GASFRAC Energy Services Inc.

(the "Corporation" or "GASFRAC")

ANNUAL INFORMATION FORM

For the Year Ended December 31, 2012

March 13, 2013

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FORWARD-LOOKING INFORMATION

Certain statements included in this annual information form constitute forward-looking statements under applicable securities legislation. The statements relate to future events or GASFRAC's future performance. All statements other than statements of historical fact are forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue", or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. In addition, this annual information form may contain forward-looking statements attributed to third party industry sources. Undue reliance should not be placed on these forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur.

Forward-looking statements or information in this annual information form include, but are not limited to statements with respect to:

- expectations that the Company's innovative technology will provide the Company with opportunities to expand the Company's market share in Canada and the U.S.;
- estimates of additional investment required to complete ongoing capital projects;
- expectations of securing financing for additional capital expenditures for 2013 and beyond;
- expectations as to the level of funding available under the Company's credit facility;
- expectations as to amounts required to be drawn under the Company's credit facility;
- expectations as to the degree of activity by key customers;
- expectations as to fluctuations in revenue due to customer concentration;
- expectations of the impact of weather on activity in Canada in 2013;
- expectations as to activity levels in North America and that oil and liquids rich gas drilling will offset declines in dry gas drilling;
- expectations as to capital development programs of major customers;
- expectations as to the rate of adoption of the Company's technology by E&P companies;
- expectations as to the number of manned fracturing spreads in Canada and the USA;
- assumption that environmental protection requirements will not have a significant impact on the Company's operations or capital budget;
- expectations as to the Company's future market position in the industry;
- expectations as to the supply of raw materials;
- expectations as to the pricing of the Company's services in Canada and the USA;
- expectations as to obtaining long term contracts with customers;
- expectations of fracturing industry pricing and the pricing of the Company services in North America in 2013 and 2014;
- expectations of oil and natural gas commodity prices in 2013;
- expectations of the amount of net fracturing horsepower being added to the North American market in 2013 and its impact on the Company's service prices;

With respect to the forward-looking statements and information contained in this annual information form, GASFRAC has made assumptions regarding, among other things: GASFRAC's relationships with its key equipment manufacturers and customers; economic conditions that influence the demand of GASFRAC's customers for GASFRAC's products and services; and the availability of existing credit facilities.

Although GASFRAC believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. GASFRAC cannot guarantee future results, levels of activity, performance or achievements. Consequently, there is no representation by GASFRAC that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements and information. Some of the risks and other factors, some of which are beyond GASFRAC's control, which could cause results to differ materially from those expressed in the forward-looking statements and information contained in this annual information form include, but are not limited to: supply and demand for oilfield services; competition for, among other things, capital and skilled personnel; the regulatory framework; fluctuations in the market for oil and natural gas and related products and services; liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations; fluctuations in foreign exchange or interest rates; political and economic conditions; failure of counter-parties to perform on contracts; regional competition; GASFRAC's ability to attract and retain customers; amounts retained by GASFRAC for capital expenditures; volatility in market prices for oil and natural gas and the effect of this volatility on the demand for oil and gas services generally; stock market volatility and market valuations; uncertainties in weather and temperature affecting the duration of the service periods and the activities that can be completed; fixed costs in relation to variable revenue streams; the presence of heavy competition in the industry in which GASFRAC currently operates; general economic conditions in Canada and the United States and globally; the availability of capital on acceptable terms; merger and acquisition activity in the oil and gas exploration and production industry and its effect on customer relationships with oilfield service providers; potential changes to the financial statements of GASFRAC as a result of the changeover to IFRS; and the potential impact of any legal proceedings that GASFRAC could potentially become involved in.

GASFRAC cautions that the foregoing list of assumptions, risks and uncertainties is not exhaustive. Additional information on these and other factors which could affect operations or financial results are included under the heading "Risk Factors". Additional information may also be found in GASFRAC's other reports on file with the Canadian securities regulatory authorities. The forward-looking statements and forward-looking information contained in this annual information form are expressly qualified by this cautionary statement. Other than as required by applicable laws, GASFRAC does not intend, and does not assume any obligation, to update these forward-looking statements.

GASFRAC ENERGY SERVICES INC.

General

GASFRAC was incorporated pursuant to the Business Corporations Act (Alberta) on February 13, 2006. On April 28, 2006 GASFRAC amended its articles to cancel its non-voting common shares. On August 9, 2010 GASFRAC Energy Services Inc. ("Former GASFRAC") a predecessor to GASFRAC completed a reverse takeover amalgamation with Kierland Capital Corporation ("Kierland"), a capital pool company, to form GASFRAC.

GASFRAC is an oil and gas service company headquartered in Calgary, Alberta, Canada, whose primary business is to provide liquid petroleum gas ("LPG") fracturing services to oil and gas companies in Canada and the United States of America.

The head office of GASFRAC is located at Suite 1900, 801 –6th Avenue S.W., Calgary, Alberta T2P 3W2. The registered office of GASFRAC is located at 1600, 205 – 5th Avenue S.W., Calgary, Alberta T2P 2V7.

Intercorporate Relationships

The following table describes the subsidiaries of GASFRAC, their jurisdiction of formation and the percentage of voting securities of such subsidiary owned, beneficially owned, controlled or directed by GASFRAC as at the date hereof.

Name of Subsidiary	Jurisdiction of Formation	Percentage of Voting Securities Owned (2)
GASFRAC Services GP Inc.	Alberta, Canada	100%
GASFRAC US Holdings Inc.	Delaware, United States	100%
GASFRAC Inc.	Delaware, United States	100%
GASFRAC Energy Services (US) Inc.	Delaware, United States	100%
GASFRAC Energy Services Limited Partnership	Alberta, Canada	99.99865% (1)
GASFRAC Luxembourg S.a.r.l.	Luxembourg	100%

Note:
(1) GASFRAC Services GP Inc. owns the remaining 0.00135% of voting securities of GASFRAC Energy Services Limited Partnership.
(2) Includes shares controlled or directed.

GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History

GASFRAC is a North American based fracture stimulation company headquartered in Calgary, Alberta, Canada, which has successfully commercialized an innovative process whereby LPG is gelled and employed as a fluid in oil and gas reservoir fracturing (the "LPG Fracturing Process").

The Company was incorporated in February 2006 and in May 2006 issued 3,500,000 common shares ("Common Shares") at a price of $1.00 per share for gross proceeds of $3.5 million. This financing allowed GASFRAC to design equipment, implement a health and safety system and develop a gelation and breaker system for the gelation of LPG. Mr. Dwight Loree, contemporaneous with this financing, received 1,499,999 Common Shares for the transfer of the LPG Fracturing Process technology to GASFRAC.

In July 2007 a health and safety management system was established and an independent "Hazard and Operability Study" was performed by Sigma Risk Management Inc.

GASFRAC's LPG Fracturing Process, including safety aspects and gelation technology, was developed in 2006 and 2007. A priority patent application was filed in Canada on March 3, 2006. Applications for patents for GASFRAC's LPG Fracturing Process claiming priority from the original filed application were filed on March 2, 2007 in Canada, the United States and other countries through the Patent Cooperation Treaty. Since the original patent application filing, GASFRAC has continued research and development of various aspects of fracturing with LPG and has filed additional patent applications.

In May 2007 GASFRAC completed a further private placement of 12,000,000 Common Shares at a price of $2.00 per share for gross proceeds of $24 million. These funds were used to construct the initial two LPG fracturing spreads.

GASFRAC established its head office in Calgary, Alberta and a field office in Red Deer, Alberta in October 2007.

The first LPG fracturing spread and related equipment were constructed and completed in December 2007 and concept trials were immediately completed thereafter. The first field operations for the first LPG fracturing spread were commenced in Western Canada in January 2008 and the second LPG fracturing spread commenced operations in September 2008.

In August 2008 GASFRAC completed a further private placement of 14,000,000 Common Shares at a price of $4.25 per share for gross proceeds of $59.5 million. These funds were used to finance further expansion of LPG fracturing equipment. By the end of 2008, GASFRAC had completed 142 LPG fracture treatments, all in the Western Canadian Sedimentary Basin ("WCSB").

By 2009 the shift to unconventional reservoirs by oil and gas producers created a demand for additional fracturing capacity as well as new technologies. There were a greater number of fracture treatments required and larger job sizes. GASFRAC conducted further research and developed and constructed new equipment and systems and modified existing equipment and systems to accommodate this change to make GASFRAC's LPG Fracturing Process applicable to fracturing treatments demanded by industry and across all formations and reservoir types.

GASFRAC completed its first multi-frac, multi-well LPG fracture project in January 2009 and its first high pressure (greater than 13,000 pounds per square inch) LPG fracture in February 2009.

GASFRAC demonstrated its technology in the US market in September 2009 by completing four LPG fracturing treatments in Pennsylvania. Just prior to and after that, GASFRAC completed further LPG fracturing treatments in New Brunswick and Québec.

The first LPG fracturing treatment using a 100 tonne sand storage vessel was completed in September 2009. In 2009 GASFRAC had completed 142 LPG fracture treatments, with the majority being in the WCSB, but also in New Brunswick, Québec and Pennsylvania.

In 2010 GASFRAC continued to expand its operating fleet and the number of fracturing treatments. GASFRAC completed 78 LPG fracturing treatments in Q1, 63 in Q2, 137 in Q2 and 141 in Q4.

