2013 Annual Report

CALFRAC WELL SERVICES

EXPANDING OUR UNCONVENTIONAL WORLD

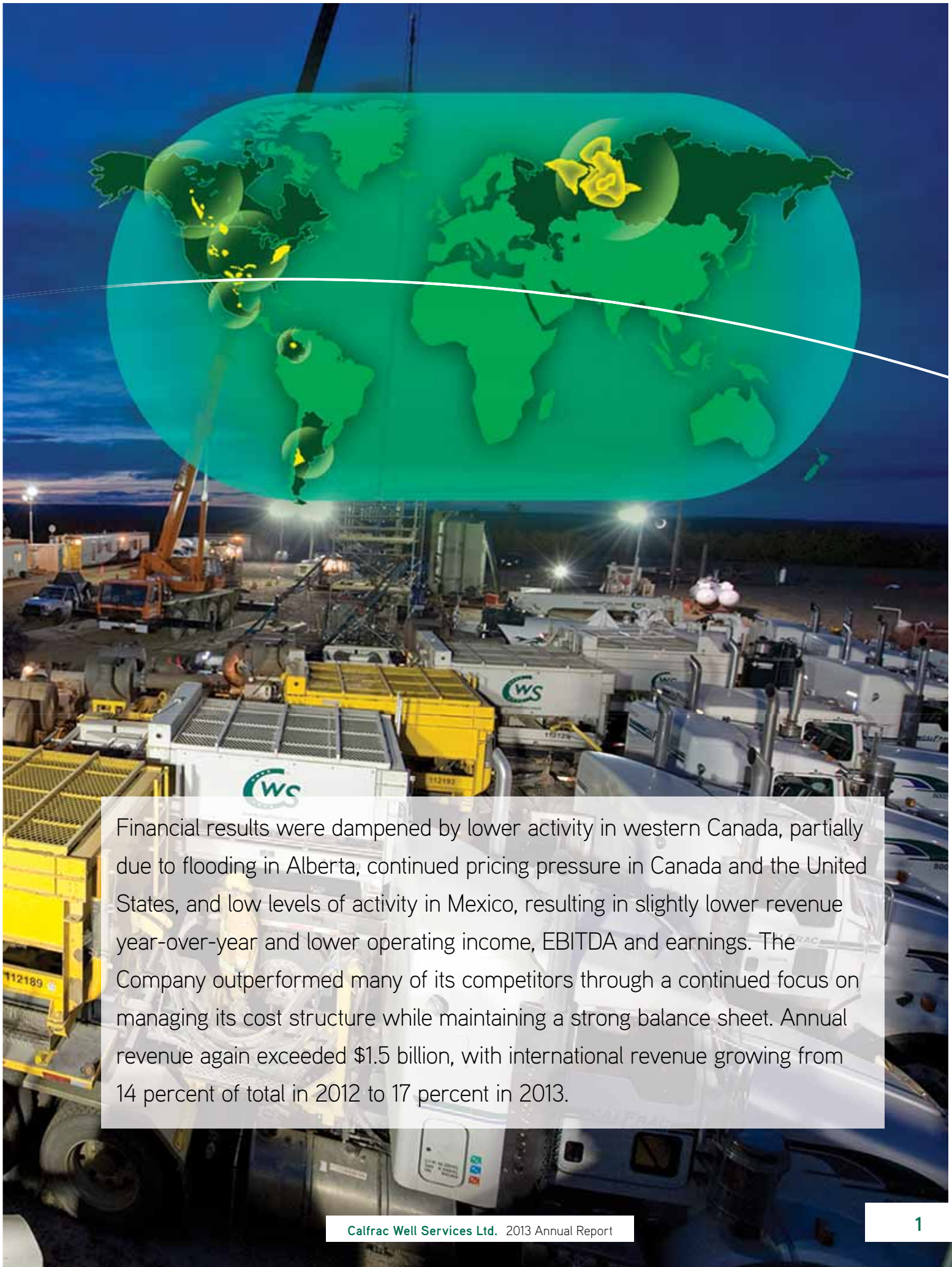
2013
A YEAR OF STRONG OPERATIONAL SUCCESS

Calfrac Well Services Ltd. experienced a mixed year in 2013, with weaker financial results but strong operational successes. Successes included growth in critical liquids-rich gas and oil plays in North America, and the adoption of multi-stage fracturing in three of the Company's four international markets. Calfrac transformed industry weakness into opportunity by conducting a strategic acquisition that provided entry into the world's premier shale oil play, the Eagle Ford.

Customer relationships were solidified with major independents and international super-majors in core markets, and contract coverage represented over half of total annual revenue. With its technical leadership and strategic presence in key unconventional plays in Canada and abroad, Calfrac is in an excellent position to benefit from anticipated growth in oil and gas capital investment in 2014 and beyond.

Annual General Meeting

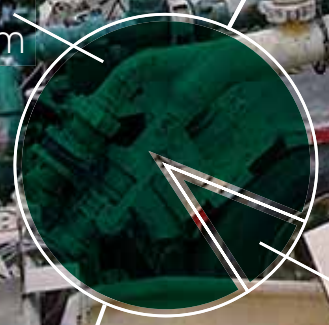
The annual and special shareholder meeting will be held in the McMurray Room at the Calgary Petroleum Club, 319 – 5th Avenue S.W. Calgary, Alberta Thursday, May 8, 2014, at 3:30 pm.



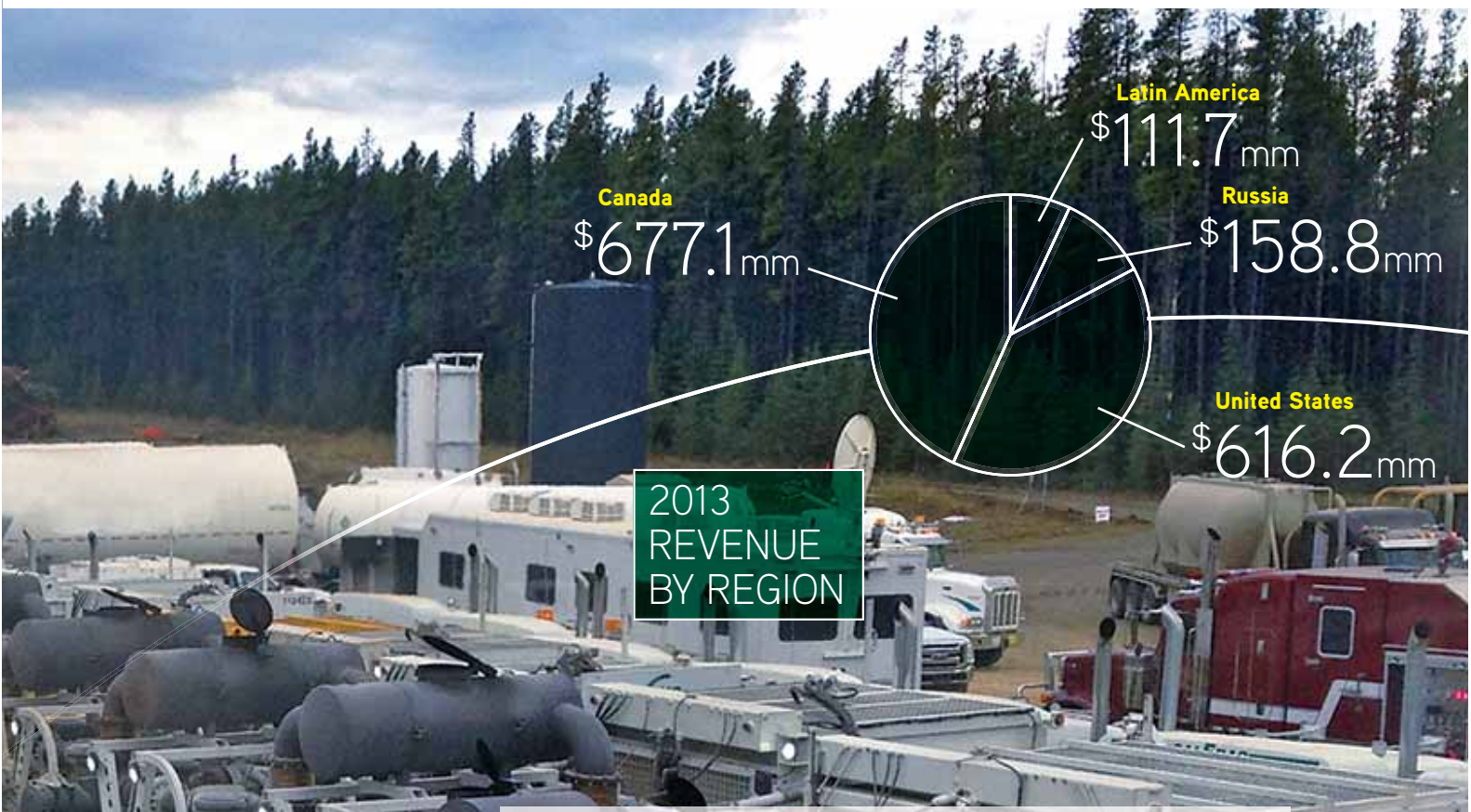
Financial results were dampened by lower activity in western Canada, partially due to flooding in Alberta, continued pricing pressure in Canada and the United States, and low levels of activity in Mexico, resulting in slightly lower revenue year-over-year and lower operating income, EBITDA and earnings. The Company outperformed many of its competitors through a continued focus on managing its cost structure while maintaining a strong balance sheet. Annual revenue again exceeded $1.5 billion, with international revenue growing from 14 percent of total in 2012 to 17 percent in 2013.

EXPANDING
IN THE WORLD'S LEADING HORIZONTAL FRACTURING MARKETS

The United States and Canada are the world's number one and two hydraulic fracturing markets, respectively, with an ever-stronger orientation to horizontal drilling, longer lateral lengths and more fracturing stages. With its focus on helping customers achieve success in their operations, and its value proposition of highly trained technical and field personnel, well-maintained modern equipment, high-quality chemistries and cement blends, efficient operational management, high safety performance and industry-leading quality management, Calfrac has created a virtually borderless North American business that continues to grow.



2003 REVENUE BY REGION



2013 REVENUE BY REGION

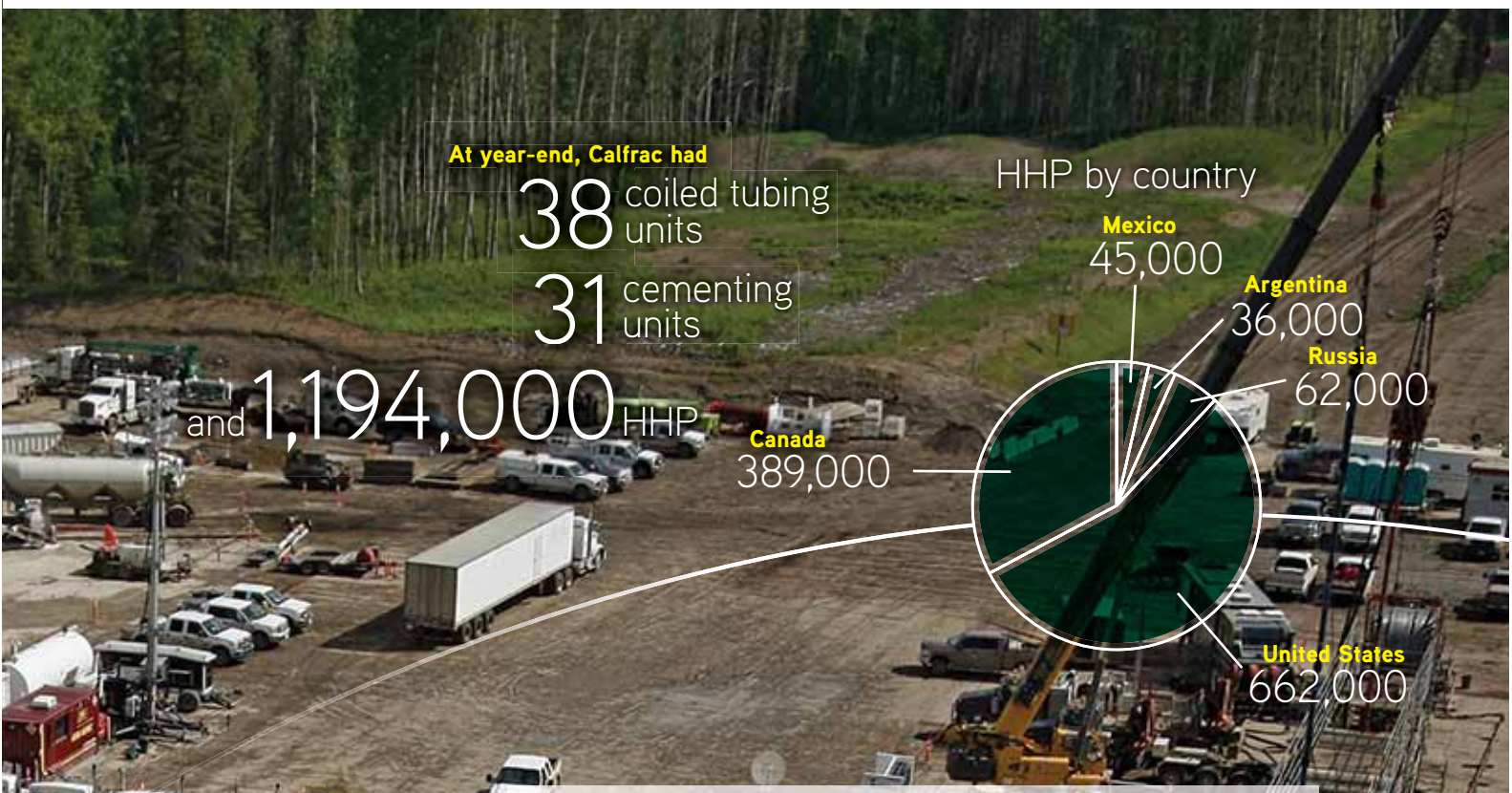
In 2013 the Company was independently rated as having the number-one overall market share across five key Canadian unconventional plays, including the Cardium and Montney. In addition, it has direct exposure to planned LNG exports from Canada through a multi-year contract to assist with gas supply development. In the United States, a counter-cyclical acquisition at substantially below replacement value provided an effective strategic entry into the Eagle Ford shale play and the broader Texas market. The Eagle Ford is arguably the world's most successful shale oil play, with oil production of over 1 million barrels per day and 3 bcf per day of natural gas. Calfrac's activity also grew in the Marcellus and Niobrara shale plays in 2013.

LEVERING OUR LEADERSHIP WORLDWIDE

The years Calfrac devoted to patiently positioning itself in global markets with large but underdeveloped hydrocarbon resources are coming to fruition. The North American technology revolution is being applied globally. Investment is growing, activity is picking up and demand is increasing for the services around which Calfrac has built its business: multi-stage hydraulic fracturing of horizontal wells drilled in unconventional reservoirs, plus related services like coiled tubing and cementing.

In Russia, Calfrac placed 400 horizontal fracturing stages in 2013, nearly 10 times the number in 2012,

In 2000 Calfrac had
1 fracturing spread and
9,000 HHP



added a large new customer, and horizontal work was continuing to grow in early 2014. In Mexico, Calfrac is the sole independent hydraulic fracturing provider, and the country's strong political momentum to reform its energy sector is reorienting Mexico towards renewed investment in its oil production.

Following commencement of fracturing in Argentina in spring 2013, Calfrac has been increasingly active in Argentina's emerging unconventional development. Thanks to its three-year contract with YPF S.A., Argentina's most active oil and gas developer, Calfrac has been very active in tight gas development with the expectation of further growth opportunities in the Vaca Muerta shale play.

Calfrac is a respected service provider in all three markets, with strong customer relationships, recognized as bringing the complete package of capabilities. Further international growth is anticipated in 2014 and Calfrac's medium-term goal is to generate one-third of its revenue outside North America.

HIGHLIGHTS

FINANCIAL

For the Years Ended December 31,	**2013**	2012	Change
(C$000s, except where otherwise noted)	($)	($)	(%)
Revenue	**1,563,814**	1,595,216	-2
Operating income[1]	**188,076**	257,013	-27
EBITDA[1]	**185,933**	264,471	-30
Per share – basic	**4.07**	5.97	-32
Per share – diluted	**4.04**	5.90	-32
Net Income (Loss) Attributable to			
Shareholders of Calfrac	**27,914**	97,146	-71
Per share – basic	**0.61**	2.19	-72
Per share – diluted	**0.61**	2.17	-72
Capital expenditures	**170,517**	279,017	-39
Working capital (end of year)	**319,934**	322,857	-1
Total assets (end of year)	**1,869,931**	1,524,821	23
Long-term debt (end of year)	**651,553**	441,018	48
Total equity (end of year)	**795,207**	780,759	2
Common shares outstanding at December 31 (000s)	**46,299**	45,021	3
Weighted average common shares outstanding (000s)			
Diluted	**46,045**	44,808	3
Share trading			
High ($)	**35.87**	34.95	3
Low ($)	**23.62**	20.22	17
Close ($)	**31.00**	25.05	24
Volume (000s)	**255,953**	54,858	367
Market capitalization (end of year)	**1,435,269**	1,127,776	27

OPERATING

Pumping horsepower (000s)	**1,194**	977	22
Coiled tubing units (#)	**38**	29	31
Cementing units (#)	**31**	26	19

(1) Refer to "Non-GAAP Measures" on page 38 and 39 for further information.

Over 50%

of Calfrac's global revenue in 2013 was covered by longer-term contracts of at least one year.

$92,798

Consolidated fracturing revenue per job

Fracturing revenue per job has increased 32% from 2008.

$4.04

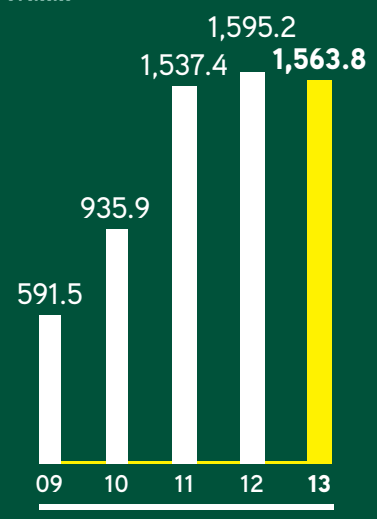
EBITDA/share diluted

Despite weaker conditions, Calfrac remained profitable in 2013.

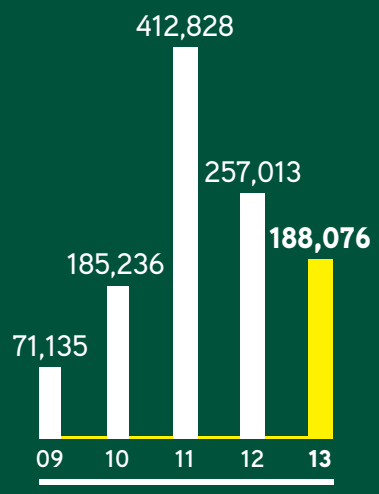
$2.1 **billion** enterprise value

Calfrac practises financial discipline, which is particularly important in a weaker pricing environment such as 2013. This ensures that debt ratios remain healthy and the Company retains the flexibility to act on opportunities. Consequently, the markets readily accepted Calfrac's issuance of debt to finance the US$147 million counter-cyclical asset acquisition of Mission Well Services, LLC in the third quarter of 2013.

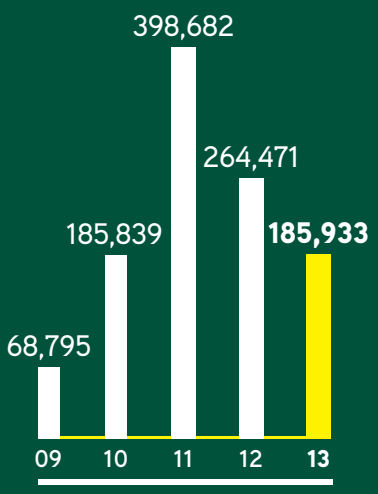
Revenue
($MM)



Operating Income
($000s)



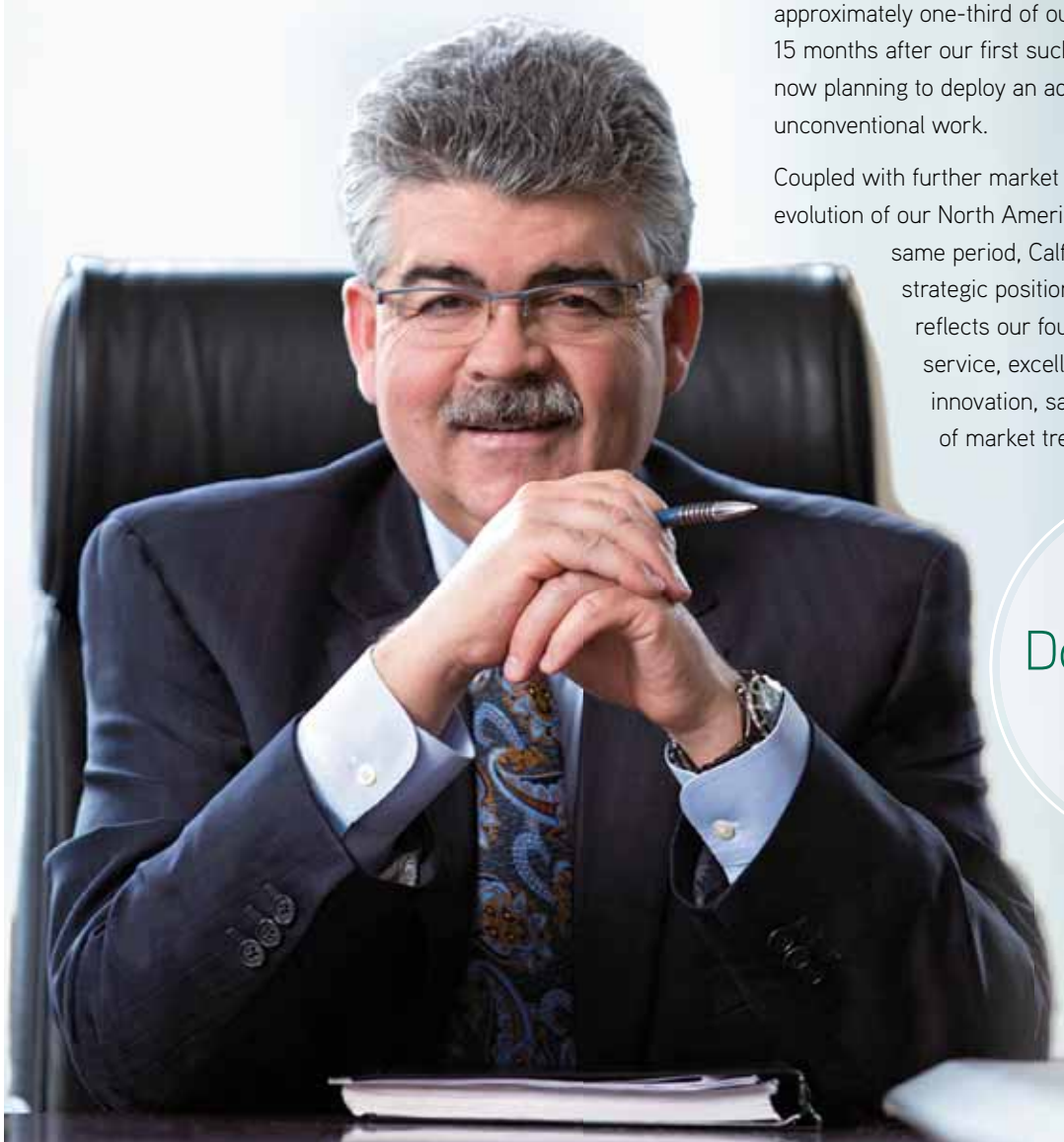
EBITDA
($000s)



LETTER TO SHAREHOLDERS

The past 18-month period has seen Calfrac's international customers move to apply the North American approach of multi-stage fracturing completions of horizontal wells. We had spent the previous several years preparing for this technical breakout, following Calfrac's earlier shift within North America from vertically drilled conventional reservoirs to unconventional tight sands and shale plays. Exiting 2013, horizontal multi-stage work had grown to approximately one-third of our activity in Russia – barely 15 months after our first such job. In Argentina, we are now planning to deploy an additional fracturing spread for unconventional work.

Coupled with further market penetration and continued evolution of our North American operations over the same period, Calfrac is in an excellent strategic position. Where we are today reflects our founding ideas of customer service, excellent equipment, technological innovation, safety and training, observation of market trends, and positioning in



Doug Ramsay

Vice Chairman of the Board

regions with growth opportunities. From here, we intend to achieve further growth in activity, revenue and profitability, with the goal of emerging as one of the world's top five pressure pumping companies.

Entering 2013, our Company faced challenges mainly to do with continuing weak natural gas prices across North America, plus pressure pumping overcapacity in the United States. We were well prepared and relied on our five pillars of success: people, technology, experience, positioning and financial discipline. Calfrac's revenue declined slightly year-over-year, and while profitability was down substantially, we outperformed many of our competitors. We levered our operational advantages and great people to strengthen relationships with key customers, and used our financial strength to introduce industry-leading equipment and conduct a counter-cyclical acquisition.

Strategic Acquisition

Calfrac has a history of navigating through challenging times and finding growth opportunity amid industry weakness. Last October, we acquired the operating assets of Mission Well Services, LLC for US$147 million. The transaction added 157,500 hydraulic horsepower and associated equipment, including three deep coiled tubing units, plus a modern facility in San Antonio, Texas.

Mission's advantages included great people and equipment positioned in the Eagle Ford shale, among the premier U.S. liquids-rich gas and oil plays. Due diligence confirmed that Mission's equipment was built to Calfrac-equivalent specifications, with a focus on high-rate pumping, a fleet average age of only 1½ years, available at a significant discount to replacement value.

This important milestone represents our entry point into the Texas well service market. Texas accounts for approximately 50 percent of the active U.S. drilling rig fleet, with well over 4,000 wells expected this year in the Eagle Ford, plus activity in the Permian Basin shifting steadily to horizontal drilling. This route to expansion made more sense than introducing the equivalent new-build horsepower into an over-supplied market. We will build on our new foothold by applying the Calfrac advantages of customer relationships, vigorous business development and the sophisticated safety, logistics, supply chain and reporting systems that technically adept customers expect.

Canadian Operations

Calfrac remained active throughout western Canada, with a focus on unconventional plays including the Cardium, Bakken, Deep Basin, Montney, Duvernay and Viking. Horizontal wells represent the clear majority of drilling in western Canada, and the completions phase can account for 50 percent of a long-leg horizontal well's total cost. Pricing pressure continued in 2013, with an uptick in winter activity possibly signalling stronger pricing ahead.

