CALFRAC WELL SERVICES

EXPANDING
OUR UNCONVENTIONAL

First Quarter Interim Report
For the three months ended March 31, 2014

# Q1 HIGHLIGHTS

| Three Months Ended March 31, | **2014** | 2013 | Change |
|---|---|---|---|
| (C$000s, except per share and unit data)<br>(unaudited) | **($)** | ($) | (%) |
| **Financial** | | | |
| Revenue | **547,638** | 423,397 | 29 |
| Operating income [(1)] | **64,117** | 62,670 | 2 |
| EBITDA [(1)] | **60,435** | 65,169 | (7) |
| Per share – basic | **1.30** | 1.44 | (10) |
| Per share – diluted | **1.29** | 1.43 | (10) |
| Net income attributable to the shareholders of Calfrac | | | |
| before foreign exchange gains [(2)] | **10,792** | 22,677 | (52) |
| Per share – basic | **0.23** | 0.50 | (54) |
| Per share – diluted | **0.23** | 0.50 | (54) |
| Net income attributable to the shareholders of Calfrac | **8,946** | 24,645 | (64) |
| Per share – basic | **0.19** | 0.55 | (65) |
| Per share – diluted | **0.19** | 0.54 | (65) |
| Working capital (end of period) | **338,916** | 332,241 | 2 |
| Total equity (end of period) | **803,904** | 802,581 | – |
| Weighted average common shares outstanding (000s) | | | |
| Basic | **46,463** | 45,165 | 3 |
| Diluted | **46,816** | 45,534 | 3 |
| **Operating (end of period)** | | | |
| Pumping horsepower (000s) | **1,215** | 1,013 | 20 |
| Coiled tubing units (#) | **34** | 29 | 17 |
| Cementing units (#) | **31** | 28 | 11 |

(1) Refer to "Non-GAAP Measures" on page 6 for further information.

(2) Net income attributable to the shareholders of Calfrac before foreign exchange gains or losses is on an after-tax basis. Management believes that net income attributable to the shareholders of Calfrac before foreign exchange gains or losses is a useful supplemental measure as it provides an indication of the financial results generated by Calfrac without the impact of foreign exchange fluctuations, which are not fully controllable by the Company. Net income attributable to the shareholders of Calfrac before foreign exchange gains or losses is not prescribed under International Financial Reporting Standards (IFRS) and, accordingly, may not be comparable to similar measures used by other companies.

# QUARTERLY OVERVIEW

**Consolidated Highlights**

| Three Months Ended March 31, | **2014** | 2013 | Change |
|---|---|---|---|
| (C$000s, except operational information)<br>(unaudited) | **($)** | ($) | (%) |
| Revenue | **547,638** | 423,397 | 29 |
| Expenses | | | |
| Operating | **454,396** | 336,595 | 35 |
| Selling, general and administrative (SG&A) | **29,125** | 24,132 | 21 |
| | **483,521** | 360,727 | 34 |
| Operating income [1] | **64,117** | 62,670 | 2 |
| Operating income (%) | **11.7%** | 14.8% | (21) |
| Fracturing revenue per job ($) | **95,114** | 107,543 | (12) |
| Number of fracturing jobs | **5,297** | 3,572 | 48 |
| Pumping horsepower, end of period (000s) | **1,215** | 1,013 | 20 |
| Coiled tubing revenue per job ($) | **35,582** | 31,444 | 13 |
| Number of coiled tubing jobs | **744** | 687 | 8 |
| Coiled tubing units, end of period (#) | **34** | 29 | 17 |
| Cementing revenue per job ($) | **31,833** | 28,178 | 13 |
| Number of Cementing jobs | **495** | 421 | 18 |
| Cementing units, end of period (#) | **31** | 28 | 11 |

(1) Refer to "Non-GAAP Measures" on page 6 for further information.

Revenue in the first quarter of 2014 for Calfrac was $547.6 million, which increased by 29 percent from the same period in 2013. Consolidated fracturing jobs increased by 48 percent, but consolidated revenue per fracturing job declined by 12 percent primarily due to lower pricing.

Sequentially, revenue in the first quarter of 2014 increased by 18 percent compared to the fourth quarter of 2013. Consolidated fracturing jobs increased by 10 percent and fracturing revenue per job improved by 9 percent. The quarter-over-quarter increase in fracturing revenue per job was primarily due to customers completing larger jobs.

Pricing in Canada was stable in the first quarter of 2014 when compared to the fourth quarter of 2013. In the United States, pricing was stable in all of Calfrac's operating regions on a sequential basis.

Operating income for the first quarter of 2014 was $64.1 million, an increase of 2 percent from the comparable period in 2013. Operating income margin as a percentage of revenue was 12 percent, lower than the 15 percent generated in the first quarter of 2013. This decline was primarily due to weaker pricing combined with higher operating costs in Canada and the United States.

Operating income for the first quarter of 2014 was a 12 percent improvement sequentially due to higher activity levels. Operating income margin as a percentage of revenue was consistent with the fourth quarter of 2013. Calfrac incurred higher costs on a sequential basis because its North American supply chain and logistics operations were impacted by extremely cold weather which increased third party trucking costs along with the impact of a weaker Canadian dollar on inputs sourced from the United States.

In Canada, operating income as a percentage of revenue declined to 20 percent from 24 percent in the same period of 2013 due to lower pricing, higher fuel and subcontractor transportation costs combined with the impact of a weaker Canadian dollar. United States operating income margins declined to 10 percent from 14 percent on a year-over-year basis due to harsh weather conditions and costs of integrating the Mission Well Services, LLC ("Mission") assets into Calfrac's operations. In Russia, operating income margins decreased to 2 percent from 5 percent year-over-year as a result of abnormal weather conditions. Latin American operating income margins increased to 20 percent from 4 percent owing to the commencement of fracturing operations in Argentina.

Sequentially, Canadian operating income as a percentage of revenue increased to 20 percent from 18 percent in the fourth quarter of 2013 due to higher activity levels. In the United States, operating income margin decreased to 10 percent in the first quarter of 2014 from 16 percent. United States operating income margins declined sequentially due to the impact of harsh winter weather, supply chain and logistics issues and integration costs related to the assets of Mission. In Russia, operating income declined to 2 percent in the first quarter of 2014 from 6 percent in the fourth quarter of 2013 due to weather-related issues. In Latin America, operating income margins increased to 20 percent from 11 percent due to higher activity in Calfrac's Argentina operations.

Net income attributable to shareholders of Calfrac was $8.9 million or $0.19 per share diluted, a 65 percent decline from $24.6 million or $0.54 per share diluted in the same period last year. Net income per share on a fully diluted basis was negatively impacted on a year-over-year basis by a foreign exchange loss of $2.8 million compared to a gain of $2.4 million, depreciation expense increasing by $8.7 million, and an increase in interest costs of $5.7 million.

Net income attributable to shareholders of Calfrac declined 24 percent sequentially from $11.8 million or $0.25 per share diluted in the fourth quarter of 2013. Net income per share on a fully diluted basis was negatively impacted sequentially by a foreign exchange loss of $2.8 million compared to a gain of $1.5 million in the prior quarter, depreciation expense increasing by $2.1 million, an increase in interest costs of $1.5 million, and income tax expense increasing by $1.5 million.

In the first quarter of 2014, Calfrac declared a quarterly dividend of $0.25 per share and proposed a two-for-one common share split.

The Company has expanded its 2014 capital program by $10.0 million to $130.0 million, plus an additional $20.0 million of carryover capital, for expected 2014 capital spending of $150.0 million. The additional funds will be used to purchase ancillary equipment to support a number of Calfrac's operating areas.

Calfrac appointed Fernando Aguilar, President and CEO while appointing Doug Ramsay, Vice-Chairman. Subsequent to the end of the quarter, the Company also appointed Bruce Payne, President, of its Canadian division and Tom Medvedic, Vice-President, Operations of its Canadian division.

# 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 May 5, 2014 and is a review of the Company's financial condition and results of operations based on International Financial Reporting Standards (IFRS).*

*The focus of this MD&A is a comparison of the financial performance for the three months ended March 31, 2014 and 2013 and should be read in conjunction with the interim consolidated financial statements for the three months ended March 31, 2013, as well as the audited consolidated financial statements and MD&A for the year end December 31, 2013.*

*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 page 6.*

## Calfrac's Business

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

The Company's reportable business segments during the year ended March 31, 2014 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, Saskatchewan and southwest Manitoba. At March 31, 2014, Calfrac's Canadian operations had approximately 392,000 of hydraulic horsepower and 17 coiled tubing units.