GASFRAC opened an office in Kilgore, Texas and hired staff to market and operate GASFRAC's services in United States through its wholly-owned subsidiary, GASFRAC Inc. During the second quarter of 2010 the Company completed a 14 well fracturing program with a large operator in South Texas. Subsequently the US based equipment was returned to Canada to meet demand for the winter season there. In the interim US operations focused on the marketing of the Company to potential customers in anticipation of redeployment of two fracturing spreads to Texas in the first and second quarters of 2011.

On June 30, 2010 GASFRAC issued 13,000,000 subscription receipts pursuant to a private placement (the "June 2010 Private Placement") for gross proceeds of $65 million. Each subscription receipt entitled the holder to receive, for no additional consideration, one Common Share of GASFRAC upon completion of the Amalgamation (as defined herein).

On August 9, 2010 Former GASFRAC completed a reverse takeover amalgamation with Kierland, a capital pool company, to form GASFRAC (the "Amalgamation"). Pursuant to the Amalgamation each common share in the capital of Kierland (each a "Kierland Share") was exchanged for 0.02083 Common Shares and each common share of Former GASFRAC was exchanged for one Common Share, with each Common Share issued at a deemed price of $5.00 per share. The Amalgamation constituted Kierland's qualifying transaction pursuant to the policies of the TSX Venture Exchange ("TSXV"). Concurrent with the Amalgamation GASFRAC converted the 13,000,000 subscription receipts issued pursuant to the June 2010 Private Placement into Common Shares. For further information regarding the Amalgamation, see GASFRAC's material change report dated August 19, 2010 and the joint management information circular and proxy statement of GASFRAC and Kierland relating to the annual and special meeting of shareholders dated July 7, 2010 relating to, among other things, the amalgamation of GASFRAC and Kierland accounted for as a reverse-takeover.

In July, 2010 the Company entered into the new credit facility with a Canadian chartered bank. The new credit facility included a $15 million demand revolving loan ("Operating Loan") and a $35 million committed revolving facility ("Revolving Facility"). The Operating Loan bears interest at prime plus 1.25% and is margined by the Company's accounts receivable. The Revolving Facility bears interest at prime plus 1.4% to prime plus 1.9%, shall not exceed 50% of the net book value of the Company's capital assets, may be extended annually, if not extended shall be repayable in eight equal quarterly instalments. Both facilities are secured by a floating charge over all of the assets of the Company and are subject to certain financial covenants.

On November 30, 2010 GASFRAC announced its 2011 capital expenditure program of $150 million dollars to expand its hydraulic horsepower ("HHP") capacity to 152,500 HHP and increase its proppant and fluid handling capabilities by approximately 100%.

At the time of the announcement of its 2011 capital expenditure program GASFRAC entered into an agreement with a syndicate of underwriters (collectively the "Underwriters") pursuant to which the Underwriters agreed to purchase on a "bought deal" basis 11,243,000 Common Shares of GASFRAC at a price of $8.45 per Common Share for aggregate gross proceeds of $95 million. The bought deal financing was closed on December 22, 2010 with the full over-allotment option being exercised for a total of 12,929,450 shares issued for gross proceeds of $109 million.

As at December 31, 2010 GASFRAC had three 32 tonne and four 100 tonne sand storage vessels, 19 fracturing pumpers, 31 LPG storage tanks, and related equipment. As at the date of this AIF GASFRAC has three 32 tonne and six 100 tonne sand storage vessels, 39 fracturing pumpers, 71 LPG storage tanks, and related equipment.

During the second quarter of 2011 GASFRAC mobilized two sets of fracturing equipment to establish its U.S. operations based in Texas. Since establishing operations, the Company has earned revenues from a number of customers and fracturing activity has been performed in several different formations including the Canyon Sands, Wolfcamp, Navarro, Morrow, Eagle Ford and Williams Fork.

On August 31, 2011 the Company entered into the Credit Facility with a syndicate of bankers. The credit agreement includes a $10 million operating facility and a $90 million revolving facility, secured by a floating charge over all of the assets of the Company, bearing interest on a grid from prime plus 0.75% to prime plus 3.75% and containing customary financial covenants. The Credit Facility is renewable annually and if not renewed is repayable in seven equal quarterly instalments of principal in an amount equal to 1/12th of the outstanding principal as of the Term Date (as defined therein) and with the remaining principal and accrued interest being payable on the maturity date.

On September 26, 2011 GASFRAC entered into a three year contract with a two year renewal option with Husky Energy ("**Husky**") for the provision of LPG fracturing services. GASFRAC has sufficient equipment available to meet the initial requirements under the contact and will monitor its need for additional equipment on an ongoing basis.

On November 7, 2011 Mr. Zeke Zeringue was appointed as President and Chief Executive Officer of the Company, and on December 13, 2011 Mr. Zeringue was appointed as a director of the Company.

As at December 31, 2011 GASFRAC had three 32 tonne and nine 100 tonne sand storage vessels, 47 fracturing pumpers, 150 LPG storage tanks, and related equipment. As at the date of this AIF GASFRAC has three 32 tonne and eleven 100 tonne sand storage vessels, 55 fracturing pumpers, 151 LPG storage tanks, and related equipment.

On February 8, 2012 completed a bought deal offering of 7.00% convertible unsecured convertible debentures ("Debentures") for aggregate gross proceeds of $40.25 million. The Debentures mature on February 28, 2017 and accrue interest at 7.00% per annum payable on a semi-annual basis in arrears on August 31 and February 28th each year commencing August 31, 2012. At the holder's option, the Debentures may be converted into common shares of GASFRAC at any time up to the earlier of the maturity date and the business day immediately preceding the date specified by the Company for redemption of the Debentures. The conversion price, subject to adjustment in certain circumstances, is $10.50 for each common share being a conversion rate of approximately 95.2381 common shares for each $1,000 principal amount of Debentures.

On February 28, 2012 the Company entered into a two year contract with Blackbrush Oil and Gas L.P. for the provision of GASFRAC's waterless LPG stimulation process in the Carrizo Springs area of the Eagle Ford formation in Texas, USA.

On September 11, 2012 the board of directors of GASFRAC announced that they had commenced an operational review and restructuring of the management team at GASFRAC. As part of the management restructuring, the management group comprising of Zeke Zeringue, Chief Executive Officer and Steve Batchelor, Chief Operating Officer, left the Company. Jim Hill, Chief Financial Officer of the Company, assumed the role of acting President and Chief Executive Officer until a replacement is found. Management has determined to focus its near term growth opportunities on North America and specifically in Western Canada and in South Texas and Colorado in the USA. Further actions were taken to reduce fixed costs including staff reductions, facility consolidation and the parking of five sets of equipment.

During 2012 the Company incurred a significant EBITDA loss in the second quarter and had large capital expenditure commitments for the completion of its 2011 capital program. To fund these costs, the Company issued a convertible debenture and drew on its bank line of credit. The EBITDA loss in the second quarter negatively impacted trailing twelve month EBITDA amounts used in the calculation of certain of the financial covenants under its credit facility. Accordingly, the Company reached an agreement with its bankers to suspend these covenants until the measuring date for the second quarter of 2013. Additionally, the Company implemented reductions to its operating costs in September 2012 through staff reductions, facility consolidation and the parking of certain equipment. The Company also renegotiated commitments for the purchase of raw materials for operations reducing 2013 commitments to $14.1 million from $58.1 million. Capital expenditure commitments for 2013 are $2.5 million. As a result of these actions the Company anticipates that operating cash flow and its bank credit facility will be sufficient to fund ongoing operations.

As at December 31, 2012 GASFRAC had three 32 tonne and sixteen 100 tonne sand storage vessels, sixty fracturing pumpers, one hundred and eighty LPG storage tanks, and related equipment. This equates to ten sets of equipment, three operating in Canada, two operating in the USA and five parked until the Company realizes sufficient activity to bring them back into service.

Significant Acquisitions

There were no significant acquisitions in 2012 by the Corporation.

DESCRIPTION OF THE BUSINESS AND OPERATIONS

General

GASFRAC's activities are focused on providing an innovative LPG technology in fracture treatments to explorations and production ("E&P") companies operating in Canada and the United States. These services are designed to enhance oil and natural gas production and maximize recovery from a variety of conventional and unconventional reservoirs.

Overview of Operations

Fracturing Services Overview

Oil and natural gas is typically found in reservoirs contained within formations of permeable rock located beneath the earth's surface which are accessed by drilling a well bore from a surface location. Fracturing, or "fracing", is a stimulation technique that involves pumping fluids or gas into the sub-surface formation under sufficiently high pressure to cause fractures within the rock formation, which creates or improves the conductivity within the permeable formation and allows the oil or natural gas within the reservoir to flow through the formation to the well bore, and then to the earth's surface. Fracturing fluids typically carry solid particles when pumped under pressure into a formation. When the fracturing fluid retreats back out of the formation, the particles stay behind to prop open the fractures created, thus the term "proppant" is used to refer to these particles.

Fracturing fluids typically consist of various chemicals added to a base fluid or solution, with the chemical composition tailored to the particular requirements of the targeted reservoir. The development of effective fracturing fluids can involve complex and sophisticated chemical technologies and such fluids tend to be proprietary to each service company. GASFRAC has commercialized the use of LPG as the fracturing fluid and holds the rights and patents for the exclusive use of LPG as a fracturing fluid.

