loss on acquisition	—	—	—	—	(5,799)	(5,799)	—	(5,799)
Purchase of non-controlling interest	—	—	—	2,206	(26,252)	(24,046)	21,397	(2,649)
<b>Balance – Sept. 30, 2018</b>	<b>508,253</b>	<b>38,815</b>	<b>(2,500)</b>	<b>(2,160)</b>	<b>(25,509)</b>	<b>516,899</b>	<b>—</b>	<b>516,899</b>
Balance – Jan. 1, 2017	466,445	36,040	(2,500)	(8,736)	15,329	506,578	(9,120)	497,458
Net loss	—	—	—	—	(32,074)	(32,074)	(3,211)	(35,285)
Other comprehensive income (loss):								
Cumulative translation adjustment	—	—	—	11,011	—	11,011	101	11,112
Comprehensive income (loss)	—	—	—	11,011	(32,074)	(21,063)	(3,110)	(24,173)
Stock options:								
Stock-based compensation recognized (note 6)	—	3,605	—	—	—	3,605	—	3,605
Proceeds from issuance of shares	379	(81)	—	—	—	298	—	298
<b>Balance – Sept. 30, 2017</b>	<b>466,824</b>	<b>39,564</b>	<b>(2,500)</b>	<b>2,275</b>	<b>(16,745)</b>	<b>489,418</b>	<b>(12,230)</b>	<b>477,188</b>

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2018	2017	2018	2017
<i>(C\$000s) (unaudited)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
<b>CASH FLOWS PROVIDED BY (USED IN)</b>				
<b>OPERATING ACTIVITIES</b>				
Net income (loss)	14,878	6,678	(22,715)	(35,285)
Adjusted for the following:				
Depreciation	42,638	30,604	119,927	94,307
Stock-based compensation	1,542	1,302	4,168	3,605
Unrealized foreign exchange (gains) losses	(26,306)	13,814	15,810	26,208
Loss on disposal of property, plant and equipment	6,666	5,405	22,430	8,073
Impairment of inventory	1,131	—	3,189	—
Interest	21,817	21,134	85,631	64,488
Interest paid	(1,328)	(5,337)	(49,166)	(45,767)
Deferred income taxes	17,690	156	(1,970)	(24,633)
Changes in items of working capital (note 8)	(41,334)	(64,501)	(125,425)	(149,906)
Cash flows provided by (used in) operating activities	37,394	9,255	51,879	(58,910)
<b>FINANCING ACTIVITIES</b>				
Issuance of long-term debt, net of debt issuance costs	12,880	9,025	1,061,728	52,754
Issuance of finance lease obligations	—	178	—	178
Long-term debt repayments	(35,000)	(621)	(1,045,992)	(1,877)
Finance lease obligation repayments	(45)	(96)	(132)	(300)
Proceeds on issuance of common shares	37	23	1,350	298
Cash flows (used in) provided by financing activities	(22,128)	8,509	16,954	51,053
<b>INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment (note 8)	(36,009)	(18,160)	(121,783)	(49,928)
Proceeds on disposal of property, plant and equipment	2,127	2,187	6,951	5,557
Other	—	—	(7)	—
Cash flows used in investing activities	(33,882)	(15,973)	(114,839)	(44,371)
Effect of exchange rate changes on cash and cash equivalents	23,057	(7,577)	10,704	(14,102)
Increase (decrease) in cash and cash equivalents	4,441	(5,786)	(35,302)	(66,330)
Cash and cash equivalents, beginning of period	13,006	49,373	52,749	109,917
Cash and cash equivalents, end of period (note 3)	17,447	43,587	17,447	43,587

See accompanying notes to the consolidated financial statements.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2018 and 2017

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

### 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

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

These condensed consolidated interim financial statements were prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* using accounting policies consistent 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). They should be read in conjunction with the annual financial statements for the year ended December 31, 2017. Unless otherwise noted, the Company has consistently applied the same accounting policies throughout all periods presented, as if these policies were always in effect.

These financial statements were approved for issuance by the Board of Directors on October 24, 2018.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as noted below, these condensed consolidated interim financial statements follow the same accounting policies and methods of application as the most recent annual financial statements.

For 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.

#### (a) Changes in Accounting Policies and Disclosure

The IASB issued IFRS 15 *Revenue from Contracts with Customers*, a new standard for the recognition of revenue, which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard is required to be adopted either retrospectively or using a modified retrospective approach. In accordance with the transition provisions in IFRS 15, the Company has adopted the new standard using the modified retrospective method; the cumulative effective of initially applying the standard is recognized as an adjustment to the opening balance of retained earnings as of January 1, 2018. Comparative prior year periods are not restated. The adoption of IFRS 15 did not result in any changes in the timing of revenue recognition for the Company's goods and services.