The region's largest oil well stimulation market is the Cardium play of west-central Alberta. The durability of this massive light oil reservoir, which was where this country's first hydraulic fracture took place in 1954, continues to impress. Calfrac is providing numerous fracturing approaches to this heterogeneous sandstone, and has two fracturing fleets deployed on long-term, 24-hour operations. The Cardium demonstrates how our industry can go into an extensively drilled, allegedly declining reservoir, and create astounding further value by applying new technology, methods and efficient execution. The Cardium should see years of further activity in the "halo" of lower-quality reservoir surrounding the original conventional pools, which can be developed with today's horizontal drilling and multi-stage completion technology.

Calfrac is also a leading participant in less mature plays, principally the Montney shale/siltstone and the Duvernay shale, both liquids-rich natural gas reservoirs. Large domestic and international players have spent upwards of $3 billion on land and infrastructure in the Duvernay. This should result in steady drilling and completions activity, with 130-150 Duvernay wells expected in 2014. Each well typically requires $5 million or more to complete, delivering solid workflow through volatile times.

The future of western Canada's gas-producing sector hinges on the development of liquefied natural gas (LNG) export capacity from the West Coast. Pipeline gas exports to the U.S. are down, regional pricing is poor and transportation costs are high. The international LNG market poses multiple risks and competing interests, but we foresee two to three Canadian LNG projects proceeding, with first gas shipments possible in 2018.

The Montney's location, size and quality make it central to the LNG story. Junior exploration companies recognized the potential and took on the exploration risks of key unconventional plays, including the Montney. But it will take the capital resources, technical excellence and critical mass of large, international players to move these plays through development. A 24-well pad in the Montney can, for example, cost upwards of $100 million.

What does this mean for Calfrac? Our relationship with Progress Energy Canada Ltd. provides a picture. Progress began as an exploration-oriented junior producer whose vision helped to open up the Montney, and Calfrac was there at every step for 10 years. In 2012 Progress was acquired by Petronas, the Malaysian state-owned energy producer and a foremost proponent of West Coast LNG. In July 2013, Calfrac was awarded a multi-year, minimum commitment contract for three fracturing fleets to perform a major share of Progress' fracturing work in the Montney, as Petronas moves to ensure adequate gas supply for an LNG export facility. This relationship makes Calfrac the Canadian leader in fracturing for LNG-related gas fields.

Western Canada has a select group of pressure pumpers able to serve this class of company. The role demands the full suite of equipment, technology, supply chain management, corporate capabilities like HSE, and ancillary technical services like deep coiled tubing. Achieving higher standards of operating efficiency is part of our mandate, and we are examining various means to provide even greater value. But keeping in mind that this critical relationship began when Progress was a junior, Calfrac intends to remain competitive and attractive to every size of customer pursuing unconventional plays.

One of the year's most significant events was unrelated to our work: coping with the enormous, damaging flood that in late June struck numerous southern Alberta communities, particularly Calgary and High River. Calfrac volunteered its pumping equipment, while our people worked with incredible dedication on flood relief in Calgary and the High River area, and words cannot convey the pride I feel in them. I encourage you to read the special section on flood relief in the following pages. Corporately, our emergency preparedness worked well and we had backup headquarters operational on the day following the flood, maintaining operating and management functions including payroll until we could return to our previously evacuated downtown offices.

United States Operations

The U.S. pressure-pumping market in 2013 continued to suffer from the overbuild of capacity, with pricing down further from 2012. Calfrac is very well-positioned in several of the most attractive producing areas, including the Marcellus shale – which has driven regional gas production in the U.S. northeast to a level almost equalling all of Canada's – plus the adjoining Utica shale, the Bakken of North Dakota, the small but growing Wattenberg area of the Niobrara shale in Colorado, and the Fayetteville in Arkansas, a "dry" gas play that remains economic at current prices. Our positioning in the United States was greatly strengthened with our entry into the Eagle Ford play in Texas, in the fourth quarter.

With approximately 60 percent of our U.S. revenue supported by long-term contracts, cost is the key to greater profitability in a price-competitive market. We worked hard to improve our supply chain and logistics, shifting large volumes of sand proppant transport from truck to rail. We examined SG&A costs at the regional office level and set limits on cost ratios. New technology such as our unique, industry-leading Sandstorm sand-handling system improved operating efficiency at the well site and was a significant factor in gaining two very large new U.S. customers. We have budgeted to add more Sandstorm systems in 2014.

International Growth

Calfrac took on the risks and challenges of becoming an international operator in four countries in order to be ready for the opportunity to apply the North American approach of long-reach horizontal wells completed with multi-stage fracturing. We told shareholders this process would take years and, I'm very pleased to report it began

to happen in a significant way in 2013. The technology revolution has gone global, and Calfrac is active in three markets.

The speed of Russia's adoption of horizontal drilling has created significant opportunity. After initiating horizontal work in September 2012, by January 2013 we had fractured over one dozen horizontal wells and by year-end had placed 400 horizontal fracturing stages. In October we added a major new customer, meaning that we now work for three of Russia's largest oil and gas producers. The unconventional work in Russia reminds us of the early days of the Cardium's revival in Canada. The operators are testing various approaches using shorter-leg horizontal wells, typically with three to six fracturing stages. Moving forward, we foresee both a larger number of horizontal wells being drilled and completions shifting to eight to 10 fracturing stages per well.

Change is also afoot in Mexico, where both houses of parliament in December approved constitutional changes to open the country's oil resources to direct foreign investment. There is a concurrent push to revitalize Pemex, the state oil monopoly. Much remains uncertain, but the direction is positive. Calfrac is the only independent pressure pumper in Mexico, and while our recent profitability in this market has been poor, the evolution to long-leg, multi-stage-fractured horizontal wells is underway. Our work has shifted from typically one to two fractures per well generating revenue of perhaps $200,000, to multi-stage jobs worth in excess of $3 million. We do foresee further short-term challenges in Mexico, but believe there will be opportunity to expand our activities and customer base over the next two to three years.

In May, we performed our first fracturing job in Argentina. In October we announced a three-year, minimum commitment fracturing contract with YPF S.A., Argentina's largest and most active oil and gas driller, covering all of our deployed fracturing equipment. We are expecting to deploy an additional fracturing crew to Argentina in the second half of this year. While we acknowledge Argentina's fiscal and governmental risks, the country's tight sands and the Vaca Muerta shale are attractive reservoirs, Argentina has little other unconventional fracturing equipment in-country, and we see our growth prospects as quite strong.

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Lastly, in Colombia, where our presence comprises a modest four cementing units, short-term challenges continue, but we will remain patient.

Focus on People

Building a successful competitor comes down to the people you have. A team consistently focused on service quality and safety is even more important than equipment and technology. I would like to thank every one of our more than 4,300 people for another great job in 2013 on every level. The management team's job is to make sure they have the tools, materials and support to do the job in the most efficient, effective and safe way, through heat and cold, night and day. That is where Calfrac's invoices are generated, and staying in business demands we keep that outlook.

Providing thorough training goes hand-in-hand with achieving high retention of employees. That helps us meet customers' expectations that we indeed have the industry's most highly skilled and experienced people, in turn giving them the confidence to choose Calfrac. Customers have similarly discerning expectations regarding the environment, and Calfrac continues to be a leader in maximizing reuse and recycling of water and creating fracturing fluid systems that maintain performance with low-quality non-potable water. The following pages have extensive discussion of Calfrac's people programs, including our sophisticated safety management system, training initiatives and how we safeguard the environment.

We are very proud to be a leader in the pressure pumping sector applying the American Petroleum Institute's (API) Specification Q2 system. API Q2 exceeds ISO standards and covers everything related to a company's operations, safety and service quality, with formal procedures to ensure consistent delivery and effective communication internally and externally. It is not prescriptive in terms of fracturing programs or ideas for unlocking a reservoir, ensuring that we have the freedom to do our job. API Q2 is being applied to Calfrac's North American operations this year. Next year we will introduce it globally, where we believe it will open further doors for Calfrac with sophisticated international producers.

Corporate and Balance Sheet Matters

Although profitability was down in 2013, key to understanding Calfrac is that we built the Company to weather the cyclical downturns intrinsic to our industry and emerge stronger on the other side. This occurred during the 2009 downturn, and we used the subsequent growth period to strengthen the balance sheet and increase the dividend within sustainable limits.

Calfrac was financially strong going into the current weaker period, with the majority of total revenue covered by longer-term contracts and good diversification across countries, play types and commodities. The Mission acquisition did not stretch our financial resources, and the markets supported our issuing an additional US$150 million of 7.5 percent senior unsecured notes due in 2020.

We continued to manage our costs, both at the field level through supply chain and commodity sourcing initiatives, and in the corporate suite, where our financial team had paid close attention to the SG&A cost structure to avoid over-staffing during the previous growth period.

In 2013 Calfrac again delivered satisfactory returns on equity, assets and capital employed when considering the operating environment. We exited 2013 with a largely undrawn syndicated credit facility totalling $300 million and working capital of $320 million. Calfrac's dividend, increased in 2012 and distributed quarterly beginning in early 2013, remains at a sustainable level, with strong shareholder participation in the Dividend Reinvestment Plan (DRIP).

Evolution and Continuity

Looking back to the founding of Calfrac in mid-1999, the size and scope of our business have changed dramatically. We were fortunate to be in the right parts of key markets at the right times, pursuing opportunities by investing in the right equipment and technologies. But whether we had 40 people or 4,000, we remained a team of entrepreneurs and hands-on managers, unafraid to roll up our sleeves, make tough decisions and think ahead of the market. We also stuck to our vision and principles. Today we still look at each new working day as an opportunity to go out and do something better than our competitors.

It has been a source of great satisfaction to help create a company that grew and lasted, rather than being bought out at an early stage. In particular I would like to thank my fellow co-founders, Gordon Dibb and Ron Mathison, two genuine entrepreneurs who got Calfrac through its very humble beginnings, gained the trust and confidence of our initial clients, and ran the business with integrity and trust.

Over the past year, the opportunity was presented to move from my role as CEO to Vice Chairman of Calfrac. I see this as a chance to add value in a new way. I will remain involved with management and the Board of Directors in Calfrac's strategic direction, assuring our shareholders of stability and continuity.

I have the utmost confidence in Fernando Aguilar, previously Calfrac's President and COO, who became CEO on January 27. Fernando has a breadth of international experience as well as North American experience. He has demonstrated a passion for the business and has the skills to take the Company to the next level. Most importantly, he respects our traditions and holds the same principles of honesty, integrity and focus on people. Fernando's leadership will drive Calfrac's evolution into a larger, more diverse international company. It was the right timing for this move, and it protects the interests of Calfrac's shareholders, people, customers and reputation.

2014 Outlook

For 2014 I am cautiously optimistic about the Canadian and U.S. markets. Calfrac's North American business is becoming virtually borderless and we are able to redeploy equipment and apply what we learn across multiple regions. About two-thirds of our $120 million capital program is dedicated to maintaining fleet capacity and efficiency. The remainder is for expanding our international presence plus adding key technology like Sandstorm systems and duel-fuel pumpers.

The long-term outlook for Canada's oil and natural gas sector is very good but there are some risks, the largest being oil and natural gas export capacity. We see strong

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will among Canadian governments and pipeline companies to overcome hurdles to new projects, including LNG export facilities and the associated pipelines, by ensuring technical excellence, thorough environmental safeguards and benefits for aboriginal groups.

LNG exports from Canada are not expected to begin before 2018 at the earliest, but the supply effects are already being felt, such as in our contract with Progress. A 1.5-bcf-per-day LNG facility would liquefy and export the equivalent of about 12 percent of Canada's current gas production, and would require the equivalent of 6,000 new Montney wells to provide supply of natural gas for 20 years. Demand for new supply would also affect the Liard and Horn River basins, and very likely the Duvernay shale and Deep Basin as well. Some forecasts have incremental investment related to Canadian LNG commencing this year and reaching $15 billion by 2016.

Currently, Calfrac has a less than 5 percent share of the U.S. pressure pumping market, giving us significant growth opportunities. We will concentrate on the highly economic gas and oil-focused plays where we are positioned. This year's main goals are to strengthen our presence in the Eagle Ford and further solidify our position in the Bakken, Wattenberg and Utica plays. In addition, the fragmented nature of the U.S. market coupled with the move towards demanding 24-hour operations could bring further opportunities to acquire small competitors. Over the medium term, we also foresee the U.S. demand side creating a pull for additional gas supply. This will include LNG exports beginning as early as next year, fuel switching to natural gas and new industrial facilities.

Internationally, Calfrac is solidly positioned with strong customer relationships in promising markets where new competitors would face significant barriers to entry. We aim to achieve our goal of generating one-third of revenue from international markets over the next three to five years. In Mexico, we expect a slow 2014 as the country continues to work through the reform process, with a potential uptick in 2015. In Russia we foresee increasing horizontal drilling driving our growth. In Argentina we see strong upside with higher utilization and, by year-end, double the revenue-generating capacity with the deployment of an additional fracturing fleet. We still expect medium-term opportunity to add fracturing services in Colombia.

I consider Calfrac to be in the best shape it has ever been to take on the future. We have made the right decisions and have developed superb positioning regarding markets, countries and customers. We are on the verge of the next big stage of growth as a corporation, while maintaining our strategy and business focus as a hydraulic fracturing provider with complete capabilities. We will continue to base our business on the enduring principles that have delivered success and give customers confidence that we can perform consistently at a high level.

For shareholders, the reasons for investing with Calfrac do not change from year to year. We provide the services that we know best and use our strengths to increase competitiveness and grow the business, while practising financial discipline with a core focus on balance sheet strength and delivering a sustainable dividend. These are the key reasons why people invest with us, and I thank all of our shareholders for their support.

On behalf of the Board of Directors,

D.R. Ramsay

Doug Ramsay
Vice Chairman of the Board
February 25, 2014

MESSAGE FROM THE CHAIRMAN

Calfrac has grown dramatically since we founded the company in 1999. From a standing start, Calfrac now employs in excess of 4,300 people and has operations in nearly all of the world's largest fracturing markets: Canada, the United States, Russia, Mexico and Argentina. Calfrac is now one of the largest fracturing companies in the world. Since its inception, the Company has had only one CEO, Doug Ramsay. It is a rare individual who can shepherd and maintain this kind of operational growth over such a long period of time and it is important for us to stop to recognize Doug, for all that he has done, at what is now an important transition point in our senior management structure.

Calfrac's most valuable asset remains, in our view, the best people in the business at all levels, right from the oil and gas fields up to the executive suite. While we are turning a page at this time, we are also confirming that we will be adhering to the same strategic focus and vision that have guided us through the past several years, only this time with a different person in the CEO's chair.

The succession process at Calfrac is one that the Board takes very seriously. The naming of the next CEO is an enormously important event in any company's evolution and history. In Calfrac's case, our planning to transition the CEO role took place over several years. Clearly, we needed an individual, and a management team, who could lead Calfrac extremely well as our business becomes larger, is increasingly global and remains constantly-changing. Fernando Aguilar was named to Calfrac's Board of Directors in 2008. Fernando came to us with a very distinguished background. In 1981 he earned a degree in Civil Engineering, specializing in hydraulic resources management. Following this, he began what became a highly productive career in oilfield services, joining Schlumberger, where over the next two decades he held positions in numerous service lines, amongst them pressure pumping, wireline and well testing. In 2004 he joined CGG Veritas, where he rose to President, Geophysical Services for the Americas. In 2010, Fernando left the Calfrac Board and became our Company's President and Chief Operating Officer. In the years since his transition to an executive role at Calfrac, Doug and I and the rest of the Board became increasingly convinced that Fernando was the ideal candidate to succeed Doug as CEO.

It was a "long interview" for the top job, but the entire Board has gained the utmost confidence in Fernando. He has a breadth of international experience as well as North American experience; he has demonstrated a passion for the business; and he has the skills to both be true to our vision and to take the Company to the next level. Fernando respects our traditions and holds the same principles of honesty, integrity and focus on people that we all do at Calfrac.

Concurrently with Fernando's new role, and following his nearly 15 distinguished years as CEO, Doug has transitioned to the role of Vice Chairman of the Board. Doug, his fellow directors and I see this as a chance for Doug to add value to Calfrac in a new way, from a different vantage point, not only on the Board but within Calfrac, by helping to maintain and develop relationships with customers, investors and key suppliers. He also intends to contribute to industry initiatives on regulatory and environmental management matters. As well, the new role will enable Doug to spend more time representing Calfrac in the community, including at the educational institutions that will train future oilfield services workers.

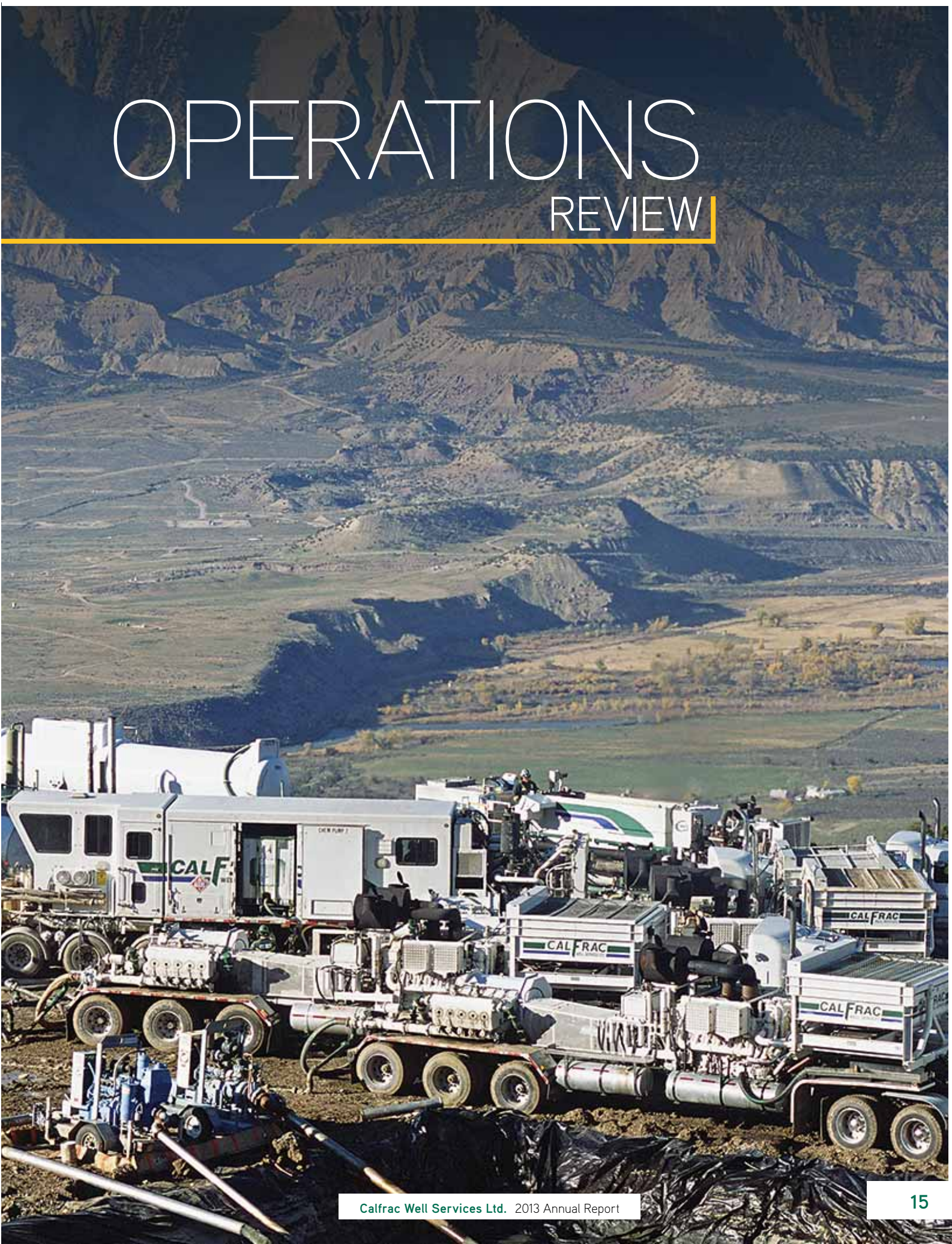
Alongside Fernando is another important addition, a person who needs no introduction to those familiar with the oilfield service business., Michael J. (Mick) McNulty became Chief Financial Officer of Calfrac in December, bringing with him more than 30 years of experience in the oilfield services sector, most recently as President and CEO of Saxon Energy Services Inc. Mick is an extremely solid addition to Calfrac's senior leadership team, adding many of the same attributes to the role of CFO as Fernando brings as CEO.

These changes bring clearly to mind that Calfrac continues to have an excellent senior management team and is similarly fortunate to have such a strong and experienced Board of Directors. I consider the Company to be in very good hands.

Ronald P. Mathison
Chairman

February 25, 2014

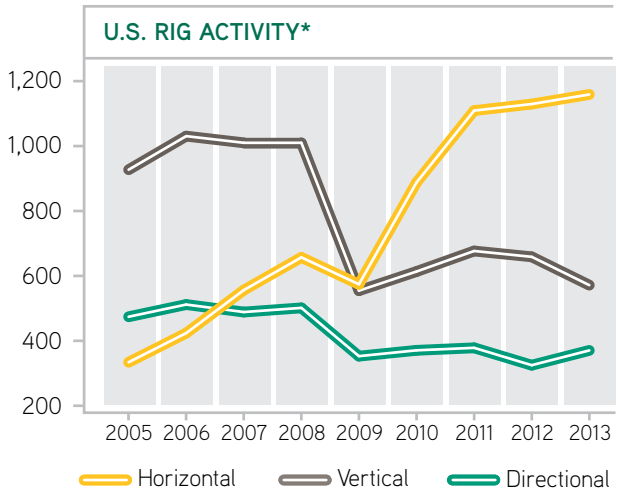
OPERATIONS
REVIEW



CANADA AND UNITED STATES

The multi-year trend of longer-leg horizontal wells with more fracturing stages per well and tighter spacing between stages continued in North America's very large market in 2013, while average fracturing tonnage was relatively stable year-over-year.

Customers focused intensively on operating efficiency, with 24-hour operations reaching an estimated 40 percent of all activity, newer measures such as "zipper" fracs becoming widely used, and multi-well pads representing half or more of activity in mature unconventional plays.



** Source: Baker Hughes North American Rotary Rig Count*

Calfrac serves the entire Western Canada Sedimentary Basin and in 2013 was independently assessed as having the number-one market share across five key unconventional plays. In the United States, Calfrac has focused on selected plays to generate advantages of critical mass, reservoir understanding and supporting infrastructure. They comprise the Marcellus/Utica in the northeast, the Fayetteville in Arkansas, the Bakken in North Dakota, the Niobrara in the Rocky Mountains region, and most recently the Eagle Ford in Texas. Exiting 2013, the Company had approximately 1,050,000 HHP in North America.

Canada

Horizontal wells in 2013 made up approximately 80 percent of all non-oil sands wells. A key operational highlight came in July, when Calfrac signed a multi-year minimum commitment contract for three fracturing spreads in the Montney in northeast B.C. The customer, Progress Energy Canada Ltd., is owned by Petronas, one of the leading proponents of LNG export facilities on Canada's West Coast. Calfrac's position in the Duvernay shale also strengthened, where its customers include technically adept intermediate producers as well as large independents and international super-majors. Also in 2013, Calfrac expanded its deep coiled tubing capability and further strengthened its logistics and procurement efficiency.

Montney

The Montney is now widely acknowledged as western Canada's best unconventional reservoir and one of the three main supply areas for anticipated future LNG exports. Production increased to 2.7 bcf per day in 2013 from 4,300 wellbores and a recent National Energy Board resource assessment estimates the Montney as holding 449 tcf of marketable gas, 14.5 billion barrels of natural gas liquids and 1.1 billion barrels of oil. Calfrac has been rated the leading pressure pumper in the Montney.

Cardium

The Cardium was where Canada's first-ever hydraulic fracture took place – of a vertical well in 1954 – and this year over 800 Cardium horizontal wells are forecast to be drilled, making it western Canada's largest well stimulation market. Calfrac is the leading pressure pumper, continuing to refine its fracturing programs to help customers achieve ever-greater efficiencies, productivity and ultimate resource recovery. Average per-well productivity in the Cardium has improved every year since 2009. By year-end 2013 Calfrac had two fracturing fleets working 24-hour operations.

Niobrara

Although less visible, the Niobrara shale has proved to be a solid growth area. By spring 2013, horizontal production in the Niobrara had grown to 140,000 boe per day. Given this area's typically dry and dusty conditions, customers enthusiastically adopted Calfrac's Sandstorm sand-handling system. Nearly 1,100 horizontal wells are forecast to be drilled in the Niobrara play in 2014, a record number.

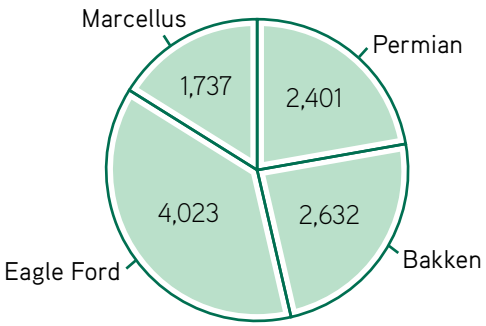
Marcellus

Calfrac's move into the Marcellus has been borne out by this remarkable play's sustained growth to 13 bcf per day in 2013, up from only 2 bcf per day in 2010 and almost equalling Canada's total natural gas production. Average per well productivity has increased by an astounding 500 percent in only four years, to 6 mmcf per day. That plus unmatched proximity to market makes the Marcellus highly economic. Typical Marcellus fracturing remained heavy at 175 tonnes per stage in 2013, with average horizontal legs of 4,700 feet and approximately 17 fracturing stages per well.

An estimated 6,000 new Montney wells and $55 billion in upstream capital investment would be needed to supply one, 1.5 bcf-per-day LNG export facility for 20 years. This will demand efficient field development, including multi-well projects with 24-hour operations. This evolution could result in 18-24-well pads, which require approximately $100 million in investment. One third-party estimate holds that meeting 3.5 bcf per day of LNG export capacity would require continuous deployment of 11 fracturing fleets with 330,000 HHP.

