

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

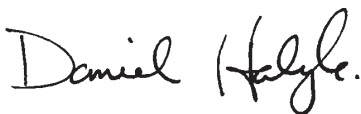
The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies in the notes to financial statements. When necessary, management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

Management has prepared Management's Discussion and Analysis (MD&A). The MD&A is based upon Total Energy's financial results prepared in accordance with IFRS. The MD&A compares the audited financial results for the twelve months ended December 31, 2021 to December 31, 2022.

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

MNP LLP, an independent firm of Chartered Accountants, was engaged, as appointed by the Board of Directors in June of 2021 to audit the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion. MNP LLP will stand for appointment by the shareholders of Total Energy Services Inc. at its next annual general meeting.

The Audit Committee of the Board of Directors of Total Energy Services Inc., which is comprised of three independent directors, has discussed the consolidated financial statements, including the notes thereto, with management and external auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendations of the Audit Committee.



DANIEL K. HALYK
President and Chief Executive Officer

March 9, 2023



YULIYA GORBACH, CPA(CA), ACCA
V.P. Finance and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Total Energy Services Inc.:

Opinion

We have audited the consolidated financial statements of Total Energy Services Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 2021, and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill Impairment Analysis

Key Audit Matter Description

We refer to notes 2(f), 3(g), 10 and 11. As at December 31, 2022, the Company has recorded goodwill of \$4,053,000. Goodwill is required to be tested for impairment annually and an impairment is recognized if the carrying amount of the cash generating unit ("CGU" or "CGU's") exceeds its recoverable amount. Management has determined the recoverable amount of the CGU's based on their value in use which incorporates the following significant assumptions:

- Future cash flows based on forecasted earnings before interest, tax, depreciation and amortization; and
- Discount rate.

The recoverable amount of the Company's Rentals and Transportation ("RTS") and Compression and Process Services ("CPS") CGU's requires significant judgment to be used by management. As a result, goodwill impairment analysis was considered a key audit matter. This resulted in an increased extent of audit effort, including the involvement of internal valuation specialists.

Audit Response

We responded to this matter by performing procedures in relation to Goodwill Impairment Analysis. Our audit work in relation to this included, but was not restricted to, the following:

- We performed a retrospective review by comparing managements prior year expected future cash flows to the actual results to assess the Company's ability to accurately forecast.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

- We evaluated the reasonableness of the future cash flow projections used to calculate each CGU's recoverable amount by comparing the estimated cash flows to historical results and by comparing certain assumptions used in the future cash flow projections to market data.
- We verified the mathematical accuracy of management's impairment model and supporting calculations.
- We performed a sensitivity analysis on key inputs into the future cash flow projections.
- We involved our internal valuations specialists to evaluate the appropriateness of the discount rate used and to develop a range of independent estimates and to compare those to the discount rate used by the Company.
- We assessed the appropriateness of the disclosures relating to the impairment tests in the notes to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis.
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Stephen Bonnell.

Calgary, Alberta
March 9, 2023

MNP LLP
Chartered Professional Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	Note	December 31, 2022	December 31, 2021
ASSETS			
Current assets:			
Cash and cash equivalents	7	\$ 34,061	\$ 33,365
Accounts receivable	8	154,581	90,543
Inventory	9	91,614	89,921
Prepaid expenses and deposits		18,847	9,208
Income taxes receivable	15	496	2,208
Current portion of lease asset	14	378	487
		299,977	225,732
Property, plant and equipment	10	567,515	575,913
Income taxes receivable	25	7,070	7,070
Deferred income tax asset	15	–	393
Lease asset	14	–	361
Goodwill	11	4,053	4,053
		\$ 878,615	\$ 813,522
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	12	\$ 114,274	\$ 65,513
Deferred revenue		63,895	16,274
Dividends payable		2,490	–
Current portion of lease liabilities	14	5,173	4,030
Current portion of long-term debt	13	1,991	2,611
		187,823	88,428
Long-term debt	13	117,997	187,906
Lease liabilities	14	9,631	8,101
Deferred income tax liability	15	41,141	35,650
Shareholders' equity:			
Share capital	16	261,109	270,905
Contributed surplus		3,590	5,757
Accumulated other comprehensive loss		(17,032)	(26,704)
Non-controlling interest		552	561
Retained earnings		273,804	242,918
		522,023	493,437
		\$ 878,615	\$ 813,522

The notes on pages 10 to 38 are an integral part of these consolidated financial statements.

Approved by the Board of Total Energy Services Inc.



