Third Quarter Interim Report

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020

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HIGHLIGHTS

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	**2020**	2019	Change
(C$000s, except per share and unit data) (unaudited)	***($)***	*($)*	*(%)*	***($)***	*($)*	*(%)*
Revenue	**127,776**	399,220	(68)	**524,714**	1,303,870	(60)
Operating income[1]	**8,009**	47,021	(83)	**6,400**	131,747	(95)
Per share – basic	**0.06**	0.33	(82)	**0.04**	0.91	(96)
Per share – diluted	**0.06**	0.32	(81)	**0.04**	0.90	(96)
Adjusted EBITDA[1]	**8,467**	43,028	(80)	**10,094**	132,237	(92)
Per share – basic	**0.06**	0.30	(80)	**0.07**	0.92	(92)
Per share – diluted	**0.06**	0.30	(80)	**0.07**	0.91	(92)
Net loss	**(50,000)**	(29,424)	70	**(450,132)**	(106,803)	NM
Per share – basic	**(0.34)**	(0.20)	70	**(3.10)**	(0.74)	NM
Per share – diluted	**(0.34)**	(0.20)	70	**(3.10)**	(0.74)	NM
Working capital (end of period)				**127,989**	257,189	(50)
Total equity (end of period)				**(81,033)**	414,195	NM
Weighted average common shares outstanding (000s)						
Basic	**145,312**	144,674	—	**145,086**	144,512	—
Diluted	**145,481**	145,334	—	**145,256**	145,713	—

[1] *Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.*

PRESIDENT'S MESSAGE

Calfrac's President and Chief Operating Officer, Lindsay Link commented on the results: "The third quarter presented a number of challenges to our organization, and I am proud of the way everyone at Calfrac responded. From a safe and profitable restart of operations in a number of areas, to the excellent ongoing results in Canada and Russia, to the progress of our restructuring plan, once again Calfrac's successes are due to the hard work of our people and the quality of our relationships. I'd like to offer my sincere thanks to our employees for a job well done, and to our other stakeholders for their ongoing and valuable support."

During the quarter, Calfrac:

- increased job activity in all areas while maintaining safe and efficient performance;
- took advantage of market disruptions to add new clients globally; and
- advanced plans for the restructuring of its balance sheet.

In light of current market conditions, the Board of Directors of Calfrac approved a further reduction in the Company's 2020 capital budget from $55.0 million to $40.0 million.

Subsequent to the end of the quarter, the Company obtained approval of its proposed recapitalization transaction, as amended (the "Recapitalization Transaction") at meetings of its senior unsecured noteholders and shareholders. Court approval for the transaction was obtained on October 30, 2020 under the Canada Business Corporations Act, and the Company remains focused on the completion of the Recapitalization Transaction.

The statutory appeal process launched by Wilks Brothers, LLC, after the ruling by the Court of Queen's Bench of Alberta approving Calfrac's Recapitalization Transaction is moving ahead. The Alberta Court of Appeal has agreed to hear the appeal on an expedited basis, with a hearing scheduled for November 25, 2020. Calfrac will vigorously oppose the appeal and is confident that the evidence before the Court of Appeal supports its position. Calfrac will continue to update stakeholders with all significant developments as the process continues, and is continuing preparations to close the Recapitalization Transaction as quickly as practicable following the upcoming appeal hearing.

THIRD QUARTER 2020 OVERVIEW

CONSOLIDATED HIGHLIGHTS

Three Months Ended September 30,	**2020**	2019	Change
(C$000s, except operational information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**127,776**	399,220	(68)
Expenses			
Operating	**109,708**	333,505	(67)
Selling, general and administrative (SG&A)	**10,059**	18,694	(46)
	119,767	352,199	(66)
Operating income(1)	**8,009**	47,021	(83)
Operating income (%)	**6.3**	11.8	(47)
Adjusted EBITDA(1)	**8,467**	43,028	(80)
Adjusted EBITDA (%)	**6.6**	10.8	(39)
Fracturing revenue per job ($)	**33,382**	28,748	16
Number of fracturing jobs	**3,527**	12,745	(72)
Active pumping horsepower, end of period (000s)	**840**	1,337	(37)
Idle pumping horsepower, end of period (000s)	**505**	72	NM
Total pumping horsepower, end of period (000s)	**1,345**	1,409	(5)
Coiled tubing revenue per job ($)	**22,795**	23,477	(3)
Number of coiled tubing jobs	**364**	993	(63)
Active coiled tubing units, end of period (#)	**15**	21	(29)
Idle coiled tubing units, end of period (#)	**12**	8	50
Total coiled tubing units, end of period (#)	**27**	29	(7)
Cementing revenue per job ($)	**51,000**	46,238	10
Number of cementing jobs	**27**	142	(81)
Active cementing units, end of period (#)	**12**	14	(14)
Idle cementing units, end of period (#)	**4**	9	(56)
Total cementing units, end of period (#)	**16**	23	(30)

(1) Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.

Revenue in the third quarter of 2020 was $127.8 million, a decrease of 68 percent from the same period in 2019. The lower revenue was mainly due to the fracturing job count decreasing by 72 percent resulting primarily from lower activity in North America and Argentina. Cementing activity in Argentina was also down 81 percent, while consolidated coiled tubing activity decreased by 63 percent as a result of lower activity in Canada, Argentina and Russia. Fracturing revenue per job increased by 16 percent due to changes in job mix in Canada.

Since the end of 2019, Calfrac has decreased the number of active fracturing fleets, as well as its operating and corporate cost structure, in order to respond to the decline in fracturing activity in Canada and the United States. The Company's immediate and market relevant cost reduction efforts ensured that its operating footprint was aligned with the 72 percent decline in job count experienced in the third quarter in 2020, and has positioned it to generate positive operating income despite significantly lower revenue in the quarter.

Adjusted EBITDA of $8.5 million for the third quarter of 2020 decreased from $43.0 million in the comparable period in 2019 primarily as a result of the sharp decline in activity in the United States, Argentina and Canada. This was partially offset by better utilization for its operating fleets in Russia.

The net loss was $50.0 million or $0.34 per share diluted compared to a net loss of $29.4 million or $0.20 per share diluted in the same period last year. The Company recorded a non-cash termination charge of $2.1 million to exit a take-or-pay product purchase commitment in Canada, a $0.7 million bad debt provision in Canada, restructuring charges of $0.4 million and $0.2 million of nationalization costs due to changes in Argentina's government regulations during the third quarter of 2020.

Three Months Ended	**September 30, 2020**	June 30, 2020	Change
(C$000s, except operational information) *(unaudited)*	***($)***	*($)*	*(%)*
Revenue	**127,776**	91,423	40
Expenses			
Operating	**109,708**	87,520	25
SG&A	**10,059**	11,210	(10)
	119,767	98,730	21
Operating income (loss)(1)	**8,009**	(7,307)	NM
Operating income (loss) (%)	**6.3**	(8.0)	NM
Adjusted EBITDA(1)	**8,467**	(5,185)	NM
Adjusted EBITDA (%)	**6.6**	(5.7)	NM
Fracturing revenue per job ($)	**33,382**	36,406	(8)
Number of fracturing jobs	**3,527**	2,377	48
Active pumping horsepower, end of period (000s)	**840**	780	8
Idle pumping horsepower, end of period (000s)	**505**	572	(12)
Total pumping horsepower, end of period (000s)	**1,345**	1,352	(1)
Coiled tubing revenue per job ($)	**22,795**	21,773	5
Number of coiled tubing jobs	**364**	209	74
Active coiled tubing units, end of period (#)	**15**	16	(6)
Idle coiled tubing units, end of period (#)	**12**	11	9
Total coiled tubing units, end of period (#)	**27**	27	—
Cementing revenue per job ($)	**51,000**	36,608	39
Number of cementing jobs	**27**	7	286
Active cementing units, end of period (#)	**12**	13	(8)
Idle cementing units, end of period (#)	**4**	3	33
Total cementing units, end of period (#)	**16**	16	—

(1) Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.

Third-quarter revenue in 2020 of $127.8 million represented an increase of 40 percent from the second quarter of 2020, primarily due to improved fracturing activity in all of the areas where Calfrac operates. Revenue per fracturing job was 8 percent lower compared with the second quarter of 2020 due to job mix in Canada, and the impact of a lower rouble in Russia.

In Canada, third-quarter revenue increased by 61 percent from the second quarter to $44.7 million due to a rebound in customer activity resulting from improved oil and natural gas prices. Operating income as a percentage of revenue was 15 percent, compared to 23 percent in the second quarter. The lower operating income as a percent of revenue was primarily due to the recording of a non-cash termination charge of $2.1 million in order to exit a take-or-pay product purchase commitment, combined with a $0.7 million bad debt provision recorded during the quarter.

In the United States, revenue in the third quarter of 2020 was $46.5 million, or 22 percent higher than the second quarter. The improvement was primarily activity driven due to the rebound in oil prices to the US$40/barrel range. Operating income was $2.8 million in the third quarter, compared to a loss of $5.0 million in the second quarter of 2020, primarily due to the higher revenue base. Second-quarter results also included $1.8 million of restructuring costs, which were not incurred in the third quarter.

In Russia, revenue of $28.5 million in the third quarter of 2020 was 19 percent higher than the second quarter, and operating income improved by $3.3 million, due primarily to improved utilization.

In Argentina, revenue in the third quarter of 2020 increased to $8.1 million from $1.5 million in the second quarter. The higher revenue base resulted in an operating loss of $3.9 million, compared to an operating loss of $6.4 million in the second quarter. The improvement in revenue and operating income was primarily attributed to a full quarter of normal operations in southern Argentina. However, the Company's main customer operating in the Vaca Muerta shale play postponed the recommencement of its operations until the end of October.

Adjusted EBITDA of $8.5 million for the third quarter of 2020 increased from negative $5.2 million in the second quarter of 2020, primarily due to improved utilization in all operating areas.

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 November 10, 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 three and nine months ended September 30, 2020 and 2019. It should be read in conjunction with the interim consolidated financial statements for the three and nine months ended September 30, 2020 as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2019.

Readers should also refer to the "Forward-Looking Statements" legal advisory at the end of this MD&A. All financial amounts and measures presented are expressed in Canadian dollars unless otherwise indicated. The definitions of certain non-GAAP measures used are included on pages 26 and 27.

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 September 30, 2020 were as follows:

Segment	Active	Idle	Total	Crewed Fleets
	(000's hhp)	*(000's hhp)*	*(000's hhp)*	*(#)*
United States	483	388	871	5
Canada	174	100	274	3
Argentina	118	5	123	5
Russia	65	12	77	4
Total	840	505	1,345	17

- 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 September 30, 2020, Calfrac's United States operations had combined active horsepower of approximately 483,000 and no active cementing or coiled tubing units. At the end of the third quarter, the United States segment had temporarily idled approximately 388,000 horsepower, two 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 September 30, 2020, Calfrac's Canadian operations had active horsepower of approximately 174,000 and eight active coiled tubing units. At the end of the third quarter, the Canadian segment had temporarily idled approximately 100,000 horsepower and five coiled tubing units.

- The Argentinean segment provides pressure pumping services from its operating bases in Argentina. The Company provides fracturing, cementing and coiled tubing services to oil and natural gas companies operating in the Neuquén, Las Heras and Comodoro regions. The Company had approximately 118,000 active horsepower, 12 active and two idle cementing units and four active and two idle coiled tubing units in its Argentinean segment at September 30, 2020.

- The Company's Russian segment provides fracturing and coiled tubing services in Western Siberia. During the third quarter of 2020, the Company operated under a mix of annual and multi-year agreements to provide services to Russia's largest oil producer. At September 30, 2020, the Russian segment had seven deep coiled tubing units, of which four were active, and approximately 65,000 active horsepower forming five fracturing spreads in Russia.

RESPONSE TO COVID-19 AND OPEC+ SUPPLY PRESSURES

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

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

In the midst of this, the COVID-19 outbreak developed rapidly in 2020 and significant measures were put in place by governments around the world to prevent the transmission of the virus. This included limiting the movement of people, travel restrictions, temporarily closing businesses and schools and cancelling events. This had an immediate significant impact on businesses and led to severe global socioeconomic disruption and extreme global capital market volatility. On the oil market sector specifically, demand for fuel plummeted as people around the world stopped traveling and working as a result of COVID-19.

In early April, OPEC and Russia engaged in negotiations to cut oil production and reached an agreement to curtail oil production starting May 1, in an effort to help balance the oil market that had been severely impacted by the COVID-19-induced slump and ill-timed battle for market share. Despite OPEC+ agreeing to oil production cuts, it is inadequately under what the global market will likely require in order to balance the drastic reduction in demand for oil due to COVID-19 and an oversupply of oil production.

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

The Company continues to be proactive in addressing the rapid and unforeseen deterioration in 2020 business conditions that have resulted from the COVID-19 global pandemic and the delayed response by the OPEC+ group to global oil markets. Such measures and actions taken include significant headcount reductions, salary reductions, restriction of discretionary spending, reduction of compensation programs and bonuses, and reduction to capital spending.

CONSOLIDATED HIGHLIGHTS

	Three months ended Sep. 30,			Nine months ended Sep. 30,		
	2020	2019	Change	**2020**	2019	Change
(C$000s, except per share amounts) *(unaudited)*	*($)*	*($)*	*(%)*	*($)*	*($)*	*(%)*
Revenue	**127,776**	399,220	(68)	**524,714**	1,303,870	(60)
Operating income[(1)]	**8,009**	47,021	(83)	**6,400**	131,747	(95)
Per share – basic	**0.06**	0.33	(82)	**0.04**	0.91	(96)
Per share – diluted	**0.06**	0.32	(81)	**0.04**	0.90	(96)
Adjusted EBITDA[(1)]	**8,467**	43,028	(80)	**10,094**	132,237	(92)
Per share – basic	**0.06**	0.30	(80)	**0.07**	0.92	(92)
Per share – diluted	**0.06**	0.30	(80)	**0.07**	0.91	(92)
Net loss	**(50,000)**	(29,424)	70	**(450,132)**	(106,803)	NM
Per share – basic	**(0.34)**	(0.20)	70	**(3.10)**	(0.74)	NM
Per share – diluted	**(0.34)**	(0.20)	70	**(3.10)**	(0.74)	NM

As at	**September 30 2020**	December 31, 2019	Change
(C$000s) *(unaudited)*	*($)*	*($)*	*(%)*
Working capital, end of period	**127,989**	248,772	(49)
Total assets, end of period	**954,206**	1,525,922	(37)
Long-term debt, end of period	**887,647**	976,693	(9)
Total equity, end of period	**(81,033)**	368,623	NM

(1) Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.

