2019
Q4 MANAGEMENT'S DISCUSSION & ANALYSIS
CALFRAC WELL SERVICES

Three and Twelve Months Ended December 31, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) for Calfrac Well Services Ltd. ("Calfrac" or the "Company") has been prepared by management as of March 4, 2020 and is a review of the Company's financial condition and results of operations based on International Financial Reporting Standards (IFRS).

The focus of this MD&A is a comparison of the financial performance for the years ended December 31, 2019 and 2018. It should be read in conjunction with the interim consolidated financial statements for the year ended December 31, 2019 as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2018.

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 25 and 26.

CALFRAC'S BUSINESS

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

The Company's reportable business segments during the three months ended December 31, 2019 were as follows:

Segment	Active	Idle	Total	Crewed Fleets
	(hhp)	*(hhp)*	*(hhp)*	*(#)*
United States	830,000	93,000	923,000	15
Canada	236,000	36,000	272,000	5
Argentina	138,000	—	138,000	5
Russia	65,000	12,000	77,000	5
Total	1,269,000	141,000	1,410,000	30

- The Company's United States segment provides fracturing services to oil companies operating in the Bakken shale play in North Dakota; in the Rockies area, including the Powder River Basin in Wyoming, as well as in Texas and New Mexico, where it services the Eagle Ford and Permian basins. Calfrac also provides fracturing services to natural gas-focused customers operating in the Marcellus and Utica shale plays in Pennsylvania, Ohio and West Virginia. At December 31, 2019, Calfrac's United States operations had combined active horsepower of approximately 830,000 and no active cementing or coiled tubing units. At the end of the fourth quarter, the United States segment had temporarily idled approximately 93,000 horsepower, five cementing units and one coiled tubing unit.

- The Canadian segment is focused on the provision of fracturing and coiled tubing services to a diverse group of oil and natural gas exploration and production companies operating in Alberta, northeast British Columbia, Saskatchewan and Manitoba. The Company's customer base in Canada ranges from large multinational public companies to small private companies. At December 31, 2019, Calfrac's Canadian operations had active horsepower of approximately 236,000 and 11 active coiled tubing units. At the end of the fourth quarter, the Canadian segment had temporarily idled approximately 36,000 horsepower and three 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 138,000 active horsepower, 13 active cementing units and six active coiled tubing units in its Argentinean segment at December 31, 2019.

- The Company's Russian segment provides fracturing and coiled tubing services in Western Siberia. During the fourth quarter of 2019, 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 December 31, 2019, the Russian segment had seven deep coiled tubing units, of which three were active, and approximately 65,000 active horsepower forming five fracturing spreads in Russia.

FINANCIAL OVERVIEW – YEARS ENDED DECEMBER 31, 2019 VERSUS 2018

CONSOLIDATED HIGHLIGHTS

Years Ended December 31,	2019	2018	Change
(C$000s, except per share amounts) *(unaudited)*	*($)*	*($)*	*(%)*
Revenue	**1,620,955**	2,256,426	(28)
Operating income[1]	**152,744**	311,825	(51)
Per share – basic	**1.06**	2.16	(51)
Per share – diluted	**1.05**	2.12	(50)
Adjusted EBITDA[1]	**159,119**	329,408	(52)
Per share – basic	**1.10**	2.29	(52)
Per share – diluted	**1.09**	2.24	(51)
Net loss attributable to the shareholders of Calfrac	**(156,203)**	(18,188)	NM
Per share – basic	**(1.08)**	(0.13)	NM
Per share – diluted	**(1.08)**	(0.13)	NM
Working capital, end of year	**248,772**	329,871	(25)
Total assets, end of year	**1,525,922**	1,782,657	(14)
Long-term debt, end of year	**976,693**	989,614	(1)
Total equity, end of year	**368,623**	513,820	(28)

[1] *Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.*

2019 OVERVIEW

In 2019, the Company:

- generated revenue of $1.6 billion versus $2.3 billion in 2018 resulting primarily from lower pricing and activity in North America combined with a greater proportion of customers providing their own sand;
- reported adjusted EBITDA of $159.1 million versus $329.4 million in 2018 mainly as a result of lower utilization and pricing in North America;
- reported a net loss attributable to shareholders of Calfrac of $156.2 million or $1.08 per share diluted, which included additional depreciation of $32.9 million relating to accounting policy changes, a foreign exchange loss of $6.3 million, inventory write-down of $3.7 million and impairment of PP&E of $2.2 million compared to a loss of $18.2 million or $0.13 per share diluted in 2018;
- executed the extension of the Company's revolving credit facility, now maturing in June 2022;
- completed the acquisition of additional fracturing equipment in Argentina;
- aligned its operating footprint in Canada and the United States in response to lower activity levels; and
- incurred capital expenditures, net of disposals, of $139.3 million primarily to support the Company's North American fracturing operations.

Subsequent to year-end, Calfrac executed an exchange offer of US$120.0 million of new 10.875% second lien secured notes due March 15, 2026 to holders of its existing 8.50% senior unsecured notes due June 15, 2026. The exchange will result in reduced leverage of approximately $130.0 million and a reduction of $7.3 million in annual debt service costs.

CANADA

Years Ended December 31,	**2019**	2018	Change
(C$000s, except operational information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**397,583**	650,731	(39)
Expenses			
Operating	**345,315**	549,448	(37)
Selling, general and administrative (SG&A)	**11,579**	14,121	(18)
	356,894	563,569	(37)
Operating income[(1)]	**40,689**	87,162	(53)
Operating income (%)	**10.2**	13.4	(24)
Fracturing revenue per job ($)	**16,573**	21,156	(22)
Number of fracturing jobs	**21,046**	28,038	(25)
Active pumping horsepower, end of period (000s)	**236**	289	(18)
Idle pumping horsepower, end of period (000s)	**36**	17	112
Total pumping horsepower, end of period (000s)	**272**	306	(11)
Coiled tubing revenue per job ($)	**19,839**	22,809	(13)
Number of coiled tubing jobs	**2,339**	2,299	2
Active coiled tubing units, end of period (#)	**11**	11	—
Idle coiled tubing units, end of period (#)	**3**	3	—
Total coiled tubing units, end of period (#)	**14**	14	—

(1) Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.

REVENUE

Revenue from Calfrac's Canadian operations in 2019 was $397.6 million versus $650.7 million in 2018. Through the majority of 2019, a number of key clients in Calfrac's Canadian division were less active compared to 2018, as takeaway capacity issues and government mandated production curtailment impacted spending plans. Although the Company continued to work for a top tier customer mix in 2019, the number of fracturing jobs decreased by 25 percent. Revenue per fracturing job decreased by 22 percent from the prior year primarily due to lower pricing and job mix. Coiled tubing activity increased by 2 percent although revenue per job decreased by 13 percent resulting in lower coiled tubing revenue year-over-year.

OPERATING INCOME

The Company's Canadian division generated operating income of $40.7 million in 2019 compared to $87.2 million in 2018. The decrease was due to lower pricing and utilization. Despite the lower revenue base, the Company generated an 10 percent operating income margin through its focus on controlling operating costs during periods of lower activity. The Canadian division idled one fleet at the beginning of 2019 and revised its field work schedule beginning in the second quarter in order to better align with expected activity levels, which helped improve profitability. The reported operating income was positively impacted by the adoption of IFRS 16 at the beginning of 2019 which resulted in $8.8 million of lease payments no longer being recognized as operating costs in 2019. In addition, the $2.5 million reduction in SG&A expenses compared to 2018 was due to headcount reductions, a lower annual bonus provision and a reduction in corporate costs allocated to the Canadian division, offset partially by restructuring costs of $0.7 million and a bad debt expense of $1.3 million that were recorded in 2019.

