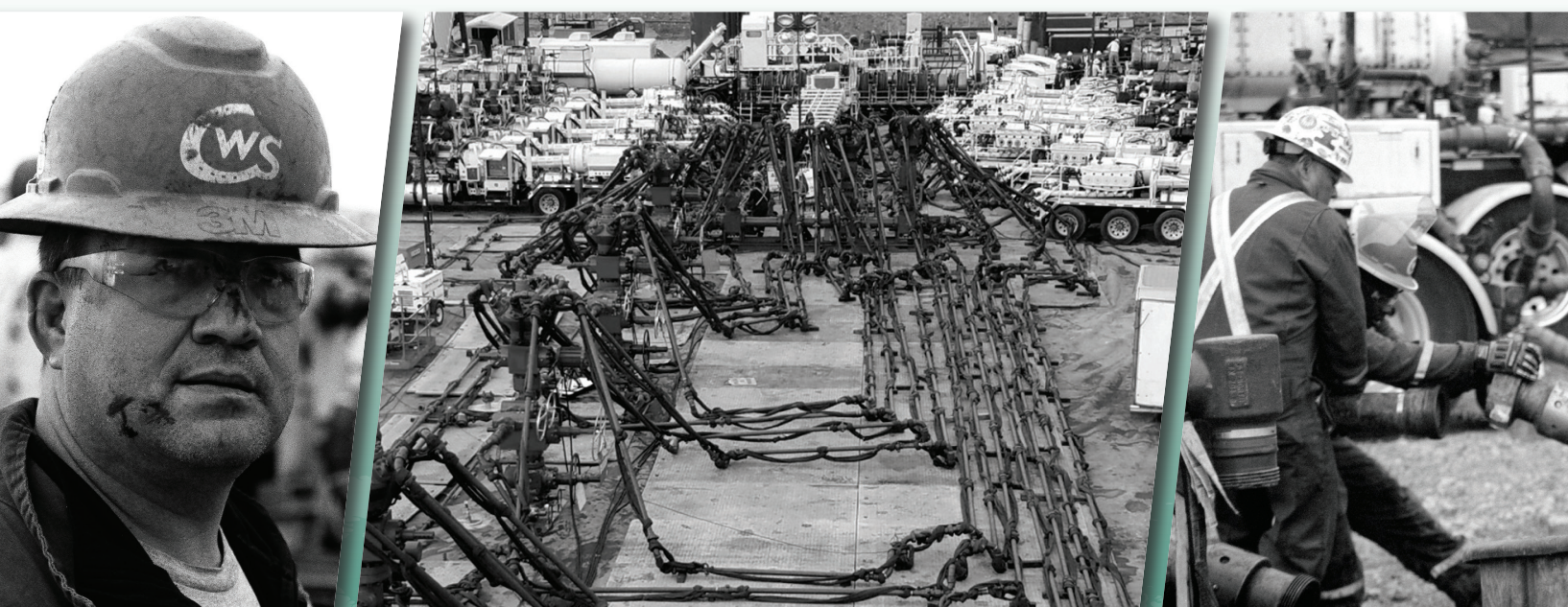




2016 Annual Report

CALFRAC WELL SERVICES



DO IT BETTER • DO IT ON TIME • DO IT SAFELY

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CALFRAC WELL SERVICES LTD.

ANNUAL GENERAL MEETING

May 9, 2017

3:30 pm

McMurray Room

Calgary Petroleum Club

319 - 5th Avenue SW

Calgary, Alberta

LETTER TO SHAREHOLDERS

The past two years have been extremely challenging for the North American pressure pumping industry, and I am happy that they are behind us. Calfrac underwent a significant restructuring of its organization throughout the downturn with headcount reductions, the idling of equipment across North America and both temporary and permanent district closures, to name just a few of the measures taken to deal with these challenges. With improved supply/demand fundamentals following OPEC and non-OPEC production cuts as well as the overall lack of capital investment in the industry in the last 24 months, we believe oil prices should show stability in the US\$45-\$55 per barrel range and likely increase from current levels over the remainder of 2017. Improved producer cash flows are expected to result in substantial increases in capital spending in both Canada and the United States and drive increased demand for the Company's pressure pumping services. I look forward to a year of measured growth for Calfrac as the industry transitions into a recovery.

CANADIAN OPERATIONS

The Western Canadian Sedimentary Basin rig count tracked below 2015 levels for the vast majority of 2016 resulting in decreased demand for Calfrac's services. While financial results showed more resilience than the United States division, pricing fell to a level that was unexpectedly low given the more concentrated competitive landscape, with certain competitors bidding at below breakeven field margins. Pricing discipline gained positive momentum through the latter part of the year with pricing starting to show improvement towards the end of the year in conjunction with increased activity levels. As we entered 2017, we have been able to increase pricing, and given the tightness in available pressure pumping capacity across the industry, we expect pricing to continue to trend higher given the tight supply/demand fundamentals within the Canadian pressure pumping market. Calfrac maintains a solid customer base and is aligned with customers that are expected to be amongst the most active oil and gas companies in 2017. The majority of our activity continues to be focused in the Montney gas and Saskatchewan light oil plays where the Company maintains a strong market share. Activity in the Cardium has recently increased and we believe that there is potential for further improvement should commodity prices remain at current levels.

UNITED STATES OPERATIONS

The United States pressure pumping industry continued to deteriorate through the first half of 2016 with the land rig count bottoming at under 400 rigs in May. The lack of demand for pressure pumping services resulted in sustained pricing pressure over the course of the year which had a significant negative impact on operating margins. Calfrac continued to focus on cost control and further curtailed our operations through the temporary suspension of operations in South Texas in early 2016 with the Eagle Ford continuing to face the greatest pressure from both a pricing and activity perspective. As the rig count trended higher in the second half of the year and commodity prices strengthened, we elected to reactivate two fleets, one in North Dakota and another in Pennsylvania, in order to satisfy demand and align ourselves with customers planning a significant increase in 2017 completion activity. Both of these fleet reactivations have resulted in dedicated fleet commitments for 2017 and have enabled us to begin to build back scale in our operations.

Calfrac has been successful in pushing through pricing increases since the beginning of 2017 and we expect to witness further pricing increases for our services as the year progresses. The Company will balance pricing, utilization and scale of operations when determining whether or not to reactivate equipment, and we are optimistic that the size of our active fleet will continue to increase through the year. In the United States division, the focus for 2017 is to profitably grow our operating scope in each of our existing districts and evaluate potential opportunities to expand into new operating regions as the pressure pumping market improves.

RUSSIAN OPERATIONS

Calfrac's Russian operations generated our most consistent financial performance throughout the downturn as completion activity was focused on the development of Russia's conventional resources. Calfrac has maintained a strong market share in its core areas within Western Siberia which primarily utilize multistage completion techniques. In the 2017 tender process, we secured work with both existing and new customers and as a result we expect to remain highly active in the upcoming year.

LATIN AMERICAN OPERATIONS

Last year was a challenging year for Calfrac in Argentina with a 30 percent decline in the rig count resulting in pricing pressure, combined with the impact of union strikes and adverse weather which negatively affected operating performance. The country also underwent widespread changes with President Macri's election in late 2015 and the subsequent implementation of policy changes aimed at restoring the country's access to credit markets and stabilizing its economy in order to promote foreign investment. We believe that Argentina will continue to implement further structural changes to its oil and gas industry that will encourage further development of its unconventional resources. We have realigned our organization and cost structure based on our near term outlook and believe that we are well positioned for the coming year.

There are two achievements that I am particularly proud of within Calfrac's Argentina operations. In late 2016 we were awarded a two-year contract to provide completion services for an active oil and gas company in the Vaca Muerta shale play. As well, we completed 22 hydraulic fracturing stages in less than 24 hours in November of 2016 for a large multinational producer, which represented a worldwide record within that producer's organization. Calfrac continues to build upon our existing reputation in Argentina with a strong track record of execution in the field and high safety standards which places us in a good position to benefit from increased investments in the country in the years to come.

The oilfield services market in Mexico continues to be challenging with limited onshore drilling activity expected to continue into 2017. In 2016, we reduced our footprint in Mexico and going forward we will continue to reassess the viability of the pressure pumping market in the country and adjust Calfrac's operating scale accordingly.

FOCUS ON TECHNOLOGY

Our technology focus in 2016 was to provide products that allowed customers to reduce their costs while maintaining operational efficiencies and reducing environmental impacts. Most of our product line has been refined utilizing this philosophy with an emphasis on enhanced performance and value for our customers. In this regard, we have introduced an environmentally safe corrosion inhibitor for acid systems, dust mitigation systems for reduced silica exposure on location, and safer biocide products. Our innovative CalVisc fluid systems have been widely accepted in the marketplace as a more economical and cleaner fluid system for sand placement than conventional crosslinked gels. Calfrac has invested substantial research and development into becoming slickwater fracturing experts with new friction reducers introduced which allow customers to easily reuse produced water. We have used region specific reservoir basin studies to collaborate with customers in optimizing their reserve assets. We have introduced a new product line of built for purpose surfactants to offer superior performance at all pricing levels from simple surface tension reduction to nano fluid systems for enhanced stimulation performance. Calfrac has invested in dual fuel fleets to help our customers endeavor to reduce their overall environmental footprint. We are making capital investments to improve the reliability and longevity of our equipment through the use of stainless steel fluid ends, improved valve design and review and refinement of maintenance programs. Our supply chain for technology products has continued its focus on vertical integration with several key joint projects initiated with major manufacturers. In spite of downward economic pressures, Calfrac has maintained memberships with consortiums and partnerships with University research projects to leverage our R&D investment.

THE LOGISTICS ADVANTAGE

During 2016, Calfrac's supply chain and logistics team focused on a number of initiatives with a goal of sustainable and flexible supply chain networks. We have been able to retain our in-house supply chain experts who are focused on analyzing and identifying opportunities to leverage and enhance the procurement of products, equipment and services across our operating districts.

Reducing non-productive time for our customers remains key to our ongoing success. In 2016, we continued to focus on key logistics networks including the acceleration of partnering with new and flexible trans-load facilities, the increased accessibility of unit train delivery systems, scalable sand mines with API Q2 certified suppliers and a continued effective last mile logistic strategy within basins across North America. This strategy alleviates supply disruptions, creates additional efficiencies for customers and reduces non-productive time. Furthermore, this continued focus enables a more effective distribution of products to job sites. In 2017, Calfrac has continued to explore rail, truck and logistics alternatives, further leveraging the established integrated demand planning system for a number of major components, and continuing to accelerate our API Q2 supplier performance model which is expected to lower unit transportation costs and improve efficiencies.

LICENSE TO OPERATE KEY TO SUCCESS

Despite the many challenges faced in this historic downturn, Calfrac continues to be diligent in maintaining and constantly improving our license to operate. We continue to believe that our success has been built on a culture of providing the highest level of customer service, health and safety performance and an unwavering commitment to our stakeholders. During 2016, Calfrac focused on areas that we felt were critical to improving our license to operate without the expenditure of large amounts of resources given the extreme competitive cost pressures faced within the industry. In the area of health and safety management, we continued our annual internal audit program of Calfrac's global Health, Safety and Environmental (HS&E) Management system at all operating locations, noting continued improvement particularly in the evolution of our hazard and risk mitigation procedures. Hazard identification reporting continued its strong upward trend allowing more potential workplace risks to be addressed in a proactive rather than a reactive manner. Management engagement and leadership was demonstrated by frequent well site and workplace visits in an effort to raise overall employee awareness of the importance of managing health and safety risks to their personal well-being as well as the success of Calfrac. Combined, these actions resulted in Calfrac

reaching another HS&E milestone in 2016, achieving the lowest injury incident rate since Calfrac's inception. In addition, we continued to advance our API Q2 certification process to demonstrate our level of quality assurance to clients and prospective clients and maintained and enhanced our employee training initiatives to ensure that our employees are amongst the most qualified in the industry.

LIQUIDITY AND BALANCE SHEET

During the downturn, we proactively managed our capital structure by securing a flexible set of amendments from our banking syndicate and successfully completing two equity financings totaling approximately \$82 million in net proceeds, as well as a \$200 million second lien financing with warrants. In addition, Calfrac has two equity cures available for use in non-consecutive quarters through the end of 2017. With the aforementioned financings and covenant structure, we believe Calfrac has sufficient liquidity to transition into a market recovery.

In the longer term, the Company recognizes that in the current market our leverage is a concern. However, given the 2020 maturity of the senior unsecured notes and the second lien term loan, and the liquidity available from our unused equity cures and undrawn senior credit facilities, we believe that Calfrac has sufficient flexibility to deal with this issue as the market improves. As such, we believe that we will be in a better position to further enhance our capital structure in the coming years given the upward momentum in the North American pressure pumping market and Calfrac's anticipated return to profitability. Calfrac will continue to explore all options available in the near-term and will act in the best interest of our stakeholders.

LOOKING FORWARD

After a challenging year in 2016, I am encouraged by improved levels of optimism in the industry overall and an increasingly positive outlook for the pressure pumping industry. I would like to thank all of Calfrac's employees for their hard work and dedication through such a challenging period. I believe that with the continued focus around best in class employees, flawless execution in the field, an established logistics network, the application of technology to enhance our value proposition and a top tier customer list, Calfrac will be in a strong position to benefit from increased activity levels and an overall improved commodity price environment in the years ahead.



Fernando Aguilar
President and Chief Executive Officer

March 21, 2017
Calgary, Alberta, Canada

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 February 22, 2017 and is a review of the Company's financial condition and results of operations based on International Financial Reporting Standards (IFRS).

The focus of this MD&A is a comparison of the financial performance for the years ended December 31, 2016 and 2015. It should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2016 as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2015.

Readers should also refer to the "Forward-Looking Statements" legal advisory at the end of this MD&A. All financial amounts and measures presented are expressed in Canadian dollars unless otherwise indicated. The definitions of certain non-GAAP measures used are included on pages 25 and 26.

CALFRAC'S BUSINESS

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

The Company's reportable business segments during the year ended December 31, 2016 were as follows:

- 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 and Saskatchewan. The Company's customer base in Canada ranges from large multinational public companies to small private companies. At December 31, 2016, Calfrac's Canadian operations had active horsepower of approximately 206,000 and seven active coiled tubing units. At the end of the fourth quarter, the Company had temporarily idled approximately 188,000 horsepower and six coiled tubing units.
- The Company's United States segment provides fracturing services to oil and natural gas companies operating in the Bakken oil shale play in North Dakota; in the Rockies area; and in southern Texas, where it services the Eagle Ford shale play. Calfrac also provides fracturing services to customers operating in the Marcellus and Utica shale plays in Pennsylvania, Ohio and West Virginia. During the third quarter of 2016, the Company reactivated fracturing operations in North Dakota; however, it continued to temporarily suspend its operations in south Texas. At December 31, 2016, Calfrac's United States operations had combined active horsepower of approximately 252,000 and no active cementing or coiled tubing units. At the end of the fourth quarter, the Company had temporarily idled approximately 375,000 horsepower, 11 cementing units and five coiled tubing units.
- The Company's Russian segment provides fracturing and coiled tubing services in Western Siberia. During the fourth quarter of 2016, the Company operated under a mix of annual and multi-year agreements to provide services to a number of Russia's largest oil producers. At December 31, 2016, the Company had seven deep coiled tubing units of which six were active and approximately 70,000 horsepower forming seven fracturing spreads in Russia.
- The Latin America segment provides pressure pumping services from operating bases in Argentina and Mexico. 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. During the fourth quarter, the Company provided fracturing and coiled tubing services to customers operating in the Burgos field of northern Mexico, the Chicontepec field of central Mexico and the Villahermosa field in southern Mexico. The Company had approximately 131,000 horsepower, 14 cementing units and seven coiled tubing units in its Latin America segment at December 31, 2016.

FINANCIAL OVERVIEW – YEAR ENDED DECEMBER 31, 2016 VERSUS 2015

CONSOLIDATED HIGHLIGHTS

| Years Ended December 31, | 2016 | 2015 | Change |
|---|------------------|-----------|--------|
| (C\$000s, except per share amounts) | (\$) | (\$) | (%) |
| (unaudited) | | | |
| Revenue | 734,514 | 1,495,205 | (51) |
| Operating income ⁽¹⁾ | (58,204) | 29,384 | NM |
| Per share – basic | (0.50) | 0.31 | NM |
| Per share – diluted | (0.50) | 0.31 | NM |
| Adjusted EBITDA ⁽¹⁾ | (44,750) | 52,057 | NM |
| Per share – basic | (0.38) | 0.54 | NM |
| Per share – diluted | (0.38) | 0.54 | NM |
| Net income (loss) attributable to the shareholders of Calfrac | (198,097) | (221,594) | (11) |
| Per share – basic | (1.69) | (2.31) | (27) |
| Per share – diluted | (1.69) | (2.31) | (27) |
| Working capital, end of period | 271,581 | 305,952 | (11) |
| Total assets, end of period | 1,613,004 | 1,815,823 | (11) |
| Long-term debt, end of period | 984,062 | 927,270 | 6 |
| Total equity, end of period | 497,458 | 623,719 | (20) |

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

2016 OVERVIEW

In 2016, the Company:

- generated revenue of \$734.5 million, a 51 percent decrease from 2015, resulting primarily from lower activity and pricing in North America and Argentina;
- reported adjusted EBITDA of negative \$44.8 million versus positive \$52.1 million in 2015, mainly as a result of significantly lower utilization and pricing in North America and lower utilization and pricing in Argentina. Cost reductions implemented across the Company partially mitigated the decline in adjusted EBITDA;
- reported a net loss attributable to shareholders of Calfrac of \$198.1 million or \$1.69 per share diluted compared to a net loss of \$221.6 million or \$2.31 per share diluted in 2015;
- reported period-end working capital of \$271.6 million which included cash of \$109.9 million versus \$306.0 million of working capital and \$124.0 million of cash at December 31, 2015;
- temporarily shut down its south Texas and North Dakota fracturing operations and its cementing operations in Pennsylvania during the second quarter of 2016, but subsequently reactivated its fracturing operations in North Dakota during the third quarter;
- closed a \$200.0 million second lien senior secured term loan financing with Alberta Investment Management Corporation (AIMCo). The proceeds were used to pay down all of its borrowings under its credit facilities and its bank loan in Argentina;
- closed a bought deal private placement of 21,055,000 common shares for total net proceeds of \$56.6 million; and
- incurred capital expenditures of \$38.7 million.

CANADA

| Years Ended December 31, | 2016 | 2015 | Change |
|---|----------------|---------|--------|
| (C\$000s, except operational information) | (\$) | (\$) | (%) |
| (unaudited) | | | |
| Revenue | 250,013 | 533,102 | (53) |
| Expenses | | | |
| Operating | 247,218 | 487,634 | (49) |
| SG&A | 7,785 | 10,545 | (26) |
| | 255,003 | 498,179 | (49) |
| Operating (loss) income ⁽¹⁾ | (4,990) | 34,923 | NM |
| Operating (loss) income (%) | (2.0) | 6.6 | NM |
| Fracturing revenue per job (\$) | 20,834 | 31,809 | (35) |
| Number of fracturing jobs | 10,654 | 15,755 | (32) |
| Active pumping horsepower, end of period (000s) | 206 | 223 | (8) |
| Idle pumping horsepower, end of period (000s) | 188 | 202 | (7) |
| Total pumping horsepower, end of period (000s) ⁽²⁾ | 394 | 425 | (7) |
| Coiled tubing revenue per job (\$) | 24,242 | 24,020 | 1 |
| Number of coiled tubing jobs | 1,157 | 1,330 | (13) |
| Active coiled tubing units, end of period (#) | 7 | 6 | 17 |
| Idle coiled tubing units, end of period (#) | 6 | 12 | (50) |
| Total coiled tubing units, end of period (#) ⁽²⁾ | 13 | 18 | (28) |

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

⁽²⁾ Reduction recorded in the first quarter of 2016 was the result of equipment that was identified as permanently impaired based on the impairment provision at December 31, 2015.

