CALFRAC

Q1 2023
CONSOLIDATED FINANCIAL STATEMENTS
CALFRAC WELL SERVICES

Three Months Ended March 31, 2023 and 2022

DO IT SAFELY, DO IT RIGHT, DO IT PROFITABLY

CONSOLIDATED BALANCE SHEETS

	Note	**March 31, 2023**	December 31, 2022
(C$000s) (unaudited)		*($)*	*($)*
ASSETS			
Current assets			
Cash and cash equivalents		**23,169**	8,498
Accounts receivable		**314,040**	238,769
Inventories		**107,286**	108,866
Prepaid expenses and deposits		**15,540**	12,297
		460,035	368,430
Assets classified as held for sale	3	**54,945**	45,940
		514,980	414,370
Non-current assets			
Property, plant and equipment		**550,097**	543,475
Right-of-use assets	7	**22,333**	22,908
Deferred income tax assets		**9,187**	15,000
		581,617	581,383
Total assets		**1,096,597**	995,753
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**210,138**	171,603
Income taxes payable		**5,553**	964
Current portion of long-term debt	4	**2,553**	2,534
Current portion of lease obligations	7	**9,421**	9,749
		227,665	184,850
Liabilities directly associated with assets classified as held for sale	3	**27,880**	18,852
		255,545	203,702
Non-current liabilities			
Long-term debt	4	**339,471**	329,186
Lease obligations	7	**13,416**	13,443
Deferred income tax liabilities		**29,339**	26,450
		382,226	369,079
Total liabilities		**637,771**	572,781
Capital stock	5	**865,716**	865,059
Conversion rights on convertible notes	4	**212**	212
Contributed surplus		**70,602**	70,141
Warrants	6	**36,238**	36,558
Accumulated deficit		**(542,207)**	(580,544)
Accumulated other comprehensive income		**28,265**	31,546
Total equity		**458,826**	422,972
Total liabilities and equity		**1,096,597**	995,753

Contingencies (note 15)
See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Note	**Three Months Ended March 31,** 2023	2022
(C$000s, except per share data) (unaudited)		***($)***	*($)*
Revenue	12	**493,323**	294,524
Cost of sales	13	**425,636**	290,824
Gross profit		**67,687**	3,700
Expenses			
Selling, general and administrative		**9,127**	12,625
Foreign exchange losses		**1,486**	3,837
(Gain) loss on disposal of property, plant and equipment		**(537)**	1,038
Interest		**8,174**	9,816
		18,250	27,316
Income (loss) before income tax		**49,437**	(23,616)
Income tax expense (recovery)			
Current		**4,398**	44
Deferred		**8,726**	(5,630)
		13,124	(5,586)
Net income (loss) from continuing operations		**36,313**	(18,030)
Net income (loss) from discontinued operations	3	**2,024**	(3,508)
Net income (loss) for the period		**38,337**	(21,538)
Earnings (loss) per share – basic	5		
Continuing operations		**0.45**	(0.47)
Discontinued operations		**0.03**	(0.09)
		0.47	(0.56)
Earnings (loss) per share – diluted	5		
Continuing operations		**0.41**	(0.47)
Discontinued operations		**0.02**	(0.09)
		0.43	(0.56)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Three Months Ended March 31,	
	Note	**2023**	2022
(C$000s) (unaudited)		***($)***	*($)*
CASH FLOWS PROVIDED BY (USED IN)			
OPERATING ACTIVITIES			
Net income (loss) for the period		**38,337**	(21,538)
Adjusted for the following:			
Depreciation		**30,162**	30,153
Stock-based compensation		**544**	1,034
Unrealized foreign exchange (gains) losses		**(292)**	4,173
(Gain) loss on disposal of property, plant and equipment		**(538)**	1,037
Impairment of inventory	3	**1,100**	—
Impairment of other assets	3	**1,151**	—
Interest		**8,143**	9,816
Interest paid		**(10,243)**	(12,463)
Deferred income taxes		**8,726**	(5,630)
Changes in items of working capital	9	**(36,196)**	9,171
Cash flows provided by operating activities		**40,894**	15,753
FINANCING ACTIVITIES			
Bridge loan proceeds		**—**	15,000
Issuance of long-term debt, net of debt issuance costs	4	**33,233**	8,431
Long-term debt repayments	4	**(25,000)**	—
Lease obligation principal repayments	7	**(2,604)**	(2,083)
Proceeds on issuance of common shares from the exercise of warrants and stock options		**254**	704
Cash flows provided by financing activities		**5,883**	22,052
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	**(35,397)**	(16,104)
Proceeds on disposal of property, plant and equipment		**199**	303
Proceeds on disposal of right-of-use assets		**516**	304
Cash flows used in investing activities		**(34,682)**	(15,497)
Effect of exchange rate changes on cash and cash equivalents		**(2,807)**	(7,020)
Increase in cash and cash equivalents		**9,288**	15,288
Cash and cash equivalents (bank overdraft), beginning of period		**18,393**	(1,351)
Cash and cash equivalents, end of period		**27,681**	13,937
Included in the cash and cash equivalents per the balance sheet		**23,169**	
Included in the assets held for sale/discontinued operations	3	**4,512**	