Director: Greg Melchin



Director: George Chow

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands of Canadian dollars except per share amounts)

	Note	2022	2021
REVENUE	18	\$ 759,813	\$ 431,576
Cost of services	19	589,809	323,092
Selling, general and administration	20	39,671	28,234
Other expense (income)		1,035	(2,206)
Share-based compensation	17	1,142	804
Depreciation	10	78,813	83,065
Operating income (loss)		49,343	(1,413)
Gain on sale of property, plant and equipment	10	3,164	4,363
Finance costs, net	22	(7,374)	(6,837)
Net income (loss) before income taxes		45,133	(3,887)
Current income tax expense (recovery)	15	1,250	(862)
Deferred income tax expense (recovery)	15	5,884	(2,597)
Total income tax expense (recovery)	15	7,134	(3,459)
Net income (loss) for the year		\$ 37,999	\$ (428)
Net income (loss) attributable to:			
Shareholders of the Company		\$ 38,008	\$ (360)
Non-controlling interest		\$ (9)	\$ (68)
Earnings (loss) per share:			
Basic earnings per share		\$ 0.90	\$ (0.01)
Diluted earnings per share	16	\$ 0.88	\$ (0.01)
		2022	2021
Net income (loss) for the year		\$ 37,999	\$ (428)
<i>Other Comprehensive Income (loss) (OCI):</i>			
Foreign currency translation adjustment		9,672	(7,968)
Total other comprehensive income (loss) for the year		9,672	(7,968)
Total comprehensive income (loss)		\$ 47,671	\$ (8,396)
Total comprehensive income (loss) attributable to:			
Shareholders of the Company		\$ 47,680	\$ (8,328)
Non-controlling interest		\$ (9)	\$ (68)

The notes on pages 10 to 38 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended December 31, 2022 and 2021
(in thousands of Canadian dollars)

	Note	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Non-controlling Interest	Retained earnings	Total Equity
Balance at December 31, 2020		\$ 284,077	\$ 4,966	\$ (18,736)	\$ 629	\$ 240,051	\$ 510,987
Net loss		–	–	–	(68)	(360)	(428)
Other comprehensive loss		–	–	(7,968)	–	–	(7,968)
<i>Transactions with shareholders, recorded directly in equity:</i>							
Repurchase of common shares	16	(13,227)	–	–	–	3,227	(10,000)
Issue of share capital on exercise of stock options	17	55	(13)	–	–	–	42
Share-based compensation	17	–	804	–	–	–	804
		(13,172)	791	–	–	3,227	(9,154)
Balance at December 31, 2021		\$ 270,905	\$ 5,757	\$ (26,704)	\$ 561	\$ 242,918	\$ 493,437
Net income (loss)		–	–	–	(9)	38,008	37,999
Other comprehensive income		–	–	9,672	–	–	9,672
<i>Transactions with shareholders, recorded directly in equity</i>							
Dividends (\$0.18 per common share)		–	–	–	–	(7,489)	(7,489)
Repurchase of common shares	16	(10,350)	–	–	–	(2,288)	(12,638)
Issue of share capital from exercise of stock options	16	554	(220)	–	–	(434)	(100)
Share options expired	17	–	(3,089)	–	–	3,089	–
Share-based compensation	17	–	1,142	–	–	–	1,142
		(9,796)	(2,167)	–	–	(7,122)	(19,085)
Balance at December 31, 2022		\$ 261,109	\$ 3,590	\$ (17,032)	\$ 552	\$ 273,804	\$ 522,023

The notes on pages 10 to 38 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2022 and 2021
(in thousands of Canadian dollars)

	Note	2022	2021
Cash provided by (used in):			
Operations:			
Net income (loss) for the year		\$ 37,999	\$ (428)
Add (deduct) items not affecting cash:			
Depreciation	10	78,813	83,065
Share-based compensation	17	1,142	804
Gain on sale of property, plant and equipment	10	(3,164)	(4,363)
Finance costs, net	22	7,374	6,837
Unrealized (gain) loss on foreign currencies translation		1,035	(2,206)
Current income tax expense (recovery)	15	1,250	(862)
Deferred income tax expense (recovery)	15	5,884	(2,597)
Income taxes (paid) recovered		462	(59)
Cashflow		130,795	80,191
Changes in non-cash working capital items:			
Accounts receivable	8	(64,103)	(17,637)
Inventory	9	(1,690)	5,107
Prepaid expenses and deposits		(9,639)	(2,332)
Accounts payable and accrued liabilities	12	40,417	14,337
Deferred revenue		47,621	9,909
		143,401	89,575
Investing:			
Purchase of property, plant and equipment	10	(56,735)	(28,983)
Proceeds on disposal of property, plant and equipment		6,292	10,507
Changes in non-cash working capital items		8,181	4,223
		(42,262)	(14,253)
Financing:			
Repayment of long-term debt	13	(70,529)	(42,552)
Repayment of lease liabilities	14	(4,966)	(5,803)
Payment of dividends	16	(4,999)	–
Repurchase of common shares	16	(12,638)	(10,000)
Shares issued on exercise of options		158	42
Interest paid		(7,469)	(6,640)
		(100,443)	(64,953)
Change in cash and cash equivalents		696	10,369
Cash and cash equivalents, beginning of year		33,365	22,996
Cash and cash equivalents, end of year		\$ 34,061	\$ 33,365

The notes on pages 10 to 38 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

1. Reporting entity

Total Energy Services Inc. (the “Company”) is incorporated under the Business Corporations Act (Alberta) and its head office is located in Calgary, Alberta at Suite 1000, 734 – 7th Avenue S.W. The consolidated financial statements include the accounts of the Company, its subsidiaries and aboriginal partnerships established in Canada, the United States of America (the “United States”) and Australia.