UNITED STATES

Years Ended December 31,	2019	2018	Change
(C$000s, except operational and exchange rate information)	*($)*	*($)*	*(%)*
(unaudited)			
Revenue	**930,404**	1,296,675	(28)
Expenses			
Operating	**786,864**	1,014,151	(22)
SG&A	**17,335**	20,176	(14)
	804,199	1,034,327	(22)
Operating income[1]	**126,205**	262,348	(52)
Operating income (%)	**13.6**	20.2	(33)
Fracturing revenue per job ($)	**42,832**	58,333	(27)
Number of fracturing jobs	**21,687**	22,176	(2)
Active pumping horsepower, end of period (000s)	**830**	854	(3)
Idle pumping horsepower, end of period (000s)	**93**	25	272
Total pumping horsepower, end of period (000s)	**923**	879	5
Active coiled tubing units, end of period (#)	**—**	—	—
Idle coiled tubing units, end of period (#)	**1**	2	(50)
Total coiled tubing units, end of period (#)	**1**	2	(50)
Active cementing units, end of period (#)	**—**	—	—
Idle cementing units, end of period (#)	**5**	10	(50)
Total cementing units, end of period (#)	**5**	10	(50)
US$/C$ average exchange rate[2]	**1.3269**	1.2957	2

[1] Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.
[2] Source: Bank of Canada.

REVENUE

Revenue from Calfrac's United States operations decreased to $930.4 million in 2019 from $1.3 billion in 2018 primarily due to lower pricing and fracturing activity. Completions activity in the United States decreased during 2019 as customers continued to focus on spending within their operating cash flows. As a result, the number of fracturing jobs completed declined by 2 percent year-over-year, with lower activity in Artesia and Colorado being partially offset by higher activity in Pennsylvania, North Dakota and San Antonio. Revenue per job decreased 27 percent due to lower pricing combined with the impact of job mix and certain customers providing their own sand.

OPERATING INCOME

The Company's United States division generated operating income of $126.2 million in 2019 compared to $262.3 million in 2018. The 52 percent decrease was primarily the result of lower pricing and utilization of active equipment. Although the Company had 17 active fleets available in 2019, only an average of 14 active crews were utilized during that period and exited the year with 10 active fleets. The lower utilization levels were primarily related to Calfrac's Texas operations, and to a lesser extent, in North Dakota, as extreme weather impacted customer activity during the first quarter in that operating region while wet weather negatively impacted parts of the third quarter. The prior year's operating results included $12.9 million of reactivation costs in 2018 while 2019 did not include any of such costs. The reported operating income was also positively impacted by the adoption of IFRS 16 at the beginning of 2019, which resulted in $12.7 million of lease payments no longer being recognized as operating costs in 2019. SG&A expenses decreased by 14 percent primarily due to a lower bonus provision recorded in 2019. Additionally, the Company revised its thresholds for capitalization of major components relating to field equipment effective January 1, 2019. Due to this change, certain costs that were previously classified as operating expenses are now classified as capital expenditures. This resulted in a decrease to operating expenses in the United States totaling $10.2 million relating to the 2019 fiscal year and was recorded during the fourth quarter of 2019.

RUSSIA

Years Ended December 31,	**2019**	2018	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**105,807**	106,819	(1)
Expenses			
Operating	**107,597**	103,938	4
SG&A	**3,215**	3,326	(3)
	110,812	107,264	3
Operating loss[1]	**(5,005)**	(445)	NM
Operating loss (%)	**(4.7)**	(0.4)	NM
Fracturing revenue per job ($)	**86,397**	78,176	11
Number of fracturing jobs	**1,094**	1,167	(6)
Active pumping horsepower, end of period (000s)	**65**	77	(16)
Idle pumping horsepower, end of period (000s)	**12**	—	NM
Total pumping horsepower, end of period (000s)	**77**	77	—
Coiled tubing revenue per job ($)	**44,619**	39,065	14
Number of coiled tubing jobs	**253**	399	(37)
Active coiled tubing units, end of period (#)	**3**	6	(50)
Idle coiled tubing units, end of period (#)	**4**	1	NM
Total coiled tubing units, end of period (#)	**7**	7	—
Rouble/C$ average exchange rate[2]	**0.0205**	0.0207	(1)

[1] Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.
[2] Source: Bank of Canada.

REVENUE

Revenue from Calfrac's Russian operations in 2019 of $105.8 million was consistent with 2018. The slight decrease in revenue, which is generated in roubles, was mostly related to a 37 percent reduction in coiled tubing activity, combined with the 1 percent depreciation of the Russian rouble in 2019 versus 2018. Revenue per fracturing job was 11 percent higher than the comparable period in 2018 due to proppant being provided for all jobs completed with a major customer for the full period in 2019. This was partially offset by the 6 percent reduction in fracturing activity. The Company idled one fracturing spread and two coiled tubing units during 2019 to align with activity levels.

OPERATING LOSS

The Company's Russian division incurred an operating loss of $5.0 million in 2019 compared to a loss of $0.4 million in 2018. Calfrac's operations in the first quarter of 2019 were impacted by extremely cold temperatures experienced for portions of January and February, combined with higher equipment repair expenses. In addition, the Company closed its operations in Noyabrsk during the first quarter and incurred mobilization costs to transfer equipment to Khanty-Mansiysk to work for an existing customer in that region. The second and third quarters experienced lower activity for both fracturing and coiled tubing services as Calfrac's major customer in Western Siberia was impacted by the issues associated with the contamination of the Transneft pipeline network while the fourth quarter was impacted by higher equipment repairs and subcontractor costs compared to the same period in 2018.

ARGENTINA

Years Ended December 31,	**2019**	2018	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**187,161**	202,201	(7)
Expenses			
Operating	**153,479**	178,796	(14)
SG&A	**7,554**	10,569	(29)
	161,033	189,365	(15)
Operating income[1]	**26,128**	12,836	104
Operating income (%)	**14.0**	6.3	122
Active pumping horsepower, end of period (000s)	**138**	108	28
Idle pumping horsepower, end of period (000s)	**—**	—	—
Total pumping horsepower, end of period (000s)	**138**	108	28
Active cementing units, end of period (#)	**13**	11	18
Idle cementing units, end of period (#)	**1**	2	(50)
Total cementing units, end of period (#)	**14**	13	8
Active coiled tubing units, end of period (#)	**6**	5	20
Idle coiled tubing units, end of period (#)	**—**	1	(100)
Total coiled tubing units, end of period (#)	**6**	6	—
US$/C$ average exchange rate[2]	**1.3269**	1.2957	2

[1] *Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.*
[2] *Source: Bank of Canada.*

REVENUE

Calfrac's Argentinean operations generated total revenue of $187.2 million in 2019 versus $202.2 million in 2018. The 7 percent decline in year-over-year revenue was primarily due to the change in customer mix that occurred during the third quarter of 2019. The Company completed of one of its bundled service contracts in the Vaca Muerta shale play during the third quarter where Calfrac provided sand and replaced it with another contract with a customer that provides its own sand. During 2019, the Company achieved higher fracturing activity in the Vaca Muerta shale play and a significant improvement in cementing activity. This was partially offset by lower coiled tubing revenue as activity was weighted to lower margin contract work in 2019 compared to higher margin call-out work in 2018.

OPERATING INCOME

The Company's operations in Argentina generated operating income of $26.1 million in 2019 compared to $12.8 million in the comparable period in 2018. The Company has continued to improve its operating margins throughout the transition to unconventional operations in Argentina mainly due to improved pricing and a focus on reducing costs. The Company added additional operating capacity during the second quarter in 2019 supported by higher unconventional fracturing activity which also contributed to the year-over-year improvement in operating income.

CORPORATE

Years Ended December 31,	**2019**	2018	Change
(C$000s)	***($)***	*($)*	*(%)*
(unaudited)			
Expenses			
Operating	**5,081**	6,322	(20)
SG&A	**30,192**	43,754	(31)
	35,273	50,076	(30)
Operating loss[1]	**(35,273)**	(50,076)	(30)
% of Revenue	**2.2**	2.2	—

[1] Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.

OPERATING LOSS

Corporate expenses in 2019 were $35.3 million compared to $50.1 million in 2018. The decrease was primarily due to lower stock-based compensation expense and a lower bonus provision when compared to the same period in 2018. This was partially offset by $4.4 million of retirement and severance payments in 2019. The $7.3 million reduction in stock-based compensation was mainly due to a lower share price and fewer restricted share units outstanding. The implementation of IFRS 16 also resulted in lower reported corporate expenses as lease payments related to corporate office space are no longer recorded in SG&A.