- The United States segment provides pressure pumping services from operating bases in Arkansas, Colorado, North Dakota, Pennsylvania and Texas. The Company provides fracturing services to a number of oil and natural gas companies operating in the Bakken oil shale play in North Dakota, the Rockies area which includes the Piceance Basin of western Colorado, the Uintah Basin of northeast Utah and the Denver-Julesburg Basin centred in eastern Colorado and extending into southeast Wyoming, including the Niobrara oil play of northern Colorado. In the fourth quarter of 2013, the Company commenced fracturing operations in southern Texas servicing the Eagle Ford shale play. Calfrac also provides fracturing and cementing services to customers operating in the Marcellus shale play in Pennsylvania and West Virginia, the Fayetteville shale play of Arkansas and the Utica shale play in Ohio. The Company increased its coiled tubing presence in the United States during the fourth quarter of 2013 through the acquisition of seven coiled tubing units. At March 31, 2014, Calfrac's United States operations had approximately 672,000 of hydraulic horsepower, 18 cementing units and 7 coiled tubing units.

- The Company's Russian segment provides fracturing and coiled tubing services in Western Siberia. In the first quarter of 2014, the Company operated under a mix of annual and multi-year agreements to provide services to three of Russia's largest oil producers. At March 31, 2014, the Company operated seven deep coiled tubing units and operated approximately 70,000 hydraulic horsepower forming seven fracturing spreads in Russia.

- The Latin America segment provides pressure pumping services from operating bases in Argentina, Mexico and Colombia. In Argentina, the Company provides fracturing, cementing and coiled tubing services to oil and natural gas companies operating in the Catriel, Las Heras and Neuquén regions. The Company provides fracturing services to customers operating in the Burgos field of northern Mexico and the Chicontepec Basin of central Mexico. Calfrac also provides cementing services to oil and natural gas companies in Colombia. The Company operated approximately 81,000 hydraulic horsepower, 13 cementing units and three coiled tubing units in its Latin America segment at March 31, 2014.

## Consolidated Highlights

| Three Months Ended March 31, | **2014** | 2013 | Change |
|---|---|---|---|
| (C$000s, except per share amounts)<br>(unaudited) | **($)** | ($) | (%) |
| Revenue | **547,638** | 423,397 | 29 |
| Operating income [1] | **64,117** | 62,670 | 2 |
| EBITDA [1] | **60,435** | 65,169 | (7) |
| Per share – basic | **1.30** | 1.44 | (10) |
| Per share – diluted | **1.29** | 1.43 | (10) |
| Net income attributable to the shareholders of Calfrac | **8,946** | 24,645 | (64) |
| Per share – basic | **0.19** | 0.55 | (65) |
| Per share – diluted | **0.19** | 0.54 | (65) |

| As at | **March 31, 2014** | December 31, 2013 | Change |
|---|---|---|---|
| (C$000s)<br>(unaudited) | **($)** | ($) | (%) |
| Working capital, end of period | **338,916** | 319,934 | 6 |
| Total assets, end of period | **1,912,081** | 1,869,931 | 2 |
| Long-term debt, end of period | **666,625** | 651,553 | 2 |
| Total equity, end of period | **803,904** | 795,207 | 1 |

[1] Refer to "Non-GAAP Measures" on page 6 for further information.

## First Quarter 2014 Overview

In the first quarter of 2014, the Company:

- recorded revenue of $547.6 million, an increase of 29 percent from the first quarter of 2013 driven primarily by higher activity in Canada and the United States. This increase was mitigated by lower year-over-year pricing in North America;
- reported operating income of $64.1 million versus $62.7 million for the same period in 2013;
- reported net income attributable to the shareholders of Calfrac of $8.9 million or $0.19 per share diluted, which included a foreign exchange loss of $2.8 million, compared to net income of $24.6 million or $0.54 per share diluted in the same period of 2013, which included a foreign exchange gain of $2.4 million;
- incurred capital expenditures of $27.3 million, principally related to the Company's fracturing operations in Canada and the United States;
- reported a period-end working capital increase of 6 percent from December 31, 2013 to $338.9 million at March 31, 2014; and
- declared a quarterly dividend of $0.25 per share and proposed a two-for-one common share split.

## Non-GAAP Measures

Certain supplementary measures 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), are considered 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 further explained as follows:

**Operating income (loss)** is defined as net income (loss) before depreciation, interest, foreign exchange gains or losses, gains or losses on disposal of property, plant and equipment, income taxes and non-controlling interest. 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 was calculated as follows:

| Three Months Ended March 31, | **2014** | 2013 |
|---|---|---|
| (C$000s)<br>(unaudited) | **($)** | ($) |
| Net income | **9,420** | 24,188 |
| Add back (deduct): | | |
| Depreciation | **33,521** | 24,814 |
| Interest, net | **14,914** | 9,203 |
| Foreign exchange loss (gain) | **2,842** | (2,379) |
| Loss (gain) on disposal of property, plant and equipment | **840** | (120) |
| Income taxes | **2,580** | 6,964 |
| Operating income | **64,117** | 62,670 |

**EBITDA** is defined as net income (loss) before interest, income taxes, depreciation and amortization. EBITDA is presented because it is frequently used by securities analysts and others for evaluating companies and their ability to service debt. EBITDA was calculated as follows:

| Three Months Ended March 31, | **2014** | 2013 |
|---|---|---|
| (C$000s)<br>(unaudited) | **($)** | ($) |
| Net income | **9,420** | 24,188 |
| Add back: | | |
| Depreciation | **33,521** | 24,814 |
| Interest, net | **14,914** | 9,203 |
| Income taxes | **2,580** | 6,964 |
| EBITDA | **60,435** | 65,169 |

## Financial Overview – Three Months Ended March 31, 2014 Versus 2013

### Canada

| Three Months Ended March 31, | **2014** | 2013 | Change |
|---|---|---|---|
| (C$000s, except operational information)<br>(unaudited) | **($)** | ($) | (%) |
| Revenue | **267,674** | 231,576 | 16 |
| Expenses | | | |
| Operating | **210,519** | 171,795 | 23 |
| SG&A | **4,676** | 3,870 | 21 |
| | **215,195** | 175,665 | 23 |
| Operating income [(1)] | **52,479** | 55,911 | (6) |
| Operating income (%) | **19.6%** | 24.1% | (19) |
| Fracturing revenue per job ($) | **219,427** | 223,124 | (2) |
| Number of fracturing jobs | **1,155** | 982 | 18 |
| Pumping horsepower, end of period (000s) | **392** | 404 | (3) |
| Coiled tubing revenue per job ($) | **27,377** | 23,932 | 14 |
| Number of coiled tubing jobs | **520** | 521 | – |
| Coiled tubing units, end of period (#) | **17** | 21 | (19) |

(1) Refer to "Non-GAAP Measures" on page 6 for further information.

#### Revenue

Revenue from Calfrac's Canadian operations during the first quarter of 2014 was a Company record of $267.7 million versus $231.6 million in the same period of 2013. The increase in revenue was driven by higher activity, primarily in the Montney and Duvernay unconventional gas resource plays, as the number of fracturing jobs increased by 18 percent from the first quarter of 2013. Activity in the oil-focused plays of western Canada remained strong during the quarter and continues to be a major contributor to the Company's Canadian operations. The industry trend towards the completion of more stages per well and higher service intensity also contributed to the increase in revenue. Pricing, however, was significantly weaker on a year-over-year basis which limited further revenue growth.

#### Operating Income

Operating income in Canada decreased by 6 percent to $52.5 million during the first quarter of 2014 from $55.9 million in the same period of 2013. The decrease in operating income was primarily due to lower pricing, higher fuel and subcontractor transportation costs combined with the impact of a weaker Canadian dollar on the cost of proppant that is sourced from the United States. The significant increase in activity during the first quarter resulted in sand volumes increasing by 41 percent from the first quarter of 2013 which lead to higher subcontractor transportation costs. Some of these cost increases were offset by cost recovery measures which were implemented late in the quarter.

### United States

| Three Months Ended March 31, | **2014** | 2013 | Change |
|---|---|---|---|
| (C$000s, except operational and exchange rate information) (unaudited) | **($)** | ($) | (%) |
| Revenue | **211,039** | 127,010 | 66 |
| Expenses | | | |
| Operating | **183,905** | 103,848 | 77 |
| SG&A | **5,457** | 5,123 | 7 |
| | **189,362** | 108,971 | 74 |
| Operating income [1] | **21,677** | 18,039 | 20 |
| Operating income (%) | **10.3%** | 14.2% | (27) |
| Fracturing revenue per job ($) | **55,100** | 55,084 | – |
| Number of fracturing jobs | **3,660** | 2,184 | 68 |
| Pumping horsepower, end of period (000s) | **672** | 492 | 36 |
| Cementing revenue per job ($) | **33,621** | 32,397 | 4 |
| Number of cementing jobs | **229** | 207 | 11 |
| Cementing units, end of period (#) | **18** | 15 | 20 |
| US$/C$ average exchange rate [2] | **1.1034** | 1.0089 | 9 |

(1) Refer to "Non-GAAP Measures" on page 6 for further information.
(2) Source: Bank of Canada

#### Revenue

Revenue from Calfrac's United States operations increased during the first quarter of 2014 to $211.0 million from $127.0 million in the comparable quarter of 2013. The growth was primarily due to significantly higher activity in the Niobrara oil play and the Marcellus natural gas shale play combined with the addition of the Company's operating presence in the Eagle Ford play following its acquisition of the assets of Mission in the fourth quarter of 2013. Revenue was adversely affected by inclement weather in January and February, particularly in North Dakota, Arkansas, Pennsylvania and Colorado. Activity and pricing in the Bakken were significantly weaker than in the same period in 2013.