The IASB issued the final version of IFRS 9 *Financial Instruments*, which is effective for annual periods beginning on or after January 1, 2018. IFRS 9, as amended, addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces a substantially reformed approach to hedge accounting and a new impairment model for financial assets. The Company has adopted the standard retrospectively from January 1, 2018, with the transition provisions permitted under the standard. Differences in the carrying amount of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in the opening balance as of January 1, 2018. Comparative prior year periods are not restated. The adoption of IFRS 9 did not result in a significant change to the Company's consolidated financial statements.

Each of the Company's subsidiaries is measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). Determination of functional currency is conducted through an analysis of the factors identified in IAS 21 *The Effects of Changes in Foreign Exchange Rates* and may involve certain judgments to determine the primary economic environment. The Company reconsiders the functional currency of its entities if there is a change in events and conditions which determine the primary economic environment.

On July 1, 2018, the functional currency of Calfrac Well Services (Argentina) S.A, a subsidiary of the Company, changed to the U.S. dollar from the Argentinean peso. The change was implemented as a result of the acquisition of Vision Sur SRL, the entity that held the non-controlling interest in Calfrac Well Services (Argentina) S.A. (as disclosed in note 9). The Company has full decision making authority over Calfrac Well Services (Argentina) S.A., which is now a wholly-owned subsidiary. In addition, an analysis was performed by management which determined that the majority of its business transactions are now either conducted in U.S. dollars or are being indexed to the U.S. dollar. Revenue has transitioned over time whereby now nearly all

revenue contracts are priced in U.S. dollars. In this quarter, a large portion of expenses that in prior periods were priced in Argentinean pesos are now either priced in U.S. dollars or are being indexed to U.S. dollars. The debt balances are also denominated in U.S. dollars.

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

#### (b) Revenue Recognition

Effective January 1, 2018, upon adoption of 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.

The adoption of IFRS 15 did not result in any changes in the timing of revenue recognition for the Company's goods and services.

See note 12 for further information on revenue.

#### (c) Financial Instruments

The new guidance under IFRS 9 *Financial Instruments* does not affect the Company's classification, measurement and recognition of financial assets and financial liabilities. The Company does not have any hedging arrangements.

The new impairment model under IFRS 9 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

From January 1, 2018, 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.

## ii) Measurement

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

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

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented together with foreign exchange gains and losses. Impairment losses are presented as separate line item in profit or loss.
- **Fair value through other comprehensive income:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other gains and losses. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains or losses and impairment expenses are presented as separate line item in profit or loss.
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or 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 7 for further information on financial instruments.

## (d) Recently Issued Accounting Standards Not Yet Applied

In January 2016, the IASB issued IFRS 16 *Leases*, which requires lessees to recognize all leases on the balance sheet. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company has elected to adopt IFRS 16 using the modified retrospective approach by recognizing the cumulative effect of initially applying the new standard on January 1, 2019 using the simplified right-of-use asset measurement method, along with the application of various practical expedients. The Company is currently evaluating the impact of the standard on its financial statements.

## 3. CASH AND CASH EQUIVALENTS

During 2016, the Company received net proceeds of \$56,636 from a private placement offering of 21,055,000 common shares for total gross proceeds of \$60,007. Share issuance costs for the transaction were \$3,371, resulting in net proceeds of \$56,636.

Prior to April 3, 2017, \$50,000 of the net proceeds from the private placement was held in a segregated account. These funds were available for use at the Company's discretion and were eligible to be transferred to its operating bank account at any time. The Company could also elect to use the proceeds as an equity cure. When the proceeds are utilized as an equity cure, the funds are transferred to the Company's operating bank account and are available for use at the Company's discretion. In addition, proceeds used in this manner would be applied as a reduction of Funded Debt and included in the calculation of EBITDA for purposes of the Company's Funded Debt to EBITDA bank covenant.

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

## 4. LONG-TERM DEBT

	September 30, 2018	December 31, 2017
(C\$000s)	(\$)	(\$)
US\$650,000 senior unsecured notes (December 31, 2017 – US\$600,000) due June 15, 2026, bearing interest at 8.50% payable semi-annually	841,425	752,700
\$200,000 second lien senior secured term loan facility due September 30, 2020, bearing interest at 9% payable quarterly, secured by the Canadian and U.S. assets of the Company on a second priority basis	—	197,000
\$347,500 extendible revolving term loan facility, secured by Canadian and U.S. assets of the Company	195,000	25,000
Less: unamortized debt issuance costs	(18,546)	(13,875)
	1,017,879	960,825
US\$nil mortgage matured on May 2018 bearing interest at U.S. prime less 1%, repayable at US\$33 per month principal and interest, secured by certain real property	—	169
	1,017,879	960,994
Less: current portion of long-term debt	—	(2,169)
	1,017,879	958,825

The fair value of the senior unsecured notes, as measured based on the closing quoted market price at September 30, 2018, was \$787,683 (December 31, 2017 – \$743,111). The carrying value of the revolving term loan facility approximates its fair value as the interest rate is not significantly different from current interest rates for similar loans.