DEPRECIATION

Depreciation expense in 2019 increased by $70.7 million to $261.2 million from $190.5 million in 2018. The increase was primarily due to the Company decreasing its useful life estimates and salvage values, effective January 1, 2019, for certain components of its fracturing equipment. This resulted in a one-time depreciation charge of $9.5 million during the first quarter relating to assets in use at the end of the prior quarter. The resulting accelerated depreciation rate on these components, combined with additions during 2019 increased depreciation expense by a further $23.5 million. In addition, the adoption of IFRS 16 at the beginning of 2019 resulted in a $20.9 million increase to depreciation expense. The Company also recorded an additional $9.2 million of depreciation on assets placed into service in the United States. Fluctuations in the U.S. dollar relative to the Canadian dollar also contributed to the increase in reported depreciation.

Effective April 1, 2019, the Company revised its policy regarding the derecognition of major components relating to field equipment. The change in accounting policy was adopted on a retrospective basis, with each prior period presented in the statements of operations being restated to reflect the change. The change in policy resulted in $30.2 million of loss on disposal of property, plant and equipment being reclassified to depreciation expense on the statement of operations for the year ended December 31, 2018.

The Company revised its thresholds for capitalization of major components relating to field equipment. Due to this change, certain costs that were previously classified as operating expenses are now classified as capital expenditures. This resulted in a decrease to operating expenses and an increase to capital expenditures totaling $10.9 million relating to the 2019 fiscal year and was recorded during the fourth quarter of 2019. This did not have any impact on prior periods.

FOREIGN EXCHANGE LOSSES

The Company recorded a foreign exchange loss of $6.3 million in 2019 versus a loss of $38.0 million in 2018. Foreign exchange gains and losses arise primarily from the translation of net monetary assets or liabilities that were held in U.S. dollars in Canada, net monetary assets or liabilities that were held in pesos in Argentina, and liabilities held in Canadian dollars in Russia. The Company's foreign exchange loss in 2019 was largely attributable to net monetary assets that were held in pesos in Argentina as the peso devalued by 59 percent against the U.S. dollar during 2019 and U.S. dollar denominated assets held in Canada as the United States dollar depreciated against the Canadian dollar during 2019.

IMPAIRMENT

A comparison of the recoverable amounts of each CGU with their respective carrying amounts resulted in no impairment against property, plant and equipment in 2019 (2018 - $nil) . Furthermore, the Company carried out a comprehensive review of its property, plant and equipment and identified assets that were permanently idle or obsolete, and therefore, no longer able to generate cash inflows. These assets were written down to their recoverable amount resulting in an impairment charge of $2.2 million for the year ended December 31, 2019 (year ended December 31, 2018 - $0.1 million).

The Company reviews the carrying value of its inventory on an ongoing basis for obsolescence and to verify that the carrying value exceeds the net realizable amount. For the year ended December 31, 2019, the Company recorded an impairment charge of $3.7 million to write-down inventory to its net realizable amount in the United States and Argentina (year ended December 31, 2018 - $7.2 million).

INTEREST

The Company's interest expense of $85.8 million in 2019 was $20.8 million lower than in 2018, primarily due to $21.2 million in one-time charges associated with the debt refinancing transactions that were completed in the second quarter in 2018. Interest expense in 2019 also included $2.1 million related to the adoption of IFRS 16. Excluding these one-time items, interest expense was $1.7 million lower than 2018 primarily due to lower average debt levels.

INCOME TAXES

The Company recorded an income tax recovery of $52.2 million in 2019 compared to a $4.6 million tax recovery in 2018. The recovery position was the result of pre-tax losses across all divisions in 2019. The effective recovery rate was 25 percent in 2019.

LIQUIDITY AND CAPITAL RESOURCES

	Years Ended December 31,	
	2019	2018
(C$000s) *(unaudited)*	***($)***	*($)*
Cash provided by (used in):		
Operating activities	**132,024**	184,746
Financing activities	**4,021**	(58,073)
Investing activities	**(138,892)**	(149,814)
Effect of exchange rate changes on cash and cash equivalents	**(6,492)**	22,293
Decrease in cash and cash equivalents	**(9,339)**	(848)

OPERATING ACTIVITIES

The Company's cash provided by operating activities for the year ended December 31, 2019 was $132.0 million versus $184.7 million during 2018. The decrease in cash provided by operations was primarily due to lower activity and pricing in North America offset partially by working capital providing $62.7 million of cash in 2019 compared to using $13.6 million in 2018. At December 31, 2019, Calfrac's working capital was $248.8 million compared to $329.9 million at December 31, 2018.

FINANCING ACTIVITIES

Net cash provided by financing activities for the year ended December 31, 2019 was $4.0 million compared to net cash used of $58.1 million in 2018. During the year ended December 31, 2019, the Company had net borrowings under its credit facilities of $23.9 million, proceeds from the issuance of shares of $0.2 million and lease principal payments of $20.0 million.

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

On April 30, 2019, Calfrac amended and extended its credit facilities while maintaining its total facility capacity at $375.0 million. The facilities consist of an operating facility of $40.0 million and a syndicated facility of $335.0 million. The Company's credit facilities were extended by a term of two years and mature on June 1, 2022 and can be extended by one or more years at the Company's request and lenders' acceptance. The Company may also prepay principal without penalty. The interest rates are based on the parameters of certain bank covenants. For prime-based loans and U.S. base-rate loans, the rate ranges from prime or U.S. base rate plus 0.50 percent to prime plus 2.50 percent. For LIBOR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 1.50 percent to 3.50 percent above the respective base rates. The accordion feature of the syndicated facility remains at $100.0 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 apply including the following: (a) acquisitions are subject to majority lender consent; (b) distributions are restricted other than those relating to the Company's share unit plans; and (c) no increase in the rate of dividends are permitted. As at December 31, 2019, the Company's net Total Debt to Adjusted EBITDA ratio was 6.96:1.00.

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 $150.0 million.

At December 31, 2019, the Company had used $0.8 million of its credit facilities for letters of credit and had $148.0 million of borrowings under its credit facilities, leaving $226.2 million in available capacity under its credit facilities. As described above, the Company's credit facilities are subject to a monthly borrowing base, as determined using the previous month's results, which at December 31, 2019 resulted in a liquidity amount of $123.2 million.

As shown in the table below, at December 31, 2019, the Company was in compliance with the financial covenants associated with its credit facilities.

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

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

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

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

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

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

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

The Company can utilize two equity cures during the term of the credit facilities subject to the conditions described above. To utilize an equity cure, the Company must provide notice of any such election to the lending syndicate at any time prior to the filing of its quarterly financial statements for the applicable quarter on SEDAR. Amounts used as an equity cure prior to June

30, 2022 will increase Adjusted EBITDA over the relevant twelve-month rolling period and will also serve to reduce Funded Debt.

The Company's credit facilities also require majority lender consent for dispositions of property or assets in Canada and the United States if the aggregate market value exceeds $20.0 million. 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 would not meet the Fixed Charge Coverage Ratio(1) under the indenture of at least 2:1 for the most recent four fiscal quarters, after giving pro forma effect to such restricted payment as if it had been made at the beginning of the applicable four fiscal quarter period; or

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

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

These limitations on restricted payments are tempered by the existence of a number of exceptions to the general prohibition, including a basket allowing for restricted payments in an aggregate amount of up to US$20.0 million. As at December 31, 2019 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 plus a general basket equal to the greater of 4 percent of consolidated tangible assets and US$60.0 million.

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

On May 31, 2018, the Company repaid in full the remaining $196.5 million principal amount of its second lien senior secured term loan facility with Alberta Investment Management Corporation (AIMCo). The term loan, which had a maturity date of September 20, 2020, provided Calfrac the right to prepay the loan prior to June 10, 2018 with a nominal prepayment premium.