THIRD QUARTER OVERVIEW

In the third quarter of 2020, the Company:

- generated revenue of $127.8 million, a decrease of 68 percent from the third quarter in 2019, resulting primarily from lower activity in North America and Argentina;
- reported adjusted EBITDA of $8.5 million versus $43.0 million in the comparable period in 2019, mainly as a result of the sharp decline in activity in the United States, Argentina and Canada, offset partially by better utilization in Russia;
- reported a net loss of $50.0 million or $0.34 per share diluted compared to net income of $29.4 million or $0.20 per share diluted in the third quarter in 2019;
- reported period-end working capital of $128.0 million including $40.1 million in cash; and
- incurred capital expenditures of $2.8 million, focused on maintenance and sustaining activities to primarily support the Company's North American fracturing operations.

Subsequent to the end of the quarter, on October 16, 2020, Calfrac's senior unsecured noteholders, and common shareholders each voted in favor of the Company's proposed recapitalization transaction, as amended ("Recapitalization Transaction"). The Recapitalization Transaction includes the exchange of the Company's US$431.8 million senior unsecured notes for common shares of the Company, in addition to new financing of $60.0 million. The transaction was approved by the Court of Queen's Bench of Alberta on October 30, 2020 under the provisions of the Canada Business Corporations Act. The completion of the Recapitalization Transaction will significantly reduce the Company's total debt and annual interest expense and provide additional liquidity to fund ongoing operations. Following court approval of the Recapitalization Transaction, the Company was granted a waiver from its first lien lenders in respect of its Funded Debt to EBITDA covenant for the quarter ended September 30, 2020. The waiver granted is a precursor to additional amendments to the existing credit facilities that will become effective on closing of the Recapitalization Transaction.

In the nine months ended September 30, 2020, the Company:

- generated revenue of $524.7 million, a decrease of 60 percent from the first nine months in 2019, resulting primarily from lower activity in North America and Argentina;
- reported adjusted EBITDA of $10.1 million versus $132.2 million in the comparable period in 2019, mainly as a result of a reduced active fleet count in North America and lower utilization of equipment in Argentina;
- reported a net loss of $450.1 million or $3.10 per share diluted, which included a gain on debt exchange of $130.4 million, a $115.6 million deferred tax expense related to the write-off of the Company's deferred tax asset, and an impairment of PP&E and other assets of $255.1 million, compared to a net loss of $106.8 million or $0.74 per share diluted in the first nine months in 2019;
- 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 at an exchange price of US$550 for each US$1,000 of old notes, resulting in US$218.2 million being exchanged for US$120.0 million of new notes;
- aligned its operating footprint in Canada and the United States in response to lower activity levels;
- recorded an impairment of assets totaling $255.6 million; and
- incurred capital expenditures of $38.1 million focused on maintenance and sustaining activities to primarily support the Company's North American fracturing operations.

FINANCIAL OVERVIEW – THREE MONTHS ENDED SEPTEMBER 30, 2020 VERSUS 2019

CANADA

Three Months Ended September 30,	2020	2019	Change
(C$000s, except operational information) *(unaudited)*	*($)*	*($)*	*(%)*
Revenue	**44,669**	104,759	(57)
Expenses			
Operating	**36,352**	85,281	(57)
Selling, general and administrative (SG&A)	**1,826**	4,048	(55)
	38,178	89,329	(57)
Operating income[1]	**6,491**	15,430	(58)
Operating income (%)	**14.5**	14.7	(1)
Fracturing revenue per job ($)	**24,179**	13,881	74
Number of fracturing jobs	**1,647**	6,537	(75)
Active pumping horsepower, end of period (000s)	**174**	257	(32)
Idle pumping horsepower, end of period (000s)	**100**	48	108
Total pumping horsepower, end of period (000s)	**274**	305	(10)
Coiled tubing revenue per job ($)	**14,995**	18,489	(19)
Number of coiled tubing jobs	**294**	734	(60)
Active coiled tubing units, end of period (#)	**8**	11	(27)
Idle coiled tubing units, end of period (#)	**5**	3	67
Total coiled tubing units, end of period (#)	**13**	14	(7)

[1] *Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.*

REVENUE

Revenue from Calfrac's Canadian operations during the third quarter of 2020 was $44.7 million compared to $104.8 million in the same period of 2019, primarily due to lower operator activity, combined with a smaller operating footprint. In the third quarter of 2020, the number of fracturing jobs was 75 percent lower than the comparable period in 2019 due to an overall decrease in customer activity resulting from the COVID-19 pandemic and general market conditions. Customer activity for the quarter started out relatively strong, with a slight pull-back in activity in August, followed by a ramp-up of activity in September. Revenue per job increased by 74 percent, mainly due to job mix as less work was completed in the Viking oil play, which has smaller average job sizes. The number of coiled tubing jobs decreased by 60 percent from the third quarter in 2019 as the number of coiled tubing crews was reduced, while revenue per job decreased by 19 percent due to job mix.

OPERATING INCOME

Operating income in Canada during the third quarter of 2020 was $6.5 million compared to $15.4 million in the same period of 2019. As a percentage of revenue, the Company's operating income was consistent with the comparable quarter at 15 percent, despite a 57 percent decrease in revenue. This was due to a combination of the continuation of cost savings initiatives implemented in the second quarter of 2020 and the $4.1 million Canadian Emergency Wage Subsidy that was received and recorded as a reduction of operating costs during the quarter. The 58 percent decrease in operating income generated by operations was mainly due to the lower revenue base and a non-cash termination charge of $2.1 million in order to exit a contractual take-or-pay product purchase commitment, combined with a $0.7 million bad debt provision recorded during the quarter.

UNITED STATES

Three Months Ended September 30,	**2020**	2019	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**46,503**	224,424	(79)
Expenses			
Operating	**40,827**	191,923	(79)
SG&A	**2,887**	4,684	(38)
	43,714	196,607	(78)
Operating income(1)	**2,789**	27,817	(90)
Operating income (%)	**6.0**	12.4	(52)
Fracturing revenue per job ($)	**34,630**	39,302	(12)
Number of fracturing jobs	**1,345**	5,699	(76)
Active pumping horsepower, end of period (000s)	**483**	877	(45)
Idle pumping horsepower, end of period (000s)	**388**	12	NM
Total pumping horsepower, end of period (000s)	**871**	889	(2)
Active coiled tubing units, end of period (#)	**—**	—	—
Idle coiled tubing units, end of period (#)	**1**	1	—
Total coiled tubing units, end of period (#)	**1**	1	—
Active cementing units, end of period (#)	**—**	—	—
Idle cementing units, end of period (#)	**2**	9	(78)
Total cementing units, end of period (#)	**2**	9	(78)
US$/C$ average exchange rate(2)	**1.3321**	1.3204	1

(1) *Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.*
(2) *Source: Bank of Canada.*

REVENUE

Revenue from Calfrac's United States operations decreased to $46.5 million during the third quarter of 2020 from $224.4 million in the comparable quarter of 2019. The significant decrease in revenue can be attributed to a combination of a 76 percent reduction in the number of fracturing jobs completed and a 12 percent decrease in revenue per job period-over-period. The decrease in activity across all operating regions was driven by deteriorating market conditions due to the impact of the COVID-19 pandemic on commodity prices. In response, the Company reduced its operating footprint from 15 active fleets at the end of the third quarter in 2019 to four fleets at the end of the third quarter in 2020.

OPERATING INCOME

The Company's United States operations generated operating income of $2.8 million during the third quarter of 2020 compared to $27.8 million in the same period in 2019. The decrease in operating income was due to the significant reduction in operating fleets since the third quarter of 2019 as the Company reduced its operating footprint in response to the deterioration in the market. The lower operating income as a percentage of revenue was the result of lower pricing and utilization during the quarter. SG&A expenses decreased by 38 percent, primarily due to headcount and compensation reductions that were enacted in 2020.

RUSSIA

Three Months Ended September 30,	**2020**	2019	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**28,530**	23,781	20
Expenses			
Operating	**21,880**	23,267	(6)
SG&A	**617**	718	(14)
	22,497	23,986	(6)
Operating income (loss)[1]	**6,033**	(204)	NM
Operating income (loss) (%)	**21.1**	(0.9)	NM
Fracturing revenue per job ($)	**67,303**	86,941	(23)
Number of fracturing jobs	**390**	241	62
Active pumping horsepower, end of period (000s)	**65**	65	—
Idle pumping horsepower, end of period (000s)	**12**	12	—
Total pumping horsepower, end of period (000s)	**77**	77	—
Coiled tubing revenue per job ($)	**48,542**	44,202	10
Number of coiled tubing jobs	**47**	64	(27)
Active coiled tubing units, end of period (#)	**3**	4	(25)
Idle coiled tubing units, end of period (#)	**4**	3	33
Total coiled tubing units, end of period (#)	**7**	7	—
Rouble/C$ average exchange rate[2]	**0.0181**	0.0204	(11)

(1) Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.
(2) Source: Bank of Canada.

REVENUE

Revenue from Calfrac's Russian operations increased by 20 percent during the third quarter of 2020 to $28.5 million from $23.8 million in the corresponding three-month period of 2019. The increase in revenue was attributable to a 62 percent increase in fracturing activity as the Company began operations for a customer in the Erginskoye field in Western Siberia. Revenue per fracturing job decreased by 23 percent primarily due to an 11 percent decline in the Russian rouble, offset partially by job mix, as a higher percentage of multi-stage wells were completed in the third quarter in 2020 as compared to the same period in 2019. Coiled tubing activity decreased by 27 percent, primarily due to lower than expected utilization with Calfrac's main customer.

OPERATING INCOME (LOSS)

The Company's Russian division generated operating income of $6.0 million during the third quarter of 2020, versus an operating loss of $0.2 million in the comparable quarter in 2019. The improved operating performance was primarily due to better utilization of its operating fleets, combined with the continuation of cost reduction measures that were implemented in the first half of 2020.

ARGENTINA

Three Months Ended September 30,	**2020**	2019	Change
(C$000s, except operational and exchange rate information)	*($)*	*($)*	*(%)*
(unaudited)			
Revenue	**8,074**	46,256	(83)
Expenses			
Operating	**10,365**	31,924	(68)
SG&A	**1,585**	2,672	(41)
	11,950	34,596	(65)
Operating (loss) income[1]	**(3,876)**	11,660	NM
Operating (loss) income (%)	**(48.0)**	25.2	NM
Active pumping horsepower, end of period (000s)	**118**	138	(14)
Idle pumping horsepower, end of period (000s)	**5**	—	NM
Total pumping horsepower, end of period (000s)	**123**	138	(11)
Active cementing units, end of period (#)	**12**	14	(14)
Idle cementing units, end of period (#)	**2**	—	NM
Total cementing units, end of period (#)	**14**	14	—
Active coiled tubing units, end of period (#)	**4**	6	(33)
Idle coiled tubing units, end of period (#)	**2**	1	100
Total coiled tubing units, end of period (#)	**6**	7	(14)
US$/C$ average exchange rate[2]	**1.3321**	1.3204	1

[1] Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.
[2] Source: Bank of Canada.

REVENUE

Calfrac's Argentinean operations generated total revenue of $8.1 million during the third quarter of 2020 compared to $46.3 million in the comparable quarter in 2019. The Argentina government mandated a complete shutdown of all oilfield activity in response to the COVID-19 pandemic. Although the COVID-19 shutdown was lifted in the third quarter of 2020, one of the Company's main customers operating in the Vaca Muerta field postponed the recommencement of its operations until the end of October, resulting in a 46 percent decrease in fracturing activity. Fracturing, coiled tubing and cementing activity in the southern area of the country resumed with smaller field crews commencing operations.

OPERATING (LOSS) INCOME

The Company's operations in Argentina incurred an operating loss of $3.9 million during the third quarter of 2020 compared to operating income of $11.7 million in the comparable quarter of 2019. The operating loss was mainly due to a slow restart of operations as a result of the COVID-19 pandemic. In addition, the Company incurred $0.2 million of nationalization costs due to changes in government regulations, and $0.1 million of severance costs were recorded in the third quarter of 2020. SG&A costs were 41 percent lower than the comparable quarter in 2019, primarily due to headcount reductions and other cost savings initiatives continuing throughout the quarter.

CORPORATE

Three Months Ended September 30,	**2020**	2019	Change
(C$000s) *(unaudited)*	***($)***	*($)*	*(%)*
Expenses			
Operating	**284**	1,110	(74)
SG&A	**3,144**	6,572	(52)
	3,428	7,682	(55)
Operating loss(1)	**(3,428)**	(7,682)	(55)
% of Revenue	**2.7**	1.9	42

(1) Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.

OPERATING LOSS

Corporate expenses for the third quarter of 2020 were $3.4 million compared to $7.7 million in the third quarter of 2019. The decrease was primarily due to lower personnel costs resulting from headcount and compensation reductions, combined with $0.6 million in government wage subsidies received during the third quarter of 2020, offset partially by $0.3 million of severance charges. In addition, $1.2 million of costs associated with the Company's Recapitalization Transaction that were recorded as SG&A expense in the second quarter of 2020 were reclassified to prepaid expenses during the third quarter. The Company's stock-based compensation expense of $0.6 million was $0.7 million lower than the comparable quarter in 2019 due to a lower share price at the end of the quarter.

DEPRECIATION

For the three months ended September 30, 2020, depreciation expense decreased by $27.0 million to $31.7 million from $58.7 million in the corresponding quarter in 2019. The Company recorded PP&E impairment charges totaling $227.2 million in the first half of 2020, which resulted in lower depreciation in the third quarter. The decrease was also the result of reduced capital expenditures relating to major components, which have a shorter useful life and result in a higher rate of depreciation.

FOREIGN EXCHANGE GAINS AND LOSSES

The Company recorded a foreign exchange loss of $7.8 million during the third quarter of 2020, versus a loss of $5.0 million in the comparative three-month period of 2019. Foreign exchange gains and losses arise primarily from the translation of net monetary assets or liabilities that were held in U.S. dollars in Canada, net monetary assets or liabilities that were held in pesos in Argentina, and U.S. dollar denominated assets held in Canada. In Canada, the foreign exchange loss of $3.1 million was primarily due to the revaluation of net monetary assets that were held in U.S. dollars as the Canadian dollar strengthened relative to the U.S. dollar. In Russia, the foreign exchange loss of $3.0 million was attributable to the revaluation of net monetary liabilities held in Canadian dollars. In Argentina, the foreign exchange loss of $1.9 million was primarily related to the settlement of peso-denominated monetary assets and liabilities.