More recently, the composition of proppants has evolved from the exclusive use of sand granules (which can be pulverized in extreme pressure conditions and thus be rendered useless as a propping agent) to using various ceramic compounds which are more durable.

Offices and Field Service Locations

Corporate Offices (2)

- Head Office – Calgary, Alberta
- USA Regional Office – Houston, Texas

Field Service Locations (4)

Western Canada:

- Alberta – Red Deer
- Alberta - Edson

United States:

- Texas – Kilgore
- Texas - Florsville

Description of Services

The LPG Fracture Process

GASFRAC provides an innovative LPG technology in fracture treatments that, in the opinion of management of GASFRAC, offers the following advantages to its clients:

- Increased production from longer created fracture lengths, better clean up and a positive effect on oil and gas reserve estimates.
- Applicable to both oil and gas reservoirs and proven in many North American oil and gas reservoirs.
- LPG fracturing is a sustainable process by using products produced in oil and gas wells to produce more hydrocarbons.
- Reduces the need to flare production to clean up the fracturing fluids and eliminating environmental emissions.
- Eliminates the need for fracturing water and the subsequent disposal of this water.
- Eliminates the need for biocides that are required in conventional fracturing.

GASFRAC's field operations commenced in early 2008 with 142 fracture treatments being performed in 2008 for gross revenue of approximately $23.5 million. In 2009 an additional 142 fracturing treatments were performed resulting in gross revenue of $30.4 million. In 2010, 419 fracturing treatments were performed resulting in gross revenue of $96.9 million. A total of 553 fracturing treatments were performed in 2011 resulting in gross revenue of $161.7 million. A total of 565 fracturing treatments were performed in 2012 resulting in gross revenue of $149.4 million.

GASFRAC's services are marketed and operated under the name of its wholly-owned subsidiary GASFRAC Energy Services Limited Partnership, with its corporate headquarters in Calgary, Alberta and a field offices in Red Deer and Edson Alberta. In the USA services are marketed by wholly-owned subsidiary GASFRAC Inc. from offices in Kilgore, Florsville and Houston, Texas.

Business Strategy

GASFRAC's strategy is to become a leading oilfield stimulation services company by providing its proprietary fracturing process to E&P companies. GASFRAC will strive to continue to expand its market share, focusing on larger, high-rate treatments in oil and liquids rich gas reservoirs in Canada and the USA. GASFRAC recognizes that effective equipment utilization is a key to its profitability and, as such, will focus expansion opportunities in selected basins in Western Canada and USA (Texas and Colorado) where its technology offers a strong differential benefit to customers and it can gain critical mass. The key elements of our business strategy are:

Safety: Safety is a core value at GASFRAC and an integral part of our operating procedures and delivery of our service to customers.

Operational Excellence: A key focus of our business strategy is to provide our customers superior, effective and efficient service delivery. Critical to this objective is the recruitment, training and advancement of our employees, effective design of equipment and operating procedures, technological advancement, partnership with our customers and a culture of continuous improvement.

Technology: The benefits to our customers arising from our technology are, in our opinion, a strategic advantage and fundamental to our ongoing growth. Our industry and that of our customers has seen constant advancement in technology that have been instrumental in the ongoing identification and development of ever more economic reservoirs. Technical advancement was the genesis of GASFRAC's formation and continued technological advancement to meet customer needs, improve productivity, reduce environmental impact, increase efficiencies, and reduce costs will be a key driver to growth.

Technology Integration: The Company recognizes that any new technology faces the challenges of adoption as customers assess benefits, costs and the ability to smoothly integrate the new technology with their operations. Our focus in this regard is to a) collect sufficient data to be able to clearly demonstrate the benefits of our technology to the value of our customers' assts, b) strive for operational efficiencies and delivery strategies to reduce the net cost of our service and c) work with our customers to develop full cycle processes and practices integrating our service into their work flows.

People: At its core a service company is its people. A significant challenge facing pressure pumping and other oilfield service companies today is to secure a reliable, qualified and dedicated workforce. GASFRAC offers its employees a unique opportunity to be part of a leading technological advancement in our industry. Employee training and development is a core element to our building a solid organization that can meet the challenges of growth and introduction of new and innovative procedures. We have introduced an extensive training program (classroom and "in the field") for our field employees focused on developing our senior field employees from within. We believe that these efforts not only improve the efficiency and effectiveness of our operations but also build lasting relationships with our employees.

Competitors

Each of the markets in which GASFRAC participates is highly competitive. In Western Canada, GASFRAC competes against a large number of companies that offer services that overlap and are competitive with GASFRAC's services and products. To be successful, a service provider must provide services that meet the specific needs of oil and natural gas E&P companies at competitive prices. The principal competitive factors in the markets in which GASFRAC operates are: product and service quality and availability; technical knowledge and experience; reputation for safety; and price. GASFRAC competes with large national and multinational oilfield service companies that have greater financial and other resources. These companies offer a wide range of well stimulation services in all geographic regions in which GASFRAC operates. In addition, GASFRAC competes with several regional competitors. As a result of competition, it may suffer from a significant reduction in revenue or be unable to pursue additional business opportunities. GASFRAC's major multinational competitors include Baker Hughes, Halliburton Energy Services, Trican Well Service Ltd., Calfrac Well Services Ltd., Sanjel Corporation, and Canyon Services Group Inc.

Components

GASFRAC sources its raw materials such as proppant, LPG and nitrogen from a variety of suppliers located mostly in Canada and the United States. More than one supplier exists for each of GASFRAC's main raw materials. In the past, the source and supply of raw materials has been consistent, although in periods of high industry activity there may be shortages of certain materials. To mitigate this risk, GASFRAC maintains relationships with a number of suppliers and where necessary identifies alternate sources of supply.

Intellectual Property

GASFRAC relies upon trade secrets, its know-how, patents, and patent applications that have been filed or are in preparation in order to provide its innovative services to its customers. The filed applications cover a number of technologies, all related to fracturing hydrocarbon reservoirs with LPG, although some have broader application. There are ten patent application suites, with each suite comprising at least (1) a United States patent application and a Canadian patent application or (2) an international application that includes the right to file in Canada and the United States or both (1) and (2), namely a United States application, a Canadian application and an international application. Each application claims one or more inventions. Where appropriate and reasonable, GASFRAC undertakes to protect intellectual property by filing, prosecuting and maintaining patent applications.

Significant patents include "Liquified Petroleum Gas Fracturing System" filed in March 2006 and allowed in December 2012 and "Proppant Addition System and Method" filed in December 2008 and issued in October 2012

Seasonality

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

Trends

E&P companies have increasingly changed their focus to the exploration and development of unconventional shale and tight sand resource plays that hold both oil and natural gas. Further, the depressed natural gas price has resulted in a changeover in drilling and capital expenditure activity to oil and liquids rich reserves and away from dry gas reserves. E&P companies continue to apply horizontal drilling and multistage fracturing techniques to both conventional and unconventional resources. This work tends to be more service intensive than vertical drilling, resulting in demand for pressure pumping services. The equipment is on location for much longer as the completion programs have evolved to multistage programs that require several days to complete. Over the last several years the industry has experienced a significant increase in pressure pumping capacity to address this demand. The combination of pressure pumping capacity with the addition of equipment through the period up to 2012, reduced activity in dry gas drilling development and lower HHP requirements of the emerging oil and liquids plays (as compared to the high volume dry gas resources), has resulted in the industry may be reaching a supply/demand imbalance (particularly in the USA). It is expected that this over supply will not change significantly during 2013 and may see some movement towards equilibrium in 2014 dependent upon commodity prices.

Customers

GASFRAC's customer base consists of more than thirty oil and natural gas exploration and production companies, ranging from large multinational public companies to small private companies. For the year ended December 31, 2012, the Corporation's ten largest customers collectively represented approximately 95% of its revenue and the Corporation's three largest customers accounted for approximately 72% of its revenue. The Company's largest customer represented 43%.

Contracts

Economic Dependence

GASFRAC's business is primarily in Canada with some expansion into the United States. The Company's revenue is highly concentrated at this time with a small number of customers (see *"Customers"*). The Company's customers in Canada consist of about twenty oil and gas companies that vary in size. For the year ended December 31, 2012 three of these customers represented approximately 62% of the Company's revenue. The Company's largest customer represented approximately 43% of total revenues. The Company does not have long term contracts with these customers and should one or more of these customers substantially reduce their activity with the Company it would have a significant impact on our operations and financial results.

On September 26, 2011 GASFRAC entered into a three year contract with a two year renewal option with Husky Energy for the provision of LPG fracturing services.

Changes to Contracts

The Company operates under a number of key supplier and customer agreements. While these contracts define the commercial terms under which materials will be supplied or work will be undertaken, most of these arrangements do not contain a guaranteed commitment of materials or work. Total expenses and revenues from these contracts are expected to be material to the operations of the Company. With respect to the supply certain operating supplies, the Company has secured supply pursuant to a purchase agreement which commits the Company to purchase levels as disclosed in note 27 "Contractual Commitments" in the audited consolidated financial statements for the year ended December 31, 2012.

