Form 49
[Rule 13.19]

CLERK OF THE COURT
FILED
Clerk's Stamp
JAN 14 2015
CALGARY, ALBERTA

COURT FILE NUMBER	**1501-** 00346
COURT	COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE	Calgary
APPLICANTS	**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, as amended** **AND IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*, R.S.A. 2000, c. B-9** **AND IN THE MATTER OF GASFRAC ENERGY SERVICES INC., GASFRAC SERVICES GP INC., GASFRAC ENERGY SERVICES (US) INC., GASFRAC US HOLDINGS INC. and GASFRAC INC.**
DOCUMENT	**AFFIDAVIT**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	Patrick T. McCarthy, Q.C./Robyn Gurofsky Borden Ladner Gervais LLP 1900, 520 3rd Ave. S.W. Calgary, AB T2P 0R3 Telephone: (403) 232-9774 Facsimile: (403) 266-1395 Email: PMcCarthy@blg.com/RGurofsky@blg.com File No. 441817-000015

AFFIDAVIT OF LORI MCLEOD-HILL

Sworn on January 13, 2015

I, Lori McLeod-Hill, of the City of Calgary, in the Province of Alberta, chartered accountant, SWEAR AND SAY THAT:

1. I am the Chief Financial Officer of GASFRAC Energy Services Inc. ("**GESI**"), which is the 100% parent company of GASFRAC Services GP Inc. ("**GSGP**"), GASFRAC US Holdings Inc. ("**Holdings**") and the 99.99865% owner of GASFRAC Energy Services Limited Partnership ("**GES LP**") (GSGP owns the remaining 0.00135% or one unit of GES LP). Holdings is in turn

the 100% owner of GASFRAC Inc. ("**GI**") and GASFRAC Energy Services (US) Inc. ("**GESI US**"). GESI, GSGP, GESI US, Holdings, GI, and GES LP are sometimes hereinafter referred to collectively as the "**Company**". Attached hereto and marked as **Exhibit "A"** to this my Affidavit is a copy of the corporate organizational chart for the Company.

2. As a result of the foregoing, I have personal knowledge of the facts and matters deposed to herein, except where stated to be based on information and belief, and where so stated I do verily believe the same to be true.

3. I am authorized to make this Affidavit on behalf of the Company.

4. This application arises as a result of a variety of circumstances which are more particularly described below in this Affidavit and which require the Company to restructure so that it can proceed as a viable business entity going forward. The Company is optimistic that restructuring under the protection of the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36 (the "**CCAA**") will have the effect of improving the long term financial prospects of the Company while preserving value for stakeholders.

RELIEF REQUESTED

5. I make this affidavit in support of an application by the Company for an Order (the "**Initial Order**") pursuant to the CCAA, among other things:

(a) Declaring that the Company is one to which the CCAA applies;

(b) Staying all proceedings and remedies taken or that might be taken in respect of the Company or any of its property, except as otherwise set forth in the Initial Order or otherwise permitted by law;

(c) Authorizing the Company to carry on business in a manner consistent with the preservation of its property and business;

(d) Appointing Ernst & Young Inc. as monitor (the "**Monitor**" or "**EY**") of the Company in these proceedings;

(e) Approving the Key Employee Retention Program as more particularly set out herein and in my Confidential Affidavit;

(f) Approving certain priority charges, including but not limited to an administration charge, a directors and officers charge, a charge for the Key Employee Retention Program and a critical suppliers' charge; and

(g) Deeming service of the Application for the Initial Order to be good and sufficient.

6. As more particularly outlined in this Affidavit, because certain of the entities subject to these proceedings are based in the United States of America (the "**US**") and because certain of the assets and liabilities are located in the US, I anticipate that if the Initial Order is granted, shortly thereafter certain of the debtor companies filing for CCAA protection will also file Chapter 15 cases under the US Bankruptcy Code seeking recognition of these CCAA proceedings as a foreign main proceeding and will apply for a temporary restraining order in the US.

OVERVIEW AND CORPORATE STRUCTURE

7. GESI was incorporated pursuant to the Alberta *Business Corporations Act*, R.S.A. c. B-7 (the "**ABCA**") on February 13, 2006. On August 9, 2010, GESI completed a reverse takeover amalgamation with Kierland Capital Corporation, a capital pool corporation, to form the current GESI. GESI is a publicly traded corporation whose common shares commenced trading on the TSX Venture Exchange Inc. (the "**TSXV**") on August 12, 2010 and on the Toronto Stock Exchange (the "**TSX**") on June 17, 2011 under the symbol "GFS".

8. The Company's corporate head office is located in Calgary, Alberta at Suite 1900, 801 – 6th Avenue S.W., Calgary, Alberta, T2P 3W2. The Company's field offices in Canada are located in Red Deer and Edson, Alberta, with storage locations situated throughout the Province of Alberta.

9. GSGP was incorporated pursuant to the ABCA on December 15, 2008. GSGP is the general partner of GES LP, registered as a limited partnership under the ABCA on December 31, 2008. GESI's services in Canada are marketed and operated by GES LP.

10. GESI US, Holdings and GI are each corporations incorporated in the State of Delaware in the US. GESI's services in the US are marketed by GI out of offices in Floresville and Houston, Texas, with storage facilities located in various places throughout Texas.

11. The Company currently has a total of 195 employees. In Canada there are 37 employees working in the Calgary head office and 112 employees working throughout Alberta in various operations positions. In the US, there are 2 employees in the Houston office, and 44 employees working in

various positions throughout Texas, primarily in field offices in Floresville, Texas. None of the Company's employees are unionized, nor is there a pension plan in place in respect of any of the employees.

BACKGROUND AND BUSINESS OPERATIONS

12. The Company is engaged in the business of providing fracture stimulation services to the petroleum and natural gas industry in Canada and the US. In particular, the Company has commercialized an innovative process whereby liquid petroleum gas ("**LPG**") is gelled and employed as a fluid in petroleum and natural gas reservoir fracturing (the "**LPG Fracturing Process**").

13. Fracturing in the oil and gas industry has typically consisted of hydraulic fracturing, whereby water is used as the fluid injected with proppant to fracture the rock formation holding the petroleum or natural gas. The LPG Fracturing Process, which replaces water with LPG, is a relatively new technology in the industry, having been developed and first used by the Company only six years ago.

14. Some of the advantages associated with the LPG Fracturing Process are environmental and production related, and include the following:

(a) Water is not used in the LPG Fracturing Process, as opposed to the significant volumes of water used in traditional hydraulic fracturing;

(b) The LPG Fracturing Process uses significantly smaller volumes of liquid than hydraulic fracturing, resulting in a reduction of transport trucks used, smaller drill sites and reduced associated land use and emissions; and

(c) In the LPG Fracturing Process, the propane travels back up the wellbore in a gaseous state. Upon reaching the surface, the propane in its gaseous state can be separated and sold on the market. This is different from hydraulic fracturing whereby water travelling back up the wellbore to the surface must be disposed of or treated, with costs associated with such disposal or treatment.

15. GESI holds the rights and patents for the exclusive use of LPG as a fracturing fluid in the LPG Fracturing Process, with 15 product and process patents either issued or pending in Canada, the US and internationally. The use of the intellectual property by the other GASFRAC entities is

not conducted through a formal licensing agreement, but with the consent of GESI. The intellectual property is essential to the Company's unique place in the market as the single purveyor of LPG technology. The Company has also developed fluids that are comprised of mixtures of LPG and other high vapour pressure fluids, including gelled crude oil, which in certain formations are believed to make the fracturing process more efficient and environmentally sound.

16. Since inception, the Company has completed over 2,400 fracks at over 700 locations in numerous formations located in Canada and the US, including the Eagleford, San Miguel, Cardium, Viking, Utica and Frederick Brook Shale formations.

17. Despite the benefits to the LPG Fracturing Process, the process can be costly due to its relative novelty and has been slow to gain acceptance in the oil and gas industry. Because it is relatively novel, the infrastructure required to perform the operations associated with the LPG Fracturing Process is expensive and not available in large capacities. The Company has worked to develop much of the equipment necessary to successfully employ the LPG Fracturing Process, but at a significant cost.

18. The Company has master services agreements with approximately seven customers located primarily in Canada, however, these agreements simply set out terms in the event the parties wish to contract with the Company to provide LPG fracturing services at a later date. Individual jobs are contracted based on a purchase order which is governed by the master services agreement. The Company currently has two contracts to provide LPG fracturing services to customers located in Canada and the US and has recently signed a three year contract extension with one of these customers to provide fracturing services in Western Canada through to September 22, 2017. While contracts exist in respect of two customers, the Company's revenue stream from these contracts is dependent on the customers' level of fracturing activity.

19. After seeing a reduction in its customers' fracturing activity in the last year, the Company has expanded its scope of business to include not only the LPG Fracturing Process, but smaller conventional fracturing treatments.

20. The Company's business is seasonal, with fracturing activity curtailed in Canada during the second quarter during the "spring breakup" period in the oil and gas industry. Fracturing activities of the Company in the US are curtailed or in some cases stopped entirely from December to February due to bans in place during the hunting seasons.

ASSETS AND LIABILITIES

Assets

21. The Company's assets, located in Canada (primarily in Edson and Red Deer, Alberta) and the US (primarily in Floresville, Texas), consist of various equipment, intellectual property, inventory including but not limited to chemicals and proppant, material contracts and contract receivables, as well as real property located in Edson, Alberta. Approximately eight months ago, the Company obtained an appraisal of all of its equipment. The fair market value attributed to the equipment alone significantly exceeded the Company's total debt, secured and unsecured. I understand that the value of the equipment has decreased since the appraisal was obtained, however, based on the Company's recent discussions with potential purchasers and investors, I believe that equipment's value is well in excess of the Company's secured debt.

Liabilities

22. PNC Bank Canada Branch (the "**Bank**") has provided GESI, GES LP and GI with a five year revolving credit facility of up to $60.0 million subject to certain borrowing base requirements (the "**Revolving Facility**") pursuant to a Revolving Credit and Security Agreement dated June 19, 2014. The borrowing base under the Revolving Facility is calculated as a percentage of eligible accounts receivable, eligible inventories and the net orderly liquidation value of machinery and equipment held by the Company. The Revolving Facility bears interest at the applicable Canadian or US prime rate plus 1.5% or LIBOR plus 3.5% and is secured by general security pledged by GSGP, Holdings and GESI US as well as various share pledge agreements provided by GESI, GSGP, GI and Holdings in favour of the Bank.

23. At the end of December 2014, GESI, GES LP and GI had $35.0 million available under the Revolving Facility as determined by the borrowing base and had drawn approximately $31.0 million of the $35.0 million available. The Bank had previously indicated to the Company that it would not authorize draws beyond the $35.0 million currently available under the Revolving Facility.

24. Each of GSGP, Holdings and GESI US have provided unconditional and unlimited guarantees of the Revolving Facility pursuant to various guarantee and indemnity agreements dated June 19, 2014.

25. In addition to the secured Revolving Facility with the Bank, GESI owes approximately $40.25 million to unsecured subordinated debenture holders pursuant to a Convertible Debenture Indenture dated February 8, 2012 between GESI and Olympia Trust Company on behalf of the debenture holders (the "**Debentures**"). The Debentures accrue interest at a rate of 7.00% per annum and mature on February 28, 2017. Semi-annual interest payments are made twice a year pursuant to the Debentures. The next interest payment of approximately $1.4 million is due on February 28, 2015, however, the Company does not currently anticipate being in a position to make that interest payment when due.

26. As at the end of November, 2014, GESI, GES LP and GI collectively owed approximately $13.7 million on an unsecured basis to trades or other service providers pursuant to contracts for products and services essential to operations in both Canada and the US. In particular, GES has approximately $164,000 (CAD), GES LP has approximately $3.6 million (CAD) and GI has approximately $10.0 million (USD), in unsecured trade debt outstanding. The unsecured creditors have started making formal demands for payment and while I am not aware of any litigation commenced by any creditor as yet, I expect that will happen soon if the Company does not obtain a stay of proceedings.

27. While the Company's balance sheet assets are in excess of its liabilities, the Company has cash flow issues which require it to undertake some form of restructuring coupled with cost cutting and/or a capital injection. As a result, the Company is not currently able to pay its obligations generally as they come due and is therefore insolvent. The proposed CCAA proceedings are intended to allow the Company an opportunity to continue as a going concern while maximizing value for all of its stakeholders.

INTERCOMPANY DEBT

28. In addition to the liabilities outlined above, there are intercompany liabilities which were generally funded to cover various operational expenses. The intercompany liabilities are as follows:

(a) GES LP owes $75.0 million to GESI;

(b) GSGP owes $20.0 million to GES LP;

(c) GI owes $9.0 million to GES LP, $9.0 million to GESI and $3.0 million to Holdings; and

(d) Holdings owes $29.0 million to a related company, GASFRAC Luxembourg Finance S.a.r.l.

29. A flow chart outlining the intercompany debts, together with the amounts each of the entities has invested in the other is attached hereto and marked as **Exhibit "B"** to this my Affidavit.

CIRCUMSTANCES LEADING TO CCAA APPLICATION

30. Over the last year, the Company has experienced a significant decrease in revenue, primarily due to the level of activity in the Company's three major LPG customers who represent 84.1% of total revenue. Unfortunately, the Company's recent expansion into conventional fracturing has not generated sufficient revenue to make up for the decrease and the Company incurred significant costs to acquire the equipment and supplies needed to provide conventional fracturing services.

31. Although revenues have decreased, the Company's fixed operating costs have remained relatively unchanged. As a result, the Company has been operating at a loss, which losses have been covered to date by draws made under the Revolving Facility. As the Company has almost reached the limit of funds available under the Revolving Facility, without another source of interim funding, some cost cutting measures and some form of restructuring or compromise, the Company will not be able to continue operations on a go forward basis.

32. Furthermore, the current environment in the oil and gas industry and in particular, the dramatic decline in oil prices over the last quarter, has created considerable uncertainty for the Company's 2015 revenue stream.

SENIOR MANAGEMENT

33. The current directors of GESI are:

(a) Mark Williamson (who is also the Executive Chairman);

(b) Larry Lindholm (who is also the Independent Lead Director);

(c) Dale Tremblay;

(d) Robert McBean; and

(e) Julian Balkany,

(collectively, the "**Directors**").

34. The current officers of GESI are:

(a) Mark Williamson (Interim Chief Executive Officer);

(b) Lori McLeod-Hill (Chief Financial Officer);

(c) Jason Munro (President);

(d) Doug McMillan (Senior Vice President Operations); and

(e) Robert Copeland (Senior Vice President Corporate Services),

(collectively, the "**Officers**").

35. It is anticipated that a successful restructuring of the Company will require the continuity of most, if not all of the Directors. The Company will benefit from the experience and expertise of the Directors which will be invaluable in assisting the Company through the CCAA process. While most of the Officers are similarly important to the Company's operations, the Company is working to assess which of the Officers are necessary to the ongoing operations of the Company and the CCAA process, in view of the Company's goal to reduce operational expenses on a go forward basis.

36. I understand that in certain circumstances, directors and officers can be held personally liable for certain corporate obligations including payroll remittances, goods and services taxes, withholding taxes and certain wage related obligations, among other things. GESI retains directors and officers liability insurance through various directors and officers insurance policies (the "**D&O Insurance**"), which collectively provide coverage to its Directors and Officers for up to $40.0 million, although not all of the policies provide coverage for some of the obligations listed above, including taxes. The D&O Insurance expires on May 31, 2015.

37. In order to protect the Directors and Officers and ensure their continued involvement with the Company in the proposed CCAA proceedings, I believe it is important to provide a related charge in the Initial Order. After discussing this with EY, the Company proposes that a charge in favour of the Directors and Officers be granted in the amount of $1,850,000 (the "**D&O Charge**") to provide a reasonable level of protection to those Directors and Officers prepared to stay with the Company to see it through the CCAA process. The D&O Charge ensures that the Directors and

Officers who do stay on will receive protection liability if the D&O Insurance cannot be renewed due to an increase of premiums, or if the Directors and Officers cannot otherwise rely on the D&O Insurance. The Company believes that the amount of the D&O Charge is fair and reasonable in the circumstances.

38. The D&O Charge is vital to encouraging the continued participation of the Directors and certain of the Officers in the proposed CCAA proceedings, who will provide the necessary experience and stability to the process. It is critical that a level of continuity be maintained with the Company to ensure focus on achieving a restructuring plan that will benefit the Company's stakeholders.

RESTRUCTURING AND SISP

39. Following a review of the Company's prospects and in light of the decline in revenues, a special committee of the Company's directors was formed in the fall of 2014 to seek strategic alternatives for the Company. The special committee retained CIBC World Markets Inc. ("**CIBC**") pursuant to an engagement letter dated November 13, 2014 (the "**Engagement Letter**") to explore and evaluate a range of strategic alternatives to maximize value for the Company and its stakeholders, including pursuing a sale of all or a portion of the Company's equipment. A copy of the Engagement Letter is attached as an exhibit to my Confidential Affidavit.

40. While CIBC has been unable to close a transaction in the short time it has been working with the Company, CIBC has identified a number of potential parties with whom restructuring options may be pursued in the context of these proposed CCAA proceedings.

41. The Company, together with EY and CIBC, have been working together to create a Sale and Investment Solicitation Process ("**SISP**") to be conducted in conjunction with these proceedings intended to generate interest in either the business or the assets of the Company, with the goal of maximizing value and creating the foundations of a plan of compromise or arrangement to stakeholders. If the Initial Order is granted, I anticipate that the Company will bring an application within the next week or two to seek approval for a SISP.

42. In addition to a SISP, the Company will also pursue alternative options as part of a restructuring, such as reducing or compromising its obligations, minimizing operating costs in various ways, including reducing unnecessary staff and conducting one-off sales of surplus assets. All of these

efforts will be undertaken for the purpose of further enhancing the Company's long term financial health and liquidity, with the goal of presenting a plan of compromise or arrangement to creditors and maximizing value for the benefit of the Company's stakeholders.

FINANCIAL STATEMENTS

43. Attached hereto as **Exhibit "C"** are the unaudited interim financial statements for the three and nine month period ending on September 30, 2014, the three and six month period ending on June 30, 2014 and the three month period ending on March 31, 2014. Exhibit "C" comprises all financial statements of the Company prepared during the year prior to this application.

44. Attached hereto as **Exhibit "D"** are the most recent audited financial statements prepared in respect of the Company for the twelve month period ending on December 31, 2013, audited by the Company's auditors, PricewaterhouseCoopers Inc.

CASH FLOW PROJECTIONS

45. Attached hereto as **Exhibit "E"** are the cash flow projections for the Company (the "**Cash Flow Projections**") for the period ending April 15, 2015. The Cash Flow Projections were prepared by management of the Company, with the assistance of EY. Based on my knowledge of the financial position of the Company, and based on the assumptions set out in the Cash Flow Statements, I verily believe that they are fair and reasonable in the circumstances.

46. As evidenced by the Cash Flow Projections, the Company builds working capital through most of the first quarter, based on the anticipated revenues generated from operations. I believe this demonstrates, in part, the prospect of restructuring the Company as a going concern.

47. On the basis of the Cash Flow Projections, the Company does not require interim financing at this stage of the proceedings, however, it will in several weeks' time. The Company is currently in discussions with the Bank to provide financing under the existing Revolving Facility which would alleviate the need for interim financing at this stage of the proceedings.

CRITICAL SUPPLIERS

48. The Company has a number of critical suppliers whose services and product are essential to the ongoing operation of the Company's LPG fracturing business. Two of these suppliers are in

particular essential as they supply products unique to the market place and that other suppliers are unable to provide.

49. Lamberti Canada Inc. and Lamberti USA Inc. (together, "**Lamberti**") supply gel and activator chemicals to the Company, which are patented by a third party and licensed to the Company and Lamberti as the development manufacturer of the system. No other party could provide these specific chemicals used in LPG fracturing in Canada and the US without going through the lengthy process of obtaining the license to use the patents and building the equipment needed to produce the chemicals. The other supplier critical to the Company's business is the Lubrizol Corporation ("**Lubrizol**") who owns the patents for a chemical called 'breaker', also critical in the LPG fracturing process.

50. If Lamberti and Lubrizol stop making these chemicals available to the Company, it would be unable to continue its LPG fracturing operations and the contracts lined up for this financial quarter, which account for the majority of the receivables anticipated in the Cash Flow Projections, could not be completed.

51. I have worked with the proposed Monitor to calculate the charge needed to protect these two suppliers at $1.10 million, being the amount for which the Company is exposed at any given time over the proposed stay period.

KEY EMPLOYEE RETENTION PLAN

52. As previously indicated, the Company intends to implement cost cutting measures including but not limited to reducing staff considered superfluous to the process and ongoing operations. Conversely, the Company's Directors have identified key employees whose skill and experience is integral to a successful restructuring and the Company on a go forward basis. As such, I am advised by Mark Williamson, the interim Chief Executive Officer of GESI, that in consultation and with the assistance of the Monitor, the Company has devised a key employee retention program ("**KERP**") approved by the Directors.

53. The KERP seeks to induce certain senior level employees deemed by Mark Williamson and the Directors to be essential to the ongoing operations of the Company, to remain with the Company throughout the restructuring process. Under the KERP, key employees in management or senior roles would earn a retention bonus (the "**Executive Retention Bonus**") if their employment continues through to the conclusion of the restructuring proceedings. The Executive Retention

Bonus, earned at the conclusion of the proceedings, is calculated based on a percentage of current salary, such percentages ranging from 25% to 75%. The specific key executives or senior employees included in the KERP, together with their proposed Executive Retention Bonuses are more particularly outlined in my Confidential Affidavit;

54. I have worked with EY to calculate the amounts necessary to pay the proposed KERP at approximately $725,000. I am advised by Neil Narfason of EY and do verily believe that based on the number of key employees and the size of the operations of the Company that the proposed KERP and amounts payable thereunder are reasonable in the circumstances.

55. While not forming part of the KERP Charge, the Company intends to implement employee retention plans for critical employees, which retention plans are designed to give the necessary incentive to those employees integral to the Company's ongoing operations and continued revenues to remain employed throughout the course of the restructuring proceedings. As indicated, the amounts payable under the critical employee retention plans will not be included in the proposed KERP charge, however, the Company has accounted for the plans in its Cash Flow Projections.

56. There are two aspects to the field employee retention plans.

57. Firstly, the Company intends to continue an employee pay top up program (the "**Top Up Program**") put in place in February of 2014 and designed to help employees with lower salaries maintain some income when operations slow down. Under the Top Up Program, approximately 125 field and maintenance employees either compensated by a field bonus or paid on an hourly basis, would be guaranteed either a minimum of three field bonuses or a minimum of 9 overtime hours during a monthly period. If the total field bonuses actually earned, or the total overtime hours actually worked by the employee during the month exceeds the minimums set out in the Top Up Program, then payments would be adjusted downward to reflect only the bonuses earned or overtime worked. The Top Up Program provides field and maintenance employees with 'top ups' of approximately 20% to 50% of their salary. The lower the employee's base salary, the more significant is the bonus component. In the last quarter of 2014, the Company paid an average of approximately $35,000.00 per month to employees under the Top Up Program.

58. Secondly, and in addition to the Top Up Program, employees critical (the "**Critical Employees**") to the ongoing operations of the Company (but not part of the KERP) would be eligible to a further maximum bonus of 10% of their salary (the "**Employee Bonus**") if employment with the

Company remained during the CCAA proceedings, unless that employee is terminated for cause. Approximately 165 Critical Employees would be eligible for the Employee Bonus, which would be earned monthly in the amount of approximately 3.33% of salary, up to the maximum amount of the Employee Bonus. The Company's maximum exposure in respect of the Employee Bonus has been calculated at approximately $1,000,000, which is accounted for in the Cash Flow Projections. Because the Company is not seeking a charge for the Employee Bonus, on the suggestion of the proposed Monitor, it is seeking authorization from the Court to set aside these funds at the conclusion of every month in the trust account of the Company's legal counsel (the "**Escrow Account**"). Calculated on a monthly basis, the Company would deposit a maximum of $338,000 into the Escrow Account.

59. I believe the Top Up Program and the Field Bonus will help the Company avoid any significant disruption to its ongoing operations throughout the course of these restructuring proceedings. I have discussed both the Top Up Program and the Employee Bonus with Neil Narfason of EY and have been advised by Mr. Narfason that these programs are reasonable in the circumstances.

PROPOSED MONITOR

60. EY has consented to act as Monitor of the Company in the event the Initial Order is granted by the Court. I am advised by EY and my legal counsel at Borden Ladner Gervais LLP that EY is qualified and competent to act as Monitor of the Company in the proposed CCAA proceedings. Attached as **Exhibit "F"** to this my Affidavit is a copy of a Consent to Act as Monitor duly executed by Neil Narfason of EY. At no time in the past two years has EY been the Company auditor, accountant or employee of the auditor.

RELIEF REQUESTED

61. I make this affidavit in support of the Company's application for the Initial Order pursuant to the CCAA, providing, among other things, for:

(a) A declaration that the Company is one to which the CCAA applies;

(b) A stay of all proceedings and remedies taken or that might be taken in respect of the Company or any of its property, except as otherwise set forth in the Initial Order or otherwise permitted by law;

(c) An authorization for the Company to carry on business in a manner consistent with the preservation of its property and business;

(d) The appointment of EY as Monitor of the Company in these proceedings;

(e) Approving the KERP as more particularly set out herein and in my Confidential Affidavit;

(f) Approving certain priority charges, including but not limited to an administration charge, a directors and officers charge. a charge for the KERP and a critical suppliers' charge; and

(g) A declaration that service of the Application for the Initial Order is good and sufficient.