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended March 31,	
	2023	2022
(C$000s) (unaudited)	***($)***	*($)*
Net income (loss) for the period	**38,337**	(21,538)
Other comprehensive income (loss)		
Items that may be subsequently reclassified to profit or loss:		
Change in foreign currency translation adjustment	**(3,281)**	(7,391)
Comprehensive income (loss)	**35,056**	(28,929)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(C$000s) (unaudited)	Note	Share Capital ($)	Conversion Rights on Convertible Notes	Contributed Surplus ($)	Warrants ($)	Loan Receivable for Purchase of Common Shares ($)	Accumulated Other Comprehensive Income (Loss) ($)	Accumulated Deficit ($)	Total Equity ($)
Balance – January 1, 2023		**865,059**	**212**	**70,141**	**36,558**	**—**	**31,546**	**(580,544)**	**422,972**
Net income		—		—	—	—	—	38,337	**38,337**
Other comprehensive income (loss):									
Cumulative translation adjustment		—	—	—	—	—	(3,281)	—	**(3,281)**
Comprehensive income (loss)		—	—	—	—	—	(3,281)	38,337	**35,056**
Stock options:									
Stock-based compensation recognized		—	—	544	—	—	—	—	**544**
Proceeds from issuance of shares	4	223	—	(83)	—	—	—	—	**140**
Conversion of 1.5 Lien Notes into shares	4	—	—	—	—	—	—	—	**—**
Warrants:									
Proceeds from issuance of shares	6	434	—	—	(320)	—	—	—	**114**
Balance – March 31, 2023		**865,716**	**212**	**70,602**	**36,238**	**—**	**28,265**	**(542,207)**	**458,826**
Balance – January 1, 2022		801,178	4,764	68,258	40,282	(2,500)	9,079	(592,221)	328,840
Net loss		—	—	—	—	—	—	(21,538)	(21,538)
Other comprehensive income (loss):									
Cumulative translation adjustment		—	—	—	—	—	(7,391)	—	(7,391)
Comprehensive loss		—	—	—	—	—	(7,391)	(21,538)	(28,929)
Stock options:									
Stock-based compensation recognized		—	—	1,034	—	—	—	—	1,034
Conversion of 1.5 Lien Notes into shares	4	593	(47)	—	—	—	—	—	546
Warrants:									
Proceeds from issuance of shares	5	2,675	—	—	(1,971)	—	—	—	704
Balance – March 31, 2022		**804,446**	**4,717**	**69,292**	**38,311**	**(2,500)**	**1,688**	**(613,759)**	**302,195**

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2023 and 2022

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

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Calfrac Well Services Ltd. (the "Company") was formed through the amalgamation of Calfrac Well Services Ltd. (predecessor company was originally incorporated on June 28, 1999 and amalgamated with Denison Energy Inc. on March 24, 2004) and Dominion Land Projects Ltd. on January 1, 2011 under the Business Corporations Act (Alberta). The Company was continued under the Canada Business Corporations Act on December 17, 2020. The Company's principal place of business is at Suite 500, 407 – 8th Avenue S.W., Calgary, Alberta, Canada, T2P 1E5. The Company provides specialized oilfield services, including hydraulic fracturing, coiled tubing, cementing and other well completion services to the oil and natural gas industries in North America and Argentina.