REVENUE

Revenue from Calfrac's Canadian operations during 2016 was \$250.0 million versus \$533.1 million in 2015. The 53 percent decrease was primarily due to significantly lower fracturing and coiled tubing activity, lower pricing and job mix. Revenue per fracturing job decreased by 35 percent from the prior year primarily due to lower pricing and the impact of job mix offset partially by greater service intensity. On average, Calfrac pumped 40 percent more proppant per job in 2016 than in 2015.

OPERATING (LOSS) INCOME

The Company's Canadian division incurred an operating loss of \$5.0 million during 2016 compared to operating income of \$34.9 million in 2015. The reversal to a loss position was the result of significantly lower pricing and utilization. SG&A expenses declined by 26 percent year-over-year, primarily due to workforce reductions and a lower compensation structure.

UNITED STATES

| Years Ended December 31, | 2016 | 2015 | Change |
|---|-----------------|---------|--------|
| (C\$000s, except operational and exchange rate information) | (\$) | (\$) | (%) |
| (unaudited) | | | |
| Revenue | 234,633 | 652,007 | (64) |
| Expenses | | | |
| Operating | 246,161 | 629,842 | (61) |
| SG&A | 14,770 | 22,222 | (34) |
| | 260,931 | 652,064 | (60) |
| Operating loss ⁽¹⁾ | (26,298) | (57) | NM |
| Operating loss (%) | (11.2) | — | NM |
| Fracturing revenue per job (\$) | 33,216 | 49,091 | (32) |
| Number of fracturing jobs | 7,014 | 12,639 | (45) |
| Active pumping horsepower, end of period (000s) | 252 | 352 | (28) |
| Idle pumping horsepower, end of period (000s) | 375 | 322 | 16 |
| Total pumping horsepower, end of period (000s) ⁽²⁾ | 627 | 674 | (7) |
| Coiled tubing revenue per job (\$) | — | 51,750 | (100) |
| Number of coiled tubing jobs | — | 55 | (100) |
| Active coiled tubing units, end of period (#) | — | — | — |
| Idle coiled tubing units, end of period (#) | 5 | 5 | — |
| Total coiled tubing units, end of period (#) | 5 | 5 | — |
| Cementing revenue per job (\$) | 150,293 | 49,224 | NM |
| Number of cementing jobs | 11 | 583 | (98) |
| Active cementing units, end of period (#) | — | 10 | (100) |
| Idle cementing units, end of period (#) | 11 | 8 | 38 |
| Total cementing units, end of period (#) ⁽²⁾ | 11 | 18 | (39) |
| US\$/C\$ average exchange rate ⁽³⁾ | 1.3248 | 1.2787 | 4 |

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

⁽²⁾ Reduction recorded in the first quarter of 2016 was the result of equipment that was identified as permanently impaired based on the impairment provision at December 31, 2015.

⁽³⁾ Source: Bank of Canada.

REVENUE

Revenue from Calfrac's United States operations decreased to \$234.6 million during 2016 from \$652.0 million in 2015 due to significantly lower fracturing activity and weaker pricing. The number of fracturing jobs completed during the year decreased by 45 percent from 2015 primarily due to lower activity in Colorado combined with the impact of the temporary closure of operations in North Dakota and south Texas and the closure of operations in Arkansas. During the third quarter of 2016, the Company recommenced fracturing operations in North Dakota which partially offset the decline in revenue. Revenue per job decreased by 32 percent year-over-year as a stronger U.S. dollar was more than offset by the completion of significantly smaller jobs in Pennsylvania due to customer mix during the first half of 2016 and the impact of lower pricing in all operating regions.

OPERATING LOSS

The Company's United States division operated at a loss of \$26.3 million during 2016 after operating at a break-even level in 2015. The loss included restructuring costs totaling \$3.1 million (2015 - \$5.8 million) that related to organizational changes that were carried out across the United States division during 2016 and \$0.5 million in bad debt charges (2015 - \$1.0 million). Excluding these one-time costs, the operating loss would have been \$22.7 million primarily due to decreased utilization in all of the resource plays where the Company operates combined with lower pricing. The suspension of cementing operations in Pennsylvania combined with the temporary closure of operations in North Dakota and south Texas, and the closure of operations in Arkansas, had a negative impact on operating income year-over-year due to a significantly lower revenue base during the period while these operating districts continued to incur certain levels of fixed costs.

RUSSIA

| Years Ended December 31, | 2016 | 2015 | Change |
|---|--------|---------|--------|
| (C\$000s, except operational and exchange rate information) | (\$) | (\$) | (%) |
| (unaudited) | | | |
| Revenue | 95,860 | 137,876 | (30) |
| Expenses | | | |
| Operating | 84,317 | 119,705 | (30) |
| SG&A | 2,530 | 3,428 | (26) |
| | 86,847 | 123,133 | (29) |
| Operating income ⁽¹⁾ | 9,013 | 14,743 | (39) |
| Operating income (%) | 9.4 | 10.7 | (12) |
| Fracturing revenue per job (\$) | 68,949 | 88,913 | (22) |
| Number of fracturing jobs | 1,098 | 1,297 | (15) |
| Pumping horsepower, end of period (000s) | 70 | 70 | — |
| Coiled tubing revenue per job (\$) | 41,813 | 42,238 | (1) |
| Number of coiled tubing jobs | 482 | 534 | (10) |
| Active coiled tubing units, end of period (#) | 6 | 7 | (14) |
| Idle coiled tubing units, end of period (#) | 1 | — | NM |
| Total coiled tubing units, end of period (#) | 7 | 7 | — |
| Rouble/C\$ average exchange rate ⁽²⁾ | 0.0198 | 0.0210 | (6) |

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

⁽²⁾ Source: Bank of Canada.

REVENUE

Revenue from Calfrac's Russian operations in 2016 decreased by 30 percent to \$95.9 million from \$137.9 million in 2015. The decrease in revenue, which is generated in roubles, was partially related to lower fracturing and coiled tubing activity combined with the 6 percent devaluation of the rouble in 2016 versus 2015. The decline in revenue was also the result of the loss of a fracturing contract with a significant customer to which the Company also supplied proppant. Revenue per fracturing job declined by 22 percent due to the currency devaluation combined with the impact of no longer providing proppant to a significant customer.

OPERATING INCOME

Operating income in Russia declined to \$9.0 million during 2016 from \$14.7 million in 2015 primarily due to the 6 percent devaluation of the rouble combined with lower fracturing and coiled tubing utilization. Operating income as a percentage of revenue was 130 basis points lower than 2015 due to lower utilization offset partially by higher margin callout work, which comprised a greater proportion of overall activity. SG&A expenses declined by 26 percent during 2016 compared to 2015 due to the devaluation of the rouble combined with the impact of cost reduction initiatives.

LATIN AMERICA

| Years Ended December 31, | 2016 | 2015 | Change |
|---|----------------|---------|--------|
| (C\$000s, except operational and exchange rate information) | (\$) | (\$) | (%) |
| (unaudited) | | | |
| Revenue | 154,008 | 172,220 | (11) |
| Expenses | | | |
| Operating | 140,250 | 143,089 | (2) |
| SG&A | 16,285 | 15,836 | 3 |
| | 156,535 | 158,925 | (2) |
| Operating (loss) income ⁽¹⁾ | (2,527) | 13,295 | NM |
| Operating (loss) income (%) | (1.6) | 7.7 | NM |
| Pumping horsepower, end of period (000s) | 131 | 131 | — |
| Cementing units, end of period (#) | 14 | 13 | 8 |
| Coiled tubing units, end of period (#) | 7 | 7 | — |
| Mexican peso/C\$ average exchange rate ⁽²⁾ | 0.0711 | 0.0806 | (12) |
| Argentinean peso/C\$ average exchange rate ⁽²⁾ | 0.0899 | 0.1388 | (35) |

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

⁽²⁾ Source: Bank of Canada.

REVENUE

Calfrac's Latin American operations generated total revenue of \$154.0 million during 2016 versus \$172.2 million in 2015. In Argentina, revenue was lower than in 2015 due to lower fracturing and cementing activity resulting from the rig count decline combined with union strikes and adverse weather conditions in the Neuquén region, which negatively impacted utilization during the second and fourth quarters. The lower activity also resulted in the Company experiencing pricing pressure from certain competitors and contributed to the reduction in revenue during the year.

OPERATING (LOSS) INCOME

Latin America experienced an operating loss of \$2.5 million in 2016 compared to operating income of \$13.3 million in 2015. The decrease in operating income in 2016 was partially due to the Company recording a bad debt provision of \$4.6 million relating to work performed for a customer in Mexico and severance costs of \$3.8 million and \$0.6 million in Argentina and Mexico, respectively. Excluding these one-time costs, the Company's Latin America operations generated operating income of \$6.5 million in 2016. Lower equipment utilization and pricing in Argentina were the primary drivers of the reduction in normalized operating income year-over-year.

CORPORATE

| Years Ended December 31, | 2016 | 2015 | Change |
|-------------------------------|----------|----------|--------|
| (C\$000s) | (\$) | (\$) | (%) |
| (unaudited) | | | |
| Expenses | | | |
| Operating | 4,709 | 6,974 | (32) |
| SG&A | 28,693 | 26,546 | 8 |
| | 33,402 | 33,520 | — |
| Operating loss ⁽¹⁾ | (33,402) | (33,520) | — |
| % of Revenue | 4.5 | 2.2 | NM |

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

OPERATING LOSS

The Company's corporate expenses in 2016 were consistent with 2015. The Company continued to reduce costs to align its cost structure with anticipated activity levels. These initiatives contributed approximately \$8.2 million of savings primarily by reducing corporate personnel costs. An increase in stock-based compensation expense of \$8.1 million resulting from an increase in the Company's stock price offset the cost reductions achieved during the period.

DEPRECIATION

Depreciation expense for the year ended December 31, 2016 decreased by 2 percent to \$152.8 million from \$156.6 million in the same period in 2015. The decrease was mainly a result of a \$114.5 million impairment of property, plant and equipment in the United States, Canada and Mexico that was recorded in the fourth quarter of 2015 offset almost entirely by a combination of a weaker Canadian dollar relative to the U.S. dollar on a comparative period basis and a one-time depreciation charge of \$21.5 million in the fourth quarter of 2016 to adjust the useful life and salvage value of certain components of the Company's equipment fleet.

FOREIGN EXCHANGE LOSSES

The Company recorded a foreign exchange loss of \$19.3 million in 2016 versus a loss of \$37.0 million in 2015. 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, Russia and Latin America. The Company's foreign exchange loss during the period was largely attributable to the translation of U.S. dollar-denominated liabilities held in Argentina as the value of the Argentinean peso depreciated 22 percent against the U.S. dollar during 2016.

IMPAIRMENT

The Company tested each of its cash generating units (CGU) for potential impairment at the end of 2016 and 2015, as the impact of low oil and gas natural gas prices over the past two years on the Company's current and future financial results were indicators of impairment. Based on the results of the impairment test, no impairment was identified for the year ended December 31, 2016 (2015 - \$114.5 million). The impairment losses by CGU are as follows:

| For the year ended December 31, | 2016 | 2015 |
|---------------------------------|------|---------|
| (C\$000s) | (\$) | (\$) |
| Canada | — | 10,091 |
| United States | — | 102,528 |
| Mexico | — | 1,860 |
| | — | 114,479 |

The Company evaluated the net realizable value of its inventories at December 31, 2016 and recorded a \$3.2 million write-down (2015 - \$14.3 million).

INTEREST

The Company's net interest expense was \$80.1 million in 2016 versus \$69.0 million in 2015 due to higher average credit facility borrowings during the first half of 2016, higher interest on the \$200.0 million secured second lien term loan that was initiated during the second quarter of 2016 and higher reported interest related to the Company's U.S. dollar-denominated unsecured notes due to a weaker Canadian dollar relative to the U.S. dollar.

INCOME TAXES

The Company recorded an income tax recovery of \$109.6 million in 2016 compared to \$114.1 million in 2015. The recovery was the result of pre-tax losses incurred in Canada, the United States and Argentina. The effective tax recovery rate of 35 percent was consistent with the normalized effective tax rate in 2015.

LIQUIDITY AND CAPITAL RESOURCES

| | Years Ended Dec. 31, | |
|--|----------------------|-----------|
| | 2016 | 2015 |
| (C\$000s) | (\$) | (\$) |
| (unaudited) | | |
| Cash provided by (used in): | | |
| Operating activities | (79,591) | 121,062 |
| Financing activities | 125,075 | 45,877 |
| Investing activities | (52,134) | (155,050) |
| Effect of exchange rate changes on cash and cash equivalents | (7,438) | 12,987 |
| (Decrease) increase in cash and cash equivalents | (14,088) | 24,876 |

OPERATING ACTIVITIES

The Company's cash used by operating activities for the year ended December 31, 2016 was \$79.6 million versus cash provided by operating activities of \$121.1 million in 2015. The decrease was primarily due to lower operating margins driven by lower utilization and pricing in Canada and the United States. In addition, working capital contributed \$49.9 million of cash in 2016 compared to \$154.7 million in 2015. At December 31, 2016, Calfrac's working capital was approximately \$271.6 million compared to \$306.0 million at December 31, 2015.

FINANCING ACTIVITIES

Net cash provided by financing activities for the year ended December 31, 2016 was \$125.1 million compared to \$45.9 million in 2015. During the year, the Company received net proceeds of \$56.6 million through the private placement issuance of 21.1 million common shares in December 2016, received net proceeds from its second lien senior secured term loan financing of \$194.7 million, reduced its bank loan in Argentina by \$12.7 million, paid down borrowings under its term loan by \$111.0 million, paid cash dividends of \$1.8 million and made mortgage and lease payments of \$0.7million.

On December 6, 2016, Calfrac closed a bought deal private placement of 21,055,000 common shares for net proceeds of \$56.6 million. Of the net proceeds from the offering, \$25.0 million is held in a segregated account, which combined with the previous private placement completed in 2015, totaled \$50.0 million. The Company has two \$25.0 million fully funded equity cures and may at its discretion elect to use such cures in respect of any non-consecutive quarters ending prior to December 31, 2017 by providing notice of such election to the lending syndicate at any time prior to the filing of its quarterly financial statements on SEDAR.

On June 10, 2016, the Company closed a \$200.0 million second lien senior secured term loan financing with AIMCo. The term loan matures on September 30, 2020 and bears interest at the rate of 9 percent annually and is payable quarterly. In addition, amortization payments equal to 1 percent of the original principal amount are payable annually in equal quarterly installments, with the balance due on the maturity date. In conjunction with the funding of the term loan, a total of 6,934,776 warrants to purchase common shares of the Company were issued to AIMCo, entitling it to acquire 6,934,776 common shares at a price of \$4.14 per common share at any time prior to June 10, 2019. No amendments were made to the available commitment, term, covenants or interest rates payable under Calfrac's existing credit facilities as part of the required approvals for the term loan.

The Company's credit facilities mature on September 27, 2018 and can be extended by one or more years at the Company's request and lenders' acceptance. The Company also may prepay principal without penalty.

On December 11, 2015, Calfrac amended its credit facilities to provide increased financial flexibility. The amendment included a voluntary reduction in the total facility from \$400.0 million to \$300.0 million. The facilities consist of an operating facility of \$30.0 million and a syndicated facility of \$270.0 million. 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 3.50 percent. For LIBOR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 1.50 percent to 4.50 percent above the respective base rates. The facility was amended to increase the \$100.0 million accordion feature to \$200.0 million. The accordion feature is not available to the Company during the covenant relief period described below and ending on December 31, 2017 and during this period the Company will incur interest at the high end of the ranges outlined above. Additionally, for the quarters ended December 31, 2016 through December 31, 2017, advances under the credit facilities will be limited by a borrowing base. The borrowing base is calculated based on the following:

- i. Eligible North American accounts receivable, which is based on 75 percent of accounts receivable owing by companies rated BB+ or lower by Standard & Poor's (or a similar rating agency) and 85 percent of accounts receivable from companies rated BBB- or higher;
- ii. 100 percent of unencumbered cash of the parent company and its U.S. operating subsidiary, excluding any cash held in a segregated account for the purposes of a potential equity cure; and
- iii. 25 percent of the net book value of property, plant and equipment (PP&E) of the parent company and its U.S. operating subsidiary. The value of PP&E excludes assets under construction and is limited to \$150.0 million.

As at December 31, 2016, the Company had used \$1.9 million of its credit facilities for letters of credit and had no borrowings under its credit facilities, leaving \$298.1 million in available liquidity under its credit facilities. As described above, the Company's credit facilities are subject to a monthly borrowing base calculation which could result in a lower liquidity amount.

The Company's credit facilities contain certain financial covenants. Weakened market conditions attributable to the significant reduction in the price of oil and natural gas have required many oil and gas service companies to seek covenant relief from their lenders. Calfrac negotiated amendments including waivers and increases to certain of its financial covenant thresholds prior to the end of the fourth quarter in 2015, as shown below.

| Years ended December 31, except as indicated in notes below | 2016 | 2017 |
|---|--------------|-------------|
| Working capital ratio not to fall below | 1.15x | 1.15x |
| Funded Debt to Adjusted EBITDA not to exceed ⁽¹⁾⁽²⁾⁽³⁾ | 5.00x | 4.50x/4.00x |
| Funded Debt to Capitalization not to exceed ⁽²⁾⁽⁴⁾ | 0.30x | 0.30x |

⁽¹⁾ Funded Debt to Adjusted EBITDA covenant is 5.00x for December 31, 2016. The covenant declines to 4.50x for the quarters ended March 31, 2017 and June 30, 2017 and declines to 4.00x for the quarters ended September 30, 2017 and December 31, 2017 and is set at 3.00x for each quarter after December 31, 2017.

⁽²⁾ Funded Debt is defined as Total Debt excluding all outstanding senior unsecured notes and the second lien senior secured term loan facility. Total Debt includes bank loans and long-term debt (before unamortized debt issuance costs and debt discount) plus outstanding letters of credit less cash on hand with lenders (excluding any cash held in a segregated account for the purposes of a potential equity cure).

⁽³⁾ Adjusted EBITDA is defined as net income or loss for the period less interest, taxes, depreciation and amortization, non-cash stock-based compensation, non-controlling interest relating to Colombia, and gains and losses that are extraordinary or non-recurring.

⁽⁴⁾ Capitalization is Total Debt plus Equity attributable to the shareholders of Calfrac.

Proceeds from equity offerings may be applied, as an equity cure, in the calculation of Adjusted EBITDA towards the Funded Debt to Adjusted EBITDA covenant for any of the quarters ending prior to and including December 31, 2017 subject to certain conditions including:

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

On December 6, 2016, Calfrac closed a bought deal private placement of 21,055,000 common shares for net proceeds of approximately \$56.6 million. On December 22, 2015, Calfrac closed a bought deal private placement of 20,370,370 common shares for net proceeds of approximately \$25.2 million. \$50.0 million of the net proceeds from these offerings were held in a segregated account in accordance with the amended credit facilities pending an election to use them as an equity cure. Throughout the period ending on December 31, 2017, amounts used as an equity cure will increase Adjusted EBITDA over the relevant twelve-month rolling period and will also serve to reduce Funded Debt. When the funds are removed from the segregated account, as an equity cure or otherwise, they are expected to be used to fund capital expenditures, to reduce outstanding indebtedness, and/or to be used for general working capital and corporate purposes.