INTEREST

The Company's net interest expense of $19.6 million for the third quarter of 2020 was $2.0 million lower than the comparable period in 2019. The decrease in interest expense was primarily due to the debt exchange that was completed during the first quarter in 2020, which resulted in reduced leverage of approximately $130.0 million, and interest savings realized in the quarter of approximately $1.8 million.

INCOME TAXES

The Company recorded an income tax expense of $0.2 million during the third quarter of 2020 compared to a recovery of $10.8 million in the comparable period of 2019. The income tax expense was due to positive taxable income in Russia that is not able to be fully sheltered by tax loss carry forwards. The Company derecognized its deferred tax asset during the first quarter of 2020 and will no longer record any deferred income tax amount until it has greater certainty as to the realization of such assets.

SUMMARY OF QUARTERLY RESULTS

Three Months Ended	Dec. 31, 2018	Mar 31, 2019	Jun. 30, 2019	Sep. 30, 2019	Dec. 31, 2019	Mar. 31, 2020	Jun. 30, 2020	**Sep. 30, 2020**
(C$000s, except per share and operating data) (unaudited)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	***($)***
Financial								
Revenue	498,858	475,012	429,638	399,220	317,085	305,515	91,423	**127,776**
Operating income (loss)[(1)]	61,992	43,623	41,103	47,021	20,997	5,698	(7,307)	**8,009**
Per share – basic	0.43	0.30	0.28	0.33	0.15	0.04	(0.05)	**0.06**
Per share – diluted	0.42	0.30	0.28	0.32	0.14	0.04	(0.05)	**0.06**
Adjusted EBITDA[(1)]	62,914	44,086	45,123	43,028	26,882	6,812	(5,185)	**8,467**
Per share – basic	0.44	0.31	0.31	0.30	0.19	0.05	(0.04)	**0.06**
Per share – diluted	0.43	0.30	0.31	0.30	0.18	0.05	(0.04)	**0.06**
Net loss	(3,462)	(36,334)	(41,045)	(29,424)	(49,400)	(122,857)	(277,275)	**(50,000)**
Per share – basic	(0.02)	(0.25)	(0.28)	(0.20)	(0.34)	(0.85)	(1.91)	**(0.34)**
Per share – diluted	(0.02)	(0.25)	(0.28)	(0.20)	(0.34)	(0.85)	(1.91)	**(0.34)**
Capital expenditures	31,484	28,218	37,784	38,885	34,418	29,283	6,068	**2,792**
Working capital (end of period)	329,871	276,785	291,056	257,189	248,772	233,125	157,165	**127,989**
Total equity (end of period)	513,820	481,675	443,361	414,195	368,623	239,099	(34,195)	**(81,033)**
Operating (end of period)								
Active pumping horsepower (000s)	1,328	1,344	1,346	1,337	1,269	1,242	780	**840**
Idle pumping horsepower (000s)	42	36	59	72	141	174	572	**505**
Total pumping horsepower (000s)	1,370	1,380	1,405	1,409	1,410	1,416	1,352	**1,345**
Active coiled tubing units (#)	22	21	21	21	20	20	16	**15**
Idle coiled tubing units (#)	7	8	8	8	8	7	11	**12**
Total coiled tubing units (#)	29	29	29	29	28	27	27	**27**
Active cementing units (#)	11	11	14	14	13	13	13	**12**
Idle cementing units (#)	12	12	9	9	6	3	3	**4**
Total cementing units (#)	23	23	23	23	19	16	16	**16**

(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 Operating Income and Adjusted EBITDA in subsequent periods are not comparable to periods prior to January 1, 2019. Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.

SEASONALITY OF OPERATIONS

The Company's North American business is seasonal. The lowest activity is typically experienced during the second quarter of the year when road weight restrictions are in place due to spring break-up weather conditions and access to well sites in Canada and North Dakota is reduced (refer to "Business Risks - Seasonality" in the 2019 Annual Report).

FOREIGN EXCHANGE FLUCTUATIONS

The Company's consolidated financial statements are reported in Canadian dollars. Accordingly, the quarterly results are directly affected by fluctuations in the exchange rates for United States, Russian and Argentinean currency (refer to "Business Risks - Fluctuations in Foreign Exchange Rates" in the 2019 Annual Report).

FINANCIAL OVERVIEW – NINE MONTHS ENDED SEPTEMBER 30, 2020 VERSUS 2019

CANADA

Nine Months Ended September 30,	**2020**	2019	Change
(C$000s, except operational information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**177,101**	324,574	(45)
Expenses			
Operating	**146,253**	278,144	(47)
SG&A	**6,054**	9,165	(34)
	152,307	287,309	(47)
Operating income[1]	**24,794**	37,265	(33)
Operating income (%)	**14.0**	11.5	22
Fracturing revenue per job ($)	**18,172**	16,874	8
Number of fracturing jobs	**8,811**	16,886	(48)
Active pumping horsepower, end of period (000s)	**174**	257	(32)
Idle pumping horsepower, end of period (000s)	**100**	48	108
Total pumping horsepower, end of period (000s)	**274**	305	(10)
Coiled tubing revenue per job ($)	**19,469**	19,441	—
Number of coiled tubing jobs	**850**	1,934	(56)
Active coiled tubing units, end of period (#)	**8**	11	(27)
Idle coiled tubing units, end of period (#)	**5**	3	67
Total coiled tubing units, end of period (#)	**13**	14	(7)

[1] Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.

REVENUE

Revenue from Calfrac's Canadian operations during the first nine months in 2020 was $177.1 million versus $324.6 million in the comparable period in 2019. In the first nine months, the number of fracturing jobs decreased by 48 percent due to a smaller operating footprint in the second and third quarter of 2020, and an overall decrease in market activity. Revenue per fracturing job increased by 8 percent from the comparable period in 2019, primarily due to job mix as less work was completed in the Viking oil play, which has smaller average job sizes. Despite revenue per job staying consistent, coiled tubing activity decreased by 56 percent, which resulted in lower year-over-year coiled tubing revenue.

OPERATING INCOME

The Company's Canadian division generated operating income of $24.8 million compared to $37.3 million in the comparable period in 2019. The decrease was due to the significantly lower revenue generated during the period and a non-cash termination charge of $2.1 million to exit a take-or-pay product purchase commitment. Despite the lower revenue base, the Company achieved a 14 percent operating income margin due to its continued focus on controlling operating costs, combined with $8.0 million of Canadian Emergency Wage Subsidy that was received in response to the ongoing COVID-19 pandemic. This increase was partially offset by $1.6 million in restructuring costs. The $3.1 million reduction in SG&A expenses compared to 2019 was primarily due to lower headcount, compensation reductions and limitations on discretionary spending. In addition, a bad debt provision of $0.7 million was recorded in the first nine months in 2020 compared to $1.3 million in the comparable period of 2019.

UNITED STATES

Nine Months Ended September 30,	**2020**	2019	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**238,807**	742,634	(68)
Expenses			
Operating	**225,554**	626,852	(64)
SG&A	**10,228**	13,171	(22)
	235,782	640,023	(63)
Operating income[(1)]	**3,025**	102,611	(97)
Operating income (%)	**1.3**	13.8	(91)
Fracturing revenue per job ($)	**30,053**	45,651	(34)
Number of fracturing jobs	**7,946**	16,252	(51)
Active pumping horsepower, end of period (000s)	**483**	877	(45)
Idle pumping horsepower, end of period (000s)	**388**	12	NM
Total pumping horsepower, end of period (000s)	**871**	889	(2)
Active coiled tubing units, end of period (#)	**—**	—	—
Idle coiled tubing units, end of period (#)	**1**	1	—
Total coiled tubing units, end of period (#)	**1**	1	—
Active cementing units, end of period (#)	**—**	—	—
Idle cementing units, end of period (#)	**2**	9	(78)
Total cementing units, end of period (#)	**2**	9	(78)
US$/C$ average exchange rate[(2)]	**1.3541**	1.3292	2

(1) Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.
(2) Source: Bank of Canada.

REVENUE

Revenue from Calfrac's United States operations decreased to $238.8 million during the first nine months in 2020 from $742.6 million in the comparable period in 2019, primarily due to lower fracturing activity and the impact of a substantial shift to customers providing their own sand. Completions activity in the United States decreased during the first nine months by 51 percent as customers curtailed spending in all of the Company's operating regions in response to low commodity prices. Revenue per job decreased 34 percent due to lower pricing, combined with the impact of a greater proportion of customers providing their own sand.

OPERATING INCOME

The Company's United States division generated operating income of $3.0 million during the first nine months in 2020 compared to $102.6 million during the comparable period in 2019. The 97 percent decrease was primarily the result of the sharp decline in the Company's revenue base as customers reacted to the steep decline in commodity prices and reduced their drilling and completions activity accordingly. The Company started 2020 with 10 active fleets operating in the United States and exited the third quarter with four active fleets. The Company operated an average of 14 fleets in the comparable nine month period in 2019. SG&A expenses decreased by 22 percent, primarily due to lower personnel costs resulting from headcount and compensation reductions. The Company recorded $2.4 million of severance costs during the first nine months of 2020.

RUSSIA

Nine Months Ended September 30,	**2020**	2019	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**73,458**	81,563	(10)
Expenses			
Operating	**64,598**	81,909	(21)
SG&A	**2,373**	2,513	(6)
	66,971	84,422	(21)
Operating income (loss)(1)	**6,487**	(2,859)	NM
Operating income (loss) (%)	**8.8**	(3.5)	NM
Fracturing revenue per job ($)	**83,347**	87,165	(4)
Number of fracturing jobs	**795**	831	(4)
Active pumping horsepower, end of period (000s)	**65**	65	—
Idle pumping horsepower, end of period (000s)	**12**	12	—
Total pumping horsepower, end of period (000s)	**77**	77	—
Coiled tubing revenue per job ($)	**46,432**	44,103	5
Number of coiled tubing jobs	**155**	207	(25)
Active coiled tubing units, end of period (#)	**3**	4	(25)
Idle coiled tubing units, end of period (#)	**4**	3	33
Total coiled tubing units, end of period (#)	**7**	7	—
Rouble/C$ average exchange rate(2)	**0.0191**	0.0204	(6)

(1) *Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.*
(2) *Source: Bank of Canada.*

REVENUE

Revenue from Calfrac's Russian operations during the first nine months in 2020 of $73.5 million was 10 percent lower than the comparable period in 2019. The decrease in revenue was mostly related to a 4 percent reduction in fracturing activity, primarily during the first half of the year, when warmer than normal weather restricted access to job locations combined with a smaller operating footprint, and a 25 percent reduction in coiled tubing activity. Revenue per fracturing job was 4 percent lower than the comparable period in 2019 due to the 6 percent depreciation of the Russian rouble, partially offset by job mix as the Company completed more multi-stage wells during the period.

OPERATING INCOME (LOSS)

The Company's Russian division generated operating income of $6.5 million during the first nine months of 2020 compared to a loss of $2.9 million in the comparable period in 2019. Utilization in the first quarter of 2020 was negatively impacted by warmer than normal weather, which restricted access to job locations. The second and third quarters experienced improved profitability due to better utilization, combined with cost reduction measures that were implemented throughout the first nine months of 2020. The operating results for the first nine months of 2020 included $0.4 million in severance costs.

ARGENTINA

Nine Months Ended September 30,	**2020**	2019	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**35,348**	155,099	(77)
Expenses			
Operating	**41,706**	126,660	(67)
SG&A	**5,595**	8,131	(31)
	47,301	134,791	(65)
Operating (loss) income(1)	**(11,953)**	20,308	NM
Operating (loss) income (%)	**(33.8)**	13.1	NM
Active pumping horsepower, end of period (000s)	**118**	138	(14)
Idle pumping horsepower, end of period (000s)	**5**	—	NM
Total pumping horsepower, end of period (000s)	**123**	138	(11)
Active cementing units, end of period (#)	**12**	14	(14)
Idle cementing units, end of period (#)	**2**	—	NM
Total cementing units, end of period (#)	**14**	14	—
Active coiled tubing units, end of period (#)	**4**	6	(33)
Idle coiled tubing units, end of period (#)	**2**	1	100
Total coiled tubing units, end of period (#)	**6**	7	(14)
US$/C$ average exchange rate(2)	**1.3541**	1.3292	2

(1) *Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.*
(2) *Source: Bank of Canada.*

REVENUE

Calfrac's Argentinean operations generated total revenue of $35.3 million during the first nine months in 2020 versus $155.1 million in the comparable period in 2019. The 77 percent decline in revenue was primarily due to the significant impact of COVID-19 and the subsequent shutdown of the oilfield industry in Argentina, which affected all service lines. The early part of 2020 started with an increase in activity, despite some schedule gaps in the Vaca Muerta region. In mid-March, the Argentina government mandated a complete shutdown of all oilfield activity in response to the COVID-19 pandemic. The shutdown continued through most of the second quarter, with some activity in southern Argentina restarting in June and continuing into the third quarter. The Company's main customer in the Vaca Muerta region postponed the recommencement of its operations until the end of October.

OPERATING (LOSS) INCOME

The Company's operations in Argentina incurred an operating loss of $12.0 million during the first nine months of 2020, compared to operating income of $20.3 million in the comparable period in 2019. The loss was attributable to the sharp decline in revenue caused by the government-mandated shutdown of all oilfield activity in response to the COVID-19 pandemic. The Company took measures where possible to reduce costs in response to the unprecedented revenue disruption, including temporary and permanent headcount reductions, price reductions with vendors and the elimination of various field costs. The operating results also included $0.4 million in consulting fees, $0.2 million in nationalization costs due to changes in government regulations, and $0.1 million of severance expenses.