These condensed consolidated interim financial statements were prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations by the International Financial Reporting Interpretations Committee (IFRIC). They should be read in conjunction with the annual financial statements for the year ended December 31, 2022. Unless otherwise noted, the Company has consistently applied the same accounting policies throughout all periods presented, as if these policies were always in effect.

These financial statements were approved for issuance by the Board of Directors on May 8, 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Income Taxes

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

(b) Change in Accounting Estimate

Effective January 1, 2023, expenditures related to fluid ends will be recorded as an operating expense rather than as a capital expenditure. This change in accounting estimate was based on new information surrounding the useful life of this component. This change was adopted prospectively and is not expected to have any material impact on the financial statements as the fluid end component was previously depreciated over a one-year useful life.

3. ASSETS HELD FOR SALE

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

In conjunction with the ongoing sale process and in light of the additional Canadian sanctions and restrictions that were issued in relation to the Russian oil and gas industry, the Company has adjusted the Russian division's current and long-term assets to reflect their revised expected recoverable amount as at March 31, 2023. Management will continue to revisit the fair value of the net assets at each reporting period and upon the close of the transaction.

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

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

	Three Months Ended March 31,	
	2023	2022
(C$000s)	*($)*	*($)*
Impairment of property, plant and equipment	—	—
Impairment of inventory	**1,100**	—
Impairment of other assets	**1,151**	—
	2,251	—

(a) Financial Information

The financial performance and cash flow information of the Russia operating division for the three months ended March 31, 2023 and 2022 are:

	Three Months Ended March 31,	
	2023	2022
(C$000s)	*($)*	*($)*
Revenue	**35,266**	22,096
Expenses	**31,134**	25,604
Impairment charges	**2,251**	—
Income (loss) before income tax	**1,881**	(3,508)
Income tax recovery	**(143)**	—
Net income (loss) from discontinued operations	**2,024**	(3,508)

	Three Months Ended March 31,	
	2023	2022
(C$000s)	*($)*	*($)*
Net cash (used in) provided by operating activities	**(3,268)**	2,881
Net cash provided by (used in) financing activities	**—**	—
Net cash provided by investing activities	**1**	—
Effect of exchange rate changes on cash and cash equivalents	**843**	199
(Decrease) increase in cash and cash equivalents from discontinued operations	**(2,424)**	3,080

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

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operations:

	March 31,	December 31,
	2023	2022
(C$000s)	*($)*	*($)*
Assets classified as held for sale		
Cash and cash equivalents	4,512	9,895
Accounts receivable	46,039	31,964
Income taxes recoverable	1,594	834
Inventories	2,746	2,069
Prepaid expenses and deposits	54	1,178
	54,945	**45,940**
Liabilities directly associated with assets classified as held for sale		
Accounts payable and accrued liabilities	27,880	18,852
	27,880	**18,852**

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

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

The cumulative foreign exchange gains recognized in other comprehensive income in relation to the discontinued operations as at March 31, 2023 was $7,094.

4. LONG-TERM DEBT

	March 31, 2023	December 31, 2022
(C$000s)	***($)***	*($)*
$250,000 extendible revolving term loan facility, secured by the Canadian and U.S. assets of the Company on a first priority basis	**180,000**	170,000
$2,606 1.5 Lien Notes due December 18, 2023, bearing interest at 10.00% payable semi-annually, secured by the Canadian and U.S. assets of the Company on a second priority basis ahead of the Second Lien Notes	**2,553**	2,534
US$120,000 Second Lien Notes due March 15, 2026, bearing interest at 10.875% payable semi-annually, secured by the Canadian and U.S. assets of the Company on a second priority basis	**162,396**	162,528
Less: unamortized debt issuance costs	**(2,925)**	(3,342)
	342,024	331,720
Current portion	**2,553**	2,534
Long-term portion	**339,471**	329,186
	342,024	331,720

The fair value of the Second Lien Notes (as defined below), as measured based on the closing market price at March 31, 2023 was $145,330 (December 31, 2022 – $147,411). The carrying value of the revolving term loan facility approximates its fair value as the interest rate is not significantly different from current interest rates for similar loans. As at March 31, 2023, there have been no trades in the 1.5 Lien Notes of which the Company is aware to provide an alternative fair value reference; however, the conversion price is significantly higher than the exercise price which indicates that the fair value of the 1.5 Lien Notes would be significantly higher than its carrying amount.