As shown in the table below, at December 31, 2016, the Company was in compliance with the financial covenants associated with its credit facilities.

| | Covenant | Actual |
|--|----------|-----------------------------|
| As at December 31, | 2016 | 2016 |
| Working capital ratio not to fall below | 1.15x | 3.40x |
| Funded Debt to Adjusted EBITDA not to exceed | 5.00x | N/A⁽¹⁾ |
| Funded Debt to Capitalization not to exceed | 0.30x | -0.05x⁽¹⁾ |

⁽¹⁾ Funded Debt is negative at December 31, 2016.

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

- i. the Company is in default under the indenture or the making of such payment would result in a default;
- ii. the Company is not meeting the Fixed Charge Coverage Ratio⁽¹⁾ under the indenture of at least 2.0:1 for the most recent four fiscal quarters, with the restricted payments regime commencing once internal financial statements are available which show that the ratio is not met on a pro forma basis for the most recently ended four fiscal quarter period; or
- iii. there is insufficient room for such payment within a builder basket included in the indenture.

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

These limitations on restricted payments are tempered by the existence of a number of exceptions to the general prohibition, including a basket allowing for restricted payments in an aggregate amount of up to US\$20.0 million. As at December 31, 2016 this basket was not utilized. The indenture also restricts the ability to incur additional indebtedness if the Fixed Charge Coverage Ratio determined on a pro forma basis for the most recently ended four fiscal quarter period for which internal financial statements are available is not at least 2.0:1. 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 \$175.0 million or 30 percent of the Company's consolidated tangible assets. At December 31, 2016, the Company was able to incur additional indebtedness in excess of \$380 million pursuant to the aforementioned exception.

As at December 31, 2016, the Company's Fixed Charge Coverage Ratio of (0.49):1 was less than the required 2.0:1 ratio. Failing to meet the Fixed Charge Coverage Ratio is not an event of default under the indenture, and the baskets highlighted in the preceding paragraph provide sufficient flexibility for the Company to incur additional indebtedness and make anticipated restricted payments which may be required to conduct its operations during this period of weakened market conditions.

INVESTING ACTIVITIES

Calfrac's net cash used for investing activities was \$52.1 million for the year ended December 31, 2016 versus \$155.1 million in 2015. Cash outflows relating to capital expenditures were \$38.7 million during 2016 compared to \$157.9 million in 2015. Capital expenditures were primarily to support the Company's North American fracturing operations.

Calfrac's 2017 capital budget is approximately \$25.0 million.

EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS

The effect of changes in foreign exchange rates on the Company's cash and cash equivalents during the year ended December 31, 2016 was a gain of \$7.4 million versus a loss of \$13.0 million during 2015. These gains and losses relate to cash and cash equivalents held by the Company in a foreign currency.

With its working capital position, available credit facilities and anticipated funds provided by operations, the Company expects to have adequate resources to fund its financial obligations and planned capital expenditures for 2017 and beyond.

At December 31, 2016, the Company had cash and cash equivalents of \$109.9 million of which \$50.0 million is held in a segregated account at the Company's discretion, so that it may be utilized if required in the calculation of Adjusted EBITDA for purposes of the Company's bank covenants.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares. Employees have been granted options to purchase common shares under the Company's shareholder-approved stock option plan. The number of shares reserved for issuance under the stock option plan is equal to 10 percent of the Company's issued and outstanding common shares. As at February 17, 2017, there were 136,738,115 common shares issued and outstanding, 10,945,142 options to purchase common shares and 6,934,776 warrants to purchase common shares.

SUMMARY OF QUARTERLY RESULTS

| Three Months Ended | Mar. 31, 2015 | Jun. 30, 2015 | Sep. 30, 2015 | Dec. 31, 2015 | Mar. 31, 2016 | Jun. 30, 2016 | Sep. 30, 2016 | Dec. 31, 2016 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| (C\$000s, except per share and operating data) (unaudited) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Financial | | | | | | | | |
| Revenue | 600,383 | 319,553 | 289,075 | 286,194 | 216,138 | 150,605 | 174,925 | 192,846 |
| Operating income (loss) ⁽¹⁾ | 27,844 | (7,022) | 2,775 | 5,787 | (11,623) | (15,898) | (12,392) | (18,291) |
| Per share – basic | 0.29 | (0.07) | 0.03 | 0.06 | (0.10) | (0.14) | (0.11) | (0.15) |
| Per share – diluted | 0.29 | (0.07) | 0.03 | 0.06 | (0.10) | (0.14) | (0.11) | (0.15) |
| Adjusted EBITDA ⁽¹⁾ | 25,609 | (3,696) | 7,211 | 22,933 | (5,883) | (14,095) | (11,055) | (13,717) |
| Per share – basic | 0.27 | (0.04) | 0.08 | 0.24 | (0.05) | (0.12) | (0.10) | (0.11) |
| Per share – diluted | 0.27 | (0.04) | 0.08 | 0.24 | (0.05) | (0.12) | (0.10) | (0.11) |
| Net income (loss) attributable to the shareholders of Calfrac | (12,628) | (43,277) | (24,191) | (141,498) | (54,071) | (41,671) | (40,862) | (61,493) |
| Per share – basic | (0.13) | (0.45) | (0.25) | (1.45) | (0.47) | (0.36) | (0.35) | (0.51) |
| Per share – diluted | (0.13) | (0.45) | (0.25) | (1.45) | (0.47) | (0.36) | (0.35) | (0.51) |
| Capital expenditures | 52,669 | 50,356 | 24,945 | 29,964 | 7,723 | 8,370 | 6,907 | 15,708 |
| Working capital (end of period) | 413,950 | 340,639 | 296,816 | 305,952 | 261,072 | 306,346 | 269,081 | 271,581 |
| Total equity (end of period) | 818,825 | 775,646 | 742,972 | 623,719 | 576,465 | 543,530 | 501,926 | 497,458 |

Operating (end of period)

| | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|--------------|
| Active pumping horsepower (000s) | 1,259 | 804 | 754 | 776 | 640 | 582 | 644 | 659 |
| Idle pumping horsepower (000s) ⁽²⁾ | — | 455 | 533 | 524 | 586 | 640 | 578 | 563 |
| Total pumping horsepower (000s) ⁽²⁾ | 1,259 | 1,259 | 1,287 | 1,300 | 1,226 | 1,222 | 1,222 | 1,222 |
| Active coiled tubing units (#) | 37 | 20 | 20 | 20 | 18 | 19 | 20 | 19 |
| Idle coiled tubing units (#) | — | 17 | 17 | 17 | 14 | 13 | 12 | 13 |
| Total coiled tubing units (#) | 37 | 37 | 37 | 37 | 32 | 32 | 32 | 32 |
| Active cementing units (#) | 31 | 26 | 28 | 23 | 14 | 14 | 14 | 14 |
| Idle cementing units (#) | — | 5 | 3 | 8 | 11 | 11 | 11 | 11 |
| Total cementing units (#) | 31 | 31 | 31 | 31 | 25 | 25 | 25 | 25 |

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

⁽²⁾ Excludes 92,500 pumping horsepower that had not been commissioned at December 31, 2016.

FINANCIAL OVERVIEW – THREE MONTHS ENDED DECEMBER 31, 2016 VERSUS 2015

CONSOLIDATED HIGHLIGHTS

| Three Months Ended December 31, | 2016 | 2015 | Change |
|--|------------------|-----------|--------|
| (C\$000s, except per share amounts) | (\$) | (\$) | (%) |
| (unaudited) | | | |
| Revenue | 192,846 | 286,194 | (33) |
| Operating (loss) income ⁽¹⁾ | (18,291) | 5,787 | NM |
| Per share – basic | (0.15) | 0.06 | NM |
| Per share – diluted | (0.15) | 0.06 | NM |
| Adjusted EBITDA ⁽¹⁾ | (13,717) | 22,933 | NM |
| Per share – basic | (0.11) | 0.24 | NM |
| Per share – diluted | (0.11) | 0.24 | NM |
| Net loss attributable to the shareholders of Calfrac | (61,493) | (141,498) | (57) |
| Per share – basic | (0.51) | (1.45) | (65) |
| Per share – diluted | (0.51) | (1.45) | (65) |
| Working capital, end of period | 271,581 | 305,952 | (11) |
| Total assets, end of period | 1,613,004 | 1,815,823 | (11) |
| Long-term debt, end of period | 984,062 | 927,270 | 6 |
| Total equity, end of period | 497,458 | 623,719 | (20) |

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

FOURTH QUARTER 2016 OVERVIEW

In the fourth quarter of 2016, the Company:

- generated revenue of \$192.8 million versus \$286.2 million in the fourth quarter of 2015, resulting primarily from lower activity and pricing in North America;
- recorded stock-based compensation expense of \$4.3 million compared to a recovery of \$0.1 million in the fourth quarter of 2015;
- reported adjusted EBITDA of negative \$13.7 million versus positive \$22.9 million in the fourth quarter of 2015, mainly as a result of significantly lower equipment utilization in North America combined with weaker pricing for the Company's services in Canada and the United States and higher stock-based compensation expense;
- reported a net loss attributable to shareholders of Calfrac of \$61.5 million or \$0.51 per share diluted compared to a net loss of \$141.5 million or \$1.45 per share diluted in the comparable period in 2015;
- closed a bought deal private placement of 21,055,000 common shares for total net proceeds of \$56.6 million;
- reactivated a crew in the Viking shale play; and
- incurred capital expenditures of \$15.7 million.

CANADA

| Three Months Ended December 31, | 2016 | 2015 | Change |
|---|---------------|---------|--------|
| (C\$000s, except operational information) | (\$) | (\$) | (%) |
| (unaudited) | | | |
| Revenue | 72,327 | 123,341 | (41) |
| Expenses | | | |
| Operating | 68,918 | 109,651 | (37) |
| SG&A | 1,941 | 3,529 | (45) |
| | 70,859 | 113,180 | (37) |
| Operating income ⁽¹⁾ | 1,468 | 10,161 | (86) |
| Operating income (%) | 2.0 | 8.2 | (76) |
| Fracturing revenue per job (\$) | 16,415 | 26,201 | (37) |
| Number of fracturing jobs | 3,855 | 4,368 | (12) |
| Active pumping horsepower, end of period (000s) | 206 | 223 | (8) |
| Idle pumping horsepower, end of period (000s) | 188 | 202 | (7) |
| Total pumping horsepower, end of period (000s) ⁽²⁾ | 394 | 425 | (7) |
| Coiled tubing revenue per job (\$) | 24,456 | 25,344 | (4) |
| Number of coiled tubing jobs | 370 | 351 | 5 |
| Active coiled tubing units, end of period (#) | 7 | 6 | 17 |
| Idle coiled tubing units, end of period (#) | 6 | 12 | (50) |
| Total coiled tubing units, end of period (#) ⁽²⁾ | 13 | 18 | (28) |

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

⁽²⁾ Reduction recorded in the first quarter of 2016 was the result of equipment that was identified as permanently impaired based on the impairment provision at December 31, 2015.

REVENUE

Revenue from Calfrac's Canadian operations during the fourth quarter of 2016 was \$72.3 million versus \$123.3 million in the same period of 2015. The 41 percent decrease in revenue was primarily due to the completion of smaller jobs combined with lower fracturing activity and pricing. Revenue per fracturing job decreased by 37 percent from the same period in the prior year as a result of job mix, which included a higher proportion of activity in the Viking oil play, combined with the impact of a major customer beginning to supply its own sand and lower pricing. In addition, the number of fracturing jobs decreased by 12 percent which also contributed to the decrease in revenue. The number of coiled tubing jobs increased by 5 percent from the fourth quarter in 2015 due to increased activity in Saskatchewan light oil plays quarter-over-quarter.

OPERATING INCOME

Operating income in Canada during the fourth quarter of 2016 was \$1.5 million compared to \$10.2 million in the same period of 2015. Included in the fourth quarter of 2016 were reactivation costs of approximately \$1.5 million, while the fourth quarter of 2015 included approximately \$4.0 million in restructuring costs. Operating costs were 37 percent lower than the comparable quarter of 2015 primarily due to the decline in activity. Pricing for proppant and chemicals was 10 to 15 percent lower than the comparable quarter in 2015 while subcontractor costs were consistent with 2015. The rationalization of its district cost structure contributed to lower operating costs while the 45 percent decrease in SG&A expenses resulted from workforce reductions implemented earlier in the year.

UNITED STATES

| Three Months Ended December 31, | 2016 | 2015 | Change |
|--|---------|---------|--------|
| (C\$000s, except operational and exchange rate information) (unaudited) | (\$) | (\$) | (%) |
| Revenue | 57,956 | 81,263 | (29) |
| Expenses | | | |
| Operating | 62,330 | 80,193 | (22) |
| SG&A | 2,865 | 4,953 | (42) |
| | 65,195 | 85,146 | (23) |
| Operating loss ⁽¹⁾ | (7,239) | (3,883) | 86 |
| Operating loss (%) | (12.5) | (4.8) | NM |
| Fracturing revenue per job (\$) | 36,868 | 34,664 | 6 |
| Number of fracturing jobs | 1,572 | 2,191 | (28) |
| Active pumping horsepower, end of period (000s) | 252 | 352 | (28) |
| Idle pumping horsepower, end of period (000s) | 375 | 322 | 16 |
| Total pumping horsepower, end of period (000s) ⁽²⁾ | 627 | 674 | (7) |
| Cementing revenue per job (\$) | — | 54,786 | (100) |
| Number of cementing jobs | — | 97 | (100) |
| Active cementing units, end of period (#) | — | 10 | (100) |
| Idle cementing units, end of period (#) | 11 | 8 | 38 |
| Total cementing units, end of period (#) ⁽²⁾ | 11 | 18 | (39) |
| US\$/C\$ average exchange rate ⁽³⁾ | 1.3344 | 1.3354 | — |

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

⁽²⁾ Reduction recorded in the first quarter of 2016 was the result of equipment that was identified as permanently impaired based on the impairment provision at December 31, 2015.

⁽³⁾ Source: Bank of Canada.

REVENUE

Revenue from Calfrac's United States operations decreased to \$58.0 million during the fourth quarter of 2016 from \$81.3 million in the comparable quarter of 2015 due to significantly lower pricing and fracturing activity across most of the Company's operating regions, with the exception of Colorado, as 28 percent fewer fracturing jobs were completed period-over-period. The Company temporarily closed its south Texas operations and suspended all remaining cementing operations during the first quarter of 2016, which contributed to the year-over-year decline in revenue. Revenue per job was 6 percent higher year-over-year due to the completion of larger jobs in the Marcellus shale gas play in Pennsylvania offset partially by the completion of smaller jobs in Colorado as Calfrac performed non-proppant fracturing jobs for a new customer during the quarter while another customer changed to a smaller job design.

OPERATING LOSS

The Company's United States operations had an operating loss of \$7.2 million during the fourth quarter of 2016 compared to a loss of \$3.9 million in the same period in 2015, which included \$5.1 million in restructuring costs. The fourth quarter loss was primarily the result of lower than expected utilization in Colorado and North Dakota caused by operational inefficiencies associated with working with new customers as well as delays caused by a combination of bad weather and a slower than expected increase in customer activity. SG&A expenses decreased by 42 percent in the fourth quarter of 2016 from the prior year primarily due to workforce reductions since the end of 2015.

RUSSIA

| Three Months Ended December 31, | 2016 | 2015 | Change |
|---|---------------|--------|--------|
| (C\$000s, except operational and exchange rate information) | (\$) | (\$) | (%) |
| (unaudited) | | | |
| Revenue | 24,400 | 32,641 | (25) |
| Expenses | | | |
| Operating | 22,705 | 27,664 | (18) |
| SG&A | 752 | 745 | 1 |
| | 23,457 | 28,409 | (17) |
| Operating income ⁽¹⁾ | 943 | 4,232 | (78) |
| Operating income (%) | 3.9 | 13.0 | (70) |
| Fracturing revenue per job (\$) | 71,753 | 90,035 | (20) |
| Number of fracturing jobs | 267 | 301 | (11) |
| Pumping horsepower, end of period (000s) | 70 | 70 | — |
| Coiled tubing revenue per job (\$) | 46,392 | 39,578 | 17 |
| Number of coiled tubing jobs | 113 | 140 | (19) |
| Active coiled tubing units, end of period (#) | 6 | 7 | (14) |
| Idle coiled tubing units, end of period (#) | 1 | — | NM |
| Total coiled tubing units, end of period (#) | 7 | 7 | — |
| Rouble/C\$ average exchange rate ⁽²⁾ | 0.0212 | 0.0202 | 5 |

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

⁽²⁾ Source: Bank of Canada.

REVENUE

Revenue from Calfrac's Russian operations decreased by 25 percent during the fourth quarter of 2016 to \$24.4 million from \$32.6 million in the corresponding three-month period of 2015. The decline in revenue was largely attributable to the impact of no longer providing proppant to one of Calfrac's customers as well as lower activity due to extremely cold weather in Western Siberia during December. The 5 percent appreciation of the Russian rouble in the fourth quarter of 2016 as compared to the same quarter of 2015 partially offset the decline in revenue. Revenue per fracturing job declined by 20 percent primarily due to the impact of no longer providing proppant to one of Calfrac's customers.

OPERATING INCOME

Operating income in Russia was \$0.9 million during the fourth quarter of 2016, a 78 percent decrease from the corresponding period of 2015. Operating income as a percentage of revenue was 4 percent compared to 13 percent in 2015 primarily due to lower utilization resulting from the impact of extremely cold weather in Western Siberia and operational inefficiencies with one of the Company's contracted customers. SG&A expenses were consistent with the comparable quarter in 2015.

LATIN AMERICA

| Three Months Ended December 31, | 2016 | 2015 | Change |
|--|----------------|--------|--------|
| (C\$000s, except operational and exchange rate information) (unaudited) | (\$) | (\$) | (%) |
| Revenue | 38,163 | 48,949 | (22) |
| Expenses | | | |
| Operating | 38,236 | 40,254 | (5) |
| SG&A | 2,800 | 4,666 | (40) |
| | 41,036 | 44,920 | (9) |
| Operating (loss) income ⁽¹⁾ | (2,873) | 4,029 | NM |
| Operating (loss) income (%) | (7.5) | 8.2 | NM |
| Pumping horsepower, end of period (000s) | 131 | 131 | — |
| Cementing units, end of period (#) | 14 | 13 | 8 |
| Coiled tubing units, end of period (#) | 7 | 7 | — |
| Mexican peso/C\$ average exchange rate ⁽²⁾ | 0.0674 | 0.0797 | (15) |
| Argentinean peso/C\$ average exchange rate ⁽²⁾ | 0.0863 | 0.1337 | (35) |

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

⁽²⁾ Source: Bank of Canada.

REVENUE

Calfrac's Latin American operations generated total revenue of \$38.2 million during the fourth quarter of 2016 versus \$48.9 million in the comparable three-month period in 2015. Revenue in Argentina was \$6.3 million lower than the comparable quarter primarily due to lower pricing, the completion of smaller jobs and less cementing activity. In Mexico, revenue decreased by \$4.5 million primarily due to lower coiled tubing work with its major customer.