SWORN BEFORE ME at Calgary, Alberta, this 13th day of January, 2015. Commissioner for Oaths in and for the Province of Alberta ROBYN GUROFSKY BARRISTER & SOLICITOR	)))))))	LORI MCLEOD-HILL

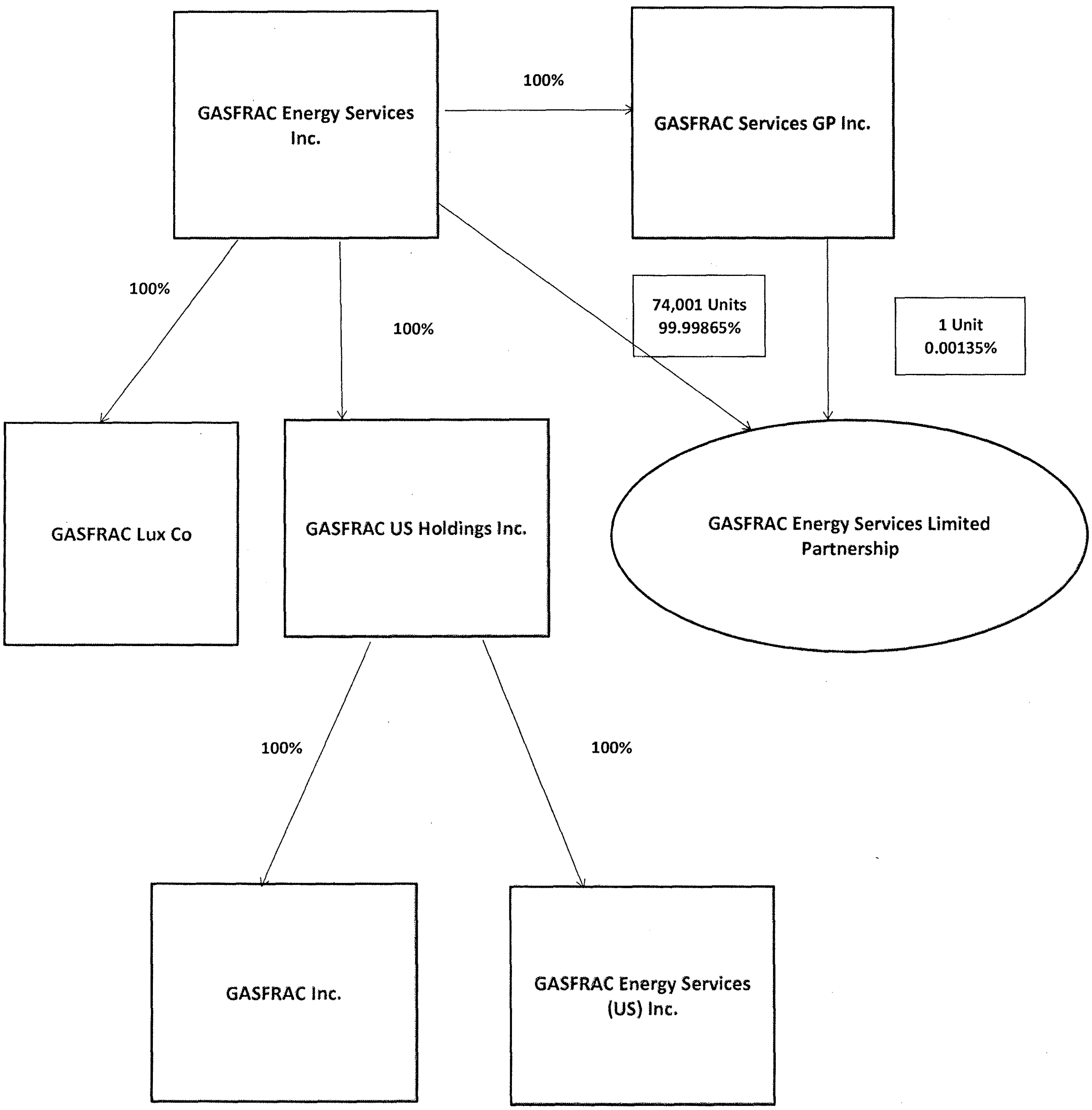
THIS IS EXHIBIT "A" REFERRED TO
IN THE AFFIDAVIT OF LORI MCLEOD-HILL
SWORN BEFORE ME AT CALGARY, ALBERTA
THIS 13th DAY OF JANUARY, 2015

Commissioner for Oaths in and for
the Province of Alberta

~~ROBYN GHROFSKY~~
~~BARRISTER &~~ SOLICITOR Solicitor

GASFRAC Energy Services Inc.

Notes:
GASFRAC Energy Services (US) Inc. (FKA GASFRAC Inc.)
GASFRAC Inc. (FKA GASFRAC Intermediate Services Inc.)



THIS IS EXHIBIT "B" REFERRED TO
IN THE AFFIDAVIT OF LORI MCLEOD-HILL
SWORN BEFORE ME AT CALGARY, ALBERTA
THIS 13th DAY OF JANUARY, 2015

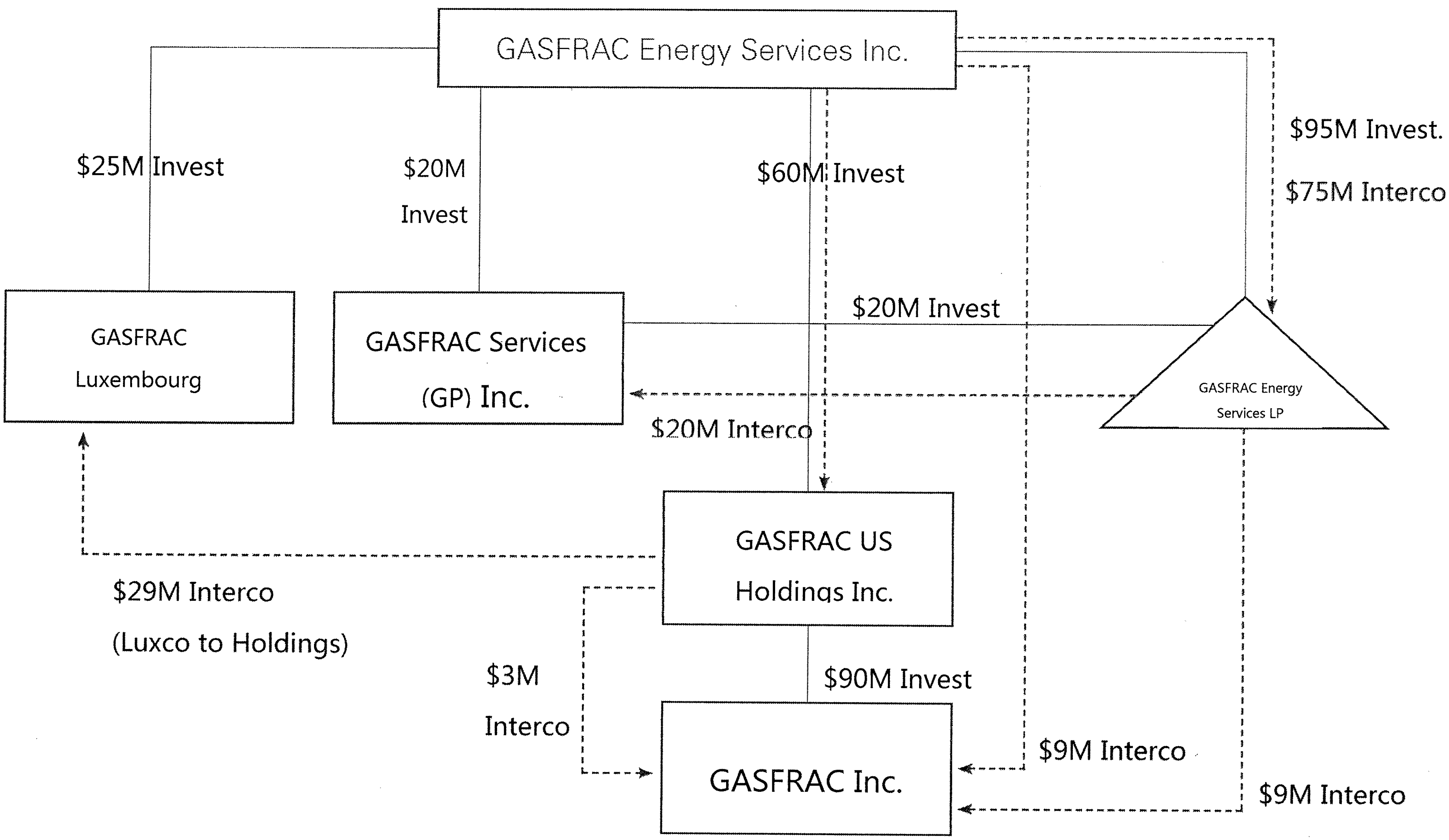
Commissioner for Oaths in and for
the Province of Alberta

ROBYN GUROFSKY
BARRISTER & SOLICITOR

Barrister & Solicitor

GASFRAC Energy Services Inc.

'December 2014 - Intercompany Balances



THIS IS EXHIBIT “C” REFERRED TO
IN THE AFFIDAVIT OF LORI MCLEOD-HILL
SWORN BEFORE ME AT CALGARY, ALBERTA
THIS 13th DAY OF JANUARY, 2015

Commissioner for Oaths in and for
the Province of Alberta

Barrister & Solicitor

ROBYN GUROFSKY
BARRISTER & SOLICITOR

GASFRAC ENERGY SERVICES INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2014

Condensed Interim Consolidated Statement of Financial Position

Unaudited

As at:	Notes	Sep 30, 2014	Dec 31, 2013
		CAD$ '000	CAD$ '000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		2,383	1,955
Trade and other receivables		9,841	26,037
Inventory	4	9,623	12,645
Prepaid expenses		1,237	1,459
TOTAL CURRENT ASSETS		23,084	42,096
NON-CURRENT ASSETS			
Plant and equipment	5	167,446	193,612
Intangible assets		571	780
Other assets	14	967	6,309
TOTAL NON-CURRENT ASSETS		168,984	200,701
TOTAL ASSETS		**192,068**	**242,797**
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Trade payables and accrued liabilities	6	9,129	14,352
Provisions	7	2,986	742
Unearned revenue		672	-
Current portion of finance lease obligation		624	1,359
Current portion of credit facility	8	-	18,573
TOTAL CURRENT LIABILITIES		13,411	35,026
NON-CURRENT LIABILITIES			
Finance lease obligation		706	835
Operating lease obligation		105	79
Credit facility	8	28,570	-
Convertible debentures	9	36,595	35,648
Commitments and contingencies	15		
TOTAL NON-CURRENT LIABILITIES		65,976	36,562
TOTAL LIABILITIES		79,387	71,588
CAPITAL & RESERVES			
Share capital	11	259,861	259,823
Contributed surplus		6,619	6,461
Foreign currency translation reserve		7,660	5,326
Retained earnings (deficit)		(161,459)	(100,401)
TOTAL EQUITY		112,681	171,209
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**192,068**	**242,797**

The accompanying notes are an integral part of the interim unaudited condensed consolidated financial statements

Going Concern **note 2**

On behalf of the Board — Dale Tremblay — Mark Williamson

GASFRAC ENERGY SERVICES INC.

Condensed Interim Consolidated Statements of Comprehensive Loss
Unaudited

	Notes	For the three months ended Sep 30, 2014 CAD$ '000	For the three months ended Sep 30, 2013 CAD$ '000	For the nine months ended Sep 30, 2014 CAD$ '000	For the nine months ended Sep 30, 2013 CAD$ '000
REVENUE		11,252	30,423	30,751	92,442
EXPENDITURES					
Direct operating costs		12,506	22,950	39,482	72,741
Selling, general and administrative		6,754	3,922	15,064	13,665
Share based compensation	12	11	290	268	866
Depreciation and amortization		5,845	6,303	18,182	19,273
Impairments	4, 5 & 15	-	-	16,600	120
Finance cost		1,487	1,775	4,438	5,109
Foreign exchange (gain) loss		(100)	193	(690)	186
		26,503	35,433	93,344	111,960
OTHER INCOME (LOSS)					
Gain / (loss) on disposition of assets	5	47	(52)	1,526	1,746
Interest income		4	1	9	16
		51	(51)	1,535	1,762
LOSS BEFORE INCOME TAXES		(15,200)	(5,061)	(61,058)	(17,756)
Income tax benefit	10	-	-	-	-
LOSS FOR THE PERIOD		(15,200)	(5,061)	(61,058)	(17,756)
OTHER COMPREHENSIVE (LOSS) / INCOME ITEMS THAT WILL BE RECLASSIFIED TO PROFIT AND LOSS					
Exchange differences on translating foreign operations		2,288	(1,233)	2,334	2,400
OTHER COMPREHENSIVE (LOSS)/ INCOME		2,288	(1,233)	2,334	2,400
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(12,912)	(6,294)	(58,724)	(15,356)
LOSS PER SHARE					
Basic (per share)	13	(0. 24)	(0.08)	(0.96)	(0.28)
Diluted (per share)	13	(0.24)	(0.08)	(0.96)	(0.28)

The accompanying notes are an integral part of the interim unaudited Condensed Consolidated Financial Statements

Going Concern **note 2**

Condensed Interim Consolidated Statement of Changes in Equity

Unaudited

	Notes	Share capital	Contributed surplus	Foreign currency translation reserve	Retained earnings (Deficit)	**Total Equity**
		CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	**CAD$ '000**
Balance as at January 1, 2013		259,551	5,810	1,055	(75,972)	**190,444**
Loss for the nine months ended September 30, 2013					(17,756)	**(17,756)**
Other comprehensive income for the nine months ended September 30, 2013, net of income tax				2,400		**2,400**
Total comprehensive loss for the nine months ended September 30, 2013				2,400	(17,756)	**(15,356)**
Exercise of share options		200	(50)	-	-	**150**
Release from restricted shares		54	(54)	-	-	-
Recognition of share based compensation		-	646	-	-	**646**
Balance as at September 30, 2013		259,805	6,352	3,455	(93,728)	**175,884**

	Notes	Share capital	Contributed surplus	Foreign currency translation reserve	Retained earnings (Deficit)	**Total Equity**
		CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	**CAD$ '000**
Balance as at January 1, 2014		259,823	6,461	5,326	(100,401)	**171,209**
Loss for the nine months ended September 30, 2014					(61,058)	**(61,058)**
Other comprehensive income for the nine months ended September 30, 2014, net of income tax				2,334		**2,334**
Total comprehensive loss for the nine months ended September 30, 2014.		-	-	2,334	(61,058)	**(58,724)**
Exercise of share options		-	-	-	-	-
Release from restricted shares	12	38	(38)	-	-	-
Recognition of share based compensation	12		196	-	-	**196**
Balance as at September 30, 2014		259,861	6,619	7,660	(161,459)	**112,681**

The accompanying notes are an integral part of the interim unaudited Condensed Consolidated Financial Statements

Condensed Interim Consolidated Statements of Cash Flows
Unaudited

	Notes	For the three months ended Sep 30, 2014	Sep 30, 2013	For the nine months ended Sep 30, 2014	Sep 30, 2013
		CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
CASH FLOWS PROVIDED BY (USED IN):					
OPERATING ACTIVITIES					
Net loss for the period		(15,200)	(5,061)	(61,058)	(17,756)
Adjusted for:					
Depreciation and amortization		5,845	6,303	18,182	19,273
Equity settled share based compensation	12	(7)	227	196	646
Impairments	4, 5 & 15	-	-	16,600	120
Bad debt expense		4	-	4	528
Finance cost per income statement		1,487	1,775	4,438	5,109
Unrealized foreign exchange loss / (gain)		(147)	68	(822)	204
(Gain) / loss on disposition of assets		(47)	52	(1,526)	(1,746)
		(8,065)	3,364	(23,986)	6,378
Net change in non-cash operating working capital	17	1,123	(9,644)	9,511	(8,165)
Cash (used) by operating activities		(6,942)	(6,280)	(14,475)	(1,787)
Interest paid		(1,692)	(2,099)	(3,927)	(4,524)
Net cash (used) by operating activities		(8,634)	(8,379)	(18,402)	(6,311)
INVESTING ACTIVITIES					
Purchases of plant and equipment		(168)	(253)	(2,060)	(2,084)
Acquisition of intangible assets		(42)	(21)	(81)	(103)
Proceeds from sale of plant and equipment		366	4,077	10,375	8,065
Net change in non-cash investing working capital		(57)	(628)	(573)	(1,398)
Net cash provided by investing activities		99	3,175	7,661	4,480
FINANCING ACTIVITIES					
Proceeds from common shares issued (net of share issue cost)		-	-	-	150
Net finance leases repayments		(374)	(236)	(883)	(502)
HSBC credit facility repayment		-	5,068	(18,573)	(5,567)
PNC credit facility draw		7,219	-	30,439	-
Net cash provided (used) by financing activities		6,845	4,832	10,983	(5,919)
Net increase (decrease) in cash and cash equivalents		(1,690)	(372)	242	(7,750)
Cash and cash equivalents at beginning of period		3,966	802	1,955	7,927
Effects of exchange rate changes on the balance of cash held in foreign currencies		107	(59)	186	194
CASH AND CASH EQUIVALENTS - END OF THE PERIOD		2,383	371	2,383	371

The accompanying notes are an integral part of the interim unaudited Condensed Consolidated Financial Statements

Going Concern **note 2**

1. CORPORATE INFORMATION

GASFRAC Energy Services Inc. ("GASFRAC" or the "Company") was incorporated on February 13, 2006 in Canada under the Business Corporations Act, in the Province of Alberta. The Company is an oil and gas well fracturing company that has developed new technology, the "LPG Fracturing Process", to enable wells to be fractured safely with Liquified Petroleum Gas ("LPG") or other hydrocarbon products, more specifically propane and butane.

The Company's principal place of business is located at Suite 1900, 801 – 6 Avenue S.W., Calgary, Alberta. T2P 3W2.

The Company's financial results are directly affected by the seasonal nature of the North American oil and natural gas industry. The first and fourth quarter incorporates the winter drilling season when a disproportionate amount of the activity takes place in Western Canada. During the second quarter, commonly referred to as "spring breakup", soft ground conditions typically curtail oilfield activity in all of the Company's Canadian operating areas. In addition, during excessively rainy periods in any of the Company's operating areas, equipment moves may be delayed, thereby adversely effecting revenues.

These interim Condensed Consolidated Financial Statements were approved and authorized for issuance by the Board of Directors on November 13, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Going concern

Management has prepared these interim Condensed Consolidated Financial Statements in accordance with IFRS applicable to a going concern, which contemplates that assets will be realized and liabilities will be discharged in the normal course of business as they become due. During, the period the Company maintained positive working capital of $9.7 million. Cash plus accounts receivable was less than current liabilities by $1.2 million as at September 30, 2014. Additional cash resources will be required to settle short term financial liabilities of $17.4 million (see note 16). The Company has incurred operating losses in its current year of $61.1 million (December 31, 2013 - $24.4 million) and has a current accumulated deficit of $161.5 million (December 31, 2013 - $100.4 million). For the nine months ended September 30, 2014 the Company reported negative cash flows from operating activities of $18.4 million (September 30, 2013 - $6.3 million). In addition to its ongoing working capital requirements, the Company also has financial commitments as at September 30, 2014 that amounted to $3.7 million (December 31, 2013 - $12.0 million) (see Commitments - note 15).

The Company faces additional uncertainties including economic dependence on a small number of customers, market success of expanded product offering, declining revenues, continued availability of financing from the existing Revolving Credit Facility (see note 8) and availability of alternative sources of funding. As at September 30, 2014, the Company has drawn $30.4 million (October 31, 2014 - $28.2 million) against the facility and therefore has available lending of $4.6 million (October 31, 2014 - $6.8 million) under the facility. The Revolving Credit Facility requires the Company to maintain, as of December 31, 2014 and each quarter thereafter, measured on a rolling four quarter basis, a Fixed Charge Coverage Covenant Ratio of 1.15 to 1.00. It is expected that the Company will not be compliant with this covenant when it becomes effective December 31, 2014. Any failure or neglect of the Company to perform or keep any term, provision or covenant under the Revolving Credit Facility is considered to be an Event of Default under the Revolving Credit Facility. In the Event of Default and at any time thereafter, the Bank shall have the right to terminate the Revolving Credit Facility, toterminate the obligation to make advances, and to make a demand for accelerated repayment thereunder. These material uncertainties raise significant doubt as to the Company's ability to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In the short term, the Company will continue to minimize discretionary expenses and supplement its operating cash flow with sales of excess inventory and non-revenue generating assets such as land and buildings. The Company's bank is aware of the expected covenant breach as at December 31, 2014 and management is regularly updating the Bank on business activity. Management has initiated negotiations with the Bank regarding a possible covenant waiver; however the outcome of those negotiations cannot be predicted at this time. In addition, it may be necessary for the Company to examine other strategic alternatives to continue operations and enhance stakeholder value, including but not limited to seeking credit protection, a joint venture partner, a possible equity financing or shareholder rights offering the results of which may be significantly dilutive, the possible sale of some or all of the Company's assets or the merger, amalgamation or sale of the Company with or to a larger, better financed entity.

The Company has recently signed a new two year contract that provides for a minimum revenue commitment with a major customer and has signed a three year contract renewal with another major multi-national customer. The Company has expanded its conventional fracturing product offerings and has taken possession of one of two new conventional blenders which is anticipated to increase its revenue generating capacity. During the quarter, the Company successfully implemented new proprietary technology to use infield hydrocarbons as a primary component of the fracturing fluid which reduces the overall cost to the customer and the Company completed its first conventional water fracturing treatments.

On November 13, 2014, the Company's board of directors formed a Special Committee of independent directors to identify, examine and consider a range of strategic alternatives available to GASFRAC, with a view to enhance and maximize shareholder value. This process could result in seeking a joint venture partner, or a sale of some or all of the assets of the Company, or a merger, amalgamation or sale of the Company with or to a larger, better financed entity. The board has engaged CIBC World Markets Inc. to serve as financial advisor to GASFRAC in connection with this strategic alternative process. However, there can be no assurance that the steps management is taking will be successful.

The Company's access to sufficient capital will impact its ability to complete equipment purchases and operational changes required to offer an expanded services range. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues and expenses and balance sheet classifications that would be necessary if the Company was unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

STATEMENT OF COMPLIANCE

These interim Condensed Consolidated Financial Statements present the Company's financial position and comprehensive income for the nine months ended September 30, 2014, including 2013 comparative periods and have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to interim periods including International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). These interim financial statements have been prepared in Canadian dollars.

These interim Condensed Consolidated Financial Statements do not include all of the necessary annual disclosures in accordance with IFRS and should be read in conjunction with the Company's annual audited Consolidated Financial Statements for the year ended December 31, 2013. The same accounting policies and methods of computation are followed in these interim financial statements as compared with those Consolidated Financial Statements for the year ended December 31, 2013 with the exception of the following.

Unearned revenue

Unearned revenue results from a customer who is billed a monthly fee for services in advance of the period in which the services are provided. Services are earned quarterly and revenue for the services is recognized quarterly. The maximum period for which the customer is billed in advance is 3 months.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company considers whether an impairment loss on the assets associated with that contract needs to be recognized, and if appropriate recognizes such loss.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies management are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The critical judgments that management made in the process of applying the Company's accounting policies in the audited financial statements for the year ended December 31, 2013 have been applied consistently for the nine months ended September 30, 2014.

KEY SOURCES OF ESTIMATION UNCERTAINTY

All key assumptions concerning the future and other key sources of estimation uncertainty made in the process of preparing the audited financial statements for the year ended December 31, 2013 were applied consistently for the nine months ended September 30, 2014, except as noted below.

Impairment evaluation of non-financial and intangible assets (note 5)

The Company's impairment test compares the carrying amount of the assets for each cash generating unit ("CGU") and compares to the fair value less cost of disposal ("FVLCD"). The Company allocates non-financial assets and intangible assets into a CGU based on the geographical areas where the assets operate.

FVLCD requires management to estimate the amount obtained from the sale of an asset or a CGU in an arm's length transaction between two knowledgeable, willing parties less the cost of disposal. The best evidence of fair value is the quoted price in an active market or a binding sales agreement for the same or similar assets(s). Where neither exists, fair value is based on the best information available to estimate the amount the Company could obtain form the sale of the asset(s) in an arm's length transaction such as an independent report from an appraiser.

Inventory net realizable value (note 4)

Inventory consists of liquefied petroleum gas, chemicals and proppants used to simulate well production and is stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Determining net realizable value includes considering contracted selling prices, current market replacement costs and demand for the material. Excess or slow moving inventory items are identified and net realizable value is determined using management's best estimate considering the factors above. Given that inventory is a significant component of the consolidated financial statements, any changes in assumptions or estimates could have a material impact on the Company's financial position and results of operations.

4. INVENTORY

Inventory represents raw materials and spare parts used in the fracturing process.

	Sep 30, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Proppant	7,758	10,366
Chemicals	1,518	1,521
LPG	72	337
Other	275	421
	9,623	**12,645**

During the second quarter, $6.8 million (2013: nil) in ceramic proppant inventory was written down from its carrying amount to its net realizable value. The write down was a result of an industry decrease in price for specific types of ceramic proppant and excess supply of the ceramic proppant. Other types of proppant are in short supply.

5. PLANT AND EQUIPMENT

Cost	Field equipment	Light vehicles	Other[1]	Land and buildings	Total
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	**CAD$ '000**
Balance as at January 1, 2013	312,879	5,796	2,579	99	**321,353**
Additions	1,535	981	121	358	**2,995**
Disposals	(11,071)	(1,483)	(387)	-	**(12,941)**
Transfers with classes	(1,014)	-	463	551	-
Transfers from non-current assets held for sale	1,352	-	-	-	**1,352**
Effects of foreign currency exchange differences	6,545	124	35	37	**6,741**
Balance as at December 31, 2013	310,226	5,418	2,811	1,045	**319,500**
Additions	238	141	76	1,605	**2,060**
Disposals	(15,516)	(828)	-	-	**(16,344)**
Effects of foreign currency exchange differences	5,246	89	24	56	**5,415**
Balance as at September 30, 2014	300,194	4,820	2,911	2,706	**310,631**

Accumulated depreciation	Field equipment	Light vehicles	Other[1]	Land and buildings	Total
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	**CAD$ '000**
Balance as at January 1, 2013	(98,749)	(2,279)	(1,269)	-	**(102,297)**
Depreciation	(23,135)	(1,397)	(582)	(99)	**(25,213)**
Disposals	3,056	1,021	362	-	**4,439**
Impairments	(120)	-	-	-	**(120)**
Effects of foreign currency exchange differences	(2,621)	(55)	(19)	(2)	**(2,697)**
Balance as at December 31, 2013	(121,569)	(2,710)	(1,508)	(101)	**(125,888)**
Depreciation	(16,297)	(1,006)	(413)	(175)	**(17,891)**
Disposals	6,879	616	-	-	**7,495**
Impairment	(4,400)	-	-	-	**(4,400)**
Effects of foreign currency exchange differences	(2,427)	(55)	(10)	(9)	**(2,501)**
Balance as at September 30, 2013	(137,814)	(3,155)	(1,931)	(285)	**(143,185)**
Carrying Value December 31, 2013	188,657	2,708	1,303	944	**193,612**
Carrying Value September 30, 2014	162,380	1,665	980	2,421	**167,446**

	Sep 30, 2014	Dec 31, 2013
Included in field equipment are assets under construction carried at cost	1,186	1,942
Carrying amount of vehicles secured under finance lease obligation	1,178	1,924

Assets under construction is not depreciated and is transferred to field equipment when it is substantially completed and available for use as intended by the technical specifications and testing.

IMPAIRMENT OF ASSETS

The Company has performed impairment assessments as at June 30, 2014 and December 31, 2013 as indicators that impairment was present. The key indicators of impairment were the carrying value of net assets exceeding market

[1] Other includes furniture and fittings, leasehold improvements and computer equipment

capitalization and the operating losses for the six month period ended June 30, 2014. At September 30, 2014 no new indicators of impairment were present.

During May 2014, as part of the Revolving Credit Facility financing, an appraisal was conducted on behalf of the Bank. At December 31, 2013, the Company engaged independent third party appraisers to assess the value of the assets within the Canadian and US cash generating units. The third party appraisers determined the assigned values based on sale prices of similar equipment, the cost to reproduce or replace similar equipment and the knowledge and experience of the appraisers. Management also considered the proceeds received on recent asset sales compared to the carrying value of those assets. Fair market value was defined as the price at which the equipment would exchange hands between a willing buyer and seller under no compulsion to act less a reasonable cost to sell. The appraisals are considered to be fair market values determined by level 3 data inputs.

The assets appraised represented approximately 90% of the total assets as at the end of the second quarter 2014. The Company reviewed all assets not appraised on an asset by asset base to determine if any of those assets were impaired. As a result of that review, a $4.4 million impairment charge was recorded as at June 30, 2014. The individual assets were valued at the estimated proceeds (fair value less costs of disposal) based on level 3 data inputs.

At December 31, 2013, management concluded that the recoverable amount based on fair value less costs of disposal exceeded the carrying amount for both the Canadian and US cash generating unit and therefore there was no impairment of the appraised and unappraised equipment.

ASSETS PLEDGED AS SECURITY

Field equipment has been pledged to secure borrowings of the Company. The Company is restricted from pledging these assets as security for other borrowings or selling them to another entity (as discussed in note 8). The Company's obligations under finance leases are secured by the lessors' title to the leased light vehicles.

6. TRADE PAYABLES AND ACCRUED LIABILITIES

	Sep 30, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Trade payables	5,270	5,855
Operating accruals, payroll liabilities and other indirect taxes	3,528	7,009
Cash-settled share based compensation	96	549
Accrued interest on convertible debentures	235	939
	9,129	**14,352**
Amounts payable for capital purchases included in trade payables	188	760

The general payment terms on trade payables are 30 days from the date of the invoice. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The accrued interest on convertible debentures represents the coupon interest payable at 7% on the outstanding debentures (refer note 9). This interest is payable semi-annually on August 31 and February 28.