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

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

On May 9, 2018, the Company amended its credit facilities to exercise \$100,000 of accordion capacity, bringing the total facilities from \$275,000 to \$375,000. The facilities consist of an operating facility of \$27,500 and a revolving term loan facility of \$347,500. The Company's credit facilities mature on June 1, 2020 and can be extended by one or more years at the Company's request and lenders' acceptance. The Company also may prepay principal without penalty. The interest rates are based on the parameters of certain bank covenants. For prime-based loans and U.S. base-rate loans, the rate ranges from prime or U.S. base rate plus 0.50 percent to prime plus 2.50 percent. For LIBOR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 1.50 percent to 3.50 percent above the respective base rates. The accordion feature of the revolving term loan facility was reduced to \$100,000, and is available to the Company during the term of the agreement. The Company incurs interest at the high end of the ranges outlined above if its net Total Debt to Adjusted EBITDA ratio is above 4.00:1.00. Additionally, in the event that the Company's net Total Debt to Adjusted EBITDA ratio is above 5.00:1.00, certain restrictions would apply including the following: (a) acquisitions will be subject to majority lender consent; (b) distributions will be restricted other than those relating to the Company's share unit plans; and (c) the Company will be prohibited from utilizing advances under the credit facilities to redeem or repay subordinated debt. As at September 30, 2018, the Company's net Total Debt to Adjusted EBITDA ratio was 3.26:1.00.

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 nine months ended September 30, 2018 was \$85,795 (nine months ended September 30, 2017 – \$64,588).

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

	2018
(C\$000s)	(\$)
Balance, January 1	960,994
Issuance of long-term debt, net of debt issuance costs	1,061,728
Long-term debt repayments	(1,045,992)
Amortization of debt issuance costs and debt discount	17,108
Foreign exchange adjustments	24,041
Balance, September 30	1,017,879

At September 30, 2018, the Company had utilized \$841 of its loan facility for letters of credit and had \$195,000 outstanding under its revolving term loan facility, leaving \$179,159 in available credit, subject to a monthly borrowing base, as determined using the previous month's results, which at September 30, 2018 resulted in a liquidity amount of \$138,452.

See note 10 for further details on the covenants in respect of the Company's long-term debt.

## 5. CAPITAL STOCK

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

	Nine Months Ended September 30, 2018		Year Ended, December 31, 2017	
	Shares	Amount	Shares	Amount
	(#)	(\$000s)	(#)	(\$000s)
Continuity of Common Shares				
Balance, beginning of period	143,755,741	501,456	136,634,590	466,445
Issued upon exercise of stock options	476,599	1,797	186,375	472
Issued upon exercise of warrants (note 6)	—	—	6,934,776	34,539
Issued on acquisition (note 9)	222,817	1,250	—	—
	144,455,157	504,503	143,755,741	501,456
Shares to be issued (note 9)		3,750	—	—
Balance, end of period	144,455,157	508,253	143,755,741	501,456

The weighted average number of common shares outstanding for the three months ended September 30, 2018 was 144,237,397 basic and 146,857,977 diluted (three months ended September 30, 2017 – 136,606,064 basic and 138,105,347 diluted). The weighted average number of common shares outstanding for the nine months ended September 30, 2018 was 143,958,861 basic and 147,103,100 diluted (nine months ended September 30, 2017 – 136,588,244 basic and 138,158,349 diluted). The difference between basic and diluted shares is attributable to the dilutive effect of stock options and warrants issued by the Company as disclosed in note 6, and the shares to be issued as disclosed in note 9.

## 6. SHARE-BASED PAYMENTS

### (a) Stock Options

Nine Months Ended September 30,	2018		2017	
Continuity of Stock Options	Options	Average Exercise Price	Options	Average Exercise Price
	(#)	(\$)	(#)	(\$)
Balance, January 1	9,616,173	5.30	7,246,386	6.62
Granted during the period	1,419,319	5.79	4,151,000	4.75
Exercised for common shares	(476,599)	2.83	(149,625)	1.99
Forfeited	(479,073)	7.16	(803,536)	8.11
Expired	(97,650)	12.65	(132,000)	12.76
Balance, September 30	9,982,170	5.33	10,312,225	5.74

Stock options vest equally over three to four years and expire five years from the date of grant. The exercise price of outstanding options range from \$1.34 to \$20.81 with a weighted average remaining life of 2.71 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 2018, determined using the Black-Scholes valuation method, was \$2.55 per option (nine months ended September 30, 2017 – \$2.11 per option). The Company applied the following assumptions in determining the fair value of options on the date of grant:

