



***2004 Second Quarter Report***  
***For the Three and Six Months***  
***ended June 30, 2004***

 *Innovation*

 *Enthusiasm*

 *Dependability*

 *Integrity*

Technologies that work in the field.

## Highlights

Calfrac continued its growth by achieving revenue increases in excess of 50% for both the three and six-month periods ending June 30, 2004 and a 124% improvement in net income for the first half of 2004.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2004	2003	Change	2004	2003	Change
(unaudited)						
(000s, except per share data)	\$	\$	%	\$	\$	%
Revenue	<b>41,066</b>	22,714	81	<b>98,364</b>	60,980	61
Gross margin	<b>7,643</b>	5,202	47	<b>28,706</b>	18,525	55
Net income	<b>1,657</b>	(60)	–	<b>10,725</b>	4,788	124
Per share (basic & diluted)						
Per Canadian GAAP (1)	<b>0.10</b>	(0.01)	–	<b>0.78</b>	0.49	59
June 30, 2004	<b>0.10</b>	–	–	<b>0.63</b>	–	–
EBITDA (2)	<b>4,591</b>	2,824	63	<b>20,777</b>	12,918	61
Cash flow from operations (3)	<b>4,674</b>	2,850	64	<b>15,910</b>	10,024	59
Working capital	<b>8,280</b>	3,158	162	<b>8,280</b>	3,158	162
Common shares outstanding						
(basic & diluted) (#)						
Per Canadian GAAP (1)	<b>17,107,277</b>	9,733,503	76	<b>13,744,513</b>	9,733,503	41
June 30, 2004	<b>17,107,277</b>	–	–	<b>17,107,277</b>	–	–
	#	#	%	#	#	%
Operating fracturing						
spreads as at June 30						
Conventional fracturing	<b>10</b>	9	11	<b>10</b>	9	11
Natural gas from coal	<b>2</b>	1	100	<b>2</b>	1	100
Total fracturing spreads	<b>12</b>	10	20	<b>12</b>	10	20

1. The number of common shares outstanding on both a basic and diluted basis as at the date of this report is unchanged from the number of shares outstanding as at June 30, 2004.
2. EBITDA represents income before interest, taxes, depreciation and amortization. EBITDA is not a term that is approved under Canadian GAAP as the calculation of EBITDA is not always used consistently by reporting issuers. Accordingly, EBITDA, as the term is used herein, may not be comparable to EBITDA as reported by other entities. EBITDA is presented because it is frequently used by security analysts and others in evaluating companies and their ability to service debt.
3. Cash flow is defined as "Cash provided by operating activities before changes in non-cash working capital". Cash flow and cash flow per share are measures that provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Management utilizes these measures to assess the Company's ability to finance operating activities and capital expenditures. Cash flow and cash flow per share are not measures that have any standardized meaning prescribed by Canadian GAAP, and accordingly, may not be comparable to similar measures used by other companies.

## Consolidated Balance Sheets

As at	June 30, 2004	December 31, 2003
	(unaudited)	(audited)
(000s)	\$	\$
<b>Assets</b>		
Current assets		
Cash and marketable securities	9,740	14,968
Accounts receivable	25,929	30,497
Income taxes recoverable	625	–
Inventory	1,762	1,958
Prepaid expenses and deposits	1,877	927
	<b>39,933</b>	48,350
Capital assets		
Intangible assets	99,602	78,441
Goodwill	103	252
Future income taxes (note 5)	3,593	3,276
	<b>62,862</b>	–
	<b>206,093</b>	130,319
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	26,542	23,889
Income taxes payable	–	5,585
Current portion of long-term debt	5,111	12,112
	<b>31,653</b>	41,586
Long-term debt		
Future income taxes	4,994	23,781
Deferred credit (note 5)	–	7,521
Non-controlling interest	56,775	–
	<b>606</b>	–
	<b>94,028</b>	72,888
<b>Shareholders' equity</b>		
Capital stock (note 7)	109,138	14,720
Retained earnings	2,927	42,711
	<b>112,065</b>	57,431
	<b>206,093</b>	130,319

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Operations and Retained Earnings