Non-cash inventory working capital is the movement in capital purchases included in trade payables.

7. PROVISIONS

Nine months ended September 30, 2014	Onerous Contract	Employee Benefits	Total
	CAD$ '000	CAD$ '000	CAD$ '000
Opening January 1, 2014	-	742	742
Additional provisions	2,150	1,176	3,326
Utilized during the period	-	(1,082)	(1,082)
Provision for the nine months ended September 30, 2014	2,150	836	2,986

The onerous contract provision is management's best estimate of the additional cost to terminate the ceramic proppant supply agreement. Management anticipates settling $1.7 million of the additional $2.2 million in termination costs with ceramic proppant inventory. Negotiations remain ongoing at the time of release and the final termination costs may be more or less than management's current estimate. (see note 15)

8. CREDIT FACILITY

On June 19, 2014, the Company entered into a Revolving Credit and Security Agreement (the "Revolving Credit Facility"). The Facility is a five-year revolving credit facility of up to $60 million subject to a borrowing base. On June 19, 2014, the Company had total availability of $35 million under the facility, with availability to increase based on future performance of the Company. As at September 30, 2014, the Company has drawn $30.4 million (October 31, 2014 $28.2 million) against the facility and therefore has available lending of $4.6 million (October 31, 2014 $6.8 million) under the facility. The term of the Facility may be accelerated to November 30, 2016 in the event that the subordinated debentures are not refinanced under terms acceptable to the bank. Early termination fees also apply in the first two years of the agreement.

Any failure or neglect of the Company to perform or keep any term, provision or covenant is considered to be an Event of Default under the Revolving Credit Facility. In the Event of Default and at any time thereafter the Bank shall have the right to terminate the Revolving Credit Facility and to terminate the obligation to make advances.

The borrowing base is calculated as a percentage of eligible accounts receivable, eligible inventories, and the net orderly liquidation value (NOLV) of the machinery and equipment to a maximum amount for each category ("sublimit"). Eligible inventories are based on the lower of cost or market value and the NOLV of the machinery and equipment is determined based on appraisals.

The Revolving Credit Facility is available in Canadian and US dollars and bears interest at the applicable Canadian or US prime rate plus 1.5% or the Banker's Acceptance rate or LIBOR plus 3.5%. The Revolving Credit Facility requires the Company to comply with certain financial and non-financial covenants.

The Revolving Credit Facility requires the Company to maintain, as of December 31, 2014 and each quarter thereafter measured on a rolling four quarter basis, a Fixed Charge Coverage Covenant Ratio (FCC) of 1.15:1.00. The FCC is defined as the ratio of EBITDA minus Unfunded Capital Expenditures minus Cash Taxes divided by all Annualized Debt Payments.

EBITDA is a non-GAAP measure and is defined as the sum of:

(a) Net income or loss for such period excluding extraordinary gains and losses, plus

(b) All interest expense for such period (to the extent deducted in determining net earnings), plus

(c) All charges against income for such period for income taxes in accordance with GAAP, plus

(d) Depreciation expense, plus

(e) Amortization expense, plus or minus

(f) Permitted EBITDA Adjustments.

Permitted EBITDA Adjustments shall mean, to the extent deducted in the calculation of net earnings, the following non-cash items: equity settled share-based compensation, impairment losses, unrealized foreign exchange gains or losses, and gains or losses on the sale of assets (other than inventory sold in the ordinary course of business).

Debt Payments is defined as:

(a) All cash actually expended by the Company to make:

a. Interest payments on the revolving credit facility, plus
b. Payments for all fees, commissions and charges related to the agreement; plus
c. Payments on Capitalized Lease Obligations; plus
d. Permitted Subordinated Debenture Redemptions, plus
e. Payments with respect to any other Indebtedness for borrowed money, including the Subordinated Debt, plus

(b) The aggregate amortization amount ($4.5 million) effective for the March 31, 2015 and thereafter Fixed Charge Covenant measurement.

For the first 11 months of the Revolving Credit Facility the debt payments are annualized.

The lender has a continuing security interest in all of its collateral whether now owned or hereafter created or acquired. Collateral includes all assets and property of the Company including receivables, machinery and equipment, intangibles, and inventory.

The Company is compliant with all applicable covenants at September 30, 2014 (see note 16 – Liquidity Risk).

The Company's previous credit facility consisted of a $10 million revolving operating facility and a $40 million revolving facility. Both facilities were secured by a floating charge over all of the assets (excluding leased assets). The facility was to mature on June 30, 2014 and pursuant to IAS 1 the Company presented the entire credit facility as current in prior reporting periods.

	Sep 30, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Current portion	-	18,573
Non-current portion	30,439	-
Transaction costs	(1,869)	-
	28,570	**18,573**

The Company's transaction costs of $1.9 million related to acquiring the Revolving Credit Facility have been netted against its carrying value at September 30, 2014.

9. CONVERTIBLE DEBENTURES

On February 8, 2012 the Company closed its public offering of $35 million aggregate principle amount of 7.00% convertible unsecured subordinated debentures, and on February 8, 2012 closed the overallotment option of the public offering for an additional $5.25 million of similar debt, for a total issuance of $40.25 million aggregate principle amount. The debentures bear interest at an annual rate of 7.00% payable semi-annually, in arrears, on August 31 and February 28 in each year commencing August 31, 2012. The debentures mature on February 28, 2017. These debentures are not secured and are classified as financial liabilities measured at amortized cost.

The debentures are convertible into common shares of the Company at the option of the holder at a conversion price of $10.50 per common share. Subject to adjustment in certain events, this conversion represents a conversion rate of approximately 95.2381 common shares per $1,000 principal amount of debentures.

The Company may not redeem the debentures prior to February 28, 2015. On or after this date and prior to maturity, the debentures may be redeemed in whole or in part from time to time at the Company's option at par plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Company's common shares are not less than 125% of the conversion price for twenty consecutive days ending on the fifth trading day preceding the date on which notice of redemption is given. Upon redemption or maturity, the Company may repay the outstanding principal of the Debentures through the issuance of common shares.

The debentures have been classified as debt, net of issuance costs and net of the fair value of the conversion feature at the date of issuance which has been classified as part of contribution surplus within shareholders' equity in the amount of $3.116 million (gross amount of $4.243 million adjusted for deferred tax of $1.127 million). The issuance costs will be amortized over the term of the debentures and the debt portion will accrete up to the principal balance at maturity. The accretion, amortization of issuance costs and the interest paid are expensed on the consolidated statement of loss and comprehensive loss. The fair value of the conversion feature was determined at the time of issuance as the difference between the principal value of the debentures and the discounted cash flows assuming a 10% rate which was the estimated rate for debt with similar terms at the time.

10. INCOME TAX

Income tax expense is recognized based on management's estimate of the weighted average annual income tax expected for the full financial year. The estimated average annual tax rate used for the year to December 31, 2014 is the total Canadian Federal and Provincial tax rate of 25% (2013: 25%). The Company has $240 million (2013: $208 million) of tax pools related to non-capital losses available for carry forward to reduce taxable income in future years and expire between 2029 and 2032. The Company recognizes no deferred tax assets in respect of temporary differences and tax losses as it is not probable that there would be sufficient future taxable profits for their utilization.

11. SHARE CAPITAL

AUTHORIZED

Unlimited number of common shares.

Unlimited number of preferred shares issuable in series with the designation, rights, privileges, restrictions and conditions of each series to be determined by the board of directors.

Number of issued shares

	Sep 30, 2014		Dec 31, 2013	
	Shares	Amount	Shares	Amount
	#	CAD$ '000	#	CAD$ '000
Balance as at January 1	63,607,668	259,823	63,515,664	259,551
Options exercised	-	-	75,000	200
Released from restricted shares	9,003	38	17,004	72
Balance as at period end	**63,616,671**	**259,861**	63,607,668	259,823

12. SHARE BASED COMPENSATION

The Company has four share based compensation plans in place that form part of the remuneration and performance management goals of the Company. The number of participating units under each plan is calculated in accordance with the performance-based formula approved by the Compensation Committee. The formula rewards executives and senior employees to the extent of the Company's and the individual's achievement judged against both quantitative and qualitative criteria from the following financial and customer service measures:

- earnings before income tax, depreciation and amortization;
- return on capital employed; and,
- safety.

EQUITY SETTLED SHARE BASED COMPENSATION PLANS

Restricted shares

The Company has granted restricted shares for certain employees with annual vesting over five years from the date of the grant. Granted restricted shares are held in trust until it vests when it is then issued to the employee. Cancelled or forfeited restricted share units are returned by the trust and cancelled.

The balance of restricted share units issued but not earned by employees is:

	Sep 30, 2014	Dec 31, 2013
	Units	Units
	#	#
Balance as at January 1	6,585	16,599
Earned by employees	(3,822)	(10,014)
Forfeited – returned	(2,501)	
Balance as at period end	262	6,585

The balance of restricted share units earned by employees but not vested as recorded in contributed surplus:

	Sep 30, 2014		Dec 31, 2013	
	Units	Amount	Units	Amount
	#	CAD$ '000	#	CAD$ '000
Balance as at January 1	17,488	74	24,478	104
Earned by employees – recognized as share based compensation	3,822	16	10,014	42
Vested	(9,003)	(38)	(17,004)	(72)
Forfeited	(11,247)	(47)	-	-
Balance as at period end	1,060	5	17,488	74
Balance of share units issued but not vested	1,322		24,073	

Share options

A summary of the status of the Company's outstanding stock options is presented below:

	Sep 30, 2014		Dec 31, 2013	
	Options	Average exercise price	Options	Average exercise price
	#	CAD$	#	CAD$
Balance as at January 1	3,295,000	2.31	2,810,000	3.07
Granted	1,370,000	1.72	1,605,000	1.65
Exercised	-	-	(75,000)	2.00
Forfeited	(1,495,833)	2.37	(320,000)	2.45
Expired	(50,000)	4.25	(725,000)	3.75
Balance as at period end	**3,119,167**	2.00	**3,295,000**	**2.31**

During Q3 2013, the Company amended the stock option plan such that options continue to vest over three years however options now expire one year after vesting. Previously issued options expired five years from the date of grant. The 3,119,167 options outstanding at September 30, 2014 (December 31, 2013: 3,295,000) had exercise prices ranging from $1.37 to $8.15 (December 31, 2013: $1.37 to $8.85) per share with expiry dates ranging from 2014 to 2018 (December 31, 2013: 2014 to 2018). When stock options are exercised the proceeds, together with the amount of compensation expense previously recorded in contributed surplus are added to share capital. In 2014 no options have been exercised. In 2013 the average share price that options were exercised at was $2.11.

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value for the share options granted in the period. The following assumptions were used to value the options on the grant date:

	Jun 2, 2014	May 7, 2014	Feb 6, 2014
Share price (CDN $)	$1.83	$1.91	$1.66
Exercise price (CDN $)	$1.83	$1.91	$1.66
Volatility (%)	54.5	36.0	37.4
Average expected life (years)	2.9	2.9	3.2
Dividend yield (%)	-	-	-
Forfeiture rate (%)	28.2	27.8	27.2
Risk free interest rate (%)	1.2	1.2	1.2

CASH-SETTLED SHARE BASED COMPENSATION PLANS

Performance share units

The Company grants performance share units to officers and employees with the amount of the grant earned being linked to corporate performance and grants vesting from one to three years from date of grant. The performance share units can be settled in cash or equity, but the current policy is to settle these in cash.

	Sep 30, 2014 Units #	Dec 31, 2013 Units #
Performance share units earned		
Balance as at January 1	155,568	254,223
Vested	16,125	130,203
Paid in cash	(36,666)	(137,501)
Forfeited	(98,709)	(91,357)
Balance as at period end	**36,318**	**155,568**
	CAD$ '000	CAD$ '000
Performance share units payable	45	287

Deferred share units

Effective August 7, 2013, the Company adopted a deferred share unit plan approved by the Board of Directors on that date. Under the plan directors and employees of the Company are eligible to receive grants that will vest evenly over one year. The deferred share units will be settled in cash. Unvested deferred share units are forfeited on termination.

	Sep 30, 2014 Units #	Dec 31, 2013 Units #
Deferred share units earned		
Balance as at January 1	145,899	-
Vested	161,514	145,899
Paid in cash	(265,000)	-
Balance as at period end	**42,413**	**145,899**

The initial grant of 265,000 units vested on April 30, 2014. Effective with the change in Board of Directors May 27, 2014, the former directors' units were paid out in cash and were valued at $459,000.

On July 8, 2014 149,457 deferred share units were granted to directors of the Corporation. These units will vest evenly over the period ending April 30, 2015.

On September 30, 2014 34,871 deferred share units were granted to an officer of the Corporation. These units will vest evenly over the period ending January 1, 2015.

	CAD$ '000	CAD$ '000
Deferred share units payable	51	262

Changes in the Company's obligations under performance share and deferred share units, which arise from fluctuations in the market value of the Company's shares underlying the compensation program, are recorded as the share price changes.

Total share based compensation expense

	For the three months ended		For the nine months ended	
	Sep 30, 2014	Sep 30, 2013	Sep 30, 2014	Sep 30, 2013
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
Equity-settled share based compensation				
Share options	(8)	218	180	612
Restricted share units	1	8	16	34
Cash-settled share based compensation				
Performance share units	(33)	(21)	(175)	135
Deferred share units	51	85	247	85
Balance as at period end	11	290	268	866

Share based compensation for the quarter reflects the reversal of share based compensation expense recognized in previous periods due to the forfeitures of share options, restricted share units, performance share units and deferred share units granted to employees whose services were terminated before the vesting period.

13. LOSS PER SHARE

BASIC / DILUTED LOSS PER SHARE

The loss and weighted average number of common shares used in the calculation of basic / diluted loss per share are as follows:

	For the three months ended		For the nine months ended	
	Sep 30, 2014	Sep 30, 2013	Sep 30, 2014	Sep 30, 2013
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
Loss used in the calculation of basic /diluted loss per share	(15,200)	(5,061)	(61,058)	(17,756)
	# '000	# '000	# '000	# '000
Weighted average number of common shares for the purposes of basic / diluted loss per share	63,616	63,601	63,613	63,550
Basic / Diluted loss earnings per share (CAD$)	(0.24)	(0.08)	(0.96)	(0.28)

All other instruments that can be settled in equity were excluded from the calculation of diluted loss per share as the effect would have been anti-dilutive.

14. RELATED PARTY TRANSACTIONS

Since May, 2014 the board of directors have resolved to accept deferred share units in lieu of cash directors fees. These deferred share units vest April 30, 2015.

During the nine months ended September 30, 2014, the Company incurred legal fees of $53 thousand from a law firm of which a departing officer was a partner.

During the nine months ended September 30, 2014, the Company incurred legal fees of $114 thousand from a law firm of which an officer is a partner.

15. COMMITMENTS FOR EXPENDITURE AND CONTINGENCIES

COMMITMENTS

	Sep 30, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Commitment for the purchase of raw materials	8,753	65,381
Less than one year	1,377	10,314
Between 1 and 3 years	3,103	38,671
Between 4 and 5 years	3,407	15,574
Beyond 5 years	866	822
Commitments for the acquisition of plant and equipment within the next year	2,330	1,714
Total commitments	11,083	67,095

Commitment for the purchase of raw materials comprises of a yearly order quantity for proppants up to 2019 (December 31, 2013 – 2019). Such orders will be funded from operating resources. During the second quarter the decision was made to terminate one ceramic proppant contract which resulted in a long-term deposit of $5.4 million being written off and related inventory being recorded at net realizable value. The write-off of $5.4 million was management's best estimate at the time of the costs associated with the contract termination. During the third quarter an additional provision related to the contract termination was recorded (see note 7). The remaining proppant contract has a deposit of $1.4 million, $440 thousand of which is classified as short term. This deposit is at risk if the commitment is not met.

CONTINGENCIES

The Company is involved in various legal actions which occur from time to time in the course of operations. Management is of the opinion that losses, if any, arising from such legal actions would not have a material effect on these Condensed Interim Consolidated Financial Statements.

16. FINANCIAL INSTRUMENTS

The financial risk management objectives remained consistent with those disclosed in the prior year Consolidated Financial Statements and the Company is still subject to the same foreign currency exchange risks and exchange rate risks (collectively known as market risk), credit risk and liquidity risk as at December 31, 2013.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. There is a material uncertainty about the Company's ability to continue as going concern, see note 2 for details regarding the going concern assumption.

For the nine month period ended September 30, 2014, the Company had a net loss of $61.1 million and negative cash flows from operating activities of $18.4 million. The Company maintained positive working capital of $9.7 million. Cash plus accounts receivable is less than current liabilities by $1.2 million. It is anticipated that current working capital is not sufficient to satisfy the $17.4 million in financial liabilities (see table below) that fall due within the next 12 months. The Company's 2014 operating results have negatively affected the balance sheet and liquidity.

The Revolving Credit Facility requires the Company to maintain, as of December 31, 2014 and each quarter thereafter, measured on a rolling four quarter basis, a Fixed Charge Coverage Covenant Ratio of 1.15 to 1.00. It is expected that the Company will not be compliant with this covenant when it becomes effective December 31, 2014. Any failure or neglect of the Company to perform or keep any term, provision or covenant is considered to be an Event of Default under the Revolving Credit Facility. In the Event of Default and at any time thereafter, the Bank shall have the right to terminate the Revolving Credit Facility, to terminate the obligation to make advances and to make a demand for accelerated repayment thereunder. The Company's Bank is aware of the expected covenant breach at December 31, 2014 and management is regularly updating the Bank on business activity. Management anticipates that it will be negotiating a covenant waiver with the Bank; however the outcome of those negotiations cannot be predicted at this time.

In the short term the Company will continue to minimize discretionary expenses and supplement its operating cash flow with sales of excess inventory and non-revenue generating assets such as land and buildings.

As at September 30, 2014, the Company had available the following resources:

	Sep 30, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Cash and cash equivalents	2,383	1,955
Trade receivables	9,486	25,868
Unused credit facility – based on 2014 availability of $35 million (note 8)	4,561	31,427
	16,430	**59,250**

The timing of cash outflows relating to financial liabilities are outlined in the following table:

	Contractual cash flows at Sep 30, 2014	Less than 1 year	1 to 3 years	4 to 5 years	Greater than 5 years
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
Trade payables and accrued liabilities (less accrued debenture interest)	8,894	8,894	-	-	-
Provisions	2,986	2,986	-	-	-
Unearned revenue	672	672	-	-	-
Finance lease obligation (including expected interest)	1,432	685	747	-	-
Credit facility (including expected interest)	36,944	1,370	2,740	32,834	-
Debentures (including expected interest)	47,294	2,818	44,476	-	-
Total	98,222	17,425	47,963	32,834	-

	Contractual cash flows at Dec 31, 2013	Less than 1 year	1 to 3 years	4 to 5 years	Greater than 5 years
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
Trade payables and accrued liabilities (less accrued debenture interest)	12,864	12,864	-	-	-
Provisions	742	742	-	-	-
Finance lease obligation (including expected interest)	2,367	1,465	902	-	-
Credit facility (including expected interest)	19,241	19,241	-	-	-
Debentures (including expected interest)	50,112	2,818	5,635	41,659	-
Total	85,326	37,130	6,537	41,659	-

The finance lease obligation has an average future interest rate of 7.81% (2013: 7.31%) and a term of 13 months (2013: 13 months). The credit facility contractual cash flows have been calculated at an interest rate of prime + 1.5% (2013: prime + 4.25%) and matures June 19, 2019.

Capital Management

The Company's objectives when managing its capital structure are to maintain a balance between debt and capitalization so as to withstand industry and seasonal volatility, maintain investor, creditor and market confidence and to sustain growth of the business. Debt includes the current and long term portions of finance leases, the outstanding balance of the credit facility and the debt portion of the convertible debentures less cash and cash equivalents. Capitalization is calculated as the debt, as described above, and shareholders' equity including the equity portion of the convertible debentures.

The Company also manages its capital structure to ensure compliance with financial and other affirmative and negative covenants on its credit facilities (note 8). The covenants are monitored on a regular basis and controls are in place to ensure the Company maintains compliance with these covenants. The Company is required to maintain a fixed charge coverage ratio for a rolling consecutive four quarters commencing for the quarter ended December 31, 2014 and as at the end of each calendar quarter thereafter. The credit facility includes maximum allowable amounts for finance leases, capital expenditures, and asset disposals. The credit facility also includes provisions related to the redemption of convertible debentures and renewal terms for the convertible debentures. As at September 30, 2014, the Company is in compliance with all the applicable covenants related to the Revolving Credit Facility (see Liquidity Risk).

The Company monitors its capital structure and makes adjustments in light of changing market conditions and new opportunities. To maintain or adjust its capital structure, the Company may revise its capital spending, issue new equity, issue additional subordinated debt, or draw on its revolving credit facility.

The Company believes that it has access to sufficient capital resources to satisfy its short term obligations associated with financial liabilities and capital expenditures (see note 2).

FAIR VALUES OF FINANCIAL INSTRUMENTS:

The Company's financial instruments included on the consolidated balance sheet and measured at amortized cost include: trade payables and accrued liabilities; provisions; finance lease obligations; the credit facility and convertible debentures with accrued interest.

The fair value of most of the Company's financial instruments included on the consolidated balance sheet approximate their carrying amounts due to their short term maturity. The carrying amount of the debt outstanding pursuant to the credit agreement (the revolving credit facility) approximates fair value as the interest rate on this instrument approximates current market rates (level 2 criteria).

The Company's convertible debentures trade on the Toronto Stock Exchange under the symbol GFS.DB. The fair value of the convertible debentures is based on quoted market prices and is considered to be a Level 1 fair value measurement. The carrying value includes the debt and equity portion of the convertible debentures and excludes the deferred income tax impact of the debentures charged against the equity portion. As at September 30, 2014, the fair value of the convertible debentures was $29,282 thousand (December 31, 2013 $33,408 thousand) and the carrying value was $36,830 thousand (December 31, 2013 $36,587 thousand).

The following provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's finance department is responsible for performing the valuation of financial instruments. The valuation processes and results are reviewed and approved by the CFO and CEO at least once every quarter, in line with the Company's quarterly reporting dates. Valuation results are discussed with the Audit Committee as part of its quarterly review of the Company's financial statements.

17. OPERATING WORKING CAPITAL

The change in non-cash working capital related to operating activities consists of:

	For the three months ended		For the nine months ended	
	Sep 30, 2014	Sep 30, 2013	Sep 30, 2014	Sep 30, 2013
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
Accounts receivable	(4,978)	(14,618)	16,453	(2,595)
Accounts payable (not including capital purchases)	3,535	6,933	(3,076)	(734)
Inventory	(100)	(1,111)	(3,803)	(2,965)
Performance /deferred share unit liability	18	64	(453)	(199)
Other	2,648	(912)	390	(1,672)
Net change in non-cash working capital	1,123	(9,644)	9,511	(8,165)

18. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the region where goods or services are delivered or provided. These regions are divided into Canada and U.S., and represent the Company's reportable segments. Both regions deliver and provide fracturing services to clients. Canada's primary operations are in the province of Alberta, while the U.S. focuses on delivering fracturing services to customers, primarily in the southern states.

Nine months ended September 30, 2014	Canada	U.S.A.	Total
	CAD$ '000	CAD$ '000	CAD$ '000
Revenue	25,531	5,220	30,751
Segment loss before tax for the nine months ended September 30, 2014	(43,930)	(11,031)	(54,961)
Share based compensation			(268)
Other expenditure attributed to the corporate office			(5,829)
Loss before tax for the nine months ended September 30, 2014			(61,058)

Nine months ended September 30, 2013	Canada	U.S.A.	Total
	CAD$ '000	CAD$ '000	CAD$ '000
Revenue	70,042	22,400	92,442
Segment loss before tax for the nine months ended September 30, 2013	(7,058)	(2,799)	(9,857)
Share based compensation			(866)
Other expenditure attributed to the corporate office			(7,033)
Loss before tax for the nine months ended September 30, 2013			(17,756)

Three months ended September 30, 2014	Canada	U.S.A.	Total
	CAD$ '000	CAD$ '000	CAD$ '000
Revenue	6,425	4,827	11,252
Segment loss before tax for the three months ended September 30, 2014	(10,380)	(2,590)	(12,970)
Share based compensation			(11)
Other expenditure attributed to the corporate office			(2,219)
Loss before tax for the three months ended September 30, 2014			(15,200)

Three months ended September 30, 2013	Canada	U.S.A.	Total
	CAD$ '000	CAD$ '000	CAD$ '000
Revenue	19,250	11,173	30,423
Segment loss before tax for the three months ended September 30, 2013	(3,362)	927	(2,435)
Share based compensation			(290)
Other expenditure attributed to the corporate office			(2,336)
Profit before tax for the three months ended September 30, 2013			(5,061)

SEGMENT ASSETS

	Sep 30, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Canada	135,277	176,052
U.S.	56,420	66,185
Total segment assets	191,697	242,237
Intangible assets held by the corporate head office for the benefit of all regions	255	328
Other corporate assets	116	232
Consolidated assets	**192,068**	**242,797**

SEGMENT LIABILITIES

	Sep 30, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Canada	7,903	13,405
U.S.	5,595	2,396
Total segment liabilities	13,498	15,801
Other corporate liabilities	65,889	55,787
Consolidated liabilities	**79,387**	**71,588**

GASFRAC ENERGY SERVICES INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2014

Condensed Interim Consolidated Statement of Financial Position

Unaudited

As at:	Notes	Jun 30, 2014	Dec 31, 2013
		CAD$ '000	CAD$ '000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		3,966	1,955
Trade and other receivables		4,752	26,037
Inventory	4	9,500	12,645
Prepaid expenses		1,708	1,459
TOTAL CURRENT ASSETS		19,926	42,096
NON-CURRENT ASSETS			
Plant and equipment	5	170,857	193,612
Intangible assets		617	780
Other assets	13	961	6,309
TOTAL NON-CURRENT ASSETS		172,435	200,701
TOTAL ASSETS		**192,361**	**242,797**
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Trade payables and accrued liabilities	6	6,634	14,352
Provisions		911	742
Current portion of finance lease obligation		919	1,359
Current portion of credit facility	7	-	18,573
TOTAL CURRENT LIABILITIES		8,464	35,026
NON-CURRENT LIABILITIES			
Finance lease obligation		770	835
Operating lease obligation		98	79
Credit facility	7	21,159	-
Convertible debentures	8	36,270	35,648
Commitments and contingencies	14		
TOTAL NON-CURRENT LIABILITIES		58,297	36,562
TOTAL LIABILITIES		66,761	71,588
CAPITAL & RESERVES			
Share capital	10	259,859	259,823
Contributed surplus		6,628	6,461
Foreign currency translation reserve		5,372	5,326
Retained earnings (deficit)		(146,259)	(100,401)
TOTAL EQUITY		125,600	171,209
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**192,361**	**242,797**

The accompanying notes are an integral part of the interim unaudited condensed consolidated financial statements
On behalf of the Board

James Hill   Mark Williamson

Condensed Interim Consolidated Statements of Comprehensive Loss

Unaudited

	Notes	For the three months ended		For the six months ended	
		Jun 30, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
		CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
REVENUE		7,326	30,561	19,499	62,019
EXPENDITURES					
Direct operating costs		10,509	23,747	26,976	49,791
Selling, general and administrative		3,991	5,100	8,310	9,743
Share based compensation	11	185	311	257	576
Depreciation and amortization		6,034	6,377	12,337	12,970
Impairments	4, 5 & 14	16,600	120	16,600	120
Finance cost		1,551	1,564	2,951	3,334
Foreign exchange (gain) loss		25	(45)	(590)	(7)
		38,895	37,174	66,841	76,527
OTHER INCOME (LOSS)					
Gain / (loss) on disposition of assets	5	(123)	1,798	1,479	1,798
Interest income		3	4	5	15
		(120)	1,802	1,484	1,813
LOSS BEFORE INCOME TAXES		(31,689)	(4,811)	(45,858)	(12,695)
Income tax benefit	9	-	-	-	-
LOSS FOR THE PERIOD		(31,689)	(4,811)	(45,858)	(12,695)
OTHER COMPREHENSIVE (LOSS)/INCOME ITEMS THAT WILL BE RECLASSIFIED TO PROFIT AND LOSS					
Exchange differences on translating foreign operations		(1,805)	2,131	46	3,633
OTHER COMPREHENSIVE (LOSS)/ INCOME		(1,805)	2,131	46	3,633
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(33,494)	(2,680)	(45,812)	(9,062)
LOSS PER SHARE					
Basic (per share)	12	(0. 50)	(0.08)	(0.72)	(0.20)
Diluted (per share)	12	(0.50)	(0.08)	(0.72)	(0.20)