Calfrac believes it is the industry's overall pumping leader in fracturing for LNG-related development. The Company is cautiously optimistic concerning the Canadian market in 2014, and foresees significant upside over multiple drilling seasons. One industry estimate forecasts that the producing sector will require an additional 400,000 HHP in Canada's main resource plays in 2014.

2013E Hz. Well Count, Largest U.S. Basins*

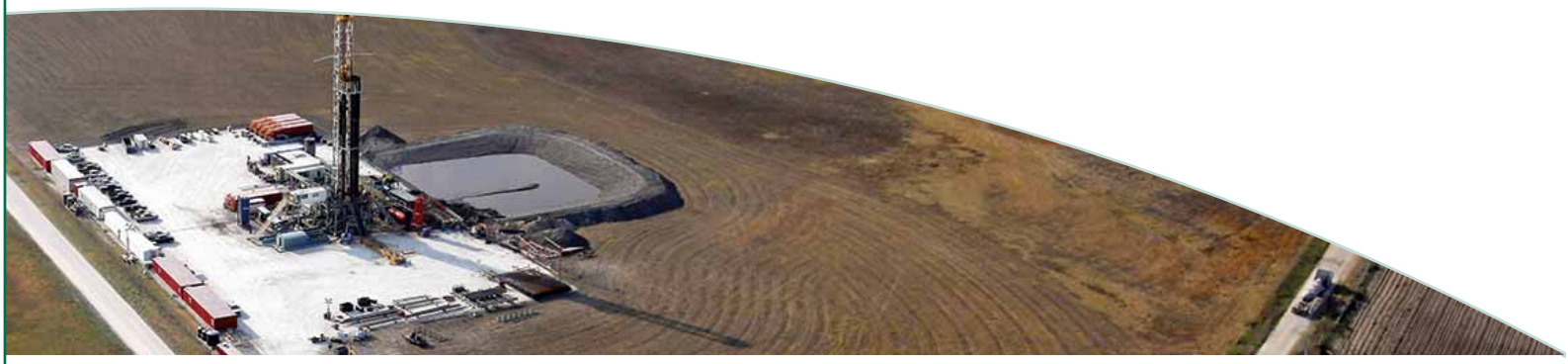


** Source: RBC Capital Markets*

United States

The numerous basins forming this country's voluminous fracturing market continued to be over-supplied with pressure pumping capacity in 2013. Calfrac focused on providing greater efficiency and service quality to its current customers, and developing new business by differentiating itself qualitatively. The Company added important new customers, due in part to its logistics and supply chain capabilities, including the Sandstorm sand-handling equipment. Calfrac also added coiled tubing services to its U.S. offering in 2013, and entered the large Texas market (please see the Case Study on the following pages).

Calfrac foresees greater activity in the U.S. thanks to its expanded presence and strong service offering, and is cautiously optimistic about slightly higher industry utilization and service pricing in 2014. The Company's new presence in the Eagle Ford provides strong long-term growth opportunities as well as a good base to expand into the Permian Basin over the medium term, where activity is shifting decisively to horizontal development. The two plays generate good to excellent economics and account for approximately 40 percent of all active rigs in the United States, with approximately 7,500 new horizontal wells anticipated for this area in 2014. Calfrac's well-maintained equipment fleet and recent additions of new equipment make the Company ready for higher anticipated utilization.



THE EAGLE FORD
THE WORLD'S MOST ACTIVE SHALE PLAY

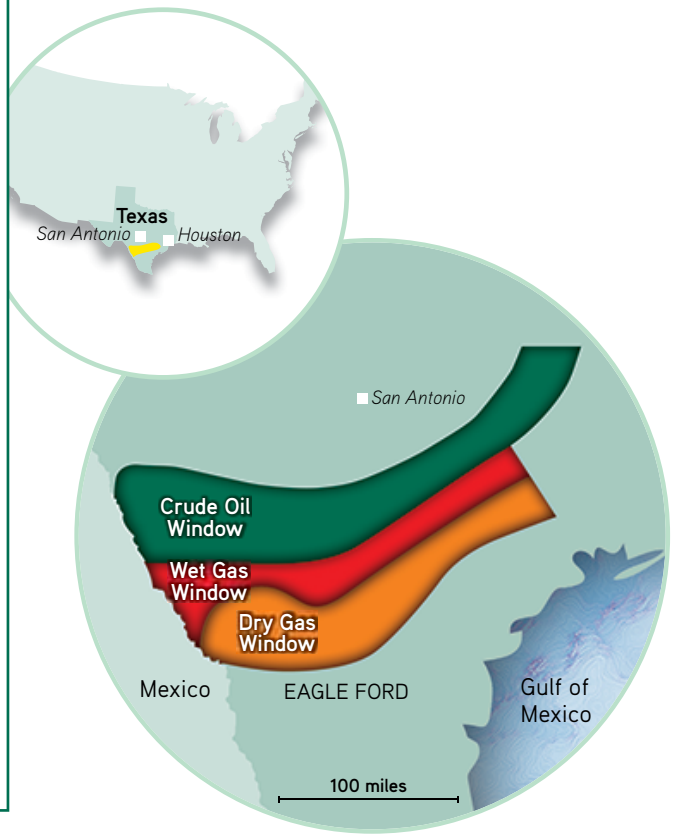
Like most things in Texas, the Eagle Ford shale is big. It is also arguably the world's most successful shale oil play. Initially a gas play, production from the "oil window" in this extensive area, stretching 400 miles across southeastern Texas, has increased from near-zero in 2009 to an estimated 1.1 million barrels per day exiting 2013.

That is even greater than the more famous Bakken shale in North Dakota. The Eagle Ford also produces voluminous gas, 3.2 bcf per day in 2013, plus nearly 200,000 bbls per day of NGL.

The Cretaceous-aged Eagle Ford's geological characteristics make it almost a model shale for development. The formation's presence was long known and recognized as the source rock for the giant East Texas Field and Austin Chalk, but it was technically forbidding. Some other unconventional plays, like Alberta's Montney, hold pockets of near-conventional reservoir that yielded modest amounts of oil through vertical drilling. But the Eagle Ford remained untapped.

The Eagle Ford's Key Characteristics

Geological depth	**4,000-12,000 feet**
Average thickness	**250 feet**
Composition	**Up to 70 percent carbonate**
Porosity	**6-14 percent**
Total organic content	**2-6 percent**
Fracturability	**Moderate**
Pressure gradient	**Moderate**
NGL yield	**Very large, up to 600 bbls/mmcf raw gas**



How Calfrac Helps Its Customers Succeed in the Eagle Ford

Calfrac entered the Eagle Ford with the asset acquisition of Mission Well Services, LLC in autumn 2013. Since then, the Company has been building its regional capabilities. The district headquarters are on Interstate-10 east of San Antonio, with a regional office in the Woodlands district of Houston. The large majority of Mission's employees joined Calfrac and, as of early 2014, Calfrac was building the team towards a planned complement totalling 250. Here is how Calfrac intends to create value for its customers:

Operating Efficiency – Calfrac is shifting to 24-hour operations, meeting the preferences of many Eagle Ford customers. The Company will introduce accompanying efficiencies, including the staggered "zipper" fracs now common on multi-well pads, and the needed high-rate logistics management. Calfrac's overall approach aims to make execution smooth and easy for the customer.

Fluid Systems – Calfrac is levering its years of research and experience in unconventional plays across North America to benefit operators in the Eagle Ford, including with greener chemistries. Fracturing treatments often comprise high-rate gelled water with standard sand. Calfrac's CleanTech™ fluid system helps fracture systems remain in the target reservoir without

Petrohawk Energy Corporation is credited with drilling the first successful Eagle Ford well in 2008, a 3,200-foot lateral with 10 fracturing stages that flowed at 7.6 mmcf per day. Following modest additional drilling, the Eagle Ford burst onto the scene in 2010. A relatively small group of producers recognized its potential early and aggressively captured large land areas, including in the northern oil-bearing sections. It is widely considered easier to recover gas from shale reservoirs than crude oil. But the brittleness from the Eagle Ford's high carbonate (limestone) content makes it highly frac-friendly, enabling oil to flow.

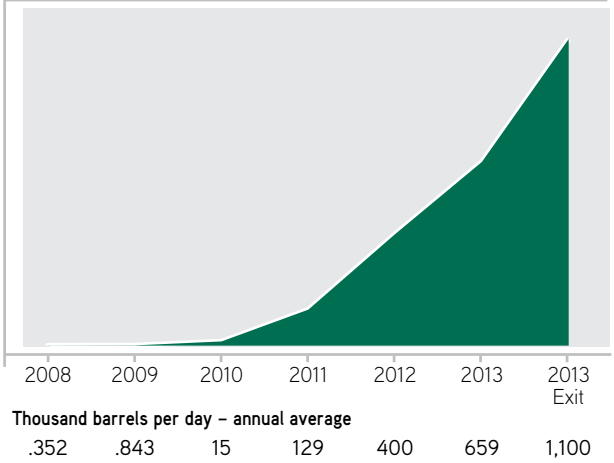
By 2013 about 230 rigs were active in the Eagle Ford. Approximately 35,000 HHP was applied to fracture a typical Eagle Ford well, among the highest levels in the U.S. According to one published report, horizontal wells received an average of 19 fracturing stages over their 6,100-foot average lateral length, with average spacing between stages on a tightening trend. The Eagle Ford was rated North America's largest fracturing market last year, accounting for 25 percent of U.S. demand, with 3.6 million HHP stationed in the play and 90 percent utilization throughout the year.

Calfrac's customers in the Eagle Ford are a mix of regional producers and large independents, including the play's leading oil producer. In early 2014 this company reported that it was achieving average initial productivity of 1,435 bbls per day and had drilled multiple wells coming on-stream at over 2,500 bbls per day. Expected ultimate recovery is estimated at 400,000 boe per well. With target costs of $5.5 million per well, these results clearly place the Eagle Ford in the top tier of unconventional plays.

230

average number of rigs operating in Eagle Ford in 2013

EAGLE FORD CRUDE OIL PRODUCTION



For 2014 and beyond, Calfrac foresees the drilling rig count flattening out. The number of wells should continue to grow, however, to an estimated 4,300 this year, thanks to industry-wide application of efficiencies. Calfrac also foresees continued strong well results and economic returns for producers.

Meanwhile, the unconventional transformation of the Permian Basin in West Texas is transitioning from largely vertical exploration and delineation to full-scale horizontal development. The Permian's annual horizontal well count is expected to increase by 50 percent from 2013 through 2015. Once Calfrac is solidly established in the Eagle Ford, the Company intends to develop business in the Permian.

With its astounding performance, the Eagle Ford is central to the U.S. becoming the world's number-one crude oil and liquids producer as early as next year. Beyond that, with its break-even economics being as low as US$50 per barrel among the better operators, the Eagle Ford should yield decades of further development activity.

propagating into neighbouring formations. Calfrac's careful testing and large database will allow customers to match various grades of recycled, brackish and other non-potable waters to the right fluid blends.

Cementing Services – Ensuring wellbore integrity to avoid gas migration is important for many reasons, including stakeholder relations. Calfrac is adding cementing to its Eagle Ford service offering. The Company will offer cement blends suited for conditions in the Eagle Ford, plus expert execution and customer advice based on long experience.

Sandstorm Sand-Handling – Mission's equipment was built under a well-thought-out, "full-fleet" concept. It is very likely to be complemented by Calfrac's state-of-the-art Sandstorm sand-handling system. Popular with customers in other unconventional plays, Sandstorm will contribute to efficient placement of the large proppant volumes common in the Eagle Ford, while suppressing dust.

LATIN AMERICA

Calfrac has used a prudent methodology to develop each of its Latin American markets. It enters initially with a modest commitment of personnel, equipment and capital. Then it nurtures customer relationships, a local management team and market intelligence.

If conditions warrant, it shifts to hydraulic fracturing. Calfrac's first horizontal fracturing treatment in this region occurred in Mexico in late 2012, followed by Argentina in May 2013. Financial results in 2013 were mixed, and Calfrac recognizes Latin America's continuing fiscal and political risks.

Argentina

Activity has picked up significantly in Argentina. Following its deployment of a fracturing fleet with 27,000 HHP to Argentina, in May 2013 Calfrac commenced fracturing and by year-end had placed approximately 330 fracturing stages in multi-zone vertical wells drilled into tight sands. Calfrac provided services to many of the energy producers active in Argentina, and in October announced a three-year, minimum commitment contract with YPF S.A., Argentina's principal energy producer. By the third quarter of this year, Calfrac expects to commence fracturing for YPF in the promising Vaca Muerta shale (please see Case Study on the following pages).

Argentina has a long history of conventional oil and gas production, installed processing infrastructure, an established service sector, improving reservoir understanding and a relatively broad base of active companies by international standards. The main risks are fiscal and political.

Domestic energy pricing has moved to levels sufficient to spur investment, and Calfrac considers Argentina's growth potential significant. As of mid-2013 Argentina still had only an estimated 300,000 HHP of pumping capacity in-country, little of it suited to unconventional work. Calfrac expects to deploy an additional fracturing fleet by late 2014.

Mexico

Calfrac is the only independent pressure pumper in Mexico, a country with large hydrocarbon resources, including shale reservoirs such as the southward extension of the Eagle Ford from Texas. But Mexico's oil production is slumping and there was still only an estimated 225,000 HHP in-country as of mid-2013. Of that amount, Calfrac provided 45,000 HHP in 2013. Activity was slow in the later part of 2013 due to Pemex's budgetary constraints.

The nature of Calfrac's work is moving in the right direction. Since November 2012 the Company has performed several multi-stage horizontal jobs, including fracturing a 51 stage horizontal well in Mexico, in October 2013. Fracturing engagements have grown from typically 1-2 fracturing stages per vertical well to stages numbering in the mid-teens per horizontal well.

In late 2013, both houses of Mexico's parliament approved a contentious energy reform package that would open the country's oil industry to foreign investment for the first time since 1938. Important aspects must still be resolved, including the exact nature of foreign participation, which along with Pemex's budget will determine Mexico's energy revival. This development could lead to significantly higher capital investment over the longer term as foreign companies with the required financial resources and technical capabilities enter the market.

Mexico's first-ever shale oil was produced in March 2013, from the Anhelido-1 well in the Burgos Basin. Later that year, two horizontal wells were zipper-fractured with a total of 32 stages, yielding combined initial production of 4,080 bbls per day. These are promising developments. Mexico's most likely development scenario is a relatively slow, multi-year ramp-up in activity beginning in late 2014. Calfrac is well-positioned to participate, with established operations in two major onshore fields and a good relationship with Pemex.

Colombia

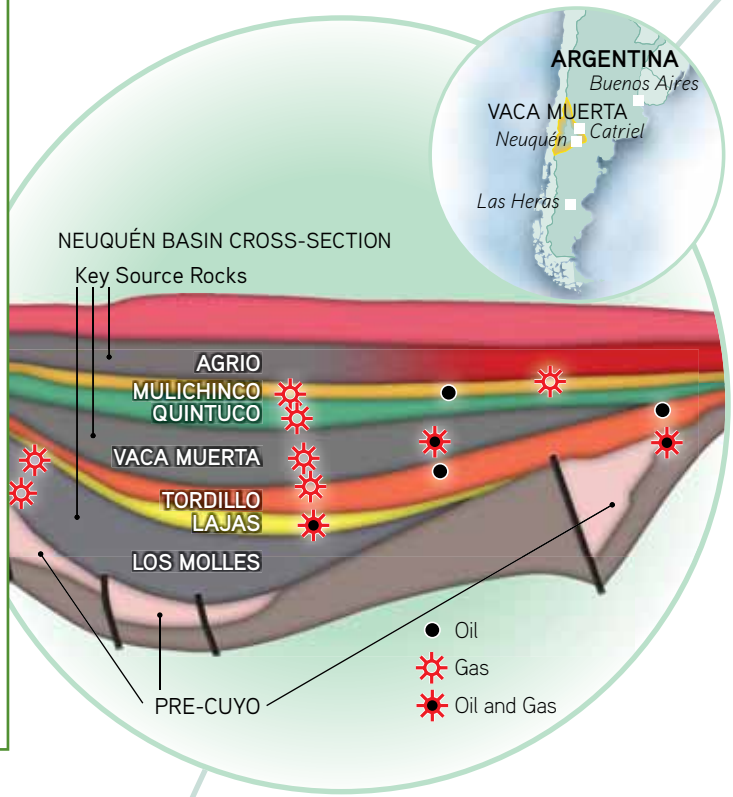
Conditions remained weak in Colombia throughout 2013, and Calfrac maintained its modest presence of four cementing units. As issues are resolved, Calfrac will re-evaluate risks and opportunities, including the potential to add fracturing services.

ARGENTINA'S VACA MUERTA
AN UNCONVENTIONAL PLAY STARTS TO BOOM

The Vaca Muerta Formation is emerging as a world-class developable shale. It is producing dry gas, natural gas liquids from ethane to condensate, and high-quality light oil (45-46° API) that can almost be used in a truck engine without refining. Following several years of study and testing, the country's primary energy producer has ramped-up its investment and new international players have entered Argentina.

Vaca Muerta Shale Characteristics

Typical geological depth	**2,900-3,100 metres**
Typical thickness	**250 metres**
Composition	**Jurassic age deepwater marine bituminous shale, interbedded limestone, high in quartz, Type II kerogen**
Average porosity	**6-10 percent**
Pressure	**4,500-9,500 psi**
Total organic carbon	**6 percent**
Producible hydrocarbons	**Gas, NGL (200 bbls/mmcf), light oil**



The Vaca Muerta underlies much of Neuquén Province, a region of arid rolling plateaus and river valleys framed by the Andes Mountains in the west. The provincial capital of the same name is the centre of the regional oilfield services sector. Neuquén has had oil and natural gas production for over 100 years and its impressive 4,000-metre-thick sedimentary infill generates about half of Argentina's 1.4 mmboe per day of oil and natural gas production.

The most remarkable aspect of the Vaca Muerta is its sheer thickness – up to 250 metres or over 800 feet, with consistently 200 metres of productive reservoir. Hundreds of vertical wellbores offer well control from decades of conventional development above and below the shale, which is also one of the regional source rocks. Similar to the Montney in Alberta, the Vaca Muerta shale itself historically yielded low but material production using conventional, non-fractured vertical wells.

Following resource studies in 2007 and 2008, YPF S.A., Argentina's major production company, began testing the Vaca Muerta with vertical wells in 2009. The first well was unsuccessful, but the next year YPF drilled a successful gas well and oil well. In 2011, YPF drilled discoveries in the Loma La Lata, Loma Campana, and Bajada de Anelo areas. That year's 15 vertical wells flowed at up to 600 bbls per day, with various improvements to fracturing treatments showing clear production responses.

Faster development in Argentina was held back far less by technical issues than chronically low, government-imposed oil and gas pricing. In 2001 domestic gas prices were capped at

$2.50 per mcf, and producers were forced to sell some gas to households and small retailers at 30-50 cents per mcf, well below supply costs for newly drilled wells. Argentina's production began to slump, it became a net gas importer by 2009 and also had to import refined fuels. Gas imports reached $3 billion per year and Argentina was paying $7 per mcf for gas from Bolivia and $11 per mcf for LNG. Fortunately, changing policies, including the various "Plus" programs, brought prices up sufficiently to revive drilling, particularly for oil.

2.2 mmboe
estimated resource in place per km² of Vaca Muerta Shale

By mid-2013, at least 100 wells had been drilled into the Vaca Muerta and shale production had grown past 10,000 boe per day. Vertical wells remained the focus to delineate the shale and identify potential sweet spots or especially productive layers caused by natural fractures and mountain faulting. Vertical Vaca Muerta wells typically require 25,000-30,000 HHP and are fractured in up to five intervals with 150-tonne stages, similar from a completions standpoint to a short-leg horizontal well. Fluids are usually slick water or lightly gelled water with low guar loading. The demonstrated oil production is a significant achievement, since not all shale reservoirs will surrender their oil. Results have been promising, including up to 800 boe per day from certain initial horizontal wells.

There are now more than 25 oil and natural gas producers active in Argentina, including eight international majors. In a significant vote of confidence, Chevron in July 2013 signed a US$1.24 billion agreement with YPF to develop the Vaca Muerta. A new industrial park is being built in Neuquén City, and Calfrac will move its operating base there. There are still only five significant fracturing providers in Argentina, with under 300,000 HHP estimated in-country as of mid-2013.

In late 2012, Calfrac decided to add fracturing to its service offering of cementing and coiled tubing. The first fleet was deployed by May 2013 and included 14 fracturing pumps with 27,000 HHP and sufficient associated equipment to comprise either one large or two smaller fleets. The Company's activity has centred on another unconventional opportunity, the Lajas Formation. It is a thick "tight" sandstone lying at approximately 2,600 metres' depth and below the Vaca Muerta in the area where Calfrac's customer is drilling. Fracturing is conducted in up to 12 stacked intervals, similar to some of the more intensive vertical work in Alberta's Deep Basin, and comparable to a medium-leg horizontal well. By year-end, Calfrac had completed nearly 330 vertical fracturing stages in its various deployments in Argentina.

Argentina's government appears determined to increase indigenous oil and gas production to address the country's energy needs and reduce the trade and budget deficits. The country's main risks continue to be political crises leading to unfavourable future government policies. In Neuquén, popular support for oil and gas development appears solid, as this is the region's main industry and source of new employment.

Entering 2014 Calfrac was building an additional, 32,000 HHP fracturing fleet for Argentina, and the Company's in-country team numbered approximately 300. The newest fleet is expected to be deployed to the Vaca Muerta in the second half of 2014. Calfrac anticipates working for a number of international customers, as well as fulfilling its key contract with YPF. Customers will determine the mix of vertical and horizontal work. Calfrac is optimistic about the year ahead, anticipating virtually 100 percent equipment utilization. With Argentina's unconventional potential clearly demonstrated, the challenge is to achieve positive per-well economics under prevailing domestic pricing.

How Calfrac Will Add Value in the Vaca Muerta Shale

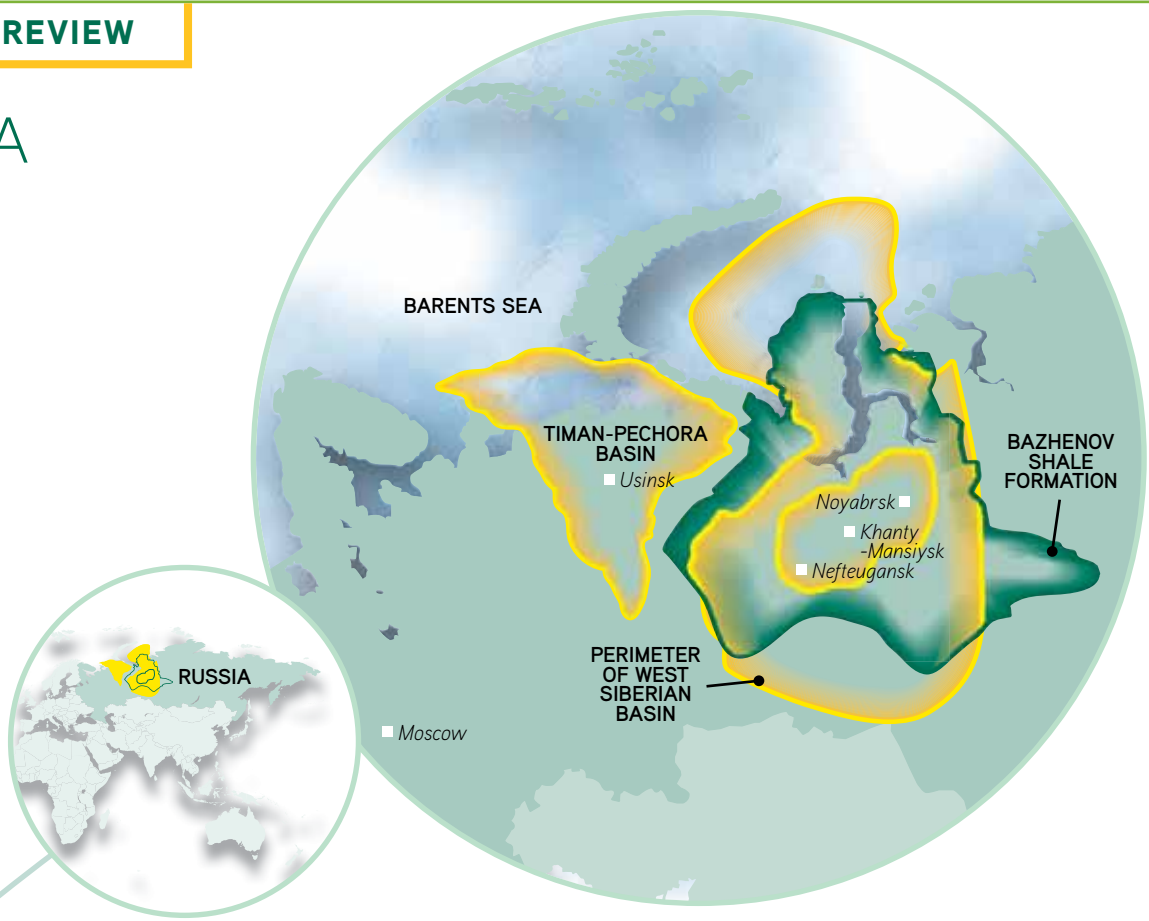
Calfrac has worked for nearly every energy producer active in Neuquén. Calfrac's value proposition is based on:

Service Quality and Customer Commitment – Calfrac is an established provider with a strong record of technical success and a reputation for being customer-focused.

Modern Equipment – Calfrac's fracturing equipment in Argentina is new, much of it built in-country, designed for purpose, and comparable or superior to any in-country fleet.

Technical Ability – The knowledge gained from thousands of unconventional jobs in North America will be brought to Argentina, along with the Company's leading products. These include the CleanTech™ fluid system, a proven performer in North America that helps avoid fracturing propagation outside the target reservoir, and lightweight cement suited to Neuquén's drilling conditions.

RUSSIA



Calfrac regional/district office
Major basin/unconventional play

The Russian oil industry's rapid shift to horizontal drilling and multi-stage fracturing over the past 18 months is very exciting for Calfrac. Active in Russia for nearly a decade, Calfrac's first horizontal job was in September 2012.

The local industry's development approach has been similar to North America's – beginning with shorter-leg wells and relatively few fracturing stages to test equipment processes and confirm technical concepts. Established techniques are being transferred from North America, and initial results have been promising.