Nine Months Ended September 30,	2018	2017
Expected life (years)	3.00	3.50
Expected volatility	62.88%	64.39%
Risk-free interest rate	1.97%	1.01%
Expected dividends	\$0.00	\$0.00

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

### (b) Share Units

Nine Months Ended September 30,	2018			2017		
Continuity of Stock Units	Deferred Share Units	Performance Share Units	Restricted Share Units	Deferred Share Units	Performance Share Units	Restricted Share Units
	(#)	(#)	(#)	(#)	(#)	(#)
Balance, January 1	145,000	683,665	4,275,183	145,000	639,330	2,757,850
Granted during the period	145,000	765,100	—	145,000	124,000	2,566,900
Exercised	(145,000)	(232,249)	(866,933)	(145,000)	—	—
Forfeited	—	(108,216)	(269,100)	—	(79,665)	(689,708)
Balance, September 30	145,000	1,108,300	3,139,150	145,000	683,665	4,635,042

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2018	2017	2018	2017
	(\$)	(\$)	(\$)	(\$)
Expense (recovery) from:				
Stock options	1,174	1,302	3,379	3,605
Deferred share units	66	379	507	583
Performance share units	577	—	2,289	(1,560)
Restricted share units	739	—	6,429	(4,995)
Total stock-based compensation expense	2,556	1,681	12,604	(2,367)

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

The Company grants deferred share units to its outside directors. These units vest in November of the year of grant and are settled either in cash (equal to the market value of the underlying shares at the time of exercise) or in Company shares purchased on the open market. The fair value of the deferred share units is recognized equally over the vesting period, based on the current market price of the Company's shares. At September 30, 2018, the liability pertaining to deferred share units was \$471 (December 31, 2017 – \$867).

The Company grants performance share units to a senior officer. The amount of the grants earned is linked to corporate performance and the grants vest on the approval of the Board of Directors at the meeting held to approve the consolidated financial statements for the year in respect of which performance is being evaluated. As with the deferred share units, performance share units are settled either in cash or Company shares purchased on the open market. At September 30, 2018, the liability pertaining to performance share units was \$1,013 (December 31, 2017 – \$1,389).

In 2018, the Company expanded its performance share unit plan to its employees. These performance share units contain a cash-based component and an equity-based component. The cash-based component vests over three years based on corporate financial performance thresholds and are settled either in cash (equal to the market value of the underlying shares at the time of vesting) or in Company shares purchased on the open market. The equity-based component vests over three years without any further conditions and are settled in treasury shares issued by the Company. At September 30, 2018, the liability pertaining to the cash-based component of performance share units was \$454 (December 31, 2017 – \$nil).

Prior to 2018, the Company granted restricted share units to its employees. These units vest over three years and are settled either in cash (equal to the market value of the underlying shares at the time of exercise) or in Company shares purchased on the open market. The fair value of the restricted share units is recognized over the vesting period, based on the current market price of the Company's shares. At September 30, 2018, the liability pertaining to restricted share units was \$6,490 (December 31, 2017 – \$5,096).

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

#### (c) Warrants

In conjunction with the second lien senior secured term loan facility as disclosed in note 4, 6,934,776 warrants to purchase common shares of the Company were issued during 2016, entitling the holder to acquire up to 6,934,776 common shares at a price of \$4.14 per common share. On November 6, 2017, all the warrants were exercised, for total proceeds of \$28,709.

## 7. FINANCIAL INSTRUMENTS

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

The fair values of financial instruments included in the consolidated balance sheets, except long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of the senior unsecured notes based on the closing market price at September 30, 2018 was \$787,683 before deduction of unamortized debt issuance costs (December 31, 2017 – \$743,111). The carrying value of the senior unsecured notes at September 30, 2018 was \$841,425 before

deduction of unamortized debt issuance costs and debt discount (December 31, 2017 – \$752,700). The fair values of the remaining long-term debt approximate their carrying values, as described in note 4.

The adoption of IFRS 9 *Financial Instruments* requires an entity to estimate its expected credit loss for all trade accounts receivable even when they are not past due based on the expectation that certain receivables will be uncollectible. Based on the Company's assessment, a small increase in the allowance for doubtful accounts of approximately 0.14% was recorded, using the lifetime expected credit loss model. The expected credit loss rates are based on actual credit loss experience over the past six years for each operating segment. The adjustment to allowance for doubtful accounts on initial application of IFRS 9 ranged from \$38 to \$164 depending on the operating segment for a total additional provision of \$353.