#### Operating Income

Operating income in the United States was $21.7 million for the first quarter of 2014, a 20 percent increase from the comparative period in 2013. The increase was mainly due to the higher activity in the quarter. Operating margin as a percentage of revenue declined to 10 percent from 14 percent year-over-year due to harsh weather conditions affecting equipment utilization and logistics as well as costs of integrating the Mission assets into Calfrac's operations.

## Russia

| Three Months Ended March 31, | **2014** | 2013 | Change |
|---|---|---|---|
| (C$000s, except operational and exchange rate information) (unaudited) | **($)** | ($) | (%) |
| Revenue | **38,914** | 37,161 | 5 |
| Expenses | | | |
| Operating | **36,472** | 33,578 | 9 |
| SG&A | **1,625** | 1,594 | 2 |
| | **38,097** | 35,172 | 8 |
| Operating income [1] | **817** | 1,989 | (59) |
| Operating income (%) | **2.1%** | 5.4% | (61) |
| Fracturing revenue per job ($) | **108,316** | 106,185 | 2 |
| Number of fracturing jobs | **289** | 275 | 5 |
| Pumping horsepower, end of period (000s) | **70** | 45 | 56 |
| Coiled tubing revenue per job ($) | **58,543** | 61,229 | (4) |
| Number of coiled tubing jobs | **130** | 130 | – |
| Coiled tubing units, end of period (#) | **7** | 7 | – |
| Rouble/C$ average exchange rate [2] | **0.0315** | 0.0332 | (5) |

(1) Refer to "Non-GAAP Measures" on page 6 for further information.
(2) Source: Bank of Canada.

### Revenue

During the first quarter of 2014, the Company's revenue from Russian operations increased by 5 percent to $38.9 million from $37.2 million in the corresponding three-month period of 2013. The increase in revenue was mainly due to higher fracturing activity as a result of the Company expanding its operations into Usinsk for a new customer in the fourth quarter of 2013 combined with increased demand for horizontal multi-stage fracturing operations in Western Siberia. During the first quarter of 2014, approximately 50 percent of the Company's total fracturing jobs were multi-stage completions within horizontal wellbores versus 33 percent in the comparable quarter of 2013. The increase in revenue was partially offset by severely cold winter weather in Western Siberia during January and February and warmer than expected weather in Usinsk which reduced equipment utilization, as well as the completion of smaller coiled tubing jobs.

### Operating Income

Operating income in Russia was $0.8 million during the first quarter of 2014 compared to $2.0 million in the corresponding period of 2013. The decrease in operating income was due to the unusual weather conditions during the first quarter, which included both colder and warmer-than-normal conditions affecting equipment utilization and access to well sites, respectively. In addition, the start-up of a fourth district in Usinsk increased operating costs over the first quarter of 2013.

## Latin America

| Three Months Ended March 31, | **2014** | 2013 | Change |
|---|---|---|---|
| (C$000s, except operational and exchange rate information)<br>(unaudited) | **($)** | ($) | (%) |
| Revenue | **30,011** | 27,650 | 9 |
| Expenses | | | |
| Operating | **21,207** | 25,166 | (16) |
| SG&A | **2,912** | 1,332 | 119 |
| | **24,119** | 26,498 | (9) |
| Operating income [1] | **5,892** | 1,152 | 411 |
| Operating income (%) | **19.6%** | 4.2% | 367 |
| Pumping horsepower, end of period (000s) | **81** | 72 | 13 |
| Cementing units, end of period (#) | **13** | 13 | – |
| Coiled tubing units, end of period (#) | **3** | 1 | 200 |
| Mexican peso/C$ average exchange rate [2] | **0.0834** | 0.0798 | 5 |
| Argentinean peso/C$ average exchange rate [2] | **0.1453** | 0.2012 | (28) |

(1) Refer to "Non-GAAP Measures" on page 6 for further information.
(2) Source: Bank of Canada.

### Revenue

Calfrac's Latin American operations generated total revenue of $30.0 million during the first quarter of 2014 versus $27.7 million in the comparable three-month period in 2013. The increase in revenue was due to the significant increase in fracturing activity in Argentina, and the subsequent expansion of operations into the Las Heras district in southern Argentina. This was offset by significantly lower activity in Mexico resulting from budget constraints experienced by the Company's major customer in the regions where Calfrac operates. The Colombian cementing market also remained challenging as permitting and infrastructure issues resulted in lower-than-expected equipment utilization.

### Operating Income

Operating income in Latin America for the three months ended March 31, 2014 was $5.9 million versus $1.2 million in the comparative quarter in 2013. The significant increase in operating income was due to the increased level of fracturing activity and equipment utilization in Argentina, partially offset by low utilization in Mexico and Colombia.

## Corporate

| Three Months Ended March 31, | **2014** | 2013 | Change |
|---|---|---|---|
| (C$000s)<br>(unaudited) | **($)** | ($) | (%) |
| Expenses | | | |
| Operating | **2,293** | 2,209 | 4 |
| SG&A | **14,455** | 12,212 | 18 |
| | **16,748** | 14,421 | 16 |
| Operating loss [1] | **(16,748)** | (14,421) | 16 |
| % of Revenue | **3.1%** | 3.4% | (9) |

(1) Refer to "Non-GAAP Measures" on page 6 for further information.

#### Operating Loss

The 16 percent increase in corporate expenses from the first quarter of 2013 was mainly due to higher stock-based compensation expenses of $1.4 million combined with higher corporate personnel costs.

## Depreciation

For the three months ended March 31, 2014, depreciation expense increased by 35 percent to $33.5 million from $24.8 million in the corresponding quarter of 2013. The increase was mainly a result of the acquisition of assets from Mission at the beginning of the fourth quarter of 2013 combined with asset additions in Canada and the United States.

## Foreign Exchange Losses or Gains

The Company recorded a foreign exchange loss of $2.8 million during the first quarter of 2014 versus a $2.4 million gain in the comparative three-month period of 2013. Foreign exchange gains and losses arise primarily from the translation of net monetary assets or liabilities that were held in United States dollars in Canada, Russia and Latin America. The Company's first-quarter 2014 foreign exchange loss was largely attributable to the translation of United States dollar-denominated liabilities held in Russia and Argentina offset partially by a gain on United States dollar-denominated assets held in Canada. The value of the United States dollar at March 31, 2014 had strengthened against the Canadian dollar, Russian Rouble and the Argentinean peso from the beginning of the quarter, resulting in a consolidated net foreign exchange loss.

## Interest

The Company's net interest expense of $14.9 million for the first quarter of 2014 was $5.7 million higher than in the comparable period of 2013. The increase was related to the issuance of an additional US$150.0 million of Calfrac's 7.50 percent senior notes to finance the acquisition of assets from Mission combined with the depreciation of the Canadian dollar relative to the United States dollar. The Company had up to US$23 million of loans on its revolving credit facility during the first quarter compared to zero in the comparable period in 2013. Additional short-term borrowing in Latin America to fund the operational expansion in Argentina combined with higher interest rates also contributed to the increase in interest expense during the quarter.

## Income Tax Expenses

The Company recorded income tax expense of $2.6 million during the first quarter of 2014 compared to $7.0 million in the comparable period of 2013. The effective income tax rate for the three months ended March 31, 2014 was consistent with the comparable quarter of 2013 at 22 percent. The decrease in total income tax expense was primarily due to lower profitability in Canada, the United States and Mexico offset partially by higher taxable income in Argentina.

## Liquidity and Capital Resources

| Three Months Ended March 31, | **2014** | 2013 |
|---|---|---|
| (C$000s)<br>(unaudited) | **($)** | ($) |
| Cash provided by (used in): | | |
| Operating activities | **19,779** | 41,502 |
| Financing activities | **(11,859)** | 16,885 |
| Investing activities | **(24,630)** | (59,654) |
| Effect of exchange rate changes on cash and cash equivalents | **(485)** | 5,997 |
| (Decrease) increase in cash and cash equivalents | **(17,195)** | 4,730 |

## Operating Activities

The Company's cash provided by operating activities for the quarter ended March 31, 2014 was $19.8 million versus $41.5 million in the comparative quarter in 2013. The decrease was primarily due to changes in non-cash working capital. At March 31, 2014, Calfrac's working capital was approximately $338.9 million, a six percent increase from December 31, 2013. At March 31, 2014, the Company had accounts receivable of US$42.5 million (December 31, 2013 – US$40.8 million) from a customer operating in Mexico that were outstanding for greater than 120 days, for which no provision has been made. The payment delay is consistent with the experience of many other oilfield service companies in this market. Collection is expected in its entirety; however, the timing is uncertain.

## Financing Activities

Net cash used in financing activities was $11.9 million during the first quarter of 2014 compared to cash provided by financing activities of $16.9 million in the comparable quarter of 2013. During the quarter, the Company made net repayments on its bank loan totalling $2.1 million in Argentina, repaid $11.2 million on its credit facility, issued $8.8 million of common shares for cash and paid cash dividends of $7.4 million.