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

INVESTING ACTIVITIES

Calfrac's net cash used for investing activities was $138.9 million for the year ended December 31, 2019 versus $149.8 million in 2018. Cash outflows relating to capital expenditures were $147.4 million in 2019 compared to $157.2 million in 2018. In addition to supporting ongoing operations globally, a portion of capital spending in 2019 funded the acquisition of incremental fracturing equipment in Argentina, which improved the Company's footprint and flexibility in the market.

Calfrac's Board of Directors have approved a 2020 capital budget of $100.5 million, which is comprised primarily of maintenance capital.

EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS

The effect of changes in foreign exchange rates on the Company's cash and cash equivalents during the year ended December 31, 2019 was a loss of $6.5 million versus a gain of $22.3 million in 2018. These gains relate to movements of cash and cash equivalents held by the Company in a foreign currency during the period.

With its working capital position, available credit facilities and anticipated funds provided by operations, the Company expects to have adequate resources to fund its financial obligations and planned capital expenditures for 2019 and beyond.

At December 31, 2019, the Company had cash and cash equivalents of $42.6 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 March 3, 2020, the Company had issued and outstanding 145,149,528 common shares, 485,798 equity-based performance share units and 12,172,402 options to purchase common shares.

SUMMARY OF QUARTERLY RESULTS

Three Months Ended	Mar. 31, 2018	Jun. 30, 2018	Sep. 30, 2018	Dec. 31, 2018	Mar 31, 2019	Jun. 30, 2019	Sep. 30, 2019	**Dec. 31, 2019**
(C$000s, except per share and operating data) (unaudited)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	***($)***
Financial								
Revenue	582,838	544,602	630,128	498,858	475,012	429,638	399,220	**317,085**
Operating income[1]	67,974	66,528	115,331	61,992	43,623	41,103	47,021	**20,997**
Per share – basic	0.47	0.46	0.80	0.43	0.30	0.28	0.33	**0.15**
Per share – diluted	0.46	0.45	0.79	0.42	0.30	0.28	0.32	**0.14**
Adjusted EBITDA[1]	72,953	81,910	111,631	62,914	44,086	45,123	43,028	**26,882**
Per share – basic	0.51	0.57	0.77	0.44	0.31	0.31	0.30	**0.19**
Per share – diluted	0.50	0.56	0.76	0.43	0.30	0.31	0.30	**0.18**
Net income (loss) attributable to the shareholders of Calfrac	3,234	(32,838)	14,878	(3,462)	(36,334)	(41,045)	(29,424)	**(49,400)**
Per share – basic	0.02	(0.23)	0.10	(0.02)	(0.25)	(0.28)	(0.20)	**(0.34)**
Per share – diluted	0.02	(0.23)	0.10	(0.02)	(0.25)	(0.28)	(0.20)	**(0.34)**
Capital expenditures	51,334	42,404	34,542	31,484	28,218	37,784	38,885	**34,418**
Working capital (end of period)	360,654	361,613	386,843	329,871	276,785	291,056	257,189	**248,772**
Total equity (end of period)	546,018	507,607	516,899	513,820	481,675	443,361	414,195	**368,623**
Operating (end of period)								
Active pumping horsepower (000s)	1,259	1,313	1,344	1,328	1,344	1,346	1,337	**1,269**
Idle pumping horsepower (000s)	134	80	49	42	36	59	72	**141**
Total pumping horsepower (000s)	1,393	1,393	1,393	1,370	1,380	1,405	1,409	**1,410**
Active coiled tubing units (#)	22	22	22	22	21	21	21	**20**
Idle coiled tubing units (#)	8	8	8	7	8	8	8	**8**
Total coiled tubing units (#)	30	30	30	29	29	29	29	**28**
Active cementing units (#)	12	11	11	11	11	14	14	**13**
Idle cementing units (#)	11	12	12	12	12	9	9	**6**
Total cementing units (#)	23	23	23	23	23	23	23	**19**

[1] With the adoption of IFRS 16, the accounting treatment for operating leases when Calfrac is the lessee, changed effective January 1, 2019. Calfrac adopted IFRS 16 using the modified retrospective approach and the comparative information was not restated. As a result, the Company's 2019 Operating Income and Adjusted EBITDA are not comparable to periods prior to January 1, 2019. Refer to "Non-GAAP Measures" on pages 25 and 26 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" on page 35).

FOREIGN EXCHANGE FLUCTUATIONS

The Company's consolidated financial statements are reported in Canadian dollars. Accordingly, the quarterly results are directly affected by fluctuations in the exchange rates for United States, Russian and Argentinean currency (refer to "Business Risks - Fluctuations in Foreign Exchange Rates" on page 34).

FINANCIAL OVERVIEW – THREE MONTHS ENDED DECEMBER 31, 2019 VERSUS 2018

CONSOLIDATED HIGHLIGHTS

Three Months Ended December 31,	**2019**	2018	Change
(C$000s, except per share amounts) *(unaudited)*	***($)***	*($)*	*(%)*
Revenue	**317,085**	498,858	(36)
Operating income[(1)]	**20,997**	61,992	(66)
Per share – basic	**0.15**	0.43	(65)
Per share – diluted	**0.14**	0.42	(67)
Adjusted EBITDA[(1)]	**26,882**	62,914	(57)
Per share – basic	**0.19**	0.44	(57)
Per share – diluted	**0.18**	0.43	(58)
Net loss attributable to the shareholders of Calfrac	**(49,400)**	(3,462)	NM
Per share – basic	**(0.34)**	(0.02)	NM
Per share – diluted	**(0.34)**	(0.02)	NM
Working capital, end of period	**248,772**	329,871	(25)
Total assets, end of period	**1,525,922**	1,782,657	(14)
Long-term debt, end of period	**976,693**	989,614	(1)
Total equity, end of period	**368,623**	513,820	(28)

(1) Refer to "Non-GAAP Measures" on pages pages 25 and 26 for further information.

FOURTH QUARTER 2019 OVERVIEW

In the fourth quarter of 2019, the Company:

- generated revenue of $317.1 million, a decrease of 36 percent from the fourth quarter in 2018, resulting primarily from lower pricing and activity in Canada and the United States;
- recorded an impairment of PP&E and inventory totalling $5.3 million compared to $4.1 million in the fourth quarter of 2018;
- revised its thresholds for capitalization of major components relating to field equipment, which resulted in a decrease to operating expenses and an increase to capital expenditures totaling $10.9 million;
- reported adjusted EBITDA of $26.9 million versus $62.9 million in the fourth quarter of 2018;
- reported a net loss attributable to shareholders of Calfrac of $49.4 million or $0.34 per share diluted, compared to a net loss of $3.5 million or $0.02 per share diluted in 2018;
- reported period-end working capital of $248.8 million versus $329.9 million at December 31, 2018; and
- incurred capital expenditures, net of disposals, of $34.4 million primarily to support the Company's United States fracturing operations.

CANADA

Three Months Ended December 31,	**2019**	2018	Change
(C$000s, except operational information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**73,009**	145,085	(50)
Expenses			
Operating	**67,171**	124,957	(46)
SG&A	**2,414**	3,472	(30)
	69,585	128,429	(46)
Operating income[(1)]	**3,424**	16,656	(79)
Operating income (%)	**4.7**	11.5	(59)
Fracturing revenue per job ($)	**15,348**	20,265	(24)
Number of fracturing jobs	**4,160**	6,537	(36)
Active pumping horsepower, end of period (000s)	**236**	289	(18)
Idle pumping horsepower, end of period (000s)	**36**	17	112
Total pumping horsepower, end of period (000s)	**272**	306	(11)
Coiled tubing revenue per job ($)	**21,741**	23,492	(7)
Number of coiled tubing jobs	**405**	517	(22)
Active coiled tubing units, end of period (#)	**11**	11	—
Idle coiled tubing units, end of period (#)	**3**	3	—
Total coiled tubing units, end of period (#)	**14**	14	—

(1) *Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.*

REVENUE

Revenue from Calfrac's Canadian operations during the fourth quarter of 2019 was $73.0 million compared to $145.1 million in the same period of 2018 primarily due to lower activity and pricing. In the fourth quarter of 2019, the number of fracturing jobs was 36 percent lower than the comparable period in 2018 due to lower industry activity in response to government mandated production cuts. Activity in October was relatively strong; however, activity in November and December was reduced as a result of customers exhausting their full-year capital budgets. Revenue per job decreased by 24 percent due to certain customers providing their own sand and fuel, combined with lower pricing. The number of coiled tubing jobs decreased by 22 percent from the fourth quarter in 2018, while revenue per job decreased by 7 percent due to job mix.