The accompanying notes are an integral part of the interim unaudited Condensed Consolidated Financial Statements

Condensed Interim Consolidated Statement of Changes in Equity

Unaudited

	Notes	Share capital	Contributed surplus	Foreign currency translation reserve	Retained earnings (Deficit)	**Total Equity**
		CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	**CAD$ '000**
Balance as at January 1, 2013		259,551	5,810	1,055	(75,972)	**190,444**
Loss For the six months ended June 30, 2013					(12,695)	**(12,695)**
Other comprehensive income for the six months ended June 30, 2013, net of income tax				3,633		**3,633**
Total comprehensive loss for the six months ended June 30, 2013				3,633	(12,695)	**(9,062)**
Exercise of share options		200	(50)	-	-	**150**
Release from restricted shares		36	(36)	-	-	**-**
Recognition of share based compensation		-	419	-	-	**419**
Balance as at June 30, 2013		259,787	6,143	4,688	(88,667)	**181,951**

	Notes	Share capital	Contributed surplus	Foreign currency translation reserve	Retained earnings (Deficit)	**Total Equity**
		CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
Balance as at January 1, 2014		259,823	6,461	5,326	(100,401)	171,209
Loss For the six months ended June 30, 2014				-	(45,858)	**(45,858)**
Other comprehensive income for the six months ended June 30, 2014, net of income tax				46		**46**
Total comprehensive loss for the six months ended June 30, 2014.		-	-	46	(45,858)	**(45,812)**
Exercise of share options		-	-	-	-	**-**
Release from restricted shares	11	36	(36)	-	-	**-**
Recognition of share based compensation	11		203	-	-	**203**
Balance as at June 30, 2014		259,859	6,628	5,372	(146,259)	**125,600**

The accompanying notes are an integral part of the interim unaudited Condensed Consolidated Financial Statements

Condensed Interim Consolidated Statements of Cash Flows
Unaudited

	Notes	For the three months ended Jun 30, 2014	For the three months ended Jun 30, 2013	For the six months ended Jun 30, 2014	For the six months ended Jun 30, 2013
		CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
CASH FLOWS PROVIDED BY (USED IN):					
OPERATING ACTIVITIES					
Net loss for the period		(31,689)	(4,811)	(45,858)	(12,695)
Adjusted for:					
Depreciation and amortization		6,034	6,377	12,337	12,970
Equity settled share based compensation	11	155	216	203	419
Impairments	4, 5 & 14	16,600	120	16,600	120
Bad debt expense		-	528	-	528
Finance cost per income statement		1,551	1,564	2,951	3,334
Unrealized foreign exchange loss / (gain)		33	68	(674)	137
(Gain) / loss on disposition of assets		123	(1,798)	(1,479)	(1,798)
		(7,193)	2,264	(15,920)	3,015
Net change in non-cash operating working capital	16	1,367	(3,373)	8,432	1,478
Cash provided (used) by operating activities		(5,826)	(1,109)	(7,488)	4,493
Interest paid		(512)	(599)	(2,235)	(2,425)
Net cash provided (used) by operating activities		(6,338)	(1,708)	(9,723)	2,068
INVESTING ACTIVITIES					
Purchases of plant and equipment		518	(1,363)	(1,892)	(1,831)
Acquisition of intangible assets		(24)	(41)	(39)	(82)
Proceeds from sale of plant and equipment		685	3,988	10,009	3,988
Net change in non-cash investing working capital		(513)	(435)	(516)	(770)
Net cash provided (used) by investing activities		666	2,149	7,562	1,305
FINANCING ACTIVITIES					
Proceeds from common shares issued (net of share issue cost)		-	150	-	150
Net finance leases repayments		(277)	(42)	(509)	(266)
HSBC credit facility repayment		(15,037)	(4,493)	(18,573)	(10,635)
PNC credit facility draw		23,220	-	23,220	-
Net cash provided (used) by financing activities		7,906	(4,385)	4,138	(10,751)
Net increase (decrease) in cash and cash equivalents		2,234	(3,944)	1,977	(7,378)
Cash and cash equivalents at beginning of period		1,902	4,644	1,955	7,927
Effects of exchange rate changes on the balance of cash held in foreign currencies		(170)	102	34	253
CASH AND CASH EQUIVALENTS - END OF THE PERIOD		3,966	802	3,966	802

The accompanying notes are an integral part of the interim unaudited Condensed Consolidated Financial Statements

1. CORPORATE INFORMATION

GASFRAC Energy Services Inc. ("GASFRAC" or the "Company") was incorporated on February 13, 2006 in Canada under the Business Corporations Act in the Province of Alberta. The Company is an oil and gas well fracturing company that has developed new technology, the "LPG Fracturing Process", to enable wells to be fractured safely with LPG, more specifically propane and butane.

The Company's principal place of business is located at Suite 1900, 801 – 6 Avenue S.W., Calgary, AB. T2P 3W2.

The Company's financial results are directly affected by the seasonal nature of the North American oil and natural gas industry. The first and fourth quarter incorporates the winter drilling season when a disproportionate amount of the activity takes place in western Canada. During the second quarter, commonly referred to as "spring breakup", soft ground conditions typically curtail oilfield activity in all of the Company's Canadian operating areas. In addition, during excessively rainy periods in any of the Company's operating areas, equipment moves may be delayed, thereby adversely effecting revenues.

These interim Condensed Consolidated Financial Statements were approved and authorized for issuance by the Board of Directors on August 7, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

These interim Condensed Consolidated Financial Statements present the Company's financial position and comprehensive income for the six months ended June 30, 2014, including 2013 comparative periods and have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to interim periods including International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). These interim financial statements have been prepared in Canadian dollars.

These interim Condensed Consolidated Financial Statements do not include all the necessary annual disclosures in accordance with IFRS and should be read in conjunction with the Company's annual audited Consolidated Financial Statements for the year ended December 31, 2013. The same accounting policies and methods of computation are followed in these interim financial statements as compared with those Consolidated Financial Statements for the year ended December 31, 2013.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies management are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The critical judgments that management made in the process of applying the Company's accounting policies in the audited financial statements for the year ended December 31, 2013 have been applied consistently for the six months ended June 30, 2014.

KEY SOURCES OF ESTIMATION UNCERTAINTY

All key assumptions concerning the future and other key sources of estimation uncertainty made in the process of preparing the audited financial statements for the year ended December 31, 2013 were applied consistently for the six months ended June 30, 2014, except as noted below.

Impairment evaluation of non-financial and intangible assets (note 5)

The Company's impairment test compares the carrying amount of the assets for each cash generating unit (CGU) and compares to the fair value less cost of disposal (FVLCD). The Company allocates non-financial assets and intangible assets into a CGU based on the geographical areas where the assets operate.

FVLCD requires management to estimate the amount obtained from the sale of an asset or a CGU in an arm's length transaction between two knowledgeable, willing parties less the cost of disposal. The best evidence of fair value is the quoted price in an active market or a binding sales agreement for the same or similar assets(s). Where neither exists, fair value is based on the best information available to estimate the amount the Company could obtain form the sale of the asset(s) in an arm's length transaction such as an independent report from an appraiser.

Inventory net realizable value (note 4)

Inventory consists of liquefied petroleum gas, chemicals and proppants used to simulate well production and is stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Determining net realizable value includes considering contracted selling prices, current market replacement costs and demand for the material. Excess or slow moving inventory items are identified and net realizable value is determined using management's best estimate considering the factors above. Given that inventory is a significant component of the consolidated financial statements, any changes in assumptions or estimates could have a material impact on the Company's financial position and results of operations.

4. INVENTORY

Inventory represents raw materials and spare parts used in the fracturing process.

	Jun 30, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Proppant	7,916	10,366
Chemicals	1,209	1,521
LPG	72	337
Other	303	421
	9,500	**12,645**

During the quarter, $6.8 million (2013: nil) in ceramic proppant inventory was written down from its carrying amount to its net realizable value. The write down was a result of an industry decrease in price for specific types of ceramic proppant and excess supply of the ceramic proppant. Other types of proppant are in short supply.

5. PLANT AND EQUIPMENT

Cost	Field equipment	Light vehicles	Other[1]	Land and buildings	**Total**
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	**CAD$ '000**
Balance as at January 1, 2013	312,879	5,796	2,579	99	**321,353**
Additions	1,535	981	121	358	**2,995**
Disposals	(11,071)	(1,483)	(387)	-	**(12,941)**
Transfers with classes	(1,014)	-	463	551	**-**
Transfers from non-current assets held for sale	1,352	-	-	-	**1,352**
Effects of foreign currency exchange differences	6,545	124	35	37	**6,741**
Balance as at December 31, 2013	310,226	5,418	2,811	1,045	**319,500**
Additions	70	141	76	1,605	**1,892**
Disposals	(15,185)	(484)	-	-	**(15,669)**
Effects of foreign currency exchange differences	512	6	1	3	**522**
Balance as at June 30, 2014	295,623	5,081	2,888	2,653	**306,245**

Accumulated depreciation	Field equipment	Light vehicles	Other[1]	Land and buildings	**Total**
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	**CAD$ '000**
Balance as at January 1, 2013	(98,749)	(2,279)	(1,269)	-	**(102,297)**
Depreciation	(23,135)	(1,397)	(582)	(99)	**(25,213)**
Disposals	3,056	1,021	362	-	**4,439**
Impairments	(120)	-	-	-	**(120)**
Effects of foreign currency exchange differences	(2,621)	(55)	(19)	(2)	**(2,697)**
Balance as at December 31, 2013	(121,569)	(2,710)	(1,508)	(101)	**(125,888)**
Depreciation	(11,039)	(687)	(292)	(117)	**(12,135)**
Disposals	6,785	354	-	-	**7,139**
Impairment	(4,400)	-	-	-	**(4,400)**
Effects of foreign currency exchange differences	(109)	2	1	2	**(104)**
Balance as at June 30, 2013	(130,332)	(3,041)	(1,799)	(216)	**(135,388)**
Carrying Value December 31, 2013	188,657	2,708	1,303	944	**193,612**
Carrying Value June 30, 2014	165,291	2,040	1,089	2,437	**170,857**

	Jun 30, 2014	Dec 31, 2013
Included in field equipment are assets under construction carried at cost	1,122	1,942
Carrying amount of vehicles secured under finance lease obligation	1,571	1,924

Assets under construction is not depreciated and transferred to field equipment when it is substantially completed and available for use as intended by the technical specifications and testing.

IMPAIRMENT OF ASSETS

The Company has performed impairment assessments as at June 30, 2014 and December 31, 2013 as indicators of impairment were present. The key indicators of impairment were the carrying value of net assets exceeding market capitalization and the operating losses in first and second quarter 2014.

[1] Other includes furniture and fittings, leasehold improvements and computer equipment

During May 2014, as part of the Revolving Credit Facility financing, an appraisal was conducted on behalf of the bank. At December 31, 2013, the Company engaged independent third party appraisers to assess the value of the assets within the Canadian and US cash generating units. The third party appraisers determined the assigned values based on sale prices of similar equipment, the cost to reproduce or replace similar equipment and the knowledge and experience of the appraisers. Management also considered the proceeds received on recent asset sales compared to the carrying value of those assets. Fair market value was defined as the price at which the equipment would exchange hands between a willing buyer and seller under no compulsion to act less a reasonable cost to sell. The appraisals are considered to be fair market values determined by level 3 data inputs.

The assets appraised represented approximately 90% of the total assets. The Company reviewed all assets not appraised on an asset by asset base to determine if any of those assets were impaired. As a result of that review, a $4.4 million impairment charge was recorded at June 30, 2014. The individual assets were valued at the estimated proceeds (fair value less costs of disposal) based on level 3 data inputs.

At December 31, 2013, management concluded that the recoverable amount based on fair value less costs of disposal exceeded the carrying amount for both the Canadian and US cash generating unit and therefore there was no impairment of the appraised and unappraised equipment.

ASSETS PLEDGED AS SECURITY

Field equipment has been pledged to secure borrowings of the Company. The Company is restricted from pledging these assets as security for other borrowings or selling them to another entity (as discussed in note 7). The Company's obligations under finance leases are secured by the lessors' title to the leased light vehicles.

6. TRADE PAYABLES AND ACCRUED LIABILITIES

	Jun 30, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Trade payables	2,729	5,855
Operating accruals, payroll liabilities and other indirect taxes	2,888	7,009
Cash-settled share based compensation	78	549
Accrued interest on convertible debentures	939	939
	6,634	**14,352**

Amounts payable for capital purchases included in trade payables	244	760

The general payment terms on trade payables are 30 days from the date of the invoice. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The accrued interest on convertible debentures represents the coupon interest payable at 7% on the outstanding debentures (refer note 8). This interest is payable semi-annually on August 31 and February 28.

Non-cash inventory working capital is the movement in capital purchases included in trade payables.

7. CREDIT FACILITY

On June 19, 2014, the Company entered into a Revolving Credit and Security Agreement (the "Revolving Credit Facility") The Facility is a five-year revolving credit facility of up to $60 million subject to a borrowing base. As at June 30, 2014 $35 million is available under the Facility, with availability subject to increase based on future performance of the Company.

The term of the Facility may be accelerated to November 30, 2016 in the event that the subordinated debentures are not refinanced under terms acceptable to the bank. Early termination fees also apply in the first two years of the agreement.

Any failure or neglect of the Company to perform or keep any term, provision or covenant is considered to be an Event of Default under the Revolving Credit Facility. In the Event of Default and at any time thereafter the Bank shall have the right to terminate the Revolving Credit Facility and to terminate the obligation to make advances.

The borrowing base is calculated as a percentage of eligible accounts receivable, eligible inventories, and the net orderly liquidation value (NOLV) of the machinery and equipment to a maximum amount for each category ("sublimit"). Eligible inventories are based on the lower of cost or market value and the NOLV of the machinery and equipment is determined based on appraisals.

The Revolving Credit Facility is available in Canadian and US dollars and bears interest at the applicable Canadian or US prime rate plus 1.5% or the Banker's Acceptance rate or LIBOR plus 3.5%. The Revolving Credit Facility requires the Company to comply with certain financial and non-financial covenants.

The Revolving Credit Facility requires the Company to maintain, as of December 31, 2014 and each quarter thereafter measured on a rolling four quarter basis, a Fixed Charge Coverage Covenant Ratio (FCC) of 1.15:1.00. The FCC is defined as the ratio of EBITDA minus Unfunded Capital Expenditures minus Cash Taxes divided by all Annualized Debt Payments.

EBITDA is a non-GAAP measure and is defined as the sum of:

(a) Net income or loss for such period excluding extraordinary gains and losses, plus

(b) All interest expense for such period (to the extent deducted in determining net earnings), plus

(c) All charges against income for such period for income taxes in accordance with GAAP, plus

(d) Depreciation expense, plus

(e) Amortization expense, plus or minus

(f) Permitted EBITDA Adjustments.

Permitted EBITDA Adjustments shall mean, to the extent deducted in the calculation of net earnings, the following non-cash items: equity settled share-based compensation, impairment losses, unrealized foreign exchange gains or losses, and gains or losses on the sale of assets (other than inventory sold in the ordinary course of business).

Debt Payments is defined as:

(a) All cash actually expended by the Company to make:
   a. Interest payments on the revolving credit facility, plus
   b. Payments for all fees, commissions and charges related to the agreement; plus
   c. Payments on Capitalized Lease Obligations; plus
   d. Permitted Subordinated Debenture Redemptions, plus
   e. Payments with respect to any other Indebtedness for borrowed money, including the Subordinated Debt, plus

(b) The aggregate amortization amount ($4.5 million) effective for the March 31, 2015 and thereafter Fixed Charge Covenant measurement.

For the first 11 months of the agreement the debt payments are annualized.

The lender has a continuing security interest in all of its collateral whether now owned or hereafter created or acquired. Collateral includes all assets and property of the Company including receivables, machinery and equipment, intangibles, and inventory.

The Company is compliant with all applicable covenants at June 30, 2014.

The Company's previous credit facility consisted of a $10 million revolving operating facility and a $40 million revolving facility. Both facilities were secured by a floating charge over all of the assets (excluding leased assets). The facility was to mature on June 30, 2014 and pursuant to IAS 1 the Company presented the entire credit facility as current in prior reporting periods.

	Jun 30, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Current portion	-	18,573
Non-current portion	23,189	-
Transaction costs	(2,030)	-
	21,159	**18,573**

The Company's transaction costs of $2.0 million related to acquiring the Revolving Credit Facility have been netted against its carrying value at June 30, 2014.

8. CONVERTIBLE DEBENTURES

On February 8, 2012 the Company closed its public offering of $35 million aggregate principle amount of 7.00% convertible unsecured subordinated debentures, and on February 8, 2012 closed the overallotment option of the public offering for an additional $5.25 million of similar debt, for a total issuance of $40.25 million aggregate principle amount. The debentures bear interest at an annual rate of 7.00% payable semi-annually, in arrears, on August 31 and February 28 in each year commencing August 31, 2012. The debentures mature on February 28, 2017. These debentures are not secured and are classified as financial liabilities measured at amortized cost.

The debentures are convertible into common shares of the Company at the option of the holder at a conversion price of $10.50 per common share. Subject to adjustment in certain events, this conversion represents a conversion rate of approximately 95.2381 common shares per $1,000 principal amount of debentures.

The Company may not redeem the debentures prior to February 28, 2015. On or after this date and prior to maturity, the debentures may be redeemed in whole or in part from time to time at the Company's option at par plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Company's common shares are not less than 125% of the conversion price for twenty consecutive days ending on the fifth trading day preceding the date on which notice of redemption is given. Upon redemption or maturity, the Company may repay the outstanding principal of the Debentures through the issuance of common shares.

The debentures have been classified as debt, net of issuance costs and net of the fair value of the conversion feature at the date of issuance which has been classified as part of contribution surplus within shareholders' equity in the amount of $3.116 million (gross amount of $4.243 million adjusted for deferred tax of $1.127 million). The issuance costs will be amortized over the term of the debentures and the debt portion will accrete up to the principal balance at maturity. The accretion, amortization of issuance costs and the interest paid are expensed on the consolidated statement of loss and comprehensive loss. The fair value of the conversion feature was determined at the time of issuance as the difference between the principal value of the debentures and the discounted cash flows assuming a 10% rate which was the estimated rate for debt with similar terms at the time.

9. INCOME TAX

Income tax expense is recognized based on management's estimate of the weighted average annual income tax expected for the full financial year. The estimated average annual tax rate used for the year to December 31, 2014 is the total Canadian Federal and Provincial tax rate of 25% (2013: 25%). The Company has $240 million (2013: $199 million) of tax pools related to non-capital losses available for carry forward to reduce taxable income in future years and expire between 2029 and 2032. The Company recognizes no deferred tax assets in respect of temporary differences and tax losses as it is not probable that there would be sufficient future taxable profits for their utilization.

10. SHARE CAPITAL

AUTHORIZED

Unlimited number of common shares.

Unlimited number of preferred shares issuable in series with the designation, rights, privileges, restrictions and conditions of each series to be determined by the board of directors.

Number of issued shares

	Jun 30, 2014		Dec 31, 2013	
	Shares	Amount	Shares	Amount
	#	CAD$ '000	#	CAD$ '000
Balance as at January 1	63,607,668	259,823	63,515,664	259,551
Options exercised	-	-	75,000	200
Released from restricted shares	8,502	36	17,004	72
Balance as at period end	**63,616,170**	**259,859**	63,607,668	259,823

11. SHARE BASED COMPENSATION

The Company has four share based compensation plans in place that form part of the remuneration and performance management goals of the Company. The number of participating units under each plan is calculated in accordance with the performance-based formula approved by the compensation committee. The formula rewards executives and senior employees to the extent of the Company's and the individual's achievement judged against both quantitative and qualitative criteria from the following financial and customer service measures:

- earnings before income tax, depreciation and amortization;
- return on capital employed; and,
- safety.

EQUITY SETTLED SHARE BASED COMPENSATION PLANS

Restricted shares

The Company has granted restricted shares for certain employees with annual vesting over five years from the date of the grant. Granted restricted shares are held in trust until it vests when it is then issued to the employee. Cancelled or forfeited restricted share units are returned by the trust and cancelled.

The balance of restricted share units issued but not earned by employees is:

	Jun 30, 2014	Dec 31, 2013
	Units	Units
	#	#
Balance as at January 1	6,585	16,599
Earned by employees	(3,473)	(10,014)
Balance as at period end	3,112	6,585

The balance of restricted share units earned by employees but not vested as recorded in contributed surplus:

	Jun 30, 2014		Dec 31, 2013	
	Units	Amount	Units	Amount
	#	CAD$ '000	#	CAD$ '000
Balance as at January 1	17,488	74	24,478	104
Earned by employees – recognized as share based compensation	3,473	15	10,014	42
Vested	(8,502)	(36)	(17,004)	(72)
Balance as at period end	12,459	53	17,488	74
Balance of share units issued but not vested	15,571		24,073	

Share options

A summary of the status of the Company's outstanding stock options is presented below:

	Jun 30, 2014		Dec 31, 2013	
	Options	Average exercise price	Options	Average exercise price
	#	CAD$	#	CAD$
Balance as at January 1	3,295,000	2.31	2,810,000	3.07
Granted	1,370,000	1.72	1,605,000	1.65
Exercised	-	-	(75,000)	2.00
Forfeited	(987,500)	2.16	(320,000)	2.45
Expired	(50,000)	4.25	(725,000)	3.75
Balance as at period end	**3,627,500**	**2.11**	**3,295,000**	**2.31**

During Q3 2013, the Company amended the stock option plan such that options continue to vest over three years however options now expire one year after vesting. Previously issued options expired five years from the date of grant. The 3,627,500 options outstanding at June 30, 2014 (December 31, 2013: 3,295,000) had exercise prices ranging from $1.37 to $8.85 (December 31, 2013: $1.37 to $8.85) per share with expiry dates ranging from 2014 to 2018 (December 31, 2013: 2014 to 2018). When stock options are exercised the proceeds, together with the amount of compensation expense previously recorded in contributed surplus are added to share capital. In 2014 no options have been exercised. In 2013 the average share price that options were exercised at was $2.11.

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value for the share options granted in the period. The following assumptions were used to value the options on the grant date:

	Jun 2, 2014	May 7, 2014	Feb 6, 2014
Share price (CDN $)	$1.83	$1.91	$1.66
Exercise price (CDN $)	$1.83	$1.91	$1.66
Volatility (%)	54.5	36.0	37.4
Average expected life (years)	2.9	2.9	3.2
Dividend yield (%)	-	-	-
Forfeiture rate (%)	28.2	27.8	27.2
Risk free interest rate (%)	1.2	1.2	1.2

CASH-SETTLED SHARE BASED COMPENSATION PLANS

Performance share units

The Company grants performance share units to officers and employees with the amount of the grant earned being linked to corporate performance and grants vesting from one to three years from date of grant. The performance share units can be settled in cash or equity, but the current policy is to settle these in cash.

Effective with the change in Board of Directors May 27, 2014, the former directors' units valued at $65,994 were paid out in cash.

	Jun 30, 2014 Units #	Dec 31, 2013 Units #
Performance share units earned		
Balance as at January 1	155,568	254,223
Vested	13,902	130,203
Paid in cash	(36,666)	(137,501)
Forfeited	(89,952)	(91,357)
Balance as at period end	**42,852**	**155,568**
	CAD$ '000	CAD$ '000
Performance share units payable	78	287

Deferred share units

Effective August 7, 2013, the Company adopted a deferred share unit plan approved by the Board of Directors on that date. Under the plan directors and employees of the Company are eligible to receive grants that will vest evenly over one year. The deferred share units will be settled in cash. Unvested deferred share units are forfeited on termination.

The initial grant of 265,000 units vested on April 30, 2014. Effective with the change in Board of Directors May 27, 2014, the former directors' units were paid out in cash and were valued at $459,000.

	June 30, 2014	Dec 31, 2013
	Units	Units
	#	#
Deferred share units earned		
Balance as at January 1	145,899	-
Vested	119,101	145,899
Paid in cash	(265,000)	-
Balance as at period end	-	**145,899**

On July 8, 2014 149,457 deferred share units were granted. These units will vest evenly over the period ending April 30, 2015.

	CAD$ '000	CAD$ '000
Deferred share units payable	-	262

Changes in the Company's obligations under performance share and deferred share units, which arise from fluctuations in the market value of the Company's shares underlying the compensation program, are recorded as the share price changes.

Total share based compensation expense

	For the three months ended		For the six months ended	
	Jun 30, 2014	Jun 30, 2013	June 30, 2014	June 30, 2013
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
Equity-settled share based compensation				
Share options	148	203	188	393
Restricted share units	7	12	15	26
Cash-settled share based compensation				
Performance share units	16	96	(142)	157
Deferred share units	14	-	196	-
Balance as at period end	185	311	257	576

Share based compensation for the quarter reflects the reversal of share based compensation expense recognized in previous periods due to the forfeitures of share options, restricted share units, performance share units and deferred share units granted to employees whose services were terminated before the vesting period.

12. LOSS PER SHARE

BASIC / DILUTED LOSS PER SHARE

The loss and weighted average number of common shares used in the calculation of basic / diluted loss per share are as follows:

	For the three months ended		For the six months ended	
	Jun 30, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
Loss used in the calculation of basic /diluted loss per share	(31,689)	(4,811)	(45,858)	(12,695)
	# '000	# '000	# '000	# '000
Weighted average number of common shares for the purposes of basic / diluted loss per share	63,614	63,250	63,612	63,519
Basic / Diluted loss earnings per share (CAD$)	(0.50)	(0.08)	(0.72)	(0.20)

All other instruments that can be settled in equity were excluded from the calculation of diluted loss per share as the effect would have been anti-dilutive.

13. RELATED PARTY TRANSACTIONS

Effective with the change in the Board of Directors on May 27, 2014, the former directors' performance share units and deferred share units totaling $555 thousand were paid out in cash.

During the six months ended June 30, 2014, the Company incurred legal fees of $52 thousand from a law firm of which a departing officer was a partner.

During the six months ended June 30, 2014, the Company incurred legal fees of $21 thousand from a law firm of which an officer is a partner.

14. COMMITMENTS FOR EXPENDITURE AND CONTINGENCIES

COMMITMENTS

	Jun 30, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Commitment for the purchase of raw materials	9,419	65,381
Less than one year	2,392	10,314
Between 1 and 3 years	2,956	38,671
Between 4 and 5 years	3,246	15,574
Beyond 5 years	825	822
Commitments for the acquisition of plant and equipment within the next year	2,392	1,714
Total commitments	11,811	67,095

Commitment for the purchase of raw materials comprises of a yearly order quantity for proppants up to 2019 (December 31, 2013 – 2019). Such orders will be funded from operating resources. During the quarter the decision was made to terminate one ceramic proppant contract which resulted in a long-term deposit of $5.4 million being written off and related inventory being recorded at net realizable value. The write-off of $5.4 million was our estimate of the costs associated with the contract termination. The remaining proppant contract has a deposit of $1.4 million. This deposit is at risk if the commitment is not met.