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(unaudited)				
(000s, except per share data)	\$	\$	\$	\$
<b>Revenue</b>	<b>41,066</b>	22,714	<b>98,364</b>	60,980
<b>Expenses</b>				
Operating	<b>33,423</b>	17,512	<b>69,658</b>	42,455
Selling, general and administrative	<b>2,877</b>	1,935	<b>6,890</b>	5,057
Restructuring costs	–	–	<b>965</b>	–
Other expenses	<b>173</b>	443	<b>72</b>	550
Loss on disposal of capital assets	<b>2</b>	–	<b>2</b>	–
	<b>36,475</b>	19,890	<b>77,587</b>	48,062
	<b>4,591</b>	2,824	<b>20,777</b>	12,918
Depreciation	<b>2,795</b>	2,192	<b>5,344</b>	4,186
Amortization of intangibles	<b>74</b>	74	<b>149</b>	149
Interest	<b>140</b>	602	<b>543</b>	1,137
<b>Income before income taxes</b>	<b>1,582</b>	(44)	<b>14,741</b>	7,446
Income taxes				
Current	<b>(221)</b>	(628)	<b>4,326</b>	1,757
Future	<b>140</b>	644	<b>(316)</b>	901
	<b>(81)</b>	16	<b>4,010</b>	2,658
Income (loss) before non-controlling interest	<b>1,663</b>	(60)	<b>10,731</b>	4,788
Non-controlling interest	<b>6</b>	–	<b>6</b>	–
<b>Net income (loss) for the period</b>	<b>1,657</b>	(60)	<b>10,725</b>	4,788
<b>Retained earnings, beginning of period</b>	<b>1,270</b>	27,910	<b>42,711</b>	23,062
Effect of change in accounting for				
stock-based compensation (note 3)	–	–	<b>(829)</b>	–
Purchase and cancellation of shares (note 6)	–	–	<b>(53,866)</b>	–
Elimination of deficit on amalgamation	–	–	<b>4,186</b>	–
<b>Retained earnings, end of period</b>	<b>2,927</b>	27,850	<b>2,927</b>	27,850
<b>Earnings per share</b> (in accordance with Canadian GAAP)				
Basic	<b>0.10</b>	(0.01)	<b>0.78</b>	0.49
Diluted	<b>0.10</b>	(0.01)	<b>0.78</b>	0.49

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Cash Flows

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(unaudited)				
(000s)	\$	\$	\$	\$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income (loss) for the period	1,657	(60)	10,725	4,788
Items not involving cash				
Depreciation and amortization	2,869	2,266	5,493	4,335
Loss on disposal of capital assets	2	–	2	–
Future income taxes	140	644	(316)	901
Non-controlling interest	6	–	6	–
Funds provided by operations	4,674	2,850	15,910	10,024
Net change in non-cash working capital	7,549	(4,059)	(2,798)	(1,398)
	12,223	(1,209)	13,112	8,626
<b>Financing activities</b>				
Net proceeds from share issues				
received on amalgamation (note 4)	–	–	92,948	–
Issue of bank loans and long-term debt	–	6,050	–	9,220
Bank loan and long-term debt repayments	(1,475)	(2,564)	(27,398)	(4,911)
Net proceeds on issuance of common shares	–	127	–	211
Purchase of common shares (note 6)	–	–	(58,437)	–
	(1,475)	3,613	7,113	4,520
<b>Investing activities</b>				
Purchase of capital assets	(11,311)	(4,138)	(23,741)	(13,047)
Proceeds on disposal of capital assets	15	–	47	–
Acquisition of subsidiary, net of cash acquired	(1,759)	–	(1,759)	–
	(13,055)	(4,138)	(25,453)	(13,047)
<b>(Decrease) increase in cash position</b>	<b>(2,307)</b>	<b>(1,734)</b>	<b>(5,228)</b>	<b>99</b>
<b>Cash, beginning of period</b>	<b>12,047</b>	<b>5,604</b>	<b>14,968</b>	<b>3,771</b>
<b>Cash, end of period</b>	<b>9,740</b>	<b>3,870</b>	<b>9,740</b>	<b>3,870</b>

See accompanying notes to the consolidated financial statements.

# Notes to Consolidated Financial Statements

**For the Six Months Ended June 30, 2004**

(unaudited) (000s)

## 1. BASIS OF PRESENTATION ›

The interim financial statements do not conform in all respects to the requirements of generally accepted accounting principles for annual financial statements. The interim financial statements should be read in conjunction with the most recent annual financial statements.