CORPORATE

Nine Months Ended September 30,	**2020**	2019	Change
(C$000s) *(unaudited)*	*($)*	*($)*	*(%)*
Expenses			
Operating	**1,864**	3,493	(47)
SG&A	**14,089**	22,085	(36)
	15,953	25,578	(38)
Operating loss[1]	**(15,953)**	(25,578)	(38)
% of Revenue	**3.0**	2.0	50

[1] *Refer to "Non-GAAP Measures" on pages 26 and 27 for further information.*

OPERATING LOSS

Corporate expenses during the first nine months in 2020 were $16.0 million compared to $25.6 million in the comparable period in 2019. The decrease was primarily due to lower personnel costs resulting from headcount and compensation reductions, combined with $1.2 million in government wage subsidies received during the first nine months in 2020. Reductions to personnel costs were partially offset by $0.8 million of severance costs during the first nine months in 2020. The Company's stock-based compensation expense of $1.0 million was $2.6 million lower than the comparable period in 2019, primarily due to a lower share price.

DEPRECIATION

Depreciation expense during the first nine months in 2020 decreased by $51.1 million to $141.2 million from $192.3 million in the comparable period in 2019. The decrease was primarily due to the impact of the $227.2 million of impairment charges taken in the first half of 2020, combined with lower sustaining capital expenditures. The remaining reduction in depreciation was the result of the Company decreasing its useful life estimates and salvage values effective January 1, 2019 for certain components of its fracturing equipment. This resulted in a one-time depreciation charge of $9.5 million during the first quarter in 2019 relating to assets in use at the end of the previous quarter.

FOREIGN EXCHANGE LOSSES

The Company recorded a foreign exchange loss of $9.7 million during the first nine months in 2020 versus a loss of $6.5 million in the comparable period in 2019. Foreign exchange gains and losses arise primarily from the translation of net monetary assets or liabilities that were held in U.S. dollars in Canada, net monetary assets or liabilities that were held in pesos in Argentina, and liabilities held in Canadian dollars in Russia. The Company's foreign exchange loss in the first nine months in 2020 was largely attributable to net monetary assets that were held in pesos in Argentina as the peso devalued against the U.S. dollar during this period combined with liabilities held in Canadian dollars in Russia due to the decline in the Russian rouble versus the Canadian dollar.

IMPAIRMENT

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

The PP&E impairment losses by CGU are as follows:

	Nine Months Ended Sep. 30,	
	2020	2019
(C$000s)	*($)*	*($)*
Canada	**132,483**	—
United States	**15,380**	—
Argentina	**52,466**	—
Russia	**26,879**	—
	227,208	—

In addition, the Company also carried out a comprehensive review of its inventory to identify individual items that were permanently idle or obsolete, with potential for impairment in value. This resulted in an inventory write-down of $27.9 million (nine months ended September 30, 2019 – $0.6 million). The inventory write-down by CGU is as follows:

	Nine Months Ended Sep. 30,	
	2020	2019
(C$000s)	***($)***	*($)*
Canada	**6,200**	—
United States	**10,668**	—
Argentina	**11,000**	584
	27,868	584

INTEREST

The Company's interest expense of $66.4 million during the first nine months in 2020 was $2.0 million higher than the comparable period in 2019. The increase in interest expense was due to the write-off of $4.4 million of deferred finance costs related to the portion of senior unsecured notes exchanged during the first quarter in 2020, offset partially by reduced leverage of $130.0 million resulting from such debt exchange.

INCOME TAXES

The Company recorded an income tax expense of $113.8 million during the first nine months in 2020 compared to a $28.9 million tax recovery in the comparable period in 2019. The expense position was the result of the write-off of the Company's deferred tax asset during the first quarter in 2020.

LIQUIDITY AND CAPITAL RESOURCES

	Three Months Ended Sep. 30,		Nine Months Ended Sep. 30,	
	2020	2019	**2020**	2019
(C$000s) *(unaudited)*	***($)***	*($)*	***($)***	*($)*
Cash provided by (used in):				
Operating activities	**(31,151)**	55,071	**39,418**	116,232
Financing activities	**(9,193)**	(17,758)	**(3,160)**	(13,564)
Investing activities	**(648)**	(36,211)	**(36,224)**	(106,157)
Effect of exchange rate changes on cash and cash equivalents	**(6,796)**	1,862	**(2,464)**	(4,255)
(Decrease) increase in cash and cash equivalents	**(47,788)**	2,964	**(2,430)**	(7,744)

OPERATING ACTIVITIES

The Company's cash used by operating activities for the three months ended September 30, 2020 was $31.2 million versus cash provided of $55.1 million during the same period in 2019. The decrease in cash provided by operations was primarily due to $26.2 million used by working capital during the third quarter compared to working capital providing $15.7 million of cash in the same period in 2019, combined with lower activity in the United States and Argentina. At September 30, 2020, Calfrac's working capital was $128.0 million, compared to $248.8 million at December 31, 2019.

FINANCING ACTIVITIES

Net cash used by financing activities for the three months ended September 30, 2020 was $9.2 million compared to net cash used of $17.8 million in the comparable period in 2019. During the three months ended September 30, 2020, the Company had net repayments under its credit facilities of $5.0 million, debt issuance costs of $1.1 million and lease principal payments of $3.1 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 exchange price of US$550 for 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 resulted in reduced leverage of approximately $130.0 million and a $7.3 million reduction 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 September 30, 2020, the Company's net Total Debt to Adjusted EBITDA ratio exceeded the 5.00:1.00 threshold.

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

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

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

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

At September 30, 2020, the Company had used $0.9 million of its credit facilities for letters of credit and had $165.0 million of borrowings under its credit facilities, leaving $209.1 million in available capacity under its credit facilities. As described above, the Company's credit facilities are subject to a monthly borrowing base, as determined using the previous month's results, which at September 30, 2020 resulted in a liquidity amount of $45.5 million.

The Company's credit facilities contain certain financial covenants. Weakened market conditions attributable to the COVID-19 pandemic and continued low price of oil and natural gas have required many oil and gas service companies to seek covenant relief from their lenders. Subsequent to the end of the third quarter of 2020 and following court approval of the Recapitalization Transaction, the Company was granted a waiver on its Funded Debt to Adjusted EBITDA covenant from its banking syndicate for the quarter ended September 30, 2020. The waiver granted is a precursor to additional amendments to the existing credit facilities that will become effective on closing of the Recapitalization Transaction and will provide increased flexibility for the Company to navigate material uncertainty in the near-term. As shown in the table below, at September 30, 2020, the Company was in compliance with the financial covenants associated with its credit facilities.

	Covenant	**Actual**
As at September 30,	2020	**2020**
Working capital ratio not to fall below	1.15x	**2.16x**
Funded Debt to Adjusted EBITDA not to exceed(1)(2)	N/A	**7.34x**
Funded Debt to Capitalization not to exceed(1)(3)	0.30x	**0.18x**

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

Given the wide range of possible outcomes and scenarios resulting from the combination of the COVID-19 pandemic's impact on demand and the supply response relating to the OPEC+ agreement on crude oil production cuts, the Company has very limited insight as to the economic conditions that will exist in its near-term outlook. The pervasive impact and influence of these factors have a direct correlation with the Company's customers' capital spending plans and, as a result, the demand for the Company's services.

During the second quarter of 2020, the Company elected to defer its cash interest payment that was due on June 15, 2020 in respect of its outstanding 8.50% senior unsecured notes due 2026. Under the terms of the unsecured notes indenture, the Company had a 30-day grace period from the periodic interest payment date of June 15 in order to make this cash interest payment before an event of default would have occurred. The Company had both the ability and financial capacity to make this interest payment. During the third quarter of 2020, the Company announced and subsequently amended the Recapitalization Transaction aimed at reducing the Company's debt and restructuring its balance sheet. Subsequent to the end of the third quarter of 2020, the Company's senior unsecured noteholders and shareholders each voted in favor of the Recapitalization Transaction, and such transaction was approved by the Court of Queen's Bench of Alberta on October 30, 2020 under the provisions of the Canada Business Corporations Act. See note 21 for further information.

As a result of the factors noted above, there are material uncertainties that may cast significant doubt on the ability of the Company to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern entity. Such material uncertainties may include: satisfaction or waiver of all conditions precedent to the completion of the Recapitalization Transaction, customer credit risk, compliance with financial covenants in future periods, liquidity, capital structure, valuation of long-lived assets and inventory valuation.

The interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues and expenses and balance sheet classifications that would be necessary if the Company was unable to realize its assets and liabilities as a going concern in the normal course of operations. Such adjustments could be material.

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 indentures governing the Old Notes and New Notes, which are available on SEDAR, contain restrictions on the Company's ability to pay dividends, purchase and redeem shares of the Company and make certain restricted investments, that are not defined as Permitted Investments under the indentures, in circumstances where:

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

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

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

[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) before depreciation, extraordinary gains or losses, unrealized foreign exchange gains or losses, gains or losses on disposal of property, plant and equipment, impairment or reversal of impairment of assets, restructuring charges, provision for settlement of litigation, stock-based compensation, interest, and income taxes. Interest expense is adjusted to exclude any non-recurring charges associated with redeeming or retiring any indebtedness prior to its maturity.

These limitations on restricted payments are tempered by the existence of a number of exceptions to the general prohibition, including a basket allowing for restricted payments in an aggregate amount of up to US$20.0 million. As at September 30, 2020 this basket was not utilized. The indentures also restrict the ability to incur additional indebtedness if the Fixed Charge Coverage Ratio determined on a pro forma basis for the most recently ended four fiscal quarter period for which internal financial statements are available is not at least 2:1. As is the case with restricted payments, there are a number of exceptions to this prohibition on the incurrence of additional indebtedness, 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 September 30, 2020, the Company's Fixed Charge Coverage Ratio of 0.47:1 was below the required 2:1 ratio. Failing to meet the Fixed Charge Coverage Ratio is not an event of default under the indentures, and the baskets highlighted in the preceding paragraph provide sufficient flexibility for the Company to incur additional indebtedness and make anticipated restricted payments which may be required to conduct its operations.

INVESTING ACTIVITIES

Calfrac's net cash used for investing activities was $0.6 million for the three months ended September 30, 2020 versus $36.2 million in the comparable period in 2019. Cash outflows relating to capital expenditures were $2.1 million in 2020 compared to $37.2 million during the same period in 2019. In response to lower expected activity levels, the Company further reduced its 2020 capital budget from $55.0 million to approximately $40.0 million, which is comprised primarily of maintenance capital.

EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS

The effect of changes in foreign exchange rates on the Company's cash and cash equivalents during the three months ended September 30, 2020 was a loss of $6.8 million versus a gain of $1.9 million in the same period in 2019. These losses and gains relate to movements of cash and cash equivalents held by the Company in a foreign currency during the period.

At September 30, 2020, the Company had a cash balance of $40.1 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 November 9, 2020, the Company had issued and outstanding 145,616,827 common shares, 867,437 equity-based performance share units and 9,634,120 options to purchase common shares.

BUSINESS UPDATE AND OUTLOOK

Calfrac's operating results during the third quarter were driven primarily by strong operating results in Canada, where industry activity recovered quickly from the prior quarter and Russia, where steady work volumes and improved job mix were achieved.

CANADA

In Canada, activity improved significantly from the prior quarter, as work volumes returned with improved commodity prices and Calfrac's core clients resumed capital programs.

Calfrac's Canadian division remains staffed to deploy up to 150,000 HP into the market, typically consisting of three large fracturing spreads. The Company is also able to deploy up to four deep coiled tubing rigs either in support of fracturing operations or in a stand-alone capacity.

Based on awarded work, the Company expects activity in the fourth quarter to be in line with levels seen in the third quarter, however announced reductions in the Canada Emergency Wage Subsidy will likely impact margin performance. The Company's active equipment is expected to be highly utilized through the end of the first quarter of 2021 based on current work programs. Calfrac does not intend to activate or staff incremental equipment without an acceptable combination of improved economic returns and visibility on work scope to support the investment.

UNITED STATES

During the third quarter, Calfrac's operations in the United States experienced higher levels of activity across all areas of operation. The return of oil prices to the US$40/barrel range permitted a number of clients to resume capital spending on a limited and prudent basis. As the quarter unfolded, more discussions occurred with clients with the aim of transitioning to a higher level of activity through the end of the year and into 2021.

Calfrac is currently staffed to crew five fleets in its United States operations, a level that balances cost management with servicing its core clients in the field. The Company expects that activity will improve sequentially in the fourth quarter, largely due to a continuation of activity levels seen exiting the third quarter, with some reduction of activity possible in the final weeks of the year. The recent improvement in natural gas pricing has the potential to drive some incremental spending by gas-weighted clients in 2021, however budgets have not yet been finalized for many producers in the United States.

RUSSIA

Calfrac's Russian operations performed very well during the third quarter, delivering results that exceeded expectations due to steady work volumes and improving job mix. Operational disruptions that have been experienced in the last number of years were avoided, which further contributed to operational and financial improvements. The shift to more multi-stage conventional wells is expected to continue into the future, as is the development of the Erginskoye field and the consistent activity levels that development is anticipated to support.

Calfrac is evaluating the possibility of activating more equipment in Western Siberia, but will only do so if the internal economic hurdles are met, and sufficient visibility on consistent work volumes exists.

ARGENTINA

In Argentina, Calfrac's operations showed improved operating and financial results on a sequential basis, but remain below levels seen in early 2020. The Company has reduced costs where possible to minimize cash losses, and saw a resumption of activity during the latter part of the quarter. Subsequent to quarter end, Calfrac resumed fracturing operations in the Vaca Muerta field, which has been idled since the first quarter of this year.

Fourth-quarter activity is expected to improve significantly from the third quarter, which should in turn improve financial results as the year closes out. As a number of competitors have ceased operations in some parts of the country during 2020, work volumes may increase in 2021, leading to further improvement in financial results.

CORPORATE

Calfrac's focus on cost management and capital discipline continues to drive corporate decision making, ensuring the Company can operate safely and efficiently in challenging market conditions. The Company will continue to update the market by way of press release with information on the closing of its Recapitalization Transaction as approved by affected security holders and the Court of Queen's Bench in Alberta, as well as any other material developments in the process.

Calfrac's Board of Directors has also approved a $15.0 million reduction in the Company's 2020 capital budget, from $55.0 million to $40.0 million.