OPERATING INCOME

Operating income in Canada during the fourth quarter of 2019 was $3.4 million compared to $16.7 million in the same period of 2018. The significant decline in operating income was due to the lower revenue base and pricing, offset partially by the implementation of cost control measures earlier in the year. At the beginning of 2019, the Company made the decision to idle one fracturing fleet due to weaker demand for its fracturing services and also reduced its fixed cost structure accordingly. In addition, the Canadian division continued its revised field work schedule during the fourth quarter in order to better align costs with the expected level of activity. Pricing was lower compared to the fourth quarter in 2018, however, the impact was mitigated by reductions in logistical and material costs. The reported operating income was impacted positively by the adoption of IFRS 16 at the beginning of 2019, which resulted in $2.2 million of lease payments no longer being recognized as operating costs during the fourth quarter of 2019. In addition, the $1.1 million decrease in SG&A expenses in the fourth quarter of 2019 compared to the fourth quarter in 2018 was primarily due to a reduction in corporate costs allocated to the Canadian division combined with lower personnel costs, offset partially by $0.7 million in restructuring costs.

UNITED STATES

Three Months Ended December 31,	**2019**	2018	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**187,770**	279,324	(33)
Expenses			
Operating	**160,012**	223,055	(28)
SG&A	**4,164**	4,741	(12)
	164,176	227,796	(28)
Operating income[1]	**23,594**	51,528	(54)
Operating income (%)	**12.6**	18.4	(32)
Fracturing revenue per job ($)	**34,402**	55,492	(38)
Number of fracturing jobs	**5,435**	5,034	8
Active pumping horsepower, end of period (000s)	**830**	854	(3)
Idle pumping horsepower, end of period (000s)	**93**	25	272
Total pumping horsepower, end of period (000s)	**923**	879	5
Active coiled tubing units, end of period (#)	**—**	—	—
Idle coiled tubing units, end of period (#)	**1**	2	(50)
Total coiled tubing units, end of period (#)	**1**	2	(50)
Active cementing units, end of period (#)	**—**	—	—
Idle cementing units, end of period (#)	**5**	10	(50)
Total cementing units, end of period (#)	**5**	10	(50)
US$/C$ average exchange rate[2]	**1.3200**	1.3204	—

[1] *Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.*
[2] *Source: Bank of Canada.*

REVENUE

Revenue from Calfrac's United States operations decreased to $187.8 million during the fourth quarter of 2019 from $279.3 million in the comparable quarter of 2018. The significant decrease in revenue can be attributed to a combination of a 38 percent decrease in revenue per job, offset partially by an 8 percent increase in the number of fracturing jobs completed period-over-period. The significant decrease in revenue per job was primarily due to the impact of nearly half of Calfrac's United States activity involving customers providing their own sand, combined with lower pricing in all operating areas. The 8 percent increase in activity was driven by a change in job mix in Pennsylvania and North Dakota that resulted in more jobs completed at a lower average job size while Calfrac's Texas and Colorado operations completed fewer jobs period-over-period.

OPERATING INCOME

The Company's United States operations generated operating income of $23.6 million during the fourth quarter of 2019 compared to $51.5 million in the same period in 2018. The year-over-year decline in operating results was primarily due to lower realized pricing and decreased utilization. Pricing in the fourth quarter of 2019 was down significantly from the comparable quarter in 2018. The number of jobs completed was 8 percent higher primarily due to customer and job mix which resulted in more jobs at a lower average revenue per job. The reported operating income was positively impacted by the adoption of IFRS 16 at the beginning of 2019 which resulted in $2.6 million of lease payments no longer being recognized as operating costs during the fourth quarter of 2019. SG&A expenses decreased by 12 percent primarily due to a lower bonus accrual recorded in the quarter, offset partially by $0.8 million in restructuring costs. Additionally, the Company revised its thresholds for capitalization of major components relating to field equipment effective October 1, 2019. Due to this change, certain costs that were previously classified as operating expenses are now classified as capital expenditures. This resulted in a decrease to operating expenses in the United States totaling $10.2 million relating to the 2019 fiscal year and was recorded during the fourth quarter of 2019.

RUSSIA

Three Months Ended December 31,	**2019**	2018	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**24,244**	24,892	(3)
Expenses			
Operating	**25,688**	24,211	6
SG&A	**702**	941	(25)
	26,390	25,152	5
Operating loss[(1)]	**(2,146)**	(260)	NM
Operating loss (%)	**(8.9)**	(1.0)	NM
Fracturing revenue per job ($)	**83,972**	76,039	10
Number of fracturing jobs	**263**	285	(8)
Active pumping horsepower, end of period (000s)	**65**	77	(16)
Idle pumping horsepower, end of period (000s)	**12**	—	NM
Total pumping horsepower, end of period (000s)	**77**	77	—
Coiled tubing revenue per job ($)	**46,940**	38,338	22
Number of coiled tubing jobs	**46**	84	(45)
Active coiled tubing units, end of period (#)	**3**	6	(50)
Idle coiled tubing units, end of period (#)	**4**	1	300
Total coiled tubing units, end of period (#)	**7**	7	—
Rouble/C$ average exchange rate[(2)]	**0.0207**	0.0199	4

[(1)] Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.
[(2)] Source: Bank of Canada.

REVENUE

Revenue from Calfrac's Russian operations decreased by 3 percent during the fourth quarter of 2019 to $24.2 million from $24.9 million in the corresponding three-month period of 2018. The decrease in revenue was attributable to lower activity with its primary customer in Khanty-Mansiysk as warmer than normal weather during November and December restricted access to job locations and deferred planned work into 2020. Revenue per fracturing job increased by 10 percent primarily due to sand being provided by Calfrac for all of its jobs while the comparable period included some jobs where sand was provided by customers. Coiled tubing activity decreased by 45 percent primarily due to lower than expected utilization with Calfrac's main customer.

OPERATING LOSS

The Company's Russian division generated an operating loss of $2.1 million during the fourth quarter of 2019 versus a loss of $0.3 million in the comparable quarter in 2018. The negative operating result was due to lower utilization combined with higher equipment repairs and subcontractor costs to set up remote operations. The fourth quarter experienced lower field activity for both fracturing and coiled tubing services due to weather-related access issues.

ARGENTINA

Three Months Ended December 31,	**2019**	2018	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**32,062**	49,557	(35)
Expenses			
Operating	**26,819**	42,711	(37)
SG&A	**(577)**	2,489	NM
	26,242	45,200	(42)
Operating income[1]	**5,820**	4,357	34
Operating income (%)	**18.2**	8.8	107
Active pumping horsepower, end of period (000s)	**138**	108	28
Idle pumping horsepower, end of period (000s)	**—**	—	—
Total pumping horsepower, end of period (000s)	**138**	108	28
Active cementing units, end of period (#)	**13**	11	18
Idle cementing units, end of period (#)	**1**	2	(50)
Total cementing units, end of period (#)	**14**	13	8
Active coiled tubing units, end of period (#)	**6**	5	20
Idle coiled tubing units, end of period (#)	**—**	1	(100)
Total coiled tubing units, end of period (#)	**6**	6	—
US$/C$ average exchange rate[2]	**1.3200**	1.3204	—

(1) *Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.*
(2) *Source: Bank of Canada.*

REVENUE

Calfrac's Argentinean operations generated total revenue of $32.1 million during the fourth quarter of 2019 compared to $49.6 million in the comparable quarter in 2018. This 35 percent decline in revenue was primarily due to the completion of one of its bundled service contracts in the Vaca Muerta shale play where Calfrac provided sand. This contract was replaced with another contract with a customer that provided their own sand. Fracturing activity increased by 16 percent while revenue per job decreased by 38 percent as a result of the change in customer mix. Uncertainty surrounding the change in government and leadership at a key customer also negatively impacted activity levels in the fourth quarter of 2019. Cementing revenue was consistent with the comparable period while coiled tubing revenue decreased slightly from the fourth quarter in 2018 despite an increase in the number of jobs completed as activity was weighted to lower margin contract work in 2019, compared to higher margin call-out work in 2018.