The loss allowance provision for trade accounts receivable as at September 30, 2018 reconciles to the opening loss allowance provision as follows:

	2018
(C\$000s)	(\$)
Balance, January 1 – calculated under IAS 39	4,649
Increase in loan loss allowance per IFRS 9	353
Receivables written off during period as uncollectible	113
Foreign exchange adjustments	145
Balance, September 30	5,260

## 8. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2018	2017	2018	2017
(C\$000s)	(\$)	(\$)	(\$)	(\$)
Accounts receivable	(68,841)	(96,507)	(116,957)	(195,198)
Inventory	16,816	(9,750)	(12,441)	(25,133)
Prepaid expenses and deposits	(764)	(496)	(2,707)	(2,761)
Accounts payable and accrued liabilities	9,995	40,466	6,456	71,467
Income taxes recoverable	1,460	1,786	224	1,719
	(41,334)	(64,501)	(125,425)	(149,906)



Purchase of property, plant and equipment is comprised of:

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2018	2017	2018	2017
(C\$000s)	(\$)	(\$)	(\$)	(\$)
Property, plant and equipment additions	(34,542)	(22,093)	(128,280)	(57,416)
Change in liabilities related to purchase of property, plant and equipment	(1,467)	3,933	6,497	7,488
	(36,009)	(18,160)	(121,783)	(49,928)

## 9. ACQUISITION

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

During the period July 21, 2018 to September 30, 2018, the acquisition contributed immaterial income to the Company. The pro-forma estimated effects on revenue and operating income, had the acquisition occurred on January 1, 2018, would have been insignificant.

## 10. CAPITAL STRUCTURE

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

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

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

	September 30,	December 31,
For the Twelve Months Ended	2018	2017
(C\$000s)	(\$)	(\$)
Net income	13,156	586
Adjusted for the following:		
Depreciation	156,413	130,793
Reversal of impairment of property, plant and equipment	(76,296)	(76,296)
Foreign exchange losses	49,488	34,273
Loss on disposal of property, plant and equipment	27,396	13,039
Impairment of inventory	3,189	—
Interest	106,593	85,450
Income taxes	14,683	(7,725)
Operating income	294,622	180,120

Net debt for this purpose is calculated as follows:

	September 30, 2018	December 31, 2017
As at		
(C\$000s)	(\$)	(\$)
Long-term debt, net of debt issuance costs and debt discount (note 4)	1,017,879	960,994
Finance lease obligations	783	914
Less: cash and cash equivalents	(17,447)	(52,749)
Net debt	1,001,215	909,159

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

At September 30, 2018, the net debt to operating income ratio was 3.40:1 (December 31, 2017 – 5.05:1) calculated on a 12-month trailing basis as follows:

	September 30, 2018	December 31, 2017
For the Twelve Months Ended		
(C\$000s, except ratio)	(\$)	(\$)
Net debt	1,001,215	909,159
Operating income	294,622	180,120
Net debt to operating income ratio	3.40:1	5.05:1

The Company is subject to certain financial covenants relating to working capital, leverage and the generation of cash flow in respect of its operating and revolving credit facilities. These covenants are monitored on a monthly basis. At September 30, 2018 and December 31, 2017, the Company was in compliance with its covenants with respect to its credit facilities.

	Covenant 2018	Actual 2018
As at September 30,		
Working capital ratio not to fall below	1.15x	2.39x
Funded Debt to Adjusted EBITDA not to exceed <sup>(1)(2)</sup>	3.00x	0.59x
Funded Debt to Capitalization not to exceed <sup>(1)(3)</sup>	0.30x	0.12x

<sup>(1)</sup> Funded Debt is defined as Total Debt excluding all outstanding senior unsecured notes. Total Debt includes bank loans and long-term debt (before unamortized debt issuance costs and debt discount) plus outstanding letters of credit. For the purposes of the Total Debt to Adjusted EBITDA ratio, the Funded Debt to Capitalization Ratio and the Funded Debt to Adjusted EBITDA ratio, the amount of Total Debt or Funded Debt, as applicable, is reduced by the amount of cash on hand with lenders (excluding any cash held in a segregated account for the purposes of a potential equity cure).

<sup>(2)</sup> Adjusted EBITDA is defined as net income or loss for the period adjusted for interest, taxes, depreciation and amortization, non-cash stock-based compensation, non-controlling interest, and gains and losses that are extraordinary or non-recurring.

<sup>(3)</sup> Capitalization is Total Debt plus equity attributable to the shareholders of Calfrac.

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

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2018	2017	2018	2017
(C\$000s)			(\$)	(\$)
(unaudited)				
Net income (loss)	14,878	6,678	(22,715)	(35,285)
Add back (deduct):				
Depreciation	42,638	30,604	119,927	94,307
Unrealized foreign exchange (gains) losses	(26,306)	13,814	15,810	26,208
Non-recurring realized foreign exchange losses <sup>(1)</sup>	29,288	—	29,288	—
Loss on disposal of property, plant and equipment	6,666	5,405	22,430	8,073
Impairment of inventory	1,131	—	3,189	—
Provision for settlement of litigation	—	—	—	(139)
Restructuring charges	16	213	795	568
Stock-based compensation	1,542	1,302	4,168	3,605
Losses attributable to non-controlling interest	—	1,144	7,989	3,211
Interest	21,817	21,134	85,631	64,488
Income taxes	19,961	819	(18)	(22,426)
Adjusted EBITDA	111,631	81,113	266,494	142,610