NON-GAAP MEASURES

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

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

	Three Months Ended Sep. 30,		**Nine Months Ended Sep. 30,**	
	2020	2019	**2020**	2019
(C$000s) *(unaudited)*	***($)***	*($)*	***($)***	*($)*
Net loss	**(50,000)**	(29,424)	**(450,132)**	(106,803)
Add back (deduct):				
Depreciation	**31,720**	58,669	**141,178**	192,295
Foreign exchange losses	**7,822**	5,038	**9,744**	6,469
(Gain) loss on disposal of property, plant and equipment	**(1,272)**	1,322	**284**	3,756
Impairment of property, plant and equipment	**—**	—	**227,208**	—
Impairment of inventory	**—**	584	**27,868**	584
Impairment of other assets	—	—	**507**	—
Gain on exchange of debt	—	—	**(130,444)**	—
Interest	**19,588**	21,605	**66,354**	64,314
Income taxes	**151**	(10,773)	**113,833**	(28,868)
Operating income	**8,009**	47,021	**6,400**	131,747

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

	Three Months Ended Sep. 30,		Nine Months Ended Sep. 30,	
	2020	2019	**2020**	2019
(C$000s) *(unaudited)*			*($)*	*($)*
Net loss	**(50,000)**	(29,424)	**(450,132)**	(106,803)
Add back (deduct):				
Depreciation	**31,720**	58,669	**141,178**	192,295
Unrealized foreign exchange losses (gains)	**5,202**	(249)	**4,884**	1,182
(Gain) loss on disposal of property, plant and equipment	**(1,272)**	1,322	**284**	3,756
Impairment of property, plant and equipment	**—**	—	**227,208**	—
Impairment of inventory	**—**	584	**27,868**	584
Impairment of other assets	**—**	—	**507**	—
Gain on exchange of debt	**—**	—	**(130,444)**	—
Non-cash purchase commitment termination settlement	**2,082**	—	**2,082**	—
Restructuring charges	**400**	10	**5,373**	2,485
Stock-based compensation	**596**	1,284	**1,099**	3,292
Interest	**19,588**	21,605	**66,354**	64,314
Income taxes	**151**	(10,773)	**113,833**	(28,868)
Adjusted EBITDA(1)	**8,467**	43,028	**10,094**	132,237

(1)For bank covenant purposes, EBITDA includes an additional $13.1 million of lease payments for the nine months ended September 30, 2020 (nine months ended September 30, 2019 – $17.0 million) that would have been recorded as operating expenses prior to the adoption of IFRS 16 on January 1, 2019.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

Calfrac has various contractual lease commitments related to vehicles, equipment and facilities as well as purchase obligations for products, services and property, plant and equipment as disclosed in the Company's 2019 annual consolidated financial statements.

GREEK LITIGATION

As described in note 18 to the interim consolidated financial statements, the Company and one of its Greek subsidiaries are involved in a number of legal proceedings in Greece. Management regularly evaluates the likelihood of potential liabilities being incurred and the amounts of such liabilities after careful examination of available information and discussions with its legal advisors. Management is of the view that it is improbable there will be a material financial impact to the Company as a result of these claims. Consequently, no provision was recorded in the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This MD&A is based on the Company's consolidated financial statements for the three and nine months ended September 30, 2020 which were prepared in accordance with IFRS. Management is required to make assumptions, judgments and estimates in the application of IFRS. Calfrac's significant accounting policies are described in note 3 to the interim consolidated financial statements.

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

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE

The Company performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, financial condition of the customer and anticipated industry conditions. In situations where the creditworthiness of a customer is uncertain, services are typically provided on receipt of cash in advance or services are declined. Customer payments are regularly monitored and a provision for doubtful accounts has been established based on the new impairment model under IFRS 9, which requires the recognition of impairment provisions based on expected and incurred credit losses rather than only incurred credit losses. The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected credit loss model to its trade accounts receivable. Lifetime expected credit losses are the result of all possible default events over the expected life of the financial instrument. Calfrac's management believes that the provision for doubtful accounts receivable, which was $1.0 million at September 30, 2020, is adequate.

DEPRECIATION

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

Effective January 1, 2019, the Company revised its useful life depreciation estimate and salvage value for certain of its components relating to field equipment. This change was adopted as a change in accounting estimate on a prospective basis, which resulted in a one-time depreciation charge of $9.5 million to the statement of operations in the first quarter of 2019.

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 Old Notes based on the closing market price at September 30, 2020 was $56.7 million before deduction of unamortized debt issuance costs and debt discount (December 31, 2019 – $342.1 million). The fair value of the New Notes, as measured based on the closing market price at September 30, 2020 was $115.6 million (December 31, 2019 – not applicable). The carrying value of the Old Notes at September 30, 2020 was $576.0 million before deduction of unamortized debt issuance costs and debt discount (December 31, 2019 – $844.2 million). The fair values of the remaining long-term debt and lease obligations approximate their carrying values, as described in note 6 to the interim consolidated financial statements.

IMPAIRMENT

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

As described in note 4 to the 2019 annual consolidated financial statements, the Company reviews the carrying value of its property, plant and equipment at each reporting period for indicators of impairment. As well, the Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset or CGU other than goodwill may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount of that CGU to determine if the reversal of impairment loss is supported.

The Company's financial and operating results continue to be impeded by the global economic slowdown that arose during the first quarter of 2020 due to the OPEC+ oil supply war, which weakened commodity prices and also in response to the ongoing worldwide COVID-19 pandemic. A comparison of the recoverable amounts of each CGU with their respective carrying amounts resulted in a PP&E impairment of $173.6 million in the second quarter of 2020. No further impairment was recorded for the three months ended September 30, 2020.

The impairment losses by CGU are as follows:

	Three Months Ended Sep. 30,		Nine Months Ended Sep. 30,	
	2020	2019	**2020**	2019
(C$000s)	*($)*	*($)*	*($)*	*($)*
Canada	**—**	—	**116,280**	—
United States	**—**	—	**15,380**	—
Argentina	**—**	—	**68,669**	—
Russia	**—**	—	**26,879**	—
	—	—	**227,208**	—

In addition, the Company also carried out a comprehensive review of its inventory to identify individual items that were permanently idle or obsolete, with potential for impairment in value. This resulted in an inventory write-down of $27.9 million in the second quarter of 2020 . The inventory write-down by CGU is as follows:

	Three Months Ended Sep. 30,		Nine Months Ended Sep. 30,	
	2020	2019	**2020**	2019
(C$000s)	*($)*	*($)*	*($)*	*($)*
Canada	**—**	—	**6,200**	—
United States	**—**	—	**10,668**	—
Argentina	**—**	584	**11,000**	584
	—	584	**27,868**	584

INCOME TAXES

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax bases. The realizability of deferred income tax assets is an estimate and requires judgments to be made by management. Estimates of the Company's future taxable income are considered in assessing the utilization of available tax losses. The Company's business is complex and the calculation of income taxes involves many complex factors as well as the Company's interpretation of relevant tax legislation and regulations. During the first quarter of 2020, the Company derecognized its net deferred tax asset totaling $113.8 million after assessing the utilization of available tax losses based on estimates of the Company's future taxable income.

GOVERNMENT SUBSIDIES

The Company adopted the following accounting policy as a result of qualifying for the Canada Emergency Wage Subsidy program. Government subsidies are recognized when there is reasonable assurance that the Company will comply with the relevant conditions and that subsidy will be received. Government subsidies related to period expenses are recorded as a reduction of related expenses. During the nine months ended September 30, 2020, the Company qualified for the Canada Emergency Wage Subsidy program and recognized $9.2 million as a reduction of salaries and wages expense.

STOCK-BASED COMPENSATION

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

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

FUNCTIONAL CURRENCY

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

CASH-GENERATING UNITS

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

RELATED-PARTY TRANSACTIONS

The Company leases certain premises from a company controlled by Ronald P. Mathison, one of the Company's directors. The rent charged for these premises during the nine months ended September 30, 2020 was $1.3 million (nine months ended September 30, 2019 – $1.3 million), as measured at the exchange amount, which is based on market rates at the time the lease arrangements were made.

CHANGES IN ACCOUNTING POLICIES

Effective April 1, 2019, the Company revised its policy regarding the 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.

RECENT ACCOUNTING PRONOUNCEMENTS

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's internal control over financial reporting that occurred during the interim period ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, other than noted below.

Effective April 6, 2020, the Company implemented a new Enterprise Resource Planning (ERP) system for its Canadian, United States and Argentinean divisions. As a result, certain processes supporting the Company's internal control over financial reporting have changed. Management will continue to monitor the effectiveness of these processes going forward.

BUSINESS RISKS

The business of Calfrac is subject to certain risks and uncertainties. Prior to making any investment decision regarding Calfrac, investors should carefully consider, among other things, the risk factors set forth in the Company's most recently filed Annual Information Form and those risk and uncertainties identified under the heading "Risk Factors" and elsewhere in the Management Information Circular dated August 17, 2020, as supplemented by the Material Change Report dated September 25, 2020, with respect to the Recapitalization Transaction (collectively, the "Recapitalization Transaction Circular"), which are specifically incorporated by reference herein.

The Annual Information Form and Recapitalization Transaction Circular are available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR), which can be accessed at www.sedar.com. Copies of the Annual Information Form may also be obtained on request without charge from Calfrac at Suite 500, 407 – 8th Avenue S.W., Calgary, Alberta, Canada, T2P 1E5, or at www.calfrac.com, or by facsimile at 403-266-7381.

ADVISORIES

FORWARD-LOOKING STATEMENTS

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

In particular, forward-looking statements in this MD&A include, but are not limited to, statements with respect to the Recapitalization Transaction, including its expected impacts on the Company's debt and liquidity, the accounting treatment of related transaction costs, anticipated amendments to the Company's credit facilities, and the Company's expectations and intentions with respect to the completion thereof, expected operating strategies and targets, capital expenditure programs, future financial resources, anticipated equipment utilization levels, future oil and natural gas well activity in each of the Company's operating jurisdictions, results of acquisitions, the impact of environmental regulations and economic reforms and sanctions on the Company's business, future costs or potential liabilities, projections of market prices and costs, supply and demand for oilfield services, expectations regarding the Company's ability to maintain its competitive position, anticipated benefits of the Company's competitive position, expectations regarding the Company's financing activities and restrictions, including with regard to its credit agreement and the indentures pursuant to which its senior unsecured notes and second lien secured 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 Recapitalization Transaction will be completed as proposed and in a timely manner, the economic and political environment in which the Company operates, the Company's expectations for its current and prospective customers' capital budgets and geographical areas of focus, the Company's existing contracts and the status of current negotiations with key customers and suppliers, the effectiveness of cost reduction measures instituted by the Company and the likelihood that the current tax and regulatory regime will remain substantially unchanged.

Forward-looking statements are subject to a number of known and unknown risks and uncertainties that could cause actual results to differ materially from the Company's expectations. Such risk factors include: the Company's ability to continue to manage the effect of the COVID-19 pandemic on its operations; actions taken by Wilks Brothers, LLC, restrictions resulting from compliance with or breach of debt covenants and risk of acceleration of indebtedness, including under the Company's credit facilities, senior unsecured notes indenture and/or second lien secured notes indenture; failure to reach any additional agreements with the Company's lenders; the impact of events of defaults in respect of other material contracts of the Company, including but not limited to, cross-defaults resulting in acceleration of amounts payable thereunder or the termination of such agreements; failure to receive any applicable regulatory, court, third party and other stakeholder approvals in respect of the Recapitalization Transaction ; global economic conditions, the level of exploration, development and production for oil and natural gas in Canada, the United States, Argentina and Russia; the demand for fracturing and other stimulation services for the completion of oil and natural gas wells; volatility in market prices for oil and natural gas and the effect of this volatility on the demand for oilfield services generally; the availability of capital on satisfactory terms; direct and indirect exposure to volatile credit markets, including credit rating risk; sourcing, pricing and availability of raw materials, component parts, equipment, suppliers, facilities and skilled personnel; excess oilfield equipment levels; regional competition; currency exchange rate risk; risks associated with foreign operations; dependence on, and concentration of, major customers; liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations; uncertainties in weather and temperature affecting the duration of the service periods and the activities that can be completed; liabilities relating to legal and/or administrative proceedings; operating restrictions and compliance costs associated with legislative and regulatory initiatives relating to hydraulic fracturing and the protection of workers and the environment; changes in legislation and the regulatory environment; failure to maintain the Company's safety standards and record; liabilities and risks associated with prior operations; the ability to integrate technological advances and match advances from competitors; intellectual property risk; third party credit risk; failure to realize anticipated benefits of acquisitions and dispositions. Further information about these and other risks and uncertainties may be found under "Business Risks" above.