OPERATING INCOME

The Company's operations in Argentina generated operating income of $5.8 million during the fourth quarter of 2019 compared to $4.4 million during the comparable quarter in 2018. The Company was able to generate higher operating income due to better pricing on contracted activity as compared to the fourth quarter in 2018. The $3.1 million decrease in SG&A expenses from the fourth quarter in 2018 was mainly due to the reversal of a US$2.3 million stamp tax accrual resulting from terminated customer contracts.

CORPORATE

Three Months Ended December 31,	**2019**	2018	Change
(C$000s)	***($)***	*($)*	*(%)*
(unaudited)			
Expenses			
Operating	**1,588**	1,952	(19)
SG&A	**8,107**	8,337	(3)
	9,695	10,289	(6)
Operating loss(1)	**(9,695)**	(10,289)	(6)
% of Revenue	**3.1**	2.1	48

(1) *Refer to "Non-GAAP Measures" on pages 25 and 26 for further information.*

OPERATING LOSS

Corporate expenses for the fourth quarter of 2019 were $9.7 million compared to $10.3 million in the fourth quarter of 2018. The decrease was primarily due to a lower bonus provision when compared to the same period in 2018, offset partially by $1.9 million in restructuring costs recorded during the fourth quarter in 2019. The increase in stock-based compensation was mainly due to a a reversal that was recorded during the fourth quarter in 2018. The implementation of IFRS 16 also resulted in lower reported corporate expenses as lease payments related to corporate office space are no longer recorded in SG&A.

DEPRECIATION

For the three months ended December 31, 2019, depreciation expense increased by $20.4 million to $68.9 million from $48.5 million in the corresponding quarter of 2018. The increase was primarily due to depreciation on assets placed into service in the United States. In addition, the adoption of IFRS 16 at the beginning of 2019 resulted in a $4.8 million increase to depreciation expense and the revision to the Company's capitalization thresholds resulted in an additional $2.2 million of depreciation recorded in the fourth quarter of 2019. Also, contributing to the higher depreciation was the impact of the Company decreasing its useful life estimates and salvage values, effective January 1, 2019, for certain components of its fracturing equipment. Higher depreciation on these components, combined with additions during the quarter, increased depreciation expense by approximately $2.3 million.

Effective April 1, 2019, the Company revised its policy regarding the derecognition of major components relating to field equipment. The change in accounting policy was adopted on a retrospective basis, with each prior period presented in the statements of operations being restated to reflect the change. The change in policy resulted in $8.1 million of loss on disposal of property, plant and equipment being reclassified to depreciation expense on the statement of operations for the three months ended December 31, 2018.

The Company revised its thresholds for capitalization of major components relating to field equipment. Due to this change, certain costs that were previously classified as operating expenses are now classified as capital expenditures. This resulted in a decrease to operating expenses and an increase to capital expenditures totaling $10.9 million relating to the 2019 fiscal year and was recorded during the fourth quarter of 2019. This did not have any impact on prior periods.

FOREIGN EXCHANGE GAINS

The Company recorded a foreign exchange gain of $0.1 million during the fourth quarter of 2019 versus a gain of $3.3 million in the comparative three-month period of 2018. 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.

IMPAIRMENT

A comparison of the recoverable amounts of each CGU with their respective carrying amounts resulted in no impairment against property, plant and equipment in the fourth quarter of 2019 (2018 - $nil). Furthermore, the Company carried out a comprehensive review of its property, plant and equipment and identified assets that were permanently idle or obsolete, and therefore, no longer able to generate cash inflows. These assets were written down to their recoverable amount resulting in an impairment charge of $2.2 million for the three months ended December 31, 2019 (three months ended December 31, 2018 - $0.1 million).

The Company reviews the carrying value of its inventory on an ongoing basis for obsolescence and to verify that the carrying value exceeds the net realizable amount. For the three months ended December 31, 2019, the Company recorded an impairment charge of $3.2 million to write-down inventory to its net realizable amount in the United States and Argentina (three months ended December 31, 2018 - $4.0 million).

INTEREST

The Company's net interest expense of $21.5 million for the fourth quarter of 2019 was $0.5 million higher than the comparable period in 2018. The increase in interest expense was due to the adoption of IFRS 16, which resulted in a $0.5 million increase in interest expense during the fourth quarter in 2019.

INCOME TAXES

The Company recorded an income tax recovery of $23.4 million during the fourth quarter of 2019 compared to a recovery of $4.6 million in the comparable period of 2018. The recovery position was the result of pre-tax losses incurred during the quarter. The effective recovery rate was 32 percent in 2019.

BUSINESS UPDATE AND OUTLOOK

Calfrac's operating results during the fourth quarter were impacted by budget exhaustion by customers in both Canada and the United States as well as the onset of winter conditions in Russia. Due to the recent change of government in Argentina, typical end-of-year slowdowns were magnified due to higher levels of uncertainty around energy policy and client leadership. Overall, fourth-quarter activity was in-line with the outlook communicated in Calfrac's third-quarter MD&A. Further pricing erosion was observed, mostly in the Texas and Pennsylvania markets of the United States, as budget exhaustion and lower natural gas prices impacted market dynamics. Encouragingly, budgets have been replenished and a strong supply response has been observed in the North American pressure pumping market although we believe these impacts will take time to fully impact Calfrac's results.

CANADA

In Canada, activity met expectations throughout most of the quarter although weather-related delays caused some slowdowns and a small amount of work was deferred into 2020.

After a strong October, utilization decreased significantly during November and December which impacted profitability levels for the quarter. Given the strong activity that is planned for the first quarter of 2020, the Company's ability to materially reduce costs was limited, especially with respect to field labour and equipment-related costs.

Customer programs did not fully get underway until the middle of January, but since that time, Calfrac's Canadian operations have experienced high levels of utilization. The Company expects that this will continue until the onset of road bans impacts operating tempo in some areas. Based on current information, Calfrac expects seasonally strong activity levels through the second and third quarter for its Canadian asset base.

As compared to the first quarter of 2019, rig count and completions activity are expected to be higher in 2020, but Calfrac does not intend to add capacity to its Canadian operations in the near term without a meaningful improvement in pricing and returns. The pressure pumping market in Canada for the first quarter is under supplied, however, sustained levels of high crew utilization combined with improved returns would be required to justify the decision to deploy incremental fracturing crews in the Western Canadian Sedimentary Basin.

UNITED STATES

As expected, activity in the fourth quarter in the United States was lower than the third quarter as planned customer program completion along with weaker natural gas prices impacted demand for completion crews. Additionally, Calfrac declined to participate in bids where pricing had fallen below a level needed to sustain operations.

Activity in the first quarter has tracked our expectations with programs in Texas beginning at a good pace. Programs in the Bakken are typically slower to ramp-up in the winter months, but are expected to be fully underway before the end of the quarter.

During the fourth quarter and early in 2020, a number of players in the fracturing market retired assets or went as far as to cease operations. Calfrac believes that this is direct evidence of the unsustainable returns in the space at present, and the reduction of supply is an encouraging development. While the Company believes that much of the equipment that has exited the industry was not relevant to current operations, the removal of equipment and reduction in competitors moves the U.S. pressure pumping market closer to balance. Calfrac believes that a modest increase in activity could sufficiently tighten the competitive balance in order to establish pricing traction, however, current consensus does not contemplate any meaningful acceleration in the near term.

Calfrac is currently marketing 14 fracturing spreads in the United States, with no plans for expansion in the near term. As previously discussed, weaker natural gas prices have impacted the cash flow and spending plans for our clients in Pennsylvania, and the Company has redeployed one of the four spreads that was previously working in this region to another basin.