Last year multi-stage fracturing of horizontal oil wells grew to approximately one-third of Calfrac's fracturing work in Russia, or 400 fracturing stages, amid growth of 43 percent in Calfrac's overall fracturing work. Initial testing of the enormous Bazhenov shale, the geologically complex source rock for Russia's largest conventional fields, is underway by other operators. The industry's primary targets are lower-permeability or "tight" sandstone reservoirs, reflecting the extensive potential in Russia's vast legacy oilfields.

Calfrac has long been active in major oilfields of the 540-million-acre West Siberian Basin, where the primary target horizons consist of Jurassic and Cretaceous

Calfrac's Russian Operations

	2012	2013
Conventional Fracs	783	784
Hz Multi-stage Fracs	43	400
Total Fracs	826	1,184
Conventional	94.8%	66.2%
Horizontal Multi-Stage	5.2%	33.8%

Expanding customer base, higher utilization and proliferating horizontal work

6 Fracturing spreads totalling

62,000 HHP

are committed in Russia for 2014

sandstones. The traditional approach uses deviated or slightly angled vertical wells, drilled from common pads with up to 15 wells, intersecting multiple target horizons down to approximately 3,000 metres depth. This year, Calfrac expects horizontal multi-stage fracturing to be approximately 45-50 percent of its expanding fracturing work in Russia.

The horizontal fracturing programs and configurations of Calfrac's customers remain confidential. Third-party research that summarizes overall industry activity estimates that typical horizontal wells are currently drilled with a lateral length of approximately 2,200 feet and are completed with six fracturing stages. Such wells cost approximately US$5-6 million to drill and complete, versus US$2.4 million for vertical wells, and deliver initial productivity of 500-1,800 bbls per day of light oil. This compares very well against early-stage activity in many North American unconventional plays.

The growth in Russia's horizontal activity is highly positive for Calfrac. Financial results in 2013 were better than in 2012, and the Company expects further growth in utilization, revenue and margins this year. By February, the annual tendering process had been completed and all of Calfrac's currently deployed equipment – six fracturing fleets, seven coiled tubing units and a total of 62,000 HHP – was committed for the year.

Published research predicts dramatic growth in Russia's horizontal market for the next four years, including 50 percent higher activity in 2014. In October 2013, Jacques de Boisseson, Total E&P Russia's chief, was quoted saying, "There is no reason for Russia not to be the next El Dorado in unconventional oil."

Calfrac's Value Proposition and Competitive Advantage in Russia

Calfrac is now working for all three of Russia's major oil producers. A new, two-year contract was announced in the third quarter of 2013 for fracturing services in the Timan-Pechora Basin, a vast operating area bordering the Barents Sea in the Komi Republic, an autonomous region in northern Siberia, where Calfrac recently opened an operating base in the city of Usinsk. This is deep, high-pressure, technically challenging work in an unforgiving environment accessed only by winter ice roads or by air.

Central to Calfrac's value proposition is the Company's ability to provide comprehensive well site services in remote areas. This differs from the standard North American approach of individual services provided by numerous specialized subcontractors. In Russia, Calfrac supplies earth-moving equipment, fracturing fluid, proppant, tanks, heating, flowback handling and other services. The Company's integrated capabilities and reliable service delivery are two of its main competitive advantages in Russia.

TECHNOLOGY

Equipment: Innovative Design and Rugged Reliability

Calfrac's equipment supports the Company's global growth and positioning in leading unconventional plays. Our fleet development philosophy combines a longstanding, program-wide emphasis on reliability and durability, as more and more equipment is deployed to 24-hour, extended-duration fracturing assignments, with continuous improvements and design innovation to improve competitiveness and position Calfrac as a technically sophisticated provider. Key design imperatives are to minimize hazards for operators and help reduce the overall environmental footprint of fracturing operations.

Much of Calfrac's capital expenditures – $170.5 million in 2013 (not including the Mission acquisition) and a budgeted $120 million in 2014 – is allocated towards the multi-year fleet overhaul program. It comprises complete rebuilds, starting with the oldest units and working through the fleet, restoring equipment to virtually as-new capability for 60 percent or less of replacement cost. With further growth in activity anticipated, very little equipment is being retired.

For the balance of the capital program, new equipment builds are focused mainly on adding specialized technology like the revolutionary Sandstorm sand-handling system, a unique design offering unmatched capabilities in the fracturing sector. The Company is also continuing work on other innovations. These include dual-fuel pumpers using a high ratio of natural gas, convertible trucks and trailers that conform to varying regulatory requirements for ease of transcontinental deployment, and sophisticated proprietary control systems and data vans enabling real-time remote monitoring by the customer.

Operating Reliability and Cost-Efficiency

Calfrac is working concertedly to increase its equipment's longevity, optimize fleet utilization and gain the greatest impact from its capital spending. This is largely a "game of inches", or continuously seeking and implementing incremental improvements. A significant focus of study and testing is fracturing pump longevity, given the faster wear-out imposed by 24-hour operations.

Horsepower

With North America over-supplied in pressure-pumping horsepower, Calfrac has de-emphasized pump construction. In 2013, approximately 60,000 HHP was added organically to complete the 2012 budgeted program, and 157,500 HHP was acquired through the Mission asset acquisition (described in the Letter to Shareholders). In addition, Calfrac is manufacturing some fracturing equipment needed for Argentina in-country.

Calfrac entered 2013 with a fleet-wide total of 977,000 HHP and exited the year with 1,194,000 HHP. The Mission equipment has proved to be of very good quality, with a maximum age of only three years, remaining in continuous service in the Eagle Ford play in Texas.

New equipment builds are focused mainly on adding specialized technology like the revolutionary Sandstorm sand-handling system, a unique design offering unmatched capabilities in the fracturing sector.

Sandstorm

Customers have recognized the operating efficiency of Sandstorm and its ability to all-but eliminate dust on the well site. The system, which was built and tested in 2012 and rolled out commercially in early 2013, has exceeded Calfrac's expectations.

The fully enclosed system moves large volumes of proppant at consistent rates, making Sandstorm ideal for extended deployments such as multi-well pads. Its speed and mechanical simplicity provide efficiency and cost advantages over traditional systems. Where required proppant volume is very high, Sandstorm can save days and even weeks versus setting up a temporary sand plant. Improved environmental protection and occupational health are built into its design.

Sandstorm's four main elements are:

1. Self-inclining, enclosed Gravity Boxes. Wheel mounted and rapidly deployable in sets, they hold up to 250 tonnes of sand each, facilitate consistent sand feed and can be continually replenished.
2. The enclosed Vector Belt system. An inclined belt feeds sand into the Gravity Boxes and a horizontal belt conveys up to 10 tons per minute to the blender (where fluids, additives and proppant are combined).
3. The automated, self-contained HydraBear, a hydraulic power unit that tows the conveyors into place, powers the system and supplies auxiliary power and heat throughout the well site.
4. A sophisticated, integrated control system providing detailed reporting and allowing customers to develop and re-use proppant menus.

Calfrac's Sandstorm systems have been deployed to the North Dakota Bakken shale, the Niobrara shale north of Denver, Colorado, the Marcellus play in Pennsylvania and in northwest Alberta, including the Montney and Duvernay plays. Entering 2014 the Company had nine systems in service, with the 10th about to be rolled out and three more budgeted this year. The latest "Gen 2" units feature improvements generated by operator feedback.

Customers appreciate Sandstorm's operating efficiencies, fast set-up, labour savings, dust suppression and virtual elimination of sand spillage during conveyance. On one recent deployment, Calfrac placed 9 million pounds of sand into the wellbore with spillage of only 700 pounds. Sandstorm generates material cost savings and has improved Calfrac's competitiveness everywhere it is deployed. Repeat users have been asking for Sandstorm by name.

Fluid Systems, Quality Control, Environmental Protection and Social Responsibility

The customer's key performance goals in choosing a fracturing fluid system are:

- maximum conductivity of oil and natural gas from the reservoir into the wellbore;
- cost-effectiveness; and
- environmental friendliness.

Calfrac's objective is to provide consistently high-performing, high-quality fluid and cement systems. Our technology team conducts research and development, provides thorough and representative testing, and performs quality control for every product before it is shipped to the field.

Calfrac's global technology and quality control headquarters is the Technology and Training Centre in Calgary, Alberta. The Company also operates a similarly equipped Technology and Training Center in Louisville, Colorado. District labs are located in each operating district. Following the addition of a district lab in Williston, North Dakota to serve the Bakken play, lab capability was added in San Antonio to support the Eagle Ford play in Texas with Calfrac's acquisition of Mission Well Services in the third quarter of 2013. The Eagle Ford lab was upgraded in the first quarter of 2014 with cement testing capability.

How Calfrac Helps Lower per well Costs

Challenge – Support customers' efforts to lower costs per well.

Solution – Delayed borate cross-linked gel system.

Application – Viscosity or fluid "thickness" is critical to transport and place proppant, but higher viscosity raises horsepower requirements and costs. Gelling agents are commonly used to increase water viscosity. By adding guar or derivitized guar and crosslinking it with a specialized delayed borate, Calfrac is able to delay the crosslinking time, thereby lowering pumping pressure. This innovation reduces pumping horsepower, saving our valued customers money, yet still placing required proppant tonnage, while delivering high-performance fracturing results.

People

Supporting Calfrac's global growth, such as the initiation of shale fracturing services in Argentina, and developing optimized fluid systems for the Eagle Ford, requires a continual increase in the technology team's knowledge and technical competency. Each year management targets a large number of man-hours to be devoted to professional

development that includes attending technical conferences, symposiums, "lunch n' learns" and other continuing educational activities with a direct bearing on the team's work. The knowledge gained is shared with colleagues and applied in research, development, work processes, and equipment enhancements. The technology team's low attrition rate has enabled the group to grow together in knowledge and capability. Technology centre personnel also spend time in district labs and personally attend critical new projects in the field, such as Calfrac's commencement of fracturing in Argentina in May 2013.

Fluid System Testing and Development

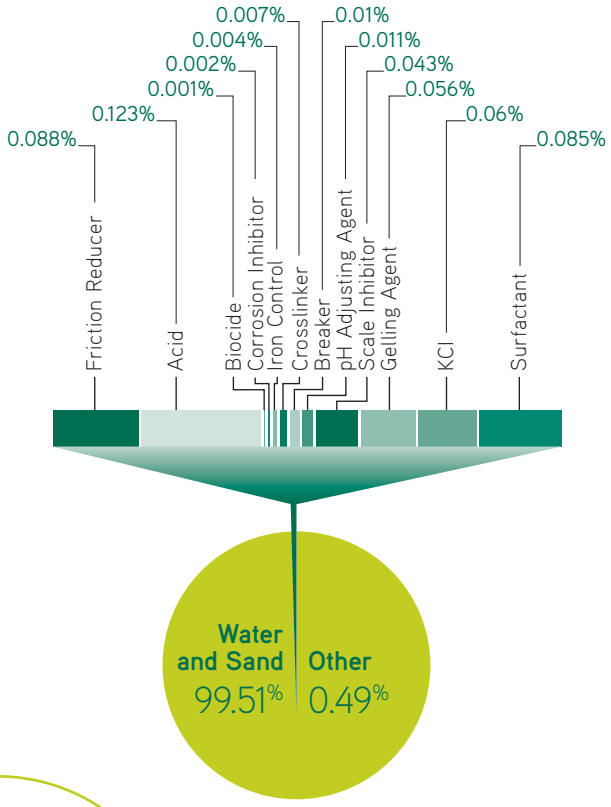
Producers are intently focused on optimizing well productivity while trimming well costs in unconventional plays across North America. While supporting the drive to minimize costs, Calfrac is also a strong believer in resource conservation, and works continually to provide fluid systems that will help maximize resource recovery over time so that producers are sound stewards of the reservoirs they operate.

Calfrac's testing equipment and procedures improve the Company's understanding of how various fluid systems perform in particular reservoirs, helping to calculate and plan the right additive loadings for the target reservoir:

- the core flood system subjects rock samples from the customer's reservoir to fluid flow under pressures and temperatures prevailing in the target reservoir, improving confidence in achieving successful fractures and productive wells;
- the new foam/emulsion rheometer performs real-time measurement of foam viscosity at reservoir temperature and pressure scenarios. This improves Calfrac's and the customer's understanding of the fluid's interaction with the reservoir;
- the friction flow loop measures the friction pressure of customer-supplied base fluids with various additives, to help optimize blends for premium performance in the target reservoir. In 2013, Calfrac initiated a series of flow loop studies, covering the complete spectrum of customers' water composition, formulating blends that optimized performance in each case; and
- the scale loop, or dynamic tube-block apparatus, which measures the rate of scaling of customer-supplied base fluids, to optimize scale inhibitor treatment.

Our technology team conducts research and development, provides thorough and representative testing, and performs quality control for every product before it is shipped to the field.

TYPICAL FRACTURING FLUID MAKEUP



Calfrac's capabilities strengthen its customers' ability to optimize well completions. In the Marcellus and Fayetteville plays, analysis of fluid composition is detailed enough that chemical adjustments can be made not merely from well to well, but from one fracturing stage to the next based on real-time water quality readings. The flow loop data is critical in optimizing fluid system loadings during the fracture treatments as the source water changes.

Another example is friction-reduced or slickwater. It began as a simple, low-cost approach but has evolved into a sophisticated system with surfactants, biocides, scale inhibitor, iron control, clay inhibitors and other additives, and testing needs have grown accordingly. Calfrac's large and growing database showing the reactions of many reservoirs to various water systems helps customers select the right fluid system.

In 2013, Calfrac updated its labelling and other information on hazardous chemicals to the new Globally Harmonized System (GHS), which is even more stringent than previous systems such as WHMIS, and which harmonized previously disparate national systems.

Water Management

A large proportion of our labs' equipment, procedures and internal work centres on research and testing to provide additive blends that deliver high performance under the lower-quality recycled base fluids we continually encounter. This work is important in realizing the industry's goal of recycling flowback and produced water, as well as sourcing lower-quality makeup water, such as formation water and waste water. Work continues in finding suitable fluids requiring less overall water, principally nitrogen foams.

As production from a successful oil or natural gas field grows, the producing wells themselves typically produce water. This can generate a significant amount of non-potable water for use in fracturing new wells. Some customers plan to source virtually all their water in certain fields from producing wells, reducing net externally sourced water to virtually zero.

API Q2 Specification

Calfrac's adoption of the American Petroleum Institute's (API) Q2 Specification has been an important two-year initiative. API Q2 is a quality management system of procedures, processes and systems to foster continuous improvement in substantive capabilities, quality control, operations and reporting. It is the most thorough quality standard covering the energy industry's service and supply sector. Preparations to achieve compliance began in 2012 and the Company worked throughout 2013 to prepare for the certification audits expected in 2014. Compliance with API Q2 will demonstrate the depth and strengths of Calfrac's capabilities, processes, systems and materials and its ability to provide consistently high-quality and safe performance.

Wellbore Integrity

Gas migration out of oil or natural gas well reservoirs into ground water, if it occurs, is not the result of hydraulic fracturing but is related to the physical integrity of the cemented wellbore. The industry continues to improve wellbore integrity through the development of cement blends, matching available blends to the intended application, and the execution of the cementing job.

Calfrac provides expert cementing services in the United States and international markets, using continually improving cement blends, and conducts extensive testing to ensure that intended blends will withstand the well's requirements. Calfrac encourages its customers to think of cementing as a value-added service. Recently introduced cement additives modify the set-up time of cement to ensure it has a completely impermeable bond, preventing gas migration, while lower-density cement blends are aimed at preventing reservoir damage in lower-pressure reservoirs.

Some customers plan to source virtually all their water in certain fields from producing wells, reducing net externally sourced water to virtually zero.

Social Responsibility and Stakeholder Communication

In 2013 Calfrac put into practice the strong commitment made in 2012 to address challenges in stakeholder communication and social responsibility. The Company's recent and ongoing measures include:

- disclosure of chemicals and materials used in its operations. We have engaged with various parties to develop workable protocols that meet the need for transparency and disclosure while safeguarding the vital intellectual property and proprietary technology required for competitiveness. For example, Calfrac uploads well information to the FracFocus website, in compliance with state and provincial regulatory practises;
- ongoing environmental communications with regulatory authorities and the public, using dedicated specialists;
- assessing the toxicity of all Company products, recording the results, and modifying a number of its chemicals to reduce their toxicity; and
- providing resources and leadership to industry associations to improve communications with the public and various stakeholders about the pressure pumping sector's responsible technical, safety and environmental practices.

Calfrac encouraged the formation and is chairing the Petroleum Services Association of Canada's (PSAC) hydraulic fracturing committee. Its first task was developing the PSAC Code of Conduct. The Code was launched in late 2013 and is being rolled out at each participating company in early 2014. This is to be followed by public communication on the Code's usage and benefits.

The current chairman of the Canadian Society for Unconventional Resources (CSUR) is a Calfrac representative. CSUR's mission statement, to facilitate the factual and collaborative exchange of technical information relating to responsible exploration and development of Canada's unconventional hydrocarbon resources, meshes with Calfrac's commitment to improve communications with the public about the pressure pumping sector's responsible technical, safety and environmental practices. Calfrac's active role with CSUR led to an opportunity to collaborate with the International Energy Agency on measures to disperse North American knowledge on shale gas development to interested international countries.

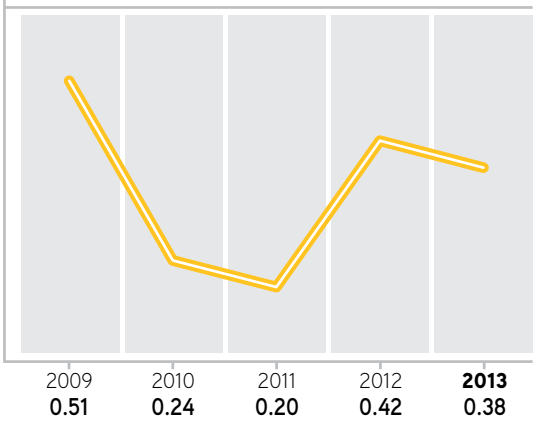
SAFETY, TRAINING, HEALTH AND SECURITY

Deeply Held Values Supporting Calfrac's Growth Strategy

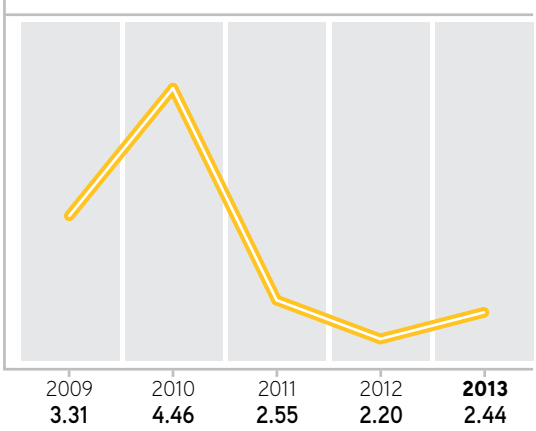
Taking care of our employees and supporting them with the means to take care of themselves and one another stems from Calfrac's deeply held, foundational value of putting people first.

The Company's safety, training, health and security programs also play a corporate-level role in advancing Calfrac's long-term global growth strategy, and form part of the Company's value proposition to customers. The programs are being continually improved and integrated with Calfrac's corporate information systems to improve reporting, management oversight and information sharing among departments.

LOST-TIME INJURY RATE



TOTAL RECORDABLE INJURY FREQUENCY



Safety

Calfrac's strategic goal is to cut reportable incidents in half by 2017. Based on publicly available information, Calfrac's safety performance is already superior to the North American industry average.

The past year's most important initiative was the complete rewrite and update of every field procedure and practice related to health, safety and environmental protection. The complete documentation is available to employees online, and a "back-pocket" printed version was being distributed to field workers in the first quarter of 2014.

In support of Calfrac's international growth, the Company hired a new safety manager for Mexico in early 2013 and for Argentina in October 2013. Both are natives of Latin America with long international experience at major oilfield service and drilling companies.

Calfrac experienced strong success across North America with behaviour-based safety, Dupont's STOP observation program and hazard identification. All three programs focus on obtaining the direct, day-to-day participation of field-level employees in advancing safety and avoiding incidents. STOP is about task observation of at-risk behaviour to prevent future incidents, while the HazIDs initiative trains employees to evaluate hazards on the job-site and suggest corrective changes to equipment or procedures. This year they are being introduced in the Company's international operations.

Management Systems

The 2012-2013 update and upgrade of the Calfrac Incident Management System (CIMS) has made significant progress. The highly sophisticated CIMS is built around a very large database with customized software, and includes various automated features. The regulatory compliance module for North America was completed in late 2013 after two years of concerted work. It comprises a complete calendar of the approximately 400 regulatory compliance events that need to be completed each year in various jurisdictions, and features automated reminders of every event and what actions and reporting it requires.

Integration of the CIMS with Calfrac's quality management

system will allow creation of a combined management dashboard covering reporting on key quality, health, safety and environmental metrics. It will also facilitate work in 2014 to refine forward-looking or leading safety indicators, as well as automatically tracking motor vehicle mileage to analyze motor vehicle incident trends.

Two significant new international standards, OHSAS 18001 Occupational Health & Safety, and ISO 14001 environmental management system requirements (as described in the 2012 Annual Report), were integrated into Calfrac's systems and implemented in Canada and the U.S. Audits commenced in February 2014 to prepare for certification later this year. International implementation will also occur this year.

Training

The Company's Orientation and Training School (OaTS) programs, delivered through Calfrac's training centres in Calgary and Grande Prairie, Alberta and in Louisville near Denver, Colorado, have long been the backbone of Company training. The currently 13-day-long OaTS's scalability and flexibility have enabled Calfrac to expand and improve the program to address evolving needs and help drive ever-better field performance.

Focuses in 2013 were training new employees and integrating them into the Company's culture, processes and performance standards. As a case in point, Calfrac's Argentina team grew from about 100 people in mid-2013 to nearly 300 by early 2014, nearly all of them local hires, including HSE specialists. The attitude towards safety in Argentina is highly positive, and Calfrac's focus on training and treatment of each employee as an individual rather than "a number" have helped to attract new employees from within the oil and natural gas industry.

In 2013, Calfrac became certified for in-house delivery of the U.S. Occupational Safety and Health Administration's (OSHA) 5810 course, Risk-Based Basic Oilfield Training. The U.S. OaTS program also includes OSHA 30, Safe Land, plus the Enform H_2S Alive course.

Health

Calfrac's greater emphasis on occupational health continued throughout 2013. The Company implemented more focused pre-employment health testing and a more thorough return-to-work process by working with workers' compensation boards and government occupational health offices.

The Sandstorm sand-handling system has allowed Calfrac to handle sand proppant without pneumatic systems. The enclosed mechanical system is so effective that Calfrac sites using Sandstorm record silica dust exposure well below the most stringent regulatory standard, enabling work without respiratory protection. Calfrac has presented its results at industry conferences and is building more Sandstorm systems. Current-generation sand-handling equipment has been re-engineered to reduce dust generation, and Calfrac requires operators to wear personal protective equipment in dusty operating conditions.

Security and Crisis Management

In the first quarter of 2012, Calfrac hired its first corporate-level Security and Crisis Management Manager, a person with longstanding experience in law enforcement and corporate security. Since joining Calfrac, he has created a template for security risk assessments covering all key areas, and has completed traveller's risk assessments. This has sharpened the Company's insight into security threats across its operations and areas for potential upgrading of monitoring and protection measures. Calfrac's security manager and his district team members have built good communications channels with law enforcement agencies in Calfrac's operating areas.

The principal security-related initiative in 2014 is to prepare an enterprise-level business continuity plan covering a range of potential crises, including security events and natural disasters. Calfrac is also working on an incident command system, following Canadian, U.S. and global standards, providing formal procedures to handle emergencies at the corporate headquarters, division and district levels. The initial roll-out will be in North America, followed by international operations.

API Q2 Specification

Calfrac's previously announced project to become the fracturing industry's first company certified in the world-leading API Q2 quality standards moved forward in 2013. The departments involved completed internal audits of new procedures and reporting systems. In the first quarter of 2014, Calfrac anticipates informing the American Petroleum Institute that it is ready for its external audit, the last step before certification.

Calfrac believes that it already provides high-quality services, chemistries, equipment and processes. Certification in API Q2 will ensure more consistent, formal documentation and reporting, which in turn is expected to further improve the consistency of service delivery, operating procedures and safety across Calfrac's numerous districts and operating countries. API Q2 certification ensures that the provider meets objective quality management criteria that will be common across the industry, and includes a mechanism to demonstrate improvement. Calfrac anticipates API Q2 making the Company more attractive to the largest and most discerning international energy producers, by providing greater confidence in Calfrac's service offering.

ALBERTA FLOOD RELIEF

The floods that struck southern Alberta in late June 2013 inundated several towns and shut down Calgary's downtown for over a week, causing staggering physical devastation and traumatizing or disrupting life for tens of thousands of people.

Thankfully, there was relatively little loss of life for a natural disaster of such magnitude, although each individual loss was a tragedy. The relief effort by thousands of individuals, families and businesses – on top of what was done by first responders and public authorities – was remarkable. It helped people cope with their losses and get their lives back to normal as soon as possible. Calfrac is pleased to have done its part, and is extremely proud of its employees for their efforts.

Cleaning Up and Helping People Cope

The flood prompted states of emergency in 32 Alberta communities, and in Calgary the flood waters rose to the 10th row of the Saddledome, the city's pro hockey arena. Approximately 75,000 Calgarians were forced to leave their homes, and most of Calgary's downtown and adjoining business district was shut down for a full week. Under Calfrac's emergency response plan, corporate operations were moved to the Company's Technology and Training Centre in the city's northeast.

Employees immediately began asking what they could do to help people cope. Eight Calfrac pickup trucks filled with volunteers and equipped with tools, cleanup supplies and protective masks, gloves and goggles to shield against contaminated water, mould and other health hazards, ventured into hard-hit neighbourhoods such as Bowness, Mission and Elbow Park.

Working in the heat wave that followed the flood, they cleared debris, pumped water, hauled garbage, ripped up basement carpeting, moved furniture and washed walls. The work was often gruelling, including carrying heavy items such as ruined freezers out of filthy basements. They often went house-to-house, and also helped Calfrac employees with damaged homes.

"We travelled up and down residential streets for hours delivering food and water to homeowners and volunteers, shovelling heavy mud and debris from dark basements and cleaning homeowners' yards," recalls Paolina Nocera, Senior Administrative Assistant in Calfrac's Canadian Operations.

"None of us had a real understanding of the damage until we went out and saw homes covered with mud, with watermarks up to the ceiling," says Ed Oke, Calfrac's Vice President of Human Resources.