The Company provides a variety of products and services to the energy and other resource industries primarily in Canada, the United States and Australia, including contract drilling services, the rental and transportation of equipment used in energy and other industrial operations, the fabrication, sale, rental and servicing of gas compression and process equipment and well servicing.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and are presented in thousands of Canadian dollars. The significant accounting policies adopted in the preparation of the consolidated financial statements are set out in Note 3. Unless otherwise stated, these policies have been consistently applied to all the periods presented. The consolidated financial statements include the accounts of the Company, its subsidiaries and the limited partnerships partially owned by the Company. The Company’s partners’ shares in the equity and net loss of the limited partnerships partially owned by the Company are reported as non-controlling interests. All inter-company transactions, balances, revenues and expenses have been eliminated. The Company’s net income/loss and cash flows include the results of any acquisitions from their effective dates.

The consolidated financial statements were authorized for issue by the Board of Directors on March 9, 2023.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for forward foreign exchange contracts which are measured at fair value.

(c) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Company’s presentation currency. Transactions of the Company’s individual entities are recorded in their own functional currency based on the primary economic environment in which they operate. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and for any future years affected.

(e) Critical judgments in applying accounting policies

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

TOTAL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

The Company's assets are aggregated into cash-generating units for purpose of calculating impairment. Cash generating units ("CGU" or "CGUs") are based on management's judgments and assessment of the CGU's ability to generate independent cash inflows. Judgments are also required to assess when impairment indicators exist and impairment testing is required.

The Company is required to exercise judgment in assessing whether the criteria for recognition of a provision or a contingency has been met. The Company considers whether a present obligation exists, probability of loss and whether a reliable estimate can be formulated.

The functional currency of the Company and its subsidiaries and partnerships is based on the primary economic environment in which it operates and is based on an analysis of several factors including which currency principally affects sales prices of products sold by the Company, which currency influences the main expenses of providing services, in which currency the Company keeps its receipts from operating activities and in which currency the Company has received financing.

The Company makes judgments regarding the determination of its reportable segments, including aggregation criteria (as appropriate), for segmented reporting. The operating segments that exhibit similar long-term financial performance and economic characteristics (similar products and services, production processes, class and type of customer, distribution methods and channels, regulatory environment, etc.) are aggregated in a single reportable segment. Operating segments that do not exhibit similar long-term performance and economic characteristics are presented in a separate reportable segment when their revenue, assets or absolute value of profit or loss exceeds prescribed quantitative thresholds.

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

(f) Key sources of estimation uncertainty

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in these consolidated financial statements.

Where impairment indicators exist or annually for goodwill, the recoverable amount of the asset or CGU is determined using the greater of fair value less costs to sell or value-in-use. Value-in-use calculations require assumptions for discount rates and estimations of the timing for events or circumstances that will affect future cash flows. Fair value less costs to sell requires management to make estimates of fair value using market conditions for similar assets as well as estimations for costs to sell taking into account dismantling and transportation costs.

The Company is required to estimate the amount of provisions and contingencies based on the estimated future outcome of the event.

The Company accounts for its equipment manufacturing contract revenue over time. This method requires estimates of the stage of completion of the contract to date as a proportion of the total work to be performed.

As it pertains to property, plant and equipment the Company is required to estimate the residual value and useful lives of assets for purposes of depreciation.

As it pertains to accounts receivable the Company is required to estimate expected credit losses based on historic collection trends and experiences with customers.

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of property, plant and equipment and intangible assets being acquired.

TOTAL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

The Company's estimate of share-based compensation is dependent upon estimates of future volatility and forfeiture rates.

The Company's estimate of the fair value of forward foreign exchange contracts is dependent on estimated forward prices, rates and volatility in those prices and discount rates.

The deferred tax liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Company, its subsidiaries and partnerships to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Business combinations and goodwill

The Company measures goodwill as the fair value of the consideration transferred, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in net income or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

Goodwill is measured at cost less accumulated impairment losses.

(ii) Subsidiaries and partnerships

Subsidiaries and partnerships are entities owned and controlled by the Company. The financial statements of subsidiaries and partnerships are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies have been changed when necessary to align them with the policies adopted by the Company.

(iii) Transactions eliminated on consolidation

Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) The Canadian dollar is the presentation currency of the Company. Each of the Company's subsidiaries determines its functional currency, and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the Canadian operations is the Canadian dollar, the functional currency of the United States operations is the United States dollar and the functional currency of the Australian operations is the Australian dollar.

(ii) Assets and liabilities of foreign operations having a functional currency other than the Canadian dollar are translated at the rate of exchange prevailing at the reporting date, and revenues and expenses at average rates during the period. Gains or losses on translation are included as a component of shareholders' equity in accumulated other comprehensive loss.

Transactions in foreign currencies are translated to the respective functional currencies of the Company's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at

that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in net income or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency gains and losses are reported on a net basis.

(c) Financial instruments

(i) Non-derivative financial assets

The Company initially recognizes accounts receivable and deposits on the date that they originate. All other financial assets (including assets designated at fair value through net income or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position only when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets:

Financial instrument	Initial measurement	Subsequent measurement
Cash and cash equivalents	Amortized cost	Amortized cost
Accounts receivable	Amortized cost	Amortized cost
Deposits	Amortized cost	Amortized cost

Cash and cash equivalents comprise cash balances and cash deposits with original maturities of three months or less.