On August 31, 2011 the Company entered into the Credit Facility with a syndicate of bankers. The credit agreement includes a $10 million operating facility and a $90 million revolving facility, secured by a floating charge over all of the assets of the Company, bearing interest on a grid from prime plus 0.75% to prime plus 3.75% and containing customary financial covenants. The Credit Facility is renewable annually and if not renewed is repayable in seven equal quarterly instalments of principal in an amount equal to $1/12^{th}$ of the outstanding principal as of the Term Date (as defined therein) and with the remaining principal and accrued interest being payable on the maturity date. This Credit Facility was renewed for an additional year effective August 31, 2012. During the third quarter of 2012, the Company exceeded the debt ceiling and its bank syndicate agreed to a suspension of the EBITDA related covenants effective November 6, 2012. This suspension is in place until June 30, 2013. In the interim, the facility is capped at $60 million with an interim covenant that the Company will generate EBITDA of $6 million for each of the quarters ended December 31, 2012 and March 31, 2013.

On February 8, 2012 the Company issued 40,250 convertible debentures (see *"Description of Capital Structure – Convertible Debenture")*. Pursuant to this issuance, the Company entered into a convertible debenture indenture with Olympia Trust Company.

Regulation

GASFRAC operates under the jurisdiction of a number of regulatory bodies that regulate, among other things, worker safety standards, the handling of hazardous materials and the protection of the environment. Environmental laws and regulations that GASFRAC is subject to have become more stringent in recent years and have generally sought to impose greater liability on a larger number of potentially responsible parties. Because GASFRAC provides services to companies producing oil and natural gas, it may become subject to claims relating to the release of such substances into the environment.

Environmental Protection

GASFRAC is subject to various environmental laws and regulations enacted in most jurisdictions in which it operates. These laws and regulations primarily govern the manufacture, processing, importation, transportation, handling and disposal of certain materials used in GASFRAC's operations. GASFRAC's customers are subject to similar laws and regulations, as well as limits on emissions into the air and discharges into surface and sub-surface waters.

There are currently stand-alone bills in both the United States House and the Senate for the Fracturing Responsibility and Awareness of Chemicals Acts 2009. The bills have asserted that hydraulic fracturing processes use chemicals that could affect drinking water supplies. The proposed legislation would require the energy industry to publicly disclose the chemicals it mixes with the water and sand it pumps underground in the fracturing process. This legislation, if passed could lead to operational delays and increased operating costs. The adoption of any future federal or state laws or implementing regulations in the United States, or in other jurisdictions in which GASFRAC carries on business, which impose reporting obligations on, or otherwise limiting the hydraulic fracturing process could make it more difficult for GASFRAC to provide fracturing services for natural gas and oil wells and could have a material adverse impact on GASFRAC's financial position and operating results.

Employees

GASFRAC's operations team has been specifically selected to ensure that experienced and competent technical people are complemented by equally experienced and competent field personnel. This complementary mix of experience and expertise from technical and field personnel has facilitated useful input on equipment design and ongoing monitoring during fabrication. Each well's stimulation treatment program is developed by the team in conjunction with the applicable E&P company's technical staff, and is individually designed to reflect the particular temperature and pressure characteristics, porosity and permeability, and other potentially unique characteristics of the targeted formation. As at March 13, 2013, GASFRAC had 260 employees consisting of 34 employees in the Calgary head office, 12 employees in the Houston and Kilgore regional offices, 161 employees in Canadian operations and 53 employees in US operations. GASFRAC has made significant investments to recruit employees, provide employee training and implement recognized standards for health and safety in order to provide quality support for the services provided to customers.

Foreign Operations

GASFRAC commenced operations in the USA during 2010 with those operations representing approximately 6% of consolidated revenues. During 2011 revenues from the USA represented 23% of consolidated revenues. During 2012 US operations represented approximately 21% of consolidated revenues with a single customer representing the majority of this revenue.

Reorganizations

GASFRAC Energy Services Inc. ("Former GASFRAC") and Kierland Capital Corporation ("Kierland"), a capital pool company, amalgamated to form the amalgamated company called GASFRAC Energy Services Inc. (the "Amalgamation") effective August 6, 2010. The Amalgamation constituted the qualifying transaction of Kierland (the "Qualifying Transaction") pursuant to Policy 2.4 of the TSX Venture Exchange Inc. ("TSXV").

The common shares of GASFRAC ("Common Shares") commenced trading on the TSXV on August 12, 2010 under the symbol "GFS".

The Amalgamation became effective on August 6, 2010, the date the Certificate of Amalgamation was issued in respect of the Amalgamation under the Business Corporations Act (Alberta). Pursuant to the Amalgamation: (i) each 48 common shares of Kierland were exchanged for one Common Share; (ii) each common share of Former GASFRAC was exchanged for one Common Share; (iii) each common share purchase warrant of Former GASFRAC was replaced with/continued into one share purchase warrant of GASFRAC with identical terms; (iv) each agent warrant of Former GASFRAC was replaced with/continued into one agent warrant of GASFRAC with identical terms; (v) each stock option of Kierland was replaced with/continued into one stock option of GASFRAC, each with an exercise price of $4.80 per Common Share; and (vi) each stock option of Former GASFRAC was replaced with/continued into one stock option of GASFRAC with identical terms.

In connection with the completion of the Amalgamation, the 13,000,000 subscription receipts of Former GASFRAC that were issued at a price of $5.00 per subscription receipt by way of private placement on June 30, 2010 (the "June 2010 Private Placement") were each exchanged, for no additional consideration, into one Common Share. The net proceeds of the private placement of the subscription receipts were also released from escrow to GASFRAC on August 6, 2010.

Final TSXV approval of the Qualifying Transaction was received on August 10, 2010 and the Common Shares commenced trading on the TSXV on August 12, 2010, under the symbol "GFS".

Social and Environmental Policies

GASFRAC is committed to maintaining a safe working environment for its employees, customers and the general public. To this end we have extensively reviewed our operations to identify, assess and mitigate potential risks. Further, we have implemented safety and training programs designed to identify safety as a priority and raise the awareness of the importance of safety in all of our operations. Further, we have implemented an environmental policy and procedures to minimize any potential negative impact of our operations on the environment.

RISK FACTORS

The following are factors relating to the business of the Corporation. All of these risk factors could negatively impact the Corporation's consolidated revenue, expenses and cash flow. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form and in the audited financial statements and notes for December 31, 2012, the MD&A for December 31, 2012 and other disclosure documents filed on SEDAR from time to time, all of which are available under GASFRAC's profile on www.sedar.com.

The activities the Corporation undertakes involve a number of risks and uncertainties, some of which are summarized below. Additional risks and uncertainties that the Corporation may be unaware of, or that were determined to be immaterial may also become important factors that affect the Corporation.

Volatility of Industry Conditions

The demand, pricing and terms for GASFRAC's fracturing and well stimulation services largely depend upon the level of exploration and development activity for North American oil and natural gas. Industry conditions are influenced by numerous factors over which GASFRAC has no control, including the level of oil and natural gas prices, expectations about future oil and natural gas prices, the cost of exploring for, producing and delivering oil and natural gas, the decline rates for current production, the discovery rates of new oil and natural gas reserves, available pipeline and other oil and natural gas transportation capacity, weather conditions, political, military, regulatory and economic conditions, and the ability of oil and natural gas companies to raise equity capital or debt financing. A material decline in global oil and natural gas prices or North American activity levels as a result of any of the above factors could have a material adverse effect on GASFRAC's business, financial condition, results of operations and cash flows. Because of the current economic environment and related decrease in demand for energy, natural gas exploration and development in North America has decreased significantly from peak levels in 2008. Warmer than normal winters in North America, among other factors, may adversely impact demand for natural gas and, therefore, demand for oilfield services. If these economic conditions deteriorate further or do not improve, the decline in natural gas exploration and development could cause a decline in the demand for GASFRAC's services. Such decline could have a material adverse effect on GASFRAC's business, financial condition, results of operations and cash flows.

Demand for Oil and Natural Gas

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

Seasonality

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

Concentration of Customer Base

GASFRAC's customer base consists of over thirty oil and natural gas exploration and production companies, ranging from large multinational public companies to small private companies. Notwithstanding GASFRAC's customer base, GASFRAC has three significant customers that collectively accounted for approximately 72 percent of GASFRAC's revenue for the year ended December 31, 2012. One customer represented approximately 43%. GASFRAC's relationships with exploration and production companies may result in increased concentration of revenues during certain periods. However, there can be no assurance that GASFRAC's relationship with its primary customers will continue, and a significant reduction or total loss of the business from these customers, if not offset by sales to new or existing customers, would have a material adverse effect on GASFRAC's business, financial condition, results of operations and cash flows.

Competition

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

Equipment Inventory Levels

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

Sources, Pricing and Availability of Raw Materials and Component Parts

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

Capital-Intensive Industry

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

Patents and Proprietary Technology

GASFRAC's success will depend, in part, on its ability to obtain patents, maintain trade secret protection and operate without infringing on the rights of third parties. The LPG Fracturing Process patents for the U.S., Canada and international markets remain in examination. The international application has been deemed as "Patentable" showing novelty, inventiveness and industrial applicability. However, there can be no assurance that any patents, if and when issued, will provide GASFRAC with any competitive advantages or will not be successfully challenged by any third parties, or that the patents of others will not have an adverse effect on the ability of GASFRAC to do business. In addition, there can be no assurance that others will not independently develop similar products, duplicate some or all of GASFRAC's products, or, if patents are issued to GASFRAC, design their products so as to circumvent the patent protection that may be held by GASFRAC. In addition, GASFRAC could incur substantial costs in lawsuits in which GASFRAC attempts to enforce its own patents against other parties.