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

CONSOLIDATED BALANCE SHEETS

	September 30, 2020	December 31, 2019
(C$000s) (unaudited)	***($)***	*($)*
ASSETS		
Current assets		
Cash and cash equivalents	**40,132**	42,562
Accounts receivable	**95,560**	216,647
Income taxes recoverable	**4,428**	1,608
Inventories (note 4)	**88,720**	127,620
Prepaid expenses and deposits	**30,773**	17,489
	259,613	405,926
Non-current assets		
Property, plant and equipment (note 5)	**666,670**	969,944
Right-of-use assets (note 9)	**27,923**	29,760
Deferred income tax assets	**—**	120,292
Total assets	**954,206**	1,525,922
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**120,038**	143,225
Current portion of lease obligations (note 9)	**11,586**	13,929
	131,624	157,154
Non-current liabilities		
Long-term debt (note 6)	**887,647**	976,693
Lease obligations (note 9)	**15,968**	16,990
Deferred income tax liabilities	**—**	6,462
Total liabilities	**1,035,239**	1,157,299
Capital stock (note 7)	**510,510**	509,235
Contributed surplus	**44,140**	44,316
Loan receivable for purchase of common shares	**(2,500)**	(2,500)
Accumulated deficit	**(635,306)**	(185,174)
Accumulated other comprehensive income	**2,123**	2,746
Total equity	**(81,033)**	368,623
Total liabilities and equity	**954,206**	1,525,922

Going Concern (note 2)
Contingencies (note 18)
See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2020	2019	**2020**	2019
(C$000s, except per share data) (unaudited)	***($)***	*($)*	***($)***	*($)*
Revenue (note 15)	**127,776**	399,220	**524,714**	1,303,870
Cost of sales (note 16)	**141,429**	392,174	**621,154**	1,309,353
Gross (loss) profit	**(13,653)**	7,046	**(96,440)**	(5,483)
Expenses				
Selling, general and administrative	**10,058**	18,694	**38,338**	55,065
Foreign exchange losses	**7,822**	5,038	**9,744**	6,469
(Gain) loss on disposal of property, plant and equipment	**(1,272)**	1,322	**284**	3,756
Impairment of property, plant and equipment (note 5)	**—**	—	**227,208**	—
Impairment of inventory (note 4)	**—**	584	**27,868**	584
Impairment of other assets	**—**	—	**507**	—
Gain on exchange of debt (note 6)	**—**	—	**(130,444)**	—
Interest	**19,588**	21,605	**66,354**	64,314
	36,196	47,243	**239,859**	130,188
Loss before income tax	**(49,849)**	(40,197)	**(336,299)**	(135,671)
Income tax expense (recovery) (note 3)				
Current	**151**	965	**228**	3,613
Deferred	**—**	(11,738)	**113,605**	(32,481)
	151	(10,773)	**113,833**	(28,868)
Net loss	**(50,000)**	(29,424)	**(450,132)**	(106,803)
Loss per share (note 7)				
Basic	**(0.34)**	(0.20)	**(3.10)**	(0.74)
Diluted	**(0.34)**	(0.20)	**(3.10)**	(0.74)

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2020	2019	**2020**	2019
(C$000s) (unaudited)	***($)***	*($)*	***($)***	*($)*
Net loss	**(50,000)**	(29,424)	**(450,132)**	(106,803)
Other comprehensive income (loss)				
Items that may be subsequently reclassified to profit or loss:				
Change in foreign currency translation adjustment	**2,566**	(1,026)	**(623)**	3,690
Comprehensive loss	**(47,434)**	(30,450)	**(450,755)**	(103,113)

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share Capital	Contributed Surplus	Loan Receivable for Purchase of Common Shares	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	**Total Equity**
(C$000s) (unaudited)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Balance – Jan. 1, 2020	**509,235**	**44,316**	**(2,500)**	**2,746**	**(185,174)**	**368,623**
Net loss	—	—	—	—	(450,132)	**(450,132)**
Other comprehensive income (loss):						
Cumulative translation adjustment	—	—	—	(623)	—	**(623)**
Comprehensive loss	—	—	—	(623)	(450,132)	**(450,755)**
Stock options:						
Stock-based compensation recognized	—	682	—	—	—	**682**
Performance share units:						
Stock-based compensation recognized	—	417	—	—	—	**417**
Shares issued (note 7)	1,275	(1,275)	—	—	—	**—**
Balance – Sept. 30, 2020	**510,510**	**44,140**	**(2,500)**	**2,123**	**(635,306)**	**(81,033)**
Balance – Jan. 1, 2019	508,276	40,453	(2,500)	(3,438)	(28,971)	513,820
Net loss	—	—	—	—	(106,803)	(106,803)
Other comprehensive income (loss):						
Cumulative translation adjustment	—	—	—	3,690	—	3,690
Comprehensive income (loss)	—	—	—	3,690	(106,803)	(103,113)
Stock options:						
Stock-based compensation recognized	—	2,195	—	—	—	2,195
Proceeds from issuance of shares (note 7)	252	(56)	—	—	—	196
Performance share units:						
Stock-based compensation recognized	—	1,097	—	—	—	1,097
Shares issued (note 7)	707	(707)	—	—	—	—
Balance – Sept. 30, 2019	**509,235**	**42,982**	**(2,500)**	**252**	**(135,774)**	**414,195**

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2020	2019	**2020**	2019
(C$000s) (unaudited)	***($)***	*($)*	***($)***	*($)*
CASH FLOWS PROVIDED BY (USED IN)				
OPERATING ACTIVITIES				
Net loss	**(50,000)**	(29,424)	**(450,132)**	(106,803)
Adjusted for the following:				
Depreciation	**31,720**	58,669	**141,178**	192,295
Stock-based compensation	**596**	1,284	**1,099**	3,292
Unrealized foreign exchange losses (gains)	**5,202**	(249)	**4,884**	1,182
(Gain) loss on disposal of property, plant and equipment	**(1,272)**	1,322	**284**	3,756
Impairment of property, plant and equipment (note 5)	**—**	—	**227,208**	—
Impairment of inventory (note 4)	**—**	584	**27,868**	584
Impairment of other assets	**—**	—	**507**	—
Gain on exchange of debt (note 6)	**—**	—	**(130,444)**	—
Interest	**19,588**	21,605	**66,354**	64,314
Interest paid	**(10,797)**	(2,654)	**(19,877)**	(42,840)
Deferred income taxes	**—**	(11,738)	**113,605**	(32,481)
Changes in items of working capital (note 11)	**(26,188)**	15,672	**56,884**	32,933
Cash flows (used in) provided by operating activities	**(31,151)**	55,071	**39,418**	116,232
FINANCING ACTIVITIES				
Issuance of long-term debt, net of debt issuance costs	**(1,064)**	13,850	**57,340**	55,008
Long-term debt repayments	**(5,000)**	(26,625)	**(48,727)**	(53,180)
Lease obligation principal repayments	**(3,129)**	(4,983)	**(11,773)**	(15,588)
Proceeds on issuance of common shares	**—**	—	**—**	196
Cash flows used in financing activities	**(9,193)**	(17,758)	**(3,160)**	(13,564)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment (note 11)	**(2,135)**	(37,200)	**(39,151)**	(106,960)
Proceeds on disposal of property, plant and equipment	**563**	989	**1,591**	803
Proceeds on disposal of right-of-use assets	**924**	—	**1,336**	—
Cash flows used in investing activities	**(648)**	(36,211)	**(36,224)**	(106,157)
Effect of exchange rate changes on cash and cash equivalents	**(6,796)**	1,862	**(2,464)**	(4,255)
(Decrease) increase in cash and cash equivalents	**(47,788)**	2,964	**(2,430)**	(7,744)
Cash and cash equivalents, beginning of period	**87,920**	41,193	**42,562**	51,901
Cash and cash equivalents, end of period	**40,132**	44,157	**40,132**	44,157

See accompanying notes to the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2020 and 2019

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

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Calfrac Well Services Ltd. (the "Company") was formed through the amalgamation of Calfrac Well Services Ltd. (predecessor company originally incorporated on June 28, 1999) and Denison Energy Inc. ("Denison") on March 24, 2004 under the Business Corporations Act (Alberta). The registered office is at Suite 500, 407 - 8th Avenue S.W., Calgary, Alberta, Canada, T2P 1E5. The Company provides specialized oilfield services, including hydraulic fracturing, coiled tubing, cementing and other well completion services to the oil and natural gas industries in Canada, the United States, Russia, and Argentina.

These condensed consolidated interim financial statements were prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations by the International Financial Reporting Interpretations Committee (IFRIC). They should be read in conjunction with the annual financial statements for the year ended December 31, 2019. Unless otherwise noted, the Company has consistently applied the same accounting policies throughout all periods presented, as if these policies were always in effect.

These financial statements were approved for issuance by the Board of Directors on November 10, 2020.

2. GOING CONCERN

These interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business as they become due. The global economy has been significantly disrupted by the COVID-19 pandemic. This has resulted in significant demand destruction for crude oil and related hydrocarbons. In addition, the delayed response by the OPEC+ group to an oversupply of crude oil on a global basis has caused further damage to the global oil and gas industry which, in turn, has negatively impacted the Company's year-to-date results and its near-term outlook.

Given the wide range of possible outcomes and scenarios resulting from the combination of the COVID-19 pandemic's impact on demand and the supply response relating to the OPEC+ agreement on crude oil production cuts, the Company has very limited insight on the economic conditions that will exist in its near-term outlook. The pervasive impact and influence of these factors have a direct correlation with the Company's customers' capital spending plans and, as a result, the demand for the Company's services.

During the second quarter of 2020, the Company elected to defer its cash interest payment that was due on June 15, 2020 in respect of its outstanding 8.50% senior unsecured notes due 2026. Under the terms of the unsecured notes indenture, the Company had a 30-day grace period from the periodic interest payment date of June 15 in order to make this cash interest payment before an event of default would have occurred. The Company had both the ability and financial capacity to make this interest payment. During the third quarter of 2020, the Company announced and subsequently amended the recapitalization transaction (the "Recapitalization Transaction") aimed at reducing the Company's debt and restructuring its balance sheet. Subsequent to the end of the third quarter of 2020, the Company's senior unsecured noteholders and shareholders voted in favor of the Recapitalization Transaction, and such transaction was approved by the Court of Queen's Bench of Alberta on October 30, 2020 under the provisions of the Canada Business Corporations Act. See note 21 for further information.

Subsequent to the end of the third quarter of 2020 and following court approval of the Recapitalization Transaction, the Company was granted a waiver on its Funded Debt to Adjusted EBITDA covenant from its banking syndicate for the quarter ended September 30, 2020. The waiver granted is a precursor to additional amendments to the existing credit facilities that will become effective on closing of the Recapitalization Transaction and will provide increased flexibility for the Company to navigate material uncertainty in the near-term. See note 21 for further information regarding the Company's credit facilities.

As a result of the factors noted above, there are material uncertainties that may cast significant doubt on the ability of the Company to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern entity. Such material uncertainties may include: satisfaction or waiver of all conditions precedent to the completion of the Recapitalization Transaction, customer credit risk, compliance with financial covenants in future periods, liquidity, capital structure, valuation of long-lived assets and inventory valuation.

These interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues and expenses and balance sheet classifications that would be necessary if the Company was unable to realize its assets and liabilities as a going concern in the normal course of operations. Such adjustments could be material.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Changes in Accounting Estimates

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

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

(b) Changes in Accounting Policies

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.

(c) Income Taxes

For purposes of calculating income taxes during interim periods, the Company utilizes estimated annualized income tax rates. Current income tax expense is only recognized when taxable income is such that current income tax becomes payable. During the first quarter of 2020, the Company derecognized its net deferred tax asset totaling $113,830 after assessing the utilization of available tax losses based on estimates of the Company's future taxable income.

(d) Government Subsidies

The Company adopted the following accounting policy as a result of qualifying for the Canada Emergency Wage Subsidy ("CEWS") program. Government subsidies are recognized when there is reasonable assurance that the Company will comply with the relevant conditions and that subsidy will be received. Government subsidies related to period expenses are recorded as a reduction of related expenses. During the nine months ended September 30, 2020, the Company qualified for the CEWS program and recognized $9,207 as a reduction of salaries and wages expense.

4. INVENTORIES

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. This resulted in an inventory write-down of $27,868 in the second quarter of 2020. During the third quarter of 2020, the Company reviewed the carrying value of its inventories across all operating segments and found no further indicators of impairment.

The inventory impairment recorded for the three and nine months ended September 30, 2020 are as follows:

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2020	2019	**2020**	2019
(C$000s)	***($)***	*($)*	***($)***	*($)*
Canada	**—**	—	**6,200**	—
United States	**—**	—	**10,668**	—
Argentina	**—**	584	**11,000**	584
	—	584	**27,868**	584

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tested for impairment in accordance with the Company's accounting policy. The Company reviews the carrying value of its property, plant and equipment at each reporting period for indicators of impairment. The Company's financial results continue to be negatively impacted by the global economic slowdown due to events such as the OPEC+ crude oil supply war, the COVID-19 pandemic and the related global response to the COVID-19 demand reductions for crude oil. The Company performed an assessment on the recoverable amount of its property, plant and equipment as at March 31, 2020 and again at June 30, 2020 and recognized total impairment of $227,208 as a result of those impairment tests. The Company is continually monitoring these macroeconomic challenges and has determined there were no further impairment indicators as at September 30, 2020 that would warrant an assessment on the recoverable amount of its property, plant and equipment.

The Company's cash-generating units (CGUs) are determined to be at the country level, consisting of Canada, the United States, Russia and Argentina.

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

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

Revenue and operating income growth rates for each CGU are based on a combination of commodity price assumptions, historical results and forecasted activity levels, which incorporates pricing, utilization and cost improvements over the forecast period. The cumulative annual growth rates for revenue used in the June 30, 2020 impairment test ranged from 6.5 percent to 33.3 percent depending on the CGU over the forecast period from 2020 to 2024.

The cash flows are prepared on a five-year basis. The June 30, 2020 impairment test used a discount rate ranging from 13.1 percent to 21.2 percent depending on the CGU. Discount rates are derived from the Company's weighted average cost of capital, adjusted for risk factors specific to each CGU. Cash flows beyond that five-year period are extrapolated using a steady 2.0 percent growth rate.

During the third quarter, the Company identified specific assets within its CGUs in Argentina and Canada whose individual carrying amounts differed from their recoverable amounts, resulting in a reclassification of the impairment charge recorded in the second quarter of 2020 between these CGUs.

The impairment losses by CGU for the three and nine months ended September 30, 2020 are as follows:

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2020	2019	**2020**	2019
(C$000s)	***($)***	*($)*	***($)***	*($)*
Canada	**16,203**	—	**132,483**	—
United States	**—**	—	**15,380**	—
Argentina	**(16,203)**	—	**52,466**	—
Russia	**—**	—	**26,879**	—
	—	—	**227,208**	—

6. LONG-TERM DEBT

	September 30,	December 31,
	2020	2019
(C$000s)	***($)***	*($)*
US$431,818 senior unsecured notes (December 31, 2019 – US$650,000) due June 15, 2026, bearing interest at 8.50% payable semi-annually	**576,002**	844,220
US$120,000 second lien senior notes due March 15, 2026, bearing interest at 10.875% payable semi-annually, secured by the Canadian and U.S. assets of the Company on a second priority basis	**160,068**	—
$375,000 extendible revolving term loan facility, secured by Canadian and U.S. assets of the Company	**165,000**	147,988
Less: unamortized debt issuance costs	**(13,423)**	(15,515)
	887,647	976,693

The fair value of the senior unsecured notes, as measured based on the closing quoted market price at September 30, 2020, was $56,673 (December 31, 2019 – $342,078). The fair value of the second lien senior notes, as measured based on the closing market price at September 30, 2020 was $115,619 (December 31, 2019 – not applicable). The carrying value of the revolving term loan facility approximates its fair value as the interest rate is not significantly different from current interest rates for similar loans.

On February 24, 2020, the Company completed an exchange offer of US$120,000 of new 10.875% second lien secured notes (“New Notes”) due March 15, 2026 to holders of its existing 8.50% senior unsecured notes (“Old Notes”) due June 15, 2026. The New Notes are secured by a second lien on the same assets that secure obligations under the Company’s existing senior secured credit facility. The exchange was completed at an average exchange price of US$550 per each US$1,000 of Old Notes resulting in US$218,182 being exchanged for US$120,000 of New Notes, resulting in a non-cash gain on exchange of debt of $130,444.