The Company initially recognizes accounts receivables on the date that they originate. At each reporting date, the Company assesses the expected credit losses associated with its non-derivative financial assets. Expected credit losses are measured as the difference between the cash flows that are due to the Company and the cash flows that the Company expects to receive, discounted at the effective interest rate determined at initial recognition. For trade and other receivables, the Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and other receivables. The loss allowance incorporates historical loss information and is adjusted for current economic and credit conditions (see note 23).

(ii) Non-derivative financial liabilities

The Company initially recognizes debt and other liabilities on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

TOTAL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

Financial assets and liabilities are offset and the net amount presented in the statement of financial position only when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities:

Financial instrument	Initial measurement	Subsequent measurement
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Dividends payable	Amortized cost	Amortized cost
Long-term debt	Amortized cost	Amortized cost

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(iii) *Forward foreign exchange contracts*

The Company may enter into certain forward foreign exchange contracts in order to manage the exposure to market risk from fluctuations in currency exchange rates. The contracts are not used for trading or speculative purposes. The Company has not designated its forward foreign exchange contracts as effective accounting hedges, and thus not applied hedge accounting, even though it considers certain financial contracts to be economic hedges. As a result, forward foreign exchange contracts are classified as fair value through profit or loss and are recorded on the consolidated statement of financial position at estimated fair value. Transaction costs are recognized in net income or loss when incurred.

(iv) *Share capital*

Common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

(i) *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized on a net basis in net income or loss.

(ii) *Subsequent costs*

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

The costs of the day-to-day servicing of property, plant and equipment (repair and maintenance) are recognized in net income or loss as incurred.

(iii) *Depreciation*

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in net income or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment for all assets. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives are as follows:

	Useful life	Residual value	Basis of depreciation
Buildings	20 years	–	straight-line
Shop machinery and equipment	5 years	–	straight-line
Rental equipment	3 – 20 years	0% to 25%	straight-line
Automotive equipment	3 – 10 years	0% to 25%	straight-line
Leased assets	Over lease term	–	straight-line
Drilling rigs and related equipment	3 – 25 years	0% to 25%	straight-line
Service rigs and related equipment	3 – 12 years	–	straight-line
Furniture, fixtures and other	3 – 5 years	–	straight-line

Depreciation methods, useful lives and residual values are reviewed at a minimum at the end of each financial year-end and adjusted if appropriate.

(e) *Leased assets*

Under IFRS 16, leases in scope are recognized on the Company's consolidated statement of financial position with a right-of-use asset and corresponding lease obligation initially measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at the date the lease commenced. The right-of-use assets are included in property, plant and equipment on the statement of financial position and are depreciated over the shorter of either the asset's estimated useful life or the term of the lease. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. As lease payments are recognized, the lease obligation is reduced.

When the Company acts as a lessor, at inception, the Company evaluates the classification as either a finance or operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

When acting as a sub-lessor, the Company accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease then the Corporation classifies the sub-lease as an operating lease.

The accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16. However, when the Company was an intermediate lessor the sub-leases were classified with reference to the underlying asset.

Minimum lease payments made under lease liabilities are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Payments made under leases out of scope of IFRS 16 are recognized in net income or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(f) Inventory

Parts and raw materials inventory, work-in-progress and finished goods are valued at the lower of cost and net realizable value; the cost for parts and raw materials is determined on a weighted average basis; the cost of work-in-progress and finished goods includes the cost of direct materials, labour and an allocation of manufacturing overhead, all on a specific item basis. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completing and selling.

(g) Impairment

(i) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill the recoverable amount is estimated annually.

The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into CGUs, being the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the group of CGUs that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount

does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(h) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards (vesting period). The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

(i) Revenue from contracts with customers

The Company enters into a variety of contracts and recognizes revenue when performance obligations have been fulfilled. The following describes the recognition of revenue for each of the Company's contracts, which is consistent with its reportable operating segments outlined in Note 6.

Contract Drilling

The Company enters into contract drilling contracts whereby it performs drilling services for its customers. Performance obligations for these contracts are satisfied on a billable day basis at the applicable daily rate, as specified in the contract.

Well Servicing

The Company enters into well servicing contracts to provide a variety of well completion, workover and maintenance and abandonment services. Performance obligations for these contracts are satisfied on an hourly basis at the applicable daily or hourly rate, as specified in the contract.

Rentals and Transportation

The Company enters into contracts with its customers to provide rental and transportation equipment used in the drilling, completion and production of oil and natural gas wells and other industrial operations. Performance obligations for these contracts are satisfied on a daily basis at the applicable daily or hourly rate, as specified in the contract.

Compression and Process Services

The Company enters into contracts that involve the design, manufacture, installation, start-up and service of compression and process equipment. Performance obligations for these contracts are satisfied over time and are measured by reference to labour hours incurred to date as a proportion of total expected labour hours over the amount specified in the contract. Revenues and costs only begin to be recognized when the Company can reasonably measure its progress towards complete satisfaction of the contract. Any foreseeable losses on such projects are charged to operations when determined and work in progress is presented as part of accounts receivable. If payments received from a customer exceed the revenue recognized, the difference increases the deferred revenue

TOTAL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

balance. Parts and service performance obligations are satisfied at a point in time or over time at the monthly, daily, hourly or job rates specified in the contract.