RUSSIA

The onset of winter prevented any significant acceleration in activity in Calfrac's Russian operations in the fourth quarter. Weather conditions also slowed operations in January and February, but Calfrac expects activity levels will improve through the end of the quarter and remain strong through the summer period. A reduced operating footprint is likely to improve profitability in 2020 relative to prior years.

ARGENTINA

The Company's operations in Argentina weakened as expected during the fourth quarter due, in part, to normal year-end slowdowns that were magnified by the uncertainty surrounding the change in government and subsequent impacts on a key customer. Activity ramped up through January and current expectations are for activity levels in the year ahead to resemble those experienced in 2019. Calfrac's ability to market two full-time shale fracturing crews has broadened the Company's operating footprint in this market and positions Calfrac as a supplier of choice for many producers.

CORPORATE

Early in 2020, Calfrac successfully executed a debt exchange transaction that reduced leverage and annual debt service costs by approximately $130.0 million and $7.3 million, respectively. Calfrac's corporate focus remains squarely on supporting the delivery of outstanding service quality to its clients in all operating areas. Cost controls, capital prudence and liquidity remain paramount for management in addition to supporting a top-tier operation.

NON-GAAP MEASURES

With the adoption of IFRS 16, the accounting treatment for operating leases when Calfrac is the lessee, changed effective January 1, 2019. Calfrac adopted IFRS 16 using the modified retrospective approach and the comparative information was not restated. As a result, the Company's 2019 operating income and adjusted EBITDA are not comparable to periods prior to January 1, 2019.

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, impairment of property, plant and equipment, interest, and income taxes. Management believes that operating income is a useful supplemental measure as it provides an indication of the financial results generated by Calfrac's business segments prior to consideration of how these segments are financed or taxed. Operating income for the period was calculated as follows:

	Three Months Ended Dec. 31,		**Years Ended Dec. 31,**	
	2019	2018	**2019**	2018
(C$000s) *(unaudited)*	***($)***	*($)*	***($)***	*($)*
Net loss	**(49,400)**	(3,462)	**(156,203)**	(26,177)
Add back (deduct):				
Depreciation[1]	**68,932**	48,522	**261,227**	190,475
Foreign exchange (gains) losses	**(128)**	(3,342)	**6,341**	38,047
Loss (gain) on disposal of property, plant and equipment[1]	**(1,886)**	(244)	**1,870**	160
Impairment of property, plant and equipment	**2,165**	115	**2,165**	115
Impairment of inventory	**3,160**	3,978	**3,744**	7,167
Interest	**21,512**	20,999	**85,826**	106,630
Income taxes	**(23,358)**	(4,574)	**(52,226)**	(4,592)
Operating income	**20,997**	61,992	**152,744**	311,825

[1] Comparatives have been reclassified to conform with the current financial statement presentation (note 2e).

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

	Three Months Ended Dec. 31,		Years Ended Dec. 31,	
	2019	2018	**2019**	2018
(C$000s) *(unaudited)*			***($)***	*($)*
Net loss	**(49,400)**	(3,462)	**(156,203)**	(26,177)
Add back (deduct):				
Depreciation	**68,932**	48,522	**261,227**	190,475
Unrealized foreign exchange losses	**859**	(4,345)	**2,041**	11,465
Non-recurring realized foreign exchange losses[1]	**—**	—	**—**	29,288
(Gain) loss on disposal of property, plant and equipment	**(1,886)**	(244)	**1,870**	160
Impairment of property, plant and equipment	**2,165**	115	**2,165**	115
Impairment of inventory	**3,160**	3,978	**3,744**	7,167
Restructuring charges	**3,564**	281	**6,049**	1,076
Stock-based compensation	**1,334**	1,644	**4,626**	5,812
Losses attributable to non-controlling interest	**—**	—	**—**	7,989
Interest	**21,512**	20,999	**85,826**	106,630
Income taxes	**(23,358)**	(4,574)	**(52,226)**	(4,592)
Adjusted EBITDA[2]	**26,882**	62,914	**159,119**	329,408

[1] The Company recognized a one-time realized foreign exchange loss resulting from the capitalization of intercompany debt held by its Argentinean subsidiary.
[2] For bank covenant purposes, EBITDA includes an additional $21.9 million of lease payments that would have been recorded as operating expenses prior to the adoption of IFRS 16 on January 1, 2019.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

	Payment Due by Period				
As at December 31, 2019	**Total**	< 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
(C$000s) *(unaudited)*	***($)***	*($)*	*($)*	*($)*	*($)*
Leases	**59,768**	31,038	26,364	2,366	—
Purchase obligations	**145,595**	118,234	27,361	—	—
Total contractual obligations	**205,363**	149,272	53,725	2,366	—

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

GREEK LITIGATION

As described in note 20 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 year ended December 31, 2019 which were prepared in accordance with IFRS. Management is required to make assumptions, judgments and estimates in the application of IFRS. Calfrac's significant accounting policies are described in note 2 to the annual consolidated financial statements.

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

Judgment is also used in the determination of the functional currency of each subsidiary and in the determination of CGUs.

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. Customer payments are regularly monitored and a provision for doubtful accounts is established based on expected and incurred losses as well as overall industry conditions. In situations where the creditworthiness of a customer is uncertain, services are provided on receipt of cash in advance or services are declined. Calfrac's management believes that the provision for doubtful accounts receivable, which was $1.9 million at December 31, 2019, is adequate.

DEPRECIATION

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

FINANCIAL INSTRUMENTS

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

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial instruments included in the consolidated balance sheets, except long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of the senior unsecured notes based on the closing market price at December 31, 2019 was $342.1 million before deduction of unamortized debt issuance costs (December 31, 2018 – $661.5 million). The carrying value of the senior unsecured notes at December 31, 2019 was $844.2 million before deduction of unamortized debt issuance costs and debt discount (December 31, 2018 – $886.7 million). The fair values of the remaining long-term debt and lease obligations approximate their carrying values, as described in note 11 to the annual consolidated financial statements.

CREDIT RISK

Substantial amounts of the Company's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risks. The Company mitigates this risk through its credit policies and practices, including the use of credit limits and approvals, and by monitoring its customers' financial condition. At December 31, 2019, the Company had a provision for doubtful accounts receivable of $1.9 million (December 31, 2018 – $0.6 million).

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

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

The Company's accounts receivable that were greater than 90 days included $9.4 million from customers operating in Argentina and $3.2 million from customers operating in Russia for which no provision has been made. Although the timing is uncertain, collection is expected in its entirety.

INTEREST RATE RISK

The Company is exposed to cash flow risk due to fluctuating interest payments required to service any floating-rate debt. The increase or decrease in annual interest expense for each 1 percentage point change in the interest rate on floating-rate debt at December 31, 2019 amounts to $1.5 million (2018 – $1.2 million).

The Company's effective interest rate for the year ended December 31, 2019 was 8.5 percent (December 31, 2018 – 10.6 percent). During 2018, the Company incurred $21.2 million of interest expense relating to the early repayment of its second lien term loan and 7.50 percent senior notes due 2020. Excluding these non-recurring costs, the effective interest rate for the year ended December 31, 2018 would have been 8.5 percent.

LIQUIDITY RISK

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

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

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

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

[1] Principal and interest

FOREIGN EXCHANGE RISK

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

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

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

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

IMPAIRMENT

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

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

The Company's financial results have been negatively impacted by lower activity in certain CGUs combined with weaker pricing levels. The Company recognizes that this is an indicator of impairment and the Company estimated the recoverable amount of its property, plant and equipment. A comparison of the recoverable amounts of each CGU with their respective carrying amounts resulted in no impairment against property, plant and equipment in 2019 (2018 - $nil) . Furthermore, the Company carried out a comprehensive review of its property, plant and equipment and identified assets that were permanently idle or obsolete, and therefore, no longer able to generate cash inflows. These assets were written down to their recoverable amount resulting in an impairment charge of $2.2 million for the year ended December 31, 2019 (year ended December 31, 2018 - $nil).