Operational Risks

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

Management Stewardship

The successful operation of GASFRAC's business depends upon the abilities, expertise, judgment, discretion, integrity and good faith of GASFRAC's executive officers, employees and consultants. In addition, GASFRAC's ability to expand its services depends upon its ability to attract qualified personnel as needed. The demand for skilled oilfield employees is high, and the supply is limited. If GASFRAC loses the services of one or more of its executive officers or key employees, it could have a material adverse effect on GASFRAC's business, financial condition, results of operations and cash flows.

Regulations Affecting the Oil and Natural Gas Industry

The operations of GASFRAC's customers are subject to or impacted by a wide array of regulations in the jurisdictions in which they operate. As a result of changes in regulations and laws relating to the oil and natural gas industry, GASFRAC's customers' operations could be disrupted or curtailed by governmental authorities. The high cost of compliance with applicable regulations could cause customers to discontinue or limit their operations and may discourage companies from continuing development activities. As a result, demand for GASFRAC's services could be substantially affected by regulations adversely impacting the oil and natural gas industry. Changes in environmental requirements may negatively impact demand for GASFRAC's services. For example, oil and natural gas exploration and production may decline as a result of environmental requirements (including land use policies responsive to environmental concerns). A decline in exploration and production, in turn, could materially and adversely affect GASFRAC.

Government Regulations

GASFRAC's operations are subject to a variety of federal, provincial, state and local laws, regulations and guidelines in all the jurisdictions in which it operates, including laws and regulations relating to health and safety, the conduct of operations, taxation, the protection of the environment and the manufacture, management, transportation and disposal of certain materials used in GASFRAC's operations. GASFRAC has invested financial and managerial resources to ensure such compliance and expects to continue to make such investments in the future. Such laws or regulations are subject to change and could result in material expenditures that could have a material adverse effect on GASFRAC's business, financial condition, results of operations and cash flows. It is impossible for GASFRAC to predict the cost or impact of such laws and regulations on GASFRAC's future operations. In particular, GASFRAC is subject to increasingly stringent laws and regulations relating to importation and use of hazardous materials, radioactive materials and explosives, environmental protection, including laws and regulations governing air emissions, water discharges and waste management. GASFRAC incurs, and expects to continue to incur, capital and operating costs to comply with environmental laws and regulations. The technical requirements of these laws and regulations are becoming increasingly complex, stringent and expensive to implement. These laws may provide for "strict liability" for damages to natural resources or threats to public health and safety. Strict liability can render a party liable for damages without regard to negligence or fault on the part of the party. Some environmental laws provide for joint and several strict liabilities for remediation of spills and releases of hazardous substances.

GASFRAC uses and generates hazardous substances and wastes in its operations. In addition, some of GASFRAC's current properties are, or have been, used for industrial purposes. Accordingly, GASFRAC could become subject to potentially material liabilities relating to the investigation and cleanup of contaminated properties, and to claims alleging personal injury or property damage as the result of exposures to, or releases of, hazardous substances. In addition, stricter enforcement of existing laws and regulations, new laws and regulations, the discovery of previously unknown contamination or the imposition of new or increased requirements could require GASFRAC to incur costs or become the basis of new or increased liabilities that could reduce GASFRAC's earnings and cash available for operations. GASFRAC believes it is currently in substantial compliance with applicable environmental laws and regulations.

GASFRAC is a provider of hydraulic fracturing services, a process that creates fractures extending from the well bore through the rock formation to enable natural gas or oil to move more easily through the rock pores to a production well. Recent regulatory initiatives have been undertaken in various jurisdictions to address assertions that hydraulic fracturing processes use chemicals that could affect drinking water supplies. Legislation has been enacted in some jurisdictions that require the energy industry to publicly disclose the chemicals used in fracturing processes. These regulations could lead to operational delays and increased costs. This legislation, if adopted, could establish an additional level of regulation at the federal level that could lead to operational delays and increased operating costs. The adoption of any future federal or state laws or implementing regulations imposing reporting obligations on, or otherwise limiting, the hydraulic fracturing process could make it more difficult to complete natural gas and oil wells.

Customers

Customers are generally invoiced for our services in arrears. As a result, we are subject to our customers delaying or failing to pay invoices. Risk of payment delays or failure to pay is increased during periods of weak economic conditions due to potential reduction in cash flow and access to capital of our customers.

Availability of Debt Financing

The Company has facilities with its bank for $100 million of debt financing. As discussed in Note 15 of the 2012 Consolidated Audited Financial Statements this amount is limited to $60 million during the period in which certain financial covenants have been suspended. During 2012 the Company incurred a significant EBITDA loss in the second quarter and had large capital expenditure commitments for the completion of its 2011 capital program. To fund these costs, the Company issued a convertible debenture and drew on its bank line of credit. The EBITDA loss in the second quarter negatively impacted trailing twelve month EBITDA amounts used in the calculation of certain of the financial covenants under its credit facility. Accordingly, the Company reached an agreement with its bankers to suspend these covenants until the measuring date for the second quarter of 2013. Additionally, the Company implemented reductions to its operating costs in September 2012 through staff reductions, facility consolidation and the parking of certain equipment. The Company also renegotiated commitments for the purchase of raw materials for operations reducing 2013 commitments to $14.1 million from $58.1 million. Capital expenditure commitments for 2013 are $2.5 million. As a result of these actions the Company anticipates that operating cash flow and its bank credit facility will be sufficient to fund ongoing operations. The bank credit facility matures August 31 and should it not be renewed is subject to repayment in seven quarterly repayments equal to one twelve of the outstanding amount commencing in the second quarter following maturity with the remainder due with an eight payment two years following the maturity date. Should the Company be unable to renew these facilities in the amount it requires or on terms acceptable to it, significant liquidity issues could result.

Additional Funding Requirements

The Company may need additional financing in connection with the implementation of its business and strategic plans from time to time. However, there can be no assurance that the Company will be able to obtain the necessary financing in a timely manner or on acceptable terms, if at all. The implementation of the Company's business and strategic plans from time to time will require a substantial amount of capital and the amounts available to the Company without seeking additional debt or equity financing may not be sufficient to fund such business and strategic plans. The Company may accordingly have further capital requirements to take advantage of further opportunities or acquisitions.

Direct and Indirect Exposure to Volatile Credit Markets

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

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

Merger and acquisition activity may reduce the demand for the Company's Services.

Merger and acquisition activity in the oil and gas exploration and production sector may constrain demand for the Company's services as customers focus on reorganizing the business prior to committing funds to exploration and development projects. Further, the acquiring company may have preferred supplier relationships with oilfield service providers other than the Company.

The Market Price of the Common Shares May Be Volatile

The trading price of securities of oilfield service companies is subject to substantial volatility. The volatility is often based on factors both related to and unrelated to the financial performance or prospects of the companies involved. The market price of the Common Shares could be subject to significant fluctuations in response to our operating results, financial condition and other internal factors. Factors that could affect the market price that are not directly related to GASFRAC's performance include commodity prices and market perceptions of the attractiveness of particular industries for investment.

Dilution from Further Equity Issuances

If GASFRAC issues additional equity securities to raise additional funding or as consideration for the acquisition of a company or assets, as the case may be, such transactions may substantially dilute the interests of GASFRAC Shareholders and reduce the value of their respective investment.

Dividends

GASFRAC has not paid dividends prior to the date hereof and there can be no assurance that GASFRAC will pay dividends in the future. Dividend payments are at the discretion of the GASFRAC board of directors. Dividends depend on the financial condition of the applicable entity and other factors.

Market for Convertible Debentures

No assurance can be given that an active or liquid trading market for the Debentures will develop or be sustained. If an active or liquid market for the Debentures fails to develop or be sustained, the prices at which the Debentures trade may be adversely affected. Whether or not the Debentures will trade at lower prices depends on many factors, including the liquidity of the Debentures, prevailing interest rates and the markets for similar securities, the market price of the Common Shares, general economic conditions and the Company's financial condition, historic financial performance and future prospects. Further, the holders of the Common Shares may suffer dilution if the Company decides to redeem outstanding Debentures for Common Shares or to repay outstanding principal amounts thereunder at maturity of the Debentures by issuing additional Common Shares.

Repayment of the Debentures

The Company may not be able to refinance the principal amount of the Debentures in order to repay the principal outstanding or may not have generated enough cash from operations to meet this obligation. The Company may, at its option, on not more than 60 days and not less than 40 days prior notice and subject to any required regulatory approvals, unless an Event of Default has occurred and is continuing, elect to satisfy its obligation to repay, in whole or in part, the principal amount of the Debentures which are to be redeemed or which have matured by issuing and delivering Common Shares to the holders of the Debentures. There is no guarantee that the Company will be able to repay the outstanding principal amount in cash upon maturity of the Debentures. The likelihood that purchasers of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the Company's financial health and creditworthiness at the time of such payments.

DIVIDEND RECORD AND POLICY

GASFRAC has not paid any dividends on the Common Shares and currently intends to reinvest any earnings to fund the development and growth of its business. Any future payments of dividends will be at the discretion of the board of directors and will depend upon the financial condition, capital requirements and earnings of the Corporation as well as other factors it may deem relevant. The Corporation's articles do not contain any restrictions on the payment of dividends.