On August 8, 2013, the Company extended the term of its credit facilities by one year to September 27, 2017. The maturity may be extended by one or more years at the Company's request and lenders' acceptance. The Company also may prepay principal without penalty. The facilities consist of an operating facility of $20.0 million and a syndicated facility of $280.0 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 1.25 percent. For LIBOR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 1.50 percent to 2.25 percent above the respective base rates. As at March 31, 2014, the Company had used $28.7 million of its credit facilities for letters of credit and had $14.4 million outstanding under its credit facility, leaving $256.9 million in available credit.

On October 8, 2013, the Company closed a private offering of US$150.0 million aggregate principal of its 7.50 percent senior notes yielding net proceeds of $150.2 million (US$145.4 million) after applicable discount and debt issuance costs. Fixed interest on the notes is payable semi-annually on June 1 and December 1 of each year. The notes will mature on December 1, 2020. The net proceeds from this offering were used to finance the Mission asset acquisition.

Calfrac pays a quarterly dividend of $0.25 per share to shareholders at the discretion of the Board of Directors, which qualify as “eligible dividends” as defined by the Canada Revenue Agency.

### Investing Activities

Calfrac’s net cash used for investing activities was $24.6 million for the quarter ended March 31, 2014 versus $59.7 million for 2013. Cash outflows relating to capital expenditures were $24.9 million during 2014 compared to $60.2 million in 2013. Capital expenditures were primarily to support the Company’s Canadian, United States and Argentinean fracturing operations.

Calfrac’s 2014 capital budget is projected to be approximately $130.0 million, of which $33.0 million is being directed towards growing its international operations, including an investment in coiled tubing and fracturing equipment in Russia and Argentina. In addition, approximately $20.0 million remaining from Calfrac’s 2013 capital program is expected to be expended in 2014. As such, projected capital spending in 2014 is $150.0 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 first quarter of 2014 was a loss of $0.5 million versus a gain of $6.0 million during the comparable period of 2013. These gains relate to cash and cash equivalents held by the Company in a foreign currency.

With its substantial 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 2014 and beyond.

At March 31, 2014, the Company had cash and cash equivalents of $25.0 million.

### 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 May 5, 2014, there were 47,078,888 common shares issued and outstanding, and 2,478,450 options to purchase common shares.

The Company has a Dividend Reinvestment Plan that allows shareholders to direct cash dividends paid on all or a portion of their common shares to be reinvested in additional common shares that will be issued at 95 percent of the volume-weighted average price of the common shares traded on the Toronto Stock Exchange (TSX) during the last five trading days preceding the relevant dividend payment date.

## Summary of Quarterly Results

| Three Months Ended | June 30, 2012 | Sept. 30, 2012 | Dec. 31, 2012 | Mar. 31, 2013 | June 30, 2013 | Sept. 30, 2013 | Dec. 31, 2013 | **Mar. 31, 2014** |
|---|---|---|---|---|---|---|---|---|
| (unaudited) | ($) | ($) | ($) | ($) | ($) | ($) | ($) | **($)** |
| **Financial** (C$000s, except per share and operating data) | | | | | | | | |
| Revenue | 335,780 | 417,842 | 367,487 | 423,397 | 288,701 | 388,662 | 463,054 | **547,638** |
| Operating income [1] | 29,810 | 70,604 | 43,218 | 62,670 | 16,307 | 51,683 | 57,416 | **64,117** |
| EBITDA [1] | 18,736 | 70,874 | 46,866 | 65,169 | 16,235 | 46,862 | 57,667 | **60,435** |
| Per share – basic | 0.42 | 1.59 | 1.05 | 1.44 | 0.36 | 1.02 | 1.25 | **1.30** |
| Per share – diluted | 0.42 | 1.58 | 1.04 | 1.43 | 0.35 | 1.01 | 1.24 | **1.29** |
| Net income (loss) attributable to shareholders of Calfrac | (11,855) | 26,917 | 11,243 | 24,645 | (14,584) | 6,089 | 11,764 | **8,946** |
| Per share – basic | (0.27) | 0.60 | 0.25 | 0.55 | (0.32) | 0.13 | 0.25 | **0.19** |
| Per share – diluted | (0.27) | 0.60 | 0.25 | 0.54 | (0.32) | 0.13 | 0.25 | **0.19** |
| Capital expenditures | 75,286 | 63,962 | 55,694 | 43,989 | 46,618 | 34,683 | 45,227 | **27,331** |
| Working capital (end of period) | 357,128 | 353,182 | 322,857 | 332,241 | 319,982 | 292,854 | 319,934 | **338,916** |
| Total equity (end of period) | 747,591 | 783,091 | 780,759 | 802,581 | 784,247 | 786,933 | 795,207 | **803,904** |
| **Operating (end of period)** | | | | | | | | |
| Pumping horsepower (000s) | 830 | 845 | 977 | 1,013 | 1,025 | 1,025 | 1,194 | **1,215** |
| Coiled tubing units (#) | 29 | 29 | 29 | 29 | 29 | 31 | 38 | **34** |
| Cementing units (#) | 23 | 25 | 26 | 28 | 30 | 30 | 31 | **31** |

[1] Refer to "Non-GAAP Measures" on page 6 for further information.

### Seasonality of Operations

The Company's Canadian and United States businesses are seasonal. The lowest activity is typically experienced during the second quarter of the year when road weight restrictions are in place due to spring break-up weather conditions and access to well sites in Canada and North Dakota is reduced (refer to "Business Risks – Seasonality" in the 2013 Annual Report).

### Foreign Exchange Fluctuations

The Company's consolidated financial statements are reported in Canadian dollars. Accordingly, the quarterly results are directly affected by fluctuations in the United States, Russian, Mexican, Argentinean and Colombian currency exchange rates (refer to "Business Risks – Fluctuations in Foreign Exchange Rates" in the 2013 Annual Report).

## Outlook

Spot natural gas prices were stronger than expected during the first quarter of 2014 due to extremely cold temperatures throughout North America and resulted in natural gas storage levels reaching 11-year lows in the United States and 9-year lows in Canada. These developments have created the potential for increased natural gas-related activity in the second half of 2014. Crude oil prices also continue to support strong sustained activity levels. Calfrac is also seeing a trend towards greater service intensity in North America through the form of larger pad designs, more fracturing stages per horizontal well and increased tonnage per stage. Internationally, the Company continues to benefit from the shift to horizontal development using multi-stage completion technology.

In western Canada, fracturing and coiled tubing activity are expected to be strong once spring break-up concludes. Calfrac's expectation is that activity will increase at a moderate pace as break-up ends and road bans are progressively lifted. The Company is also cautiously optimistic that activity will increase in the second half of 2014 to levels higher than in the second half of 2013 due to several factors, including stronger natural gas pricing that occurred throughout the first quarter, stable oil pricing, a weaker Canadian dollar (which improves the cash flows of producers), the positive effects of oil and natural gas asset consolidation over the past six months, LNG-related activity, and improved equity markets for Calfrac's customers. The Company believes these factors could lead to improved pricing dynamics in Canada in the second half of the year.

Calfrac has a leadership position in the key natural gas plays of Canada, which include the Montney, Deep Basin, and Duvernay, and expects to participate in the long-term development of these plays. Calfrac's customers remain at the forefront of these developments, which should be a catalyst for higher activity in the second half of 2014 and beyond. Calfrac's people, service quality, technology and HSE practices will make it a key partner in these developments.

Calfrac expects that oil-focused activity will remain stable for the rest of the year, with the introduction of higher-rate treatments in certain plays, such as the Cardium, driving higher equipment utilization. Activity in the Viking play is expected to increase in 2014 over 2013. Calfrac also expects to achieve further operational efficiencies in the Canadian market through the expanded use of 24-hour operations and multi-well pad development.

In the United, States, Calfrac expects that it will experience moderate activity increases throughout the remainder of the year which will result in strong equipment utilization. This expectation is driven by the Company's active customer base, contract coverage and positioning in some of the most active plays in North America, which include the Marcellus, Eagle Ford and North Dakota Bakken. Calfrac's strong customer relationships in the Fayetteville and Rockies are resulting in high utilization levels. The Company remains focused on effectively managing its cost structure to improve margin performance in the face of competitive pricing.

The Company believes that Marcellus shale play activity will remain robust for the remainder of the year due to its low cost structure for natural gas, its proximity to consuming markets and the additional natural gas pipeline takeaway capacity. As a result, the Company will deploy a fifth crew in the second half of 2014 using existing equipment sourced from other operating bases. As well, the Utica play continues to deliver strong well results, which may provide the basis for higher activity in that basin. In the Fayetteville, Calfrac is expecting activity to be higher on a year-over-year basis, based on customer indications and stronger natural gas prices. Rockies activity is also expected to be stronger year-over-year as the Company has materially increased its exposure with one of the most active operators in the Niobrara. In the Eagle Ford, Calfrac continues to move forward with the integration of the Mission assets. Pricing remains competitive, but Calfrac believes it is stable and that activity should increase. Lastly, drilling activity in the North Dakota Bakken remains high, but the market is oversupplied with pressure pumping equipment. The Company continues to assess ways to improve its performance in this region.