In Red Deer, about 150 km north of Calgary, local homes and the city's water treatment plant were threatened by the rising Red Deer River. Over 70 Calfrac employees stepped forward to help with sand-bagging, and multiple homes were saved. Volunteers from Red Deer then went to Calgary to help pump mud and debris out of the flooded underground portions of a condominium, which was keeping electricity from being restored and residents from moving back.

Pumping fluid is what Calfrac does, and senior management wanted to put Company equipment to direct use where it could do the most good.

Helping to Dry Out High River

Days after the flood, Calfrac learned through local residents of the acute need for pumping capacity in High River, the town that was probably the hardest-hit, with its downtown and many residential areas completely under water. Pumping fluid is what Calfrac does, and senior management wanted to put Company equipment to direct use where it could do the most good. Coordinated by Brooke Bishop, a former senior RCMP emergency response coordinator, Calfrac approached provincial authorities to volunteer its equipment and crews.

As soon as he got the go-ahead, Gord Milgate, operations manager for the Canadian Division's southern region, organized a 25-man crew from Red Deer and Medicine Hat with five pumpers, several miles of piping, plus a maintenance vehicle and a fuel truck, and headed for High River. For the next 11 days the team worked night and day. "We ran three lines of 8" pipe by hand, a total of about 4,000 metres of piping through muddy fields," recalls Milgate. "Our job was to move water that had gathered in a low-lying field east of High River's Stampede Grounds, into the Highwood River." This would help to restore road access and would help to drain a badly flooded nearby residential area.

"The muddy conditions were pretty challenging, but we're used to working in tough conditions on the well site, and we were all very glad to help out," says Milgate. "The area was off-limits except to recovery crews with clearance. High River was basically a ghost town. At night the only things we would see were cats and dogs wandering around."

By July 8, Calfrac's team had pumped 76 million Imperial gallons, or 2.2 million barrels. Calfrac bore all costs and did not bill the local or provincial government anything. Over the following weeks, the rest of the pumping was performed by a specialty dewatering contractor with barge-mounted pumps. "It was almost surreal to think how much water had flooded in, so quickly," Milgate says. "When we arrived, there was a massive lake, but when we were done, that area was dry."

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) for Calfrac Well Services Ltd. ("Calfrac" or the "Company") has been prepared by management as of February 25, 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 years ended December 31, 2013 and 2012 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013 as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2012.

Readers should also refer to the "Forward-Looking Statements" legal advisory at the end of this MD&A. All financial amounts and measures presented are expressed in Canadian dollars unless otherwise indicated. The definitions of certain non-GAAP measures used are included on pages 38 and 39.

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 December 31, 2013 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. The Company's customer base in Canada ranges from large multi-national public companies to small private companies. At December 31, 2013, Calfrac's Canadian operations had combined hydraulic horsepower of approximately 389,000 and 21 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 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 through the acquisition of seven coiled tubing units. The Company operated approximately 662,000 hydraulic horsepower, 18 cementing units and seven coiled tubing units in its United States segment at December 31, 2013.

- The Company's Russian segment provides fracturing and coiled tubing services in Western Siberia. During 2013, the Company operated under a mix of annual and multi-year agreements to provide services to three of Russia's largest oil producers. At December 31, 2013, the Company operated seven deep coiled tubing units and operated approximately 62,000 hydraulic horsepower forming six 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 areas. 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 December 31, 2013.

Consolidated Highlights

Years Ended December 31,	**2013**	2012	Change
(C$000s, except per share amounts) (unaudited)	**($)**	($)	(%)
Revenue	**1,563,814**	1,595,216	(2)
Operating income [1]	**188,076**	257,013	(27)
EBITDA [1]	**185,933**	264,471	(30)
Per share – basic	**4.07**	5.97	(32)
Per share – diluted	**4.04**	5.90	(32)
Net income attributable to the shareholders of Calfrac	**27,914**	97,146	(71)
Per share – basic	**0.61**	2.19	(72)
Per share – diluted	**0.61**	2.17	(72)
Working capital, end of period	**319,934**	322,857	(1)
Total assets, end of period	**1,869,931**	1,524,821	23
Long-term debt, end of period	**651,553**	441,018	48
Total equity, end of period	**795,207**	780,759	2

[1] Refer to "Non-GAAP Measures" on pages 38 and 39 for further information.

2013 Overview

In 2013, the Company:

- generated revenue of $1.6 billion, a 2 percent decrease from 2012 resulting primarily from competitive pricing pressure in western Canada and the United States and lower fracturing activity in Mexico, offset partially by higher multi-stage fracturing activity in Western Siberia, and the commencement of fracturing operations in Argentina and the Eagle Ford shale play in Texas during the second and fourth quarters of 2013, respectively;

- reported operating income of $188.1 million versus $257.0 million in 2012, a decrease of 27 percent, mainly as a result of competitive pricing, a decline in activity in Canada and lower equipment utilization in Mexico;

- reported net income attributable to shareholders of Calfrac of $27.9 million or $0.61 per share diluted, including a foreign exchange loss of $1.2 million, compared to net income of $97.1 million or $2.17 per share diluted, which included a foreign exchange gain of $8.3 million in 2012;

- incurred capital expenditures of $170.5 million primarily to bolster the Company's fracturing operations in Canada, the United States and Argentina;

- completed the acquisition of the operating assets of Mission Well Services, LLC ("Mission"), a privately-held hydraulic fracturing and coiled tubing services provider focused on the Eagle Ford shale play of Texas;

- entered the Argentinean fracturing market and announced the signing of a long-term pressure pumping services contract with YPF S.A., the largest operator in Argentina;

- reported period-end working capital of $319.9 million versus $322.9 million at December 31, 2012; and

- announced a capital budget for 2014 of $120.0 million, which focuses on maintenance and support capital, further investment in logistics equipment and international growth. Approximately $33.0 million is allocated to supporting Calfrac's growing 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.

Non-GAAP Measures

Certain supplementary measures in this MD&A do not have any standardized meaning as prescribed 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, expenses and gain related to business combinations, 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 for the year was calculated as follows:

Years Ended December 31,	**2013**	2012
(C$000s) (unaudited)	**($)**	($)
Net income	**26,733**	96,361
Add back (deduct):		
Depreciation	**110,006**	90,381
Interest, net	**41,985**	36,354
Foreign exchange losses (gains)	**1,183**	(8,260)
Business combination	**2,474**	–
(Gain) loss on disposal of property, plant and equipment	**(1,514)**	802
Income taxes	**7,209**	41,375
Operating income	**188,076**	257,013

Operating income for the quarter was calculated as follows:

Three Months Ended December 31,	**2013**	2012
(C$000s) (unaudited)	**($)**	($)
Net income	**11,751**	10,981
Add back (deduct):		
Depreciation	**31,409**	23,634
Interest, net	**13,434**	8,933
Foreign exchange gains	**(1,517)**	(3,818)
Business combination	**2,474**	–
(Gain) loss on disposal of property, plant and equipment	**(1,208)**	170
Income taxes	**1,073**	3,318
Operating income	**57,416**	43,218

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 for the year was calculated as follows:

Years Ended December 31,	**2013**	2012
(C$000s) (unaudited)	**($)**	($)
Net income	**26,733**	96,361
Add back:		
Depreciation	**110,006**	90,381
Interest, net	**41,985**	36,354
Income taxes	**7,209**	41,375
EBITDA	**185,933**	264,471

EBITDA for the quarter was calculated as follows:

Three Months Ended December 31,	**2013**	2012
(C$000s) (unaudited)	**($)**	($)
Net income	**11,751**	10,981
Add back:		
Depreciation	**31,409**	23,634
Interest, net	**13,434**	8,933
Income taxes	**1,073**	3,318
EBITDA	**57,667**	46,866

Financial Overview – Year Ended December 31, 2013 Versus 2012

Canada

Years Ended December 31,	**2013**	2012	Change
(C$000s, except operational information) (unaudited)	**($)**	($)	(%)
Revenue	**677,114**	732,880	(8)
Expenses			
Operating	**538,730**	526,400	2
Selling, general and administrative (SG&A)	**16,685**	17,925	(7)
	555,415	544,325	2
Operating income [1]	**121,699**	188,555	(35)
Operating income (%)	**18.0%**	25.7%	(30)
Fracturing revenue per job ($)	**198,667**	197,062	1
Number of fracturing jobs	**3,239**	3,441	(6)
Pumping horsepower, end of period (000s)	**389**	375	4
Coiled tubing revenue per job ($)	**25,674**	30,661	(16)
Number of coiled tubing jobs	**1,310**	1,787	(27)
Coiled tubing units, end of period (#)	**21**	21	–

[1] Refer to "Non-GAAP Measures" on pages 38 and 39 for further information.

Revenue

Revenue from Calfrac's Canadian operations was $677.1 million in 2013 versus $732.9 million in 2012. The decrease in revenue was primarily due to lower pricing experienced in Canada during 2013 due to competitive pressures, the effects of which were largely offset by an increase in average job size and associated revenue. The increase in average job size reflects the continued shift in activity into the unconventional oil and liquids-rich regions of western Canada. In addition, flood conditions experienced during the second and third quarters of 2013 resulted in lower fracturing and coiled tubing activity in central and southern Alberta. Lower coiled tubing activity in the Horn River area of northeast British Columbia in 2013 also contributed to the reduction in job sizes and overall revenue.

Operating Income

Operating income in Canada decreased by 35 percent to $121.7 million in 2013 from $188.6 million in 2012. The decline was primarily caused by a more competitive pricing environment combined with higher logistical costs associated with the completion of larger fracturing jobs. Selling, general and administrative expenses during 2013 were $1.2 million less than in 2012 primarily due to a lower provision for annual bonuses.

United States

Years Ended December 31,	2013	2012	Change
(C$000s, except operational and exchange rate information) (unaudited)	($)	($)	(%)
Revenue	**616,174**	638,483	(3)
Expenses			
Operating	**492,699**	512,482	(4)
SG&A	**19,350**	20,872	(7)
	512,049	533,354	(4)
Operating income [1]	**104,125**	105,129	(1)
Operating income (%)	**16.9%**	16.5%	2
Fracturing revenue per job ($)	**57,019**	69,620	(18)
Number of fracturing jobs	**10,256**	8,766	17
Pumping horsepower, end of period (000s)	**662**	492	35
Cementing revenue per job ($)	**35,432**	30,912	15
Number of cementing jobs	**854**	661	29
Cementing units, end of period (#)	**18**	12	50
US$/C$ average exchange rate [2]	**1.0299**	0.9996	3

[1] Refer to "Non-GAAP Measures" on pages 38 and 39 for further information.
[2] Source: Bank of Canada.

Revenue

Revenue from Calfrac's United States operations decreased by 3 percent to $616.2 million in 2013 from $638.5 million in 2012, primarily due to competitive pricing pressure and lower activity in the Bakken play of North Dakota. This was somewhat offset by higher fracturing activity in the Marcellus shale formation in Pennsylvania and West Virginia and the commencement of fracturing operations in the Eagle Ford shale play during the fourth quarter. Cementing revenue increased by $9.8 million to $30.3 million in 2013 primarily due to increased activity in the Fayetteville shale basin in Arkansas.

Operating Income

Operating income in the United States was $104.1 million for 2013, a decrease of 1 percent from 2012 and up slightly to 16.9 as a percentage of revenue. Higher equipment utilization in the Marcellus shale play and the Fayetteville shale basin combined with the start-up of operations in the Eagle Ford shale play in Texas were offset by competitive pricing pressure and lower utilization in North Dakota.

Russia

Years Ended December 31,	2013	2012	Change
(C$000s, except operational and exchange rate information) (unaudited)	($)	($)	(%)
Revenue	**158,782**	112,765	41
Expenses			
Operating	**138,910**	100,098	39
SG&A	**6,514**	6,101	7
	145,424	106,199	37
Operating income [1]	**13,358**	6,566	103
Operating income (%)	**8.4%**	5.8%	45
Fracturing revenue per job ($)	**108,599**	92,791	17
Number of fracturing jobs	**1,184**	826	43
Pumping horsepower, end of period (000s)	**62**	45	38
Coiled tubing revenue per job ($)	**58,304**	57,884	1
Number of coiled tubing jobs	**518**	624	(17)
Coiled tubing units, end of period (#)	**7**	7	–
Rouble/C$ average exchange rate [2]	**0.0323**	0.0322	–

(1) Refer to "Non-GAAP Measures" on pages 38 and 39 for further information.
(2) Source: Bank of Canada.

Revenue

The Company's revenue from Russian operations increased by 41 percent to $158.8 million in 2013 from $112.8 million in 2012. The increase in revenue was mainly due to the provision of proppant to two significant customers in Western Siberia during 2013 which was not supplied in 2012. In addition, higher multi-stage fracturing activity in 2013 and an expanded customer base combined with larger conventional fracturing job sizes contributed to the overall increase in revenue. During 2013, approximately 34 percent of Calfrac's total Russian fracturing activity was related to multi-stage well completions compared to less than 5 percent in 2012. Coiled tubing activity declined as a result of the increased use of multi-stage fracturing operations, which reduced the requirement for coiled tubing services.

Operating Income

Operating income in Russia was $13.4 million in 2013 compared to $6.6 million in 2012. The increase in operating income was primarily due to operational efficiencies associated with multi-stage fracturing operations forming a larger proportion of total activity in 2013 and a higher revenue base.

Latin America

Years Ended December 31,	2013	2012	Change
(C$000s, except operational and exchange rate information) (unaudited)	($)	($)	(%)
Revenue	**111,744**	111,088	1
Expenses			
Operating	**100,507**	95,494	5
SG&A	**7,714**	6,755	14
	108,221	102,249	6
Operating income [1]	**3,523**	8,839	(60)
Operating income (%)	**3.2%**	8.0%	(60)
Pumping horsepower, end of period (000s)	**81**	65	25
Cementing units, end of period (#)	**13**	13	–
Coiled tubing units, end of period (#)	**3**	1	200
Mexican peso/C$ average exchange rate [2]	**0.0807**	0.0760	6
Argentinean peso/C$ average exchange rate [2]	**0.1889**	0.2201	(14)

[1] Refer to "Non-GAAP Measures" on pages 38 and 39 for further information.
[2] Source: Bank of Canada.

Revenue

Calfrac's Latin American operations generated total revenue of $111.7 million during 2013 compared to $111.1 million in 2012. Revenue in Argentina increased significantly due to the start-up of conventional fracturing operations beginning in the second quarter of 2013 followed by the commencement of unconventional fracturing operations for YPF S.A. in Argentina's tight sands in October 2013. Higher cementing and coiled tubing activity in Argentina also contributed to higher overall revenue. The revenue improvement achieved in Argentina was almost entirely offset by significantly lower fracturing activity in Mexico resulting from customer budget reductions.

Operating Income

During 2013, Calfrac's Latin America division generated operating income of $3.5 million versus $8.8 million in 2012. The decrease in operating income was primarily due to lower equipment utilization in Mexico and Colombia combined with higher SG&A expenses as a result of the larger overall scale of the Company's Latin American operations with the commencement of fracturing services in Argentina.

Corporate

Years Ended December 31,	2013	2012	Change
(C$000s) (unaudited)	($)	($)	(%)
Expenses			
Operating	**8,706**	9,973	(13)
SG&A	**45,923**	42,103	9
	54,629	52,076	5
Operating loss [1]	**(54,629)**	(52,076)	5
% of Revenue	**3.5%**	3.3%	6

[1] Refer to "Non-GAAP Measures" on pages 38 and 39 for further information.

Operating Loss

The 5 percent increase in corporate expenses in 2013 over 2012 was mainly due to a $4.2 million increase in stock-based compensation expenses resulting from additional restricted share units granted to employees and a higher stock price in 2013. Higher corporate personnel costs to support the Company's larger scale of operations also contributed to the increase in corporate expenses. The increase was offset partially by lower annual bonus expenses.

Depreciation

Depreciation expense increased by 22 percent to $110.0 million for 2013 from $90.4 million in 2012. The increase was mainly a result of the acquisition of assets from Mission at the beginning of the fourth quarter of 2013 combined with a larger fleet of equipment deployed in North America and Argentina throughout 2013 pursuant to Calfrac's 2013 capital plan.

Foreign Exchange Losses or Gains

The Company recorded a foreign exchange loss of $1.2 million during 2013 versus a gain of $8.3 million in 2012. 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 majority of the Company's foreign exchange loss recorded in 2013 was attributable to U.S. dollar-denominated debt in Russia and Argentina as the U.S. dollar appreciated against the Russian rouble and Argentinean peso during the year. The loss was partially offset by the impact of the net U.S. dollar-denominated asset position in Canada as the U.S. dollar appreciated against the Canadian dollar during this period.

Interest

The Company's interest expense increased by $5.6 million to $42.0 million in 2013 primarily due to the issuance of an additional US$150.0 million of Calfrac's 7.50 percent senior notes at the beginning of the fourth quarter of 2013 to finance the acquisition of assets from Mission. Additional short-term borrowing in Latin America, which was used to fund Calfrac's Argentinean expansion, combined with a draw on the Company's revolving credit facility during the fourth quarter also contributed to the increase in interest expense during the year.

Income Tax Expenses

The Company recorded income tax expense of $7.2 million during 2013 compared to $41.4 million in 2012. The effective income tax rate for 2013 was 21 percent compared to 30 percent in 2012. The decrease in total income tax expense was primarily due to lower profitability in Canada and Mexico. The lower effective tax rate was due to the mix of earnings between various tax jurisdictions combined with a lower-than-expected effective tax rate in the United States. The lower effective tax rate in the United States was partially due to the reclassification of $1.8 million of deferred tax expense related to the Mission acquisition to offset the gain on business combination as required under IFRS and as described below and in note 17 to the annual consolidated financial statements.

Business Combination

On October 1, 2013, the Company acquired all of the operating assets of Mission. The purchase was recognized as a business combination and accounted for as such using the acquisition method of accounting under IFRS 3 *Business Combinations*. The gain of $4.5 million, before taxes, was recognized in the statement of operations on the acquisition date and represents the excess of the fair value of identifiable assets over the consideration paid. The Company has reassessed the fair value of the identifiable assets purchased and the fair value of the consideration transferred in determining the gain, as required under IFRS. The composition of the business combination expenses reported in the statement of operations is as follows:

Year Ended December 31,	**2013**
(C$000s) (unaudited)	**($)**
Gain on business combination	**(4,522)**
Deferred taxes relating to business combination	**1,775**
	(2,747)
Acquisition costs	**5,221**
Business combination	**2,474**

Liquidity and Capital Resources

Years Ended December 31,	**2013**	2012
(C$000s) (unaudited)	**($)**	($)
Cash provided by (used in):		
Operating activities	**132,011**	196,251
Financing activities	**191,515**	(28,762)
Investing activities	**(331,720)**	(259,184)
Effect of exchange rate changes on cash and cash equivalents	**7,908**	1,121
Decrease in cash and cash equivalents	**(286)**	(90,574)

Operating Activities

The Company's cash provided by operating activities for the year ended December 31, 2013 was $132.0 million versus $196.3 million in 2012. The decrease was primarily due to a decline in operating margins in Canada. At December 31, 2013, Calfrac's working capital was approximately $319.9 million, in line with its working capital at December 31, 2012 of $322.9 million. The Company had accounts receivable of US$40.8 million at December 31, 2013 with a customer operating in Mexico that have been 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 provided by financing activities was $191.5 million in 2013 compared to cash used in financing activities of $28.8 million in 2012. During 2013, the Company increased its senior notes by $150.2 million (net of debt issuance costs and debt discount) to finance the purchase of assets from Mission, received bank loan proceeds of $27.6 million in Argentina, received a net $22.8 million through draws and repayments on its credit facility, issued $15.8 million of common shares, paid cash dividends of $23.7 million and repaid $1.2 million of finance lease obligations and long-term debt.

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 December 31, 2013, the Company had used $24.4 million of its credit facilities for letters of credit and had $24.5 million outstanding under its credit facility, leaving $251.1 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 quarterly dividends to shareholders at the discretion of the Board of Directors, which qualify as "eligible dividends" as defined by the Canada Revenue Agency. In February 2012, the Company increased its semi-annual cash dividend from $0.10 to $0.50 per share, beginning with the dividend paid on July 16, 2012, thereby increasing the annualized dividend to $1.00 per share beginning in 2012. In December 2012, the Company announced that it would pay dividends quarterly instead of semi-annually commencing with a $0.25 dividend that was declared in the first quarter of 2013.

Investing Activities

Calfrac's net cash used for investing activities was $331.7 million for the year ended December 31, 2013 versus $259.2 million for 2012. Cash outflows relating to capital expenditures were $170.5 million during 2013 compared to $279.0 million in 2012. Capital expenditures were primarily to support the Company's Canadian, United States, and Argentinean fracturing operations.

On October 1, 2013, the Company completed the acquisition of the operating assets of Mission, a privately-held hydraulic fracturing and coiled tubing services provider based in San Antonio, Texas and operating in the Eagle Ford shale play of Texas. The acquisition provides the Company with modern fracturing and coiled tubing equipment and an entry into the Texas market. Under the terms of the purchase agreement, the total purchase price was approximately $150.5 million, excluding transaction costs, which included certain working capital associated with the ongoing operations of the business. The purchase price accounting for this transaction resulted in a business combination expense of $2.5 million recorded in 2013, the composition of which is described above and in note 17 to the annual consolidated financial statements.

Calfrac's 2014 capital budget is projected to be approximately $120.0 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 $140.0 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 2013 was a gain of $7.9 million versus a gain of $1.1 million during 2012. These gains relate to cash and cash equivalents held by the Company in a foreign currency.

With its strong 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 December 31, 2013, the Company had cash and cash equivalents of $42.2 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 February 21, 2014, there were 46,560,836 common shares issued and outstanding, and 2,945,725 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.

Normal Course Issuer Bid

The Company filed a Notice of Intention (the "Renewal Notice") to renew its Normal Course Issuer Bid (the "Renewed NCIB") with the TSX on November 1, 2012. Under the Renewed NCIB, the Company could acquire up to 3,318,738 common shares, which was 10 percent of the public float outstanding as at October 31, 2012, during the period November 12, 2012 through November 11, 2013. The maximum number of common shares that could be acquired by the Company during a trading day was 44,254, with the exception that the Company was allowed to make one block purchase of common shares per calendar week that exceeded such limit. All purchases of common shares were to be made through the TSX, alternative trading systems or such other exchanges or marketplaces through which the common shares trade from time to time at the market price of the shares at the time of acquisition. Any shares acquired under the Renewed NCIB were to be cancelled. There were no shares purchased under the Renewed NCIB for years ended December 31, 2013 and 2012. The NCIB was not renewed for 2014. A copy of the Renewal Notice may be obtained by any shareholder, without charge, by contacting the Company's Corporate Secretary at 411 – 8th Avenue S.W., Calgary, Alberta, T2P 1E3, or by telephone at 403-266-6000.

Summary of Quarterly Results

Quarters Ended	Mar. 31,	June 30,	Sept. 30,	Dec. 31,	Total
(C$000s, except per share and operating data) (unaudited)	($)	($)	($)	($)	($)
2013					
Financial					
Revenue	**423,397**	**288,701**	**388,662**	**463,054**	**1,563,814**
Operating income [1]	**62,670**	**16,307**	**51,683**	**57,416**	**188,076**
EBITDA [1]	**65,169**	**16,235**	**46,862**	**57,667**	**185,933**
Per share – basic	**1.44**	**0.36**	**1.02**	**1.25**	**4.07**
Per share – diluted	**1.43**	**0.35**	**1.01**	**1.24**	**4.04**
Net income (loss) attributable to the shareholders of Calfrac	**24,645**	**(14,584)**	**6,089**	**11,764**	**27,914**
Per share – basic	**0.55**	**(0.32)**	**0.13**	**0.25**	**0.61**
Per share – diluted	**0.54**	**(0.32)**	**0.13**	**0.25**	**0.61**
Capital expenditures	**43,989**	**46,618**	**34,683**	**45,227**	**170,517**
Working capital (end of period)	**332,241**	**319,982**	**292,854**	**319,934**	**319,934**
Total equity (end of period)	**802,581**	**784,247**	**786,933**	**795,207**	**795,207**
Operating (end of period)					
Pumping horsepower (000s)	**1,013**	**1,025**	**1,025**	**1,194**	
Coiled tubing units (#)	**29**	**29**	**31**	**38**	
Cementing units (#)	**28**	**30**	**30**	**31**	

[1] Refer to "Non-GAAP Measures" on pages 38 and 39 for further information.

Quarters Ended	Mar. 31,	June 30,	Sept. 30,	Dec. 31,	Total
(C$000s, except per share and operating data) (unaudited)	($)	($)	($)	($)	($)
2012					
Financial					
Revenue	474,107	335,780	417,842	367,487	1,595,216
Operating income [1]	113,381	29,810	70,604	43,218	257,013
EBITDA [1]	127,995	18,736	70,874	46,866	264,471
Per share – basic	2.92	0.42	1.59	1.05	5.97
Per share – diluted	2.87	0.42	1.58	1.04	5.90
Net income (loss) attributable to the shareholders of Calfrac	70,841	(11,855)	26,917	11,243	97,146
Per share – basic	1.62	(0.27)	0.60	0.25	2.19
Per share – diluted	1.59	(0.27)	0.60	0.25	2.17
Capital expenditures	84,075	75,286	63,962	55,694	279,017
Working capital (end of period)	431,053	357,128	353,182	322,857	322,857
Total equity (end of period)	779,426	747,591	783,091	780,759	780,759
Operating (end of period)					
Pumping horsepower (000s)	782	830	845	977	
Coiled tubing units (#)	29	29	29	29	
Cementing units (#)	23	23	25	26	

[1] Refer to "Non-GAAP Measures" on pages 38 and 39 for further information.

Seasonality of Operations

The Company's North American business is seasonal. The lowest activity is typically experienced during the second quarter of the year when road weight restrictions are in place due to spring break-up weather conditions and access to well sites in Canada and North Dakota is reduced (refer to "Business Risks – Seasonality" on page 65).

Foreign Exchange Fluctuations

The Company's consolidated financial statements are reported in Canadian dollars. Accordingly, the quarterly results are directly affected by fluctuations in the exchange rates for United States, Russian, Mexican and Argentinean currency (refer to "Business Risks – Fluctuations in Foreign Exchange Rates" on page 65).