In the course of its ordinary activities the Company undertakes certain transactions that do not generate revenue and are incidental to its main revenue generating activities. Such transactions are not intended or expected to result in a material increase in equity. The Company presents the results of such incidental transactions by netting any income with related expenses arising on the same transaction.

(j) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(k) Onerous contracts

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

(l) Finance income and finance costs

Finance income is comprised of interest income on outstanding cash balances and other interest income. Finance income is recognized as it accrues in net income or loss.

Finance costs are comprised of interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in net income or loss using the effective interest method.

(m) Income tax

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in net income or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income or loss.

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable net income nor loss. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Earnings per share

Basic earnings per share is calculated based on the weighted average number of shares outstanding. Diluted earnings per share includes the weighted average number of shares outstanding plus additional shares from the assumed exercise of in-the-money stock options. The number of additional shares related to stock options is calculated by assuming proceeds from the exercise of the stock options are used to buy back common shares at the average market price. The additional shares is the difference between the exercised options and the assumed number acquired.

(o) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's Board of Directors and senior corporate management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors and senior corporate management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are comprised mainly of corporate assets (primarily the Company's headquarters), head office expenses, including share-based compensation, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and acquisitions.

(p) Government grants

Government grants are recognized when there is reasonable assurance that the Company will comply with the relevant conditions attached to the grant and that the grant will be received. These funds are recognized in profit or loss on a systematic basis as a reduction to the expenses the grants are intended to compensate.

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Financial assets and liabilities recorded or disclosed at fair value in the consolidated statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels are based on the amount of subjectivity associated with the inputs in the fair value determination and are as follows:

Level I—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II—Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

Level III—Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of property, plant and equipment is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

(b) Inventories

The fair value of inventories is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(c) Accounts receivable

The fair value of accounts receivable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value is determined for disclosure purposes.

Allowance accounts are used as long as the Company is satisfied that the recovery of the amount due is possible. Once this is no longer the case, the amounts are considered irrecoverable and are written off against the account receivable.

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(e) Share-based payment transactions

The fair value of the employee share options is measured using the Black-Scholes option pricing model. Measurement inputs include the share price on measurement date, the exercise price of the instrument, the expected volatility (based on weighted average historic volatility), the weighted average expected life of the instruments (based on historical experience and general option holder behavior), the expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions are not taken into account in determining fair value.

5. Government grants

In response to the COVID-19 pandemic, various governments established programs to assist companies through this challenging period. The Company determined that it qualified for certain programs and recognized government grants when there was a reasonable assurance the grant would be received. During 2021 the Company recognized \$19.8 million under various COVID-19 relief programs in Canada, the United States and Australia. These funds were recognized as a reduction of operating and administrative expenses by \$17.8 million and \$2.0 million for the year ended December 31, 2021, respectively. The Company did not receive any government grants in 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

6. Operating segments

The Company manages its business in five reportable segments: Contract Drilling Services, Rental and Transportation Services, Compression and Process Services, Well Servicing and Corporate. For each of the reporting segments, the Company's Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis. Corporate includes activities related to corporate and public company affairs.

Inter-segment pricing is determined on an arm's length basis.

As at and for the year ended December 31, 2022	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate ⁽¹⁾	Total
Revenue	\$ 252,663	\$ 66,954	\$ 331,669	\$ 108,527	\$ –	\$ 759,813
Cost of services	185,579	37,713	286,259	80,258	–	589,809
Selling, general and administration	7,374	6,902	10,071	5,130	10,194	39,671
Other income	–	–	–	–	1,035	1,035
Share-based compensation	–	–	–	–	1,142	1,142
Depreciation	35,785	19,518	9,725	12,832	953	78,813
Operating income (loss)	23,925	2,821	25,614	10,307	(13,324)	49,343
Gain on sale of property, plant and equipment	292	1,022	1,594	256	–	3,164
Finance costs, net	(23)	(75)	(412)	(26)	(6,838)	(7,374)
Net income (loss) before income taxes	24,194	3,768	26,796	10,537	(20,162)	45,133
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	346,870	182,095	260,019	83,628	6,003	878,615
Total liabilities	62,545	20,292	122,320	6,003	145,432	356,592
Capital expenditures	34,835	8,508	9,490	3,792	110	56,735

Year ended December 31, 2022	Canada	United States	Australia	Other	Total
Revenue	\$ 371,478	\$ 263,751	\$ 124,584	\$ –	\$ 759,813
Non-current assets ⁽²⁾	373,637	146,886	51,045	–	571,568

(1) Corporate includes the Company's corporate activities and obligations pursuant to long-term credit facilities.