In Russia, Calfrac anticipates that equipment utilization will improve as 2014 progresses, following activity in the early portion of 2014 being negatively impacted by inclement weather. The Company believes that the expanded use of new technologies in Western Siberia, such as horizontal drilling and multi-stage completions will continue. Approximately 50 percent of Calfrac's fracturing work was focused on horizontal wells in the first quarter of 2014. The Company expects that this trend will continue to drive demand for its services over the short and long term as Russia's producing sector gains confidence in this new technology.

Calfrac is excited about the prospects for oil and gas development in Argentina. The Company began fracturing operations in 2013 and horizontal activity has accelerated in 2014. The investments expected to be made in Argentina by national and integrated oil companies provides support for Calfrac's positive view on this market. The Company will deploy an additional 32,000 horsepower to the country in the second half of 2014, which includes an additional high-rate pumping spread that is expected to focus on unconventional development in the Vaca Muerta shale play. Customers are increasingly attracted to Calfrac's reputation for service quality and technical expertise, which is providing the foundation for long-term growth in Argentina.

In Mexico, Calfrac expects unconventional development to become more prominent over the longer term, once national reform of the energy industry is complete. Calfrac believes this will set the stage for increased capital spending by PEMEX as well as new entrants to Mexico. With this in mind, Calfrac will continue to manage its cost structure and closely monitor ongoing developments to remain prepared to take advantage of new opportunities.

In summary, Calfrac is confident that the opportunities it has developed over time are gaining momentum. The Company is optimistic that the second half of 2014 will deliver better financial performance than seen in the comparable quarter in 2013. Calfrac is focused on its core principles of service quality, safety and technology and expects that further growth opportunities will develop as the year unfolds. The Company considers itself well-positioned to take advantage of these opportunities.

## Contractual Obligations and Contingencies

Calfrac has various contractual lease commitments related to vehicles, equipment and facilities as well as purchase obligations for products, services and property, plant and equipment as disclosed in the Company's 2013 annual consolidated financial statements.

### Greek Litigation

As described in note 14 to the interim consolidated financial statements, the Company and one of its Greek subsidiaries are involved in a number of legal proceedings in Greece. Management regularly evaluates the likelihood of potential liabilities being incurred and the amounts of such liabilities after careful examination of available information and discussions with its legal advisors. Management is of the view that it is improbable there will be a material financial impact to the Company as a result of these claims. Consequently, no provision was recorded in the consolidated financial statements.

### U.S. Litigation

As described in note 14 to the interim consolidated financial statements, a collective and class action claim was filed against the Company on September 27, 2012 in the United States District Court for the western District of Pennsylvania. The direction and financial consequences of the complaint cannot be determined at this time and, consequently, no provision was recorded in the Company's consolidated financial statements.

## Critical Accounting Policies and Estimates

This MD&A is based on the Company's consolidated financial statements for the three months ended March 31, 2014, 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 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 receivable, depreciation, the fair value of financial instruments, the carrying value of goodwill, income taxes, stock-based compensation expenses, functional currency and cash-generating units.

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

### Allowance for Doubtful Accounts Receivable

The Company performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, financial condition of the customer and anticipated industry conditions. 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 $0.3 million at March 31, 2014, is adequate.

### 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, plant and equipment.

### Financial Instruments

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

The fair values of financial instruments that are included in the consolidated balance sheet, 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 is based on the closing market price at the end-date of the reporting period. The fair values of the remaining long-term debt and finance lease obligations approximate their carrying values.

### Goodwill

Goodwill represents an excess of the purchase price over the fair value of net assets acquired and is not amortized. The Company assesses goodwill at least annually. Goodwill is allocated to each operating segment, which represents the lowest level within the Company at which the goodwill is monitored for internal management purposes. The fair value of each operating segment is compared to the carrying value of its net assets.

The Company completed its annual assessment for goodwill impairment and determined there was none for the year ended December 31, 2013. There were no triggers nor indications of impairment that warranted an assessment of goodwill impairment during the three months ended March 31, 2014

### 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 stock units, performance stock units and restricted stock 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 cash-generating units 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 TSX. The loan is on a non-recourse basis and is secured by the common shares acquired with the loan proceeds. It is for a term of five years and bears interest at 3.375 percent per annum, payable annually. The market value of the shares that secure the loan was approximately $3.0 million as at March 31, 2014 (December 31, 2013 – $2.6 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 a director of the Company. The rent charged for these premises for the three months ended March 31, 2014 was $202,000 (three months ended March 31, 2013 – $89,000), as measured at the exchange amount.

## Changes in Accounting Policies

There were no new IFRS or interpretations from the International Financial Reporting Interpretations Committee effective for the first time for the year beginning on or after January 1, 2014 that had a material impact on the Company.

## Recent Accounting Pronouncements

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2014 with earlier application permitted. The Company does not expect these standards to have a significant effect on its consolidated financial statements.

(i) IFRS 9 *Financial Instruments* was issued in November 2009 and addresses classification and measurement of financial assets. It replaced the multiple category and measurement models in International Accounting Standard (IAS) 39 *Financial Instruments: Recognition and Measurement* for debt instruments with a new mixed-measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaced the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

    Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

    This standard is effective for annual periods beginning on or after January 1, 2015 with earlier application permitted.

(ii) IFRS 10 *Consolidated Financial Statements* is amended to define an "investment entity" and introduce an exception from consolidation for investments. IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements* are amended to introduce disclosures required by an investment entity.

(iii) IAS 32 *Financial Instruments: Presentation* is amended to clarify requirements for offsetting financial assets and financial liabilities.

## Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the interim period ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Business Risks

The business of Calfrac is subject to certain risks and uncertainties. Prior to making any investment decision regarding Calfrac, investors should carefully consider, among other things, the risk factors set forth in the Company's most recently filed Annual Information Form, which are specifically incorporated by reference herein.

The Annual Information Form is available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR), which can be accessed at www.sedar.com. Copies of the Annual Information Form may also be obtained on request without charge from Calfrac at 411 – 8th Avenue S.W., Calgary, Alberta, Canada, T2P 1E3, or at www.calfrac.com, or by facsimile at 403-266-7381.

## Advisories

### Forward-Looking Statements

In order to provide Calfrac shareholders and potential investors with information regarding the Company and its subsidiaries, including management's assessment of Calfrac's plans and future operations, certain statements contained in this MD&A, including statements that contain words such as "seek", "anticipates", "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, capital expenditure programs, future financial resources, anticipated equipment utilization levels, future oil and natural gas well activity in each of the Company's operating jurisdictions, results of acquisitions, 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 ability to raise capital, treatment under government regulatory regimes, commodity prices, anticipated outcomes of specific events, trends in and the growth prospects of the global oil and natural gas industry, the Company's growth prospects including, without limitation, its international 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 general stability of 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 focus of the Company's customers on oil and liquids-rich plays in the current natural gas pricing environment in North America, the effect unconventional gas projects have had on supply and demand fundamentals for natural gas and the likelihood that the current tax and regulatory regimes 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: general economic conditions in Canada, the United States, Russia, Mexico, Argentina and Colombia; 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; regional competition; liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations; changes in legislation and the regulatory environment; sourcing, pricing and availability of raw materials, component parts, equipment, suppliers, facilities and skilled personnel; the ability to integrate technological advances and match advances by competitors; the availability of capital on satisfactory terms; intellectual property risks; uncertainties in weather and temperature affecting the duration of the service periods and the activities that can be completed; dependence on, and concentration of, major customers; the creditworthiness and performance by the Company's counterparties and customers; liabilities and risks associated with prior operations; the effect of accounting pronouncements issued periodically; failure to realize anticipated benefits of acquisitions and dispositions; and currency exchange rate risk. Further information about these and other risks and uncertainties may be found under "Business Risks" above.

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

### Additional Information

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

# CONSOLIDATED BALANCE SHEETS

| As at | March 31, 2014 | December 31, 2013 |
|---|---|---|
| (C$000s) (unaudited) | **($)** | ($) |
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | **25,000** | 42,195 |
| Accounts receivable | **442,073** | 395,845 |
| Income taxes recoverable | **1,509** | 1,146 |
| Inventories | **136,182** | 134,140 |
| Prepaid expenses and deposits | **15,617** | 17,189 |
| | **620,381** | 590,515 |
| Non-current assets | | |
| Property, plant and equipment | **1,256,497** | 1,245,009 |
| Goodwill | **10,523** | 10,523 |
| Deferred income tax assets | **24,680** | 23,884 |
| Total assets | **1,912,081** | 1,869,931 |
| **LIABILITIES AND EQUITY** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | **262,723** | 245,899 |
| Bank loan (note 3) | **18,340** | 24,298 |
| Current portion of long-term debt (note 4) | **402** | 384 |
| | **281,465** | 270,581 |
| Non-current liabilities | | |
| Long-term debt (note 4) | **666,625** | 651,553 |
| Other long-term liabilities | **143** | 198 |
| Deferred income tax liabilities | **159,944** | 152,392 |
| Total liabilities | **1,108,177** | 1,074,724 |
| Equity attributable to the shareholders of Calfrac | | |
| Capital stock (note 5) | **348,251** | 332,287 |
| Contributed surplus (note 6) | **25,765** | 27,658 |
| Loan receivable for purchase of common shares (note 11) | **(2,500)** | (2,500) |
| Retained earnings | **437,426** | 440,179 |
| Accumulated other comprehensive loss | **(4,010)** | (839) |
| | **804,932** | 796,785 |
| Non-controlling interest | **(1,028)** | (1,578) |
| Total equity | **803,904** | 795,207 |
| Total liabilities and equity | **1,912,081** | 1,869,931 |

See accompanying notes to the consolidated financial statements.