(a) 1.5 Lien Notes

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

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

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

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

(b) Revolving Credit Facility

The Company's revolving credit facilities consist of an operating facility of $45,000 and a syndicated facility of $205,000. On September 29, 2022, the Company amended its credit agreement, which included an extension of the the maturity date to July 1, 2024. The credit agreement can be extended by one or more years at the Company's request and lenders' acceptance. The Company may also prepay principal without penalty. The interest rates are based on the parameters of certain bank covenants. For prime-based loans and U.S. base-rate loans, the rate ranges from prime or U.S. base rate plus 1.00 percent to prime plus 3.50 percent. For SOFR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 2.00 percent to 4.50 percent above the respective base rates. The Company incurs interest at the high end of the ranges outlined above if its net Total Debt to Adjusted EBITDA ratio is above 4.00:1.00. As at March 31, 2023, the Company's net Total Debt to Adjusted EBITDA ratio was 1.07:1.00.

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

Interest on long-term debt (including the amortization of debt issuance costs and debt discount) for the three months ended March 31, 2023 was $8,437 (three months ended March 31, 2022 – $9,817).

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

	2023	2022
(C$000s)	***($)***	*($)*
Balance, January 1	**331,720**	388,479
Issuance of long-term debt, net of debt issuance costs	**33,233**	8,431
Long-term debt repayments	**(25,000)**	—
Conversion of 1.5 Lien Notes into shares	**—**	(547)
Amortization of compound financial instrument discount	**20**	383
Amortization of debt issuance costs and debt discount	**2,181**	2,454
Foreign exchange adjustments	**(130)**	(2,140)
Balance, March 31	**342,024**	397,060

At March 31, 2023, the Company had utilized $3,456 of its loan facility for letters of credit, had $180,000 outstanding under its revolving term loan facility, leaving $66,544 in available credit. The Company's credit facilities are subject to a monthly borrowing base, which at March 31, 2023 was above the maximum availability of $250,000 under its credit facilities. See note 10 for further details on the covenants in respect of the Company's long-term debt.

5. CAPITAL STOCK

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

	Three Months Ended March 31, 2023		Year Ended December 31, 2022	
Continuity of Common Shares	**Shares**	**Amount**	Shares	Amount
	(#)	***($000s)***	*(#)*	*($000s)*
Balance, beginning of period	**80,733,504**	**865,059**	37,700,972	801,178
Issued upon exercise of warrants	**45,679**	**434**	531,706	5,054
Conversion of 1.5 Lien Notes into shares (note 4)	**—**	**—**	42,065,259	58,892
Issued upon exercise of stock options	**40,000**	**223**	435,567	2,435
Reclassification of loan receivable	**—**	**—**	—	(2,500)
Balance, end of period	**80,819,183**	**865,716**	80,733,504	865,059

	Three Months Ended March 31,	
	2023	2022
	(#)	*(#)*
Weighted average number of common shares outstanding		
Basic	**80,765,832**	38,066,406
Diluted	**89,961,179**	88,055,910

The difference between basic and diluted shares is attributable to: warrants issued as disclosed in note 6, the dilutive effect of the conversion of the 1.5 Lien Notes as disclosed in note 4, and the dilutive effect of stock options issued by the Company as disclosed in note 6. The convertible 1.5 Lien Notes are dilutive at the level of profit from continuing operations and in accordance with IAS 33 *Earnings per Share*, have been treated as dilutive for the purpose of diluted EPS. The diluted loss per share is lower than basic loss per share because of the effect of losses on discontinued operations.