Financial Overview – Three Months Ended December 31, 2013 Versus 2012

Canada

Three Months Ended December 31,	**2013**	2012	Change
(C$000s, except operational information) (unaudited)	**($)**	($)	(%)
Revenue	**197,112**	201,573	(2)
Expenses			
Operating	**157,775**	147,518	7
Selling, general and administrative (SG&A)	**4,334**	5,033	(14)
	162,109	152,551	6
Operating income [1]	**35,003**	49,022	(29)
Operating income (%)	**17.8%**	24.3%	(27)
Fracturing revenue per job ($)	**188,660**	192,600	(2)
Number of fracturing jobs	**995**	1,001	(1)
Pumping horsepower, end of period (000s)	**389**	375	4
Coiled tubing revenue per job ($)	**26,617**	22,689	17
Number of coiled tubing jobs	**353**	387	(9)
Coiled tubing units, end of period (#)	**21**	21	–

[1] Refer to "Non-GAAP Measures" on pages 38 and 39 for further information.

Revenue

Revenue from Calfrac's Canadian operations during the fourth quarter of 2013 was $197.1 million versus $201.6 million in the same period of 2012. The decrease in revenue was primarily due to increased pricing pressure, partially offset by the completion of larger jobs during the quarter.

Operating Income

Operating income in Canada decreased by 29 percent to $35.0 million during the fourth quarter of 2013 from $49.0 million in the same period of 2012. The decrease was primarily due to the competitive pricing environment experienced during the quarter. Additionally, extreme cold weather during the latter part of the quarter increased fuel and subcontractor costs. Selling, general and administrative expenses during the fourth quarter were $0.7 million less than in the comparable three-month period for 2012 primarily due to a lower annual bonus provision.

United States

Three Months Ended December 31,	**2013**	2012	Change
(C$000s, except operational and exchange rate information) (unaudited)	**($)**	($)	(%)
Revenue	**189,239**	109,975	72
Expenses			
Operating	**154,001**	99,048	55
SG&A	**5,642**	5,439	4
	159,643	104,487	53
Operating income [1]	**29,596**	5,488	439
Operating income (%)	**15.6%**	5.0%	212
Fracturing revenue per job ($)	**53,815**	52,347	3
Number of fracturing jobs	**3,348**	1,943	72
Pumping horsepower, end of period (000s)	**662**	492	35
Cementing revenue per job ($)	**37,285**	30,678	22
Number of cementing jobs	**213**	180	18
Cementing units, end of period (#)	**18**	12	50
US$/C$ average exchange rate [2]	**1.0498**	0.9913	6

[1] Refer to "Non-GAAP Measures" on pages 38 and 39 for further information.
[2] Source: Bank of Canada.

Revenue

Revenue from Calfrac's United States operations increased during the fourth quarter of 2013 to $189.2 million from $110.0 million in the comparable quarter of 2012. The increase was due primarily to the commencement of fracturing operations in the Eagle Ford shale play following the acquisition of the Mission assets early in the fourth quarter of 2013. In addition, higher activity in the Niobrara and Marcellus shale plays contributed to the revenue increase. The increase in revenue was partially offset by lower pricing in the United States resulting from intense competition.

Operating Income

Operating income in the United States was $29.6 million for the fourth quarter of 2013, an increase of $24.1 million from the comparative period in 2012. The increase was primarily due to higher utilization in the unconventional natural gas plays where Calfrac is active, as well as in the Niobrara shale oil play, and the commencement of operations in the Eagle Ford play.

Russia

Three Months Ended December 31,	**2013**	2012	Change
(C$000s, except operational and exchange rate information) (unaudited)	**($)**	($)	(%)
Revenue	**41,404**	24,197	71
Expenses			
Operating	**36,946**	22,707	63
SG&A	**1,794**	1,744	3
	38,740	24,451	58
Operating income (loss) [1]	**2,664**	(254)	–
Operating income (loss) (%)	**6.4%**	-1.0%	–
Fracturing revenue per job ($)	**118,015**	84,063	40
Number of fracturing jobs	**284**	199	43
Pumping horsepower, end of period (000s)	**62**	45	38
Coiled tubing revenue per job ($)	**60,671**	54,117	12
Number of coiled tubing jobs	**130**	138	(6)
Coiled tubing units, end of period (#)	**7**	7	–
Rouble/C$ average exchange rate [2]	**0.0322**	0.0319	1

[1] Refer to "Non-GAAP Measures" on pages 38 and 39 for further information.
[2] Source: Bank of Canada.

Revenue

During the fourth quarter of 2013, the Company's revenue from Russian operations increased by 71 percent to $41.4 million from $24.2 million in the corresponding three-month period of 2012. The increase in revenue was mainly due to higher fracturing activity as a result of the Company expanding its customer base combined with increased demand for horizontal multi-stage fracturing operations in Western Siberia and larger fracturing job sizes. The Company began providing proppant to two significant customers in 2013, which contributed to the revenue growth over the comparable quarter of 2012. The increase in revenue was partially offset by lower coiled tubing activity resulting from the increased use of multi-stage fracturing completions.

Operating Income (Loss)

Operating income in Russia was $2.7 million during the fourth quarter of 2013 compared to an operating loss of $0.3 million in the corresponding period of 2012. The improvement in operating income was primarily a result of operational efficiencies resulting from higher fracturing equipment utilization and a higher overall revenue base. The increase in operating income was tempered by higher fuel and maintenance costs with the onset of winter operating conditions.

Latin America

Three Months Ended December 31,	**2013**	2012	Change
(C$000s, except operational and exchange rate information) (unaudited)	**($)**	($)	(%)
Revenue	**35,299**	31,742	11
Expenses			
Operating	**28,943**	26,489	9
SG&A	**2,520**	2,152	17
	31,463	28,641	10
Operating income [1]	**3,836**	3,101	24
Operating income (%)	**10.9%**	9.8%	11
Pumping horsepower, end of period (000s)	**81**	65	25
Cementing units, end of period (#)	**13**	13	–
Coiled tubing units, end of period (#)	**3**	1	200
Mexican peso/C$ average exchange rate [2]	**0.0806**	0.0766	5
Argentinean peso/C$ average exchange rate [2]	**0.1732**	0.2066	(16)

[1] Refer to "Non-GAAP Measures" on pages 38 and 39 for further information.
[2] Source: Bank of Canada.

Revenue

Calfrac's Latin American operations generated total revenue of $35.3 million during the fourth quarter of 2013 versus $31.7 million in the comparable three-month period in 2012. The increase in revenue was due to the significant increase in unconventional fracturing activity in Argentina during 2013 as a result of the pressure pumping services contract that was signed with YPF S.A. at the beginning of the fourth quarter of 2013 combined with higher cementing and coiled tubing activity in that country. This increase in revenue was offset by lower fracturing activity in Mexico resulting from budget constraints by Calfrac's major customer in that country. The Colombian market continued to present challenging conditions, due to permitting and infrastructure issues, resulting in lower-than-expected equipment utilization.

Operating Income

Operating income in Latin America for the three months ended December 31, 2013 was $3.8 million versus $3.1 million in the comparative quarter in 2012. The increase in operating income was due to the commencement of fracturing operations in Argentina combined with higher cementing and coiled tubing equipment utilization in that country. This increase was partially offset by a decrease in operating income in Mexico and Colombia resulting from significantly lower equipment utilization.

Corporate

Three Months Ended December 31,	**2013**	2012	Change
(C$000s, except operational information) (unaudited)	**($)**	($)	(%)
Expenses			
Operating	**2,328**	2,464	(6)
SG&A	**11,355**	11,675	(3)
	13,683	14,139	(3)
Operating loss [1]	**(13,683)**	(14,139)	(3)
% of Revenue	**3.0%**	3.8%	(21)

[1] Refer to "Non-GAAP Measures" on pages 38 and 39 for further information.

Operating Loss

The 3 percent decrease in corporate expenses from the fourth quarter of 2012 was mainly due to lower annual bonus expenses. The decrease was offset partially by higher corporate personnel costs to support the Company's larger scale of operations.

Depreciation

For the three months ended December 31, 2013, depreciation expense increased by 33 percent to $31.4 million from $23.6 million in the corresponding quarter of 2012. 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 required to support the commencement of fracturing operations in Argentina.

Foreign Exchange Losses or Gains

The Company recorded a foreign exchange gain of $1.5 million during the fourth quarter of 2013 versus $3.8 million in the comparative three-month period of 2012. 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 fourth-quarter 2013 foreign exchange gain was largely attributable to the translation of United States dollar-denominated assets held in Canada offset by a loss on United States dollar-denominated debt held in Argentina. The value of the United States dollar at December 31, 2013 had strengthened against the Canadian dollar and the Argentinean peso from the beginning of the quarter, resulting in a consolidated net foreign exchange gain.

Interest

The Company's net interest expense of $13.4 million for the fourth quarter of 2013 was $4.5 million higher than in the comparable period of 2012. 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 draws on its revolving credit facility during the fourth quarter. Additional short-term borrowing in Latin America to fund the operational expansion in Argentina also contributed to the increase in interest expense during the quarter.

Income Tax Expenses

The Company recorded income tax expense of $1.1 million during the fourth quarter of 2013 compared to $3.3 million in the comparable period of 2012. The effective income tax rate for the three months ended December 31, 2013 was 8 percent compared to 23 percent in the same quarter of 2012. The decrease in total income tax expense was primarily due to lower profitability in Canada and Mexico offset partially by higher taxable income in the United States. The lower effective tax rate was due to the mix of earnings between various tax jurisdictions combined with a lower-than-expected effective tax rate in the United States. The lower effective tax rate in the United States was partially due to the reclassification of $1.8 million of deferred tax expense related to the Mission acquisition to offset the gain on business combination as required under IFRS and as described in note 17 to the annual consolidated financial statements.

Outlook

Natural gas prices in North America have improved during the first two months of 2014, with colder-than-normal weather providing improved fundamentals for a recovery in natural gas prices. Crude oil prices also remain at levels that provide solid economics to oil producers. Calfrac expects that this will encourage higher oilfield activity in 2014 in the unconventional resource plays of Canada and the United States. In addition, current trends in service intensity in the form of larger pad designs, longer horizontal legs and greater stimulation intensity should provide the basis for higher completions activity. The benefits of higher activity will, however, continue to be tempered by the competitive pricing environment in North America. Internationally, Calfrac's operations are experiencing continuing momentum in the application of multi-stage completion technology within horizontal wellbores, and the Company expects this increase to drive higher equipment utilization in those markets over the near and long term.

Fracturing and coiled tubing activity in western Canada is anticipated to remain strong in the Montney, Deep Basin, Cardium and Duvernay plays for the foreseeable future. Pricing recently stabilized and Calfrac expects it to remain firm throughout the first quarter. From a cost standpoint, the weakening of the Canadian dollar is raising certain input costs denominated in U.S. dollars, which may continue past the first quarter. The development of liquids-rich gas plays, such as the Duvernay and various plays in the Deep Basin, likely represents the most meaningful short-term driver for increased activity, with the movement towards liquefied natural gas (LNG) export capability being the primary driver of higher demand for the Company's services over the longer-term.

Calfrac expects LNG export-related activity to increase with the influx of capital from foreign entities and large multi-national companies. The Company's leadership position in the development of the Montney, Duvernay and Horn River resource plays positions it to participate significantly in the expected development of the natural gas reserves required to support the LNG initiatives. Calfrac believes that two or three LNG projects will move forward, but the timing for these projects remains unclear. Several of the Company's long-standing customers are at the forefront of this development, which is expected to be a catalyst for a significant increase in the demand for the Company's services over the longer term. Calfrac has seen the benefit of initial LNG activity in 2013, particularly in the Montney, and expects that this source of activity will grow materially in 2014. This should gain greater momentum in 2015 and beyond as visibility improves regarding the scope and timing of the LNG projects.

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. Viking activity 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.

The organizational improvements initiated in the United States in late 2012 and 2013 improved financial performance during 2013 and provide the basis for achieving reasonable financial returns amidst challenging market conditions. Calfrac remains focused on prudently managing the Company's cost structure in the United States, creating further efficiencies through supply chain and logistical initiatives and expanding customer relationships in order to maximize profitability. In the short term, uncertainty remains due to the United States' over-supplied pressure pumping market. Calfrac's equipment utilization is expected to be quite strong given the Company's active customer base, contract coverage and positioning in some of the most economic plays such as the Marcellus, Niobrara and Eagle Ford. While the Company does not expect market conditions to change significantly in the first half of 2014, it remains cautiously optimistic that activity will increase in the last six months of 2014. This may lead to improved pricing dynamics, as further unconventional development occurs in oil-producing basins and completion activity in unconventional natural gas plays increases due to higher natural gas prices resulting from colder winter weather.

Calfrac's view is supported by its strong positioning in the U.S. market. The Company services three of the most active unconventional resource plays in the United States: the Bakken oil shale play in North Dakota, the Marcellus shale natural gas play in Pennsylvania and West Virginia and most recently, the Eagle Ford shale play in Texas. Calfrac believes that the Marcellus will remain very active due to its low cost structure and proximity to consuming markets. In addition, Calfrac believes that activity in the Utica shale will see meaningful growth in 2014 as well results continue to improve. Calfrac's customer base, market presence and infrastructure have provided the opportunity to participate in this development. Activity in the Fayetteville shale play is anticipated to remain stable in 2014 due to the Company's strong customer relationships and operational performance in this region. Calfrac's long-standing presence in the Rocky Mountain region provides additional growth prospects in the Niobrara shale oil play, as many producers have begun using longer-reach horizontal wells and greater stimulation intensity with encouraging results. The Company has experienced a significant increase in activity in the Niobrara play and expects further growth in 2014.

Calfrac's Russian results in 2013 met its expectations and based on the results of the 2014 contract tender process, it expects improvement in both utilization and pricing in 2014. Activity in the early portion of 2014 has, however, been negatively impacted by harsh weather conditions. The Company's outlook is primarily based on the expanded use of new technologies in Western Siberia, such as horizontal drilling and multi-stage completions. The pace of adoption of this new methodology has exceeded the Company's expectations. Approximately 35 percent of Calfrac's fracturing work was focused on horizontal wells in 2013. Consequently, Calfrac 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 approach.

In Mexico, the Company expects the use of multi-stage fracturing of horizontal wellbores to become more prominent over the longer term as capital budgets recover. Based on customer feedback, the majority of future onshore activity will be focused on horizontal wells, which should spur demand for Calfrac's services. However, as discussed above, short-term visibility remains poor. Calfrac remains focused on prudently managing its Mexican cost structure to align with expected near-term activity. The Company continues to monitor this environment closely and will proactively manage this segment as more information becomes available. While the short-term outlook remains quite challenging, Calfrac is encouraged by the recent legislative and constitutional changes enacted in Mexico to open this market to foreign investment. The Company believes that implementation is likely to take some time as further clarity is required surrounding the rules governing foreign energy investment. This is likely to have a more material impact on oilfield service activity after 2014.

With Calfrac's successful entry into the Argentinean fracturing market in 2013, the Company believes that it is well-positioned to take advantage of additional opportunities related to the development of the country's unconventional resource plays. Calfrac expects that horizontal drilling combined with multi-stage fracturing will be key inputs to unlocking Argentina's tight sands and shale resources. With limited industry capacity in-country to service these emerging unconventional plays, the Company's strategy is to lever its long-standing reputation for service quality and technical expertise, which is expected to provide the foundation for long-term growth in Argentina. Calfrac's recently executed contract with YPF S.A. provides a strong foundation to grow its hydraulic fracturing, coiled tubing and cementing services in Argentina.

Overall, the Company believes that positive momentum in the pressure pumping business is building in 2014. Calfrac remains focused on its core principles of service quality and technology and expects that further growth opportunities will develop as the year unfolds. The Company believes that it is well-positioned to take advantage of these opportunities.

Contractual Obligations and Contingencies

	Payment Due by Period				
As at December 31, 2013	**Total**	Less than 1 Year	1 – 3 Years	4 – 5 Years	Thereafter
(C$000s) (unaudited)	**($)**	($)	($)	($)	($)
Operating and finance leases	**34,955**	19,909	14,855	191	–
Purchase obligations	**114,814**	114,734	80	–	–
Total contractual obligations	**149,769**	134,643	14,935	191	–

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

Greek Litigation

As described in note 23 to the annual consolidated financial statements, the Company and one of its Greek subsidiaries are involved in a number of legal proceedings in Greece. Management regularly evaluates the likelihood of potential liabilities being incurred and the amounts of such liabilities after careful examination of available information and discussions with its legal advisors. Management is of the view that it is improbable there will be a material financial impact to the Company as a result of these claims. Consequently, no provision was recorded in the consolidated financial statements.

U.S. Litigation

As described in note 23 to the annual 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 year ended December 31, 2013, 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 December 31, 2013, is adequate.

Depreciation

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

Financial Instruments

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

Fair Values of Financial Assets and Liabilities

The fair values of financial instruments included in the consolidated balance sheets, except long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of the senior unsecured notes based on the closing market price at December 31, 2013 was $652.9 million before deduction of unamortized debt issuance costs (December 31, 2012 – $443.2 million). The carrying value of the senior unsecured notes at December 31, 2013 was $638.2 million before deduction of unamortized debt issuance costs and debt discount (December 31, 2012 – $447.7 million). The fair values of the remaining long-term debt obligations approximate their carrying values, as described in note 7 to the annual consolidated financial statements.

Credit Risk

Substantial amounts of the Company's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risks. The Company mitigates this risk through its credit policies and practices, including the use of credit limits and approvals, and by monitoring its customers' financial condition. At December 31, 2013, the Company had a provision for doubtful accounts receivable of $0.3 million, related primarily to a customer that filed for receivership during the fourth quarter of 2012.

Payment terms with customers vary by country and contract. However, standard payment terms are 30 days from invoice date. The Company's aged trade and accrued accounts receivable at December 31, 2013 and 2012, excluding the provision for doubtful accounts, are as follows:

As at December 31,	**2013**	2012
(C$000s) (unaudited)	**($)**	($)
Current	**237,625**	191,969
31 – 60 days	**72,704**	58,784
61 – 90 days	**10,522**	15,597
91+ days	**50,347**	33,724
Total	**371,198**	300,074

The Company's accounts receivable balance that was greater than 90 days was primarily with a customer operating in Mexico 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.

Interest Rate Risk

The Company is exposed to cash flow risk due to fluctuating interest payments required to service any floating-rate debt. The increase or decrease in annual interest expense for each 1 percentage point change in interest rates on floating-rate debt at December 31, 2013 amounts to $505,000 (2012 – $19,000).

The Company's effective interest rate for the year ended December 31, 2013 was 8.0 percent (December 31, 2012 – 8.1 percent).

Liquidity Risk

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

As at December 31, 2013	**Total**	**Less than 1 Year**	**1 – 3 Years**	**4 – 6 Years**	**7 – 9 Years**	**Thereafter**
(C$000s) (unaudited)	**($)**	**($)**	**($)**	**($)**	**($)**	**($)**
Bank loan [1]	**28,196**	**28,196**	**–**	**–**	**–**	**–**
Accounts payable and accrued liabilities	**245,899**	**245,899**	**–**	**–**	**–**	**–**
Long-term debt [1]	**995,786**	**73,005**	**144,846**	**139,775**	**638,160**	**–**

As at December 31, 2012	Total	Less than 1 Year	1 – 3 Years	4 – 6 Years	7 – 9 Years	Thereafter
(C$000s) (unaudited)	($)	($)	($)	($)	($)	($)
Accounts payable and accrued liabilities	168,250	168,250	–	–	–	–
Long-term debt and finance lease obligations [1]	716,563	34,872	101,913	101,293	478,485	–

[1] Principal and interest.

Foreign Exchange Risk

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

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

As at December 31, 2013	**Impact to Net Income**	**Impact to Other Comprehensive Income**
(C$000s)	**($)**	**($)**
1% change in value of U.S. dollar	**298**	**5,968**
1% change in value of Russian rouble	**–**	**252**
1% change in value of Mexican peso	**–**	**238**
1% change in value of Argentinean peso	**–**	**3**

As at December 31, 2012	Impact to Net Income	Impact to Other Comprehensive Income
(C$000s)	($)	($)
1% change in value of U.S. dollar	674	4,256
1% change in value of Russian rouble	–	242
1% change in value of Mexican peso	–	31
1% change in value of Argentinean peso	–	59

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 years ended December 31, 2013 and 2012.

Income Taxes

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

Stock-Based Compensation

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

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

Functional Currency

Management applies judgment in determining the functional currency of its foreign subsidiaries. Judgment is made with regards 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 $2.6 million as at December 31, 2013 (December 31, 2012 – $2.1 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 during 2013 was $552,000 (2012 – $356,000), as measured at the exchange amount.

During 2012, an entity controlled by a director of the Company provided ongoing real estate advisory services to the Company; the aggregate fees charged for such services were $29,000. This arrangement was discontinued in 2013.

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, 2013 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.

Evaluation of Disclosure Controls and Procedures and Internal Control Over Financial Reporting

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

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

In accordance with the requirements of National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings", an evaluation of the effectiveness of DC&P and ICFR was carried out under the supervision of the CEO and CFO at December 31, 2013. Based on this evaluation, the CEO and CFO have concluded that, subject to the inherent limitations noted below, the Company's DC&P and ICFR are effectively designed and operating as intended.

The Company's management, including the CEO and CFO, does not expect that the Company's DC&P and ICFR will prevent or detect all misstatements or instances of fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues, misstatements or instances of fraud, if any, within the Company have been detected.

There was no change to the Company's ICFR that occurred during the most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

Business Risks

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

Volatility of Industry Conditions

The demand, pricing and terms for fracturing and well stimulation services largely depend upon the level of exploration and development activity for natural gas and oil in North America, Russia and Latin America. Industry conditions are influenced by numerous factors over which the Company has no control, including oil and natural gas prices, expectations about future oil and natural gas prices, the cost of exploring for, producing and delivering oil and natural gas, the decline rates for current production, the discovery rates of new oil and natural gas reserves, available pipeline and other oil and natural gas transportation capacity, weather conditions, political, military, regulatory and economic conditions, and the ability of oil and natural gas companies to raise equity capital or debt financing. A material decline in global oil and natural gas prices or North American, Russian and, to a lesser extent, Latin American activity levels as a result of any of the above factors could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. Warmer than normal winters in North America, among other factors, could adversely affect demand for natural gas and, therefore, demand for oilfield services. If economic conditions deteriorate, a decline in natural gas exploration and production could occur, which could cause a decline in the demand for the Company's services. Such decline could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Equipment Levels

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

Federal, State and Provincial Legislative and Regulatory Initiatives

The Company is a provider of hydraulic fracturing services, a process involving the injection of fluids, consisting primarily of water but typically including small amounts of several chemical additives, as well as proppant in order to create fractures extending from the wellbore through the rock formation to enable natural gas or oil to move more easily through the reservoir to the production casing. The Canadian federal government, the United States Congress, the United States Environmental Protection Agency and other federal agencies in the United States are conducting investigations regarding the use of chemicals in the hydraulic fracturing process and the potential impacts on human health and the environment. In addition, bills asserting that chemicals used in the fracturing process could adversely affect drinking water supplies have been introduced in Congress and state legislatures. The proposed statutes have historically aimed to repeal the exemption for hydraulic fracturing under the Safe Drinking Water Act or enact moratoriums and/or bans on the use of hydraulic fracturing in the hydrocarbon extraction process. The United States Department of the Interior is also contemplating a rule that would regulate chemical disclosure, wellbore integrity and flowback water, among other aspects of hydraulic fracturing, on public land and Native American lands. These or similar bills or rules, if enacted, could result in additional permitting requirements and other restrictions for hydraulic fracturing operations, which could result in delays in operations at well sites and increased costs to make wells productive. Moreover, these bills or rules have required and will continue to require additional reporting and public disclosure of chemicals used in the fracturing process to federal or state regulatory authorities, making such competitive information publicly available if appropriate safeguards are not in place to protect confidential business information. Such disclosure could also increase public concerns regarding perceived risk to drinking water wells, livestock or other resources in the vicinity of an oil or natural gas well or perceived risk of other environmental impacts. As proposed, the United States Department of the Interior's legislation would establish an additional level of regulation at the federal level that could lead to operational delays and would increase operating costs associated with regulatory compliance.

In addition, most provincial, state and local governments with jurisdiction over oil and gas development have undertaken similar investigations and have implemented various conditions, rules, regulations and restrictions on hydraulic fracturing operations rather than waiting for federal implementation. Legislative and regulatory requirements currently in place or scheduled to become effective in certain provinces and/or states in 2014 include requirements regarding public disclosure of chemicals utilized in hydraulic fracturing fluids, wellhead and pad setbacks, public and landowner notification of proposed hydraulic fracturing activities, casing and cementing of wells, withdrawal of water for use in hydraulic fracturing of horizontal wells, baseline testing of nearby water wells, restrictions on which additives may be used, reporting with respect to spills, air emissions, chemical usage and inventory as well as temporary or permanent bans on hydraulic fracturing (such as the moratoriums/bans on hydraulic fracturing in Colorado communities passed in 2013). These types of conditions could subject the Company to increased costs, limits on the productivity of certain wells and, possibly, limits on its ability to deploy its technology at or in the vicinity of sensitive areas. The adoption of any future federal, provincial, state or local laws or implementing regulations in any of the jurisdictions in which the Company operates which impose additional permitting, disclosure or regulatory obligations related to, or otherwise limiting, the hydraulic fracturing process could make it more difficult to complete oil and natural gas wells and could affect the Company's ability to utilize proprietary technological developments to compete effectively in the pressure pumping industry. Such results could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

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

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

Environment Laws and Regulations

The Company is subject to increasingly stringent federal, provincial, state and local laws and regulations relating to the importation, release, transport, handling, storage, disposal and use of, and exposure to, hazardous materials, radioactive materials, and the protection of the environment, including laws and regulations governing air emissions, water sources, use and discharges, and waste management. The Company incurs, and expects to continue to incur, capital and operating costs to comply with environmental laws and regulations. Unintentional violation of these laws and regulations could lead to substantial fines and penalties. The technical requirements of these laws and regulations are becoming increasingly complex, stringent and costly to implement.