## 2. SEASONALITY OF OPERATIONS ›

The business of Calfrac Well Services Ltd. (the "Company") is seasonal in nature. The lowest activity levels are experienced during the second quarter of the year when road weight restrictions are in place and access to well sites in Canada is reduced.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ›

The interim financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements, except for:

### Stock-Based Compensation

In 2004, the Company adopted a new CICA Handbook section on a retroactive basis, without restatement, that requires companies to recognize compensation cost for the value of stock options granted. The new standard did not affect net income for the six months ended June 30, 2004. The affect of this change in accounting policy is to reduce opening retained earnings at January 1, 2004 by \$829.

## 4. TRANSACTION WITH DENISON ENERGY INC. ›

On December 30, 2003, the shareholders of the Company granted to Denison Energy Inc. ("Denison") an irrevocable option to purchase all of the shares of the Company. On March 24, 2004, Denison exercised this option for a net purchase price of \$143,899. This consideration was paid to the shareholders of the Company by way of cash of \$28,780 and 7,427,039 Denison common shares. On March 24, 2004, the Company was amalgamated with Denison and the name of the amalgamated corporation was changed to Calfrac Well Services Ltd. The net assets of Denison contributed to the amalgamated corporation on March 24, 2004 were as follows:

Six Months Ended June 30,	2004
	\$
Cash	<b>92,948</b>
Future income tax assets (note 5)	<b>14,014</b>
Current liabilities	<b>(3,704)</b>
Long-term liabilities	<b>(912)</b>
	<b>102,346</b>

**5. FUTURE INCOME TAX ASSETS ›**

On the amalgamation of Denison and the Company on March 24, 2004, a future income tax asset associated with Denison's income tax pools was recognized in the accounts. Denison had tax pools of approximately \$220,000 for federal income tax purposes and \$170,000 for provincial income tax purposes. The final amount of these tax pools will be determined when all of Denison's tax filings are completed. After tax affecting these pools at applicable federal and provincial income tax rates, a future income tax asset of \$68,909 was recorded. The fair value paid for the tax pools acquired is estimated to be \$11,000. The difference between the future income tax asset recognized and the fair value of these tax pools was recorded as a deferred credit in the amount of \$57,909. In addition to this, a future income tax asset was recognized in the amount of \$3,014, which pertains to \$8,964 of share issue costs incurred on Denison's public offering completed on March 23, 2004.

**6. PURCHASE AND CANCELLATION OF COMMON SHARES ›**

On March 23, 2004, the Company acquired all of the shares of 1070479 Alberta Ltd. ("1070479") for nominal consideration. 1070479 had previously acquired 4,289,844 of the Company's shares from a major customer of the Company for \$58,437, payable by way of a promissory note. Immediately following the acquisition of 1070479, 1070479 was wound up into the Company and the Company shares were cancelled. The promissory note was paid in full on March 24, 2004. The cancellation of the shares was treated as a proportionate return of capital in the amount of \$4,571 and a distribution of retained earnings in the amount of \$53,866.

**7. CAPITAL STOCK ›**

The issued common shares and related values after giving effect to the acquisitions and amalgamation described above are as follows:

	Number of Shares	Amount
	#	\$
December 31, 2003 (adjusted for 1 for 21 Denison shares consolidated on March 8, 2004)	843,669	14,720
Repurchase and cancellation of Company shares	-	(4,571)
Denison shares issued prior to public offering	772,049	-
Denison public share offering	8,064,520	-
Denison shares issued to Company's shareholders	7,427,039	-
Denison net assets acquired on amalgamation	-	102,346
Elimination of Company's deficit on amalgamation	-	(4,186)
Elimination of Company's contributed surplus on amalgamation	-	829
<b>June 30, 2004</b>	<b>17,107,277</b>	<b>109,138</b>

**8. CONTINGENCIES ›**

As a result of the acquisition and amalgamation described in note 4, the Company has assumed certain legal obligations relating to Denison's previous businesses as follows:

(a) Legal Actions – Greece

In September 2002, the Court of Appeal of Athens ruled that certain employee terminations in 1998 by a Greek subsidiary of Denison were made in good faith and in accordance with applicable laws and that no further severance payments were required to be made. This decision has since been appealed by these employees to the Supreme Court of Greece. A hearing of the Supreme Court has been scheduled for November 2005.