OPERATING (LOSS) INCOME

The Company's operations in Latin America incurred an operating loss of \$2.9 million during the fourth quarter of 2016 compared to operating income of \$4.0 million in the fourth quarter of 2015. This decrease was primarily due to lower equipment utilization caused by flooding in Neuquén in late October combined with continued union strikes throughout the quarter and lower pricing. In addition, Calfrac recorded restructuring costs of \$2.9 million and \$0.5 million in Argentina and Mexico, respectively during the fourth quarter of 2016.

CORPORATE

| Three Months Ended December 31, | 2016 | 2015 | Change |
|---------------------------------|----------|---------|--------|
| (C\$000s) | (\$) | (\$) | (%) |
| (unaudited) | | | |
| Expenses | | | |
| Operating | 1,075 | 1,871 | (43) |
| SG&A | 9,515 | 6,881 | 38 |
| | 10,590 | 8,752 | 21 |
| Operating loss ⁽¹⁾ | (10,590) | (8,752) | 21 |
| % of Revenue | 5.5 | 3.1 | 77 |

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

OPERATING LOSS

Corporate expenses for the fourth quarter of 2016 increased by 21 percent compared to the fourth quarter of 2015. Operating expenses were 43 percent lower as a result of lower district personnel costs. SG&A expenses were \$2.6 million higher, which resulted from a \$4.4 million increase in stock-based compensation expense due to a higher share price at the end of the quarter combined with additional restricted share units granted during the period. Excluding stock-based compensation, the Company reduced SG&A expenses by \$1.7 million primarily through personnel reductions.

DEPRECIATION

For the three months ended December 31, 2016, depreciation expense increased by 32 percent to \$53.3 million from \$40.3 million in the corresponding quarter of 2015. The increase resulted from the Company decreasing its useful life depreciation estimate and salvage value for certain of its components relating to pumping equipment during the quarter. This resulted in a one-time depreciation charge of \$21.5 million to the income statement in the current period. The increase in depreciation was partially offset by the impact of the \$114.5 million impairment of property, plant and equipment in the United States, Canada and Mexico that was recorded in the fourth quarter of 2015.

FOREIGN EXCHANGE GAINS AND LOSSES

The Company recorded a foreign exchange gain of \$0.3 million during the fourth quarter of 2016 versus a loss of \$33.5 million in the comparative three-month period of 2015. 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, Russia and Latin America.

IMPAIRMENT

The Company tested each of its cash generating units (CGU) for potential impairment at the end of 2016 and 2015, as the impact of low oil and gas natural gas prices over the past two years on the Company's current and future financial results were indicators of impairment. Based on the results of the impairment test, no impairment was identified for the year ended December 31, 2016 (2015 - \$114.5 million). The impairment losses by CGU are as follows:

| For the quarter ended December 31, | 2016 | 2015 |
|------------------------------------|------|---------|
| (C\$000s) | (\$) | (\$) |
| Canada | — | 10,091 |
| United States | — | 102,528 |
| Mexico | — | 1,860 |
| | — | 114,479 |

The Company also evaluated the net realizable value of its inventories at December 31, 2016 and recorded a \$3.2 million write-down (2015 - \$14.3 million).

INTEREST

The Company's net interest expense of \$22.1 million for the fourth quarter of 2016 was \$3.8 million higher than in the comparable period of 2015. The main driver of this increase was interest expense related to the Company's \$200.0 million secured second lien term loan as it contributed to an increase in debt levels and the interest rate on this loan was higher than the interest rate on the credit facility borrowings that were repaid.

INCOME TAXES

The Company recorded an income tax recovery of \$32.2 million during the fourth quarter of 2016 compared to a recovery of \$72.0 million in the comparable period of 2015. The recovery position was the result of pre-tax losses incurred during the quarter in Canada, the United States and Argentina. The effective tax recovery rate was 34 percent during the fourth quarter of 2016 compared to a normalized effective tax recovery rate of 30 percent in the comparable quarter in 2015. The effective tax recovery rate in 2016 was higher primarily due to a greater proportion of the consolidated losses being incurred in the United States, which has a higher statutory tax rate, compared to 2015.

OUTLOOK

Last year was one of the most challenging years experienced by the North American pressure pumping industry. The U.S. land rig count fell to 380 rigs while the Canadian rig count dropped to as low as 34 rigs in 2016. As a result of this lack of activity, pricing in the pressure pumping sub-sector fell to unsustainable levels and, consequently, drove several North American competitors into bankruptcy or to undertake significant financial restructuring measures. In 2016, Calfrac was focused on managing its cost structure and preserving liquidity which resulted in significant headcount reductions across the Company, the introduction of structural changes in Canadian field labour compensation, further idling of assets and the closure of certain districts both on a permanent and temporary basis. While difficult decisions had to be made over the course of the last two years, Calfrac was able to navigate through the downturn and is optimistic for an industry recovery. As evident in the rebound in the North American rig count and the recent strength in crude oil prices and relative strength in natural gas prices, the Company believes that the market has begun to improve. Activity has experienced positive momentum over the last few months and utilization of Calfrac's active fleet has meaningfully increased in North America while the Company's international operations have stabilized. Although Calfrac believes that 2017 will be an improvement from 2016, the Company expects the first half of the year to be a transition period as the pressure pumping industry begins to recover in Canada and the United States.

CANADA

Calfrac's activity has been strong since the beginning of the year and the Company anticipates full utilization of its active fleet through to spring break-up. Given that the rig count has held above 300 rigs for the last several weeks, Calfrac believes that completion activity in the second half of 2017 will exceed levels experienced over the last few years. The Company reactivated a fleet at the end of November that is dedicated to the Saskatchewan light oil plays as well as a larger fleet focused in the Grande Prairie region that was deployed in late January. The majority of Calfrac's activity is focused in the Montney gas and Saskatchewan light oil plays where the Company maintains a strong market share while activity in the Cardium has also begun to reemerge. Based on the previously mentioned capacity additions and given current activity levels and visibility, Calfrac believes that it has an appropriate amount of active capacity but the Company will continue to monitor the market for opportunities to redeploy additional horsepower on a profitable basis. The labour market is and will continue to be tight and the Company believes that this factor will be a significant constraint in bringing additional capacity back into service.

Given the high utilization of active horsepower in the market, Calfrac has been able to increase pricing for its services and first quarter levels are expected to improve from the lows experienced in the third quarter of 2016. Pricing remains dynamic but the Company expects this positive momentum will continue over the course of 2017. In terms of supplier costs, third-party trucking was the first to increase and sand and chemical costs are starting to trend higher as the market recovers. Calfrac does not anticipate the higher input costs to have a significant impact on its financial results given that the Company has and will continue to pass these increased costs along to its customers.

UNITED STATES

The United States division has been the most challenged market throughout the downturn. While the Company believes it will benefit from increased pressure pumping demand in the first half of 2017, Calfrac remains cautious as it builds back scale across its operating areas and pricing levels improve. The Company has reactivated a second fleet for the Bakken and increased the size of one of its Rockies fleets in order to satisfy the demand of its customers. Pricing fundamentals are improving and the addition of the aforementioned capacity is expected to yield returns that will drive the U.S. division towards positive operating margins. Calfrac is also experiencing increased demand for its services in the Marcellus and if pricing continues to

strengthen the Company believes there may be an opportunity to reactivate an additional fleet in 2017. Consistent with Calfrac's Canadian operations, supplier costs have started to increase but those costs have and will continue to be passed along to its customers.

RUSSIA

To date, activity in the first quarter is meeting the Company's expectations and financial results are anticipated to be relatively consistent with the first quarter of 2016. The majority of the 2017 tendering process has come to a close and Calfrac was successful in securing work with both existing as well as new customers. Overall, activity and pricing are expected to remain relatively flat on a year-over-year basis with financial results projected to remain stable when compared to 2016.

LATIN AMERICA

The Argentinean government recently announced a plan that aims to boost the exploration and development of unconventional resources in the Neuquén area. Included in the deal was the extension of Plan Gas, a commitment to investments in infrastructure, positive tax reforms and an adjustment to certain union conditions aimed at improving labor productivity. Oil and gas companies are expected to invest US\$5.0 billion in unconventional exploration and development in 2017 and Calfrac believes additional joint ventures in the Vaca Muerta shale formation are likely to be announced over the coming year. Overall, this announcement reinforces the Company's positive long-term outlook for the country and Calfrac believes it is in a strong position to benefit from the expected increase in activity in the coming years. In the near-term, the Company expects financial results to improve due to a combination of cost cutting initiatives and stabilized activity levels. However, labor disruptions in the form of work slowdowns have recently emerged and could negatively impact operating results. Overall, the Company anticipates that increased fracturing activity in 2017 will offset a decrease in cementing activity while pricing is expected to remain largely stable with current levels.

In Mexico, the business environment remains challenging with very limited pressure pumping activity. Calfrac will continue to evaluate the market while maintaining a small scale operating presence with a minimal cost structure.

CORPORATE

In the fourth quarter of 2016, Calfrac completed an equity raise for net proceeds of \$56.6 million which served to further improve liquidity as well as pre-fund the Company's second equity cure. With the ability to utilize two equity cures, coupled with its cash position, undrawn credit facilities, modest capital budget and overall improved visibility, the Company believes it is in a strong position as the pressure pumping market recovers.

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

| | Three Months Ended Dec. 31, | | Years Ended Dec. 31, | |
|---|-----------------------------|-----------|----------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| (C\$000s) | (\$) | (\$) | (\$) | (\$) |
| (unaudited) | | | | |
| Net loss | (63,356) | (145,636) | (203,557) | (227,426) |
| Add back (deduct): | | | | |
| Depreciation | 53,272 | 40,254 | 152,822 | 156,638 |
| Foreign exchange (gains) losses | (256) | 33,540 | 19,319 | 37,025 |
| Gain on disposal of property, plant and equipment | (1,011) | (643) | (491) | (2,257) |
| Impairment of property, plant and equipment | — | 114,479 | — | 114,479 |
| Impairment of inventory | 3,225 | 14,333 | 3,225 | 14,333 |
| Impairment of goodwill | — | — | — | 9,544 |
| Business combination | — | — | — | (30,987) |
| Provision for settlement of litigation | — | 3,165 | — | 3,165 |
| Interest | 22,084 | 18,289 | 80,110 | 68,967 |
| Income taxes | (32,249) | (71,994) | (109,632) | (114,097) |
| Operating (loss) income | (18,291) | 5,787 | (58,204) | 29,384 |

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

| | Three Months Ended Dec. 31, | | Years Ended Dec. 31, | |
|--|-----------------------------|-----------|----------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| (C\$000s) | | | (\$) | (\$) |
| (unaudited) | | | | |
| Net loss | (63,356) | (145,636) | (203,557) | (227,426) |
| Add back (deduct): | | | | |
| Depreciation | 53,272 | 40,254 | 152,822 | 156,638 |
| Unrealized foreign exchange losses | 163 | 37,777 | 22,490 | 42,592 |
| Gain on disposal of property, plant and equipment | (1,011) | (643) | (491) | (2,257) |
| Impairment of property, plant and equipment | — | 114,479 | — | 114,479 |
| Impairment of inventory | 3,225 | 14,333 | 3,225 | 14,333 |
| Impairment of goodwill | — | — | — | 9,544 |
| Business combination | — | — | — | (30,987) |
| Provision for settlement of litigation | — | 3,165 | — | 3,165 |
| Restructuring charges | 3,475 | 11,868 | 7,892 | 13,533 |
| Stock-based compensation | 664 | 785 | 2,361 | 3,082 |
| Losses attributable to non-controlling interest ⁽¹⁾ | 16 | 256 | 30 | 491 |
| Interest | 22,084 | 18,289 | 80,110 | 68,967 |
| Income taxes | (32,249) | (71,994) | (109,632) | (114,097) |
| Adjusted EBITDA | (13,717) | 22,933 | (44,750) | 52,057 |

⁽¹⁾ The definition of Adjusted EBITDA was amended in June 2015 to include non-controlling interest related to Argentina and has been applied prospectively.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

| As at December 31, 2016 | Payment Due by Period | | | | |
|-------------------------------|-----------------------|----------|-------------|-------------|---------------|
| | Total | < 1 Year | 1 - 3 Years | 4 - 5 Years | After 5 Years |
| (C\$000s) (unaudited) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Operating and finance leases | 33,008 | 16,495 | 16,513 | — | — |
| Purchase obligations | 280,561 | 133,639 | 143,667 | 3,255 | — |
| Total contractual obligations | 313,569 | 150,134 | 160,180 | 3,255 | — |

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

CONTRACTUAL OBLIGATION

The Company has a contractual obligation with one of its major product suppliers, which includes an annual minimum purchase commitment through the end of 2017. During 2016, the Company did not meet its annual purchase commitment but is currently in negotiations with the supplier to amend the contractual obligations and extend the fulfilment of the 2016 annual expenditure commitment to future years. Given the stage of the ongoing negotiations, no provision has been recorded in the Company's financial statements, as the outcome of the negotiations and the financial impact cannot be determined at this time. The maximum exposure related to the 2016 shortfall is \$15.7 million.

GREEK LITIGATION

As described in note 19 to the annual consolidated financial statements, the Company and one of its Greek subsidiaries are involved in a number of legal proceedings in Greece. Management regularly evaluates the likelihood of potential liabilities being incurred and the amounts of such liabilities after careful examination of available information and discussions with its legal advisors. Management is of the view that it is improbable there will be a material financial impact to the Company as a result of these claims. Consequently, no provision was recorded in the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This MD&A is based on the Company's consolidated financial statements for the year ended December 31, 2016 which were prepared in accordance with IFRS. Management is required to make assumptions, judgments and estimates in the application of IFRS. Calfrac's significant accounting policies are described in note 2 to the annual consolidated financial statements.

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

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE

The Company performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, financial condition of the customer and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based on specific situations and overall industry conditions. In situations where the creditworthiness of a customer is uncertain, services are provided on receipt of cash in advance or services are declined. Calfrac's management believes that the provision for doubtful accounts receivable, which was \$7.6 million at December 31, 2016, 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 October 1, 2016, the Company revised its useful life depreciation estimate and salvage value of certain of its components relating to equipment. This change was adopted as a change in accounting estimate on a prospective basis starting October 1, 2016.

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, bank loans, long-term debt and finance lease obligations.

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial instruments included in the consolidated balance sheets, except long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of the senior unsecured notes based on the closing market price at December 31, 2016 was \$702.9 million before deduction of unamortized debt issuance costs (December 31, 2015 - \$336.3 million). The carrying value of the senior unsecured notes at December 31, 2016 was \$805.6 million before deduction of unamortized debt issuance costs and debt discount (December 31, 2015 - \$830.4 million). The fair values of the remaining long-term debt and finance lease obligations approximate their carrying values, as described in note 11 to the annual consolidated financial statements.

CREDIT RISK

Substantial amounts of the Company's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risks. The Company mitigates this risk through its credit policies and practices, including the use of credit limits and approvals, and by monitoring its customers' financial condition. At December 31, 2016, the Company had a provision for doubtful accounts receivable of \$7.6 million (December 31, 2015 - \$2.9 million).

Payment terms with customers vary by country and contract. Standard payment terms, however, are 30 days from invoice date. The Company's aged trade and accrued accounts receivable at December 31, 2016 and 2015, excluding the provision for doubtful accounts, are as follows:

| As at December 31, | 2016 | 2015 |
|--------------------|---------|---------|
| (C\$000s) | (\$) | (\$) |
| (unaudited) | | |
| Current | 84,833 | 161,082 |
| 31 - 60 days | 33,687 | 29,386 |
| 61 - 90 days | 7,707 | 7,596 |
| 91+ days | 15,098 | 13,974 |
| Total | 141,325 | 212,038 |

The Company's accounts receivable aged greater than 90 days were primarily with customers operating in Argentina and Russia for which no provision has been made. The payment delay is consistent with the experience of many other oilfield service companies in these markets. Although the timing is uncertain, collection is expected in its entirety.

INTEREST RATE RISK

The Company is exposed to cash flow risk due to fluctuating interest payments required to service any floating-rate debt. The increase or decrease in annual interest expense for each 1 percentage point change in the interest rate on floating-rate debt at December 31, 2016 amounts to seven thousand dollars (2015 - \$1.3 million).

The Company's effective interest rate for the year ended December 31, 2016 was 8.3 percent (December 31, 2015 - 7.8 percent).

LIQUIDITY RISK

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

facilities and monitoring its forecast and actual cash flows. The Company has also adjusted its capital spending and dividends to maintain liquidity.

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

| As at December 31, 2016 | Total | < 1 Year | 1 - 3 Years | 4 - 6 Years | 7 - 9 Years | Thereafter |
|--|-----------|----------|-------------|-------------|-------------|------------|
| (C\$000s) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| (unaudited) | | | | | | |
| Accounts payable and accrued liabilities | 114,529 | 114,529 | — | — | — | — |
| Long-term debt ⁽¹⁾ | 1,308,242 | 81,079 | 1,227,163 | — | — | — |

| As at December 31, 2015 | Total | < 1 Year | 1 - 3 Years | 4 - 6 Years | 7 - 9 Years | Thereafter |
|--|-----------|----------|-------------|-------------|-------------|------------|
| (C\$000s) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| (unaudited) | | | | | | |
| Bank loan ⁽¹⁾ | 69,253 | 5,362 | 16,086 | 16,086 | 16,086 | 15,633 |
| Accounts payable and accrued liabilities | 172,633 | 172,633 | — | — | — | — |
| Long-term debt ⁽¹⁾ | 1,208,693 | 68,134 | 310,158 | 830,401 | — | — |

⁽¹⁾ Principal and interest

FOREIGN EXCHANGE RISK

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

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

| At December 31, 2016 | Impact to Net Income | Impact to Other Comprehensive Income |
|--------------------------------------|----------------------|--------------------------------------|
| (C\$000s) | (\$) | (\$) |
| 1% change in value of U.S. dollar | 1,015 | 3,072 |
| 1% change in value of Russian rouble | — | 506 |

| At December 31, 2015 | Impact to Net Income | Impact to Other Comprehensive Income |
|--------------------------------------|----------------------|--------------------------------------|
| (C\$000s) | (\$) | (\$) |
| 1% change in value of U.S. dollar | 330 | 3,167 |
| 1% change in value of Russian rouble | — | 434 |

IMPAIRMENT

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

As described in note 5 to the consolidated financial statements, the impact of the continued decline in oil and natural gas prices on the Company's current and future financial results combined with the oversupply of pressure pumping equipment in North America were indicators of impairment during the fourth quarter of 2016, and the Company estimated the recoverable amount of its property, plant and equipment.