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

Volatility in Credit Markets

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

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

Concentration of Customer Base

The Company's customer base consists of approximately 180 oil and natural gas exploration and production companies, ranging from large multi-national public companies to small private companies. Notwithstanding the Company's broad customer base, it has ten significant customers that collectively accounted for approximately 64 percent of its revenue for the year ended December 31, 2013 and, of such customers, five accounted for approximately 46 percent of the Company's revenue for the year ended December 31, 2013. Some of this business is anchored by long-term contracts, providing stability to a portion of associated revenue. There can be no assurance, however, that the Company's relationship with these ten customers will continue, and a significant reduction or total loss of the business from these customers, if not offset by sales to new or existing customers, would have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Competition

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

Sources, Pricing and Availability of Raw Materials, Components and Parts

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

Foreign Operations

Some of the Company's operations and related assets are located in countries outside of Canada and the United States, some of which may be considered politically or economically unstable. Activities in such countries may require protracted negotiations with host governments, national oil and gas companies and third parties and are frequently subject to economic and political considerations, such as taxation, nationalization, expropriation, inflation, currency fluctuations, increased regulation and approval requirements, governmental regulation and the risk of actions by terrorist, criminal or insurgent groups, any of which could adversely affect the economics of exploration or development projects and the demand for the Company's well stimulation services which, in turn, could have a material adverse effect on its business, financial condition, results of operations and cash flows.

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

Operational Risks

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

Fluctuations in Foreign Exchange Rates

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

Seasonality

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

Liabilities of Prior Operations

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

As a result of the acquisition and amalgamation with Denison in 2004, the Company assumed certain legal obligations related 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 have 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 compensation was 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 on June 25, 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 by 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 interest payable on such amounts.

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. The appeal of this decision was heard on June 2, 2009, at which time an additional claim by the plaintiff seeking damages was also heard. A decision in respect of the hearing has been rendered which accepted NAPC's appeal and partially accepted the additional claim of the plaintiff. Another one of the lawsuits seeking salaries in arrears plus interest was heard by the Supreme Court of Greece on November 6, 2007 and on September 21, 2010, and on both occasions the appeal of the plaintiffs was denied for technical reasons due to improper service. The remaining action, which is seeking salaries in arrears 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 date has been set for the postponed hearing.

The direction and financial consequence of the potential decisions in these actions cannot be determined at this time. If these actions were to be determined in a manner adverse to the Company, it could have a material adverse effect on its business, financial condition, results of operations and cash flows.

Legal Proceedings

From time to time, the Company is involved in legal proceedings which are usually related to normal operational or labor issues. The results of the Company's legal proceedings or related matters cannot be determined with certainty. In addition, 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 adding a Colorado wage-hour claim. In June 2013, the parties filed a joint stipulation for conditional class action 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.

The Company has filed answers to each complaint in a timely manner and believes it has defences 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 early stage of the proceedings and the existence of available defences, 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.

If these claims, or any claims which the Company may be subject to in the future, were to be determined in a manner adverse to the Company or if the Company elects to settle one or more of such claims, it could have a material adverse effect on its business, financial condition, results of operations and cash flows.

Management Stewardship

The successful operation of the Company's business depends upon the abilities, expertise, judgment, discretion, integrity and good faith of its executive officers and key employees. If the Company lost the services of one or more of its executive officers or key employees, it could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Employees

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

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

Capital-Intensive Industry

The Company's business plan is subject to the availability of additional financing for future costs of operations or expansion that might not be available, or may not be available on favourable terms. The Company's activities are financed partially or wholly with debt, which could under certain circumstances increase its debt levels above industry standards. The level of the Company's indebtedness from time to time could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise. If the Company's cash flow from operations is not sufficient to fund its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or, if available, on favourable terms.

Intellectual Property

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

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

Government Regulations

The Company's operations are subject to a variety of federal, provincial, state and local laws, regulations and guidelines, in all jurisdictions in which it operates, including laws and regulations relating to health and safety, the conduct of operations, taxation, the protection of the environment and the manufacture, management, transportation and disposal of certain materials used in its operations. The Company has invested financial and managerial resources to ensure compliance with such regulations and expects to continue to make appropriate investments in the future. These laws or regulations are subject to change and could result in material expenditures that could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. It is impossible for the Company to predict the cost or impact of such laws and regulations on its future operations.

Dividends

The Company's dividend policy is at the discretion of the Board of Directors and is subject to change. The Company's ability to pay dividends depends on its operations and business. The amount of any dividends will depend on a variety of factors, including (without limitation) the Company's profitability, historical and future business trends, the expected sustainability of those trends, enacted tax legislation which affects future taxes payable, cash required for debt repayments, restrictions on the Company's ability to pay dividends under its credit facilities or under the indenture pursuant to which its senior notes were issued, the amount of capital expenditure required to sustain performance, the amount of capital expenditure required to fund the Company's growth, the effect of acquisitions or dispositions on the Company's business and cash requirements and other factors that may be beyond the Company's control or not anticipated by management. In the event that the amount of cash the Company requires for non-dividend purposes increases or the profitability of the Company declines, the amount of cash available for dividends will decrease and such decrease could be material. The market value of the common shares may deteriorate if cash dividends are reduced or suspended.

Benefits of Acquisitions and Dispositions

The Company considers acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Company's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Company. The integration of an acquired business may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. The inability of the Company to realize the anticipated benefits of acquisitions and dispositions could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

The Company's ability to realize the anticipated benefits of the Mission asset acquisition will depend, in part, on its ability to integrate the business of Mission successfully and efficiently with its business. The combination of two independent companies is a complex, costly and time-consuming process. The integration process may disrupt the business of either or both of the companies and, if implemented ineffectively, preclude realization of the full benefits expected by the Company. If the Company is not successful in this integration, its business, financial condition and results of operations could be adversely affected. The Company's management will be required to dedicate significant time and effort to this integration process, which could divert their attention from other business concerns. In addition, the overall integration of the two companies may result in unanticipated problems, expenses and liabilities, particularly as a result of the Company's business expanding into a new geographic area, the Eagle Ford shale, as a result of the acquisition. The difficulties of combining the operations of the two companies include, among others, challenges associated with minimizing the diversion of management attention from ongoing business concerns; addressing differences in the business cultures of the Company and Mission; coordinating geographically separate organizations which may be subject to additional complications resulting from being geographically distant from the Company's other operations; coordinating and combining operations, information systems, relationships and facilities, and eliminating duplicative operations; retaining key employees and maintaining employee morale; unanticipated changes in general business or market conditions that might interfere with the Company's ability to carry out all of its integration plans; and preserving important strategic and customer relationships. In addition, even if Mission's operations are integrated successfully with the Company's, the Company may not realize the full potential benefits of the transaction. Such benefits may not be achieved within the Company's anticipated time frame, or at all.

New Technologies and Customer Expectations

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

Climate Change Initiatives

Canada is a signatory to the United Nations Framework Convention on Climate Change and previously ratified the Kyoto Protocol established thereunder, which set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide, and other so-called greenhouse gases (GHG). The first commitment period under the Kyoto Protocol expired in 2012. In December 2011, the Canadian federal government announced that it would not agree to a second commitment period, and that it would withdraw from the Kyoto Protocol. The Canadian federal government instead endorsed the Durban Platform, a broad agreement reached among the 194 countries that are party to the United Nations Framework Convention on Climate Change during a conference held in Durban, South Africa in December 2011. The Durban Platform sets forth a process for negotiating a new climate change treaty that would create binding commitments for all major GHG emitters. The Canadian federal government expressed cautious optimism that agreement on a new treaty could be reached by 2015. The Durban Platform followed the Copenhagen Accord reached in December 2009 when government representatives met in Copenhagen, Denmark to negotiate a successor to the Kyoto Protocol. The Copenhagen Accord represented a broad political consensus and reinforced commitments to reducing GHG emissions but was not a binding international treaty. Although Canada had committed under the Copenhagen Accord to reduce its GHG emissions by 17 percent from 2005 levels by 2020, the target is not legally binding. The impact of Canada's withdrawal from the Kyoto Protocol on prior GHG emission reduction initiatives is uncertain.

The Canadian federal government previously released the Regulatory Framework for Air Emissions, updated March 10, 2008 by Turning the Corner: Regulatory Framework for Industrial Greenhouse Emissions (collectively, the "Regulatory Framework") for regulating GHG emissions and in doing so proposed mandatory emissions intensity reduction obligations on a sector-by-sector basis. Although implementing regulations for the Regulatory Framework are required, to date, only regulations for Canada's renewable fuels, transportation and coal-fired electricity sectors have been developed, with the latter not expected to take effect until 2015. On January 30, 2010, the Canadian federal government announced its new target to reduce overall Canadian GHG emissions by 17 percent below 2005 levels by 2020, from a previous target of 20 percent from 2006 levels by 2020, in order to align itself with its commitments under the Copenhagen Accord and United States policy. In 2009, the Canadian federal government announced its commitment to work with the provincial governments to implement a North America-wide cap-and-trade system for GHG emissions, in cooperation with the United States. Under the system, Canada would have its own cap-and-trade market for Canadian-specific industrial sectors that could be integrated into a North American market for carbon permits. The Government of Canada is currently proposing equivalency agreements with the provinces to establish a consistent regulatory regime for GHGs, but the success of any such plan is uncertain and could possibly lead to overlapping levels of regulation. It is uncertain whether or when either federal GHG regulations (for the oil and natural gas industry) or an integrated North American cap-and-trade system will be implemented, or what obligations might be imposed under any such systems.

Future federal legislation, including potential international or bilateral requirements enacted under Canadian law, together with provincial emission reduction requirements, such as those in effect under Alberta's Climate Change and Emissions Management Act and potential further provincial requirements, may require the reduction of emissions or emissions intensity from the

Company's operations and facilities. Mandatory emissions reductions may result in increased operating costs and capital expenditures for oil and natural gas producers, thereby decreasing the demand for the Company's services. The mandatory emissions reductions may also impair the Company's ability to provide its services economically. The Company is unable to predict the impact of current and pending emissions reduction legislation on the Company and it is possible that such impact would have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Demand for Oil and Natural Gas

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

Growth-Related Risks

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

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", "expect", "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, the impact of environmental regulations on the Company's business, future costs or potential liabilities, projections of market prices and costs, supply and demand for oilfield services, expectations regarding the Company's ability to maintain its competitive position, anticipated benefits of the Company's competitive position, expectations regarding the Company's 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 regime will remain substantially unchanged.

Forward-looking statements are subject to a number of known and unknown risks and uncertainties that could cause actual results to differ materially from the Company's expectations. Such risk factors include: 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.

MANAGEMENT'S LETTER

To the Shareholders of Calfrac Well Services Ltd.

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

Management has prepared the Management's Discussion and Analysis (MD&A). The MD&A is based on the Company's financial results prepared in accordance with IFRS. The MD&A compares the audited financial results for the years ended December 31, 2013 and December 31, 2012.

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

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

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

Fernando Aguilar
President and Chief Executive Officer

Michael (Mick) J. McNulty
Chief Financial Officer

February 25, 2014
Calgary, Alberta

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Calfrac Well Services Ltd.

We have audited the accompanying consolidated financial statements of Calfrac Well Services Ltd. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012 and the consolidated statements of operations, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Calfrac Well Services Ltd. and its subsidiaries as at December 31, 2013 and December 31, 2012 and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

PricewaterhouseCoopers LLP

Chartered Accountants
February 25, 2014
Calgary, Alberta

CONSOLIDATED BALANCE SHEETS

As at December 31,	**2013**	2012
(C$000s)	**($)**	($)
ASSETS		
Current assets		
Cash and cash equivalents	**42,195**	42,481
Accounts receivable	**395,845**	320,143
Income taxes recoverable	**1,146**	292
Inventories (note 3)	**134,140**	118,713
Prepaid expenses and deposits	**17,189**	10,697
	590,515	492,326
Non-current assets		
Property, plant and equipment (note 4)	**1,245,009**	1,005,101
Goodwill (note 5)	**10,523**	10,523
Deferred income tax assets (note 13)	**23,884**	16,871
Total assets	**1,869,931**	1,524,821
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**245,899**	168,250
Bank loan (note 6)	**24,298**	–
Current portion of long-term debt (note 7)	**384**	479
Current portion of finance lease obligations (note 8)	**–**	740
	270,581	169,469
Non-current liabilities		
Long-term debt (note 7)	**651,553**	441,018
Other long-term liabilities	**198**	435
Deferred income tax liabilities (note 13)	**152,392**	133,140
Total liabilities	**1,074,724**	744,062
Equity attributable to the shareholders of Calfrac		
Capital stock (note 9)	**332,287**	300,451
Contributed surplus (note 11)	**27,658**	27,546
Loan receivable for purchase of common shares (note 19)	**(2,500)**	(2,500)
Retained earnings	**440,179**	458,543
Accumulated other comprehensive loss	**(839)**	(2,403)
	796,785	781,637
Non-controlling interest	**(1,578)**	(878)
Total equity	**795,207**	780,759
Total liabilities and equity	**1,869,931**	1,524,821

Commitments (note 14)
Contingencies (note 23)
See accompanying notes to the consolidated financial statements.

Approved by the Board of of Directors,

Ronald P. Mathison
Director

Gregory S. Fletcher
Director

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31,	**2013**	2012
(C$000s, except per share data)	**($)**	($)
Revenue	**1,563,814**	1,595,216
Cost of sales (note 20)	**1,389,558**	1,334,828
Gross profit	**174,256**	260,388
Expenses		
Selling, general and administrative	**96,186**	93,756
Foreign exchange losses (gains)	**1,183**	(8,260)
Business combination (note 17)	**2,474**	–
(Gain) loss on disposal of property, plant and equipment	**(1,514)**	802
Interest	**41,985**	36,354
	140,314	122,652
Income before income tax	**33,942**	137,736
Income tax expense (note 13)		
Current	**3,853**	4,733
Deferred	**3,356**	36,642
	7,209	41,375
Net income	**26,733**	96,361
Net income (loss) attributable to:		
Shareholders of Calfrac	**27,914**	97,146
Non-controlling interest	**(1,181)**	(785)
	26,733	96,361
Earnings per share (note 9)		
Basic	**0.61**	2.19
Diluted	**0.61**	2.17

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31,	**2013**	2012
(C$000s)	**($)**	($)
Net income	**26,733**	96,361
Other comprehensive income (loss)		
Items that may be subsequently reclassified to profit or loss:		
Change in foreign currency translation adjustment	**1,602**	(3,856)
Comprehensive income	**28,335**	92,505
Comprehensive income (loss) attributable to:		
Shareholders of Calfrac	**29,478**	93,409
Non-controlling interest	**(1,143)**	(904)
	28,335	92,505

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, 2013	300,451	27,546	(2,500)	(2,403)	458,543	781,637	(878)	**780,759**
Net income	–	–	–	–	27,914	27,914	(1,181)	**26,733**
Other comprehensive income:								
Cumulative translation adjustment	–	–	–	1,564	–	1,564	38	**1,602**
Comprehensive income	–	–	–	1,564	27,914	29,478	(1,143)	**28,335**
Stock options:								
Stock-based compensation recognized	–	5,454	–	–	–	5,454	–	**5,454**
Proceeds from issuance of shares	21,132	(5,342)	–	–	–	15,790	–	**15,790**
Dividend Reinvestment Plan shares issued (note 25)	10,704	–	–	–	–	10,704	–	**10,704**
Dividends	–	–	–	–	(45,953)	(45,953)	–	**(45,953)**
Non-controlling interest contribution	–	–	–	–	–	–	118	**118**
Dilution of non-controlling interest	–	–	–	–	(325)	(325)	325	**–**
Balance – December 31, 2013	**332,287**	**27,658**	**(2,500)**	**(839)**	**440,179**	**796,785**	**(1,578)**	**795,207**
Balance – January 1, 2012	271,817	24,170	(2,500)	1,334	405,954	700,775	(206)	**700,569**
Net income	–	–	–	–	97,146	97,146	(785)	**96,361**
Other comprehensive income:								
Cumulative translation adjustment	–	–	–	(3,737)	–	(3,737)	(119)	**(3,856)**
Comprehensive income	–	–	–	(3,737)	97,146	93,409	(904)	**92,505**
Stock options:								
Stock-based compensation recognized	–	6,990	–	–	–	6,990	–	**6,990**
Proceeds from issuance of shares	14,836	(3,614)	–	–	–	11,222	–	**11,222**
Dividend Reinvestment Plan shares issued (note 25)	13,798	–	–	–	–	13,798	–	**13,798**
Dividends	–	–	–	–	(44,557)	(44,557)	–	**(44,557)**
Non-controlling interest contribution	–	–	–	–	–	–	232	**232**
Balance – December 31, 2012	**300,451**	**27,546**	**(2,500)**	**(2,403)**	**458,543**	**781,637**	**(878)**	**780,759**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,	**2013**	2012
(C$000s)	**($)**	($)
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net income	**26,733**	96,361
Adjusted for the following:		
Depreciation	**110,006**	90,381
Stock-based compensation (note 12)	**5,454**	6,990
Unrealized foreign exchange losses (gains)	**1,350**	(10,895)
Gain on business combination, net of tax (note 17)	**(2,747)**	–
(Gain) loss on disposal of property, plant and equipment	**(1,514)**	802
Interest	**41,985**	36,354
Deferred income taxes (note 13)	**3,356**	36,642
Interest paid	**(39,770)**	(34,596)
Changes in items of working capital (note 16)	**(12,842)**	(25,788)
Cash flows provided by operating activities	**132,011**	196,251
FINANCING ACTIVITIES		
Bank loan proceeds	**27,596**	2,734
Issuance of long-term debt, net of debt issuance costs	**365,581**	(440)
Bank loan repayments	**–**	(4,948)
Long-term debt repayments	**(193,037)**	(461)
Finance lease obligation repayments	**(740)**	(1,734)
Net proceeds on issuance of common shares	**15,790**	11,222
Dividends paid, net of DRIP (note 25)	**(23,675)**	(35,135)
Cash flows provided by (used in) financing activities	**191,515**	(28,762)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment (note 16)	**(183,124)**	(261,321)
Proceeds on disposal of property, plant and equipment	**1,799**	1,905
Business combination (note 17)	**(150,513)**	–
Other	**118**	232
Cash flows used in investing activities	**(331,720)**	(259,184)
Effect of exchange rate changes on cash and cash equivalents	**7,908**	1,121
Decrease in cash and cash equivalents	**(286)**	(90,574)
Cash and cash equivalents, beginning of year	**42,481**	133,055
Cash and cash equivalents, end of year	**42,195**	42,481

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2013 and 2012
(Amounts in text and tables are in thousands of Canadian dollars, except share data and certain other exceptions as indicated)

1. Description of Business and Basis of Presentation

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

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

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

These financial statements were approved by the Board of Directors for issuance on February 25, 2014.

2. Summary of Significant Accounting Policies

The policies set out below were consistently applied to all periods presented as if these policies had been in effect since inception.

(a) Basis of Measurement

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

(b) Principles of Consolidation

These financial statements include the accounts of the Company and its wholly-owned subsidiaries in Canada, the United States, Russia, Cyprus and Mexico, its 80-percent-owned subsidiary in Argentina, and its 90-percent-owned subsidiary in Colombia. All inter-company transactions, balances and unrealized gains and losses from inter-company transactions are eliminated upon consolidation.

Subsidiaries are those entities which the Company controls by having the power to govern their financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date control is obtained by the Company and are deconsolidated from the date that control ceases.

(c) Critical Accounting Estimates and Judgments

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

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

i) Allowance for Doubtful Accounts

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

ii) Depreciation

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

iii) Fair Value of Financial Instruments

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

The fair values of financial instruments that are 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 is based on the closing market price at the end-date of the reporting period, as described in note 7. The fair values of the remaining long-term debt obligations approximate their carrying values.

iv) Carrying Value of 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 years ended December 31, 2013 and 2012.

v) Income Taxes

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

vi) Stock-Based Compensation

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

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

See note 12 for further information on stock-based compensation.

vii) Functional Currency

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

viii) Cash-Generating Units

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

(d) Foreign Currency Translation

i) Functional and Presentation Currency

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

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

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

ii) Transactions and Balances

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

(e) Financial Instruments

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

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

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

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

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

(f) Cash and Cash Equivalents

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

(g) Inventory

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

(h) Property, Plant and Equipment

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

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

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

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

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

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

(i) Borrowing Costs

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

(j) Non-Controlling Interests

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

(k) Impairment of Non-Financial Assets

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

Goodwill is reviewed for impairment annually or at any time if there is an indicator of impairment.

Goodwill acquired through a business combination is allocated to each operating segment that is expected to benefit from the related business combination. The operating segment level represents the lowest level within the Company at which goodwill is monitored for internal management purposes.

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

(l) Income Taxes

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

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

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

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

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

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

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

(m) Revenue Recognition

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

(n) Stock-Based Compensation Plans

The Company recognizes compensation cost for the fair value of stock options granted. Under this method, the Company records the fair value of stock option grants based on the number of options expected to vest over their vesting period as a charge to compensation expense and a credit to contributed surplus. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model.

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

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

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

(o) Business Combinations

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

Acquisition costs are expensed as incurred.

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

(p) Changes in Accounting Policy and Disclosure

There were amendments to IAS 36 *Impairment of Assets* on the disclosures concerning the recoverable amounts for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issuance of IFRS 13 *Fair Value Measurement*. The amendment is not mandatory until January 1, 2014; however, the Company decided to early adopt the amendment as of January 1, 2013.

There were no other new IFRS or IFRIC interpretations effective for the first time for the year beginning on or after January 1, 2013 that had an impact on the Company.

(q) Recently Issued Accounting Standards Not Yet Applied

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 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 disclosure required by an investment entity.

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

3. Inventories

As at December 31,	**2013**	2012
(C$000s)	**($)**	($)
Spare equipment parts	**70,636**	67,067
Chemicals	**28,130**	25,755
Sand and proppant	**19,279**	10,607
Coiled tubing	**14,506**	14,321
Other	**1,589**	963
	134,140	118,713

For the year ended December 31, 2013, the cost of inventories recognized as an expense and included in cost of sales was approximately $581,000 (year ended December 31, 2012 – $587,000).

4. Property, Plant and Equipment

Year Ended December 31, 2013	Opening Net Book Value	Additions	Disposals	Depreciation	Exchange Differences	Closing Net Book Value
(C$000s)	($)	($)	($)	($)	($)	($)
Assets under construction	143,291	(31,450) [1]	–	–	(273)	111,568
Field equipment	770,549	320,196	(1,384)	(103,416)	30,855	1,016,800
Field equipment under finance lease [2]	3,105	(5,026)	–	1,921	–	–
Buildings	44,301	22,670	–	(3,406)	1,910	65,475
Land	33,144	916	(239)	–	1,111	34,932
Shop, office and other equipment	5,456	4,873	61	(2,000)	352	8,742
Computers and computer software	3,911	3,568	(1)	(2,350)	(64)	5,064
Leasehold improvements	1,344	1,864	(10)	(755)	(15)	2,428
	1,005,101	317,611	(1,573)	(110,006)	33,876	1,245,009

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

(2) Field equipment under finance lease was reclassified into field equipment upon termination of the lease obligations.

As at December 31, 2013	Cost	Accumulated Depreciation	Net Book Value
(C$000s)	($)	($)	($)
Assets under construction	111,568	–	111,568
Field equipment	1,513,173	(496,373)	1,016,800
Buildings	78,841	(13,366)	65,475
Land	34,932	–	34,932
Shop, office and other equipment	19,806	(11,064)	8,742
Computers and computer software	16,868	(11,804)	5,064
Leasehold improvements	6,191	(3,763)	2,428
	1,781,379	(536,370)	1,245,009

Year Ended December 31, 2012	Opening Net Book Value	Additions	Disposals	Depreciation	Exchange Differences	Closing Net Book Value
(C$000s)	($)	($)	($)	($)	($)	($)
Assets under construction	132,735	10,556 [1]	–	–	–	143,291
Field equipment	618,825	243,585	(2,707)	(83,495)	(5,659)	770,549
Field equipment under finance lease	3,580	–	–	(475)	–	3,105
Buildings	32,119	14,875	–	(2,511)	(182)	44,301
Land	30,390	3,114	–	–	(360)	33,144
Shop, office and other equipment	4,331	2,859	–	(1,585)	(149)	5,456
Computers and computer software	2,435	3,086	–	(1,648)	38	3,911
Leasehold improvements	1,089	942	–	(667)	(20)	1,344
	825,504	279,017	(2,707)	(90,381)	(6,332)	1,005,101

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

As at December 31, 2012	Cost	Accumulated Depreciation	Net Book Value
(C$000s)	($)	($)	($)
Assets under construction	143,291	–	143,291
Field equipment	1,194,336	(423,787)	770,549
Field equipment under finance lease	5,051	(1,946)	3,105
Buildings	56,171	(11,870)	44,301
Land	33,144	–	33,144
Shop, office and other equipment	14,872	(9,416)	5,456
Computers and computer software	13,301	(9,390)	3,911
Leasehold improvements	4,337	(2,993)	1,344
	1,464,503	(459,402)	1,005,101

Property, plant and equipment are tested for impairment in accordance with the accounting policy stated in note 2. The Company has determined that there have been no events or changes in circumstances indicating that an estimate of the recoverable amount of property, plant and equipment is required for the years ended December 31, 2013 or 2012.

5. Goodwill

Goodwill is reviewed for impairment at least annually, regardless of whether there is any indication of impairment, in accordance with the accounting policy stated in note 2. Goodwill acquired through a business combination is allocated to that operating segment (or segments) which represents the lowest level within the Company at which 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 fair value of each operating segment is derived using an accepted valuation method, which utilizes either a multiple-of-earnings approach based on earnings before interest, taxes, depreciation and amortization (EBITDA) or a discounted cash flow approach. Such approaches are typically utilized in valuing oilfield service companies. The annual EBITDA multiples used in the goodwill impairment test were based on 2013 and 2012 EBITDA multiples for major pressure pumping companies as published by third-party industry analysts. The 2013 multiples ranged from 7.2 times EBITDA to 8.7 times and the 2012 multiples ranged from 5.2 times to 8.0 times, depending on the operating segment.

The Company completed its annual assessment for goodwill impairment and determined there was none for the years ended December 31, 2013 or 2012.

6. Bank Loan

The Company's Argentinean subsidiary has two operating lines of credit, and a total of ARS148,975 ($24,298) was drawn at December 31, 2013 (December 31, 2012 – $nil). 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.

7. Long-Term Debt

As at December 31,	**2013**	2012
(C$000s)	**($)**	($)
US$600,000 senior unsecured notes (December 31, 2012 – US$450,000) due December 1, 2020, bearing interest at 7.50% payable semi-annually	**638,160**	447,705
Less: unamortized debt issuance costs and debt discount	**(11,161)**	(6,895)
	626,999	440,810
$280,000 extendible revolving term loan facility, secured by Canadian and U.S. assets of the Company	**24,463**	–
Less: unamortized debt issuance costs	**(1,291)**	(1,444)
	23,172	(1,444)
US$1,661 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	**1,766**	2,003
Argentina term loan maturing December 31, 2013 bearing interest at 18.25%, repayable at ARS61 per month principal and interest, secured by a Company guarantee	**–**	128
	651,937	441,497
Less: current portion of long–term debt	**(384)**	(479)
	651,553	441,018

The fair value of the senior unsecured notes, as measured based on the closing quoted market price at December 31, 2013, was $652,921 (December 31, 2012 – $443,228). The carrying values of the mortgage obligations, term loans and revolving term loan facilities approximate their fair values as the interest rates are not significantly different from current interest rates for similar loans.