	Three Months Ended March 31,	
	2023	2022
	(#)	*(#)*
Net income (loss) from continuing operations		
Used in calculating basic earnings per share	**36,313**	(18,030)
Add: interest savings on convertible 1.5 Lien Notes, net of tax	**201**	4,488
Used in calculating dilutive earnings per share	**36,514**	(13,542)
Net income (loss) from discontinued operations	**2,024**	(3,508)
Net income (loss) used in calculating diluted earnings per share	**38,538**	(17,050)

6. SHARE-BASED PAYMENTS

(a) Stock Options

Three Months Ended March 31,		**2023**		2022
Continuity of Stock Options	**Options**	**Average Exercise Price**	Options	Average Exercise Price
	(#)	*($)*	*(#)*	*($)*
Balance, beginning of period	**3,587,769**	**4.90**	3,300,000	3.54
Exercised for common shares	**(40,000)**	**3.54**	—	—
Forfeited	**(173,333)**	**3.54**	—	—
Balance, end of period	**3,374,436**	**4.98**	3,300,000	3.54

Stock options vest equally over three years and expire five years from the date of grant. The exercise price of outstanding options range from $3.41 to $10.00 with a weighted average remaining life of 3.64 years. When stock options are exercised, the proceeds together with the compensation expense previously recorded in contributed surplus, are added to capital stock.

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

(b) Share Units

	Three Months Ended March 31,	
	2023	2022
Continuity of Deferred Share Units		
	(#)	*(#)*
Balance, beginning of period	**232,800**	107,400
Exercised	**(800)**	(1,600)
Balance, end of period	**232,000**	105,800

	Three Months Ended March 31,	
	2023	2022
	($)	*($)*
Stock options	**544**	1,034
Deferred share units	**(148)**	135
Total stock-based compensation expense	**396**	1,169

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

The Company grants deferred share units to its outside directors. These units vest on the first anniversary of the date of grant and are settled either in cash (equal to the market value of the underlying shares at the time of exercise) or in Company shares purchased on the open market. The fair value of the deferred share units is recognized equally over the vesting period, based on the current market price of the Company's shares. At March 31, 2023, the liability pertaining to deferred share units was $686 (December 31, 2022 – $839).

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

(c) Warrants

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

During the three months ended March 31, 2023, 45,679 warrants were exercised for total proceeds of $114.

Three Months Ended March 31,		**2023**		2022
Continuity of Warrants	**Warrants**	**Average Exercise Price**	Warrants	Average Exercise Price
	(#)	***($)***	*(#)*	*($)*
Balance, January 1	**5,219,150**	**2.50**	5,750,856	2.50
Exercised for common shares	**(45,679)**	**2.50**	(281,399)	2.50
Balance, March 31	**5,173,471**	**2.50**	5,469,457	2.50

7. LEASES

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

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

	March 31,	December 31,
	2023	2022
(C$000s)	***($)***	*($)*
Field equipment	**16,106**	16,143
Buildings	**6,227**	6,765
	22,333	22,908

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

	2023
(C$000s)	*($)*
Balance, January 1	23,192
Additions	2,937
Disposals/retirements	(671)
Principal portion of payments	(2,604)
Foreign exchange adjustments	(17)
Balance, March 31	22,837

8. 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, and long-term debt.

(a) Fair Values of Financial Assets and Liabilities

The fair values of financial instruments included in the consolidated balance sheets, except long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The fair value and carrying value of the Second Lien Notes, as measured based on the closing market price at March 31, 2023 was $145,330 and $162,396, respectively (December 31, 2022 – $147,411 and $162,528).

The fair values of the remaining long-term debt approximate their carrying values, as described in note 4.

(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 March 31, 2023, the Company had a loss allowance provision for accounts receivable of $481 (December 31, 2022 – $481).

IFRS 9 *Financial Instruments* requires an entity to estimate its expected credit loss for all trade accounts receivable even when they are not past due based on the expectation that certain receivables will be uncollectible. Based on the Company's assessment using the lifetime expected credit loss model, no further loan loss allowance was recorded during the three months ended March 31, 2023. The expected credit loss rates are based on actual credit loss experience over the past several years for each operating segment.

The loss allowance provision for trade accounts receivable as at March 31, 2023 reconciles to the opening loss allowance provision as follows:

	2023
(C$000s)	*($)*
At January 1, 2023	481
Increase (decrease) in loan loss allowance recognized in statement of operations	—
Foreign exchange adjustments	—
At March 31, 2023	481

(c) Liquidity Risk

The Company's principal sources of liquidity are operating cash flows, existing or new credit facilities, new secured or unsecured debt, and new share equity. The Company monitors its liquidity to ensure it has sufficient funds to complete planned capital and other expenditures. The Company mitigates liquidity risk by maintaining adequate banking and credit facilities and monitoring its forecast and actual cash flows. The Company may also adjust its capital spending to maintain liquidity. See note 10 for further details on the Company's capital structure.