The Company’s credit facility capacity is $375,000, which consists of an operating facility of $40,000 and a syndicated facility of $335,000. The credit facilities mature on June 1, 2022 and can be extended by one or more years at the Company’s request and lenders’ acceptance. The Company may also prepay principal without penalty. The interest rates are based on the parameters of certain bank covenants. For prime-based loans and U.S. base-rate loans, the rate ranges from prime or U.S. base rate plus 0.50 percent to prime plus 2.50 percent. For LIBOR-based loans and bankers’ acceptance-based loans, the margin thereon ranges from 1.50 percent to 3.50 percent above the respective base rates. The accordion feature of the syndicated facility remains at $100,000, and is available to the Company during the term of the agreement. The Company incurs interest at the high end of the ranges outlined above if its net Total Debt to Adjusted EBITDA ratio is above 4.00:1.00. Additionally, in the event that the Company’s net Total Debt to Adjusted EBITDA ratio is above 5.00:1.00, certain restrictions would apply including the following: (a) acquisitions will be subject to majority lender consent; (b) distributions will be restricted other than those relating to the Company’s share unit plans; and (c) no increase in the rate of dividends will be permitted. As at September 30, 2020, the Company’s net Total Debt to Adjusted EBITDA ratio exceeded the 5.00:1.00 threshold.

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

Interest on long-term debt (including the amortization of debt issuance costs and debt discount) for the nine months ended September 30, 2020 was $65,376 (nine months ended September 30, 2019 – $62,660).

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

	2020
(C$000s)	*($)*
Balance, January 1	976,693
Issuance of long-term debt, net of debt issuance costs	57,340
Long-term debt repayments	(48,727)
Gain on exchange of debt	(130,444)
Amortization of debt issuance costs and debt discount	10,032
Foreign exchange adjustments	22,753
Balance, September 30	887,647

At September 30, 2020, the Company had utilized $867 of its loan facility for letters of credit, had $165,000 outstanding under its revolving term loan facility, leaving $209,133 in available credit, subject to a monthly borrowing base, as determined using the previous month's results, which at September 30, 2020, resulted in liquidity in the amount of $45,482.

See note 13 for further details on the covenants in respect of the Company's long-term debt. See notes 2 and 21 for further details regarding the Company's senior unsecured notes and its credit facilities.

7. CAPITAL STOCK

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

	Nine Months Ended September 30, 2020		Year Ended December 31, 2019	
Continuity of Common Shares	**Shares**	**Amount**	Shares	Amount
	(#)	***($000s)***	*(#)*	*($000s)*
Balance, beginning of period	**144,888,888**	**506,735**	144,462,532	504,526
Issued upon exercise of stock options	**—**	**—**	98,675	252
Issued upon vesting of performance share units	**282,306**	**1,275**	104,865	707
Issued on acquisition (note 12)	**445,633**	**2,500**	222,816	1,250
Balance, end of period	**145,616,827**	**510,510**	144,888,888	506,735
Shares to be issued (note 12)	**—**	**—**	445,633	2,500
	145,616,827	**510,510**	145,334,521	509,235

The weighted average number of common shares outstanding for the three months ended September 30, 2020 was 145,311,999 basic and 145,481,199 diluted (three months ended September 30, 2019 – 144,673,672 basic and 145,334,206 diluted). The weighted average number of common shares outstanding for the nine months ended September 30, 2020 was 145,085,884 basic and 145,255,670 diluted (nine months ended September 30, 2019 – 144,512,322 basic and 145,712,546 diluted). The difference between basic and diluted shares is attributable to the dilutive effect of stock options issued by the Company as disclosed in note 8.

8. SHARE-BASED PAYMENTS

(a) Stock Options

Nine Months Ended September 30,	**2020**		2019	
Continuity of Stock Options	**Options**	**Average Exercise Price**	Options	Average Exercise Price
	(#)	*($)*	*(#)*	*($)*
Balance, January 1	**12,203,008**	**3.16**	9,392,095	4.70
Granted	**54,900**	**0.62**	1,564,300	2.49
Exercised for common shares	**—**	**—**	(98,675)	1.99
Forfeited	**(2,411,622)**	**3.89**	(549,317)	4.85
Expired	**(167,100)**	**7.33**	(47,000)	19.07
Balance, September 30	**9,679,186**	**2.89**	10,261,403	4.31

Stock options vest equally over three to four years and expire five years from the date of grant. The exercise price of outstanding options range from $0.26 to $7.78 with a weighted average remaining life of 2.23 years. When stock options are exercised, the proceeds together with the compensation expense previously recorded in contributed surplus, are added to capital stock.

The weighted average fair value of options granted during 2020, determined using the Black-Scholes valuation method, was $0.27 per option (nine months ended September 30, 2019 – $1.02 per option). The Company applied the following assumptions in determining the fair value of options on the date of grant:

Nine Months Ended September 30,	**2020**	2019
Expected life (years)	**3.00**	3.00
Expected volatility	**71.18 %**	59.16 %
Risk-free interest rate	**0.87 %**	1.66 %
Expected dividends	**$0.00**	$0.00

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

(b) Share Units

Nine Months Ended September 30,	**2020**		2019		
Continuity of Stock Units	**Deferred Share Units**	**Performance Share Units**	Deferred Share Units	Performance Share Units	Restricted Share Units
	(#)	*(#)*	*(#)*	*(#)*	*(#)*
Balance, January 1	**145,000**	**1,294,564**	145,000	1,108,300	3,139,150
Granted	**105,000**	**998,394**	145,000	1,112,531	—
Exercised	**—**	**(282,306)**	(145,000)	(556,683)	(1,998,600)
Forfeited	**(50,000)**	**(378,409)**	—	(74,162)	(81,000)
Balance, September 30	**200,000**	**1,632,243**	145,000	1,589,986	1,059,550

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2020	2019	**2020**	2019
	($)	($)	($)	($)
Expense (recovery) from:				
Stock options	**418**	826	**682**	2,195
Deferred share units	**(6)**	26	**(138)**	182
Performance share units	**178**	457	**417**	1,409
Restricted share units	**—**	(71)	**—**	(197)
Total stock-based compensation expense	**590**	1,238	**961**	3,589

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

The Company grants deferred share units to its outside directors. These units vest on the first anniversary of the date of grant and are settled either in cash (equal to the market value of the underlying shares at the time of exercise) or in Company shares purchased on the open market. The fair value of the deferred share units is recognized equally over the vesting period, based on the current market price of the Company's shares. At September 30, 2020, the liability pertaining to deferred share units was $28 (December 31, 2019 – $166).

The Company grants performance share units to its employees. These performance share units contain a cash-based component and an equity-based component. The cash-based component vests over three years based on corporate financial performance thresholds and are settled either in cash (equal to the market value of the underlying shares at the time of vesting) or in Company shares purchased on the open market. The equity-based component vests over three years without any further conditions and are settled in treasury shares issued by the Company. At September 30, 2020, the liability pertaining to the cash-based component of performance share units was $nil (December 31, 2019 – $nil).

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

9. LEASES

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

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

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

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

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

The recognized right-of-use assets relate to the following types of assets:

	September 30, 2020	December 31, 2019
(C$000s)	***($)***	*($)*
Field equipment	**16,432**	24,403
Buildings	**11,491**	5,357
	27,923	29,760

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

	2020
(C$000s)	*($)*
Balance, January 1	30,919
Additions	11,220
Disposals/retirements	(3,520)
Principal portion of payments	(11,773)
Foreign exchange adjustments	708
Balance, September 30	27,554

10. FINANCIAL INSTRUMENTS

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

(a) Fair Values of Financial Assets and Liabilities

The fair values of financial instruments included in the consolidated balance sheets, except long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of the senior unsecured notes based on the closing market price at September 30, 2020 was $56,673 before deduction of unamortized debt issuance costs (December 31, 2019 – $342,078). The carrying value of the senior unsecured notes at September 30, 2020 was $576,002 before deduction of unamortized debt issuance costs and debt discount (December 31, 2019 – $844,220). The fair value of the second lien senior notes based on the closing market price at September 30, 2020 was $115,619 before deduction of unamortized debt issuance costs (December 31, 2019 – not applicable). The carrying value of the second lien senior unsecured notes at September 30, 2020 was $160,068 before deduction of unamortized debt issuance costs and debt discount (December 31, 2019 – not applicable).

The fair values of the remaining long-term debt approximate their carrying values, as described in note 6.

(b) Credit Risk

Substantial amounts of the Company's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risks. The Company mitigates this risk through its credit policies and practices including the use of credit limits and approvals, and by monitoring the financial condition of its customers. At September 30, 2020, the Company had a loss allowance provision for accounts receivable of $1,036 (December 31, 2019 – $1,931).

IFRS 9 *Financial Instruments* requires an entity to estimate its expected credit loss for all trade accounts receivable even when they are not past due based on the expectation that certain receivables will be uncollectible. Based on the Company's assessment using the lifetime expected credit loss model, a loan loss allowance of $695 was recorded during the nine months ended September 30, 2020. The expected credit loss rates are based on actual credit loss experience over the past several years for each operating segment.

The loss allowance provision for trade accounts receivable as at September 30, 2020 reconciles to the opening loss allowance provision as follows:

	2020
(C$000s)	*($)*
At January 1, 2020	1,931
Increase in loan loss allowance recognized in statement of operations	695
Specific receivables deemed as uncollectible and written off	(1,609)
Foreign exchange adjustments	19
At September 30, 2020	1,036

(c) Liquidity Risk

The Company's principal sources of liquidity are operating cash flows, existing or new credit facilities and new share equity. The Company monitors its liquidity to ensure it has sufficient funds to complete planned capital and other expenditures. See note 13 for further details on the Company's capital structure. See notes 2 and 21 for further details regarding the Company's senior unsecured notes and its credit facilities.

11. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three Months Ended Sept. 30,		**Nine Months Ended Sept. 30,**	
	2020	2019	**2020**	2019
(C$000s)	***($)***	*($)*	***($)***	*($)*
Accounts receivable	**(24,025)**	42,748	**121,087**	105,221
Inventory	**3,848**	4,962	**11,032**	11,693
Prepaid expenses and deposits	**(8,400)**	(1,968)	**(13,791)**	(5,530)
Accounts payable and accrued liabilities	**2,186**	(31,106)	**(58,623)**	(77,779)
Income taxes recoverable	**203**	1,036	**(2,821)**	(672)
	(26,188)	15,672	**56,884**	32,933

Purchase of property, plant and equipment is comprised of:

	Three Months Ended Sept. 30,		**Nine Months Ended Sept. 30,**	
	2020	2019	**2020**	2019
(C$000s)	***($)***	*($)*	***($)***	*($)*
Property, plant and equipment additions	**(2,793)**	(38,885)	**(38,143)**	(104,887)
Change in liabilities related to the purchase of property, plant and equipment	**658**	1,685	**(1,008)**	(2,073)
	(2,135)	(37,200)	**(39,151)**	(106,960)

12. ACQUISITION

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

Subsequent to the acquisition, the purchase agreement was amended to include a price adjustment mechanism. If the operating income of Calfrac Well Services (Argentina) S.A. reaches certain target levels in 2019 and 2020, additional shares may be issued or additional cash consideration may be paid.

During the third quarter of 2020, a letter of agreement was signed by the parties which included (i) an acceleration of the issuance of the final tranche of shares referenced above in advance of the Company's Recapitalization Transaction and (ii) an acknowledgment and release from the vendors that the additional contingent consideration for 2019 and 2020 is not payable. As a result, the remaining 445,633 shares were issued in the third quarter of 2020.

13. CAPITAL STRUCTURE

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

The Company manages its capital structure and makes adjustments in light of changing market conditions and new opportunities, while remaining cognizant of the cyclical nature of the oilfield services sector. To maintain or adjust its capital structure, the Company may revise its capital spending, adjust dividends, if any, paid to shareholders, issue new shares or new debt or repay existing debt. See note 21 for further information related to the Company's plan for addressing its capital structure.

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

For the Twelve Months	**September 30, 2020**	December 31, 2019
(C$000s)	*($)*	*($)*
Net loss	**(499,532)**	(156,203)
Adjusted for the following:		
Depreciation	**210,110**	261,227
Foreign exchange losses	**9,616**	6,341
(Gain) loss on disposal of property, plant and equipment	**(1,602)**	1,870
Impairment of property, plant and equipment	**229,373**	2,165
Impairment of inventory	**31,028**	—
Impairment of other assets	**507**	3,744
Gain on exchange of debt	**(130,444)**	—
Interest	**87,866**	85,826
Income taxes	**90,475**	(52,226)
Operating income	**27,397**	152,744

Net debt for this purpose is calculated as follows:

As at	**September 30, 2020**	December 31, 2019
(C$000s)	*($)*	*($)*
Long-term debt, net of debt issuance costs and debt discount	**887,647**	976,693
Lease obligations	**27,554**	30,919
Less: cash and cash equivalents	**(40,132)**	(42,562)
Net debt	**875,069**	965,050

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

At September 30, 2020, the net debt to operating income ratio was 31.94:1 (December 31, 2019 – 6.32:1) calculated on a 12-month trailing basis as follows:

For the Twelve Months Ended	**September 30, 2020**	December 31, 2019
(C$000s, except ratio)	***($)***	*($)*
Net debt	**875,069**	965,050
Operating income	**27,397**	152,744
Net debt to operating income ratio	**31.94:1**	6.32:1

The Company is subject to certain financial covenants relating to working capital, leverage and the generation of cash flow in respect of its operating and revolving credit facilities. These covenants are monitored on a monthly basis. The Company obtained a waiver of its Funded Debt to Adjusted EBITDA covenant for the quarter ended September 30, 2020 from its first lien lenders following court approval of the Company's Recapitalization Transaction as disclosed in note 21.