A comparison of the recoverable amounts of each CGU with their respective carrying amounts resulted in no impairment charge with respect to property, plant and equipment during the fourth quarter of 2016 (three months ended December 31, 2015 - \$114.5 million). The impairment losses by CGU are as follows:

| Three Months Ended December 31, | 2016 | 2015 |
|---------------------------------|------|---------|
| (C\$000s) | (\$) | (\$) |
| Canada | — | 10,091 |
| United States | — | 102,528 |
| Mexico | — | 1,860 |
| | — | 114,479 |

The Company also evaluated the net realizable value of its inventories at December 31, 2016 and recorded a \$3.2 million write-down (2015 - \$14.3 million).

| Three Months Ended December 31, | 2016 | 2015 |
|---------------------------------|-------|--------|
| (C\$000s) | (\$) | (\$) |
| Canada | 2,169 | 4,032 |
| United States | 1,056 | 10,301 |
| | 3,225 | 14,333 |

INCOME TAXES

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

STOCK-BASED COMPENSATION

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

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

FUNCTIONAL CURRENCY

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

CASH-GENERATING UNITS

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

RELATED-PARTY TRANSACTIONS

In November 2010, the Company lent a senior officer \$2.5 million to purchase common shares of the Company on the Toronto Stock Exchange (TSX). The loan is on a non-recourse basis and is secured by the common shares acquired with the loan proceeds. The loan was amended in February 2015 to extend the term by five years to November 8, 2020 and change the interest rate to the prescribed rate under the Income Tax Act (Canada), which rate was 1.0 percent per annum at the time of the amendment. The loan was subsequently amended in December 2016 to make it non-interest bearing, effective February 24, 2015. The market value of the shares that secure the loan was approximately \$0.8 million as at December 31, 2016 (December 31, 2015 - \$0.4 million). In accordance with applicable accounting standards regarding share purchase loans receivable, this loan is

classified as a reduction of shareholders' equity due to its non-recourse nature. In addition, the shares purchased with the loan proceeds are considered to be, in substance, stock options.

The Company leases certain premises from an entity controlled by one of its directors. The rent charged for these premises during the year ended December 31, 2016 was \$1.5 million (year ended December 31, 2015 – \$1.1 million), as measured at the exchange amount.

As disclosed in note 15 of the consolidated financial statements, the Company issued common shares under a private placement. Of the total gross proceeds of \$60.0 million, \$10.0 million was purchased by directors or entities controlled by directors of the Company.

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

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

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

In accordance with the requirements of National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings," an evaluation of the effectiveness of DC&P and ICFR was carried out under the supervision of the CEO and CFO at December 31, 2016. Based on this evaluation, the CEO and CFO have concluded that the Company's DC&P and ICFR are effectively designed and operating as intended.

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

SEASONALITY OF OPERATIONS

The Company's North American business is seasonal. The lowest activity is typically experienced during the second quarter of the year when road weight restrictions are in place due to spring break-up weather conditions and access to well sites in Canada and North Dakota is reduced (refer to "Business Risks – Seasonality" on page 35).

FOREIGN EXCHANGE FLUCTUATIONS

The Company's consolidated financial statements are reported in Canadian dollars. Accordingly, the quarterly results are directly affected by fluctuations in the exchange rates for United States, Russian, Mexican and Argentinean currency (refer to "Business Risks – Fluctuations in Foreign Exchange Rates" on page 33).

BUSINESS RISKS

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

VOLATILITY OF INDUSTRY CONDITIONS

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

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

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

EQUIPMENT LEVELS

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

COMPETITION

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

ACCESS TO CAPITAL

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

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

Even if the Company is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to the Company. If the Company is unable to repay amounts owing under the Credit Agreement, the Term Loan Agreement or the Indenture (as defined in the Company's most recently filed Annual Information Form), the lenders could proceed to foreclose or otherwise realize upon any collateral granted to them to secure the indebtedness. The acceleration of the Company's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross-

default or cross-acceleration provisions. In addition, operating and financial restrictions exist under the Credit Agreement, the Term Loan Agreement and the Indenture, which include restrictions on the payment of dividends, repurchase or making of other distributions with respect to the Company's securities, incurrence of additional indebtedness, provision of guarantees, making of capital expenditures and entering into of certain transactions, among others.

VOLATILITY IN CREDIT MARKETS

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

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

EMPLOYEES

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

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

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

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

FLUCTUATIONS IN FOREIGN EXCHANGE RATES

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

FOREIGN OPERATIONS

Some of the Company's operations and related assets are located in countries outside of Canada and the United States, some of which may be considered politically or economically unstable. Activities in such countries may require protracted negotiations with host governments, national oil and gas companies and third parties and are frequently subject to economic and political considerations, such as taxation, nationalization, expropriation, inflation, currency fluctuations, increased regulation and approval requirements, restrictions on the repatriation of income or capital, governmental regulation and the risk of actions

by terrorist, criminal or insurgent groups, any of which could adversely affect the economics of exploration or development projects and the demand for the Company's well stimulation services which, in turn, could have a material adverse effect on its business, financial condition, results of operations and cash flows.

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

FEDERAL, STATE AND PROVINCIAL LEGISLATIVE AND REGULATORY INITIATIVES

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

Legislative and regulatory requirements currently in place or scheduled to become effective in certain provinces and/or states in 2017 include requirements regarding local government consultation, wellhead and pad setbacks, public and landowner notification and involvement, withdrawal of water for use in hydraulic fracturing of horizontal wells, baseline testing of nearby water wells, restrictions on which additives may be used, reporting with respect to spills, mandatory visual and noise mitigation measures as well as temporary or permanent bans on hydraulic fracturing. These types of requirements could subject the Company to increased costs, delays, limits on the productivity of certain wells and, possibly, limits on its ability to deploy its technology. The adoption of any future federal, provincial, state or local laws or implementing regulations in any of the jurisdictions in which the Company operates which impose additional permitting, disclosure or regulatory obligations related to, or otherwise limiting, the hydraulic fracturing process could make it more difficult to complete oil and natural gas wells and could affect the Company's ability to utilize proprietary technological developments to compete effectively in the pressure pumping industry. Such results could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

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

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

ENVIRONMENT LAWS AND REGULATIONS

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

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

CONCENTRATION OF CUSTOMER BASE

The Company's customer base consists of approximately 113 oil and natural gas exploration and production companies, ranging from large multi-national public companies to small private companies. Notwithstanding the Company's broad customer base, it had ten significant customers that collectively accounted for approximately 60 percent of its revenue for the year ended December 31, 2016 and, of such customers, five accounted for approximately 42 percent of the Company's revenue for the year ended December 31, 2016. There can be no assurance that the Company's relationship with these customers will continue, and a significant reduction or total loss of the business from these customers, if not offset by sales to new or existing customers, would have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

MERGER & ACQUISITION ACTIVITY

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

OPERATIONAL RISKS

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

SEASONALITY

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

LEGAL PROCEEDINGS

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

SAFETY STANDARDS

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

MANAGEMENT STEWARDSHIP

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

LIABILITIES OF PRIOR OPERATIONS

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

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

BENEFITS OF ACQUISITIONS AND DISPOSITIONS

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

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

Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Company's ability to realize the anticipated growth opportunities

and synergies from combining the acquired businesses and operations with those of the Company. The integration of an acquired business may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. The inability of the Company to realize the anticipated benefits of acquisitions and dispositions could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

NEW TECHNOLOGIES AND CUSTOMER EXPECTATIONS

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

CLIMATE CHANGE INITIATIVES

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

INTELLECTUAL PROPERTY

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

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

CONFIDENTIAL INFORMATION

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

incidents, which could cause the Company to incur significant expense. Any of these events could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

DEMAND FOR OIL AND NATURAL GAS

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

DIVIDENDS

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

TAX ASSESSMENTS

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

GROWTH-RELATED RISKS

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

CAPITAL-INTENSIVE INDUSTRY

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

CREDIT RISK

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

ADVISORIES

FORWARD-LOOKING STATEMENTS

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

In particular, forward-looking statements in this MD&A include, but are not limited to, statements with respect to expected operating strategies and targets, capital expenditure programs, future financial resources, use of funds held in the Company's segregated bank account (as an equity cure or otherwise), 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, its term loan agreement and the indenture pursuant to which its senior notes were issued and its ability to raise capital, treatment under government regulatory regimes, commodity prices, anticipated outcomes of specific events (including exposure under existing legal proceedings), expectations regarding trends in, and the growth prospects of, the global oil and natural gas industry, the Company's growth strategy and prospects, and the impact of changes in accounting policies and standards on the Company and its financial statements. These statements are derived from certain assumptions and analyses made by the Company based on its experience and perception of historical trends, current conditions, expected future developments and other factors that it believes are appropriate in the circumstances, including, but not limited to, the economic and political environment in which the Company operates, the Company's expectations for its current and prospective customers' capital budgets and geographical areas of focus, the Company's existing contracts and the status of current negotiations with key customers and suppliers, the effectiveness of cost reduction measures instituted by the Company, the effect unconventional gas projects have had on supply and demand fundamentals for natural gas and the likelihood that the current tax and regulatory regime will remain substantially unchanged.

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

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

ADDITIONAL INFORMATION

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

MANAGEMENT'S LETTER

To the Shareholders of Calfrac Well Services Ltd.

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

Management has prepared the Management's Discussion and Analysis (MD&A). The MD&A is based on the Company's financial results prepared in accordance with IFRS. The MD&A compares the audited financial results for the years ended December 31, 2016 and December 31, 2015.

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

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

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



Fernando Aguilar
President and Chief Executive Officer



Michael D. Olinek
Vice President, Finance and
Interim Chief Financial Officer

February 22, 2017
Calgary, Alberta, Canada

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Calfrac Well Services Ltd.

We have audited the accompanying consolidated financial statements of Calfrac Well Services Ltd., which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015 and the consolidated statements of operations, consolidated statements of comprehensive (loss) income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Calfrac Well Services Ltd. as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

February 22, 2017
Calgary, Alberta, Canada

CONSOLIDATED BALANCE SHEETS

| As at December 31, | 2016 | 2015 |
|---|------------------|-----------|
| (C\$000s) | (\$) | (\$) |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents (note 3) | 109,917 | 124,005 |
| Accounts receivable | 158,709 | 221,995 |
| Income taxes recoverable | 3,715 | 3,540 |
| Inventories (note 4) | 99,601 | 127,622 |
| Prepaid expenses and deposits | 16,992 | 18,017 |
| | 388,934 | 495,179 |
| Non-current assets | | |
| Property, plant and equipment (note 5) | 1,153,882 | 1,301,272 |
| Deferred income tax assets (note 9) | 70,188 | 19,372 |
| Total assets | 1,613,004 | 1,815,823 |
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 114,529 | 172,633 |
| Bank loans | — | 15,633 |
| Current portion of long-term debt (note 6) | 2,520 | 523 |
| Current portion of finance lease obligations | 304 | 438 |
| | 117,353 | 189,227 |
| Non-current liabilities | | |
| Long-term debt (note 6) | 984,062 | 927,270 |
| Finance lease obligations | — | 382 |
| Deferred income tax liabilities (note 9) | 14,131 | 75,225 |
| Total liabilities | 1,115,546 | 1,192,104 |
| Equity attributable to the shareholders of Calfrac | | |
| Capital stock (note 7) | 466,445 | 409,809 |
| Contributed surplus | 36,040 | 27,849 |
| Loan receivable for purchase of common shares (note 15) | (2,500) | (2,500) |
| Retained earnings | 15,329 | 213,426 |
| Accumulated other comprehensive loss | (8,736) | (21,054) |
| | 506,578 | 627,530 |
| Non-controlling interest | (9,120) | (3,811) |
| Total equity | 497,458 | 623,719 |
| Total liabilities and equity | 1,613,004 | 1,815,823 |

Commitments (note 10); Contingencies (note 19)
See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors,



Ronald P. Mathison, Director



Gregory S. Fletcher, Director

CONSOLIDATED STATEMENTS OF OPERATIONS

| Years Ended December 31, | 2016 | 2015 |
|--|------------------|-------------|
| <i>(C\$000s, except per share data)</i> | <i>(\$)</i> | <i>(\$)</i> |
| Revenue | 734,514 | 1,495,205 |
| Cost of sales (note 16) | 875,477 | 1,543,882 |
| Gross loss | (140,963) | (48,677) |
| Expenses | | |
| Selling, general and administrative | 70,063 | 78,577 |
| Foreign exchange losses | 19,319 | 37,025 |
| Gain on disposal of property, plant and equipment | (491) | (2,257) |
| Impairment of property, plant and equipment (note 5) | — | 114,479 |
| Impairment of inventory (note 4) | 3,225 | 14,333 |
| Impairment of goodwill | — | 9,544 |
| Business combination (note 13) | — | (30,987) |
| Provision for settlement of litigation | — | 3,165 |
| Interest | 80,110 | 68,967 |
| | 172,226 | 292,846 |
| Loss before income tax | (313,189) | (341,523) |
| Income tax expense (recovery) (note 9) | | |
| Current | 2,567 | 1,872 |
| Deferred | (112,199) | (115,969) |
| | (109,632) | (114,097) |
| Net loss | (203,557) | (227,426) |
| Net loss attributable to: | | |
| Shareholders of Calfrac | (198,097) | (221,594) |
| Non-controlling interest | (5,460) | (5,832) |
| | (203,557) | (227,426) |
| Loss per share (note 7) | | |
| Basic | (1.69) | (2.31) |
| Diluted | (1.69) | (2.31) |

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

| Years Ended December 31, | 2016 | 2015 |
|---|------------------|------------------|
| (C\$000s) | (\$) | (\$) |
| Net loss | (203,557) | (227,426) |
| Other comprehensive income (loss) | | |
| Items that may be subsequently reclassified to profit or loss: | | |
| Change in foreign currency translation adjustment | 12,469 | 6,690 |
| Comprehensive loss | (191,088) | (220,736) |
| Comprehensive loss attributable to: | | |
| Shareholders of Calfrac | (185,779) | (215,891) |
| Non-controlling interest | (5,309) | (4,845) |
| | (191,088) | (220,736) |

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Equity Attributable to the Shareholders of Calfrac | | | | | | | |
|--|--|---------------------|---|---|-------------------|----------------|--------------------------|----------------|
| | Share Capital | Contributed Surplus | Loan Receivable for Purchase of Common Shares | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total | Non-Controlling Interest | Total Equity |
| (C\$000s) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Balance – Jan. 1, 2016 | 409,809 | 27,849 | (2,500) | (21,054) | 213,426 | 627,530 | (3,811) | 623,719 |
| Net loss | — | — | — | — | (198,097) | (198,097) | (5,460) | (203,557) |
| Other comprehensive income: | | | | | | | | |
| Cumulative translation adjustment | — | — | — | 12,318 | — | 12,318 | 151 | 12,469 |
| Comprehensive income (loss) | — | — | — | 12,318 | (198,097) | (185,779) | (5,309) | (191,088) |
| Warrants: | | | | | | | | |
| Fair value of warrants issued (note 8) | — | 5,830 | — | — | — | 5,830 | — | 5,830 |
| Stock options: | | | | | | | | |
| Stock-based compensation recognized (note 8) | — | 2,361 | — | — | — | 2,361 | — | 2,361 |
| Net proceeds from issuance of shares (note 7) | 56,636 | — | — | — | — | 56,636 | — | 56,636 |
| Balance – Dec. 31, 2016 | 466,445 | 36,040 | (2,500) | (8,736) | 15,329 | 506,578 | (9,120) | 497,458 |
| Balance – Jan. 1, 2015 | 377,975 | 24,767 | (2,500) | (26,757) | 459,891 | 833,376 | (973) | 832,403 |
| Net loss | — | — | — | — | (221,594) | (221,594) | (5,832) | (227,426) |
| Other comprehensive income (loss): | | | | | | | | |
| Cumulative translation adjustment | — | — | — | 5,703 | — | 5,703 | 987 | 6,690 |
| Comprehensive income (loss) | — | — | — | 5,703 | (221,594) | (215,891) | (4,845) | (220,736) |
| Stock options: | | | | | | | | |
| Stock-based compensation recognized (note 8) | — | 3,082 | — | — | — | 3,082 | — | 3,082 |
| Net proceeds from issuance of shares (note 7) | 25,194 | — | — | — | — | 25,194 | — | 25,194 |
| Dividend Reinvestment Plan shares issued (note 21) | 12,733 | — | — | — | — | 12,733 | — | 12,733 |
| Dividends (note 21) | — | — | — | — | (21,550) | (21,550) | — | (21,550) |
| Shares purchased under NCIB | (6,093) | — | — | — | (3,321) | (9,414) | — | (9,414) |
| Non-controlling interest contribution | — | — | — | — | — | — | 2,007 | 2,007 |
| Balance – Dec. 31, 2015 | 409,809 | 27,849 | (2,500) | (21,054) | 213,426 | 627,530 | (3,811) | 623,719 |

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| Years Ended December 31, | 2016 | 2015 |
|--|-----------|-----------|
| (C\$000s) | (\$) | (\$) |
| CASH FLOWS PROVIDED BY (USED IN) | | |
| OPERATING ACTIVITIES | | |
| Net loss | (203,557) | (227,426) |
| Adjusted for the following: | | |
| Depreciation | 152,822 | 156,638 |
| Stock-based compensation | 2,361 | 3,082 |
| Unrealized foreign exchange losses | 22,490 | 42,592 |
| Gain on disposal of property, plant and equipment | (491) | (2,257) |
| Impairment of property, plant and equipment (note 5) | — | 114,479 |
| Impairment of inventory (note 4) | 3,225 | 14,333 |
| Impairment of goodwill | — | 9,544 |
| Gain on business combination (note 13) | — | (31,965) |
| Interest | 80,110 | 68,967 |
| Deferred income taxes | (112,199) | (115,969) |
| Interest paid | (74,258) | (65,647) |
| Changes in items of working capital (note 12) | 49,906 | 154,691 |
| Cash flows (used in) provided by operating activities | (79,591) | 121,062 |
| FINANCING ACTIVITIES | | |
| Bank loan proceeds | 4,977 | 20,614 |
| Issuance of long-term debt, net of debt issuance costs | 214,897 | 106,867 |
| Bank loan repayments | (17,712) | (17,208) |
| Long-term debt repayments | (131,546) | (60,792) |
| Finance lease obligation repayments | (371) | (466) |
| Shares purchased under NCIB | — | (9,414) |
| Net proceeds on issuance of common shares (note 7) | 56,636 | 25,194 |
| Dividends paid, net of DRIP (note 21) | (1,806) | (18,918) |
| Cash flows provided by financing activities | 125,075 | 45,877 |
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment (note 12) | (56,074) | (160,773) |
| Proceeds on disposal of property, plant and equipment | 3,940 | 13,214 |
| Business combination (note 13) | — | (9,498) |
| Other | — | 2,007 |
| Cash flows used in investing activities | (52,134) | (155,050) |
| Effect of exchange rate changes on cash and cash equivalents | (7,438) | 12,987 |
| (Decrease) increase in cash and cash equivalents | (14,088) | 24,876 |
| Cash and cash equivalents, beginning of year | 124,005 | 99,129 |
| Cash and cash equivalents, end of year (note 3) | 109,917 | 124,005 |

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2016 and 2015

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

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

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

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

The Company has consistently applied the same accounting policies throughout the periods presented, as if these policies had always been in effect.

These financial statements were approved by the Board of Directors for issuance on February 22, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of Measurement

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

(b) Principles of Consolidation

These financial statements include the accounts of the Company and its wholly-owned subsidiaries in Canada, the United States, Russia, Mexico, and its 80-percent-owned subsidiary in Argentina. All inter-company transactions, balances and resulting unrealized gains and losses are eliminated upon consolidation.