# CONSOLIDATED STATEMENTS OF OPERATIONS

| Three Months Ended March 31, | 2014 | 2013 |
|---|---|---|
| (C$000s, except per share data) (unaudited) | ($) | ($) |
| **Revenue** | **547,638** | 423,397 |
| Cost of sales (note 12) | **487,917** | 361,409 |
| Gross profit | **59,721** | 61,988 |
| **Expenses** | | |
| Selling, general and administrative | **29,125** | 24,132 |
| Foreign exchange losses (gains) | **2,842** | (2,379) |
| Loss (gain) on disposal of property, plant and equipment | **840** | (120) |
| Interest | **14,914** | 9,203 |
| | **47,721** | 30,836 |
| **Income before income tax** | **12,000** | 31,152 |
| Income tax expense | | |
| Current | **655** | 2,482 |
| Deferred | **1,925** | 4,482 |
| | **2,580** | 6,964 |
| **Net income** | **9,420** | 24,188 |
| **Net income (loss) attributable to:** | | |
| Shareholders of Calfrac | **8,946** | 24,645 |
| Non-controlling interest | **474** | (457) |
| | **9,420** | 24,188 |
| **Earnings per share** (note 5) | | |
| Basic | **0.19** | 0.55 |
| Diluted | **0.19** | 0.54 |

See accompanying notes to the consolidated financial statements.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| Three Months Ended March 31, | **2014** | 2013 |
|---|---|---|
| (C$000s) (unaudited) | **($)** | ($) |
| **Net income** | **9,420** | 24,188 |
| **Other comprehensive loss** | | |
| **Items that may be subsequently reclassified to profit or loss:** | | |
| Change in foreign currency translation adjustment | **(3,095)** | (464) |
| Comprehensive income | **6,325** | 23,724 |
| | | |
| **Comprehensive income (loss) attributable to:** | | |
| Shareholders of Calfrac | **5,775** | 24,184 |
| Non-controlling interest | **550** | (460) |
| | **6,325** | 23,724 |

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 – January 1, 2014** | 332,287 | 27,658 | (2,500) | (839) | 440,179 | 796,785 | (1,578) | **795,207** |
| Net income | – | – | – | – | 8,946 | 8,946 | 474 | **9,420** |
| Other comprehensive income (loss): | | | | | | | | |
| Cumulative translation adjustment | – | – | – | (3,171) | – | (3,171) | 76 | **(3,095)** |
| Comprehensive income | – | – | – | (3,171) | 8,946 | 5,775 | 550 | **6,325** |
| Stock options: | | | | | | | | |
| Stock-based compensation recognized | – | 1,089 | – | – | – | 1,089 | – | **1,089** |
| Proceeds from issuance of shares | 11,744 | (2,982) | – | – | – | 8,762 | – | **8,762** |
| Dividend Reinvestment Plan shares issued (note 17) | 4,220 | – | – | – | – | 4,220 | – | **4,220** |
| Dividends | – | – | – | – | (11,699) | (11,699) | – | **(11,699)** |
| **Balance – March 31, 2014** | **348,251** | **25,765** | **(2,500)** | **(4,010)** | **437,426** | **804,932** | **(1,028)** | **803,904** |
| **Balance – January 1, 2013** | 300,451 | 27,546 | (2,500) | (2,403) | 458,543 | 781,637 | (878) | **780,759** |
| Net income | – | – | – | – | 24,645 | 24,645 | (457) | **24,188** |
| Other comprehensive income (loss): | | | | | | | | |
| Cumulative translation adjustment | – | – | – | (461) | – | (461) | (3) | **(464)** |
| Comprehensive income | – | – | – | (461) | 24,645 | 24,184 | (460) | **23,724** |
| Stock options: | | | | | | | | |
| Stock-based compensation recognized | – | 1,479 | – | – | – | 1,479 | – | **1,479** |
| Proceeds from issuance of shares | 10,768 | (2,774) | – | – | – | 7,994 | – | **7,994** |
| Dividends | – | – | – | – | (11,375) | (11,375) | – | **(11,375)** |
| **Balance – March 31, 2013** | **311,219** | **26,251** | **(2,500)** | **(2,864)** | **471,813** | **803,919** | **(1,338)** | **802,581** |

See accompanying notes to the consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| Three Months Ended March 31, | **2014** | 2013 |
|---|---|---|
| (C$000s) (unaudited) | **($)** | ($) |
| **CASH FLOWS PROVIDED BY (USED IN)** | | |
| **OPERATING ACTIVITIES** | | |
| Net income | **9,420** | 24,188 |
| Adjusted for the following: | | |
| Depreciation | **33,521** | 24,814 |
| Stock-based compensation | **1,089** | 1,479 |
| Unrealized foreign exchange losses (gains) | **5,295** | (4,971) |
| Loss (gain) on disposal of property, plant and equipment | **840** | (120) |
| Interest | **14,914** | 9,203 |
| Deferred income taxes | **1,925** | 4,482 |
| Interest paid | **(1,879)** | (253) |
| Changes in items of working capital (note 9) | **(45,346)** | (17,320) |
| **Cash flows provided by operating activities** | **19,779** | 41,502 |
| **FINANCING ACTIVITIES** | | |
| Bank loan proceeds | **4,218** | 9,146 |
| Bank loan repayments | **(6,321)** | – |
| Long-term debt repayments | **(11,164)** | (118) |
| Finance lease obligation repayments | **–** | (137) |
| Net proceeds on issuance of common shares | **8,762** | 7,994 |
| Dividends paid, net of DRIP (note 17) | **(7,354)** | – |
| **Cash flows (used in) provided by financing activities** | **(11,859)** | 16,885 |
| **INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment (note 9) | **(24,925)** | (60,223) |
| Proceeds on disposal of property, plant and equipment | **295** | 569 |
| **Cash flows used in investing activities** | **(24,630)** | (59,654) |
| **Effect of exchange rate changes on cash and cash equivalents** | **(485)** | 5,997 |
| **(Decrease) increase in cash and cash equivalents** | **(17,195)** | 4,730 |
| **Cash and cash equivalents, beginning of period** | **42,195** | 42,481 |
| **Cash and cash equivalents, end of period** | **25,000** | 47,211 |

See accompanying notes to the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2014 and 2013
(Amounts in text and tables are in thousands of Canadian dollars, except share data and certain other exceptions as indicated) (unaudited)

## 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, Argentina and Colombia.

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, 2013. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect.

These financial statements were approved by the Audit Committee of the Board of Directors for issuance on May 5, 2014.

## 2. Summary of Significant Accounting Policies

These interim consolidated financial statements follow the same accounting policies and methods of application as the most recent annual financial statements.

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 taxes become payable.

## 3. Bank Loan

The Company's Argentinean subsidiary has two operating lines of credit, and a total of ARS132,755 ($18,340) was drawn at March 31, 2014 (December 31, 2013 – ARS148,975 ($24,298)). The interest rate ranges from 35.0 percent to 38.0 percent and both lines of credit are secured by letters of credit issued by the Company.

## 4. Long-Term Debt

| As at | **March 31, 2014** | December 31, 2013 |
|---|---|---|
| (C$000s) | **($)** | ($) |
| US$600,000 senior unsecured notes due December 1, 2020, bearing interest at 7.50% payable semi-annually | **663,300** | 638,160 |
| Less: unamortized debt issuance costs and debt discount | **(11,185)** | (11,161) |
| | **652,115** | 626,999 |
| $280,000 extendible revolving credit facility, secured by Canadian and U.S. assets of the Company | **14,371** | 24,463 |
| Less: unamortized debt issuance costs | **(1,196)** | (1,291) |
| | **13,175** | 23,172 |
| US$1,571 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 | **1,737** | 1,766 |
| | **667,027** | 651,937 |
| Less: current portion of long-term debt | **(402)** | (384) |
| | **666,625** | 651,553 |

The fair value of the senior unsecured notes, as measured based on the closing quoted market price at March 31, 2014, was $699,370 (December 31, 2013 – $652,921). The carrying values of the mortgage obligations, term loans and revolving credit facilities approximate their fair values as the interest rates are not significantly different from current interest rates for similar loans.