(d) Country Risk

The ongoing conflict between Russia and Ukraine has added a level of risk and uncertainty and additional restrictions around the operations of the Company's Russian subsidiary. As a result of these changes in circumstances, the risks, restrictions, and uncertainties surrounding banking and limitations on the ability to repatriate funds to Canada from Russia, the Company's ownership and control over its Russian subsidiary, the physical security of property, plant and equipment in Russia, collectability of accounts receivable, the regulatory approvals to complete a sale transaction and overall business and operational risks are being monitored and addressed as circumstances evolve. The impact of these risks will be reflected in the financial statements as required.

The situation in Russia remains dynamic and additional sanctions or restrictions may be issued against or by Russia as the conflict evolves. Additional sanctions or restrictions could have a material impact on the Company's assets, business, financial condition and cash flows in Russia and the Company has determined that it will sell its Russian operations as noted in note 3.

9. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three Months Ended March 31,	
	2023	2022
(C$000s)	*($)*	*($)*
Accounts receivable	**(89,346)**	(47,322)
Inventory	**(197)**	4,186
Prepaid expenses and deposits	**(3,270)**	3,105
Accounts payable and accrued liabilities	**52,789**	49,503
Income taxes recoverable	**3,828**	(301)
	(36,196)	9,171

Purchase of property, plant and equipment is comprised of:

	Three Months Ended March 31,	
	2023	2022
(C$000s)	*($)*	*($)*
Property, plant and equipment additions	**(34,474)**	(12,145)
Change in liabilities related to the purchase of property, plant and equipment	**(923)**	(3,959)
	(35,397)	(16,104)

10. CAPITAL STRUCTURE

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

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

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

For the Twelve Months Ended	**March 31, 2023**	December 31, 2022
(C$000s)	*($)*	*($)*
Net income from continuing operations	**89,647**	35,303
Adjusted for the following:		
Depreciation	**122,235**	122,027
Foreign exchange gains	**(5,323)**	(2,972)
Loss on disposal of property, plant and equipment	**3,758**	5,333
Impairment of property, plant and equipment	**10,670**	10,670
Impairment of inventory	**8,477**	8,477
Impairment of other assets	**64**	64
Litigation settlements	**4,453**	11,258
Restructuring charges	**5,905**	5,273
Stock-based compensation	**2,286**	2,776
Interest	**44,912**	46,555
Income taxes	**7,687**	(11,023)
Adjusted EBITDA from continuing operations	**294,771**	233,741

Net debt for this purpose is calculated as follows:

	March 31, 2023	December 31, 2022
(C$000s)	*($)*	*($)*
Long-term debt, net of debt issuance costs and debt discount	**342,024**	331,720
Lease obligations	**22,837**	23,192
Deduct: cash and cash equivalents	**(23,169)**	(8,498)
Net debt	**341,692**	346,414

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

At March 31, 2023, the net debt to Adjusted EBITDA ratio was 1.16:1 (December 31, 2022 – 1.48:1) calculated on a 12-month trailing basis as follows:

For the Twelve Months Ended	**March 31, 2023**	December 31, 2022
(C$000s, except ratio)	*($)*	*($)*
Net debt	**341,692**	346,414
Adjusted EBITDA	**294,771**	233,741
Net debt to Adjusted EBITDA ratio	**1.16**	1.48

The Company is subject to certain financial covenants relating to working capital, leverage and the generation of cash flow in respect of its operating and revolving credit facilities. These covenants are monitored on a monthly basis. The Company was in compliance with its financial covenants associated with its credit facilities as at March 31, 2023.

11. RELATED-PARTY TRANSACTIONS

Certain entities controlled by George S. Armoyan hold US$16,371 of the Company's Second Lien Notes (December 31, 2022 – US$16,371).