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

(c) Critical Accounting Estimates and Judgments

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

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

i) Allowance for Doubtful Accounts

The Company performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, the customer’s financial condition and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based on specific situations and overall industry conditions.

ii) Depreciation

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

iii) Fair Value of Financial Instruments

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

The fair values of these financial instruments, except long-term debt, approximate their carrying amounts due to their short-term maturity. The fair value of the senior unsecured notes is based on the closing market price at the reporting period's end-date, as described in note 6. The fair values of the remaining long-term debt and finance lease obligations approximate their carrying values.

iv) Income Taxes

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

See note 9 for further information on income taxes.

v) Share-Based Payments

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

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

See note 8 for further information on share-based payments.

vi) Functional Currency

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

vii) Cash-Generating Units

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

viii) Impairment of Property, Plant and Equipment

Property, plant and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount. The recoverable amount of cash-generating units are determined based on value in use calculations. These calculations requires the use of judgment applied by management regarding forecasted activity levels, expected future results, and discount rates. See note 5 for further information on impairment of property, plant and equipment.

(d) Foreign Currency Translation**i) Functional and Presentation Currency**

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

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

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

| Entity | Functional Currency |
|---------------|----------------------------|
| United States | U.S. dollar |
| Russia | Russian rouble |
| Argentina | Argentinean peso |
| Mexico | Mexican peso |

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

ii) Transactions and Balances

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

(e) Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

All financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on the purpose for which the instruments were acquired, and instruments are classified as "financial assets and liabilities at fair value through profit or loss", "available-for-sale investments", "loans and receivables", "financial liabilities at amortized cost", or "derivative financial instruments" as defined in International Accounting Standard (IAS) 39 *Financial Instruments: Recognition and Measurement*.

Cash and cash equivalents and accounts receivable are designated as "loans and receivables" and are measured at amortized cost. Accounts payable and accrued liabilities are designated as "financial liabilities at amortized cost" and are carried at amortized cost. Bank loans, long-term debt and finance lease obligations are designated as "financial liabilities at amortized cost" and carried at amortized cost using the effective interest rate method. The financing costs associated with the Company's loan facility, the US\$600,000 private placement of senior unsecured notes and the second lien term loan are included in the amortized cost of the debt. These costs are amortized to interest expense over the term of the debt.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired.

(f) Cash and Cash Equivalents

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

(g) Inventory

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

(h) Property, Plant and Equipment

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

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

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

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

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

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

Effective October 1, 2016, 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 \$21,471 to the statement of operations during the year.

(i) Borrowing Costs

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

(j) Non-Controlling Interests

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

(k) Impairment of Non-Financial Assets

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

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

(l) Income Taxes

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

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

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

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

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

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

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

(m) Revenue Recognition

Revenue is recognized for services upon completion provided it is probable that the economic benefits will flow to the Company, the sales price is fixed or determinable, and collectability is reasonably assured. These criteria are generally met at the time the services are performed and have been accepted by the customer.

(n) Stock-Based Compensation Plans

The Company recognizes compensation cost for the fair value of stock options granted. Under this method, the Company records the fair value of stock option grants based on the number of options expected to vest over their vesting period as a charge to compensation expense and a credit to contributed surplus. The fair value of each tranche within an award is considered

a separate award with its own vesting period and grant date. The fair value of each tranche within an award is measured at the date of grant using the Black-Scholes option pricing model.

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

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

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

(o) Business Combinations

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

Acquisition costs are expensed as incurred.

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

(p) Changes in Accounting Policy and Disclosure

There were no new IFRS or IFRIC interpretations that became effective on or after January 1, 2016 that had a material impact on the Company.

(q) Recently Issued Accounting Standards Not Yet Applied

In January 2016, the IASB issued IFRS 16 *Leases*, which requires lessees to recognize all leases on the balance sheet. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted for companies that also apply IFRS 15 *Revenue from Contracts with Customers*. The Company is currently evaluating the impact of the standard on its financial statements.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will come into effect for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of the standard on its financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 *Financial Instruments*. The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9, as amended, includes a principle based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially reformed approach to hedge accounting. IFRS 9 will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on its financial statements but does not expect this standard to have a significant effect on its consolidated financial statements.

3. CASH AND CASH EQUIVALENTS

On December 6, 2016, the Company received net proceeds of \$56,636 from a private placement offering of common shares. Another \$25,194 of net proceeds was received from a private placement offering of common shares on December 22, 2015. Both of these transactions are described in further detail in note 7.

\$50,000 of the net proceeds from the private placements are currently held in a segregated account. These funds are available for use at the Company's discretion and this amount can be transferred to its operating bank account at any time. The Company can also elect to use the proceeds as an equity cure. When the proceeds are utilized as an equity cure, the funds are transferred to the Company's operating bank account and are available for use at the Company's discretion. In addition, the proceeds are applied as a reduction of Funded Debt and are included in the calculation of EBITDA for purposes of the Company's Funded Debt to EBITDA bank covenant.

4. INVENTORIES

| As at December 31, | 2016 | 2015 |
|-----------------------|---------------|----------------|
| (C\$000s) | (\$) | (\$) |
| Spare equipment parts | 60,852 | 76,261 |
| Chemicals | 17,504 | 20,683 |
| Sand and proppant | 7,258 | 14,001 |
| Coiled tubing | 9,164 | 14,821 |
| Other | 4,823 | 1,856 |
| | 99,601 | 127,622 |

For the year ended December 31, 2016, the cost of inventories recognized as an expense and included in cost of sales was approximately \$274,000 (year ended December 31, 2015 - \$626,000).

The Company reviews the carrying value of its inventory on an ongoing basis for obsolescence and to verify that the carrying value exceeds the net realizable amount. As a result of lower levels of activity, the Company recorded an impairment charge of \$3,225 for the year ended December 31, 2016 to write-off obsolete inventory and write-down inventory to its net realizable amount (year ended December 31, 2015 - \$14,333).

| Years Ended December 31, | 2016 | 2015 |
|--------------------------|--------------|---------------|
| (C\$000s) | (\$) | (\$) |
| Canada | 2,169 | 4,032 |
| United States | 1,056 | 10,301 |
| | 3,225 | 14,333 |

5. PROPERTY, PLANT AND EQUIPMENT

| Year Ended December 31, 2016 | Opening Net Book Value | Additions | Disposals | Depreciation | Exchange Differences | Closing Net Book Value |
|--|------------------------------|-----------|-----------|--------------|-------------------------|------------------------------|
| (C\$000s) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Assets under construction ⁽¹⁾ | 195,449 | (41,080) | — | — | 2,836 | 157,205 |
| Field equipment | 980,002 | 66,678 | (2,827) | (141,899) | (20,831) | 881,123 |
| Field equipment under finance lease | 1,598 | — | — | (119) | (320) | 1,159 |
| Buildings | 66,488 | 10,160 | (167) | (4,882) | (4,990) | 66,609 |
| Land | 42,529 | 489 | (400) | — | (4,843) | 37,775 |
| Shop, office and other equipment | 7,935 | 634 | (18) | (2,420) | (127) | 6,004 |
| Computers and computer software | 4,102 | 1,156 | — | (3,075) | (1,090) | 1,093 |
| Leasehold improvements | 3,169 | 670 | (37) | (427) | (461) | 2,914 |
| | 1,301,272 | 38,707 | (3,449) | (152,822) | (29,826) | 1,153,882 |

| As at December 31, 2016 | Cost | Accumulated Depreciation | Net Book Value |
|-------------------------------------|-----------|-----------------------------|-------------------|
| (C\$000s) | (\$) | (\$) | (\$) |
| Assets under construction | 157,205 | — | 157,205 |
| Field equipment | 1,805,182 | (924,059) | 881,123 |
| Field equipment under finance lease | 2,781 | (1,622) | 1,159 |
| Buildings | 89,437 | (22,828) | 66,609 |
| Land | 37,775 | — | 37,775 |
| Shop, office and other equipment | 24,684 | (18,680) | 6,004 |
| Computers and computer software | 24,854 | (23,761) | 1,093 |
| Leasehold improvements | 9,533 | (6,619) | 2,914 |
| | 2,151,451 | (997,569) | 1,153,882 |

| Year Ended December 31, 2015 | Opening Net Book Value | Additions | Disposals | Impairment | Depreciation | Exchange Differences | Closing Net Book Value |
|--|------------------------------|-----------|-----------|------------|--------------|-------------------------|------------------------------|
| (C\$000s) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Assets under construction ⁽¹⁾ | 123,950 | 69,284 | (117) | (1,670) | — | 4,002 | 195,449 |
| Field equipment | 1,058,178 | 89,605 | (10,478) | (112,646) | (144,133) | 99,476 | 980,002 |
| Field equipment under finance lease | 2,274 | — | — | — | (273) | (403) | 1,598 |
| Buildings | 63,950 | (104) | — | (22) | (4,625) | 7,289 | 66,488 |
| Land | 38,439 | 120 | — | — | — | 3,970 | 42,529 |
| Shop, office and other equipment | 8,132 | 2,320 | (278) | (107) | (2,909) | 777 | 7,935 |
| Computers and computer software | 4,756 | 3,194 | (42) | (34) | (3,896) | 124 | 4,102 |
| Leasehold improvements | 3,260 | 978 | (42) | — | (802) | (225) | 3,169 |
| | 1,302,939 | 165,397 | (10,957) | (114,479) | (156,638) | 115,010 | 1,301,272 |

| As at December 31, 2015 | Cost | Accumulated Depreciation | Net Book Value |
|-------------------------------------|-----------|--------------------------|----------------|
| (C\$000s) | (\$) | (\$) | (\$) |
| Assets under construction | 195,449 | — | 195,449 |
| Field equipment | 1,741,331 | (761,329) | 980,002 |
| Field equipment under finance lease | 2,781 | (1,183) | 1,598 |
| Buildings | 79,444 | (12,956) | 66,488 |
| Land | 42,529 | — | 42,529 |
| Shop, office and other equipment | 24,068 | (16,133) | 7,935 |
| Computers and computer software | 23,698 | (19,596) | 4,102 |
| Leasehold improvements | 8,900 | (5,731) | 3,169 |
| | 2,118,200 | (816,928) | 1,301,272 |

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

Property, plant and equipment are tested for impairment in accordance with the accounting policy stated in note 2. The Company reviews the carrying value of its property, plant and equipment at each reporting period for indicators of impairment. The impact of low oil and natural gas prices over the past two years on the Company's current and future financial results and the oversupply of pressure pumping equipment in North America were indicators of impairment and the Company estimated the recoverable amount of its property, plant and equipment.

The recoverable amount of property, plant and equipment was determined using the value in use method, based on multi-year discounted cash flows to be generated from the continuing operations of each cash-generating unit (CGU). The Company's CGUs are determined to be at the country level, consisting of Canada, the United States, Russia and Argentina. Cash flow assumptions were based on a combination of historical and expected future results, using the following main key assumptions:

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

The main commodity price assumptions over the forecast periods were:

- WTI Crude Oil (US\$/bbl) increased from \$54 in 2017 to \$70 in 2021
- Henry Hub Gas (US\$/mmBtu) increased from \$3.08 in 2017 to \$3.70 in 2021
- AECO Gas (C\$/mcf) increased from \$2.95 in 2017 to \$3.84 in 2021

Revenue and operating income growth rates for each CGU were based on a combination of commodity price assumptions, historical results and forecasted activity levels, which incorporated pricing, utilization and cost improvements over the period. The revenue and operating income cumulative annual growth rates (CAGR) over the five-year forecast period, by CGU, are outlined below:

| | Canada | United States | Russia | Argentina |
|-----------------------|--------|---------------|--------|-----------|
| Revenue CAGR | 22% | 33% | 6% | 20% |
| Operating income CAGR | 68% | 77% | 9% | 33% |

The cash flows were prepared on a five-year basis, using a discount rate ranging from 12.8 percent to 25.0 percent depending on the CGU. Discount rates are derived from the Company's weighted average cost of capital, adjusted for risk factors specific to each CGU. Cash flows beyond that five-year period have been extrapolated using a steady 2.0 percent growth rate.

| | Canada | United States | Russia | Argentina |
|---------------|--------|---------------|--------|-----------|
| Discount rate | 14.5% | 12.8% | 13.0% | 25.0% |

A comparison of the recoverable amounts of each cash-generating unit with their respective carrying amounts resulted in no impairment against property, plant and equipment for the year ended December 31, 2016 (year ended December 31, 2015 - \$103,322).

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

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

Assumptions that are valid at the time of preparing the impairment test at December 31, 2016 may change significantly when new information becomes available. The Company will continue to monitor and update its assumptions and estimates with respect to property, plant and equipment impairment on an ongoing basis.

For the 2015 year end impairment test, the following assumptions were used:

The main commodity price assumptions over the forecast periods were:

- WTI Crude Oil (US\$/bbl) increased from a low of below \$30 in 2016 to an average of \$81 in 2020
- Henry Hub Gas (US\$/mmBtu) increased from \$2.25 in 2016 to \$4.25 in 2020
- AECO Gas (C\$/mcf) increased from \$2.76 in 2016 to \$3.96 in 2020

The revenue and operating income cumulative annual growth rates (CAGR) over the five-year forecast period, by CGU, were:

| | Canada | United States | Russia | Argentina | Mexico |
|-----------------------|--------|---------------|--------|-----------|--------|
| Revenue CAGR | 33% | 52% | 6% | 31% | 61% |
| Operating income CAGR | 268% | 233% | 13% | 42% | 72% |

The discount rates used in the five-year cash flow forecast were:

| | Canada | United States | Russia | Argentina | Mexico |
|---------------|--------|---------------|--------|-----------|--------|
| Discount rate | 14.0% | 14.0% | 18.0% | 22.0% | 15.0% |

Cash flows beyond that five-year period were extrapolated using a steady 2.0 percent growth rate.

A comparison of the recoverable amounts of each cash-generating unit with their respective carrying amounts resulted in an impairment charge against property, plant and equipment of \$103,322 at December 31, 2015.

The recoverable amount for each CGU that was impaired is as follows:

| | Recoverable Amount | Impairment Recorded |
|---------------|--------------------|---------------------|
| (C\$000s) | (\$) | (\$) |
| United States | 623,826 | 101,462 |
| Mexico | 11,000 | 1,860 |

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

| | Impairment | | | | |
|--|------------|---------------|--------|-----------|--------|
| | Canada | United States | Russia | Argentina | Mexico |
| (C\$000s) | (\$) | (\$) | (\$) | (\$) | (\$) |
| 10% increase in expected future cash flows | None | 38,289 | None | None | None |
| 10% decrease in expected future cash flows | None | 162,289 | None | 7,992 | 2,099 |
| 1% decrease in discount rate | None | 31,300 | None | None | None |
| 1% increase in discount rate | None | 159,289 | None | 4,000 | 2,099 |

Furthermore, the Company carried out a comprehensive review of its property, plant and equipment and identified assets that were permanently idle or obsolete, and therefore, no longer able to generate cash inflows. These assets were written down to their recoverable amount resulting in an impairment charge of \$nil for the year ended December 31, 2016 (year ended December 31, 2015 - \$11,157).

The impairment losses by CGU are as follows:

| Years Ended December 31, | 2016 | 2015 |
|--------------------------|------|---------|
| (C\$000s) | (\$) | (\$) |
| Canada | — | 10,091 |
| United States | — | 102,528 |
| Mexico | — | 1,860 |
| | — | 114,479 |

6. LONG-TERM DEBT

| As at December 31, | 2016 | 2015 |
|---|----------|----------|
| (C\$000s) | (\$) | (\$) |
| US\$600,000 senior unsecured notes due December 1, 2020, bearing interest at 7.50% payable semi-annually | 805,620 | 830,400 |
| \$200,000 second lien senior secured term loan facility due September 30, 2020, bearing interest at 9% payable quarterly, secured by the Canadian and U.S. assets of the Company on a second priority basis | 199,000 | — |
| \$270,000 extendible revolving term loan facility, secured by Canadian and U.S. assets of the Company | — | 110,000 |
| Less: unamortized debt issuance costs | (18,736) | (13,894) |
| | 985,884 | 926,506 |
| US\$520 mortgage maturing May 2018 bearing interest at U.S. prime less 1%, repayable at US\$33 per month principal and interest, secured by certain real property | 698 | 1,287 |
| | 986,582 | 927,793 |
| Less: current portion of long-term debt | (2,520) | (523) |
| | 984,062 | 927,270 |

The fair value of the senior unsecured notes, as measured based on the closing quoted market price at December 31, 2016, was \$702,903 (December 31, 2015 – \$336,312). The carrying values of the mortgage obligation, bank loans, revolving term loan facilities and the second lien term loan approximate their fair values as the interest rates are not significantly different from current interest rates for similar loans.

On June 10, 2016, the Company entered into a \$200,000 second lien senior secured term loan facility. The term loan matures on September 30, 2020, and bears interest at 9 percent per annum, payable quarterly. Amortization payments equal to 1 percent of the original principal amount are payable annually, in equal quarterly installments, with the balance due on the final maturity date. The proceeds from the term loan were made available in a single draw, and amounts borrowed under the term loan that are repaid or prepaid are not available for re-borrowing. The term loan is secured by the Canadian and U.S. assets of the Company on a second priority basis, subordinate only to the revolving term loan facility.

The interest rate on the \$270,000 revolving term loan facility is based on the parameters of certain bank covenants. For prime-based loans, the rate ranges from prime plus 0.50 percent to prime plus 3.50 percent. For LIBOR-based loans and bankers' acceptance-based loans the margin thereon ranges from 1.50 percent to 4.50 percent above the respective base rates for such loans. The facility is repayable on or before its maturity of September 27, 2018, assuming it is not extended. The maturity may be extended by one or more years at the Company's request and lenders' acceptance. The Company may also prepay principal without penalty. Debt issuance costs related to this facility are amortized over its term.

Interest on long-term debt (including the amortization of debt issuance costs and debt discount) for the year ended December 31, 2016 was \$78,069 (year ended December 31, 2015 – \$63,944).

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

| As at December 31, 2016 | Amount |
|-------------------------|-----------|
| (C\$000s) | (\$) |
| 2017 | 2,475 |
| 2018 | 2,223 |
| 2019 | 2,000 |
| 2020 | 998,620 |
| 2021 | — |
| Thereafter | — |
| | 1,005,318 |

The Company also has an extendible operating loan facility, which includes overdraft protection in the amount of \$30,000. The interest rate is based on the parameters of certain bank covenants in the same fashion as the revolving term facility. Drawdowns under this facility are repayable on September 27, 2018, assuming the facility is not extended. The term and commencement of principal repayments may be extended by one year on each anniversary at the Company's request and lenders' acceptance. The revolving term loan and operating facilities are secured by the Company's Canadian and U.S. assets.

At December 31, 2016, the Company had utilized \$1,911 of its loan facility for letters of credit and had \$nil outstanding under its revolving term loan facility, leaving \$298,089 in available credit, subject to a monthly borrowing base calculation, which could result in a lower amount of available credit.

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

7. CAPITAL STOCK

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

| Years Ended December 31, | 2016 | | 2015 | |
|--|-------------|----------|-------------|----------|
| Continuity of Common Shares | Shares | Amount | Shares | Amount |
| | (#) | (\$000s) | (#) | (\$000s) |
| Balance, beginning of year | 115,579,598 | 409,809 | 95,252,559 | 377,975 |
| Dividend Reinvestment Plan shares issued (note 21) | — | — | 1,474,379 | 12,733 |
| Shares purchased under NCIB | — | — | (1,517,700) | (6,093) |
| Shares from private placements | 21,055,000 | 56,636 | 20,370,370 | 25,194 |
| Shares cancelled | (8) | — | (10) | — |
| Balance, end of year | 136,634,590 | 466,445 | 115,579,598 | 409,809 |

The weighted average number of common shares outstanding for the year ended December 31, 2016 was 116,906,108 basic and 117,325,647 diluted (year ended December 31, 2015 – 95,907,014 basic and 96,076,214 diluted). The difference between basic and diluted shares is attributable to the dilutive effect of stock options and warrants issued by the Company as disclosed in note 8.