In September 2003, the Supreme Court of Greece issued a ruling that another former employee of the Greek subsidiary of Denison be compensated for certain vacation days and referred two other compensation matters back for consideration at a new trial at the Court of Appeals of Athens. The hearing of this case commenced in the Court of Appeals of Athens on April 27, 2004. A decision is not expected until six months after its conclusion.

**8. CONTINGENCIES (continued)**

## (a) Legal Actions – Greece (continued)

Another group of employees of the Greek subsidiary received a favourable trial court ruling, entitling them to compensation for a miscalculation of severance. Although the compensation awarded was not material, Denison filed an appeal to a higher court to contest this matter.

The direction and financial consequences of potential decisions in these actions cannot be determined at this time.

## (b) Mining Claim

A letter was received from the Attorney General of the State of Maine claiming compensation relating to mining activities conducted 35 years ago in Blue Hill, Maine.

Denison Mines Inc. (a company formed from the reorganization of Denison prior to their acquisition of the Company and now unrelated to the Company) has advised the Company in writing that it will indemnify it against any adverse consequences arising from this claim. In the financial statements prepared for Denison Mines Inc. at March 31, 2004, management expressed an opinion that the aggregate amount of any potential liability arising from this claim is expected to be immaterial.

**9. SEGMENTED INFORMATION**

The Company's activities are conducted in two geographic segments: Canada and the United States. All activities are related to stimulation and cementing services to the oil and gas industry.

	Canada	United States	Intersegment Eliminations	Consolidated
(000s)	\$	\$	\$	\$
<b>Three Months Ended June 30, 2004</b>				
Revenue	35,830	5,236	–	41,066
Net income (loss)	2,615	(958)	–	1,657
Segmented assets	203,012	4,835	(1,754)	206,093
Capital expenditures	11,255	56	–	11,311
Goodwill	3,593	–	–	3,593
<b>Three Months Ended June 30, 2003</b>				
Revenue	18,924	3,830	(40)	22,714
Net income (loss)	(164)	104	–	(60)
Segmented assets	103,340	3,785	(2,832)	104,293
Capital expenditures	4,138	–	–	4,138
Goodwill	3,276	–	–	3,276
<b>Six Months Ended June 30, 2004</b>				
Revenue	85,066	13,298	–	98,364
Net income (loss)	11,200	(475)	–	10,725
Segmented assets	203,012	4,835	(1,754)	206,093
Capital expenditures	23,512	229	–	23,741
Goodwill	3,593	–	–	3,593
<b>Six Months Ended June 30, 2003</b>				
Revenue	54,694	6,602	(316)	60,980
Net income (loss)	5,426	(638)	–	4,788
Segmented assets	103,340	3,785	(2,832)	104,293
Capital expenditures	13,047	–	–	13,047
Goodwill	3,276	–	–	3,276

**Note:** Assets operated by Calfrac Well Services Corp. were acquired through a lease arrangement with Calfrac Well Services Ltd.





**CORPORATE INFORMATION** ▶

**Directors**

**Ronald P. Mathison** – Chairman (1)(2)

**James S. Blair** (1)(3)

**Gregory S. Fletcher** (1)(2)

**Martin Lambert** (3)

**Paul F. Little** (3)

**R. Timothy Swinton** (1)(2)

**Douglas R. Ramsay**

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Corporate Governance Committee

**Officers**

**Douglas R. Ramsay**  
President & Chief Executive Officer

**Gordon A. Dibb**  
Executive Vice President & Chief Financial Officer

**Robert S. Roberts**  
Senior Vice President & Chief Operating Officer

**Don R. Battenfelder**  
Vice President, Operations

**Dwight M. Bobier**  
Vice President, Technical Services

**John L. Grisdale**  
Vice President, Business Development

**Steve T. Dadge**  
Vice President, Corporate Services

**Tom J. Medvedic**  
Vice President, Finance

**Matthew L. Mignault**  
Controller

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**Legal Advisor**

Bennett Jones LLP  
Calgary, Alberta

**Auditors**

PricewaterhouseCoopers LLP  
Calgary, Alberta

**Banker**

HSBC Bank Canada  
Calgary, Alberta

**Operating Bases**

**Alberta, Canada**  
Calgary – Head Office  
Medicine Hat  
Red Deer  
Grande Prairie

**Colorado, United States**  
Denver – Regional Office  
Platteville

**Stock Exchange Listing**

Toronto Stock Exchange  
Trading Symbol: CFW





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