CONTINGENCIES

The Company is involved in various legal actions which occur from time to time in the course of operations. Management is of the opinion that losses, if any, arising from such legal actions would not have a material effect on these Condensed Interim Consolidated Financial Statements.

15. FINANCIAL INSTRUMENTS

The financial risk management objectives remained consistent with those disclosed in the prior year Consolidated Financial Statements and the Company is still subject to the same foreign currency exchange risks and exchange rate risks (collectively known as market risk), credit risk and liquidity risk as at December 31, 2013.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Generally the Company ensures that it has sufficient cash or available credit facilities to meet expected operational requirements.

For the six month period ended June 30, 2014, the Company had a net loss of $45.9 million and negative cash flow from operating activities of $15.9 million (before changes in non-cash working capital). The Company maintained positive working capital of $11.5 million that can be used to satisfy the $11.5 million in financial liabilities that fall due within the next 12 months. Cash plus accounts receivable exceeded current liabilities by $0.3 million.

The Company's operations remain concentrated with a few key customers and revenues are subject to fluctuation dependent on the level of drilling operations by these customers in the areas in which the Company is servicing them. Their levels of drilling activity can be impacted by numerous factors including, but not limited to, operational difficulties, project scheduling, infrastructure limitations, weather conditions, hunting restrictions, and budgetary priorities. These fluctuations add uncertainty to the timing of the Company's cash flows, and can and have resulted in breaches to bank covenants.

The Company's 2014 operating results have negatively affected the balance sheet and liquidity. The Company will continue to minimize discretionary expenses, supplement its operating cash flow with sales of excess inventory and non-revenue generating assets such as land and buildings and if required increase its borrowings under the credit facility. In addition, the Company has planned minimal capital expenditures in 2014 and manages the timing of its capital expenditures based on the ongoing financial results.

When the Company will regain positive cash flows from operations is uncertain. The Company may need to raise capital to fund its operations and capital expenditures. The Company could seek financing through equity financings, additional subordinated debt and rights offerings to existing shareholders. If the Company is unable to obtain suitable financing it may be necessary for the Company to examine other alternatives to continue and enhance shareholder value, including but not limited to seeking a joint venture partner or the possible sale of the some or all of the assets of the Company or the merger, amalgamation or sale of the Company with or to a larger, better financed entity. The outcome of these matters cannot be predicted at this time.

As at June 30, 2014, the Company had available the following resources:

	Jun 30, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Cash and cash equivalents	3,966	1,955
Trade receivables	3,776	25,868
Unused credit facility – based on availability of $35 million (note 7)	11,811	31,427
	19,553	**59,250**

The timing of cash outflows relating to financial liabilities are outlined in the following table:

	Contractual cash flows at Jun 30, 2014	Less than 1 year	1 to 3 years	4 to 5 years	Greater than 5 years
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
Trade payables and accrued liabilities	5,695	5,695	-	-	-
Provisions	911	911	-	-	-
Finance lease obligation (including expected interest)	1,815	993	822	-	-
Credit facility (including expected interest)	28,407	1,044	2,087	25,276	-
Debentures (including expected interest)	48,703	2,818	45,885	-	-
Total	85,531	11,461	48,794	25,276	-

	Contractual cash flows at Dec 31, 2013	Less than 1 year	1 to 3 years	4 to 5 years	Greater than 5 years
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
Trade payables and accrued liabilities	12,864	12,864	-	-	-
Provisions	742	742	-	-	-
Finance lease obligation (including expected interest)	2,367	1,465	902	-	-
Credit facility (including expected interest)	19,241	19,241	-	-	-
Debentures (including expected interest)	50,112	2,818	5,635	41,659	-
Total	85,326	37,130	6,537	41,659	-

The finance lease obligation has an average future interest rate of 6.94% (2013: 7.31%) and a term of 13 months (2013: 13 months). The credit facility contractual cash flows have been calculated at an interest rate of prime + 1.5% (2013: prime + 4.25%) and matures June 19, 2019.

Capital Management

The Company's objectives when managing its capital structure are to maintain a balance between debt and capitalization so as to withstand industry and seasonal volatility, maintain investor, creditor and market confidence and to sustain growth of the business. Debt includes the current and long term portions of finance leases, the outstanding balance of the credit facility and the debt portion of the convertible debentures less cash and cash equivalents. Capitalization is calculated as the debt, as described above, and shareholders' equity including the equity portion of the convertible debentures.

The Company also manages its capital structure to ensure compliance with financial and other affirmative and negative covenants on its credit facilities (note 7). The covenants are monitored on a regular basis and controls are in place to ensure the Company maintains compliance with these covenants. The Company is required to maintain a fixed charge coverage ratio for a rolling consecutive four quarters commencing for the quarter ended December 31, 2014 and as at the end of each calendar quarter thereafter. The credit facility includes maximum allowable amounts for finance leases, capital expenditures, and asset disposals. The credit facility also includes provisions related to the redemption of convertible debentures and renewal terms for the convertible debentures. As at June 30, 2014, the Company is in compliance with all the applicable covenants related to the Revolving Credit Facility.

The Company monitors its capital structure and makes adjustments in light of changing market conditions and new opportunities. To maintain or adjust its capital structure, the Company may revise its capital spending, issue new equity, issue additional subordinated debt, or draw on its revolving credit facility.

The Company believes that it has access to sufficient capital resources to satisfy its obligations associated with financial liabilities and capital expenditures.

FAIR VALUES OF FINANCIAL INSTRUMENTS:

The Company's financial instruments included on the consolidated balance sheet and measured at amortized cost include: trade payables and accrued liabilities; provisions; finance lease obligations; the credit facility and convertible debentures with accrued interest.

The fair value of most of the Company's financial instruments included on the consolidated balance sheet approximate their carrying amounts due to their short term maturity. The carrying amount of the debt outstanding pursuant to the credit agreement (the revolving credit facility) approximates fair value as the interest rate on this instrument approximates current market rates (level 2 criteria).

The Company's convertible debentures trade on the Toronto Stock Exchange under the symbol GFS.DB. The fair value of the convertible debentures is based on quoted market prices and is considered to be a Level 1 fair value measurement. The carrying value includes the debt and equity portion of the convertible debentures and excludes the deferred income tax impact of the debentures charged against the equity portion. As at June 30, 2014, the fair value of the convertible debentures was $34,217 thousand (December 31, 2013 $33,408 thousand) and the carrying value was $37,209 thousand (December 31, 2013 $36,587 thousand).

The following provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's finance department is responsible for performing the valuation of financial instruments. The valuation processes and results are reviewed and approved by the CFO and CEO at least once every quarter, in line with the Company's quarterly reporting dates. Valuation results are discussed with the Audit Committee as part of its quarterly review of the Company's financial statements.

16. OPERATING WORKING CAPITAL

The change in non-cash working capital related to operating activities consists of:

	For the three months ended		For the six months ended	
	Jun 30, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
Accounts receivable	3,721	(215)	21,475	12,023
Accounts payable (not including capital purchases)	409	(1,939)	(6,647)	(7,668)
Inventory	(66)	66	(3,700)	(1,854)
Performance share unit liability	(493)	95	(471)	(263)
Other	(2,204)	(1,380)	(2,225)	(760)
Net change in non-cash working capital	1,367	(3,373)	8,432	1,478

17. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the region where goods or services are delivered or provided. These regions are divided into Canada and U.S., and represent the Company's reportable segments. Both regions deliver and provide fracturing services to clients. Canada's primary operations are in the province of Alberta, while the U.S. focuses on delivering fracturing services to customers, primarily in the southern states.

Six months ended June 30, 2014	Canada	U.S.A.	Total
	CAD$ '000	CAD$ '000	CAD$ '000
Revenue	19,106	393	19,499
Segment loss before tax for the six months ended June 30, 2014	(33,550)	(8,442)	(41,992)
Share based compensation			(257)
Other expenditure attributed to the corporate office			(3,609)
Loss before tax for the six months ended June 30, 2014			(45,858)

Six months ended June 30, 2013	Canada	U.S.A.	Total
	CAD$ '000	CAD$ '000	CAD$ '000
Revenue	50,792	11,227	62,019
Segment loss before tax for the six months ended June 30, 2013	(3,696)	(3,726)	(7,422)
Share based compensation			(576)
Other expenditure attributed to the corporate office			(4,697)
Loss before tax for the six months ended June 30, 2013			(12,695)

Three months ended June 30, 2014	Canada	U.S.A.	Total
	CAD$ '000	CAD$ '000	CAD$ '000
Revenue	6,947	379	7,326
Segment loss before tax for the three months ended June 30, 2014	(24,328)	(4,691)	(29,019)
Share based compensation			(185)
Other expenditure attributed to the corporate office			(2,485)
Loss before tax for the three months ended June 30, 2014			(31,689)

Three months ended June 30, 2013	Canada	U.S.A.	Total
	CAD$ '000	CAD$ '000	CAD$ '000
Revenue	22,331	8,230	30,561
Segment loss before tax for the three months ended June 30, 2013	(3,308)	949	(2,359)
Share based compensation			(311)
Other expenditure attributed to the corporate office			(2,141)
Profit before tax for the three months ended June 30, 2013			(4,811)

SEGMENT ASSETS

	Jun 30, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Canada	139,458	176,052
U.S.	52,365	66,185
Total segment assets	191,823	242,237
Intangible assets held by the corporate head office for the benefit of all regions	279	328
Other corporate assets	259	232
Consolidated assets	**192,361**	**242,797**

SEGMENT LIABILITIES

	Jun 30, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Canada	6,115	13,405
U.S.	1,763	2,396
Total segment liabilities	7,878	15,801
Other corporate liabilities	58,883	55,787
Consolidated liabilities	**66,761**	**71,588**

GASFRAC ENERGY SERVICES INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

FOR THE THREE MONTHS ENDED

MARCH 31, 2014

Condensed Interim Consolidated Statement of Financial Position

Unaudited

As at:	Notes	Mar 31, 2014	Dec 31, 2013
		CAD$ '000	CAD$ '000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		1,902	1,955
Trade and other receivables		8,477	26,037
Inventory	5	16,288	12,645
Prepaid expenses		1,449	1,459
TOTAL CURRENT ASSETS		28,116	42,096
NON-CURRENT ASSETS			
Plant and equipment	6	184,376	193,612
Intangible assets		691	780
Other assets		6,326	6,309
TOTAL NON-CURRENT ASSETS		191,393	200,701
TOTAL ASSETS		**219,509**	**242,797**
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Trade payables and accrued liabilities	7	6,715	14,352
Provisions		795	742
Current portion of finance lease obligation		1,115	1,359
Current portion of credit facility	8	15,037	18,573
TOTAL CURRENT LIABILITIES		23,662	35,026
NON-CURRENT LIABILITIES			
Finance lease obligation		863	835
Operating lease obligation		90	79
Convertible debentures	9	35,955	35,648
Commitments and contingencies	14		
TOTAL NON-CURRENT LIABILITIES		36,908	36,562
TOTAL LIABILITIES		60,570	71,588
CAPITAL & RESERVES			
Share capital	11	259,841	259,823
Contributed surplus		6,491	6,461
Foreign currency translation reserve		7,177	5,326
Retained earnings deficit		(114,570)	(100,401)
TOTAL EQUITY		158,939	171,209
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**219,509**	**242,797**

The accompanying notes are an integral part of the interim unaudited condensed consolidated financial statements

On behalf of the Board

James Hill

Gerry Roe

Condensed Interim Consolidated Statements of Comprehensive Loss
Unaudited

	Notes	For the three months ended March 31, 2014 CAD$ '000	March 31, 2013 CAD$ '000
REVENUE		12,173	31,458
EXPENDITURES			
Direct operating costs		16,467	26,044
Selling, general and administrative		4,319	4,643
Share based compensation	12	72	265
Depreciation and amortization	6	6,303	6,593
Finance cost		1,400	1,770
Foreign exchange (gain) loss		(615)	38
		27,946	39,353
OTHER INCOME			
Gain on disposition of assets		1,602	-
Interest income		2	11
		1,604	11
LOSS BEFORE INCOME TAXES		(14,169)	(7,884)
Income tax expense	10	-	-
LOSS FOR THE PERIOD		**(14,169)**	**(7,884)**
OTHER COMPREHENSIVE INCOME			
ITEMS THAT WILL BE RECLASSIFIED TO PROFIT AND LOSS			
Exchange differences on translating foreign operations		1,851	1,502
OTHER COMPREHENSIVE INCOME		1,851	1,502
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(12,318)**	**(6,382)**
(LOSS) PER SHARE			
Basic (per share)	13	(0.22)	(0.12)
Diluted (per share)	13	(0.22)	(0.12)

The accompanying notes are an integral part of the interim unaudited Condensed Consolidated Financial Statements

Condensed Interim Consolidated Statement of Changes in Equity

Unaudited

	Notes	Share capital	Contributed surplus	Foreign currency translation reserve	Retained earnings (Deficit)	**Total Equity**
		CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	**CAD$ '000**
Balance as at January 1, 2013		259,551	5,810	1,055	(75,972)	**190,444**
Loss For the three months ended March 31, 2013				-	(7,884)	**(7,884)**
Other comprehensive loss for the three months ended March 31, 2013, net of income tax				1,502	-	**1,502**
Total comprehensive loss for the three months ended March 31, 2013				1,502	(7,884)	**(6,382)**
Exercise of share options		-	-	-	-	-
Release from restricted shares		18	(18)	-	-	-
Recognition of share based compensation		-	204	-	-	**204**
Balance as at March 31, 2013		259,569	5,996	2,557	(83,856)	**184,266**

	Notes	Share capital	Contributed surplus	Foreign currency translation reserve	Retained earnings (Deficit)	**Total Equity**
		CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
Balance as at January 1, 2014		259,823	6,461	5,326	(100,401)	**171,209**
Loss For the three months ended March 31, 2014				-	(14,169)	**(14,169)**
Other comprehensive income for the three months ended March 31, 2014, net of income tax				1,851	-	**1,851**
Total comprehensive loss for the three months ended March 31, 2014				1,851	(14,169)	**(12,318)**
Exercise of share options		-	-	-	-	-
Net change in restricted shares	12	18	(18)	-	-	-
Net share based compensation	12	-	48	-	-	**48**
Balance as at March 31, 2014		259,841	6,491	7,177	(114,570)	**158,939**

The accompanying notes are an integral part of the interim unaudited Condensed Consolidated Financial Statements

Condensed Interim Consolidated Statements of Cash Flows

Unaudited

	Notes	For the three months ended March 31,2014	March 31,2013
		CAD$ '000	CAD$ '000
CASH FLOWS PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net loss for the period		(14,169)	(7,884)
Adjusted for:			
Depreciation and amortization		6,303	6,593
Equity settled share based compensation	12	48	204
Finance cost per income statement		1,400	1,770
Unrealized foreign exchange loss / (gain)		(707)	68
Gain on disposition of assets		(1,602)	-
		(8,727)	751
Net change in non-cash operating working capital	16	7,065	4,851
Cash provided by (used in) operating activities		(1,662)	5,602
Interest paid		(1,723)	(1,826)
Net cash provided (used) by operating activities		(3,385)	3,776
INVESTING ACTIVITIES			
Purchases of plant and equipment		(2,410)	(468)
Acquisition of intangible assets		(15)	(41)
Proceeds from sale of plant and equipment and assets held for sale		9,324	-
Net change in non-cash investing working capital		(3)	(335)
Net cash provided (used) by investing activities		6,896	(844)
FINANCING ACTIVITIES			
Net finance lease repayments		(232)	(224)
Credit facility repayment		(3,536)	(6,142)
Net cash used by financing activities		(3,768)	(6,366)
Net decrease in cash and cash equivalents		(257)	(3,434)
Cash and cash equivalents at beginning of period		1,955	7,927
Effects of exchange rate changes on the balance of cash held in foreign currencies		204	151
CASH AND CASH EQUIVALENTS - END OF THE PERIOD		1,902	4,644

The accompanying notes are an integral part of the interim unaudited Condensed Consolidated Financial Statements

1. CORPORATE INFORMATION

GASFRAC Energy Services Inc. ("GASFRAC" or the "Company") was incorporated on February 13, 2006 in Canada under the Business Corporations Act in the Province of Alberta. The Company is an oil and gas well fracturing company that has developed new technology, the "LPG Fracturing Process", to enable wells to be fractured safely with LPG, more specifically propane and butane.

The Company's principal place of business is located at Suite 1900, 801 – 6 Avenue S.W., Calgary, AB. T2P 3W2.

The Company's financial results are directly affected by the seasonal nature of the North American oil and natural gas industry. The first and fourth quarter incorporates the winter drilling season when a disproportionate amount of the activity takes place in western Canada. During the second quarter, commonly referred to as "spring breakup", soft ground conditions typically curtail oilfield activity in all of the Company's Canadian operating areas. In addition, during excessively rainy periods in any of the Company's operating areas, equipment moves may be delayed, thereby adversely effecting revenues.

These interim Condensed Consolidated Financial Statements were approved and authorized for issuance by the Board of Directors on May 7, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

These interim Condensed Consolidated Financial Statements present the Company's financial position and comprehensive income for the three months ended March 31, 2014, including 2013 comparative periods and have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to interim periods including International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). These interim financial statements have been prepared in Canadian dollars.

These interim Condensed Consolidated Financial Statements do not include all the necessary annual disclosures in accordance with IFRS and should be read in conjunction with the Company's annual audited Consolidated Financial Statements for the year ended December 31, 2013. The same accounting policies and methods of computation are followed in these interim financial statements as compared with those Consolidated Financial Statements for the year ended December 31, 2013.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies management are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The critical judgments that management made in the process of applying the Company's accounting policies in the audited financial statements for the year ended December 31, 2013 have been applied consistently for the three months ended March 31, 2014.

KEY SOURCES OF ESTIMATION UNCERTAINTY

All key assumptions concerning the future and other key sources of estimation uncertainty made in the process of preparing the audited financial statements for the year ended December 31, 2013 were applied consistently for the three months ended March 31, 2014.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective January 1, 2014, the Company adopted IFRIC 21 – Levies and the amendments made to IAS 32 – Financial Instruments presentation.

IFRIC 21 established the principles under which the Company accounts for government levies. This standard provided guidance on when to recognize a liability to pay a government levy. The adoption of this standard did not have a material effect on the Company's financial results.

The amendments made to IAS 32 clarified existing requirements for offsetting financial assets and financial liabilities. The amendments made to this standard did not have a material effect on the Company's financial results.

5. INVENTORY

Inventory represents raw materials and spare parts used in the fracturing process.

	Mar 31, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Proppant	14,401	10,366
Chemicals	1,420	1,521
LPG	86	337
Other	381	421
	16,288	**12,645**

6. PLANT AND EQUIPMENT

Cost	Field equipment	Light vehicles	Other[1]	Land and buildings	Total
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	**CAD$ '000**
Balance as at January 1, 2013	312,879	5,796	2,579	99	**321,353**
Additions	1,535	981	121	358	**2,995**
Disposals	(11,071)	(1,483)	(387)	-	**(12,941)**
Transfers with classes	(1,014)	-	463	551	**-**
Transfers from non-current assets held for sale	1,352	-	-	-	**1,352**
Effects of foreign currency exchange differences	6,545	124	35	37	**6,741**
Balance as at Dec 31, 2013	310,226	5,418	2,811	1,045	**319,500**
Additions	657	141	7	1,605	**2,410**
Disposals	(11,810)	(430)	-	-	**(12,240)**
Effects of foreign currency exchange differences	3,901	65	18	41	**4,025**
Balance as at Mar 31, 2014	302,974	5,194	2,836	2,691	**313,695**

Accumulated depreciation	Field equipment	Light vehicles	Other[1]	Land and buildings	Total
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	**CAD$ '000**
Balance as at January 1, 2013	(98,749)	(2,279)	(1,269)	-	**(102,297)**
Depreciation	(23,135)	(1,397)	(582)	(99)	**(25,213)**
Disposals	3,056	1,021	362	-	**4,439**
Impairments	(120)	-	-	-	**(120)**
Effects of foreign currency exchange differences	(2,621)	(55)	(19)	(2)	**(2,697)**
Balance as at Dec 31, 2013	(121,569)	(2,710)	(1,508)	(101)	**(125,888)**
Depreciation	(5,641)	(350)	(148)	(59)	**(6,198)**
Disposals	4,204	313	-	-	**4,517**
Effects of foreign currency exchange differences	(1,704)	(35)	(7)	(4)	**(1,750)**
Balance as at Mar 31, 2014	(124,710)	(2,782)	(1,663)	(164)	**(129,319)**
Carrying Value Dec 31, 2013	188,657	2,708	1,303	944	**193,612**
Carrying Value Mar 31, 2014	178,264	2,412	1,173	2,527	**184,376**

	Mar 31, 2014	Dec 31, 2013
Included in field equipment are assets under construction carried at cost	2,472	1,942
Carrying amount of vehicles secured under finance lease obligation	1,718	1,924

Assets under construction is not depreciated and transferred to field equipment when it is substantially completed and available for use as intended by the technical specifications and testing.

ASSETS PLEDGED AS SECURITY

Field equipment has been pledged to secure borrowings of the Company. Without the consent of the lender, the Company is restricted from pledging these assets as security for other borrowings or selling them to another entity (as discussed in note 8). The Company's obligations under finance leases are secured by the lessors' title to the leased light vehicles.

[1] Other includes furniture and fittings, leasehold improvements and computer equipment

7. TRADE PAYABLES AND ACCRUED LIABILITIES

	Mar 31, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Trade payables	2,610	5,855
Operating accruals, payroll liabilities and other indirect taxes	3,297	7,009
Cash-settled share based compensation	573	549
Accrued interest on convertible debentures	235	939
	6,715	**14,352**
Amounts payable for capital purchases included in trade payables	757	760

The general payment terms on trade payables are 30 days from the date of the invoice. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The accrued interest on convertible debentures represent the coupon interest payable at 7% on the outstanding debentures (refer note 9). This interest is payable semi-annually on August 31 and February 28.

Non-cash inventory working capital is the movement in capital purchases included in trade payables.

8. CREDIT FACILITY

On May 17, 2013, the credit facility was amended and restated, with the major amendments being that the credit facility was resized to $50 million and the maturity date extended to April 30, 2014. On March 7, 2014 the agreement was further extended to June 30, 2014. The credit facility consists of a $10 million revolving operating facility and a $40 million revolving facility. The facilities bear interest at prime plus 0.75% to prime plus 4.25%. Both facilities are secured by a floating charge over all of the assets (excluding leased assets). The amended and restated credit facility is subject to financial and non-financial covenants typical of this type of facility.

The amended and restated credit facility is subject to financial covenants as follows:

- Funded Debt to EBITDA Ratio: Funded debt (excludes convertible debentures) at balance sheet date to 12 month trailing earnings before interest, taxes, depreciation and amortization, and share based compensation expense (Bank EBITDA) does not exceed 3.00 to 1.00
- EBITDA to Interest Expense Ratio: 12 month trailing Bank EBITDA to 12 month trailing interest expense exceeds 3.00 to 1.00
- Funded Debt to Capitalization Ratio: Funded debt to capitalization (the aggregate of funded debt plus equity) does not exceed 0.50 to 1.00

As at March 31, 2014, the Company is not in compliance with its Funded Debt to EBITDA Ratio and EBITDA to Interest Expense Ratio. , Subsequent to March 31, 2014, the Company received a covenant waiver from its bank.

The facility, if not renewed, is due on maturity. Pursuant to IAS 1, the Company has presented the entire credit facility as current as at the reporting date.

	Mar 31, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Current portion	15,037	18,573
	15,037	**18,573**

9. CONVERTIBLE DEBENTURES

On February 8, 2012 the Company closed its public offering of $35 million aggregate principle amount of 7.00% convertible unsecured subordinated debentures, and on February 8, 2012 closed the overallotment option of the public offering for an additional $5.25 million of similar debt, for a total issuance of $40.25 million aggregate principle amount. The debentures bear interest at an annual rate of 7.00% payable semi-annually, in arrears, on August 31 and February 28 in each year commencing August 31, 2012. The debentures mature on February 28, 2017. These debentures are not secured and are classified as financial liabilities measured at amortized cost.

The debentures are convertible into common shares of the Company at the option of the holder at a conversion price of $10.50 per common share. Subject to adjustment in certain events, this conversion represents a conversion rate of approximately 95.2381 common shares per $1,000 principal amount of debentures.

The Company may not redeem the debentures prior to February 28, 2015. On or after this date and prior to maturity, the debentures may be redeemed in whole or in part from time to time at the Company's option at par plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Company's common shares are not less than 125% of the conversion price for twenty consecutive days ending on the fifth trading day preceding the date on which notice of redemption is given. Upon redemption or maturity, the Company may repay the outstanding principal of the Debentures through the issuance of common shares.

The debentures have been classified as debt, net of issuance costs and net of the fair value of the conversion feature at the date of issuance which has been classified as part of shareholders' equity in the amount of $3.116 million (gross amount of $4.243 million adjusted for deferred tax of $1.127 million). The issuance costs will be amortized over the term of the debentures and the debt portion will accrete up to the principal balance at maturity. The accretion, amortization of issuance costs and the interest paid are expensed on the consolidated statement of loss and comprehensive loss. The fair value of the conversion feature was determined at the time of issuance as the difference between the principal value of the debentures and the discounted cash flows assuming a 10% rate which was the estimated rate for debt with similar terms at the time.

10. INCOME TAX

Income tax expense is recognized based on management's estimate of the weighted average annual income tax expected for the full financial year. The estimated average annual tax rate used for the year to December 31, 2014 is the total Canadian Federal and Provincial tax rate of 25% (2013: 25%). The Company has $235 million (2013: $199 million) of tax pools related to non-capital losses available for carry forward to reduce taxable income in future years and expire between 2029 and 2032. The Company recognizes no deferred tax assets in respect of temporary differences and tax losses as it is not probable that there would be sufficient future taxable profits for their utilization.

11. SHARE CAPITAL

AUTHORIZED

Unlimited number of common shares.

Unlimited number of preferred shares issuable in series with the designation, rights, privileges, restrictions and conditions of each series to be determined by the board of directors.

Number of issued shares

	Mar 31, 2014		Dec 31, 2013	
	Shares	Amount	Shares	Amount
	#	CAD$ '000	#	CAD$ '000
Balance as at January 1	63,607,668	259,823	63,515,664	259,551
Options exercised	-	-	75,000	200
Released from restricted shares	4,251	18	17,004	72
Balance as at period end	**63,611,919**	**259,841**	63,607,668	259,823

12. SHARE BASED COMPENSATION

The Company has four share based compensation plans in place that form part of the remuneration and performance management goals of the Company. The number of participating units under each plan is calculated in accordance with the performance-based formula approved by the compensation committee. The formula rewards executives and senior employees to the extent of the Company's and the individual's achievement judged against both quantitative and qualitative criteria from the following financial and customer service measures:

- earnings before income tax, depreciation and amortization;
- return on capital employed; and,
- safety.

EQUITY SETTLED SHARE BASED COMPENSATION PLANS

Restricted shares

The Company has granted restricted shares for certain employees with annual vesting over five years from the date of the grant. Granted restricted shares are held in trust until it vests when it is then issued to the employee. Cancelled or forfeited restricted share units are returned by the trust and cancelled.