(2) Includes property, plant and equipment, lease asset (excluding current portion) and goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

As at and for the year ended December 31, 2021	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate ⁽¹⁾	Total
Revenue	\$ 146,411	\$ 36,974	\$ 155,315	\$ 92,876	\$ –	\$ 431,576
Cost of services	107,107	20,779	129,685	65,521	–	323,092
Selling, general and administration	4,729	5,506	6,550	4,701	6,748	28,234
Other income	–	–	–	–	(2,206)	(2,206)
Share-based compensation	–	–	–	–	804	804
Depreciation	37,507	20,547	9,225	14,844	942	83,065
Operating income (loss)	(2,932)	(9,858)	9,855	7,810	(6,288)	(1,413)
Gain on sale of property, plant and equipment	493	1,951	1,533	310	76	4,363
Finance costs, net	(12)	(71)	(286)	(20)	(6,448)	(6,837)
Net income (loss) before income taxes	(2,451)	(7,978)	11,102	8,100	(12,660)	(3,887)
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	325,143	180,188	206,278	93,274	8,639	813,522
Total liabilities	60,691	10,316	45,721	4,058	199,299	320,085
Capital expenditures	20,491	1,224	6,205	1,054	9	28,983

Year ended December 31, 2021	Canada	United States	Australia	Other	Total
Revenue	\$ 242,613	\$ 105,305	\$ 83,656	\$ 2	\$ 431,576
Non-current assets ⁽²⁾	378,519	141,552	60,256	–	580,327

(1) Corporate includes the Company's corporate activities and obligations pursuant to long-term credit facilities.

(2) Includes property, plant and equipment, lease asset (excluding current portion) and goodwill.

7. Cash and cash equivalents

Cash and cash equivalents represent cash in bank.

8. Accounts receivable

	December 31, 2022	December 31, 2021
Trade receivables, net of allowance for doubtful accounts	\$ 105,041	\$ 68,219
Accrued and other receivables	49,540	22,324
	\$ 154,581	\$ 90,543

The Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 23. Included in accrued and other receivables is \$30.6 million (2021: \$9.4 million) of amounts pertaining to contracts in progress as at December 31, 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

9. Inventory

	December 31, 2022	December 31, 2021
Finished goods	\$ 935	\$ 935
Work-in-progress	36,796	24,236
Parts and raw materials	53,883	64,750
	\$ 91,614	\$ 89,921

For the year ended December 31, 2022, finished goods, work-in-progress and parts and raw materials of \$280.0 million (December 31, 2021: \$118.0 million) are included in cost of services (note 19).

10. Property, plant and equipment

	Land and buildings	Rental equipment	Automotive equipment	Leased assets	Shop machinery and equipment	Drilling rigs and related equipment	Service rigs and related equipment	Furniture, fixtures and other	Total
Cost									
As at December 31, 2020	\$ 120,495	\$ 337,964	\$ 53,719	\$ 29,150	\$ 22,399	\$ 471,502	\$ 119,343	\$ 9,478	\$ 1,164,050
Additions	61	7,158	83	3,818	79	20,150	1,301	151	32,801
Disposals	(46)	(12,620)	(2,250)	(6,321)	(33)	(596)	(684)	(11)	(22,561)
Transfers from inventory	–	–	–	–	–	167	391	–	558
Effect of changes in foreign exchange rates	(31)	(313)	(125)	(235)	(23)	(2,873)	(4,789)	(11)	(8,400)
As at December 31, 2021	\$ 120,479	\$ 332,189	\$ 51,427	\$ 26,412	\$ 22,422	\$ 488,350	\$ 115,562	\$ 9,607	\$ 1,166,448
Additions	321	15,315	1,347	7,727	780	34,578	3,731	663	64,462
Disposals	(158)	(3,215)	(3,889)	(617)	–	(1,704)	(511)	(17)	(10,111)
Transfers from inventory	–	–	–	–	–	–	(3)	–	(3)
Effect of changes in foreign exchange rates	359	4,724	401	655	390	8,755	589	125	15,998
As at December 31, 2022	\$ 121,001	\$ 349,013	\$ 49,286	\$ 34,177	\$ 23,592	\$ 529,979	\$ 119,368	\$ 10,378	\$ 1,236,794
Accumulated Depreciation									
As at December 31, 2020	\$ 31,032	\$ 167,072	\$ 38,534	\$ 16,000	\$ 16,205	\$ 189,903	\$ 60,549	\$ 7,759	\$ 527,054
Depreciation expense	4,588	20,085	2,582	6,848	1,115	34,624	12,702	521	83,065
Disposals	(46)	(8,774)	(517)	(6,051)	(35)	(536)	(234)	(6)	(16,199)
Effect of changes in foreign exchange rates	(4)	(39)	(85)	(72)	(2)	(918)	(2,261)	(4)	(3,385)
As at December 31, 2021	\$ 35,570	\$ 178,344	\$ 40,514	\$ 16,725	\$ 17,283	\$ 223,073	\$ 70,756	\$ 8,270	\$ 590,535
Depreciation expense	4,615	19,616	1,717	4,877	977	35,131	11,337	543	78,813
Disposals	(35)	(1,846)	(2,717)	(611)	–	(1,345)	(410)	(19)	(6,983)
Effect of changes in foreign exchange rates	114	1,431	200	349	201	3,938	623	58	6,914
As at December 31, 2022	\$ 40,264	\$ 197,545	\$ 39,714	\$ 21,340	\$ 18,461	\$ 260,797	\$ 82,306	\$ 8,852	\$ 669,279
Net Book Value									
As at December 31, 2020	\$ 89,463	\$ 170,892	\$ 15,185	\$ 13,150	\$ 6,194	\$ 281,599	\$ 58,794	\$ 1,719	\$ 636,996
As at December 31, 2021	\$ 84,909	\$ 153,845	\$ 10,913	\$ 9,687	\$ 5,139	\$ 265,277	\$ 44,806	\$ 1,337	\$ 575,913
As at December 31, 2022	\$ 80,737	\$ 151,468	\$ 9,572	\$ 12,837	\$ 5,131	\$ 269,182	\$ 37,062	\$ 1,526	\$ 567,515

TOTAL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

As at December 31, 2022, there was \$26.4 million (December 31, 2021: \$7.3 million) of property plant and equipment under construction. The Company has not capitalized any borrowing costs as there were no borrowing costs directly attributable to the acquisition and construction of property, plant and equipment.