As at September 30,	Covenant 2020	**Actual 2020**
Working capital ratio not to fall below	1.15x	**2.16x**
Funded Debt to Adjusted EBITDA not to exceed(1)(2)	N/A	**7.34x**
Funded Debt to Capitalization not to exceed(1)(3)	0.30x	**0.18x**

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

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

	Three Months Ended Sept. 30,		**Nine Months Ended Sept. 30,**	
	2020	2019	**2020**	2019
(C$000s)			***($)***	*($)*
Net loss	**(50,000)**	(29,424)	**(450,132)**	(106,803)
Add back (deduct):				
Depreciation	**31,720**	58,669	**141,178**	192,295
Unrealized foreign exchange losses (gains)	**5,202**	(249)	**4,884**	1,182
(Gain) loss on disposal of property, plant and equipment	**(1,272)**	1,322	**284**	3,756
Impairment of property, plant and equipment	**—**	—	**227,208**	—
Impairment of inventory	**—**	584	**27,868**	584
Impairment of other assets	**—**	—	**507**	—
Restructuring charges	**400**	10	**5,373**	2,485
Stock-based compensation	**596**	1,284	**1,099**	3,292
Gain on exchange of debt	**—**	—	**(130,444)**	—
Non-cash purchase commitment termination settlement	**2,082**	—	**2,082**	—
Interest	**19,588**	21,605	**66,354**	64,314
Income taxes	**151**	(10,773)	**113,833**	(28,868)
Adjusted EBITDA(1)	**8,467**	43,028	**10,094**	132,237

(1) For bank covenant purposes, EBITDA includes an additional $13,077 of lease payments for the nine months ended September 30, 2020 (nine months ended September 30, 2019 – $16,982) that would have been recorded as operating expenses prior to the adoption of IFRS 16.

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

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

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

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

The indentures governing the senior unsecured notes and second lien secured notes contain restrictions on the Company's ability to pay dividends, purchase and redeem shares of the Company, and make certain restricted investments in circumstances where:

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

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

These limitations on restricted payments are tempered by the existence of a number of exceptions to the general prohibition, including a basket allowing for restricted payments in an aggregate amount of up to US$20,000. As at September 30, 2020, this basket was not utilized.

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

As at September 30, 2020, the Company's Fixed Charge Coverage Ratio of 0.47:1 was less than the required 2:1 ratio. Failing to meet the Fixed Charge Coverage Ratio is not an event of default under the indenture, and the baskets highlighted in the preceding paragraphs provide sufficient flexibility for the Company to make anticipated restricted payments, such as dividends, and incur additional indebtedness as required to conduct its operations and satisfy its obligations.

See notes 2 and 21 for further details regarding the Company's senior unsecured notes.

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

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

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

14. RELATED-PARTY TRANSACTIONS

The Company leases certain premises from a company controlled by Ronald P. Mathison, the Executive Chairman of the Company. The rent charged for these premises during the nine months ended September 30, 2020 was $1,271 (nine months ended September 30, 2019 – $1,307), as measured at the exchange amount which is based on market rates at the time the lease arrangements were made.

15. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	Canada	**United States**	**Russia**	**Argentina**	**Consolidated**
(C$000s)	*($)*	*($)*	*($)*	*($)*	*($)*
Three Months Ended September 30, 2020					
Fracturing	**39,823**	**46,577**	**26,248**	**5,090**	**117,738**
Coiled tubing	**4,408**	**—**	**2,282**	**1,608**	**8,298**
Cementing	**—**	**—**	**—**	**1,376**	**1,376**
Product sales	**438**	**(74)**	**—**	**—**	**364**
Subcontractor	**—**	**—**	**—**	**—**	**—**
	44,669	**46,503**	**28,530**	**8,074**	**127,776**
Three Months Ended September 30, 2019					
Fracturing	90,737	223,985	20,952	30,715	366,389
Coiled tubing	13,572	—	2,829	6,912	23,313
Cementing	—	—	—	6,566	6,566
Product sales	450	439	—	—	889
Subcontractor	—	—	—	2,063	2,063
	104,759	224,424	23,781	46,256	399,220

	Canada	**United States**	**Russia**	**Argentina**	**Consolidated**
(C$000s)	*($)*	*($)*	*($)*	*($)*	*($)*
Nine Months Ended September 30, 2020					
Fracturing	**160,116**	**238,802**	**66,261**	**18,249**	**483,428**
Coiled tubing	**16,548**	**—**	**7,197**	**7,967**	**31,712**
Cementing	**—**	**—**	**—**	**9,132**	**9,132**
Product sales	**437**	**5**	**—**	**—**	**442**
Subcontractor	**—**	**—**	**—**	**—**	**—**
	177,101	**238,807**	**73,458**	**35,348**	**524,714**
Nine Months Ended September 30, 2019					
Fracturing	284,940	741,926	72,434	96,881	1,196,181
Coiled tubing	37,599	—	9,129	20,650	67,378
Cementing	—	—	—	16,788	16,788
Product sales	2,035	708	—	—	2,743
Subcontractor	—	—	—	20,780	20,780
	324,574	742,634	81,563	155,099	1,303,870

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

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

16. PRESENTATION OF EXPENSES

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

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

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

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2020	2019	**2020**	2019
(C$000s)	*($)*	*($)*	*($)*	*($)*
Product costs	**46,256**	107,443	**155,531**	359,974
Personnel costs	**30,450**	108,702	**158,666**	338,170
Depreciation on property, plant and equipment	**28,731**	53,359	**130,913**	176,149
Depreciation on right-of-use assets (note 9)	**2,989**	5,310	**10,265**	16,146
Other operating costs	**33,003**	117,360	**165,779**	418,914
	141,429	392,174	**621,154**	1,309,353

17. EMPLOYEE BENEFITS EXPENSE

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

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2020	2019	**2020**	2019
(C$000s)	*($)*	*($)*	*($)*	*($)*
Salaries and short-term employee benefits	**33,983**	111,204	**162,305**	345,575
Post-employment benefits (group retirement savings plan)	**50**	2,499	**2,497**	7,641
Share-based payments	**590**	1,238	**961**	3,589
Termination benefits	**602**	291	**5,903**	2,929
	35,225	115,232	**171,666**	359,734

18. CONTINGENCIES

GREEK LITIGATION

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

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

In 1999, the largest group of plaintiffs received a ruling from the Athens Court of First Instance that their termination was invalid and that salaries in arrears amounting to approximately $10,701 (6,846 euros) plus interest were due to the former employees. This decision was appealed to the Athens Court of Appeal, which allowed the appeal in 2001 and annulled the above-mentioned decision of the Athens Court of First Instance. The said group of former employees filed an appeal with the Supreme Court of Greece, which was heard on May 29, 2007. The Supreme Court of Greece allowed the appeal and sent the matter back to the Athens Court of Appeal for the consideration of the quantum of awardable salaries in arrears. On June 3, 2008, the Athens Court of Appeal rejected NAPC's appeal and reinstated the award of the Athens Court of First

Instance, which decision was further appealed to the Supreme Court of Greece. The matter was heard on April 20, 2010 and a decision rejecting such appeal was rendered in June 2010. As a result of Denison's participation in the consortium that was named in the lawsuit, the Company has been served with three separate payment orders, one on March 24, 2015 and two others on December 29, 2015. The Company was also served with an enforcement order on November 23, 2015. Oppositions have been filed on behalf of the Company in respect of each of these orders which oppose the orders on the basis that they were improperly issued and are barred from a statute of limitations perspective. The salaries in arrears sought to be recovered through these orders are part of the $10,701 (6,846 euros) cited above and the interest being sought in respect of these orders is part of the $29,869 (19,109 euros) cited below. Provisional orders granting a temporary suspension of any enforcement proceedings have been granted in respect of all of the orders that have been served. The opposition against the order served on March 24, 2015 was heard on November 24, 2015 and a decision was issued on November 25, 2016 accepting the Company's opposition on the basis that no lawful service had taken place until the filing of the opponents' petition and/or the issuance of the payment order. The plaintiffs filed an appeal against the above decision which was heard on October 16, 2018 and was rejected in June 2019. The plaintiffs have filed a petition for cassation against appeal judgment, the hearing of which has not yet been scheduled. A hearing in respect of the order served on November 23, 2015 took place on October 31, 2018 and a decision was issued in October 2019 accepting the Company's opposition. The plaintiffs filed an appeal against this decision, the hearing of which was scheduled for March 24, 2020. Due to the COVID-19 pandemic, the hearing did not take place and the new hearing date was rescheduled for September 8, 2020. The case was heard on September 8, 2020 and currently the issuance of judgment is pending. A hearing in respect of the orders served in December 2015 scheduled for September 20, 2016 was adjourned until November 21, 2016 and decisions were issued on January 9, 2017 accepting the Company's oppositions on a statute of limitations basis. The plaintiffs filed appeals against the above decisions which were heard on October 16, 2018 and were rejected in June 2019. The plaintiffs have filed petitions for cassation against appeal judgments, the hearings of which have not yet been scheduled.

NAPC is also the subject of a claim for approximately $4,474 (2,862 euros) plus associated penalties and interest from the Greek social security agency for social security obligations associated with the salaries in arrears that are the subject of the above-mentioned decision.

The maximum aggregate interest and penalties payable under the claims noted above, as well as three other immaterial claims against NAPC totaling $903 (578 euros), amounted to $29,869 (19,109 euros) as at September 30, 2020.

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

19. SEGMENTED INFORMATION

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

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

	Canada	**United States**	**Russia**	**Argentina**	**Corporate**	**Consolidated**
(C$000s)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Three Months Ended September 30, 2020						
Revenue	**44,669**	**46,503**	**28,530**	**8,074**	**—**	**127,776**
Operating income (loss)[1]	**6,491**	**2,790**	**6,033**	**(3,876)**	**(3,429)**	**8,009**
Segmented assets	**235,234**	**597,025**	**52,975**	**68,972**	**—**	**954,206**
Capital expenditures	**1,731**	**1,017**	**—**	**44**	**—**	**2,792**
Three Months Ended September 30, 2019						
Revenue	104,759	224,424	23,781	46,256	—	399,220
Operating income (loss)[1]	15,430	27,817	(204)	11,660	(7,682)	47,021
Segmented assets	516,933	833,867	86,920	178,272	—	1,615,992
Capital expenditures	7,874	21,215	439	9,357	—	38,885

	Canada	**United States**	**Russia**	**Argentina**	**Corporate**	**Consolidated**
(C$000s)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Nine Months Ended September 30, 2020						
Revenue	**177,101**	**238,807**	**73,458**	**35,348**	**—**	**524,714**
Operating income (loss)[1]	**24,794**	**3,026**	**6,487**	**(11,953)**	**(15,954)**	**6,400**
Segmented assets	**235,234**	**597,025**	**52,975**	**68,972**	**—**	**954,206**
Capital expenditures	**8,103**	**27,672**	**879**	**1,489**	**—**	**38,143**
Nine Months Ended September 30, 2019						
Revenue	324,574	742,634	81,563	155,099	—	1,303,870
Operating income (loss)[1]	37,265	102,611	(2,859)	20,308	(25,578)	131,747
Segmented assets	516,933	833,867	86,920	178,272	—	1,615,992
Capital expenditures	18,339	60,558	2,892	23,098	—	104,887

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

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2020	2019	**2020**	2019
(C$000s)	***($)***	*($)*	***($)***	*($)*
Net loss	**(50,000)**	(29,424)	**(450,132)**	(106,803)
Add back (deduct):				
Depreciation	**31,720**	58,669	**141,178**	192,295
Foreign exchange losses	**7,822**	5,038	**9,744**	6,469
(Gain) loss on disposal of property, plant and equipment	**(1,272)**	1,322	**284**	3,756
Impairment of property, plant and equipment	**—**	—	**227,208**	—
Impairment of inventory	**—**	584	**27,868**	584
Impairment of other assets	**—**	—	**507**	—
Gain on exchange of debt	**—**	—	**(130,444)**	—
Interest	**19,588**	21,605	**66,354**	64,314
Income taxes	**151**	(10,773)	**113,833**	(28,868)
Operating income	**8,009**	47,021	**6,400**	131,747

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

20. SEASONALITY OF OPERATIONS

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

21. SUBSEQUENT EVENT

On October 16, 2020, Calfrac's senior unsecured noteholders and common shareholders each voted in favor of the Company's Recapitalization Transaction. The Recapitalization Transaction includes the exchange of the Company's US$431,818 senior unsecured notes for common shares of the Company, in addition to new financing of $60,000. The transaction was approved by the Court of Queen's Bench of Alberta on October 30, 2020, under the provisions of the Canada Business Corporations Act. The completion of the Recapitalization Transaction will significantly reduce the Company's total debt and annual interest expense and provide additional liquidity to fund ongoing operations.

The statutory appeal process launched by Wilks Brothers, LLC after the ruling by the Court of Queen's Bench approving the Company's Recapitalization Transaction is moving ahead. The Alberta Court of Appeal has agreed to hear the appeal on an expedited basis, with a hearing scheduled for November 25, 2020. Calfrac will vigorously oppose the appeal and is confident that the evidence before the Court of Appeal supports this position. The Company will continue to update stakeholders with all significant developments as the process continues, and is continuing preparations to close the Recapitalization Transaction as quickly as practicable following the upcoming appeal hearing.

Subsequent to the end of the third quarter and following court approval of the Recapitalization Transaction, the Company was granted a waiver from its first lien lenders in respect of its Funded Debt to EBITDA covenant for the quarter ending September 30, 2020. The waiver granted is a precursor to additional amendments to the existing credit facilities that will become effective on closing of the Recapitalization Transaction.

CORPORATE INFORMATION

BOARD OF DIRECTORS

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President & Chief Executive Officer
Matco Investments Ltd.

Douglas R. Ramsay (4)
Vice Chairman
Calfrac Well Services Ltd.

Lindsay R. Link
President & Chief Operating Officer
Calfrac Well Services Ltd.

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

James S. Blair (1)(2)(3)(4)
President & Chief Executive Officer
Glenogle Energy Inc.

Gregory S. Fletcher (1)(2)(3)(5)
President
Sierra Energy Inc.

Lorne A. Gartner (1)(2)(3)(4)
Independent Businessman

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

OFFICERS

Ronald P. Mathison
Executive Chairman

Lindsay R. Link
President & Chief Operating Officer

Michael D. Olinek
Chief Financial Officer

Marco A. Aranguren
Director General, Argentina Division

Gordon T. Milgate
President, Canadian Division

Robert L. Sutherland
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Edward L. Oke
Vice President, Human Resources

B. Mark Paslawski
Vice President, Corporate Development & Corporate Secretary

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

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

Scott A. Treadwell
Vice President, Capital Markets & Strategy

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LEGAL COUNSEL

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STOCK EXCHANGE LISTING

Trading Symbol: CFW

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

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