DESCRIPTION OF CAPITAL STRUCTURE

Common Shares

GASFRAC is authorized to issue an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series. The holders of Common Shares are entitled to one vote per share at meetings of shareholders of GASFRAC; subject to the rights of the holders of preferred shares, dividends as and when declared by the board of directors of GASFRAC; and, subject to the rights of the holders of preferred shares, upon liquidation, to receive such assets of GASFRAC as are distributable to the holders of Common Shares.

Preferred Shares

GASFRAC is authorized to issue an unlimited number of preferred shares without nominal or par value. The preferred shares may be issued in one or more series and the GASFRAC board of directors is authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series. The preferred shares will rank on a parity with the preferred shares of every other series and will be entitled to a priority over the Common Shares, and any other class of shares ranking junior to the preferred shares, with respect to the payment of dividends and the distribution of assets upon the liquidation of GASFRAC.

Convertible Debentures

GASFRAC has issued 40,250 7.00% convertible unsecured convertible debentures ("Debentures") of $1,000 principal amount each. The Debentures mature on February 28, 2017 and accrue interest at 7.00% per annum payable on a semi-annual basis in arrears on August 31 and February 28th each year commencing August 31, 2012. At the holder's option, the Debentures may be converted into common shares of GASFRAC at any time up to the earlier of the maturity date and the business day immediately preceding the date specified by the Company for redemption of the Debentures. The conversion price, subject to adjustment in certain circumstances, is $10.50 for each common share being a conversion rate of approximately 95.2381 common shares for each $1,000 principal amount of Debentures. The Debentures will not be redeemable by the Company before February 28, 2015. Thereafter through to the maturity date, GASFRAC may, at its option, redeem the Debentures, in whole or part, at par plus accrued and unpaid interest provided that the volume weighted average trading price of the common shares of GASFRAC on the Toronto Stock Exchange during a specified period prior to redemption is not less than 125% of the conversion price. GASFRAC has the right to repay the outstanding principal amount of the Debentures, on maturity or redemption, through the issuance of common shares of the Company

MARKET FOR SECURITIES

Trading Price and Volume

The Common Shares are listed on the TSX under the symbol "GFS". The Common Shares began trading on the TSXV on August 12, 2010 and on the TSX on June 17, 2011. The following table sets forth the monthly price ranges and volumes of trading of the Common Shares during 2011

TSXV

Period	High ($)	Low ($)	Volume
2011			
January	$11.80	$9.20	19,107,802
February	$13.06	$9.85	11,644,410
March	$14.01	$11.28	18,998,319
April	$12.69	$11.88	6,963,130
May	$11.93	$10.09	8,458,020
June 1-16	$10.60	$10.25	1,960,536

TSX

Period	High ($)	Low ($)	Volume
2011			
June 17 -30	$10.48	$8.80	2,825,459
July	$11.15	$9.09	5,849,739
August	$10.25	$7.20	10,132,518
September	$8.52	$7.44	6,233,286
October	$8.10	$6.98	5,288,612
November	$9.40	$7.03	11,484,671
December	$7.40	$6.63	8,095,401
2012			
January	$8.37	$6.35	7,603,672
February	$9.00	$6.56	8,383,237
March	$8.82	$6.20	10,269,403
April	$7.72	$4.67	11,130,702
May	$5.24	$3.84	6,842,930
June	$4.30	$2.48	5,422,448
July	$4.03	$2.91	4,260,596
August	$3.47	$2.27	10,165,108
September	$3.01	$1.92	5,345,588
October	$2.05	$1.24	4,458,921
November	$1.81	$1.23	5,990,020
December	$1.74	$1.25	4,207,614

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ESCROWED SECURITIES

Escrowed Securities and Securities Subject to Contractual Restriction on Transfer

Designation of Class	Number of securities held in escrow or that are subject to a contractual restriction on transfer(1)	Percentage of class
Common Shares	nil	0%
Founder Warrants	nil	0%
Options	nil	0%

DIRECTORS AND OFFICERS

Directors of the Corporation

The directors of the Corporation are nominated by the Shareholders of the Corporation at each annual meeting of Shareholders. All directors serve until the next annual meeting or until a successor is elected or appointed, unless his position is earlier vacated. The name, residence, year of appointment as a director of the Corporation and principal occupation for the past five years for each director of the Corporation are set forth below.

Name and Residence	Director Since	Principal Occupation for Past Five Years
Dwight Loree[3] Alberta, Canada	February 13, 2006	Dwight N. Loree has been a director of GASFRAC since 2006 and was the Chief Executive Officer from 2006 to November 2011. Mr. Loree has 40 years experience in the oilfield servicing industry. Between 2001 and 2006 Mr. Loree acted as a consultant to the oil and gas industry. Between 1987 and 2001 Mr. Loree was an owner, founder and President of Trysol Inc., a well servicing fluids company, with responsibilities for coordination of general operations, sales and marketing. Trysol Inc. was purchased by Enerchem International in 2001.
Dale Bossert[1] [2] [4] Alberta, Canada	May 10, 2006	Dale W. Bossert is a director of GASFRAC and has over 40 years of diverse experience in the upstream oil and gas industry. From July 2007 to February 2010, Mr. Bossert was a director and the Chairman of the board of directors of Turnkey E&P Inc., and oil and gas company. Mr. Bossert was President, Chief Executive Officer and a director of Turnkey from December 2004 to July 2007. From September 2004 to May 2008, Mr. Bossert was a director of Keeper Resources Inc., an oil and gas company that was listed on the TSXV which was sold in 2008. Since May 2008, Mr. Bossert has been a director of Forbes Energy Services Co., an oilfield services company listed on the NASDAQ. Mr. Bossert received a Bachelor of Science in Mechanical Engineering in 1966 from the University of Alberta.
Gerald Roe[1] [2] [3] Alberta, Canada	May 10, 2006	Gerald L. Roe is a director and the Chairman of the GASFRAC Board. From October 2009 to December 2011 Mr. Roe was Chief Operating Officer of Canadian Overseas Petroleum Ltd. Mr. Roe has over 44 years experience in the upstream oil and gas industry. From November 2007 Mr. Roe was an independent businessman. From May 2004 to October 2007, Mr. Roe was the Chief Operating Officer of Oilexco Incorporated, an oil and gas company that was listed on the TSX and the London Stock Exchange. From June 1998 to March 2004, Mr. Roe was the President and a director of Orca Petroleum Inc., an oil and gas company that was listed on the TSXV. Since October 2003, Mr. Roe has been a director of Boxxer Gold Corp., a mining company listed on the TSXV. Mr. Roe received a Bachelor of Science in Mechanical Engineering in 1965 from the Montana State University.
Leo Schnitzler[2] [3] [4] Alberta, Canada	May 10, 2006	Leo G. Schnitzler is a director of GASFRAC. Since 2010 Mr. Schnitzler has been President and CEO of Wilcox Energy Corp and from 2005, Mr. Schnitzler has been the President, Chief Executive Officer and sole shareholder of Lookout Enterprises Ltd., Calgary Alberta, both private oil and gas companies in Calgary, Alberta. Mr. Schnitzler has over 30 years experience in the upstream oil and gas industry. Between 1997 and 2005 Mr. Schnitzler was the President and Chief Executive Officer for Outlook Energy Ltd., Calgary, a private oil and gas company. From 1987 to 1997, Mr. Schnitzler was President and CEO of Truax Resources Ltd., an oil and gas company listed on TSX. Mr. Schnitzler received a Bachelor of Science in Mechanical Engineering in 1975 from the University of Saskatchewan.
Robert Maitland[1] [2] [3] Alberta, Canada	April 17, 2008	Robert A. Maitland is a director of GASFRAC. Since June 2007 Mr. Maitland has been a financial consultant. Mr. Maitland has over 35 years experience in the accounting and finance areas of the upstream oil and gas industry. Between May 2005 and June 2007 Mr. Maitland was Vice President, Finance and Chief Financial Officer of Fairquest Energy Limited, an oil and gas company listed on TSX. From May 2002 to May 2005 he was the Vice-President, Finance, Chief Financial Officer and a director of Fairborne Energy Ltd., an oil and gas company listed on TSX. Since February 2007, Mr. Maitland has been a director of Paramount Energy Inc., an oil and gas company listed on

Name and Residence	Director Since	Principal Occupation for Past Five Years
		TSX. Mr. Maitland received a Bachelor of Commerce in 1975 from the University of Calgary, received his Chartered Accountant designation from the Institute of Chartered Accountants of Alberta in 1977 and received his ICD.D designation from the Institute of Corporate Directors in 2005.
Robert Roberts(4) Alberta, Canada	October 23, 2008	Robert Roberts is a director of GASFRAC. Since May 2006 Mr. Roberts has been an independent businessman. Mr. Roberts has over 40 years experience in the oilfield service industry. From May 1999 to May 2006 Mr. Roberts was Chief Operating Officer of Calfrac Well Services Ltd. An oilfield service company listed on TSX.