On October 8, 2013, the Company closed a private offering of US$150,000 of its 7.50 percent senior notes yielding net proceeds of $150,208 (US$145,396) after applicable debt discount and debt issuance costs. The notes bear the same terms and conditions as the pre-existing senior notes.

The interest rate on the $280,000 revolving term loan facility is based on the parameters of certain bank covenants. For prime-based loans, the rate ranges from prime plus 0.50 percent to prime plus 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 year ended December 31, 2013 was $40,629 (year ended December 31, 2012 – $36,085).

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

As at December 31, 2013	**Amount**
(C$000s)	**($)**
2014	**384**
2015	**392**
2016	**402**
2017	**24,874**
2018	**177**
Thereafter	**638,160**
	664,389

The Company also has an extendible operating loan 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 term 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 December 31, 2013, the Company had utilized $24,410 of its loan facility for letters of credit and had $24,463 outstanding under its credit facility, leaving $251,127 in available credit.

8. Finance Lease Obligations

As at December 31,	**2013**	2012
(C$000s)	**($)**	($)
Finance lease contracts bearing interest at 5.68%, repayable at $49 per month, secured by certain equipment	**–**	753
Less: interest portion of contractual payments	**–**	(13)
	–	740
Less: current portion of finance lease obligations	**–**	(740)
	–	–

9. Capital Stock

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

Years Ended December 31,		**2013**		2012
Continuity of Common Shares	**Shares**	**Amount**	Shares	Amount
	(#)	**(C$000s)**	(#)	(C$000s)
Balance, beginning of year	**45,020,641**	**300,451**	43,709,073	271,817
Issued upon exercise of stock options	**896,837**	**21,132**	686,488	14,836
Dividend Reinvestment Plan shares issued (note 25)	**381,096**	**10,704**	625,080	13,798
Balance, end of year	**46,298,574**	**332,287**	45,020,641	300,451

The weighted average number of common shares outstanding for the year ended December 31, 2013 was 45,727,828 basic and 46,045,471 diluted (year ended December 31, 2012 – 44,334,810 basic and 44,808,099 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 12.

10. Normal Course Issuer Bid

The Company received regulatory approval to purchase its own common shares in accordance with a Normal Course Issuer Bid (NCIB) for the one-year period November 7, 2011 through November 6, 2012 and for the one-year period November 12, 2012 through November 11, 2013. There were no shares purchased under the NCIB for the years ended December 31, 2013 or 2012. The NCIB was not renewed for 2014.

11. Contributed Surplus

Continuity of Contributed Surplus Years Ended December 31,	**2013**	2012
(C$000s)	**($)**	($)
Balance, beginning of year	**27,546**	24,170
Stock options expensed	**5,454**	6,990
Stock options exercised	**(5,342)**	(3,614)
Balance, end of year	**27,658**	27,546

12. Stock-Based Compensation

(a) Stock Options

Continuity of Stock Options	2013 Options	2013 Average Exercise Price	2012 Options	2012 Average Exercise Price
	(#)	(C$)	(#)	(C$)
Balance, January 1	**2,920,412**	**25.67**	3,198,475	23.31
Granted during the year	**707,700**	**24.64**	704,200	27.71
Exercised for common shares	**(896,837)**	**17.61**	(686,488)	16.35
Forfeited	**(228,025)**	**28.94**	(295,775)	26.60
Expired	**(1,875)**	**13.06**	–	–
Balance, December 31	**2,501,375**	**27.98**	2,920,412	25.67

	Options Outstanding			Options Exercisable	
Exercise Price Per Option	Number of Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$ 8.35 – $ 24.41	**465,775**	**1.31**	**$ 21.08**	**225,650**	**$ 20.84**
$ 24.42 – $ 24.46	**590,100**	**4.00**	**$ 24.44**	**–**	**$ –**
$ 24.47 – $ 28.10	**534,600**	**3.13**	**$ 27.49**	**107,050**	**$ 27.57**
$ 28.11 – $ 34.17	**131,100**	**2.90**	**$ 32.01**	**50,450**	**$ 32.43**
$ 34.18 – $ 37.18	**779,800**	**2.00**	**$ 34.43**	**377,400**	**$ 34.43**
$ 8.35 – $ 37.18	**2,501,375**	**2.63**	**$ 27.98**	**760,550**	**$ 29.30**

Stock options vest equally over four years and expire five years from the date of grant. When stock options are exercised the proceeds, together with the amount of compensation expense previously recorded in contributed surplus, are added to capital stock.

For the year ended December 31, 2013, $5,454 of compensation expense was recognized for stock options (year ended December 31, 2012 – $6,990) and was included in selling, general and administrative expenses.

The weighted average fair value of options granted during 2013, determined using the Black-Scholes valuation method, was $6.37 per option (year ended December 31, 2012 – $9.44). The Company applied the following assumptions in determining the fair value of options on the date of grant:

	2013	2012
Expected life (years)	**3.5**	3.5
Expected volatility	**44.3%**	48.5%
Risk-free interest rate	**1.3%**	1.2%
Expected dividends	**$1.00**	$1.00

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

(b) Share Units

Continuity of Share Units	2013 Deferred Share Units	2013 Performance Share Units	2013 Restricted Share Units	2012 Deferred Share Units	2012 Performance Share Units	2012 Restricted Share Units
	(#)	(#)	(#)	(#)	(#)	(#)
Balance, January 1	**35,000**	**45,000**	**247,230**	35,000	40,000	–
Granted during the year	**35,000**	**45,000**	**399,125**	35,000	45,000	270,135
Exercised	**(35,000)**	**(45,000)**	**(82,410)**	(35,000)	(40,000)	–
Forfeited	**–**	**–**	**(50,150)**	–	–	(22,905)
Balance, December 31	**35,000**	**45,000**	**513,795**	35,000	45,000	247,230

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 year ended December 31, 2013, $1,064 of compensation expense was recognized for deferred share units (year ended December 31, 2012 – $885). This amount is included in selling, general and administrative expenses. At December 31, 2013, the liability pertaining to deferred share units was $1,085 (December 31, 2012 – $877).

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 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 year ended December 31, 2013, $1,467 of compensation expense was recognized for performance share units (year ended December 31, 2012 – $1,296). This amount is included in selling, general and administrative expenses. At December 31, 2013, the liability pertaining to performance share units was $1,395 (December 31, 2012 – $1,227).

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 year ended December 31, 2013, $9,031 of compensation expense was recognized for restricted share units (year ended December 31, 2012 – $3,693). This amount is included in selling, general and administrative expenses. At December 31, 2013, the liability pertaining to restricted share units was $10,696 (December 31, 2012 – $3,693).

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.

13. Income Taxes

The components of income tax expense are:

Years Ended December 31,	**2013**	2012
(C$000s)	**($)**	($)
Current income tax expense	**3,853**	4,733
Deferred income tax expense	**3,356**	36,642
	7,209	41,375

The components of deferred income tax expense are:

Years Ended December 31,	**2013**	2012
(C$000s)	**($)**	($)
Increase in deferred tax assets	**(7,013)**	(562)
Increase in deferred tax liabilities	**19,252**	34,906
Deferred taxes relating to business combination	**(1,775)**	–
Foreign exchange (gains) losses related to change in deferred tax balances	**(7,108)**	2,298
	3,356	36,642

The provision for income taxes in the consolidated statements of operations varies from the amount that would be computed by applying the expected 2013 tax rate of 25.0 percent (year ended December 31, 2012 – 25.0 percent) to income before income taxes.

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

Years Ended December 31,	**2013**	2012
(C$000s, except percentages)	**($)**	($)
Income before income tax	**33,942**	137,736
Income tax rate (%)	**25.0**	25.0
Computed expected income tax expense	**8,486**	34,434
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses/non-taxable income	**1,451**	2,037
Foreign tax rate and other foreign differences	**(2,883)**	2,284
Translation of foreign subsidiaries	**(367)**	333
Foreign withholding taxes	**764**	1,604
Deferred income tax adjustment from tax rate changes	**(785)**	672
Additional state tax	**762**	–
Texas franchise tax	**163**	–
Other	**(382)**	11
	7,209	41,375

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

As at December 31,	**2013**	2012
(C$000s)	**($)**	($)
Property, plant and equipment	**(200,712)**	(171,713)
Losses carried forward	**55,079**	38,829
Canadian exploration expenses	**6,886**	7,762
Research and development expenses	**–**	1,422
Finance lease obligations	**–**	185
Deferred compensation payable	**2,744**	1,288
Deferred financing and share issuance costs	**(290)**	981
Other	**7,785**	4,977
	(128,508)	(116,269)

Net deferred income taxes at December 31, 2013 are represented by deferred income tax assets of $23,884 (December 31, 2012 – $16,871) less deferred income tax liabilities of $152,392 (December 31, 2012 – $133,140). Loss carry-forwards expire at various dates ranging from December 31, 2014 to December 31, 2033.

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

Years Ended December 31,	**2013**	2012
(C$000s)	**($)**	($)
Balance, beginning of year	**(116,269)**	(81,925)
Charged (credited) to the consolidated statements of operations:		
Property, plant and equipment	**(28,999)**	(32,120)
Losses carried forward	**16,250**	(787)
Canadian exploration expenses	**(876)**	(1,192)
Research and development expenses	**(1,422)**	–
Alternative minimum tax credits	**439**	–
Finance lease obligations	**(185)**	(434)
Deferred compensation payable	**1,456**	741
Deferred financing and share issuance costs	**(1,271)**	(1,630)
Other	**2,369**	1,078
Balance, end of year	**(128,508)**	(116,269)

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

Years Ended December 31,	**2013**	2012
(C$000s)	**($)**	($)
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	**17,426**	13,721
Deferred tax asset to be recovered within 12 months	**6,458**	3,150
Deferred tax liabilities:		
Deferred tax liability to be drawn down after more than 12 months	**(152,392)**	(133,140)
Deferred tax liability to be drawn down within 12 months	**–**	–
Deferred tax liabilities, net	**(128,508)**	(116,269)

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

Years Ended December 31,	**2013**	2012
(C$000s)	**($)**	($)
Net capital tax losses for which no deferred tax asset has been recognized	**93,836**	93,836
Potential tax benefit at 25% (2012 – 25%)	**23,459**	23,459

The benefit for net capital tax losses will only be recognized and utilized in the event that the Company reports taxable capital gains.

Earnings retained by subsidiaries amounted to $164,937 at December 31, 2013 (December 31, 2012 – $159,249). Provision has been made for withholding and other taxes that would become payable on the distribution of these earnings only to the extent that it is expected that these earnings will be distributed in the foreseeable future.

14. Commitments

The Company has lease commitments for premises, equipment, vehicles and storage facilities under agreements requiring aggregate minimum payments over the five years following December 31, 2013, as follows:

(C$000s)	**($)**
2014	**19,909**
2015	**9,934**
2016	**3,748**
2017	**1,173**
2018	**191**
	34,955

For the year ended December 31, 2013, $34,087 was recognized as an expense in the consolidated statements of operations in respect of operating leases (year ended December 31, 2012 – $30,302).

The Company has obligations for the purchase of products, services and property, plant and equipment over the next five years that total approximately $114,814.

15. Financial Instruments

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

(a) Fair Values of Financial Assets and Liabilities

The fair values of financial instruments included in the consolidated balance sheets, except long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of the senior unsecured notes based on the closing market price at December 31, 2013 was $652,921 before deduction of unamortized debt issuance costs (December 31, 2012 – $443,228). The carrying value of the senior unsecured notes at December 31, 2013 was $638,160 before deduction of unamortized debt issuance costs and debt discount (December 31, 2012 – $447,705). The fair values of the remaining long-term debt approximate their carrying values, as described in note 7.

(b) Credit Risk

Substantial amounts of the Company's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risks. The Company mitigates this risk through its credit policies and practices including the use of credit limits and approvals, and by monitoring the financial condition of its customers. At December 31, 2013, the Company had a provision for doubtful accounts receivable of $315 (December 31, 2012 – $315).

Payment terms with customers vary by country and contract. Standard payment terms are 30 days from invoice date. The Company's aged trade and accrued accounts receivable at December 31, 2013 and 2012, excluding any impaired accounts, are as follows:

As at December 31,	**2013**	2012
(C$000s)	**($)**	($)
Current	**237,625**	191,969
31 – 60 days	**72,704**	58,784
61 – 90 days	**10,522**	15,597
91+ days	**50,347**	33,724
Total	**371,198**	300,074

The Company's accounts receivable balance that was greater than 90 days was primarily with a customer operating in Mexico, 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.

(c) Interest Rate Risk

The Company is exposed to cash flow risk due to fluctuating interest payments required to service any floating-rate debt. The increase or decrease in annual interest expense for each 1 percent change in interest rates on floating-rate debt at December 31, 2013 amounts to $505 (December 31, 2012 – $19).

The Company's effective interest rate for the year ended December 31, 2013 was 8.0 percent (year ended December 31, 2012 – 8.1 percent).

(d) Liquidity Risk

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

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

As at December 31, 2013	**Total**	**Less than 1 Year**	**1 – 3 Years**	**4 – 6 Years**	**7 – 9 Years**	**Thereafter**
(C$000s)	**($)**	**($)**	**($)**	**($)**	**($)**	**($)**
Bank loan [1]	**28,196**	**28,196**	**–**	**–**	**–**	**–**
Accounts payable and accrued liabilities	**245,899**	**245,899**	**–**	**–**	**–**	**–**
Long-term debt [1]	**995,786**	**73,005**	**144,846**	**139,775**	**638,160**	**–**

As at December 31, 2012	Total	Less than 1 Year	1 – 3 Years	4 – 6 Years	7 – 9 Years	Thereafter
(C$000s)	($)	($)	($)	($)	($)	($)
Accounts payable and accrued liabilities	168,250	168,250	–	–	–	–
Long-term debt and finance lease obligations [1]	716,563	34,872	101,913	101,293	478,485	–

[1] Principal and interest.

(e) Foreign Exchange Risk

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

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

As at December 31, 2013	**Impact to Net Income**	**Impact to Other Comprehensive Income**
(C$000s)	**($)**	**($)**
1% change in value of U.S. dollar	**298**	**5,968**
1% change in value of Russian rouble	**–**	**252**
1% change in value of Mexican peso	**–**	**238**
1% change in value of Argentinean peso	**–**	**3**

As at December 31, 2012	Impact to Net Income	Impact to Other Comprehensive Income
(C$000s)	($)	($)
1% change in value of U.S. dollar	674	4,256
1% change in value of Russian rouble	–	242
1% change in value of Mexican peso	–	31
1% change in value of Argentinean peso	–	59

16. Supplemental Cash Flow Information

Changes in non-cash operating assets and liabilities for the years ended December 31, 2013 and 2012 are as follows:

Years Ended December 31,	**2013**	2012
(C$000s)	**($)**	($)
Accounts receivable	**(75,702)**	(6,245)
Income taxes recoverable	**(854)**	1,048
Inventory	**(8,748)**	(24,369)
Prepaid expenses and deposits	**(5,230)**	(548)
Accounts payable and accrued liabilities	**77,929**	4,666
Other long-term liabilities	**(237)**	(340)
	(12,842)	(25,788)
Income taxes paid	**4,707**	3,685

Purchase of property, plant and equipment (excluding the business acquisition disclosed in note 17) is comprised of:

Years Ended December 31,	**2013**	2012
(C$000s)	**($)**	($)
Property, plant and equipment additions	**(170,517)**	(279,017)
Change in liabilities related to purchase of property, plant and equipment	**(12,607)**	17,696
	(183,124)	(261,321)

17. Business Combination

On October 1, 2013, the Company acquired all of the operating assets of Mission Well Services, LLC ("Mission"), a privately-held hydraulic fracturing and coiled tubing services provider based in San Antonio, Texas and operating in the Eagle Ford shale play. The total purchase price was cash consideration of $150,513. The purchase was recognized as a business combination and accounted for as such using the acquisition method of accounting under IFRS 3 *Business Combinations*.

The acquisition provides the Company with modern fracturing and coiled tubing equipment as well as an entry into the Texas pressure pumping market. The recognized amounts of identifiable assets acquired and liabilities assumed are as follows:

(C$000s)	**($)**
Prepaid expenses and deposits	**1,261**
Inventory	**6,680**
Property, plant and equipment	**147,094**
Deferred income tax liability	**(1,775)**
Total identifiable net assets	**153,260**
Gain on business combination, net of tax	**(2,747)**
Total consideration	**150,513**

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

(C$000s)	**($)**
Gain on business combination	**(4,522)**
Deferred taxes relating to business combination	**1,775**
	(2,747)
Acquisition costs	**5,221**
Business combination	**2,474**

The gain of $4,522, before taxes, was recognized in the statement of operations on the acquisition date and represents the excess of the fair value of identifiable assets over the consideration paid.

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

During the period October 1, 2013 to December 31, 2013, the acquisition contributed immaterial operating income to the Company. The effect on revenue and operating income, had the acquisition occurred on January 1, 2013, is not determinable.

18. 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:

Years Ended December 31,	**2013**	2012
(C$000s)	**($)**	($)
Net income	**26,733**	96,361
Adjusted for the following:		
Depreciation	**110,006**	90,381
Amortization of debt issuance costs and debt discount	**1,464**	1,234
Stock-based compensation	**5,454**	6,990
Unrealized foreign exchange losses (gains)	**1,350**	(10,895)
Gain on business combination, net of tax	**(2,747)**	–
(Gain) loss on disposal of property, plant and equipment	**(1,514)**	802
Deferred income taxes	**3,356**	36,642
Cash flow	**144,102**	221,515

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 December 31, 2013, the long-term debt to cash flow ratio was 4.52:1 (December 31, 2012 – 1.99:1) calculated on a 12-month trailing basis as follows:

As at December 31,	**2013**	2012
(C$000s, except ratio)	**($)**	($)
Long-term debt (net of unamortized debt issuance costs and debt discount) (note 7)	**651,937**	441,497
Cash flow	**144,102**	221,515
Long-term debt to cash flow ratio	**4.52:1**	1.99:1

The ratio is higher at the current year-end than the prior year-end due to additional debt taken on to acquire the Mission assets and lower year-over-year cash flow. The ratio reflects the full amount of debt (at December 31, 2013) whereas cash flow only represents three months of activities related to the Mission assets.

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.

19. 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 $2,623 as at December 31, 2013 (December 31, 2012 – $2,119). In accordance with applicable accounting standards regarding share purchase loans receivable, this loan is classified as a reduction of shareholders' equity due to its non-recourse nature. In addition, the shares purchased with the loan proceeds are considered to be, in substance, stock options.

The Company leases certain premises from an entity controlled by a director of the Company. The rent charged for these premises during 2013 was $552 (year ended December 31, 2012 – $356), as measured at the exchange amount.

During 2012, an entity controlled by a director of the Company provided ongoing real estate advisory services to the Company; the aggregate fees charged for such services were $29. This arrangement was discontinued in 2013.

20. Presentation of Expenses

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

- operations; and
- selling, general and administrative.

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

Additional information on the nature of expenses is as follows:

Years Ended December 31,	**2013**	2012
(C$000s)	**($)**	($)
Product costs	**477,384**	490,222
Depreciation	**110,006**	90,381
Amortization of debt issuance costs and debt discount	**1,464**	1,234
Employee benefits expense (note 21)	**379,117**	356,844

21. Employee Benefits Expense

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

Years Ended December 31,	**2013**	2012
(C$000s)	**($)**	($)
Salaries and short-term employee benefits	**356,519**	337,919
Post-employment benefits (group retirement savings plan)	**3,595**	3,587
Share-based payments	**17,016**	12,866
Termination benefits	**1,987**	2,472
	379,117	356,844

22. Compensation of Key Management

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

Years Ended December 31,	**2013**	2012
(C$000s)	**($)**	($)
Salaries, fees and short-term benefits	**2,151**	2,756
Post-employment benefits (group retirement savings plan)	**39**	34
Share-based payments	**2,732**	2,392
	4,922	5,182

In the event of termination, key management (excluding the Board of Directors) are entitled to one to two years of annual compensation. In the event of termination resulting from change of control, key management (excluding the Board of Directors) are entitled to two years of annual compensation.

23. 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 $10,033 (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 $4,194 (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 interest of approximately $3,226 (2,201 euros) payable on such amounts as at December 31, 2013.

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 $51 (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 $16 (11 euros), plus interest.

Another one of the lawsuits seeking salaries in arrears of $188 (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 $643 (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 date has been set for the postponed hearing.

The maximum aggregate interest payable under the claims noted above amounted to $17,988 (12,274 euros) as at December 31, 2013.

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 was approved by the court that extends through June 23, 2014.

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.

24. 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$000s)	($)	($)	($)	($)	($)	($)
Year Ended December 31, 2013						
Revenue	**677,114**	**616,174**	**158,782**	**111,744**	**–**	**1,563,814**
Operating income (loss) [1]	**121,699**	**104,125**	**13,358**	**3,523**	**(54,629)**	**188,076**
Segmented assets	**706,405**	**828,527**	**149,946**	**185,053**	**–**	**1,869,931**
Capital expenditures	**75,875**	**62,297**	**13,368**	**18,977**	**–**	**170,517**
Goodwill	**7,236**	**2,308**	**979**	**–**	**–**	**10,523**
Year Ended December 31, 2012						
Revenue	732,880	638,483	112,765	111,088	–	1,595,216
Operating income (loss) [1]	188,555	105,129	6,566	8,839	(52,076)	257,013
Segmented assets	707,663	568,665	126,564	121,929	–	1,524,821
Capital expenditures	124,902	138,328	6,173	9,614	–	279,017
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, expenses and gain related to business combinations, gains or losses on disposal of property, plant and equipment, and income taxes.

Years Ended December 31,	2013	2012
(C$000s)	($)	($)
Net income	**26,733**	96,361
Add back (deduct):		
Depreciation	**110,006**	90,381
Interest	**41,985**	36,354
Foreign exchange losses (gains)	**1,183**	(8,260)
Business combination (note 17)	**2,474**	–
(Gain) loss on disposal of property, plant and equipment	**(1,514)**	802
Income taxes	**7,209**	41,375
Operating income	**188,076**	257,013

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:

Years Ended December 31,	**2013**	2012
(C$000s)	**($)**	($)
Fracturing	**1,422,872**	1,436,279
Coiled tubing	**73,053**	100,239
Cementing	**53,520**	34,750
Other	**14,369**	23,948
	1,563,814	1,595,216

The Company's customer base consists of approximately 180 oil and natural gas exploration and production companies, ranging from large multi-national publicly traded companies to small private companies. Notwithstanding the Company's broad customer base, Calfrac had five significant customers that collectively accounted for approximately 46 percent of the Company's revenue for the year ended December 31, 2013 (year ended December 31, 2012 – five significant customers for approximately 39 percent) and, of such customers, one customer accounted for approximately 12 percent of the Company's revenue for the year ended December 31, 2013 (year ended December 31, 2012 – 13 percent).

25. 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, totalling $11,575, was declared on December 5, 2013, to be paid on January 15, 2014. This amount has been accrued in the financial statements.

A dividend of $0.25 per common share was declared on September 17, 2013 and paid on October 15, 2013. Of the total dividend of $11,531, $4,282 was reinvested under the DRIP into 144,478 common shares of the Company.

A dividend of $0.25 per common share was declared on June 14, 2013 and paid on July 15, 2013. Of the total dividend of $11,472, $3,313 was reinvested under the DRIP into 111,594 common shares of the Company.

A dividend of $0.25 per common share was declared on February 26, 2013 and paid on April 15, 2013. Of the total dividend of $11,375, $3,108 was reinvested under the DRIP into 125,024 common shares of the Company.

HISTORICAL REVIEW

Years Ended December 31,	**2013**	2012	2011	2010	2009 [1]
(C$000s, except per share and unit data)	**($)**	($)	($)	($)	($)
Financial Results					
Revenue	**1,563,814**	1,595,216	1,537,392	935,927	591,500
Operating income [2]	**188,076**	257,013	412,828	185,236	71,135
EBITDA [2]	**185,933**	264,471	398,682	185,839	68,795
Per share – basic	**4.07**	5.97	9.13	4.31	1.79
Per share – diluted	**4.04**	5.90	8.98	4.25	1.79
Net income (loss) attributable to the shareholders of Calfrac	**27,914**	97,146	187,451	49,502	(5,536)
Per share – basic	**0.61**	2.19	4.29	1.15	(0.14)
Per share – diluted	**0.61**	2.17	4.22	1.13	(0.14)
Capital expenditures	**170,517**	279,017	323,962	118,899	102,176
Financial Position at December 31					
Current assets	**590,515**	492,326	552,785	464,140	213,668
Total assets	**1,869,931**	1,524,821	1,405,121	1,095,601	840,890
Working capital	**319,934**	322,857	398,526	341,677	128,243
Long-term debt	**651,553**	441,018	450,545	443,346	267,351
Total equity	**795,207**	780,759	700,569	502,032	459,932
Common Share Data					
Common shares outstanding (000s)					
At December 31	**46,299**	45,021	43,709	43,488	42,899
Weighted average (diluted)	**46,045**	44,808	44,393	43,726	38,475
Share trading					
High ($)	**35.90**	34.95	38.65	35.85	21.52
Low ($)	**23.41**	20.22	20.52	16.41	6.40
Close ($)	**31.00**	25.05	28.50	34.24	20.85
Volume (000s)	**44,758**	54,858	42,096	35,092	30,750
Operating					
Pumping horsepower (000s)	**1,194**	977	719	481	456
Coiled tubing units (#)	**38**	29	29	29	28
Cementing units (#)	**31**	26	23	21	21

[1] As the Company's IFRS transition date was January 1, 2010, 2009 financial information has not been restated.

[2] Refer to "Non-GAAP Measures" on pages 38 and 39 for further information.

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

Robert J. Montgomery
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

Dwight M. Bobier
Senior Vice President,
Technical Services

Tom J. Medvedic
Senior Vice President,
Corporate Development

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

Michael D. Olinek
Vice President, Finance

Edward L. Oke
Vice President,
Human Resources

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

F. Bruce Payne
Vice President,
Global Operations

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

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Export Development Canada

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Calgary, Alberta

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