The interest rate on the $280,000 revolving credit 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 1.25 percent. For LIBOR-based loans and bankers' acceptance-based loans the margin thereon ranges from 1.50 percent to 2.25 percent above the respective base rates for such loans. The facility is repayable on or before its maturity of September 27, 2017, 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 three months ended March 31, 2014 was $13,278 (three months ended March 31, 2013 – $9,082).

The Company also has an extendible operating facility, which includes overdraft protection in the amount of $20,000. The interest rate is based on the parameters of certain bank covenants in the same fashion as the revolving credit facility. Drawdowns under this facility are repayable on September 27, 2017, 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 operating facility is secured by the Company's Canadian and U.S. assets.

At March 31, 2014, the Company had utilized $28,688 of its credit facility for letters of credit and had borrowed $14,371 against this facility, leaving $256,941 in available credit.

## 5. Capital Stock

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

| | **Three Months Ended March 31, 2014** | | Year Ended December 31, 2013 | |
|---|---|---|---|---|
| Continuity of Common Shares | **Shares** | **Amount** | Shares | Amount |
| | **(#)** | **(C$000s)** | (#) | (C$000s) |
| Balance, beginning of period | **46,298,574** | **332,287** | 45,020,641 | 300,451 |
| Issued upon exercise of stock options | **355,825** | **11,744** | 896,837 | 21,132 |
| Dividend Reinvestment Plan shares issued (note 17) | **142,112** | **4,220** | 381,096 | 10,704 |
| Balance, end of period | **46,796,511** | **348,251** | 46,298,574 | 332,287 |

The weighted average number of common shares outstanding for the three months ended March 31, 2014 was 46,463,491 basic and 46,815,582 diluted (three months ended March 31, 2013 – 45,164,743 basic and 45,533,812 diluted). The difference between basic and diluted shares is attributable to the dilutive effect of stock options issued by the Company as disclosed in note 7.

## 6. Contributed Surplus

| Continuity of Contributed Surplus | **Three Months Ended March 31, 2014** | Year Ended December 31, 2013 |
|---|---|---|
| (C$000s) | **($)** | ($) |
| Balance, beginning of period | **27,658** | 27,546 |
| Stock options expensed | **1,089** | 5,454 |
| Stock options exercised | **(2,982)** | (5,342) |
| Balance, end of period | **25,765** | 27,658 |

## 7. Stock-Based Compensation

### (a) Stock Options

| Three Months Ended March 31, | **2014** | | 2013 | |
|---|---|---|---|---|
| Continuity of Stock Options | **Options** | **Average Exercise Price** | Options | Average Exercise Price |
| | **(#)** | **(C$)** | (#) | (C$) |
| Balance, beginning of period | **2,501,375** | **27.98** | 2,920,412 | 25.67 |
| Granted | **591,750** | **31.19** | 678,750 | 24.46 |
| Exercised for common shares | **(355,825)** | **24.62** | (479,537) | 16.67 |
| Forfeited | **(43,800)** | **30.50** | (43,700) | 27.46 |
| Balance, end of period | **2,693,500** | **29.09** | 3,075,925 | 26.78 |

Stock options vest equally over four years and expire five years from the date of grant. The exercise price of outstanding options ranges from $20.74 to $37.18 with a weighted average remaining life of 2.97 years. When stock options are exercised the proceeds, together with the compensation expense previously recorded in contributed surplus, are added to capital stock.

For the three months ended March 31, 2014, $1,089 of compensation expense was recognized for stock options (three months ended March 31, 2013 – $1,479) and was included in selling, general and administrative expenses.

### (b) Share Units

| Three Months Ended March 31, | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| Continuity of Share Units | **Deferred Share Units** | **Performance Share Units** | **Restricted Share Units** | Deferred Share Units | Performance Share Units | Restricted Share Units |
| | **(#)** | **(#)** | **(#)** | (#) | (#) | (#) |
| Balance, beginning of period | **35,000** | **45,000** | **513,795** | 35,000 | 45,000 | 247,230 |
| Granted | **35,000** | **60,000** | **368,650** | 35,000 | 45,000 | 380,650 |
| Exercised | **(35,000)** | **(45,000)** | **(195,507)** | (35,000) | (45,000) | (82,410) |
| Forfeited | **–** | **–** | **(9,194)** | – | – | (8,250) |
| Balance, end of period | **35,000** | **60,000** | **677,744** | 35,000 | 45,000 | 537,220 |

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. During the three months ended March 31, 2014, $311 of compensation expense was recognized for deferred share units (three months ended March 31, 2013 – $217). This amount is included in selling, general and administrative expenses. At March 31, 2014, the liability pertaining to deferred share units was $308 (December 31, 2013 – $1,085).

The Company grants performance share units to its senior officers who do not participate in the stock option plan. The amount of the grants earned is linked to corporate performance and the grants vest over three years 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. During the three months ended March 31, 2014, $607 of compensation expense was recognized for performance share units (three months ended March 31, 2013 – $379). This amount is included in selling, general and administrative expenses. At March 31, 2014, the liability pertaining to performance share units was $381 (December 31, 2013 – $1,395).

The Company grants restricted share units to its employees. These units vest equally 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. During the three months ended March 31, 2014, $3,632 of compensation expense was recognized for restricted share units (three months ended March 31, 2013 – $2,183). This amount is included in selling, general and administrative expenses. At March 31, 2014, the liability pertaining to restricted share units was $8,248 (December 31, 2013 – $10,696).

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.

## 8. Financial Instruments

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

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 March 31, 2014 was $699,370 before deduction of unamortized debt issuance costs (December 31, 2013 – $652,921). The carrying value of the senior unsecured notes at March 31, 2014 was $663,300 before deduction of unamortized debt issuance costs and debt discount (December 31, 2013 – $638,160). The fair values of the remaining long-term debt approximate their carrying values, as described in note 4.

## 9. Supplemental Cash Flow Information

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

| Three Months Ended March 31, | **2014** | 2013 |
|---|---|---|
| (C$000s) | **($)** | ($) |
| Accounts receivable | **(46,228)** | (82,048) |
| Income taxes recoverable | **(362)** | 566 |
| Inventory | **(2,041)** | 495 |
| Prepaid expenses and deposits | **1,571** | 2,063 |
| Accounts payable and accrued liabilities | **1,769** | 61,655 |
| Other long-term liabilities | **(55)** | (51) |
| | **(45,346)** | (17,320) |

Purchase of property, plant and equipment is comprised of:

| Three Months Ended March 31, | **2014** | 2013 |
|---|---|---|
| (C$000s) | **($)** | ($) |
| Property, plant and equipment additions | **(27,331)** | (43,989) |
| Change in liabilities related to purchase of property, plant and equipment | **2,406** | (16,234) |
| | **(24,925)** | (60,223) |

## 10. Capital Structure

The Company's capital structure is comprised of shareholders' equity and long-term 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 long-term debt to cash flow. Cash flow for this purpose is calculated on a 12-month trailing basis and is defined as follows:

| For the Twelve Months Ended | **March 31, 2014** | December 31, 2013 |
|---|---|---|
| (C$000s) | **($)** | ($) |
| Net income | **11,965** | 26,733 |
| Adjusted for the following: | | |
| Depreciation | **118,713** | 110,006 |
| Amortization of debt issuance costs and debt discount | **1,656** | 1,464 |
| Stock-based compensation | **5,064** | 5,454 |
| Unrealized foreign exchange losses | **11,616** | 1,350 |
| Gain on business combination, net of tax | **(2,747)** | (2,747) |
| Gain on disposal of property, plant and equipment | **(554)** | (1,514) |
| Deferred income taxes | **799** | 3,356 |
| **Cash flow** | **146,512** | 144,102 |

The ratio of long-term debt to cash flow does not have a standardized meaning under IFRS and may not be comparable to similar measures used by other companies.

At March 31, 2014, the long-term debt to cash flow ratio was 4.55:1 (December 31, 2013 – 4.52:1) calculated on a 12-month trailing basis as follows:

| For the Twelve Months Ended | **March 31, 2014** | December 31, 2013 |
|---|---|---|
| (C$000s, except ratio) | **($)** | ($) |
| Long-term debt (net of unamortized debt issuance costs and debt discount) (note 4) | **667,027** | 651,937 |
| Cash flow | **146,512** | 144,102 |
| Long-term debt to cash flow ratio | **4.55:1** | 4.52:1 |

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

The Company's capital management objectives, evaluation measures and targets remained unchanged over the periods presented.

## 11. 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. It is for a term of five years and bears interest at 3.375 percent per annum, payable annually. The market value of the shares that secure the loan was approximately $2,976 as at March 31, 2014 (December 31, 2013 – $2,623). 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 for the three months ended March 31, 2014 was $202 (three months ended March 31, 2013 – $89), as measured at the exchange amount.