Notes:
(1) Audit Committee member.
(2) Compensation Committee member.
(3) Corporate Governance and Nominating Committee member**.**
(4) Health, Safety and Environment Committee member

Officers of the Corporation

The name, municipality of residence, position held and principal occupation for the past five years for each executive officer of the Corporation are set out below:

Name and Residence	Office	Principal Occupation for Past Five Years
James Hill Alberta, Canada	Chief Financial Officer	James Hill has been the Chief Financial Officer of GASFRAC since June 2010. Mr. Hill has 30 years of financial and operational experience of which 22 of those years were in the oilfield services industry, including 11 years in the oil and gas fracing industry. From 2006 to June 2010, Mr. Hill was the President of HSE Integrated Ltd. ("HSE"), an industrial safety services company listed on TSX. From 2005 to 2006, Mr. Hill was the Executive Vice President and Chief Financial Officer of HSE. Prior to that, Mr. Hill was Chief Financial Officer of Integrated Production Services Ltd. and held various positions including with Nowsco Well Service and Canadian Fracmaster. Mr. Hill received his Honours Business Administration from the University of Western Ontario in 1982 and received his Chartered Accountant designation from the Institute of Chartered Accountants of Alberta in 1984.
Tim O'Rourke Alberta, Canada	Vice President, Operations	Mr. O'Rourke has been VP of Operations from January 2012, prior thereto he was Project Engineer from April 2010 to December 2010. He was an independent oilfield consultant from May 2008 to March 2010 and prior thereto he was Sales and Engineering Manager at Nabors Blue Sky Ltd. from June 2000 to April 2008.

Name and Residence	Office	Principal Occupation for Past Five Years
Vic Fordyce Alberta, Canada	Vice-President, Quality and Conformance	Since January 2012 Mr. Fordyce has been VP of Quality & Conformance. From May 2007 to December 2011 Vic Fordyce was the Vice-President Operations for GASFRAC. Mr. Fordyce has over 30 years experience in the oilfield servicing industry. From January 1980 to May 2007 Mr. Fordyce was Fracturing Service Line Manager for BJ Services Company Canada, an oilfield services company.
Doug McMillan Alberta, Canada	Vice-President, Sales & Engineering	Mr. McMillan has been VP Sales and Engineering from January 2012, prior thereto he was VP Engineering at Canyon Technical Services Ltd. from December 2010 to January 2012, prior to that he was Manager Production Technology at the Alberta Research Council from September 2007 to December 2010 and prior thereto he was a Senior Technical representative at Trican Well Services from September 2003 to September 2007.
Robert Copeland Alberta, Canada	Sn. Vice President, Corporate Services	Mr. Copeland has been Sn. VP Corporate Services from 2012. He joined GASFRAC as Manager of Propane Operations in April 2011 and prior thereto he was and independent oilfield consultant from May 2008 to March 2011. Prior to that he was VP and Chief Operating Officer of Blackwatch Energy Services Trust from October 2006 to April 2008.
Charles Spence Alberta, Canada	Secretary	Charles Spence has been a partner with the law firm of Miles Davison LLP since June 1984. From May 2000 to March 2008 he was a director of Wellco Energy Services Trust, an oilfield services company that was listed on the TSX and was secretary of Wellco Energy Services Trust, from May 2000 to September 2005. From July 2007 to August 2008, Mr. Spence was the secretary of Saxon Energy Services Inc., an oilfield services company that was listed on the TSX. Mr. Spence received a Bachelor of Science from the University of Toronto in 1974 and a Bachelor of Laws from the University of Windsor in 1977. Mr. Spence was called to be a member of the Law Society of Alberta in 1978.

As at December 31, 2012, the directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, a total of 3,537,600 Common Shares, representing approximately 5.7 percent of the then issued and outstanding Common Shares of the Corporation. In addition, the directors and executive officers, as a group, have outstanding GASFRAC options to purchase 1,475,000 Common Shares and 430,000 Performance Share Units.

Corporate Cease Trade Orders or Bankruptcies

Other than as disclosed below:

1. During the ten years preceding the date of this AIF, no current director or executive officer of the Corporation has been a director, chief executive officer or chief financial officer of any company that was the subject of an order (as defined in National Instrument 51-101F2) while such individual was acting in that capacity or that was issued after the director ceased to act as director, chief executive officer or chief financial officer and that resulted from an event that occurred while such individual was acting in such capacity; and

2. No director or executive officer of the Corporation or a security holder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, has, to the knowledge of the Corporation:

   (a) been a director or executive officer of any company that became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of such person while that person was acting in that capacity or within a year of that person ceasing to act in that capacity; or

(b) become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

From July 2007 to February 2010, Mr. Bossert was a director and the Chairman of the board of directors of Turnkey, an oil and gas company. Mr. Bossert was President, Chief Executive Officer and a director of Turnkey from December 2004 to July 2007. Turnkey was last listed on the NEX board of the Toronto Stock Exchange but has now been delisted. A cease trade order was issued by the Alberta Securities Commission on December 14, 2009 for Turnkey failing to file its continuous disclosure materials. Thereafter, similar cease trade orders were issued by other Canadian securities commissions. Turnkey carried on a majority of its business through its wholly-owned United States subsidiary, Turnkey E&P Corporation. In November 2008, Turnkey E&P Corporation filed for protection under Chapter 11 of the United States Bankruptcy Code. On March 13, 2009 the United States Bankruptcy Court granted Turnkey E&P Corporation an extension to May 15, 2009 for the purpose of filing a plan to emerge from Chapter 11 of Title 11 of the United States Code. To date Turnkey E&P Corporation's efforts to emerge from Chapter 11.

Penalties or Sanctions

No director, officer or shareholder holding a sufficient number of securities to materially affect control of the Corporation has been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

Circumstances may arise where members of our Board of Directors or our officers are directors or officers of corporations or other entities which are in competition to our interests. No assurances can be given that opportunities identified by such board members or officers will be provided to us. Pursuant to the *Business Corporations Act* (Alberta), a director or officer of a corporation who is a party to a material contract or proposed material contract with that corporation or is a director or an officer of or has a material interest in any person who is a party to a material contract or proposed material contract with that corporation shall disclose to the Corporation the nature and extent of the director's or officer's interest. In addition, a director shall not vote on any resolution to approve a contract of the nature described except in limited circumstances.

Management is not aware of any existing or potential material conflicts of interest between GASFRAC or a subsidiary of GASFRAC and one of our directors or officers or of one of the directors or officers of GASFRAC's subsidiaries.

AUDIT COMMITTEE INFORMATION

The Audit Committee Charter

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibility by reviewing the systems of internal controls which management and the Board have established, the financial information of the Corporation, and by supervising the audit process. The text of the Audit Committee's charter is attached as Schedule A.

Composition of the Audit Committee

The members of the Audit Committee are Mr. Robert Maitland (Chairman), Mr. Dale Bossert and Mr. Gerald Roe. Each member of the Audit Committee is independent and financially literate, as those concepts are defined in National Instrument 52-110 ("NI 52-110"). A member of the Audit Committee is considered to be *independent* if the member has no direct or indirect material relationship with the Corporation, including any subsidiaries. A material relationship means a relationship which could, in the view of the Corporation's Board of Directors, reasonably interfere with the exercise of a member's independent judgment. A member of the Audit Committee is considered to be *financially literate* if the member has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

Relevant Education and Experience

Robert Maitland

Mr. Maitland is a Chartered Accountant and has completed the Institute of Corporate Directors - Director Education Program. He has over 30 years of senior business experience, primarily in the oil and gas industry and has been the Vice President and Chief Financial Officer of Summit Resources Ltd., Omega Hydrocarbons Ltd., Shiningbank Energy Income Fund, Post Energy Ltd., Pan East Petroleum Corp., Fairborne Energy Ltd. and Fairquest Energy Ltd. He presently serves on the board of directors of Perpetual Energy Inc., and one other private company.

Dale Bossert

Mr. Bossert is a Professional Engineer. He has served as a director of several publicly traded companies and has been the Chief Executive Officer of publicly traded companies. In these positions he had responsibility for regular review of internal financial information and external financial statements.

Gerald Roe

Mr. Roe has over 40 years of business experience including positions as director, President and Chief Operating Officer of publicly traded companies where he had responsibility for regular review of internal financial information and external financial statements.

External Auditor Service Fees

The following table presents fees for the audits of the Corporation's annual consolidated financial statements for 2011 and 2012 and for other services provided by PricewaterhouseCoopers LLP:

Nature of Services	**2012**	**2011**
Audit fees (1)	$185,000	$172,000
Audit-related fees (2)	-	-
Tax fees (3)	-	-
All other fees (4)	$33,000	$32,364
Total	$215,000	$204,364

Notes:

(1) "Audit fees" consist of fees for professional services for the audit or review of GASFRAC's annual and quarterly financial statements and services provided in connection with statutory and regulatory filings or engagements.

(2) "Audit-related fees" consist of fees for professional services that are reasonably related to the performance of the audit or review of GASFRAC's financial statements and which are not reported under "Audit Fees" above.

(3) "Tax fees" consist of fees for professional services for tax compliance, tax advice and tax planning.

(4) "All other fees" consist of fees for other services, including IFRS services, guidance on 52-109 compliance and fees related to prospectus filings, which are not reported as Audit fees, Audit-related fees and Tax fees.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

GASFRAC is involved in litigation from time to time in the ordinary course of its business. Although GASFRAC is not currently a party to any material legal proceedings, legal proceedings could be filed against GASFRAC in the future. No assurances can be given as to the final outcome of any legal proceedings or that the ultimate resolution of any legal proceedings will not have a material adverse effect on GASFRAC.