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

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

- i. Eligible North American accounts receivable, which is based on 75 percent of accounts receivable owing by companies rated BB+ or lower by Standard & Poor's (or a similar rating agency) and 85 percent of accounts receivable from companies rated BBB- or higher;
- ii. 100 percent of unencumbered cash of the parent company and its U.S. operating subsidiary, excluding any cash held in a segregated account for the purposes of a potential equity cure; and
- iii. 25 percent of the net book value of property, plant and equipment (PP&E) of the parent company and its U.S. operating subsidiary. The value of PP&E excludes assets under construction and is limited to \$125,000.

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

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

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

These limitations on restricted payments are tempered by the existence of a number of exceptions to the general prohibition, including a basket allowing for restricted payments in an aggregate amount of up to US\$20,000. As at September 30, 2018, this basket was not utilized.

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

As at September 30, 2018, the Company's Fixed Charge Coverage Ratio of 3.70:1 was higher than the required 2:1 ratio and the aforementioned prohibitions will not be applicable as long as the Company remains above this ratio.

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

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

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

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

## 11. RELATED-PARTY TRANSACTIONS

In November 2010, the Company lent a senior officer \$2,500 to purchase common shares of the Company on the Toronto Stock Exchange. The loan is on a non-recourse basis and is secured by the common shares acquired with the loan proceeds. The loan was amended in February 2015 to extend the term by five years to November 8, 2020 and change the interest rate to the prescribed rate under the Income Tax Act (Canada), which rate was 1.0 percent per annum at the time of the amendment. The loan was subsequently amended in December 2016 to make it non-interest bearing, effective February 24, 2015. The market value of the shares that secure the loan was approximately \$733 as at September 30, 2018 (December 31, 2017 – \$1,012). In accordance with applicable accounting standards regarding share purchase loans receivable, this loan is classified as a reduction of shareholders' equity due to its non-recourse nature. In addition, the shares purchased with the loan proceeds are considered to be, in substance, stock options.

The Company leases certain premises from a company controlled by Ronald P. Mathison, one of the Company's directors. The rent charged for these premises during the nine months ended September 30, 2018 was \$1,307 (nine months ended September 30, 2017 – \$1,307), as measured at the exchange amount which is based on market rates.

## 12. REVENUE FROM CONTRACTS WITH CUSTOMERS

The IASB issued IFRS 15 *Revenue from Contracts with Customers*, a new standard for the recognition of revenue, which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

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

	Canada	United States	Russia	Argentina	Consolidated
(C\$000s)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Three Months Ended September 30, 2018</b>					
Fracturing	168,924	358,416	21,973	38,356	587,669
Coiled tubing	14,679	—	3,694	8,144	26,517
Cementing	—	—	—	5,017	5,017
Product sales	443	919	—	—	1,362
Subcontractor	—	—	—	9,563	9,563
	<b>184,046</b>	<b>359,335</b>	<b>25,667</b>	<b>61,080</b>	<b>630,128</b>

Three Months Ended September 30, 2017

Fracturing	165,401	190,723	24,537	21,485	402,146
Coiled tubing	13,145	—	5,221	7,126	25,492
Cementing	—	—	—	5,727	5,727
Product sales	2,407	3,094	—	—	5,501
Subcontractor	—	—	—	9,224	9,224
	<b>180,953</b>	<b>193,817</b>	<b>29,758</b>	<b>43,562</b>	<b>448,090</b>

	Canada	United States	Russia	Argentina	Consolidated
(C\$000s)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Nine Months Ended September 30, 2018</b>					
Fracturing	460,705	1,014,247	69,561	92,339	1,636,852
Coiled tubing	40,294	—	12,366	24,565	77,225
Cementing	—	—	—	10,836	10,836
Product sales	4,647	3,104	—	—	7,751
Subcontractor	—	—	—	24,904	24,904
	<b>505,646</b>	<b>1,017,351</b>	<b>81,927</b>	<b>152,644</b>	<b>1,757,568</b>

Nine Months Ended September 30, 2017

Fracturing	365,689	437,666	74,692	51,924	929,971
Coiled tubing	34,817	—	14,285	17,027	66,129
Cementing	—	—	—	19,201	19,201
Product sales	2,778	8,141	—	—	10,919
Subcontractor	—	—	—	16,029	16,029
	<b>403,284</b>	<b>445,807</b>	<b>88,977</b>	<b>104,181</b>	<b>1,042,249</b>

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.