The balance of restricted share units issued but not earned by employees is:

	Mar 31, 2014	Dec 31, 2013
	Units	Units
	#	#
Balance as at January 1	6,585	16,599
Earned by employees	(1,914)	(10,014)
Balance as at period end	4,671	6,585

The balance of restricted share units earned by employees but not vested as recorded in contributed surplus:

	Mar 31, 2014		Dec 31, 2013	
	Units	Amount	Units	Amount
	#	CAD$ '000	#	CAD$ '000
Balance as at January 1	17,488	74	24,478	104
Earned by employees – recognized as share based compensation	1,914	8	10,014	42
Vested	(4,251)	(18)	(17,004)	(72)
Balance as at period end	15,151	64	17,488	74
Balance of share units issued but not vested	19,822		24,073	

Share options

A summary of the status of the Company's outstanding stock options is presented below:

	Mar 31, 2014		Dec 31, 2013	
	Options	Average exercise price	Options	Average exercise price
	#	CAD$	#	CAD$
Balance as at January 1	3,295,000	2.31	2,810,000	3.07
Granted	925,000	1.66	1,605,000	1.65
Exercised	-	-	(75,000)	2.00
Forfeited	(784,166)	2.28	(320,000)	2.45
Expired	-	-	(725,000)	3.75
Balance as at period end	**3,435,834**	**2.15**	**3,295,000**	**2.31**

During Q3 2013, the Company amended the stock option plan such that options continue to vest over three years however options now expire one year after vesting. Previously issued options expired five years from the date of grant. The 3,435,834 options outstanding at March 31, 2014 (December 31, 2013: 3,295,000) had exercise prices ranging from \$1.37 to \$8.85 (December 31, 2013: \$1.37 to \$8.85) per share with expiry dates ranging from 2014 to 2018 (December 31, 2013: 2014 to 2018). When stock options are exercised the proceeds, together with the amount of compensation expense previously recorded in contributed surplus are added to share capital. In 2014 no options have been exercised. In 2013 the average share price that options were exercised at was \$2.11.

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value for the share options granted in the period. The following assumptions were used to value the options on the grant date:

	Feb 06, 2014
Share price (CDN $)	$1.66
Exercise price (CDN $)	$1.66
Volatility (%)	37.4
Average expected life (years)	3.2
Dividend yield (%)	-
Forfeiture rate (%)	27.2
Risk free interest rate (%)	1.2

CASH-SETTLED SHARE BASED COMPENSATION PLANS

Performance share units

The Company grants performance share units to officers and employees with the amount of the grant earned being linked to corporate performance and grants vesting from one to three years from date of grant. The performance share units can be settled in cash or equity, but the current policy is to settle these in cash.

	Mar 31, 2014 Units #	Dec 31, 2013 Units #
Performance share units earned		
Balance as at January 1	155,568	254,223
Vested	5,817	130,203
Paid in cash	-	(137,501)
Forfeited	(82,450)	(91,357)
Balance as at period end	**78,935**	**155,568**
	CAD$ '000	CAD$ '000
Performance share units payable	128	287

Deferred share units

Effective August 7, 2013, the Company adopted a deferred share unit plan approved by the Board of Directors on that date. Under the plan directors and employees of the company are eligible to receive grants that will vest evenly over one year. The deferred share units will be settled in cash. Unvested deferred share units are forfeited on termination.

	Mar 31, 2014 Units #	Dec 31, 2013 Units #
Deferred share units earned		
Balance as at January 1	145,899	-
Vested	89,326	145,899
Balance as at period end	**235,225**	**145,899**
	CAD$ '000	CAD$ '000
Deferred share units payable	445	262

Changes in the Company's obligations under performance share and deferred share units, which arise from fluctuations in the market value of the Company's shares underlying the compensation program, are recorded as the share price changes.

Total share based compensation expense

	Mar 31, 2014	Mar 31, 2013
	CAD$ '000	CAD$ '000
Equity-settled share based compensation		
Share options	40	189
Restricted share units	8	14
Cash-settled share based compensation		
Performance share units	(159)	62
Deferred share units	183	-
Balance as at period end	72	265

Share based compensation for the quarter reflects the reversal of share based compensation expense recognized in previous periods due to the forfeitures of share options, restricted share units, performance share units and deferred share units granted to employees whose services was terminated before the vesting period.

13. LOSS PER SHARE

BASIC / DILUTED LOSS PER SHARE

The loss and weighted average number of common shares used in the calculation of basic / diluted loss per share are as follows:

	For the three months ended	
	Mar 31, 2014	Mar 31, 2013
	CAD$ '000	CAD$ '000
Loss used in the calculation of basic /diluted loss per share – attributable to owners of the Company	(14,169)	(7,884)
	# '000	# '000
Weighted average number of common shares for the purposes of basic / diluted loss per share	63,610	63,472
Basic / diluted loss per share (CAD$)	(0.22)	(0.12)

All other instruments that can be settled in equity were excluded from the calculation of diluted loss per share as the effect would have been anti-dilutive.

14. COMMITMENTS FOR EXPENDITURE AND CONTINGENCIES

	Mar 31, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Commitment for the purchase of raw materials	60,276	65,381
Less than one year	6,068	10,314
Between 1 and 3 years	40,187	38,671
Between 4 and 5 years	13,167	15,574
Beyond 5 years	854	822
Commitments for the acquisition of plant and equipment within the next year	1,273	1,714
Total commitments	61,549	67,095

Commitment for the purchase of raw materials comprises of a yearly order quantity for proppants up to 2019 (December 31, 2013 – 2019). Such orders will be funded from operating resources. The commitment is secured by a deposit which is at risk if the commitment is not met. Based on a history of renegotiating the terms of the agreements, management does not believe that any deposits are at risk.

CONTINGENCIES

The Company is involved in various legal actions which occur from time to time in the course of operations. Management is of the opinion that losses, if any, arising from such legal actions would not have a material effect on these condensed interim consolidated financial statements.

15. FINANCIAL INSTRUMENTS

The Company's strategy is to maintain a capital structure to sustain future growth of the business and retain creditor, investor and market confidence. Recognizing the cyclical nature of the oilfield services industry, the Company strives to maintain a conservative balance between long-term debt and shareholders' equity. The Company's capital structure is currently comprised of shareholders' equity, convertible debentures and credit facilities. The Company may occasionally need to increase its level of debt to total capitalization to facilitate growth activities.

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

The financial risk management objectives remained consistent with those disclosed in the prior year Consolidated Financial Statements and the Company is still subjected to the same foreign currency exchange risks and exchange rate risks (collectively known as market risk), credit risk and liquidity risk as at December 31, 2013.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Generally the Company ensures that it has sufficient cash or available credit facilities to meet expected operational requirements. As at March 31, 2014, working capital (excluding the credit facility) of $19.7 million (December 31, 2013: $25.6 million) fully supported the credit facility of $15.0 million (December 31, 2013: $18.6 million).

The Company's credit facility matures June 30, 2014. Should the Company be unable to renew these facilities in the amount it requires or on terms acceptable to it, liquidity issues could result.

The Company is negotiating with its current Bank to structure a new facility prior to the current facility maturing. The Company has also engaged an independent third party to assist the Company with obtaining an asset backed loan (ABL) facility. This facility would be longer term and supported by the value of the Company's property and equipment, accounts receivable and inventory. The Company is currently negotiating with a specific ABL lender. The outcome from either financing alternative is not certain.

The Company's borrowing requirements fluctuate with its level of working capital, particularly accounts receivable. Amounts borrowed are anticipated to be repaid through collection of accounts receivable, operating cash generated, the sale of assets and proceeds, if any, of a new credit facility being negotiated, as noted above.

During the first quarter of 2014, the Company sold certain parked equipment for proceeds of $9.3 million and a book gain of $1.6 million. The proceeds were used to pay down the existing bank debt. The equipment sold was in excess of the Company's current needs and does not affect the Company's revenue generating capabilities. In addition, the Company has planned minimal capital expenditures in 2014 and manages the timing of its capital expenditures based on the ongoing financial results.

As at March 31, 2014, the Company had available the following resources available:

	Mar 31, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Cash and cash equivalents	1,902	1,955
Trade receivables	8,132	25,868
Unused credit facility – subject to applicable debt ceiling	35,000	31,427
	45,034	**59,250**

The timing of cash outflows relating to financial liabilities are outlined in the following table:

	Contractual cash flows at Mar 31, 2014	Less than 1 year	1 to 3 years	4 to 5 years	Greater than 5 years
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
Trade payables and accrued liabilities	5,907	5,907	-	-	-
Provisions	748	748	-	-	-
Finance lease obligation	2,138	1,211	927	-	-
Credit facility (including expected interest)	15,309	15,309	-	-	-
Debentures (including expected interest)	48,703	2,818	45,885	-	-
Total	72,805	25,993	46,812	-	-

	Contractual cash flows at Dec 31, 2013	Less than 1 year	1 to 3 years	4 to 5 years	Greater than 5 years
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
Trade payables and accrued liabilities	12,864	12,864	-	-	-
Provisions	742	742	-	-	-
Finance lease obligation	2,367	1,465	902	-	-
Credit facility (including expected interest)	19,241	19,241	-	-	-
Debentures (including expected interest)	50,112	2,818	5,635	41,659	-
Total	85,326	37,130	6,537	41,659	-

The finance lease obligation has an average future interest rate of 7.48% (2013: 7.31%) and a term of 14 months (2013: 13 months). The credit facility contractual cash flows have been calculated at an interest rate of prime + 4.25% (2013: prime + 4.25%) and matures June 30, 2014.

FAIR VALUES OF FINANCIAL INSTRUMENTS:

The Company's financial instruments included on the consolidated balance sheet and measured at amortized cost include: trade payables and accrued liabilities; provisions; finance lease obligations; the credit facility and convertible debentures with accrued interest.

The fair value of most of the Company's financial instruments included on the consolidated balance sheet approximate their carrying amounts due to their short term maturity. This includes the fair value of the credit facility as the impact of discounting is not significant as the facility matures June 30, 2014.

The Company's convertible debentures trade on the Toronto Stock Exchange under the symbol GFS.DB. The fair value of the convertible debentures is based on quoted market prices and is considered to be a Level 1 fair value measurement. The carrying value includes the debt and equity portion of the convertible debentures and excludes the deferred income tax impact of the debentures charged against the equity portion. As at March 31, 2014, the fair value of the convertible debentures was $33,005 thousand (December 31, 2013 $33,408 thousand) and the carrying value was $36,190 thousand (December 31, 2013 $36,587 thousand).

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's finance department is responsible for performing the valuation of financial instruments. The valuation processes and results are reviewed and approved by the CFO and CEO at least once every quarter, in line with the Company's quarterly reporting dates. Valuation results are discussed with the Audit Committee as part of its quarterly review of the Company's financial statements.

16. OPERATING WORKING CAPITAL

The change in non-cash working capital consists of:

	Mar 31, 2014	Mar 31, 2013
	CAD$ '000	CAD$ '000
Accounts receivable	17,794	12,238
Accounts payable (not including capital purchases)	(7,096)	(5,729)
Inventory	(3,634)	(1,920)
Performance and deferred share unit liability	22	(358)
Other	(21)	620
Net change in non-cash working capital	7,065	4,851

17. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the region where goods or services are delivered or provided. These regions are divided into Canada and U.S.A., and represent the Company's reportable segments. Both regions deliver and provide fracturing services to clients. Canada's primary operations are in the province of Alberta, while the U.S.A. focuses on delivering fracturing services to customers, primarily in the southern states.

Three months ended March 31, 2014	Canada	U.S.A.	Total
	CAD$ '000	CAD$ '000	CAD$ '000
Revenue	12,159	14	12,173
Segment loss before tax for the three months ended March 31, 2014	(9,222)	(3,752)	(12,974)
Share based compensation			(72)
Other expenditure attributed to the corporate office			(1,123)
Loss before tax for the three months ended March 31, 2014			(14,169)

Three months ended March 31, 2013	Canada	U.S.A.	Total
	CAD$ '000	CAD$ '000	CAD$ '000
Revenue	28,462	2,996	31,458
Segment loss before tax for the three months ended March 31, 2013	(387)	(4,677)	(5,064)
Share based compensation			(265)
Other expenditure attributed to the corporate office			(2,555)
Profit before tax for the three months ended March 31, 2013			(7,884)

SEGMENT ASSETS

	Mar 31, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Canada	161,867	176,052
U.S.	57,006	66,185
Total segment assets	218,873	242,237
Intangible assets held by the corporate head office for the benefit of all regions	294	328
Other corporate assets	342	232
Consolidated assets	**219,509**	**242,797**

SEGMENT LIABILITIES

	Mar 31, 2014	Dec 31, 2013
	CAD$ '000	CAD$ '000
Canada	6,855	13,405
U.S.	1,334	2,396
Total segment liabilities	8,189	15,801
Other corporate liabilities	52,381	55,787
Consolidated liabilities	**60,570**	**71,588**

THIS IS EXHIBIT "D" REFERRED TO
IN THE AFFIDAVIT OF LORI MCLEOD-HILL
SWORN BEFORE ME AT CALGARY, ALBERTA
THIS 13th DAY OF JANUARY, 2015

Commissioner for Oaths in and for
the Province of Alberta

ROBYN GUROFSKY
BARRISTER & SOLICITOR Barrister & Solicitor

GASFRAC ENERGY SERVICES INC.

CONSOLIDATED FINANCIAL STATEMENTS

AS AT FOR THE TWELVE MONTHS ENDED

DECEMBER 31, 2013

March 12, 2014

Independent Auditor's Report

To the Shareholders of
GASFRAC Energy Services Inc.

We have audited the accompanying consolidated financial statements of GASFRAC Energy Services Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

PricewaterhouseCoopers LLP
111 5 Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825, www.pwc.com/ca

pwc

Opinion

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

PricewaterhouseCoopers LLP

Chartered Accountants

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of GASFRAC Energy Services Inc. is responsible for the preparation and integrity of the accompanying consolidated financial statements and all other information contained in these financial statements. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in Canada and include amounts that are based on management's informed judgments and estimates where necessary.

The Company maintains internal accounting control systems which are adequate to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management's authorization and accounting records are reliable as a basis for the preparation of consolidated financial statements.

The Board of Directors, through its Audit Committee, monitors management's financial and accounting policies and practices and the preparation of these consolidated financial statements. The Audit Committee meets periodically with external auditors and management to review the work of each and the propriety of the discharge of their responsibilities. Specifically, the Audit Committee reviews with management and the external auditors the consolidated financial statements and annual report of the Company prior to submission to the Board of Directors for final approval. The external auditors have full and free access to the Audit Committee to discuss auditing and financial reporting matters.

The shareholders have appointed PricewaterhouseCoopers LLP as the external auditors of the Company and, in that capacity they have examined the consolidated financial statements for the periods ended December 31, 2013. The Auditors' Report to the shareholders is presented herein.

SIGNED "JAMES M. HILL"
JAMES M. HILL
CHIEF EXECUTIVE OFFICER

SIGNED "LORI L. MCLEOD-HILL"
LORI L. MCLEOD-HILL
CHIEF FINANCIAL OFFICER

March 12, 2014

Consolidated Statement of Financial Position

As at:	Notes	Dec 31, 2013	Dec 31, 2012
		CAD$ '000	CAD$ '000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		1,955	7,927
Trade and other receivables	5	26,037	30,529
Inventory	6	12,645	6,521
Prepaids and short term deposits	7	1,459	1,346
Assets held for sale	8	-	1,352
TOTAL CURRENT ASSETS		42,096	47,675
NON-CURRENT ASSETS			
Plant and equipment	9	193,612	219,056
Intangible assets	10	780	1,021
Long term deposits	7	6,309	7,704
TOTAL NON-CURRENT ASSETS		200,701	227,781
TOTAL ASSETS		**242,797**	**275,456**
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Trade payables and accrued liabilities	11	14,352	17,318
Provisions	12	742	768
Current portion of finance lease obligation	13	1,359	1,349
Current portion of credit facility	14	18,573	2,500
TOTAL CURRENT LIABILITIES		35,026	21,935
NON-CURRENT LIABILITIES			
Finance lease obligation	13	835	1,035
Operating lease obligation		79	38
Credit facility	14	-	27,500
Convertible debenture	15	35,648	34,504
Commitments and contingencies	24		
TOTAL NON-CURRENT LIABILITIES		36,562	63,077
TOTAL LIABILITIES		71,588	85,012
CAPITAL & RESERVES			
Share capital	17	259,823	259,551
Contributed surplus		6,461	5,810
Foreign currency translation reserve		5,326	1,055
(Deficit) Retained earnings		(100,401)	(75,972)
TOTAL EQUITY		171,209	190,444
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**242,797**	**275,456**

The accompanying notes are an integral part of the annual consolidated financial statements
On behalf of the Board

James Hill

Gerald Roe

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the twelve months ended	Notes	Dec 31, 2013	Dec 31, 2012
		CAD$ '000	CAD$ '000
REVENUE		121,823	149,442
EXPENDITURES			
Operating costs	20	96,555	127,673
Selling, general and administrative	20	18,489	22,487
Share based compensation	18 & 20	1,135	620
Depreciation and amortization	20	25,609	26,826
Impairments	20	120	47,412
Finance cost	19	6,661	5,623
Foreign exchange (gain) loss		(24)	46
		148,545	230,687
OTHER INCOME			
Interest income		18	62
Insurance Income		-	1,957
Net gain / (loss) on disposition of assets		2,275	(7)
		2,293	2,012
LOSS BEFORE INCOME TAXES		(24,429)	(79,233)
Tax recovery	16	-	1,764
LOSS FOR THE YEAR		**(24,429)**	**(77,469)**
OTHER COMPREHENSIVE (LOSS) INCOME			
ITEMS THAT WILL BE RECLASSIFIED TO PROFIT AND LOSS			
Exchange differences on translating foreign operations		4,271	(1,741)
OTHER COMPREHENSIVE (LOSS) INCOME		4,271	(1,741)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY		**(20,158)**	**(79,210)**
LOSS PER SHARE			
Basic (cents per share)	21	(0.38)	(1.23)
Diluted (cents per share)	21	(0.38)	(1.23)

The accompanying notes are an integral part of the annual consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Contributed surplus	Foreign currency translation reserve	Retained earnings (Deficit)	**Total – attributable to owners**
		CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	**CAD$ '000**
Balance as at January 1, 2012		257,235	3,185	2,796	1,497	**264,713**
Loss for the year		-	-	-	(77,469)	**(77,469)**
Other comprehensive income for the year, net of income tax		-	-	(1,741)	-	**(1,741)**
Total comprehensive income for the year		-	-	(1,741)	(77,469)	**(79,210)**
Share issued for services received		110	-	-	-	**110**
Convertible debentures issued		-	3,116	-	-	**3,116**
Exercise of share options		676	(191)	-	-	**485**
Exercise of warrants		1,013	(188)	-	-	**825**
Net change in restricted shares		520	(520)	-	-	**-**
Net share based compensation		-	342	-	-	**342**
Share / debenture issue cost net of deferred tax impact		(3)	66	-	-	**63**
Balance as at December 31, 2012		259,551	5,810	1,055	(75,972)	**190,444**
Loss for the year					(24,429)	**(24,429)**
Other comprehensive income for the year, net of income tax				4,271		**4,271**
Total comprehensive income for the year				4,271	(24,429)	**(20,158)**
Exercise of share options		200	(50)			**150**
Net change in restricted shares	18	72	(72)			**-**
Net share based compensation	18		773			**773**
Balance as at December 31, 2013		259,823	6,461	5,326	(100,401)	**171,209**

The accompanying notes are an integral part of the annual consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOW

For the twelve months ended	Notes	Dec 31, 2013	Dec 31, 2012
		CAD$ '000	CAD$ '000
CASH FLOWS PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Loss for the year		(24,429)	(77,469)
Adjusted for:			
Depreciation and amortization	20	25,609	26,826
Impairments	20	120	47,412
(Gains) / losses on disposal of assets	20	(2,275)	7
Equity settles share based compensation	18	773	342
Finance cost per income statement	19	6,661	5,623
Unrealized foreign exchange loss		(422)	(3)
Doubtful debt expense	20	528	1,306
Insurance income		-	(1,957)
Taxation per income statement	16	-	(1,764)
		6,565	323
Net change in non-cash operating working capital items	26	(2,121)	22,032
Cash provided by operating activities		4,444	22,355
Interest paid		(5,523)	(3,349)
Net cash provided (used) by operating activities		(1,079)	19,006
INVESTING ACTIVITIES			
Purchases of plant and equipment	9	(2,995)	(48,338)
Acquisition of intangible assets	10	(155)	(776)
Proceeds from sale of plant and equipment		10,780	2,124
Net change in non-cash investing working capital	11	(1,387)	(15,353)
Net cash provided (used) in investing activities		6,243	(62,343)
FINANCING ACTIVITIES			
Proceeds from common shares issued (net of share issue cost)		150	1,310
Issue of debentures (net of debenture issue cost)		-	37,888
Net change in credit facility		(11,427)	7,813
Net change in finance leases		(217)	(696)
Net cash provided (used) in financing activities		(11,494)	46,315
Net (decrease) increase in cash and cash equivalents		(6,330)	2,978
Cash and cash equivalents, beginning of year		7,927	5,026
Effects of exchange rate changes on the balance of cash held in foreign currencies		358	(77)
CASH AND CASH EQUIVALENTS, END OF YEAR		**1,955**	**7,927**

The accompanying notes are an integral part of the annual consolidated financial statements

1. GENERAL INFORMATION AND NATURE OF OPERATIONS

GASFRAC Energy Services Inc. ("GASFRAC" or the "Company") was incorporated on February 13, 2006 in Canada under the Business Corporations Act in the Province of Alberta. The Company is an oil and gas service company headquartered in Calgary, Alberta and the sole provider of fracturing services utilizing gelled LPG fluid systems in North America.

The Company's principle place of business is located at Suite 1900, 801 – 6 Avenue S.W., Calgary, AB. T2P 3W2.

The Company's financial results are directly affected by the seasonal nature of the North American oil and natural gas industry. The first and fourth quarter incorporates the winter drilling season when a disproportionate amount of the activity takes place in western Canada. During the second quarter, commonly referred to as "spring breakup", soft ground conditions typically curtail oilfield activity in all of the Company's Canadian operating areas. In addition, during excessively rainy periods in any of the Company's operating areas, equipment moves may be delayed, thereby adversely effecting revenues.

The financial statements were approved by the Company Board or Directors on March 12, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The Company's financial statements have been prepared in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

BASIS OF PREPARATION

The consolidated financial statements of Gasfrac Energy Services Inc. have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at re-valued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets or the proceeds received in exchange for obligations.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

BASIS OF CONSOLIDATION

These consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned and controlled by the Company. Subsidiaries are all entities including structured entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The accounting policies of the subsidiaries are in line with that of the Company. All inter-company balances and transactions have been eliminated on consolidation.

FOREIGN CURRENCIES

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The functional currency of the parent company is the Canadian dollar. The presentation currency of the Company is also the Canadian dollar.

As the operations of the Company's wholly owned subsidiaries in the U.S. and Luxembourg continue to gain significance relative to the operations of the Company as a whole the Board of Directors concluded that the most appropriate functional currency of these foreign subsidiaries are the U.S. Dollar. The change in accounting policy was effective for the Company April 1, 2011. This reflects the fact that as of the effective date of this change the majority of the subsidiaries' pricing for fracturing and other services are influenced by the U.S. dollar, the competitive and regulatory environment of the subsidiary are mainly influenced by the U.S. and the U.S. dollar now largely influences labour, material and other costs of providing fracturing services. The previous functional currency of the subsidiaries was the Canadian dollar.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into Canadian dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

INVENTORY

Inventory consists of liquefied petroleum gas, chemicals, and proppants used to stimulate well production and is stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

PLANT AND EQUIPMENT

Plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is recognized so as to write off the cost less residual values over useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

INTANGIBLE ASSETS

Intangible assets with finite useful lives are carried at cost less accumulated amortization and impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

IMPAIRMENT OF NON-FINANCIAL ASSETS AND INTANGIBLE ASSETS

At the end of each reporting period, the Company assesses whether there are any indicators of impairment. If indicators are present, the Company determines the recoverable amount of the assets being the higher of fair value less costs of disposal (FVLCD) and the value in use (VIU). An impairment loss would be incurred to the extent that the recoverable amount exceeds the carrying amount.

Impairment is assessed at the cash-generating unit (CGU) level. A CGU is the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows from other assets or group of assets. The assets of the corporate head office, which do not generate separate cash inflows, are allocated on a reasonable and consistent basis to CGUs for impairment testing. The carrying amounts of assets of the corporate head office that have not been allocated to a CGU are compared to their recoverable amount to determine if there is any impairment loss.

If, after the Company has previously recognized an impairment loss, circumstances indicate that the fair value of the impaired assets are greater than the carrying amount, the Company will reverse the impairment loss by the amount the revised recoverable amount exceeds its carrying amount, to a maximum of the previous impairment loss. In no case shall the revised carrying amount exceed the original carrying amount, after depreciation or amortization, that would have been determined if no impairment loss has been recognized. An impairment loss or a reversal of impairment loss is recognized in the statement of comprehensive loss.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax:

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax:

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. The largest component of deductible temporary differences is assessed losses accumulated due to operating losses incurred in the relevant tax jurisdictions. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount.

Current and deferred tax for the year:

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

PROVISIONS

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contract:

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

LEASES

Finance leases:

The Company leases certain property, plant and equipment. Leases in which a significant portion of the risks and rewards of ownership are transferred to the lessee are classified as finance leases. Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss. The assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating leases:

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

REVENUE RECOGNITION

The Company's revenue is comprised of services, sale of goods and other revenue and is generally sold on agreed upon priced purchase orders or contracts with the customer. Contract terms do not include provisions for significant post-service delivery obligations. Revenue is measured at the fair value of the consideration received or receivable. Service, sale of goods and other revenue is recognized when the services are provided and collectability is reasonably assured.

Rendering of services:

Revenue from fracturing services is recognized upon completion, as there is generally no significant time lapse from initiation to completion of the service.

Sale of goods:

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest:

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

BORROWING COSTS

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

EMPLOYEE BENEFITS

Pension obligations

The Company has a defined contribution plan where contributions are paid to a privately administered pension plan. The group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when paid. Unvested contributions are recognized as a reduction to employee benefit expense in the current period should an employee leaves prior to earning entitlement to the Company's contributions.

Termination benefits

Termination benefits are payable when employment is terminated by the Company or whenever an employee accepts voluntary redundancy in exchange for these benefits. The company recognizes termination benefits at the period where the Company can no longer withdraw the offer of those benefits.

Bonus Plans

The Company recognizes a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments.

SHARE BASED PAYMENT ARRANGEMENT

Equity-settled share based compensation

Equity-settled share based compensation to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share based compensation is expensed on the graded method over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the contributed surplus – share based compensation reserve.

Cash-settled share based compensation

For cash-settled share based compensation, a liability is recognized for services acquired as part of trade payables and accrued liabilities. This liability is measured initially at the fair value and subsequently revalued at the end of each reporting period and until the liability is settled, with any changes in fair value recognized in profit or loss for the year.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Company's financial assets are classified into the following specified category:

- 'loans and receivables'.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest rate method:

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for loans and receivables.

Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash and long and short term deposits) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets:

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity:

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments:

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Compound instruments:

The component parts of compound instruments (convertible notes) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently re-measured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share capital. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognized in equity will be transferred to retained earnings. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible notes using the effective interest method.

Financial liabilities:

The Company's financial liabilities are classified into the following specified category:

- 'other financial liabilities'.

Other financial liabilities:

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities:

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivative financial instruments and hedge accounting

The Company does not enter into derivative financial instruments to manage its interest rate and foreign exchange rate risk. Hedge accounting is therefore also not applied.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 2, management are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The company does not have any specific critical judgments, apart from those involving estimations that management have made in the process of applying the Company's accounting policies.

KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of plant and equipment (note 9)

As described above, the Company reviews the estimated useful lives of plant and equipment at the end of each reporting period. During the current year, no changes were made to the economic useful life plant and equipment.

The estimated useful life of plant and equipment is summarized as:

Asset class	Economic useful life
Buildings	5 – 35 years
Field equipment	3 – 20 years
Light vehicles	4 years
Furniture and fixtures	5 years
Leasehold improvements	Lease term
Computer equipment	3 – 5 years

Useful lives of intangible assets (note 10)

As described above, the Company reviews the estimated useful lives of intangible assets at the end of each reporting period. During the current year, no changes were made to the economic useful life of intangible assets.