## 12. 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:

| Three Months Ended March 31, | **2014** | 2013 |
|---|---|---|
| (C$000s) | **($)** | ($) |
| Product costs | **167,480** | 129,322 |
| Depreciation | **33,521** | 24,814 |
| Amortization of debt issuance costs and debt discount | **510** | 318 |
| Employee benefits expense (note 13) | **119,921** | 98,549 |

## 13. 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, | **2014** | 2013 |
|---|---|---|
| (C$000s) | **($)** | ($) |
| Salaries and short-term employee benefits | **112,437** | 92,745 |
| Post-employment benefits (group retirement savings plan) | **1,104** | 1,001 |
| Share-based payments | **5,640** | 4,259 |
| Termination benefits | **740** | 544 |
| | **119,921** | 98,549 |

## 14. 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 $10,426 (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. NAPC and the Company are assessing available rights of appeal to any other levels of court in any jurisdiction where such an appeal is warranted. NAPC is also the subject of a claim for approximately $4,359 (2,862 euros) 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 and penalties and interest of approximately $3,352 (2,201 euros) payable on such amounts as at March 31, 2014.

Several other smaller groups of former employees have filed similar claims in various courts in Greece. One of these cases was heard by the Athens Court of First Instance on January 18, 2007. By judgment rendered November 23, 2007, the plaintiff's allegations were partially accepted, and the plaintiff was awarded compensation for additional work of approximately $53 (35 euros), plus interest. The appeal of this decision was heard on June 2, 2009, at which time an additional claim by the plaintiff was also heard. A decision in respect of the hearing has been rendered which accepted NAPC's appeal of the initial claim and partially accepted the additional claim of the plaintiff, resulting in an award of approximately $17 (11 euros), plus interest.

Another one of the lawsuits seeking salaries in arrears of $195 (128 euros) plus interest was heard by the Supreme Court of Greece on November 6, 2007, at which date the appeal of the plaintiffs was denied for technical reasons due to improper service. A rehearing of this appeal was heard on September 21, 2010 and the decision rendered declared once again the appeal inadmissible due to technical reasons. The remaining action, which is seeking salaries in arrears of approximately $669 (439 euros) plus interest, was scheduled to be heard before the Athens Court of First Instance on October 1, 2009, but has been postponed a total of four times, including the most recent postponement on February 22, 2013. No new hearing date has been set.

The maximum aggregate interest payable under the claims noted above amounted to $18,910 (12,416 euros) as at March 31, 2014.

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.

### U.S. Litigation

A class and collective action complaint was filed against the Company in September 2012 in the United States District Court for the Western District of Pennsylvania. The complaint alleges failure to pay U.S. employees the correct amount of overtime pay required by the Fair Labor Standards Act (FLSA) and under the Pennsylvania Minimum Wage Act. In May 2013, the plaintiffs amended their complaint to add a Colorado wage-hour claim. In June 2013, the parties filed a joint stipulation for conditional certification of the FLSA collective action with certain current and former employees as the defined class. The notice to opt-in to the class was mailed to 1,204 current and former employees in September 2013. The opt-in period expired on November 15, 2013 and 359 individuals opted in. A discovery plan has been approved by the court that extends through June 23, 2014. Discovery as to a mutually agreed-upon sample of the conditionally-certified opt-in class has been ongoing.

The Company has filed answers to each complaint in a timely manner and believes it has defenses to each claim. At this time no motion for final class certification as to the FLSA claim or motion for certification of the Pennsylvania or Colorado state law claims has been filed. Thus no FLSA, Pennsylvania or Colorado class has been certified. Plaintiffs have not alleged an amount of damages and at this time it is not possible to predict the amount of any potential recovery. Given the stage of the proceedings and the existence of available defenses, no provision has been recorded in the Company's financial statements regarding these claims, since the direction and financial consequences of the claims in the amended complaint cannot be determined at this time. The Company does not have insurance coverage for these claims.

## 15. Segmented Information

The Company's activities are conducted in four geographical segments: Canada, the United States, Russia and Latin America. 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$000s) | ($) | ($) | ($) | ($) | ($) | ($) |
| **Three Months Ended March 31, 2014** | | | | | | |
| Revenue | **267,674** | **211,039** | **38,914** | **30,011** | **–** | **547,638** |
| Operating income (loss) [1] | **52,479** | **21,677** | **817** | **5,892** | **(16,748)** | **64,117** |
| Segmented assets | **743,115** | **839,856** | **162,800** | **166,310** | **–** | **1,912,081** |
| Capital expenditures | **13,697** | **7,018** | **3,643** | **2,973** | **–** | **27,331** |
| Goodwill | **7,236** | **2,308** | **979** | **–** | **–** | **10,523** |
| Three Months Ended March 31, 2013 | | | | | | |
| Revenue | 231,576 | 127,010 | 37,161 | 27,650 | – | 423,397 |
| Operating income (loss) [1] | 55,911 | 18,039 | 1,989 | 1,152 | (14,421) | 62,670 |
| Segmented assets | 767,589 | 597,552 | 136,174 | 137,229 | – | 1,638,544 |
| Capital expenditures | 17,291 | 20,809 | 2,431 | 3,458 | – | 43,989 |
| Goodwill | 7,236 | 2,308 | 979 | – | – | 10,523 |

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

| Three Months Ended March 31, | **2014** | 2013 |
|---|---|---|
| (C$000s) | **($)** | ($) |
| Net income | **9,420** | 24,188 |
| Add back (deduct): | | |
| Depreciation | **33,521** | 24,814 |
| Interest | **14,914** | 9,203 |
| Foreign exchange losses (gains) | **2,842** | (2,379) |
| Loss (gain) on disposal of property, plant and equipment | **840** | (120) |
| Income taxes | **2,580** | 6,964 |
| Operating income | **64,117** | 62,670 |

Operating income 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:

| Three Months Ended March 31, | **2014** | 2013 |
|---|---|---|
| (C$000s) | **($)** | ($) |
| Fracturing | **503,818** | 384,144 |
| Coiled tubing | **26,473** | 21,603 |
| Cementing | **15,757** | 11,863 |
| Other | **1,590** | 5,787 |
| | **547,638** | 423,397 |

## 16. Seasonality of Operations

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 wellsites in Canada and North Dakota is reduced.

## 17. 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.

A dividend of $0.25 per common share was declared on February 26, 2014 and paid on April 15, 2014. Of the total dividend of $11,699, $4,106 was reinvested under the DRIP into 122,702 common shares of the Company.

A dividend of $0.25 per common share was declared on December 5, 2013 and paid on January 15, 2014. Of the total dividend of $11,574, $4,220 was reinvested under the DRIP into 142,112 common shares of the Company.

# CORPORATE INFORMATION

**BOARD OF DIRECTORS**

Ronald P. Mathison
Chairman [1][2]
President &
Chief Executive Officer
Matco Investments Ltd.

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

**OFFICERS**

Fernando Aguilar
President &
Chief Executive Officer

Michael (Mick) J. McNulty
Chief Financial Officer

Lindsay R. Link
President,
United States Operating Division

F. Bruce Payne
President,
Canadian Operating Division

Robert L. Sutherland
President,
Russian Operating Division

O. Alberto Bertolin
Director General,
Latin America Division

Armando J. Bertolin
Director General,
Latin America Division

Chris K. Gall
Vice President,
Global Supply Chain

Roderick P. Kuntz
Vice President, HS&E

Chad J. Leier
Vice President, Sales,
Marketing & Engineering,
United States Operating Division

Umberto Marseglia
Vice President,
Global Business

Tom J. Medvedic
Vice President, Operations
Canadian Operating Division

Michael D. Olinek
Vice President, Finance

Edward L. Oke
Vice President,
Human Resources

B. Mark Paslawski
Vice President,
General Counsel
& Corporate Secretary

Gary J. Rokosh
Vice President, Sales,
Marketing & Engineering,
Canadian Operating Division

George L. York
Vice President, Operations,
United States Operating Division

Matthew L. Mignault
Corporate Controller

**HEAD OFFICE**

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**AUDITORS**

PricewaterhouseCoopers LLP
Calgary, Alberta

**BANKERS**

HSBC Bank Canada
Alberta Treasury Branches
Royal Bank of Canada

Canadian Imperial Bank of Commerce
Export Development Canada

**LEGAL COUNSEL**

Bennett Jones LLP
Calgary, Alberta

**STOCK EXCHANGE LISTING**

Trading Symbol: CFW

**OPERATING BASES**

Alberta, Canada
Calgary – Head Office
Calgary – Technology and Training Centre
Edson
Grande Prairie
Medicine Hat
Red Deer
Red Earth

British Columbia, Canada
Dawson Creek

Saskatchewan, Canada
Estevan

Arkansas, United States
Beebe

Colorado, United States
Denver – Regional Office
Grand Junction
Platteville

North Dakota, United States
Williston

Pennsylvania, United States
Philipsburg
Smithfield

Texas, United States
San Antonio
Teague

Russia
Moscow – Regional Office
Khanty-Mansiysk
Nefteugansk
Noyabrsk
Usinsk

Mexico
Mexico City – Regional Office
Poza Rica
Reynosa

Argentina
Buenos Aires – Regional Office
Catriel
Las Heras
Neuquén

Colombia
Bogota – Regional Office

**REGISTRAR AND 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 at 1-800-564-6253 or by email at service@computershare.com, or write to:

Computershare Investor Services Inc.
9th floor, 100 University Avenue,
Toronto, Ontario, M5J 2Y1

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