### 13. 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.

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2018	2017	2018	2017
(C\$000s)	(\$)	(\$)	(\$)	(\$)
Product costs	192,702	131,692	548,533	313,872
Personnel costs	125,747	91,640	368,548	233,599
Depreciation	42,638	30,604	119,927	94,307
Other operating costs	173,463	130,651	518,688	320,119
	534,550	384,587	1,555,696	961,897

### 14. EMPLOYEE BENEFITS EXPENSE

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

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2018	2017	2018	2017
(C\$000s)	(\$)	(\$)	(\$)	(\$)
Salaries and short-term employee benefits	128,305	90,892	372,391	232,792
Post-employment benefits (group retirement savings plan)	2,833	335	7,777	377
Share-based payments	2,556	1,681	12,604	(2,367)
Termination benefits	248	213	1,639	568
	133,942	93,121	394,411	231,370

### 15. CONTINGENCIES

#### GREEK LITIGATION

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

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

In 1999, the largest group of plaintiffs received a ruling from the Athens Court of First Instance that their termination was invalid and that salaries in arrears amounting to approximately \$10,283 (6,846 euros) plus interest were due to the former employees. This decision was appealed to the Athens Court of Appeal, which allowed the appeal in 2001 and annulled the above-mentioned decision of the Athens Court of First Instance. The said group of former employees filed an appeal with the Supreme Court of Greece, which was heard on May 29, 2007. The Supreme Court of Greece allowed the appeal and sent the matter back to the Athens Court of Appeal for the consideration of the quantum of awardable salaries in arrears. On June 3, 2008, the Athens Court of Appeal rejected NAPC's appeal and reinstated the award of the Athens Court of First Instance, which decision was further appealed to the Supreme Court of Greece. The matter was heard on April 20, 2010 and a decision rejecting such appeal was rendered in June 2010. As a result of Denison's participation in the consortium that was named in the lawsuit,

the Company has been served with three separate payment orders, one on March 24, 2015 and two others on December 29, 2015. The Company was also served with an enforcement order on November 23, 2015. Oppositions have been filed on behalf of the Company in respect of each of these orders which oppose the orders on the basis that they were improperly issued and are barred from a statute of limitations perspective. The salaries in arrears sought to be recovered through these orders are part of the \$10,283 (6,846 euros) cited above and the interest being sought in respect of these orders is part of the \$27,084 (18,032 euros) cited below. Provisional orders granting a temporary suspension of any enforcement proceedings have been granted in respect of all of the orders that have been served. The order served on March 24, 2015 was heard on November 24, 2015 and a decision was issued on November 25, 2016 accepting the Company's opposition on the basis that no lawful service of Judgment No 4528/2008 had taken place until the filing of the opponents' petition and/or the issuance of the payment order. The plaintiffs have filed an appeal against the above decision which has been scheduled to be heard on October 16, 2018. A hearing in respect of the order served on November 23, 2015 was adjourned until October 31, 2018. A hearing in respect of the orders served in December of 2015 scheduled for September 20, 2016 was adjourned until November 21, 2016 and two decisions were issued on January 9, 2017 accepting the Company's oppositions on a statute of limitations basis. The plaintiffs filed appeals against the above decisions which were heard on October 16, 2018 and decisions in respect of such appeals are pending.

NAPC is also the subject of a claim for approximately \$4,299 (2,862 euros) plus associated penalties and interest from the Greek social security agency for social security obligations associated with the salaries in arrears that are the subject of the above-mentioned decision.

The maximum aggregate interest and penalties payable under the claims noted above, as well as three other immaterial claims against NAPC totaling \$868 (578 euros), amounted to \$27,084 (18,032 euros) as at September 30, 2018.

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

## 16. SEGMENTED INFORMATION

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

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

	Canada	United States	Russia	Argentina	Corporate	Consolidated
(C\$000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Three Months Ended September 30, 2018</b>						
Revenue	184,046	359,335	25,667	61,080	—	630,128
Operating income (loss) <sup>(1)</sup>	27,646	88,547	1,568	9,416	(11,846)	115,331
Segmented assets	641,578	968,507	96,225	148,358	—	1,854,668
Capital expenditures	9,677	22,627	1,242	996	—	34,542
<b>Three Months Ended September 30, 2017</b>						
Revenue	180,953	193,817	29,758	43,562	—	448,090
Operating income (loss) <sup>(1)</sup>	44,418	37,084	4,705	(8)	(8,003)	78,196
Segmented assets	676,957	740,662	109,019	150,033	—	1,676,671
Capital expenditures	186	20,655	972	280	—	22,093

	Canada	United States	Russia	Argentina	Corporate	Consolidated
(C\$000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Nine Months Ended September 30, 2018</b>						
Revenue	505,646	1,017,351	81,927	152,644	—	1,757,568
Operating income (loss) <sup>(1)</sup>	70,506	210,820	(185)	8,479	(39,787)	249,833
Segmented assets	641,578	968,507	96,225	148,358	—	1,854,668
Capital expenditures	33,606	88,183	3,004	3,487	—	128,280