On December 6, 2016, the Company closed a bought deal private placement of 21,055,000 common shares for total gross proceeds of \$60,007. Share issuance costs for the transaction were \$3,371, resulting in net proceeds of \$56,636.

On December 22, 2015, the Company closed a bought deal private placement of 20,370,370 common shares for total gross proceeds of \$27,500. Share issuance costs for the transaction were \$2,306, resulting in net proceeds of \$25,194.

During 2016, eight common shares were returned to the Company for cancellation. For accounting purposes, the cancellation of these shares was recorded as a reduction of capital stock in the amount of twenty-eight dollars, along with a corresponding increase to contributed surplus (2015 - ten common shares were returned to the Company for cancellation, which was recorded as a reduction of capital stock in the amount of forty dollars).

8. SHARE-BASED PAYMENTS

(a) Stock Options

| Continuity of Stock Options | 2016 | | 2015 | |
|-----------------------------|-----------|------------------------|-----------|------------------------|
| | Options | Average Exercise Price | Options | Average Exercise Price |
| | (#) | (\$) | (#) | (\$) |
| Balance, January 1 | 8,229,947 | 7.81 | 4,269,050 | 14.76 |
| Granted during the period | 436,500 | 2.03 | 5,375,450 | 4.39 |
| Forfeited | (854,611) | 10.61 | (441,803) | 13.59 |
| Expired | (565,450) | 14.32 | (972,750) | 16.82 |
| Balance, December 31 | 7,246,386 | 6.62 | 8,229,947 | 7.81 |

| Exercise Price Per Option | Options Outstanding | | | Options Exercisable | | |
|---------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|-------|
| | Number of Options | Weighted Average Remaining Life (Years) | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price | |
| \$1.34 – \$1.79 | 260,500 | 4.19 | \$ 1.39 | — | \$ — | — |
| \$1.80 – \$2.03 | 3,447,400 | 3.91 | \$ 1.99 | 891,850 | \$ 1.99 | 1.99 |
| \$2.04 – \$10.51 | 1,668,700 | 3.26 | \$ 8.73 | 376,550 | \$ 9.41 | 9.41 |
| \$10.52 – \$13.80 | 951,050 | 1.05 | \$ 12.27 | 719,172 | \$ 12.24 | 12.24 |
| \$13.81 – \$20.81 | 918,736 | 1.95 | \$ 15.78 | 483,210 | \$ 15.76 | 15.76 |
| \$1.34 – \$20.81 | 7,246,386 | 3.15 | \$ 6.62 | 2,470,782 | \$ 8.80 | 8.80 |

Stock options vest equally over four years and expire five years from the date of grant. 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 2016, determined using the Black-Scholes valuation method, was \$0.84 per option (year ended December 31, 2015 - \$0.97). The Company applied the following assumptions in determining the fair value of options on the date of grant:

| | 2016 | 2015 |
|-------------------------|--------|--------|
| Expected life (years) | 3.5 | 3.5 |
| Expected volatility | 59.17% | 42.22% |
| Risk-free interest rate | 0.63% | 0.68% |
| Expected dividends | \$0.00 | \$0.02 |

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

(b) Share Units

| Continuity of Stock Units | 2016 | | | 2015 | | |
|---------------------------|----------------------|-------------------------|------------------------|----------------------|-------------------------|------------------------|
| | Deferred Share Units | Performance Share Units | Restricted Share Units | Deferred Share Units | Performance Share Units | Restricted Share Units |
| | (#) | (#) | (#) | (#) | (#) | (#) |
| Balance, January 1 | 72,500 | 238,995 | 812,828 | 70,000 | 120,000 | 1,346,642 |
| Granted during the period | 145,000 | 500,000 | 2,431,650 | 72,500 | 178,995 | 995,007 |
| Exercised | (72,500) | — | — | (70,000) | (60,000) | (614,464) |
| Forfeited | — | (99,665) | (486,628) | — | — | (914,357) |
| Balance, December 31 | 145,000 | 639,330 | 2,757,850 | 72,500 | 238,995 | 812,828 |

| Years Ended December 31, | 2016 | 2015 |
|--|-------|---------|
| | (\$) | (\$) |
| Expense (recovery) from: | | |
| Stock options | 2,361 | 3,082 |
| Deferred share units | 690 | 111 |
| Performance share units | 1,188 | 32 |
| Restricted share units | 4,055 | (3,049) |
| Total stock-based compensation expense | 8,294 | 176 |

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

The Company grants deferred share units to its outside directors. These units vest in November of the year of grant and are settled either in cash (equal to the market value of the underlying shares at the time of exercise) or in Company shares purchased on the open market. The fair value of the deferred share units is recognized equally over the vesting period, based on the current market price of the Company's shares. At December 31, 2016, the liability pertaining to deferred share units was \$690 (December 31, 2015 – \$143).

The Company grants performance share units to a senior officer. The amount of the grants earned is linked to corporate performance and the grants vest on the approval of the Board of Directors at the meeting held to approve the consolidated financial statements for the year in respect of which performance is being evaluated. As with the deferred share units, performance share units are settled either in cash or Company shares purchased on the open market. At December 31, 2016, the liability pertaining to performance share units was \$1,560 (December 31, 2015 – \$373).

The Company grants restricted share units to its employees. These units vest over three years and are settled either in cash (equal to the market value of the underlying shares at the time of exercise) or in Company shares purchased on the open market. The fair value of the restricted share units is recognized over the vesting period, based on the current market price of the Company's shares. At December 31, 2016, the liability pertaining to restricted share units was \$4,995 (December 31, 2015 – \$939).

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

(c) Warrants

In conjunction with the second lien senior secured term loan facility as disclosed in note 6, 6,934,776 warrants to purchase common shares of the Company were issued, entitling the holder to acquire up to 6,934,776 common shares at a price of \$4.14 per common share. The warrants expire on June 10, 2019 and can be exercised at any time prior to such date. The fair value of the warrants issued was estimated using a Black-Scholes pricing model, in the amount of \$5,830 and accounted for as a deferred finance cost. To date, no warrants have been exercised.

9. INCOME TAXES

The components of income tax expense (recovery) are:

| Years Ended December 31, | 2016 | 2015 |
|------------------------------|------------------|------------------|
| (C\$000s) | (\$) | (\$) |
| Current income tax expense | 2,567 | 1,872 |
| Deferred income tax recovery | (112,199) | (115,969) |
| | (109,632) | (114,097) |

The provision for income taxes in the consolidated statements of operations varies from the amount that would be computed by applying the expected 2016 tax rate of 27.0 percent (year ended December 31, 2015 - 26.0 percent) to income before income taxes.

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

| Years Ended December 31, | 2016 | 2015 |
|--|------------------|------------------|
| (C\$000s except percentages) | (\$) | (\$) |
| Loss before income tax | (313,189) | (341,523) |
| Income tax rate (%) | 27.0 | 26.0 |
| Computed expected income tax recovery | (84,561) | (88,796) |
| Increase (decrease) in income taxes resulting from: | | |
| Non-deductible expenses/non-taxable income | (6,466) | (2,722) |
| Foreign tax rate and other foreign differences | (19,153) | (33,631) |
| Translation of foreign subsidiaries | (326) | 300 |
| Deferred income tax adjustment from tax rate changes | — | 3,871 |
| Other non-income taxes | 353 | 1,535 |
| Derecognition of tax losses | 3,082 | 15,677 |
| Business combination | — | (8,056) |
| Other | (2,561) | (2,275) |
| | (109,632) | (114,097) |

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

| As at December 31, | 2016 | 2015 |
|---|------------------|-----------------|
| (C\$000s) | (\$) | (\$) |
| Property, plant and equipment | (232,341) | (226,080) |
| Losses carried forward | 254,347 | 142,833 |
| Canadian exploration expenses | 5,616 | 5,384 |
| Deferred compensation payable | 1,936 | 372 |
| Deferred financing and share issuance costs | 1,505 | 365 |
| Other | 24,994 | 21,273 |
| | 56,057 | (55,853) |

Loss carry-forwards expire at various dates ranging from December 31, 2020 to December 31, 2036.

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

| Years Ended December 31, | 2016 | 2015 |
|--|-----------------|-----------|
| (C\$000s) | (\$) | (\$) |
| Balance, beginning of year | (55,853) | (177,820) |
| Charged (credited) to the consolidated statements of operations or accumulated other comprehensive income: | | |
| Property, plant and equipment | (6,261) | 2,841 |
| Losses carried forward | 111,514 | 110,915 |
| Canadian exploration expenses | 232 | (452) |
| Deferred compensation payable | 1,564 | (2,349) |
| Deferred financing and share issuance costs | 1,140 | (253) |
| Other | 3,721 | 11,265 |
| Balance, end of year | 56,057 | (55,853) |

The analysis of deferred tax assets and liabilities is as follows:

| Years Ended December 31, | 2016 | 2015 |
|---|-----------------|----------|
| (C\$000s) | (\$) | (\$) |
| Deferred tax assets: | | |
| Deferred tax asset to be recovered after more than 12 months | 70,188 | 19,372 |
| Deferred tax asset to be recovered within 12 months | — | — |
| Deferred tax liabilities: | | |
| Deferred tax liability to be drawn down after more than 12 months | (14,131) | (75,225) |
| Deferred tax liability to be drawn down within 12 months | — | — |
| Deferred tax liabilities, net | 56,057 | (55,853) |

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

| Years Ended December 31, | 2016 | 2015 |
|--------------------------|---------------|--------|
| (C\$000s) | (\$) | (\$) |
| Tax losses (capital) | 25,390 | 26,342 |
| Tax losses (income) | 40,632 | 40,536 |

Deferred tax assets are only recognized to the extent that it is probable that the assets can be utilized.

Earnings retained by subsidiaries amounted to \$nil at December 31, 2016 (December 31, 2015 – \$67,956). Provision has been made for withholding and other taxes that would become payable on the distribution of these earnings only to the extent that it is expected that these earnings will be distributed in the foreseeable future.

10. COMMITMENTS

The Company has lease commitments for premises, equipment, vehicles and storage facilities under agreements requiring aggregate minimum payments over the five years following December 31, 2016, as follows:

| (C\$000s) | (\$) |
|-----------|--------|
| 2017 | 16,495 |
| 2018 | 8,522 |
| 2019 | 5,078 |
| 2020 | 2,913 |
| 2021 | — |
| | 33,008 |

For the year ended December 31, 2016, \$36,449 was recognized as an expense in the consolidated statements of operations in respect of operating leases (year ended December 31, 2015 – \$48,433).

The Company has obligations for the purchase of products, services and property, plant and equipment over the next five years following December 31, 2016, as follows:

| (C\$000s) | (\$) |
|-----------|---------|
| 2017 | 133,639 |
| 2018 | 92,038 |
| 2019 | 47,019 |
| 2020 | 4,610 |
| 2021 | 3,255 |
| | 280,561 |

The Company has a contractual obligation with one of its major product suppliers, which includes an annual minimum purchase commitment through the end of 2017. During 2016, the Company did not meet its annual purchase commitment but is currently in negotiations with the supplier to amend the contractual obligations and extend the fulfilment of the 2016 annual expenditure commitment to future years. Given the stage of the ongoing negotiations, no provision has been recorded in the Company's financial statements, as the outcome of the negotiations and the financial impact cannot be determined at this time. The maximum exposure related to the 2016 shortfall is \$15,735.

11. FINANCIAL INSTRUMENTS

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

(a) Fair Values of Financial Assets and Liabilities

The fair values of financial instruments included in the consolidated balance sheets, except long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of the senior unsecured notes based on the closing market price at December 31, 2016 was \$702,903 before deduction of unamortized debt issuance costs (December 31, 2015 – \$336,312). The carrying value of the senior unsecured notes at December 31, 2016 was \$805,620 before deduction of unamortized debt issuance costs and debt discount (December 31, 2015 – \$830,400). 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 December 31, 2016, the Company had a provision for doubtful accounts receivable of \$7,551 (December 31, 2015 – \$2,854). The change in the provision from the prior year end was primarily related to a customer in Mexico.

Payment terms with customers vary by country and contract. Standard payment terms are 30 days from invoice date. The Company's aged trade and accrued accounts receivable at December 31, 2016 and 2015, excluding any impaired accounts, are as follows:

| As at December 31, | 2016 | 2015 |
|--------------------|----------------|---------|
| (C\$000s) | (\$) | (\$) |
| Current | 84,833 | 161,082 |
| 31 – 60 days | 33,687 | 29,386 |
| 61 – 90 days | 7,707 | 7,596 |
| 91+ days | 15,098 | 13,974 |
| Total | 141,325 | 212,038 |

The Company's accounts receivable that were greater than 90 days included \$9.2 million from customers operating in Argentina for which no provision has been made. The payment delay is consistent with the experience of many other oilfield service companies in that market. Although the timing is uncertain, collection is expected in its entirety.

(c) Interest Rate Risk

The Company is exposed to cash flow risk due to fluctuating interest payments required to service any floating-rate debt. The increase or decrease in annual interest expense for each 1 percentage point change in interest rates on floating-rate debt at December 31, 2016 amounts to \$7 (December 31, 2015 – \$1,269).

The Company's effective interest rate for the year ended December 31, 2016 was 8.3 percent (year ended December 31, 2015 – 7.8 percent).

(d) Liquidity Risk

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

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

| At December 31, 2016 | Total | <1 Year | 1 – 3 Years | 4 – 6 Years | 7 – 9 Years | Thereafter |
|--|------------------|----------------|------------------|-------------|-------------|------------|
| (C\$000s) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Accounts payable and accrued liabilities | 114,529 | 114,529 | — | — | — | — |
| Long-term debt ⁽¹⁾ | 1,308,242 | 81,079 | 1,227,163 | — | — | — |

⁽¹⁾ Principal and interest

| At December 31, 2015 | Total | <1 Year | 1 – 3 Years | 4 – 6 Years | 7 – 9 Years | Thereafter |
|--|-----------|---------|-------------|-------------|-------------|------------|
| (C\$000s) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Bank loan ⁽¹⁾ | 69,253 | 5,362 | 16,086 | 16,086 | 16,086 | 15,633 |
| Accounts payable and accrued liabilities | 172,633 | 172,633 | — | — | — | — |
| Long-term debt ⁽¹⁾ | 1,208,693 | 68,134 | 310,158 | 830,401 | — | — |

⁽¹⁾ Principal and interest

(e) Foreign Exchange Risk

The Company is exposed to foreign exchange risk associated with foreign operations where assets, liabilities, revenue and costs are denominated in currencies other than Canadian dollars. These currencies include the U.S. dollar, Russian rouble, Mexican peso and Argentinean peso. The Company is also exposed to the impact of foreign currency fluctuations in its Canadian

operations on purchases of products and property, plant and equipment from vendors in the United States. In addition, the Company's senior unsecured notes and related interest expense are denominated in U.S. dollars.

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

| At December 31, 2016 | Impact to Net Income | Impact to Other Comprehensive Income |
|--------------------------------------|-------------------------|--|
| (C\$000s) | (\$) | (\$) |
| 1% change in value of U.S. dollar | 1,015 | 3,072 |
| 1% change in value of Russian rouble | — | 506 |

| At December 31, 2015 | Impact to Net Income | Impact to Other Comprehensive Income |
|--------------------------------------|-------------------------|--|
| (C\$000s) | (\$) | (\$) |
| 1% change in value of U.S. dollar | 330 | 3,167 |
| 1% change in value of Russian rouble | — | 434 |

12. SUPPLEMENTAL CASH FLOW INFORMATION

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

| Years Ended December 31, | 2016 | 2015 |
|--|----------|-----------|
| (C\$000s) | (\$) | (\$) |
| Accounts receivable | 63,286 | 299,141 |
| Inventory | 24,796 | 40,207 |
| Prepaid expenses and deposits | 1,025 | (1,146) |
| Accounts payable and accrued liabilities | (39,027) | (172,055) |
| Income taxes recoverable | (174) | (7,396) |
| Other long-term liabilities | — | (4,060) |
| | 49,906 | 154,691 |
| Income taxes paid | 2,742 | 9,268 |

Purchase of property, plant and equipment is comprised of:

| Years Ended December 31, | 2016 | 2015 |
|--|----------|-----------|
| (C\$000s) | (\$) | (\$) |
| Property, plant and equipment additions | (38,707) | (157,934) |
| Change in liabilities related to purchase of property, plant and equipment | (17,367) | (2,839) |
| | (56,074) | (160,773) |

13. BUSINESS COMBINATION

On July 6, 2015, the Company acquired all of the outstanding shares of GASFRAC Energy Services Inc. ("GASFRAC"), an oil and gas well fracturing company specializing in gas fracturing technologies, operating in western Canada, for a total purchase price of \$9,498. The purchase was recognized as a business combination and accounted for as such using the acquisition method of accounting under IFRS 3 *Business Combinations*.

The recognized amounts of identifiable assets acquired are as follows:

| | |
|-------------------------------|----------|
| (C\$000s) | (\$) |
| Property, plant and equipment | 7,463 |
| Deferred income tax asset | 34,000 |
| Total identifiable net assets | 41,463 |
| Gain on business combination | (31,965) |
| Total consideration | 9,498 |

The composition of the business combination expenses reported in the statement of operations is as follows:

| | |
|------------------------------|----------|
| (C\$000s) | (\$) |
| Gain on business combination | (31,965) |
| Acquisition costs | 978 |
| Business combination | (30,987) |

The gain of \$31,965 was recognized in the statement of operations on the acquisition date and represents the excess of the fair value of identifiable assets over the consideration paid.

The Company has reassessed the fair value of the identifiable assets purchased and the fair value of the consideration transferred in determining the gain, as required under IFRS.

During the period July 7, 2015 to December 31, 2015, the acquisition contributed immaterial operating income to the Company. The pro-forma estimated effects on revenue and operating income, had the acquisition occurred on January 1, 2015, would have been insignificant.

Deferred tax assets in the amount of \$34,000 were recognized on the acquisition of GASFRAC during the period. The Company recognizes the financial statement impact of a tax filing position when it is probable based on technical merits that the position will be sustained upon audit. To the extent that any interpretation of tax law is successfully challenged by the tax authorities and future tax assets will not be realized, the effect of such an adjustment will be recognized into income as part of income tax expense and could materially affect the Company's estimate of current and deferred income taxes.

14. CAPITAL STRUCTURE

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

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

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

| For the Twelve Months Ended December 31, | 2016 | 2015 |
|---|------------------|-----------|
| (C\$000s) | (\$) | (\$) |
| Net loss | (203,557) | (227,426) |
| Adjusted for the following: | | |
| Depreciation | 152,822 | 156,638 |
| Foreign exchange losses | 19,319 | 37,025 |
| Gain on disposal of property, plant and equipment | (491) | (2,257) |
| Impairment of property, plant and equipment | — | 114,479 |
| Impairment of inventory | 3,225 | 14,333 |
| Impairment of goodwill | — | 9,544 |
| Business combination | — | (30,987) |
| Provision for settlement of litigation | — | 3,165 |
| Interest | 80,110 | 68,967 |
| Income taxes | (109,632) | (114,097) |
| Operating (loss) income | (58,204) | 29,384 |

Net debt for this purpose is calculated as follows:

| As at December 31, | 2016 | 2015 |
|---|------------------|-----------|
| (C\$000s) | (\$) | (\$) |
| Long-term debt, net of debt issuance costs and debt discount (note 4) | 986,582 | 927,793 |
| Bank loans | — | 15,633 |
| Finance lease obligation | 304 | 820 |
| Less: cash and cash equivalents | (109,917) | (124,005) |
| Net debt | 876,969 | 820,241 |

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

At December 31, 2016, the net debt to operating income ratio was (15.07):1 (December 31, 2015 – 27.91:1) calculated on a 12-month trailing basis as follows:

| For the Twelve Months Ended December 31, | 2016 | 2015 |
|--|------------------|---------|
| (C\$000s, except ratio) | (\$) | (\$) |
| Net debt | 876,969 | 820,241 |
| Operating (loss) income | (58,204) | 29,384 |
| Net debt to operating income ratio | (15.07):1 | 27.91:1 |

The Company's net debt to operating income ratio of (15.07):1 reflects the fact that the Company incurred an operating loss for the twelve months ended December 31, 2016.