The estimated useful life of intangible assets is summarized as:

Asset class	Economic useful life
Patents	5 years
Computer software	3 years
Development costs and other intangible assets	5 years

Recognition of deferred tax assets (note 16)

The Company only recognizes a deferred tax asset when it is probable that taxable benefits would be received in the future. The probability of future taxable benefits is based upon the earnings history of the Company, management's best estimate of future earnings and expectations of future tax rates based on legislation in place in the relevant jurisdiction.

Share based compensation estimates (note 18)

Options

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, and estimated volatility of the Company's shares. All share options are granted at the market value of the shares on grant date.

Performance share units

Performance share unit grants are linked to corporate performance and grants vest from one to three years from date of grant. The Company periodically assesses expectations as to the performance achieved as an input variable to the calculation of its liability pursuant to performance share units.

Deferred share units

Deferred share unit grants vest evenly over the year from date of grant. The Company's obligation changes from fluctuations in the market value of the Company's shares.

Recoverability of accounts receivable (note 5)

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

Valuation of debenture holders' conversion option (note 15)

In order to value the debenture holders' conversion option, management had to determine what interest rate a similar debt instrument will carry if it had no conversion privilege. Management reviewed similar issues within the Canadian debt market of unrated entities and concluded that such a similar debt instrument without conversion privilege will carry a 10% coupon interest rate.

Also, the Company's option to redeem the debentures before maturity is considered closely related to the host debt instrument and thus not separately valued.

Impairment evaluation of non-financial assets and intangible assets (note 9)

GASFRAC's impairment test compares the carrying amount of the assets for each CGU compared to the higher of FVLCD and VIU. The Company allocates non-financial assets and intangible assets into CGU's based on the geographical area within the area that the assets operate.

In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU for which the estimates of future cash flows have not been adjusted. VIU require management to estimate cash inflows based on internal factors, such as budgets and forecasts, as well as external factors, such as expected future prices, costs and other market factors. Key estimates used in VIU to determine the recoverable amount include the determination of the discount rate, composition of "sets" or "frac spreads" (as the number of specific assets included in a "set" or "frac spread" varies depending on the customer, the reservoir, etc.), utilization for each "set" or "frac spread" and disposal costs, These assumptions and estimates are uncertain and are subject to change as new information becomes available. Changes in economic conditions can also affect the estimates used.

FVLCD requires management to estimate the amount obtained from the sale of an asset or a CGU in an arms length transaction between knowledgeable, willing parties less the cost of disposal. The best evidence of fair value is a quoted price in an active market or a binding sale agreement for the same or similar asset(s). Where neither exists, fair value is based on the best information available to estimate the amount the Company could obtain from the sale of the asset(s) in an arm's length transaction such as an independent report from an appraiser.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

New and amended standards adopted by the group

The Company has applied the following new and revised IFRSs and International Financial Reporting Standards Interpretations ("IFRIC") that have been issued and are effective for financial periods commencing January 1, 2013:

Standard name	Type of change	Effective date Annual period beginning on or after
IAS 1 – *Presentation of Financial Statements*	Amendments	July 1, 2012
IAS 19 – *Employee Benefits*	Amendments	January 1, 2013
IAS 36 – *Impairment of Assets*	Amendments	January 1, 2014
IFRS 7 – *Financial Instruments: Disclosures*	Amendments	January 1, 2013
IFRS 10 – *Consolidated Financial Statements*	New standard	January 1, 2013
IFRS 11 – *Joint Arrangements*	New standard	January 1, 2013
IFRS 12 – *Disclosure of Interests in Other Entities*	New standard	January 1, 2013
IFRS 13 – *Fair Value Measurement*	New standard	January 1, 2013

IAS 1 – Presentation of Financial Statements

The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially classifiable to profit or loss subsequently (reclassification adjustments).

Management has assessed that the application of the new standard will not have a significant impact on amounts reported in respect of the Company's OCI however there are enhanced disclosures on the statement of comprehensive income.

IAS 19 – Employee Benefits

IAS 19 as issued in February 1998 was amended June 2011 to reflect (i) significant changes to recognition and measurement of defined benefit pension expense and termination benefits, and (ii) expanded disclosure requirements.

Management has adopted IAS 19 in the Company's consolidated financial statements for the annual period beginning January 1, 2013 and assessed that the application of the new standard does not have a significant impact on amounts reported in respect of the Company's financial results as it does not have a defined benefit plan.

IAS 36 – Impairment of Assets

The amendment to IAS 36 addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. Early adoption is permitted.

Management has early adopted IAS 36 in the Company's consolidated financial statements for the annual period beginning January 1, 2013 and assessed that the application of the new standard does not have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities.

IFRS 7 – Financial Instruments

IFRS 7 as issued in August 2005 is amended to require additional disclosures on transition from IAS 39 to IFRS 9. These amendments are effective upon adoption of IFRS 9. The effective date for IFRS 9 has been changed to undetermined by the IASB. The amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.

Management has adopted IFRS 7 in the Company's consolidated financial statements for the annual period beginning January 1, 2013 and assessed that the application of the new standard does not have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities.

IFRS 10 – Consolidated Financial Statements

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities.

IFRS 10 requires an entity to consolidate an investee when it has power over the investee, is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through power over the investee. Under the existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Management has adopted IFRS 10 in the Company's consolidated financial statements and assessed that the application of the new standard does not have a significant impact on amounts reported in respect of the Company's consolidated financial statements.

IFRS 11 – Joint Arrangements

IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. The IFRS supersedes IAS 31 – Interests in Joint Ventures and SIC 13 – Jointly Controlled Entities—Non-Monetary Contributions by Venturers.

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of assets, liabilities, revenues and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures.

Management has adopted IFRS 11 in the Company's consolidated financial statements and assessed that the application of the new standard does not have a significant impact on amounts reported in respect of the Company's consolidated financial statements.

IFRS 12 – Disclosure of Interest in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and introduces significant additional disclosure that addresses the nature of, and risks associated with, an entity's interest in other entities.

Management has adopted IFRS 12 in the Company's consolidated financial statements. Management performed a detailed review of the impact of the additional disclosure requirements on its current and possible future interest in other entities and assessed that the application of the new standard does not have a significant impact on amounts reported in respect of the Company's consolidated financial statements.

IFRS 13 – Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosure.

Management has adopted IFRS 13 in the Company's consolidated financial and that the application of the new standard does not have a significant impact on amounts reported in respect of the Company's consolidated financial statements as the previous method of determining fair value is in line with the clarification set out in IFRS 13 but there are enhanced disclosure requirements.

New and amended standards not yet adopted by the group

The Company has not applied the following new and revised IFRSs and International Financial Reporting Standards Interpretations ("IFRIC") that have been issued but are not yet effective:

Standard name	Type of change	Effective date Annual period beginning on or after
IAS 32 – *Financial Instrument Presentation*	Amendments	January 1, 2014
IFRIC 21 - *Levies*	New Interpretation	January 1, 2014
IFRS 9 – *Financial Instruments*	New standard	Undetermined

IAS 32 – Financial Instruments: Presentation

IAS 32 as issued in June 1995 is amended to clarify requirements for offsetting of financial assets and financial liabilities. This standard is effective for annual periods beginning on or after January 1, 2014.

Management anticipates that IAS 32 will be adopted in the Company's consolidated financial statements for the annual period beginning January 1, 2014 and that the application of the new standard will not have a significant impact on amounts reported in respect of the Company's financial results.

IFRS 9 – Financial Instruments

The IASB has undertaken a three-phase project to replace IAS 39 Financial Instruments: Recognition and Measurement with IFRS 9 Financial Instruments. In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. In November 2013, the IASB issued the third phase of IFRS 9 which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporters to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. In July 2013, the IASB deferred the mandatory effective date of IFRS 9 and has left this date open pending the finalization of the impairment and classification and measurement requirements. IFRS 9 is still available for early adoption.

Management has not yet evaluated the impact on this new standard on the Company's financial statements measurements and disclosures. The Company does not anticipate early adopting this standard.

5. TRADE AND OTHER RECEIVABLES

	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
Trade receivables	25,868	28,376
Insurance income receivable	-	2,066
Other receivables	169	87
	26,037	**30,529**

The Company's accounts receivable balances are with customers in the oil and gas industry and are subject to normal industry credit risks. Before accepting any new customer, the Company obtains the potential customer's credit score from an external credit bureau to assess the credit quality. Financial results are also reviewed where available. Credit scores are reviewed for customers without any transactional activity for a six month period. Where credit extension is not deemed appropriate, alternatives include obtaining a deposit or full prepayment of the service from the prospective customer.

The Company evaluates the amount receivable from each customer for recoverability at each reporting period.

Concentration of trade receivable balances

	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
Value of trade receivables with individual balances of more than 10% of trade receivables	25,552	20,625
Number of customers	3	4

The Company's largest customer accounts for 46% of total revenue and 44% of the December 31, 2013 trade receivables.

Aged trade receivable balances

The Company assesses the credit worthiness of all of its customers. The Company does not hold any collateral or other credit enhancements over outstanding balances nor does it have a legal right of offset against any amounts owed by the Company to the counterparty. The Company's trade receivables as at December 31 are aged as follows:

	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
0 – 30 days	15,606	11,467
30 – 60 days	2,187	14,342
60 – 90 days	7,970	696
90 – 120 days	89	-
120 + days	16	1,871
	25,868	28,376
Balances above include allowance for amounts deemed not recoverable of	-	796
Average age of trade receivables – in days	77	85

Doubtful debt expense (see note 20) includes the allowance for amounts deemed not recoverable of $nil (December 31, 2012: $796 thousand) and actual write offs of $528 thousand (December 31, 2012: $510 thousand).

6. INVENTORY

Inventory represents raw materials used in the fracturing process. The cost of inventories (see note 20) recognized as an expense during the year was $45.2 million (December 31, 2012: $56.7 million).

	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
Proppant	10,366	3,358
Chemicals	1,521	2,577
LPG	337	543
Other	421	42
	12,645	**6,521**

7. PREPAIDS AND DEPOSITS

Prepaids and deposits include supply chain and facility deposits to secure facilities and the supply of raw materials used in the fracturing process, prepaid expenses and a commitment fee.

	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
Supply chain and facility deposits	7,255	8,026
Commitment fee	114	326
Prepaid expenses	399	698
	7,768	**9,050**
Current	1,459	1,346
Non-current	6,309	7,704
	7,768	**9,050**

Supply chain deposits relating to commitments for the purchase of raw materials (see note 24) are either amortized evenly on a per unit purchased basis or applied against the final purchase commitment amount.

Pursuant to the credit facilities described in note 14, the Company incurs a loan commitment fee on the renewal of the facility. In May 2013, $50 thousand (August 2012, $100 thousand) was incurred. The commitment fee will be amortized over the remaining facility term.

Prepaids and deposits classified as current are expected to be utilized no more than twelve months after the reporting period.

8. ASSETS HELD FOR SALE

	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
Opening balance	1,352	-
Transferred from / (to) plant and equipment (refer note 9)	(1,352)	4,608
Disposal	-	(1,765)
Impairment based on expected realizable value less cost to sell	-	(1,491)
	-	**1,352**

The Company purchased twelve LPG storage units to facilitate the bulk purchase and storage of LPG and to ensure uninterrupted supply of LPG to the Company's operations. In 2012, management decided to abandon the construction of the storage facility as the additional resources needed to complete the facility could be utilized more efficiently and profitably in more strategic projects of the Company.

In April, 2012 six LPG storage units were sold. The remaining six units were actively marketed and therefore re-classified as Assets held for sale. In March 2013 the remaining 6 units were not sold and were re-classified to field equipment within property and equipment (refer to note 9). In December 2013 three of the remaining six units were sold for proceeds of $825 thousand. At period end the remaining three LPG storage units remain in field equipment.

9. PLANT AND EQUIPMENT

Cost	Field equipment	Light vehicles	Other[1]	Land and buildings	**Total**
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	**CAD$ '000**
Balance as at Jan 1, 2012	272,686	5,032	2,084	100	**279,902**
Additions	46,913	835	512	-	**48,260**
Disposals	(365)	(30)	(7)	-	**(402)**
Transfers to assets held for sale (note 8)	(4,608)	-	-	-	**(4,608)**
Effects of foreign currency exchange differences	(1,747)	(41)	(10)	(1)	**(1,799)**
Balance as at Dec 31, 2012	312,879	5,796	2,579	99	**321,353**
Additions	1,535	981	121	358	**2,995**
Disposals	(11,071)	(1,483)	(387)	-	**(12,941)**
Transfers within classes	(1,014)	-	463	551	**-**
Transfers from assets held for sale (note 8)	1,352	-	-	-	**1,352**
Effects of foreign currency exchange differences	6,545	124	35	37	**6,741**
Balance as at Dec 31, 2013	310,226	5,418	2,811	1,045	**319,500**

Accumulated depreciation	Field equipment	Light vehicles	Other	Land and buildings	**Total**
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	**CAD$ '000**
Balance as at Jan 1, 2012	(28,639)	(928)	(658)	-	**(30,225)**
Depreciation	(24,517)	(1,379)	(612)	-	**(26,508)**
Disposal	4	11	-	-	**15**
Impairments	(45,921)	-	-	-	**(45,921)**
Effects of foreign currency exchange differences	324	17	1	-	**342**
Balance as at Dec 31, 2012	(98,749)	(2,279)	(1,269)	-	**(102,297)**
Depreciation	(23,135)	(1,397)	(582)	(99)	**(25,213)**
Disposals	3,056	1,021	362	-	**4,439**
Impairments	(120)	-	-	-	**(120)**
Effects of foreign currency exchange differences	(2,621)	(55)	(19)	(2)	**(2,697)**
Balance as at Dec 31, 2013	(121,569)	(2,710)	(1,508)	(101)	**(125,888)**

Carrying Value Dec 31, 2012	214,130	3,517	1,310	99	**219,056**
Carrying Value Dec 31, 2013	188,657	2,708	1,303	944	**193,612**

	Dec 31, 2013	Dec 31, 2012
Included in field equipment are assets under construction carried at cost	1,942	5,168
Carrying amount of assets secured under finance lease obligation	1,924	2,243

Assets under construction is not depreciated and transferred to field equipment when it is substantially completed and available for use as intended by the technical specifications and testing.

[1] Other includes furniture and fittings, leasehold improvements and computer equipment.

ASSETS PLEDGED AS SECURITY

Field equipment has been pledged to secure borrowings of the Company. Without the consent of the lender, the Company is restricted from pledging these assets as security for other borrowings or selling them to another entity (as discussed in note 14)

IMPAIRMENT OF ASSETS

The Company has performed impairment assessments as at December 31, 2013 and December 31, 2012 as indicators of impairment were present. The key indicator of impairment was the carrying value of net assets exceeding market capitalization.

At December 31, 2013, management concluded that the recoverable amount based on Fair Value less costs of disposal exceeded the carrying amount for each CGU and therefore there was no impairment.

The Company engaged independent third party appraisers to assess the value of the assets within the Canadian and US CGU. The independent third party appraisers determined the assigned values based on sale prices of similar equipment sold by private treaty where available, the cost to reproduce or replace similar equipment and the knowledge and experience of the appraisers. The appraisers also considered the age, condition and marketability of the assets. Fair market value was defined as the price at which the equipment would exchange hands between a willing buyer and willing seller less a reasonable cost to sell. The appraisals are considered to be fair market values determined by level 3 data inputs. The appraised fair value less estimated disposal costs of 5% exceeds the carrying value of the appraised assets by approximately 15%.

December 31, 2012, the Company recorded an impairment loss of $24.8 million in the US CGU and $20.0 million in the Canadian CGU. The impairment loss in the US CGU was determined based on FVLCD and was based on information available on amounts that could be obtained in a non-compulsory asset sale with an arm's length third party. The impairment loss in the Canadian CGU was determined based on FVLCD. Fair value was derived using an earnings multiple approach, in which an implied multiple was applied to the CGU's forecast EBITDA. After recognizing the impairment loss in both CGUs the recoverable amount of the CGU equals its carrying amount. The impairment was included in the statement of comprehensive loss.

10. INTANGIBLE ASSETS

Cost	Patents	Computer software	Development cost	Other	**Total**
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	**CAD$ '000**
Balance as at Jan 1, 2012	600	140	230	31	**1,001**
Additions	213	626	-	-	**839**
Balance as at Dec 31, 2012	**813**	**766**	**230**	**31**	**1,840**
Additions	114	41	-	-	**155**
Disposals	-	-	**(230)**	**(31)**	**(261)**
Balance as at Dec 31, 2013	**927**	**807**	-	-	**1,734**

Accumulated amortization	Patents	Computer software	Development cost	Other	**Total**
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	**CAD$ '000**
Balance as at Jan 1, 2012	(281)	(11)	(184)	(25)	**(501)**
Amortization	(142)	(124)	(46)	(6)	**(318)**
Balance as at Dec 31, 2012	**(423)**	**(135)**	**(230)**	**(31)**	**(819)**
Amortization	(176)	(220)	-	-	**(396)**
Disposals	-	-	**230**	**31**	**261**
Balance as at Dec 31, 2013	**(599)**	**(355)**	-	-	**(954)**

Carrying Value Dec 31, 2012	390	631	-	-	**1,021**
Carrying Value Dec 31, 2013	328	452	-	-	**780**

Patents relate to the fracturing technology developed by the Company.

11. TRADE PAYABLES AND ACCRUED LIABILITIES

	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
Trade payables	5,855	8,753
Operating accruals, payroll liabilities and other indirect taxes	7,009	7,082
Accrued coupon interest on debentures (note 15)	939	939
Cash-settled share based compensation (note 18)	549	544
	14,352	**17,318**
Amounts payable for capital purchases Included in trade payables	760	2,147

The general payment terms on trade payables are 30 days from the date of the invoice. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Non-cash investing working capital is the movement in capital purchases included in trade payables.

12. PROVISIONS

	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
Employee benefits	742	768
	742	**768**

The provision for employee benefits represents annual leave and unused days off accrued.

13. FINANCE LEASE OBLIGATION

The Company leases some of its light vehicles under finance leases. The lease obligations are carried at amortized cost. The average lease term is 3 years (2012: 3 years). The Company has options to purchase the vehicles for a nominal amount at the end of the lease terms. The Company's obligations under finance leases are secured by the lessors' title to the leased assets.

Interest rates underlying all obligations under finance leases are fixed at respective contract dates with the average interest rate for the year being 7.22% (2012: 7.37%) per annum.

	Minimum lease payments		Present value of minimum lease payments	
	Dec 31, 2013	Dec 31, 2012	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
Not later than one year	1,465	1,500	1,359	1,349
Later than one year and not later than five years	902	1,087	835	1,035
	2,367	2,587	2,194	2,384
Less: future finance charges	(173)	(203)	-	-
Present value of minimum lease payments	**2,194**	**2,384**	**2,194**	**2,384**

	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
Included in the consolidated financial statements as:		
Current obligations	1,359	1,349
Non-current obligations	835	1,035
	2,194	**2,384**

14. CREDIT FACILITY

During 2012, the Company had a credit agreement with a syndication of Canadian chartered banks. The credit agreement provided for a maximum of $10 million as an operating facility and a $90 million revolving facility.

On May 17, 2013, the credit facility was amended and restated, with the major amendments being that the credit facility was resized to $50 million and the maturity date extended to April 30, 2014. On March 7, 2014 the agreement was extended to June 30, 2014. The credit facility consists of a $10 million revolving operating facility and a $40 million revolving facility. The facilities bear interest at prime plus 0.75% to prime plus 4.25%. Both facilities are secured by a floating charge over all of the assets (excluding leased assets). The amended and restated credit facility is subject to financial and non-financial covenants typical of this type of facility.

The amended and restated credit facility is subject to financial covenants as follows:

- Funded debt (excludes convertible debentures) at balance sheet date to 12 month trailing earnings before interest, taxes, depreciation and amortization, and stock compensation expense (Bank EBITDA) does not exceed 3.00 to 1.00
- 12 month trailing Bank EBITDA to 12 month trailing interest expense exceeds 3.00 to 1.00
- Funded debt to capitalization (the aggregate of funded debt plus equity) does not exceed 0.50 to 1.00

As at December 31, 2013, the Company is in compliance with all covenants. The facility, if not renewed, is due on maturity. Pursuant to IAS 1, the Company has presented the entire credit facility as current as at the reporting date.

	Dec 31, 2013 CAD$ '000	Dec 31, 2012 CAD$ '000
Current	18,573	2,500
Non-current	-	27,500
	18,573	**30,000**

15. CONVERTIBLE DEBENTURES

	Dec 31, 2013 CAD$ '000	Dec 31, 2012 CAD$ '000
Convertible debentures	40,250	40,250
Issue costs	(2,362)	(2,362)
Equity component	(4,243)	(4,243)
Amortization of financing transaction costs and accretion of the equity component	2,003	859
	35,648	34,504

On February 8, 2012 the Company closed its public offering of $35 million aggregate principle amount of 7.00% convertible unsecured subordinated debentures, and on February 8, 2012 closed the overallotment option of the public offering for an additional $5.25 million of similar debt, for a total issuance of $40.25 million aggregate principle amount. The debentures bear interest at an annual rate of 7.00% payable semi-annually, in arrears, on August 31 and February 28 in each year commencing August 31, 2012. The debentures mature on February 28, 2017. These debentures are not secured and are classified as financial liabilities measured at amortized cost.

The debentures are convertible into common shares of the Company at the option of the holder at a conversion price of $10.50 per common share. Subject to adjustment in certain events, this conversion represents a conversion rate of approximately 95.2381 common shares per $1,000 principal amount of debentures.

The Company may not redeem the debentures prior to February 28, 2015. On or after this date and prior to maturity, the debentures may be redeemed in whole or in part from time to time at the Company's option at par plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Company's common shares are not less than 125% of the conversion price for twenty consecutive days ending on the fifth trading day preceding the date on which notice of redemption is given. Upon redemption or maturity, the Company may repay the outstanding principal of the Debentures through the issuance of common shares.

The debentures have been classified as debt, net of issuance costs and net of the fair value of the conversion feature at the date of issuance which has been classified as part of shareholders' equity in the amount of $3,116 (gross amount of $4,243 adjusted for deferred tax of $1,127). The issuance costs will be amortized over the term of the debentures and the debt portion will accrete up to the principal balance at maturity. The accretion, amortization of issuance costs and the interest paid are expensed on the consolidated statement of loss and comprehensive loss. The fair value of the conversion feature was determined at the time of issuance as the difference between the principal value of the debentures and the discounted cash flows assuming a 10% rate which was the estimated rate for debt with similar terms at the time.

16. TAXATION

The income tax expense for the year can be reconciled to the accounting profit as follows:

	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
Loss before tax from continuing operations	(24,429)	(79,233)
Income tax benefit calculated at 25.00%	6,107	19,808
Effect of non-taxable expenses and income	338	542
Effect of unrecognized deferred tax assets	(8,618)	(23,938)
Effect of different tax rates of subsidiaries operating in other jurisdictions	713	5,230
True up	1,033	-
Other	427	122
Income tax benefit recognized in profit or loss	-	**1,764**

The tax rate used for the 2013 and 2012 reconciliations above is the total Canadian Federal and Provincial tax rate of 25%

Deferred tax (liability) asset in relation to:

2013	Opening balance	Adjust-ments from the previous year	Recognized in profit or loss	Recognized directly in equity	Effects of foreign currency exchange differences	**Closing balance**
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	**CAD$ '000**
Plant and equipment and intangible assets	(31,922)	-	(2,363)	-	(898)	**(35,183)**
Convertible debentures	(999)	-	285	-	-	**(714)**
Deferred financing cost through equity	1,411	-	(574)	-	-	**837**
Deductible SRED Expenditures	392	-	-	-	-	**392**
Other	43	-	5	-	-	**48**
Intercompany interest	-	-	1,754	-	-	**1,754**
Tax losses	31,075	-	893	-	898	**32,866**
Net deferred income tax liability	-	-	-	-	-	**-**

2012	Opening balance CAD$ '000	Adjust-ments from the previous year CAD$ '000	Recognized in profit or loss CAD$ '000	Recognized directly in equity CAD$ '000	Effects of foreign currency exchange differences CAD$ '000	**Closing balance CAD$ '000**
Plant and equipment and intangible assets	(13,311)	(16,948)	(1,743)	-	80	**(31,922)**
Convertible debentures	-	-	128	(1,127)	-	**(999)**
Deferred financing cost through equity	1,569	310	(534)	66	-	**1,411**
Deductible SRED Expenditures	392	-	-	-	-	**392**
Other	(56)	256	(157)	-	-	**43**
Tax losses	10,703	16,504	3,948	-	(80)	**31,075**
Net deferred income tax liability	(703)	122	1,642	(1,061)	-	-

The Company recognizes no deferred tax assets in respect of the following temporary differences and tax losses as it is not probable that there would be sufficient future taxable profits for their utilization.

	Dec 31, 2013 CAD$ '000	Dec 31, 2012 CAD$ '000
Unrecognized deferred tax assets are attributable to the following:		
Tax losses (non-capital losses) – expire 2032 (2012 losses expire in 2031)	117,471	82,544
	117,471	**82,544**
The total recognized and unrecognized taxable losses available to reduce the taxable income in future years.	**235,427**	**188,606**

17. SHARE CAPITAL

AUTHORIZED

Unlimited number of common shares.

Unlimited number of preferred shares issuable in series with the designation, rights, privileges, restrictions and conditions of each series to be determined by the board of directors.

ISSUED SHARES

	Dec 31, 2013 CAD$ '000	Dec 31, 2012 CAD$ '000
Share capital from common shares – after share issue expenses	258,115	257,915
Share capital from restricted shares	1,708	1,636
	259,823	**259,551**

NUMBER OF ISSUED SHARES

	Dec 31, 2013		Dec 31, 2012	
	Shares	Amount	Shares	Amount
	#	CAD$ '000	#	CAD$ '000
Balance as at January 1	63,515,664	259,551	62,399,074	257,235
Options exercised	75,000	200	130,000	676
Warrants exercised	-	-	825,000	1,013
Released from restricted shares	17,004	72	112,420	590
Forfeited restricted shares	-	-	(5,830)	(70)
Shares issued for services	-	-	55,000	110
Share issue cost – net of deferred tax impact	-	-	-	(3)
Balance as at December 31	**63,607,668**	**259,823**	**63,515,664**	**259,551**

18. SHARE BASED COMPENSATION

The Company has four share based compensation plans in place that forms part of the remuneration and performance management goals of the Company. The number of participating units under each plan is calculated in accordance with the performance-based formula approved by the compensation committee. The formula rewards executives and senior employees to the extent of the Company's and the individual's achievement judged against both quantitative and qualitative criteria from the following financial and customer service measures

- earnings before income tax, depreciation and amortization;
- return on capital employed; and,
- safety

EQUITY SETTLED SHARE BASED COMPENSATION PLANS:

Restricted shares

The Company has granted restricted shares for certain employees with annual vesting over five years from the date of the grant. Granted restricted shares are held in trust until it vests when it is then issued to the employee. Forfeited restricted share units are returned by the trust and cancelled.