The Company reviews the carrying value of its inventory on an ongoing basis for obsolescence and to verify that the carrying value exceeds the net realizable amount. For the year ended December 31, 2019, the Company recorded an impairment charge of $3.7 million to write-down inventory to its net realizable amount in the United States and Argentina (year ended December 31, 2018 - $7.2 million).

INCOME TAXES

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

STOCK-BASED COMPENSATION

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

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

FUNCTIONAL CURRENCY

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

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

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

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

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 year ended December 31, 2019 was $1.7 million (year ended December 31, 2018 – $1.7 million), as measured at the exchange amount, which is based on market rates at the time the lease arrangements were made.

CHANGES IN ACCOUNTING POLICIES

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

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

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

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

- Leases of low value will continue to be expensed as incurred.

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

On January 1, 2019, the adoption of IFRS 16 resulted in the recognition of ROU assets and lease liabilities of $44.9 million. The Company is subject to financial covenants relating to working capital, leverage and the generation of cash flow in respect of its operating and revolving credit facilities. The adoption of IFRS 16 has no impact on the Company's reported bank covenants as the effects of the new standard are excluded from the covenant calculations.

See note 10 of the consolidated financial statements for more information on the IFRS 16 standard.

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

The change in accounting policy was adopted on a retrospective basis, with each prior period presented in the statements of operations being restated to reflect the change. The change in policy resulted in a reclassification of loss on disposal of property, plant, and equipment to depreciation expense on the statement of operations of $8.1 million for the three months ended December 31, 2018 and $30.2 million for the year ended December 31, 2018.

Effective October 1, 2019, the Company revised its thresholds for capitalization of major components relating to field equipment. Due to this change, certain costs that were previously classified as operating expenses are now classified as capital expenditures. This resulted in a decrease to operating expenses and an increase to capital expenditures totaling $10.9 million relating to the 2019 fiscal year and was recorded during the fourth quarter of 2019. This impact is not material and does not affect any prior reporting periods.

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

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

In accordance with the requirements of National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings," an evaluation of the effectiveness of DC&P and ICFR was carried out under the supervision of the CEO and CFO at December 31, 2019. Based on this evaluation, the CEO and CFO have concluded that the Company's DC&P and ICFR are effectively designed and operating as intended.

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

BUSINESS RISKS

The business of Calfrac is subject to certain risks and uncertainties. Prior to making any investment decision regarding Calfrac, investors should carefully consider, among other things, the risk factors set forth below as well as in the Company's most recently filed Annual Information Form, which is available at www.sedar.com.

VOLATILITY OF INDUSTRY CONDITIONS

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

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

In addition to current and expected future oil and gas prices, the level of expenditures made by oil and gas companies are influenced by numerous factors over which the Company has no control, including but not limited to: general economic conditions; the cost of exploring for, producing and delivering oil and gas; the expected rates of current production; the discovery rates of new oil and gas reserves; cost and availability of drilling equipment; availability of pipeline and other oil and gas transportation capacity; natural gas storage levels; political, regulatory and economic conditions; taxation and royalty changes; government regulation; environmental regulation; ability of oil and gas companies to obtain credit, equity capital or debt financing; and currency fluctuations. A material decline in global oil and natural gas prices or North American, Russian and

Argentinean activity levels as a result of any of the above factors could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

ACCESS TO CAPITAL

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

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

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

VOLATILITY IN CREDIT MARKETS

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

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

EMPLOYEES

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

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

EQUIPMENT LEVELS

Because of the long-life nature of oilfield service equipment and the lag between when a decision to build additional equipment is made and when the equipment is placed into service, the quantity of oilfield service equipment in the industry does not always correlate with the level of demand for service equipment. Periods of high demand often spur increased capital expenditures on equipment, and those capital expenditures may add capacity that exceeds actual demand. Such capital overbuild could cause the Company's competitors to lower their pricing and could lead to a decrease in rates in the oilfield services industry generally, which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

COMPETITION

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

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

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

FEDERAL, STATE AND PROVINCIAL LEGISLATIVE AND REGULATORY INITIATIVES

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

Legislative and regulatory requirements currently in place or scheduled to become effective in certain provinces and/or states in 2020 include requirements regarding local government consultation, wellhead and pad setbacks, public and landowner notification and involvement, withdrawal of water for use in hydraulic fracturing of horizontal wells, baseline testing of nearby water wells, restrictions on which additives may be used, reporting with respect to spills, mandatory visual and noise mitigation measures as well as temporary or permanent bans on hydraulic fracturing. These types of requirements could subject the Company to increased costs, delays, limits on the productivity of certain wells and, possibly, limits on its ability to deploy its technology. The adoption of any future federal, provincial, state or local laws or implementing regulations in any of the jurisdictions in which the Company operates which impose additional permitting, disclosure or regulatory obligations related to, or otherwise limiting, the hydraulic fracturing process could make it more difficult to complete oil and natural gas wells and could affect the Company's ability to utilize proprietary technological developments to compete effectively in the pressure pumping industry. Such results could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

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

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

FLUCTUATIONS IN FOREIGN EXCHANGE RATES

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

FOREIGN OPERATIONS

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

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

CONCENTRATION OF CUSTOMER BASE

The Company's customer base consists of over 135 oil and natural gas exploration and production companies, ranging from large multi-national public companies to small private companies. Notwithstanding the Company's broad customer base, it had ten significant customers that collectively accounted for approximately 57 percent of its revenue for the year ended December 31, 2019 and, of such customers, four accounted for approximately 26 percent of the Company's revenue for the year ended December 31, 2019 and the largest customer accounted for approximately 7 percent of the Company's revenue. There can be no assurance that the Company's relationship with these customers will continue, and a significant reduction or total loss of the business from these customers, if not offset by sales to new or existing customers, would have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

OPERATIONAL RISKS

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

SEASONALITY

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

PANDEMICS, NATURAL DISASTERS OR OTHER UNANTICIPATED EVENTS

The occurrence of pandemics, such as the recent outbreak of the novel coronavirus COVID-19; natural disasters, such as hurricanes, floods or earthquakes; or other unanticipated events, such as cyberattacks, fires, terrorist attacks or railway blockades, in any of the areas in which the Company, its customers or its suppliers operate could cause interruptions in the Company's operations. In addition, pandemics, natural disasters or other unanticipated events could negatively impact the demand for, and price of, oil and natural gas which in turn could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

LEGAL PROCEEDINGS

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

ENVIRONMENT LAWS AND REGULATIONS

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

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

SAFETY STANDARDS

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

MANAGEMENT STEWARDSHIP

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

LIABILITIES OF PRIOR OPERATIONS

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

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

NEW TECHNOLOGIES AND CUSTOMER EXPECTATIONS

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

INTELLECTUAL PROPERTY

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

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

CONFIDENTIAL INFORMATION

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

CAPITAL-INTENSIVE INDUSTRY

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

CREDIT RISK

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

CYBERSECURITY

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

CLIMATE CHANGE INITIATIVES

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

MERGER AND ACQUISITION ACTIVITY

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

BENEFITS OF ACQUISITIONS AND DISPOSITIONS

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

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

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

DEMAND FOR OIL AND NATURAL GAS

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

DIVIDENDS

The Company's dividend policy is at the discretion of the board of directors and is subject to change. The Company's ability to pay dividends and the amount of such dividends is dependent upon a variety of factors including, without limitation, the Company's profitability, historical and future business trends, the expected sustainability of those trends, enacted tax legislation which affects future taxes payable, cash required for debt repayments, restrictions on the Company's ability to pay dividends under the Credit Agreement and the Indenture, the amount of capital expenditure required to sustain the Company's performance, the amount of capital expenditure required to fund the Company's growth, the effect of acquisitions or dispositions on the Company's business and cash requirements and other factors that may be beyond the Company's control or not anticipated by management.

TAX ASSESSMENTS

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

GROWTH-RELATED RISKS

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

ADVISORIES

FORWARD-LOOKING STATEMENTS

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

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

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