Nine Months Ended September 30, 2017

Revenue	403,284	445,807	88,977	104,181	—	1,042,249
Operating income (loss) <sup>(1)</sup>	70,051	72,261	9,418	(26)	(16,373)	135,331
Segmented assets	676,957	740,662	109,019	150,033	—	1,676,671
Capital expenditures	15,079	38,678	1,912	1,747	—	57,416

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

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2018	2017	2018	2017
(C\$000s)	(\$)	(\$)	(\$)	(\$)
Net income (loss)	14,878	6,678	(22,715)	(35,285)
Add back (deduct):				
Depreciation	42,638	30,604	119,927	94,307
Foreign exchange losses	8,240	13,556	41,389	26,174
Loss on disposal of property, plant and equipment	6,666	5,405	22,430	8,073
Impairment of inventory	1,131	—	3,189	—
Interest	21,817	21,134	85,631	64,488
Income taxes	19,961	819	(18)	(22,426)
Operating income	115,331	78,196	249,833	135,331

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

## 17. SEASONALITY OF OPERATIONS

Certain of the Company's Canadian and United States businesses are seasonal in nature. The lowest activity levels in these areas are typically experienced during the second quarter of the year when road weight restrictions are in place and access to well sites in Canada and North Dakota is reduced.



## CORPORATE INFORMATION

### BOARD OF DIRECTORS

**Ronald P. Mathison**  
Chairman  
President & Chief Executive Officer  
Matco Investments Ltd.

**Douglas R. Ramsay** <sup>(4)</sup>  
Vice Chairman  
Calfrac Well Services Ltd.

**Fernando Aguilar**  
President & Chief Executive Officer  
Calfrac Well Services Ltd.

**Kevin R. Baker, Q.C.** <sup>(1)(2)(3)(4)</sup>  
President & Managing Director  
Baycor Capital Inc.

**James S. Blair** <sup>(1)(2)(3)(4)</sup>  
President & Chief Executive Officer  
Glenogle Energy Inc.

**Gregory S. Fletcher** <sup>(1)(2)(3)</sup>  
President  
Sierra Energy Inc.

**Lorne A. Gartner** <sup>(1)(2)(3)(4)</sup>  
Independent Businessman

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of the Corporate Governance and Nominating Committee
- (4) Member of the Health, Safety, Environment and Quality Committee

### OFFICERS

**Fernando Aguilar**  
President & Chief Executive Officer

**Lindsay R. Link**  
Chief Operating Officer

**Michael D. Olinek**  
Chief Financial Officer

**Armando J. Bertolin**  
Director General, Latin American Division

**Tom J. Medvedic**  
President, Canadian Division

**Robert L. Sutherland**  
President, Russian Division

**Fred L. Toney**  
President, United States Division

**J. Michael Brown**  
Vice President, Technical Services

**Mark R. Ellingson**  
Vice President, Sales & Marketing, United States Division

**Chris K. Gall**  
Vice President, Global Supply Chain

**Roderick P. Kuntz**  
Vice President, HS&E

**Chad J. Leier**  
Vice President, Sales & Marketing, Canadian Division

**Gordon T. Milgate**  
Vice President, Operations, Canadian Division

**Edward L. Oke**  
Vice President, Human Resources

**B. Mark Paslawski**  
Vice President, Corporate Development

**Gary J. Rokosh**  
Vice President, Business Development, Canadian Division

**Mark D. Rosen**  
Vice President, Operations, United States Division

**Scott A. Treadwell**  
Vice President, Capital Markets & Strategy

**Joel S. Gaucher**  
General Counsel & Corporate Secretary

**Matthew L. Mignault**  
Corporate Controller

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Alberta Treasury Branches  
Royal Bank of Canada  
Canadian Imperial Bank of Commerce  
Export Development Canada  
The Bank of Nova Scotia

### LEGAL COUNSEL

Bennett Jones LLP  
Calgary, Alberta

### STOCK EXCHANGE LISTING

Trading Symbol: CFW

### REGISTRAR & TRANSFER AGENT

For information concerning lost share certificates and estate transfers, or for a change in share registration or address, please contact the transfer agent and registrar:

Computershare Investor Services Inc.  
9th floor, 100 University Avenue  
Toronto, ON M5J 2Y1  
1-800-564-6253  
service@computershare.com

## FACILITIES & OPERATING BASES

### CANADA

#### ALBERTA

Calgary - Corporate Head Office  
Calgary - Technology and Training Centre  
Edson  
Grande Prairie  
Medicine Hat  
Red Deer

#### BRITISH COLUMBIA

Dawson Creek

#### SASKATCHEWAN

Kindersley

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Beebe

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Grand Junction  
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Artesia

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Williston

#### PENNSYLVANIA

Smithfield

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San Antonio

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Nefteugansk  
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