The balance of restricted share units issued but not earned by employees is:

	Dec 31, 2013	Dec 31, 2012
	Units	Units
	#	#
Balance as at January 1	16,599	116,839
Earned by employees	(10,014)	(80,557)
Forfeited – returned by trust	-	(19,683)
Balance as at December 31	6,585	16,599

The balance of restricted share units earned by employees but not vested as recorded in contributed surplus:

	Dec 31, 2013		Dec 31, 2012	
	Units		Units	Amount
	#	CAD$ '000	#	CAD$ '000
Balance as at January 1	24,478	104	70,828	405
Earned by employees – recognized as share based compensation	10,014	42	80,557	463
Vested	(17,004)	(72)	(112,420)	(590)
Forfeited	-	-	(14,487)	(174)
Balance as at December 31	17,488	74	24,478	104
Balance of share units issued but not vested	24,073		41,077	

Share options

A summary of the status of the Company's outstanding stock options is presented below:

	Dec 31, 2013		Dec 31, 2012	
	Options	Average exercise price	Options	Average exercise price
	#	CAD$	#	CAD$
Balance as at January 1	2,810,000	3.07	2,430,000	5.09
Granted	1,605,000	1.65	1,645,000	2.56
Exercised	(75,000)	2.00	(130,000)	3.73
Forfeited	(320,000)	2.45	(1,135,000)	6.58
Expired	(725,000)	3.75	-	-
Balance as at December 31	**3,295.000**	**2.31**	**2,810,000**	**3.07**

During Q3 2013, the Company amended the stock option plan such that options continue to vest over three years however options now expire one year after vesting. Previously issued options expired five years from the date of grant. The 3,295,000 options outstanding at December 31, 2013 (December 31, 2012: 2,810,000) had exercise prices ranging from \$1.37 to \$8.85 (December 31, 2012: \$2.00 to \$8.85) per share with expiry dates ranging from 2013 to 2018 (December 31, 2012: 2013 to 2017). When stock options are exercised the proceeds, together with the amount of compensation expense previously recorded in contributed surplus are added to share capital. In 2013 the average share price that options were exercised at was \$2.11 (2012: \$6.99).

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value for the options granted. The following assumptions were used to value the options on the grant date:

	Dec 2013	Nov 2013	Jul 2013	Mar 2013
Share price (CDN $)	1.89	1.37	1.95	1.70
Exercise price (CDN $)	1.89	1.37	1.95	1.71
Volatility (%)	39.7	40.4	39.8	45.5
Average expected life (years)	3.4	3.5	2.7	4.1
Dividend yield (%)	-	-	-	-
Forfeiture rate (%)	24.2	24.3	23.7	22.3
Risk free interest rate (%)	1.3	1.2	1.2	1.3

CASH-SETTLED SHARE BASED COMPENSATION PLANS

Performance share units

The Company grants performance share units to officers and employees with the amount of the grant earned being linked to corporate performance and grants vesting from one to three years from date of grant. The performance stock units can be settled in cash or equity, but the current policy is to settle any liability in cash.

	Dec 31, 2013 Units #	Dec 31, 2012 Units #
Granted	-	966,000
Performance share units vested		
Balance as at January 1	254,223	150,952
Vested	130,203	352,085
Paid in cash	(137,501)	(99,245)
Paid in kind	-	(50,000)
Forfeited	(91,357)	(99,569)
Balance as at December 31	**155,568**	**254,223**
	CAD$ '000	CAD$ '000
Performance share units payable - see note 11	287	544

Deferred share units

Effective August 7, 2013, the Company adopted a deferred share unit plan approved by the Board of Directors on that date. Under the plan directors and employees of the company are eligible to receive grants that will vest evenly over one year. The deferred share units will be settled in cash. Unvested deferred share units are forfeited on termination.

	Dec 31, 2013	Dec 31, 2012
	Units #	Units #
Deferred share units earned		
Balance as at January 1	-	-
Earned	145,899	-
Balance as at period end	**145,899**	-
	CAD$ '000	CAD$ '000
Deferred share units payable - see note 11	262	-

Changes in the Company's obligations under performance share units and deferred share units, which arise from fluctuations in the market value of the Company's shares underlying the compensation program, are recorded as the share price changes.

TOTAL SHARE BASED COMPENSATION EXPENSE

	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
Equity-settled share based compensation		
Share options	731	123
Restricted share units	42	219
Cash-settled share based compensation		
Performance share units	100	278
Deferred share units	262	-
Balance as at period end	1,135	620

Share based compensation for the period reflects the reversal of share based compensation expense recognized in previous periods due to the forfeitures of share options, restricted share units and performance share units granted to employees whose services was terminated before the vesting period.

19. FINANCE COST

	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
Finance cost of debentures	3,961	3,381
Interest paid on obligations under finance lease	164	228
Interest on credit facility and other loans	2,536	2,014
	6,661	**5,623**
Coupon interest included in finance cost of debentures	2,818	2,502

20. LOSS BEFORE INCOME TAXES

Loss for the year before income tax has been arrived at after charging (crediting)

	Dec 31, 2013 CAD$ '000	Dec 31, 2012 CAD$ '000
Depreciation and amortization		
Depreciation expense	25,213	26,508
Amortization expense	396	318
Total depreciation and amortization	**25,609**	**26,826**
Losses on disposal of fixed assets and impairment assets		
(Gain) / Loss on the disposal of fixed assets	(2,275)	7
Impairment of assets held for sale	-	1,491
Impairment of field equipment (refer note 9)	120	45,921
Total (gains) / losses and impairments	**(2,155)**	**47,419**
Operating lease expenses		
Minimum lease payments - includes contingent rent, amounts payable by the lessee and expenses for cancellable operating leases	2,116	2,225
Sublease payments received	-	(140)
Total operating lease expense	**2,116**	**2,085**
Employee benefits expense		
Salaries, wages and other short term employee benefits	24,118	31,824
Post-employment benefits – defined contribution plan (refer note 22)	676	730
Termination benefits	483	1,464
Total employee benefits before share based compensation	**25,277**	**34,018**
Share based compensation (refer note 18)		
Equity-settled share based compensation		
Share options	731	123
Restricted share units	42	219
Cash-settled share based compensation	362	278
Total share based compensation	**1,135**	**620**
Total employee benefits expense	**26,412**	**34,638**

	Dec 31, 2013 CAD$ '000	Dec 31, 2012 CAD$ '000
Direct operating cost and selling, general and administrative expenses by nature		
Total employee benefits before share based compensation	25,277	34,018
Raw materials and consumables used	45,167	56,688
Transportation of raw materials	9,393	13,135
Direct cost of fracturing services	7,008	9,742
Equipment and vehicle costs	11,327	15,428
Other direct operating costs	7,534	10,366
Professional fees, consulting and office expenses	8,810	9,477
Doubtful debt expense	528	1,306
Total direct operating cost and selling, general and administrative expenses by nature	**115,044**	**150,160**

21. LOSS PER SHARE

BASIC / DILUTED LOSS PER SHARE

The loss and weighted average number of common shares used in the calculation of basic loss per share are as follows:

	Dec 31, 2013 CAD$ '000	Dec 31, 2012 CAD$ '000
Loss used in the calculation of basic / diluted loss per share – attributable to owners of the Company	(24,429)	(77,469)
	# '000	# '000
Weighted average number of common shares for the purposes of basic / diluted loss per share	63,550	62,886
Basic / diluted loss per shares (CAD$)	(0.38)	(1.23)

All other instruments that can be settled in equity were excluded from the calculation of diluted earnings per share as the effect would have been anti-dilutive.

22. GROUP RETIREMENT PLAN

The Company contributes to a defined contribution plan through its deferred profit sharing plan. For those employees electing to participate, the Company matches the employees' contribution to their registered retirement fund, up to a maximum of 5% of the employees' salary. The deferred profit share vests after two years of employment. Where employees leave the employment of the Company prior to full vesting of the deferred profit share, those contributions paid by the Company are returned. The assets of the plan are held separately from those of the Company in funds under the control of trustees.

In addition to the deferred profit sharing plan, the Company also contributes to government run retirement and social security plans in those jurisdictions it operates within. Although these plans might guarantee a defined benefit to the employee, this guarantee is not made by the Company, and as such, those contributions made to the plan are classified as defined contributions. The assets of these plans are held separately from those of the Company in funds under the control of those governments who collect the contribution.

23. RELATED PARTY TRANSACTIONS

Details of transactions between the Company and other related parties are disclosed below

TRADING TRANSACTIONS:

During the year, the Company entered into the following trading transactions with related parties that are not members of the Company:

	Fracturing services	
	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
Fracturing services rendered to companies with shared directors	-	297

Sales of goods to related parties were made at the Company's usual list prices. At the end of the reporting periods there were no amounts outstanding from related parties. No expense has been recognized in the current or prior years for bad or doubtful debts in respect of the amounts owed by related parties.

COMPENSATION OF KEY MANAGEMENT PERSONNEL:

	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
Salaries and other short term benefits	2,120	1,652
Post-employment benefits	78	73
Termination benefits	-	809
Share based compensation	363	401
	2,561	**2,935**

Key management personnel are those persons who have authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including directors and executive officers of the Company.

24. COMMITMENTS AND CONTINGENCIES

COMMITMENTS FOR OPERATING LEASES

Operating leases relate to leases of facilities and equipment. Lease terms are between 1 and 5 years, with certain facility leases containing renewal clauses with market rental reviews.

The Company has non-cancellable operating lease commitments as follows:

	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
Not later than one year	2,010	1,809
Later than one year and not later than 5 years	5,506	5,690
Later than 5 years	2,332	3,223
	9,848	**10,722**

COMMITMENTS FOR EXPENDITURES

	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
Commitment for the purchase of raw materials	65,381	74,930
Less than one year	10,314	14,041
Between 1 and 3 years	38,671	56,269
Between 4 and 5 years	15,574	2,428
Beyond 5 years	822	2,192
Commitments for the acquisition of plant and equipment within the next year	1,714	2,523
Total commitments	**67,095**	**77,453**

Commitment for the purchase of raw materials comprises of a yearly order quantity for proppants up to 2019 (December 31, 2012 – 2019). Such orders will be funded from operating resources. This commitment is secured by a deposit included in supply chain and facility deposits (note 7) which is at risk if the commitment is not met. Based on a history of renegotiating the terms of the agreements, management does not believe that any deposits are at risk.

CONTINGENCIES

The Company is involved in various legal actions which occur from time to time in the course of operations. Management is of the opinion that losses, if any, arising from such legal actions would not have a material effect on these consolidated financial statements.

25. FINANCIAL INSTRUMENTS

The Company's strategy is to maintain a capital structure to sustain future growth of the business and retain creditor, investor and market confidence. Recognizing the cyclical nature of the oilfield services industry, the Company strives to maintain a conservative balance between long-term debt and shareholders' equity. The Company's capital structure is currently comprised of shareholders' equity, convertible debentures and long-term bank debt. The Company may occasionally need to increase its level of long-term debt to total capitalization to facilitate growth activities.

The Company has a $10 million revolving operating credit facility and a $40 million revolving credit facility, both of which are subject to various financial and non-financial covenants. This credit facility is currently restricted to a maximum borrowing limit of $50 million (refer note 14). This facility has been extended until June 30, 2014. The covenants are monitored on a regular basis and controls are in place to ensure the Company maintains compliance with these covenants. As at December 31, 2013, the Company is in compliance with all the covenants related with this facility.

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

CATEGORIES OF FINANCIAL INSTRUMENTS:

The Company's financial instruments recognized on the balance sheet are categorized as follows:

	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
Financial assets		
Cash and cash equivalents	1,310	7,927
Loans and receivables		
- Trade and other receivables	26,037	30,529
Financial liabilities		
Liabilities at FVTPL		
Other liabilities measured at amortized cost		
- Trade payables and accrued liabilities (excluding performance share units, deferred share units and accrued interest on debentures)	12,864	15,835
- Provisions	742	768
- Finance lease obligation	2,194	2,384
- Credit facility	18,573	30,000
- Convertible debentures (including accrued interest)	36,587	35,443

FINANCIAL RISK MANAGEMENT OBJECTIVES:

The Company monitors and manages the financial risks relating to the operations of the Company through internal risk procedures which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

Currently, the Company does not use derivative financial instruments to manage any financial risks. Exchange rate risk is managed through foreign currency denominated invoicing by the Company's US subsidiary and reducing the timing between procurement and payment of foreign currency denominated payables.

Market risk

Foreign currency exchange rate risk

As the Company operates primarily in Canada and the United States of America ("U.S."), fluctuations in the exchange rate between the U.S. dollar and Canadian dollar can have a significant effect on the operating results and the fair value or future cash flows of the Company's financial assets and liabilities. The Canadian entities are exposed to currency risk on foreign currency denominated financial assets and liabilities with adjustments recognized as foreign exchange gains or losses in the consolidated statement of comprehensive income. The U.S. entities with a U.S. dollar denominated functional currency expose the Company to currency risk on the translation of these entities' financial assets and liabilities to Canadian dollars on consolidation. In addition, U.S. entities are exposed to currency risk on financial assets and liabilities denominated in currencies other than their functional currency (U.S. dollars) with adjustments recognized in the consolidated statements of comprehensive income.

For the year ended December 31, 2013, a 1% fluctuation in the value of the Canadian dollar relative to the U.S. dollar would have impacted loss before tax by $35 thousand (2012 - nil).

Interest rate risk

The Company is exposed to interest rate risk because the Company borrows funds at only variable interest rates.

The sensitivity analyses have been determined based on the exposure to interest rates applicable to outstanding borrowings at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's profit before tax would be $121 lower/higher based on the borrowings outstanding at year end (2012: $46 thousand lower/higher). All finance leases are concluded at fixed interest rates and a change in market interest rates relating to finance leases will not impact the Company's profit.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company assesses the creditworthiness of its customers on an ongoing basis. The Company's exposure and the credit ratings of its counterparties are continuously monitored as are amounts outstanding and age of receivables.

Trade receivables are predominately with customers who explore and develop petroleum and natural gas resources in western Canada and the southern U.S. The Company is subject to normal industry credit risk. This includes fluctuations in oil and natural gas commodity prices and the ability of customers to obtain attractive debt and/or equity financing. These balances represent the Company's total credit exposure. During the year, the Company earned revenues from more than 10 (2012: >40) customers with the top three customers representing 87.3% (2012: 67.0%) of revenue.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. In managing liquidity risk, the Company has access to a range of funding through the capital markets and banks. The Company had available the following resources available within 1 year:

	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
Cash and cash equivalents	1,955	7,927
Trade receivables	25,868	28,376
Unused credit facility – subject to applicable debt ceiling	31,427	30,000
	59,250	**66,303**

The Company has facilities with its bank for $50 million of debt financing. In the past the Company has been required to negotiate amendments to this facility due to actual or potential financial covenant breaches. The Company's customer concentration can result in volatile quarterly financial results that may cause future financial covenant breaches. The bank credit facility matures April 30, 2014. On March 7, 2014 the maturity of the facility was further extended to June 30, 2014. Should the Company be unable to renew these facilities in the amount it requires or on terms acceptable to it, liquidity issues could result.

The timing of cash outflows relating to financial liabilities are outlined in the following table:

2013	Contractual cash flows	Less than 1 year	1 to 3 years	4 to 5 years	Greater than 5 years
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
Trade payables and accrued liabilities	12,864	12,864	-	-	-
Provisions	742	742	-	-	-
Finance lease obligation (incl. expected interest)	2,367	1,465	902	-	-
Credit facility (incl. expected interest)	19,241	19,241	-	-	-
Debentures (incl. expected interest)	50,112	2,818	5,635	41,659	-
Total	85,326	37,130	6,537	41,659	-

2012	Contractual cash flows	Less than 1 year	1 to 3 years	4 to 5 years	Greater than 5 years
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
Trade payables and accrued liabilities	15,835	15,835	-	-	-
Provisions	768	768	-	-	-
Finance lease obligation (incl. expected interest)	2,587	1,500	1,087	-	-
Credit facility (incl. expected interest)	35,341	4,048	31,293	-	-
Debentures (incl. expected interest)	52,930	2,818	8,453	41,659	
Total	107,461	24,969	40,833	41,659	-

The finance lease obligation has an average future interest rate of 7.31% (2012: 7.85%) and a term of 13 months (2012: 17 months). The credit facility contractual cash flows have been calculated at an interest rate of prime + 4.25% (2012: prime + 4.25%) and matures June 30, 2014.

FAIR VALUES OF FINANCIAL INSTRUMENTS:

The fair value of the Company's financial instruments included on the consolidated balance sheet approximate their carrying amounts due to their short term maturity.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's finance department is responsible for performing the valuation of financial instruments. The valuation processes and results are reviewed and approved by the CFO and CEO at least once every quarter, in line with the Company's quarterly reporting dates. Valuation results are discussed with the Audit Committee as part of its quarterly review of the Company's financial statements.

	Carrying value at Dec 31	Estimated fair value as at Dec 31		
2013		Level 1	Level 2	Level 3
Recurring measurements	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
Short term other financial liabilities measured at amortized cost				
- Trade payables and accrued liabilities	12,864	12,864	-	-
- Provisions	742	742	-	-
- Finance lease obligation	1,359	1,359	-	-
Long term other financial liabilities measured at amortized cost				
- Finance lease obligation	835	835	-	-
- Credit facility	18,573	18,573	-	-
- Convertible debentures (including accrued interest)	36,587	33,408	-	-

	Carrying value at Dec 31	Estimated fair value as at Dec 31		
2012		Level 1	Level 2	Level 3
Recurring measurements	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
Short term other financial liabilities measured at amortized cost				
- Trade payables and accrued liabilities	15,835	15,835	-	-
- Provisions	768	768	-	-
- Finance lease obligation	1,349	1,349	-	-
Long term other financial liabilities measured at amortized cost				
- Finance lease obligation	1,035	1,035	-	-
- Credit facility	30,000	30,000	-	-
- Convertible debentures (including accrued interest)	35,443	32,114	-	-

Credit Facility

The fair value of the credit facility equals its carrying amount as the impact of discounting is not significant as the facility matures June 30, 2014..

Convertible debentures

The Company's convertible debentures trade on the Toronto Stock Exchange under the symbols GFS.DB. The fair value of the convertible debentures is based on quoted market prices. The carrying value includes the debt and equity portion of the convertible debentures and excludes the deferred income tax impact of the debentures charged against the equity portion.

26. OPERATING WORKING CAPITAL

The changes in non-cash working capital consists of:

	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
Accounts receivable	4,382	19,081
Accounts payable (not including capital purchases)	(1,444)	1,214
Inventory	(6,105)	2,348
Performance and deferred share unit liability	5	(523)
Other	1,041	(88)
Net change in non-cash working capital	**(2,121)**	**22,032**

27. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the region where goods or services are delivered or provided. These regions are divided into the Canadian and the U.S. regions, and represent the Company's reportable segments. Both regions deliver and provide fracturing services to clients.

SEGMENT REVENUES AND RESULTS

The accounting policies of the reportable segments are the same as the Company's accounting policies described in note 2. Segment profit represents the profit earned by each segment without allocation of central administration costs and executive salaries, investment income, other gains and losses and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The following is an analysis of the Company's revenue and results by reportable segment:

	Segment revenue		Segment (loss) profit	
	Dec 31, 2013	Dec 31, 2012	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000	CAD$ '000	CAD$ '000
Canada	92,878	107,795	(10,653)	(29,402)
U.S.	28,945	41,647	(3,506)	(38,614)
	121,823	149,442	(14,159)	(68,016)
Central selling, general and administrative costs			(2,480)	(5,086)
Share based compensation			(1,135)	(620)
Depreciation and amortization related to head office assets			(176)	(143)
Investment income			18	27
Corporate finance cost			(6,497)	(5,395)
Loss for the year before income tax			(24,429)	(79,233)
Included in segment profit is the following				
Depreciation, amortization and (gains) / losses on sale of plant and equipment				
Canada			17,385	18,894
U.S.			5,773	7,789
Impairment of plant and equipment				
Canada			-	22,618
U.S.			120	24,794
Finance cost				
Canada			139	187
U.S.			25	41
Total revenue from customers that had revenue of more than 10 % of the total Company revenue			106,315	99,602

SEGMENT ASSETS

	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
Canada	176,052	195,763
U.S.	66,185	78,900
Total segment assets	242,237	274,663
Intangible assets held by the corporate head office for the benefit of all regions	328	390
Other corporate assets	232	403
Consolidated assets	**242,797**	**275,456**

SEGMENT LIABILITIES

	Dec 31, 2013	Dec 31, 2012
	CAD$ '000	CAD$ '000
Canada	13,405	15,966
U.S.	2,396	5,402
Total segment liabilities	15,801	21,368
Other corporate liabilities	55,787	63,644
Consolidated liabilities	**71,588**	**85,012**

Geographical information

The Company operates in two principle geographic areas; Canada and the United States of America. The regions as reported above, coincides with the geographical division of the Company's activities.

28. SUBSIDIARIES

Name of subsidiary	Principle activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Company	
			Dec 31, 2013	Dec 31, 2012
GASFRAC Services GP Inc.	General partner	Canada	100.00%	100.00%
GASFRAC Energy Services LP*	Fracturing services	Canada	99.99%	99.99%
GASFRAC US Holdings Inc.	Holding company	USA	100.00%	100.00%
GASFRAC Inc.	Fracturing services	USA	100.00%	100.00%
GASFRAC Energy Services (US) Inc.	Dormant	USA	100.00%	100.00%
GASFRAC Luxembourg s.a.r.l.	Holding company	Luxembourg	100.00%	100.00%

* The remainder of the interest is held by GASFRAC Services GP Inc.

There are no significant restrictions on the Company's ability to access or use assets to settle liabilities of the group. There have been no changes to the ownership interest or the control held in subsidiaries during the reporting period.

THIS IS EXHIBIT "E" REFERRED TO
IN THE AFFIDAVIT OF LORI MCLEOD-HILL
SWORN BEFORE ME AT CALGARY, ALBERTA
THIS 13th DAY OF JANUARY, 2015

Commissioner for Oaths in and for
the Province of Alberta

ROBYN GUROFSKY
BARRISTER & SOLICITOR Barrister & Solicitor

GASFRAC ENERGY SERVICES INC.

January 13, 2015

Ernst & Young Inc.

1000, 440-2nd Ave SW

Calgary AB T2P 5E9

Attention: Neil Narfason, Senior Vice President

Dear Sir:

Re: **Proceedings under the Companies' Creditors Arrangements Act ("CCAA")**

Responsibilities/Obligations and Disclosure with Respect to Cash Flow Projections

In connection with the application by GASFRAC Energy Services Inc. ("GES"), GASFRAC Services GP Inc. ("GSGP"), GASFRAC Energy Services (US) Inc. ("GES US"), GASFRAC US Holdings Inc. ("Holdings") and GASFRAC Inc. ("GI"), collectively the "Company" or "GASFRAC" ("MMC"), for the commencement of proceedings under the CCAA, the management of GASFRAC has prepared the attached Cash Flow Projection and the assumptions on which the Cash Flow Projection is based.

GASFRAC confirms that:

1. The hypothetical assumptions are reasonable and consistent with the purpose of the projections, and the probable assumptions are suitably supported and consistent with the plans of the debtor company and provide a reasonable basis for the projections. All such assumptions are disclosed in Notes 1 to 5.

2. Since the projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

3. The projections have been prepared solely for the purpose described in Notes 1 to 5, using the probable and hypothetical assumptions set out in Notes 1 to 5. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Yours Truly,

L. McLeod-Hill

Lori McLeod-Hill
Chief Financial Officer

GASFRAC Energy Services Inc.
Consolidated 13 Week Cash Flow
$000 CAD, unaudited

	Week 1 16-Jan-15	Week 2 23-Jan-15	Week 3 30-Jan-15	Week 4 6-Feb-15	Week 5 13-Feb-15	Week 6 20-Feb-15	Week 7 27-Feb-15	Week 8 6-Mar-15	Week 9 13-Mar-15	Week 10 20-Mar-15	Week 11 27-Mar-15	Week 12 3-Apr-15	Week 13 10-Apr-15	Total
Opening Canadian Cash (Note 2)	1,500	558	605	(1,493)	(226)	(2,271)	(4,003)	(5,550)	(8,258)	(9,879)	(4,965)	(4,531)	(2,671)	1,500
Cash Receipts (Note 3)														
Canada	581	-	12	2,059	-	-	500	-	-	4,707	-	-	-	7,859
US	1,612	1,785	1,662	2,764	-	245	-	696	-	2,357	2,029	3,114	-	16,264
Total Cash Receipts	2,193	1,785	1,674	4,823	-	245	500	696	-	7,064	2,029	3,114	-	24,124
Cash Disbursements (Note 4)														
Canada	(2,381)	(634)	(846)	(1,208)	(851)	(608)	(859)	(1,531)	(1,258)	(957)	(1,145)	(661)	(2,371)	(15,311)
US	(754)	(1,104)	(2,925)	(2,348)	(1,194)	(1,369)	(1,188)	(1,874)	(363)	(1,193)	(451)	(593)	(624)	(15,979)
Total Cash Disbursements	(3,134)	(1,738)	(3,772)	(3,557)	(2,045)	(1,977)	(2,047)	(3,405)	(1,621)	(2,150)	(1,596)	(1,254)	(2,995)	(31,290)
Net Cash Surplus (Deficit)	(942)	47	(2,098)	1,266	(2,045)	(1,732)	(1,547)	(2,709)	(1,621)	4,914	433	1,861	(2,995)	(7,166)
Ending Cash Balance (Deficit) (Note 5)	558	605	(1,493)	(226)	(2,271)	(4,003)	(5,550)	(8,258)	(9,879)	(4,965)	(4,531)	(2,671)	(5,666)	(5,666)
Accounts Receivable	7,940	12,278	15,986	14,134	17,556	22,553	22,553	23,946	28,594	22,404	21,986	22,773	24,802	

Lori McLeod-Hill, CFO
GASFRAC

Notes
1 Estimated FX rates for the forecast period is 1.1608
2 Opening cash as at January 12, 2015, is the amount held in the Company's HSBC bank account related to amounts held for security against the Company's corporate credit cards that will be available to the Company upon cancellation of the credit cards.
3 Cash receipts are comprised of the collection of accounts receivable, for both completed and committed work over the Forecast Period, and the sale of redundant assets.
4 Cash disbursements represent cash requirements for ongoing operations, including purchases required to complete committed work during the Forecast Period, professional fees during the CCAA proceedings,
5 Deficits would be offset by Interim Financing. All Interim Financing requirements are fully off-set by increased accounts receivable (i.e. no burn) during the CCAA Process.

THIS IS EXHIBIT "F" REFERRED TO
IN THE AFFIDAVIT OF LORI MCLEOD-HILL
SWORN BEFORE ME AT CALGARY, ALBERTA
THIS 13th DAY OF JANUARY, 2015

Commissioner for Oaths in and for
the Province of Alberta

ROBYN [illegible]ROFSKY
BARRISTER & SOLICITOR

Barrister & Solicitor

COURT FILE NUMBER	**1501-**	Clerk's Stamp
COURT	COURT OF QUEEN'S BENCH OF ALBERTA	
JUDICIAL CENTRE	Calgary	
APPLICANTS	**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, as amended** **AND IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*, R.S.A. 2000, c. B-9** **AND IN THE MATTER OF GASFRAC ENERGY SERVICES INC., GASFRAC SERVICES GP INC., GASFRAC ENERGY SERVICES (US) INC., GASFRAC US HOLDINGS INC. and GASFRAC INC.**	
DOCUMENT	**CONSENT TO ACT AS MONITOR**	
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	Patrick T. McCarthy, Q.C./Robyn Gurofsky Borden Ladner Gervais LLP 1900, 520 3rd Ave. S.W. Calgary, AB T2P 0R3 Telephone: (403) 232-9442/232-9774 Facsimile: (403) 266-1395 Email: RGurofsky@blg.com File No. 441817-000015	

Ernst and Young Inc. hereby consents to being appointed as Monitor in the within proceedings pursuant to the *Companies' Creditors Arrangement Act* (Canada) (the "CCAA"). Neil Narfason is a trustee within the meaning of subsection 2(a) of the *Bankruptcy and Insolvency Act* (Canada) and Ernst and Young Inc. is not restricted from acting as Monitor under subsection 11.7(2) of the CCAA.

DATED at the City of Calgary, in the Province of Alberta, this 13th day of January, 2015.

ERNST & YOUNG INC.

Per: ______________________
Neil Narfason, CA•CIRP,
Partner and Senior Vice President