Included in leased assets as at December 31, 2022 was \$7.8 million net book value (December 31, 2021: \$6.9 million net book value) of assets relating to building leases and \$5.0 million net book value (December 31, 2021: \$2.8 million net book value) of assets relating to vehicle leases. Included in leased assets depreciation expense for the year ended December 31, 2022 was \$2.8 million of right of use assets depreciation expense (2021: \$2.1 million). Additions of right of use leased assets were \$3.4 million (2021: \$2.8 million).

At each reporting period, the Company reviews the carrying value of its property, plant and equipment for indicators of impairment. Based on an improved industry environment during the course of 2022 and the resultant increase in industry activity levels, no indications of impairment were identified during the year ended December 31, 2022.

11. Goodwill

For the purpose of impairment testing, goodwill is allocated to the Company's operating segments which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each cash generating unit are as follows:

	December 31, 2022	December 31, 2021
Rentals and Transportation Services	\$ 2,514	\$ 2,514
Compression and Process Services	1,539	1,539
	\$ 4,053	\$ 4,053

The recoverable amount of the cash-generating units was based on its value in use. As the carrying amount of the unit was determined to be lower than its recoverable amount no impairment was recorded (2021: nil).

Value in use was determined by discounting the future cash flows generated from the continuing use of the CGU.

Unless indicated otherwise, value in use in 2022 was determined similarly as in 2021. The calculation of the value in use was based on the following key assumptions.

- Cash flows were projected based on past experience, actual operating results, current market conditions and a 15-year horizon in both 2022 and 2021.
- An after-tax discount rate of 9.40% (2021: 8.73%) was applied in determining the recoverable amount of the unit.
- The expectation is that activity levels will continue to recover into 2023 and remain relatively stable thereafter.

The values assigned to the key assumptions represent management's assessment of future trends in the energy service industry and are based on both external sources and internal sources (historical data). A 10% change in any of the key assumptions would not change the outcome of management's assessment of impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

12. Accounts payable and accrued liabilities

	December 31, 2022	December 31, 2021
Trade payables	\$ 53,211	\$ 33,647
Wages and salaries payables and related accruals	12,289	9,808
Accrued costs and other payables	48,774	22,058
	\$ 114,274	\$ 65,513

Included in accrued costs and other payables is \$6.2 million (2021: \$1.4 million) relating to contracts in progress as at December 31, 2022.

13. Long-term debt

At December 31, 2022 the Company's long-term debt consisted of the following:

	December 31, 2022		December 31, 2021	
	Interest rate	Principal amount	Interest rate	Principal amount
Credit Facility	6.04%	\$ 75,000	2.49%	\$ 130,000
Mortgage loan (2025 maturity)	3.10%	44,988	3.10%	46,920
Mortgage loan (2041 maturity)	–	–	3.05%	13,597
	4.94%	119,988	2.68%	190,517
Less current portion		1,991		2,611
		\$ 117,997		\$ 187,906

At December 31, 2022 amounts owing under the Credit Facility were denominated in Canadian dollars.

On June 19, 2017 the Company entered into a three-year \$225 million revolving syndicated credit facility (the "Credit Facility"). On April 25, 2018 the Credit Facility was increased by \$65 million to \$290 million. On November 10, 2020, at the request of the Company the Credit Facility was reduced to \$250 million and the maturity date extended to November 10, 2023. On January 12, 2022, at the request of the Company the Credit Facility was reduced to \$220 million and extended to November 10, 2024. The Company has the option to increase such facility by \$75 million subject to certain terms and conditions, including the agreement of the lenders to increase their commitments. The Credit Facility includes a Canadian \$18 million operating line, an Australian \$2 million operating line and a Canadian \$200 million revolving facility. The Credit Facility bears interest at the banks' Canadian prime rate plus 0.25% to 1.25%, bankers' acceptance, letter of credit, LIBOR or BBSY advances plus a 1.5% to 2.5% stamping fee. The applicable interest rate within such ranges is dependent on certain financial ratios of the Company. A standby fee ranging from 0.25% to 0.5% per annum is paid quarterly on the unused portion of the facility depending on certain financial ratios of the Company. At December 31, 2022, the applicable interest rate on amounts drawn on the Credit Facility was 6.04% and the standby rate was 0.25%. Letters of credit ("LOC") of \$0.3 million were outstanding at December 31, 2022 which reduces the amount of credit available under the Credit Facility by an equivalent amount.