In addition, there were no penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority during the 2012 financial year, no other penalties or sanctions imposed by a court or regulatory body against the Corporation in 2012 that would likely be considered important to a reasonable investor in making an investment decision, and no settlement agreements entered into by the Corporation with a court relating to securities legislation or with a securities regulatory authority during the 2012 financial year.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

There are no material interests, direct or indirect of directors, executive officers, any shareholders that beneficially own, directly or indirectly, more that 10% of our outstanding Common Shares, or any known associates or affiliates of such persons, in any transaction within the last three years or in any proposed transaction which has materially affected or would materially affect the Corporation.

TRANSFER AGENT AND REGISTRAR

The registrar and transfer agent for the Common Shares is Olympia Trust Company of Canada at its principal offices in Calgary, Alberta and in Toronto, Ontario.

MATERIAL CONTRACTS

The Corporation is not a party to any material contract, other than its Credit Agreement dated August 31, 2011, Convertible Debenture Indenture dated February 8, 2012 and contracts entered into in the normal course of business.

INTERESTS OF EXPERTS

The auditors of the Corporation are PricewaterhouseCoopers LLP, Chartered Accountants, Calgary, Alberta. PricewaterhouseCoopers LLP has confirmed that it is independent with respect to the Corporation in accordance with the rules of professional conduct in Alberta.

ADDITIONAL INFORMATION

Additional information relating to the Corporation may be found on SEDAR at www.sedar.com.

Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, for year ended December 31, 2011 will be contained in the Corporation's information circular for the Corporation's upcoming annual meeting of Shareholders scheduled for May 9, 2011. Additional financial information is provided in the Corporation's audited consolidated financial statements for the year ended December 31, 2011 and the accompanying management's discussion and analysis thereon dated March 16, 2012.

SCHEDULE A

AUDIT COMMITTEE TERMS OF REFERENCE

1. PURPOSE

The primary function of the Audit Committee (the "**Committee**") is to assist the board of directors ("**Board**") in fulfilling its oversight responsibilities by reviewing:

(a) the financial information that will be provided to the shareholders and regulatory bodies;

(b) the systems of internal controls, management and the Board have established; and

(c) all external audit and review processes.

Primary responsibility for the financial reporting, information systems, risk management and internal controls of the Corporation is vested in management and is reviewed by the Board.

2. COMPOSITION AND OPERATIONS

(a) The Committee shall be appointed by the Board and shall be composed of not fewer than three (3) directors all of whom must be independent as defined in Section 1.4 of Multilateral Instrument 52-110 Audit Committees ("MI 52-110"), attached hereto as Schedule "A". Should be National Instrument 52-110, not Multilateral Instrument.

(b) All Committee members shall be "financially literate".

(c) The Corporation's auditors shall be advised of the names of the Committee members and will, at the discretion of the Committee, receive notice of and be invited to attend meetings of the Committee, and to be heard at those meetings on matters relating to the auditors' duties.

(d) The Committee shall meet with the external auditors as it deems appropriate to consider any matter that the Committee or auditors determine should be brought to the attention of the Board or shareholders.

(e) The Committee shall meet at least once (by person or by teleconference), or circulate a resolution, in each fiscal quarter to review and recommend approval by the Board of: (a) the Corporation's annual and quarterly financial statements and managements' discussion and analysis in respect thereof ("**MD&A**") for the immediately preceding fiscal quarter and fiscal year; and (b) any related disclosure materials. The Committee shall also meet at the request of any of the Board, a member of the Committee, the external auditor or senior officer of the Corporation.

(f) Members shall serve one (1) year terms and may serve consecutive terms, which is encouraged to ensure continuity of experience.

(g) The Chairman shall be a director appointed by the Board for a one (1) year term, and may serve any number of consecutive terms.

(h) A quorum at meetings of the Committee shall be a majority of its members.

(i) The Chairman shall, in consultation with management, the external auditors and the members of the Committee, establish the agenda for the meetings and ensure that properly prepared agenda materials are circulated to the members with sufficient time for study prior to the meeting.

(j) The minutes of the Committee meetings shall accurately record the decisions reached and shall be distributed to Committee members with copies to the Board.

3. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Committee will perform the following duties:

(a) Financial Statements and Other Financial Information

The Committee will review and recommend for approval to the full Board financial information that will be made publicly available. This includes:

(i) review and recommend approval by the Board of the Corporation’s annual financial statements, MD&A and press releases related thereto;

(ii) review and recommend approval by the Board the Corporation’s quarterly financial statements, MD&As and press releases related thereto; and

(iii) review the annual information form and any prospectuses or private placement documents.

Review and discuss:

(iv) the appropriateness of accounting policies and financial reporting practices used by the Corporation;

(v) any significant proposed changes in financial reporting and accounting policies and practices to be adopted by the Corporation; and

(vi) any new or pending developments in accounting and reporting standards that may affect the Corporation.

Be satisfied that:

(vii) adequate procedures are in place for the review of the Corporation’s public disclosure of financial information extracted or derived from the Corporation’s financial statements, other than the public disclosure previously referred to, and periodically assess the adequacy of those procedures.

(b) Risk Management, Internal Control and Information Systems

The Committee will review and obtain reasonable assurance that the risk management, internal control and information systems are operating effectively to produce accurate, appropriate and timely management and financial information. This includes:

(i) review and recommend to the Board the compensation of the external auditor;

(ii) consider whether the information systems appear to be reliable and the systems of internal controls appear to be properly designed and effectively implemented through discussions with and reports from management and external auditor; and

(iii) review management steps to implement and maintain appropriate internal control procedures including a review of policies.

(c) External Audit

Committee will review the planning and results of external audit activities and the ongoing relationship with the external auditor. This includes:

(i) review and recommend to the Board, for shareholder approval, engagement of the external auditor;

(ii) review and recommend to the Board the compensation of the external auditor;

(iii) review the annual external audit plan, including but not limited to the following:

(A) engagement letter;

(B) objectives and scope of the external audit work;

(C) procedures for quarterly review, if any, of financial statements;

(D) materiality limit;

(E) areas of audit risk;

(F) staffing;

(G) timetable; and

(H) proposed fees.

(iv) meet with the external auditors to discuss the Corporation's quarterly and annual financial statements and MD&A and the auditor's report including the appropriateness of accounting policies and underlying estimates and resolve any disagreements between management and the external auditors regarding financial reporting;

(v) review and advise the Board with respect to the planning, conduct and reporting of the annual audit, including:

(A) any difficulties encountered, or restrictions imposed by management, during the annual audit;

(B) any significant accounting or financial reporting issue;

(C) if completed, the auditors' evaluation of or comments on the Corporation's system of internal controls, procedures and documentation;

(D) the post audit or management letter containing any findings or recommendation of the external auditor, including management's response thereto and the subsequent follow-up to any identified internal control weaknesses;

(E) any other matters the external auditor brings to the Committee's attention; and

(F) assess the performance and consider the annual appointment of external auditors for recommendation to the Board;

(vi) review and receive assurances on the independence of the external auditors;

(vii) review and pre-approve all non-audit services to be provided by the external auditor's firm or its affiliates (including estimated fees), and consider the impact on the independence of the external audit; and

(viii) meet periodically, and at least annually, with the external auditors without management present.

(d) Other

The Committee will also:

(i) review insurance coverage of significant business risks and uncertainties;

(ii) review material litigation and its impact on financial reporting;

(iii) review policies and procedures for the review and approval of officers' expenses and perquisites;

(iv) review the terms of reference for the Committee annually and make recommendations to the Board as required; and

(v) establish policies for:

(A) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and

(B) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters; and

(vi) review and approve the Corporation's hiring policies regarding employees and former employees of the present and former external auditors of the Corporation.

4. ACCOUNTABILITY

(a) The Committee Chairman has the responsibility to make periodic reports to the Board, as requested. on financial matters relative to the Corporation.

(b) The Committee shall report its discussions to the Board by maintaining minutes of its meetings and providing an oral report at the next Board meeting.

5. RELIANCE ON EXPERTS

In contributing to the Committees' discharging of its duties under this mandate, each member shall be entitled to rely in good faith on:

(a) financial statements of the Corporation represented to the member by an officer of the Corporation, or in a written report of the external auditors, to present fairly the financial position of the Corporation and the results of its operations in accordance with generally accepted accounting principles; and

(b) any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

The Board is of the view that monitoring of the Corporation's financial reporting and disclosure policies and procedures cannot be reasonably met unless the following activities (the "Fundamental Activities") are, in all material respects, conducted effectively:

(a) the Corporation's accounting functions are performed in accordance with a system of internal financial controls designed to capture and record properly and accurately all of the Corporation's financial transactions;

(b) the internal financial controls are regularly assessed for effectiveness and efficiency;

(c) the Corporation's quarterly and annual financial statements and MD&A are properly prepared by management in accordance with generally accepted accounting principles; and

(d) such financial statements are reported on by an external auditor appointed by the shareholders of the Corporation.

6. LIMITATION OF COMMITTEE'S DUTIES

In contributing to the Committee's discharging of its duties under these terms of reference, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in these terms of reference is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject. The essence of the Committee's duties is monitoring and reviewing to endeavour to gain reasonable assurance (but not to ensure) that the Fundamental Activities are being conducted effectively and that the objectives of the Corporation's financial reporting are being met and to enable the Committee to report thereon to Board.

7. ACCESS

The Committee shall have access to all books, records, facilities and personnel of the Corporation necessary for the discharge of its duties.