The Company leases certain premises from a company controlled by Ronald P. Mathison. The rent charged for these premises during the three months ended March 31, 2023 was $239 (three months ended March 31, 2022 – $239), as measured at the exchange amount, which is based on market rates at the time the lease arrangements were made and is under the normal course of business.

12. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	North America	Argentina	Continuing Operations
(C$000s)	*($)*	*($)*	*($)*
Three Months Ended March 31, 2023			
Fracturing	**398,774**	**48,937**	**447,711**
Coiled tubing	**14,118**	**12,053**	**26,171**
Cementing	**—**	**10,698**	**10,698**
Product sales	**155**	**—**	**155**
Subcontractor	**—**	**8,588**	**8,588**
	413,047	**80,276**	**493,323**
Three Months Ended March 31, 2022			
Fracturing	228,386	30,274	258,660
Coiled tubing	10,500	8,816	19,316
Cementing	—	9,888	9,888
Product sales	1,059	—	1,059
Subcontractor	—	5,601	5,601
	239,945	54,579	294,524

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

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

Beginning in 2023, the Company began reporting the financial and operating performance for the United States and Canada under a single North America division as part of its strategy to streamline its operational and reporting structure. Prior comparatives have been reclassified to conform with the current presentation.

13. PRESENTATION OF EXPENSES

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

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

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

	Three Months Ended March 31,	
	2023	2022
(C$000s)	*($)*	*($)*
Product costs	**134,724**	90,519
Personnel costs	**102,423**	73,209
Depreciation on property, plant and equipment	**27,397**	28,148
Depreciation on right-of-use assets	**2,765**	1,806
Other operating costs [(1)]	**158,327**	97,142
Cost of sales from continuing operations	**425,636**	290,824

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

14. EMPLOYEE BENEFITS EXPENSE

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

	Three Months Ended March 31,	
	2023	2022
(C$000s)	*($)*	*($)*
Salaries and short-term employee benefits	**113,047**	78,803
Post-employment benefits (group retirement savings plan)	**578**	1,421
Share-based payments	**396**	1,169
Termination benefits	**1,622**	999
	115,643	82,392

15. CONTINGENCIES

GREEK LITIGATION

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

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

In 1999, the largest group of plaintiffs received a ruling from the Athens Court of First Instance that their termination was invalid and that salaries in arrears amounting to approximately $10,069 (6,846 euros) plus interest were due to the former employees. This decision was appealed to the Athens Court of Appeal, which allowed the appeal in 2001 and annulled the above-mentioned decision of the Athens Court of First Instance. The said group of former employees filed an appeal with the Supreme Court of Greece, which was heard on May 29, 2007. The Supreme Court of Greece allowed the appeal and sent the matter back to the Athens Court of Appeal for the consideration of the quantum of awardable salaries in arrears. On June 3, 2008, the Athens Court of Appeal rejected NAPC's appeal and reinstated the award of the Athens Court of First Instance, which decision was further appealed to the Supreme Court of Greece. The matter was heard on April 20, 2010 and a decision rejecting such appeal was rendered in June 2010. As a result of Denison's participation in the consortium that was named in the lawsuit, the Company was served with three separate payment orders, one on March 24, 2015 and two others on December 29, 2015. The Company was also served with an enforcement order on November 23, 2015.

Provisional orders granting a temporary suspension of any enforcement proceedings have been granted in respect of all of these orders on the basis they were improperly issued and are barred from a statute of limitations perspective. Hearings in respect of each of the orders have been held, and in each case, decisions were rendered accepting the Company's position. All of these decisions were appealed, but the favorable judgments have all been confirmed in the Company's favor. The plaintiffs have filed petitions for cassation (a form of appeal in Greece) against three of the appeal judgments, and will have

30 days to file a petition for cassation following the service of the remaining judgment in respect of the enforcement order once it has been certified. No hearings have been scheduled for the three pending cassation petitions.

NAPC is also the subject of a claim for approximately $3,238 (2,201 euros) plus associated penalties and interest from the Greek social security agency for social security obligations associated with the salaries in arrears that are the subject of the above-mentioned decision. That claim was upheld by judgment No. 99/2021 of the Administrative Court of Appeal in Komotini and a petition for cassation has been filed by NAPC partially challenging the aforementioned judgment and its quantum.