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. Prior to the end of the fourth quarter of 2015, the Company negotiated amendments including waivers and increases to certain of its financial covenant thresholds pertaining to its credit facilities, as shown below. At December 31, 2016 and December 31, 2015, the Company was in compliance with its covenants with respect to its credit facilities.

| Years Ended December 31, except as indicated in notes below | 2015 | 2016 | 2017 |
|---|-------|--------------|-------------|
| Working capital ratio not to fall below | 1.15x | 1.15x | 1.15x |
| Funded Debt to Adjusted EBITDA not to exceed ⁽¹⁾⁽²⁾⁽³⁾ | 4.50x | 5.00x | 4.50x/4.00x |
| Funded Debt to Capitalization not to exceed ⁽²⁾⁽⁴⁾ | 0.30x | 0.30x | 0.30x |

⁽¹⁾ Funded Debt to Adjusted EBITDA covenant is 5.00x for December 31, 2016. The covenant declines to 4.50x for the quarters ended March 31, 2017 and June 30, 2017 and declines to 4.00x for the quarters ended September 30, 2017 and December 31, 2017 and is set at 3.00x for each quarter after December 31, 2017.

⁽²⁾ Funded Debt is defined as Total Debt excluding all outstanding senior unsecured notes and the second lien senior secured term loan facility. Total Debt includes bank loans and long-term debt (before unamortized debt issuance costs and debt discount) plus outstanding letters of credit less cash on hand with lenders (excluding any cash held in a segregated account for the purposes of a potential equity cure).

⁽³⁾ Adjusted EBITDA is defined as net income or loss for the period less interest, taxes, depreciation and amortization, non-cash stock-based compensation, non-controlling interest relating to Colombia, and gains and losses that are extraordinary or non-recurring.

⁽⁴⁾ Capitalization is Total Debt plus Equity attributable to the shareholders of Calfrac.

For the quarter ended December 31, 2015 through the quarter ended December 31, 2017, advances under the credit facilities will be 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.

For the quarter ended December 31, 2015 through the quarter ended December 31, 2017, distributions are restricted other than those relating to the Company's share unit plans and dividend distributions, provided that the rate of dividends must not exceed \$0.015625 per share quarterly.

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

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

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

These limitations on restricted payments are tempered by the existence of a number of exceptions to the general prohibition, including a basket allowing for restricted payments in an aggregate amount of up to US\$20,000. As at December 31, 2016, 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 \$175,000 or 30 percent of the Company's consolidated tangible assets. At December 31, 2016, the Company was able to incur additional indebtedness in excess of \$380,000 pursuant to the aforementioned exception.

As at December 31, 2016, the Company's Fixed Charge Coverage Ratio of (0.49):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 during this period of weakened market conditions.

The Company has measures in place to ensure that it has sufficient liquidity to navigate the cyclical nature of the oilfield services sector and safeguard the Company's ability to continue as a going concern. As discussed above, the Company negotiated amendments to its credit facilities to provide increased financial flexibility. These amendments include an "Equity Cure" feature pursuant to which proceeds from equity offerings may be applied as both an adjustment in the calculation of Adjusted EBITDA and as a reduction of Funded Debt towards the Funded Debt to Adjusted EBITDA ratio covenant for any of the quarters ending prior to and including December 31, 2017, subject to certain conditions including:

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

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

15. RELATED-PARTY TRANSACTIONS

In November 2010, the Company lent a senior officer \$2,500 to purchase common shares of the Company on the Toronto Stock Exchange. The loan is on a non-recourse basis and is secured by the common shares acquired with the loan proceeds. The loan was amended in February 2015 to extend the term by five years to November 8, 2020 and change the interest rate to the prescribed rate under the Income Tax Act (Canada), which rate was 1.0 percent per annum at the time of the amendment. The loan was subsequently amended in December 2016 to make it non-interest bearing, effective February 24, 2015. The market value of the shares that secure the loan was approximately \$805 as at December 31, 2016 (December 31, 2015 – \$387). In accordance with applicable accounting standards regarding share purchase loans receivable, this loan is classified as a reduction of shareholders' equity due to its non-recourse nature. In addition, the shares purchased with the loan proceeds are considered to be, in substance, stock options.

The Company leases certain premises from an entity controlled by a director of the Company. The rent charged for these premises during the year ended December 31, 2016 was \$1,546 (year ended December 31, 2015 – \$1,083), as measured at the exchange amount.

As disclosed in note 7, the Company issued common shares under a private placement during 2016. Of the 21,055,000 shares issued, 3,508,700 were purchased by directors or entities controlled by directors of the Company for gross proceeds of \$10,000. For the private placement that occurred during 2015, of the 20,370,370 shares issued, 4,365,087 were purchased by directors or entities controlled by directors of the Company for gross proceeds of \$5,893.

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; 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.

Additional information on the nature of expenses is as follows:

| Years Ended December 31, | 2016 | 2015 |
|---|---------|---------|
| (C\$000s) | (\$) | (\$) |
| Product costs | 217,353 | 513,804 |
| Depreciation | 152,822 | 156,638 |
| Amortization of debt issuance costs and debt discount | 5,756 | 2,625 |
| Employee benefits expense (note 17) | 251,201 | 399,287 |

17. EMPLOYEE BENEFITS EXPENSE

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

| Years Ended December 31, | 2016 | 2015 |
|--|---------|---------|
| (C\$000s) | (\$) | (\$) |
| Salaries and short-term employee benefits | 235,015 | 382,789 |
| Post-employment benefits (group retirement savings plan) | — | 2,185 |
| Share-based payments | 8,294 | 176 |
| Termination benefits | 7,892 | 14,137 |
| | 251,201 | 399,287 |

18. COMPENSATION OF KEY MANAGEMENT

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

| Years Ended December 31, | 2016 | 2015 |
|--|-------|-------|
| (C\$000s) | (\$) | (\$) |
| Salaries, fees and short-term benefits | 1,644 | 1,740 |
| Post-employment benefits (group retirement savings plan) | — | 33 |
| Share-based payments | 2,420 | 474 |
| | 4,064 | 2,247 |

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

19. CONTINGENCIES

GREEK LITIGATION

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

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

In 1999, the largest group of plaintiffs received a ruling from the Athens Court of First Instance that their termination was invalid and that salaries in arrears amounting to approximately \$9,700 (6,846 euros) plus interest were due to the former employees. This decision was appealed to the Athens Court of Appeal, which allowed the appeal in 2001 and annulled the above-mentioned decision of the Athens Court of First Instance. The said group of former employees filed an appeal with the Supreme Court of Greece, which was heard on May 29, 2007. The Supreme Court of Greece allowed the appeal and sent the matter back to the Athens Court of Appeal for the consideration of the quantum of awardable salaries in arrears. On June 3,

2008, the Athens Court of Appeal rejected NAPC's appeal and reinstated the award of the Athens Court of First Instance, which decision was further appealed to the Supreme Court of Greece. The matter was heard on April 20, 2010 and a decision rejecting such appeal was rendered in June 2010. As a result of Denison's participation in the consortium that was named in the lawsuit, the Company has been served with three separate payment orders, one on March 24, 2015 and two others on December 29, 2015. The Company was also served with an enforcement order on November 23, 2015. Oppositions have been filed on behalf of the Company in respect of each of these orders which oppose the orders on the basis that they were improperly issued and are barred from a statute of limitations perspective. The salaries in arrears sought to be recovered through these orders are part of the \$9,700 (6,846 euros) cited above and the interest being sought in respect of these orders is part of the \$24,216 (17,091 euros) cited below. Provisional orders granting a temporary suspension of any enforcement proceedings have been granted in respect of all of the orders that have been served. The order served on March 24, 2015 was heard on November 24, 2015 and a decision was issued on November 25, 2016 accepting the Company's opposition on the basis that no lawful service of Judgment No 4528/2008 had taken place until the filing of the opponents' petition and/or the issuance of the payment order. A hearing in respect of the orders served in December of 2015 that was scheduled for September 20, 2016 was adjourned until November 21, 2016 and a decision was issued on January 9, 2017 accepting the Company's opposition on a statute of limitations basis. A hearing in respect of the order served on November 23, 2015 was adjourned until October 31, 2018.

NAPC is also the subject of a claim for approximately \$4,055 (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 \$819 (578 euros), amounted to \$24,216 (17,091 euros) as at December 31, 2016.

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

20. SEGMENTED INFORMATION

The Company's activities are conducted in four geographical segments: Canada, the United States, Russia and Latin America (comprised of Argentina and Mexico). 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 | Latin America | Corporate | Consolidated |
|--|---------|---------------|---------|---------------|-----------|--------------|
| (C\$000s) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Years Ended December 31, 2016 | | | | | | |
| Revenue ⁽²⁾ | 250,013 | 234,633 | 95,860 | 154,008 | — | 734,514 |
| Operating income (loss) ⁽¹⁾ | (4,990) | (26,298) | 9,013 | (2,527) | (33,402) | (58,204) |
| Segmented assets ⁽³⁾ | 634,560 | 710,222 | 105,142 | 163,080 | — | 1,613,004 |
| Capital expenditures | 8,354 | 19,011 | 2,373 | 8,969 | — | 38,707 |
| Years Ended December 31, 2015 | | | | | | |
| Revenue ⁽²⁾ | 533,102 | 652,007 | 137,876 | 172,220 | — | 1,495,205 |
| Operating income (loss) ⁽¹⁾ | 34,923 | (57) | 14,743 | 13,295 | (33,520) | 29,384 |
| Segmented assets ⁽³⁾ | 690,980 | 843,300 | 100,559 | 180,984 | — | 1,815,823 |
| Capital expenditures | 46,845 | 65,645 | 2,048 | 43,396 | — | 157,934 |

⁽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, expenses and gain related to business combinations, impairment of property, plant and equipment, impairment of inventory, impairment of goodwill, provision for settlement of litigation, interest, and income taxes.

⁽²⁾ Argentina's revenue for the years ended December 31, 2016 and 2015 was \$145,623 or 20% of consolidated revenue and \$160,720 or 11% of consolidated revenue, respectively.

⁽³⁾ Argentina's assets as at December 31, 2016 and 2015 were \$154,665 or 10% of consolidated assets and \$158,953 or 9% of consolidated assets, respectively.

| Years Ended December 31, | 2016 | 2015 |
|---|-----------|-----------|
| (C\$000s) | (\$) | (\$) |
| Net loss | (203,557) | (227,426) |
| Add back (deduct): | | |
| Depreciation | 152,822 | 156,638 |
| Foreign exchange losses | 19,319 | 37,025 |
| Gain on disposal of property, plant and equipment | (491) | (2,257) |
| Impairment of property, plant and equipment | — | 114,479 |
| Impairment of inventory | 3,225 | 14,333 |
| Impairment of goodwill | — | 9,544 |
| Business combination | — | (30,987) |
| Provision for settlement of litigation | — | 3,165 |
| Interest | 80,110 | 68,967 |
| Income taxes | (109,632) | (114,097) |
| Operating (loss) income | (58,204) | 29,384 |

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

The following table sets forth consolidated revenue by service line:

| Years Ended December 31, | 2016 | 2015 |
|--------------------------|---------|-----------|
| (C\$000s) | (\$) | (\$) |
| Fracturing | 600,887 | 1,321,370 |
| Coiled tubing | 75,448 | 89,950 |
| Cementing | 36,308 | 72,872 |
| Other | 21,871 | 11,013 |
| | 734,514 | 1,495,205 |

The Company's customer base consists of approximately 113 oil and natural gas exploration and production companies, ranging from large multi-national publicly traded companies to small private companies. Notwithstanding the Company's broad customer base, Calfrac had five significant customers that collectively accounted for approximately 42 percent of the Company's revenue for the year ended December 31, 2016 (year ended December 31, 2015 – five significant customers for approximately 41 percent) and, of such customers, one customer accounted for approximately 12 percent of the Company's revenue for the year ended December 31, 2016 (year ended December 31, 2015 – 11 percent).

21. DIVIDEND REINVESTMENT PLAN

The Company's Dividend Reinvestment Plan (DRIP) allows shareholders to direct cash dividends paid on all or a portion of their common shares to be reinvested in additional common shares that are issued at 95 percent of the volume-weighted average price of the common shares traded on the Toronto Stock Exchange during the last five trading days preceding the relevant dividend payment date. On September 24, 2015, the Company announced that the DRIP was suspended.

A dividend of \$0.015625 per common share, totalling \$1,806, was declared on December 4, 2015 and paid on January 15, 2016. On February 24, 2016, the Company announced that its dividend was suspended.

A dividend of \$0.015625 per common share, totalling \$1,488, was declared on September 24, 2015 and paid on October 15, 2015.

A dividend of \$0.0625 per common share was declared on June 17, 2015 and paid on July 15, 2015. Of the total dividend of \$6,066, \$1,500 was reinvested under the DRIP into 219,549 common shares of the Company.

A dividend of \$0.125 per common share was declared on March 18, 2015 and paid on April 15, 2015. Of the total dividend of \$12,190, \$5,645 was reinvested under the DRIP into 583,187 common shares of the Company.

A dividend of \$0.125 per common share was declared on December 4, 2014 and paid on January 15, 2015. Of the total dividend of \$11,907, \$5,588 was reinvested under the DRIP into 671,643 common shares of the Company.

HISTORICAL REVIEW

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|------------------|-----------|-----------|-----------|-----------|
| (C\$000s, except per share amounts) (unaudited) | (\$) | (\$) | (\$) | (\$) | (\$) |
| FINANCIAL RESULTS | | | | | |
| Revenue | 734,514 | 1,495,205 | 2,496,931 | 1,563,814 | 1,595,216 |
| Operating income ⁽¹⁾ | (58,204) | 29,384 | 357,210 | 188,076 | 257,013 |
| Per share - basic ⁽²⁾ | (0.50) | 0.31 | 3.80 | 2.06 | 2.90 |
| Per share - diluted ⁽²⁾ | (0.50) | 0.31 | 3.77 | 2.04 | 2.87 |
| Adjusted EBITDA ⁽¹⁾ | (44,750) | 52,057 | 357,295 | 194,878 | 262,154 |
| Per share - basic ⁽²⁾ | (0.38) | 0.54 | 3.80 | 2.13 | 2.96 |
| Per share - diluted ⁽²⁾ | (0.38) | 0.54 | 3.77 | 2.12 | 2.93 |
| Net income (loss) attributable to the shareholders of Calfrac | (198,097) | (221,594) | 66,976 | 27,914 | 97,146 |
| Per share - basic ⁽²⁾ | (1.69) | (2.31) | 0.71 | 0.31 | 1.10 |
| Per share - diluted ⁽²⁾ | (1.69) | (2.31) | 0.71 | 0.31 | 1.09 |
| Capital expenditures | 38,707 | 157,934 | 177,585 | 170,517 | 279,017 |
| FINANCIAL POSITION, END OF PERIOD | | | | | |
| Current Assets | 388,934 | 495,179 | 819,298 | 590,515 | 492,326 |
| Total Assets | 1,613,004 | 1,815,823 | 2,157,367 | 1,869,931 | 1,524,821 |
| Working Capital | 271,581 | 305,952 | 441,234 | 319,934 | 322,857 |
| Long-Term Debt | 984,062 | 927,270 | 738,386 | 651,553 | 441,018 |
| Total Equity | 497,458 | 623,719 | 832,403 | 795,207 | 780,759 |
| COMMON SHARE DATA | | | | | |
| Common shares outstanding (000s), end of period ⁽²⁾ | 136,635 | 115,580 | 95,253 | 92,597 | 90,041 |
| Weighted average (diluted) ⁽²⁾ | 117,326 | 96,076 | 94,781 | 92,090 | 89,616 |
| Share trading | | | | | |
| High (\$) ⁽²⁾ | 5.00 | 11.17 | 22.57 | 17.95 | 17.48 |
| Low (\$) ⁽²⁾ | 1.06 | 1.37 | 8.60 | 11.71 | 10.11 |
| Close (\$), end of period ⁽²⁾ | 4.76 | 2.29 | 10.01 | 15.50 | 12.53 |
| Volume (000s) ⁽²⁾ | 176,684 | 136,633 | 112,963 | 89,516 | 109,716 |
| OPERATING, END OF PERIOD | | | | | |
| Active pumping horsepower (000s) | 659 | 776 | 1,254 | 1,194 | 977 |
| Idle pumping horsepower (000s) | 563 | 524 | — | — | — |
| Total pumping horsepower (000s) | 1,222 | 1,300 | 1,254 | 1,194 | 977 |
| Active coiled tubing units (#) | 19 | 20 | 36 | 38 | 29 |
| Idle coiled tubing units (#) | 13 | 17 | — | — | — |
| Total coiled tubing units (#) | 32 | 37 | 36 | 38 | 29 |
| Active cementing units (#) | 14 | 23 | 31 | 31 | 26 |
| Idle cementing units (#) | 11 | 8 | — | — | — |
| Total cementing units (#) | 25 | 31 | 31 | 31 | 26 |

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

⁽²⁾ Comparative amounts were adjusted to reflect the Company's two-for-one common share split that occurred on June 2, 2014.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Ronald P. Mathison ⁽¹⁾⁽²⁾
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President & Chief Executive Officer
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Douglas R. Ramsay ⁽⁴⁾
Vice Chairman
Calfrac Well Services Ltd.

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

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

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

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

Lorne A. Gartner ⁽¹⁾⁽²⁾⁽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 and Environment Committee

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President & Chief Executive Officer

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Chief Operating Officer

Michael D. Olinek
Chief Financial Officer

Gerardo D. Kuracz
President, Latin American Division

Tom J. Medvedic
President, Canadian Division

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Vice President, Sales & Marketing, United States Division

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Vice President, HS&E

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Vice President, Sales & Marketing, Canadian Division

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

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

Scott Treadwell
Vice President, Capital Markets & Strategy

Joel Gaucher
General Counsel

Matthew L. Mignault
Corporate Controller

HEAD OFFICE

411 - 8th Avenue S.W.
Calgary, Alberta, T2P 1E3
Phone: 403-266-6000
Toll Free: 1-866-770-3722
Fax: 403-266-7381
info@calfrac.com
www.calfrac.com

AUDITORS

PricewaterhouseCoopers LLP
Calgary, Alberta

BANKERS

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

LEGAL COUNSEL

Bennett Jones LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

Trading Symbol: CFW

REGISTRAR & TRANSFER AGENT

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

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

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Calfrac Well Services Ltd.
411 - 8th Avenue SW
Calgary, Alberta Canada
T2P 1E3

info@calfrac.com
calfrac.com

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