The maximum aggregate interest and penalties payable under the claims noted above, as well as three other immaterial claims against NAPC totaling $850 (578 euros), amounted to $31,442 (21,378 euros) as at March 31, 2023.

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

16. SEGMENTED INFORMATION

The Company's activities in its continuing operations are conducted in two geographical segments: North America and Argentina. All activities are related to hydraulic fracturing, coiled tubing, cementing and other well completion services for the oil and natural gas industry.

Beginning in 2023, the Company began reporting the financial and operating performance for the United States and Canada under a single North America division as part of its strategy to streamline its operational and reporting structure. Prior comparatives have been reclassified to conform with the current presentation.

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

	North America	Argentina	Corporate	Continuing Operations
(C$000s)	*($)*	*($)*	*($)*	*($)*
Three Months Ended March 31, 2023				
Revenue	**413,047**	**80,276**	**—**	**493,323**
Adjusted EBITDA	**76,487**	**11,540**	**(4,233)**	**83,794**
Segmented assets	**884,937**	**156,714**	**—**	**1,041,651**
Capital expenditures	**33,748**	**726**	**—**	**34,474**
Three Months Ended March 31, 2022				
Revenue	239,945	54,579	—	294,524
Adjusted EBITDA	21,416	5,789	(4,441)	22,764
Segmented assets	745,613	116,906	—	862,519
Capital expenditures	10,956	1,189	—	12,145

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

	Three Months Ended March 31,	
	2023	2022
(C$000s)	***($)***	*($)*
Net income (loss) from continuing operations	**36,313**	(18,030)
Add back (deduct):		
Depreciation	**30,162**	29,954
Foreign exchange losses	**1,486**	3,837
(Gain) loss on disposal of property, plant and equipment	**(537)**	1,038
Litigation settlement	**(6,805)**	—
Restructuring charges	**1,333**	701
Stock-based compensation	**544**	1,034
Interest	**8,174**	9,816
Income taxes	**13,124**	(5,586)
Adjusted EBITDA from continuing operations [1]	**83,794**	22,764

[1] For bank covenant purposes, EBITDA includes $4,613 income from discontinued operations for the three months ended March 31, 2023 (three months ended March 31, 2022 – $377 loss) and the deduction of an additional $2,885 of lease payments for the three months ended March 31, 2023 (three months ended March 31, 2022 – $2,386) that would have been recorded as operating expenses prior to the adoption of IFRS 16.

17. SEASONALITY OF OPERATIONS

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Ronald P. Mathison
Alberta, Canada
- *Chairman*

Douglas R. Ramsay
Alberta, Canada
- *Vice Chairman*
- *Compensation, Governance and Nominating Committee*
- *Health, Safety, Environment and Quality Committee*

George S. Armoyan
Nova Scotia, Canada
- *Compensation, Governance and Nominating Committee*

Anuroop Duggal
Ontario, Canada
- *Audit Committee*
- *Compensation, Governance and Nominating Committee*

Chetan R. Mehta
New York, NY, United States
- *Audit Committee*
- *Health, Safety, Environment and Quality Committee*

Charles Pellerin
Quebec, Canada
- *Audit Committee*
- *Compensation, Governance and Nominating Committee*

Pat Powell
Alberta, Canada
- *Health, Safety, Environment and Quality Committee*

OFFICERS

Pat Powell
Chief Executive Officer

Michael D. Olinek
Chief Financial Officer

Marco A. Aranguren
Director General, Argentina Division

Gordon T. Milgate
President, Canadian Operations

Mark D. Rosen
President, United States Operations

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

Jon Koop
Vice President, Human Resources

Brent W. Merchant
Vice President, Sales & Marketing, Canada

Alif H. Noorani
Vice President, Finance

Jeffrey I. Ellis
General Counsel and Corporate Secretary

HEAD OFFICE

Suite 500, 407 - 8th Avenue S.W.
Calgary, Alberta, T2P 1E5
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
Export Development Canada
The Bank of Nova Scotia
Canadian Western Bank

LEGAL COUNSEL

Bennett Jones LLP
Calgary, Alberta

STOCK EXCHANGE LISTINGS

Toronto Stock Exchange
Common Share Trading Symbol: CFW
Warrant Trading Symbol: CFW.WT

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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