In August of 2018 a U.S. \$20 million letter of credit facility was established (the "LOC Facility"). LOCs issued pursuant to the LOC Facility do not reduce availability under the Credit Facility. In April of 2020 this facility was reduced at the request of the Company to U.S. \$10 million. At December 31, 2022, \$5.1 million Canadian dollars of LOCs were outstanding under the LOC Facility (December 31, 2021: \$6.6 million).

In addition to the Credit Facility, a subsidiary of the Company has established a \$5 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At December 31, 2022 this facility was undrawn and fully available.

TOTAL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

The Company's ability to access the Credit Facility is dependent, among other conditions, on compliance with the following financial ratios, the definitions and thresholds for which are further described below:

	December 31, 2022	Threshold
Twelve-month trailing Bank EBITDA to interest expense	22.68	minimum 3.00
Total Senior Debt to twelve-month trailing Bank EBITDA	0.46	maximum 3.00

Readers are cautioned that the ratios described above do not have standardized meanings under IFRS as the computation of these ratios excludes amounts from certain non-guarantor subsidiaries and limited partnerships partially owned by the Company. Key definitions for the purpose of calculating the Company's financial debt covenants are as follows:

- Bank EBITDA is determined (on a 12 month trailing basis) as earnings before finance expenses, income taxes, depreciation, share-based compensation and certain non-recurring and non-cash income and expenses as defined in the credit agreement and excludes amounts from certain non-guarantor subsidiaries and the limited partnerships partially owned by the Company.
- Senior Debt is determined as total long-term debt (including the current portions thereof but excluding the mortgage loans, the limited partnership facilities and certain other obligations identified in the credit agreement) minus cash on hand.

The Credit Facility is secured by a general security agreement over all the present and future property of the Company and its subsidiaries.

Mortgage Loan (2025 maturity) is a loan maturing on April 29, 2025 that is amortized over 20 years with blended monthly principal and interest payments of approximately \$279,800. At maturity, approximately \$40.2 million of principal will become due and payable assuming only regular monthly payments are made. This loan bears interest at a fixed rate of 3.10% and is secured by certain of the Company's real estate.

During the year ended December 31, 2022, the Company fully repaid the Mortgage loan (2041 maturity), including \$0.2 million of accrued interest and prepayment fees, using \$13.3 million of cash on hand.

At December 31, 2022 the Company was in compliance with all debt covenants.

14. Lease liabilities

	December 31, 2022	December 31, 2021
Lease liability	\$ 14,804	\$ 12,131
Less current portion	5,173	4,030
Long-term finance lease liability, end of year	\$ 9,631	\$ 8,101

The Company has entered into various agreements with third parties for the purpose of financing certain automotive equipment and for the purposes of renting real estate properties. The leases bear interest at rates ranging from 1.76% to 7.0% (December 31, 2021: 1.4% to 7.0%) and mature on various dates up to 2028.

	December 31, 2022	December 31, 2021
Lease liability	\$ 14,804	\$ 12,131
Less lease asset	378	848
Net lease liability, end of year	\$ 14,426	\$ 11,283

In 2022, interest of \$0.8 million (December 31, 2021 – \$0.7 million) relating to lease liabilities has been included in finance costs (note 22).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

	Minimum lease payments		Present value of minimum lease payments	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Not later than one year	\$ 5,970	\$ 4,548	\$ 4,795	\$ 3,543
Later than one year and not later than five years	11,257	7,590	9,008	6,336
Later than 5 years	642	1,474	623	1,404
	17,869	13,612	14,426	11,283
Less: future finance charges	(3,443)	(2,329)	–	–
Present value of minimum lease payments	\$ 14,426	\$ 11,283	\$ 14,426	\$ 11,283

Included in lease liability at December 31, 2022 was \$9.1 million relating to right of use assets (2021: \$8.1 million).

15. Income tax

The components of the net deferred income tax liability at December 31, 2022 and 2021 are as follows:

	December 31, 2022	December 31, 2021
Deferred income tax assets:		
Non-capital losses	\$ 32,390	\$ 38,540
Long-term leave provision	1,348	1,489
Unrealized foreign exchange on working capital balances	125	32
Deferred income tax liabilities:		
Property, plant and equipment	(74,946)	(75,254)
Other	(58)	(64)
	\$ (41,141)	\$ (35,257)
Deferred income tax assets, net	–	393
Deferred income tax liabilities, net	(41,141)	(35,650)
Net deferred income tax liabilities	\$ (41,141)	\$ (35,257)

By Country:

	December 31, 2022	December 31, 2021
Deferred income tax assets:		
United States	\$ –	\$ 393
Deferred income tax liabilities:		
Canada	(34,540)	(31,927)
United States	(3,901)	–
Australia	(2,700)	(3,723)
Net deferred income tax liabilities	\$ (41,141)	\$ (35,257)

The business and operations of the Company are complex and the Company has executed a number of significant financings, reorganizations, acquisitions and other material transactions over the course of its history. The computation of income taxes payable as a result of these transactions involves many complex factors as well as the Company's interpretation of relevant tax legislation and regulations. The Company's management believes that the provision for income tax is adequate and in accordance with IFRS and applicable legislation and regulations. However, tax filing positions are subject to review by taxation authorities who may successfully challenge the Company's interpretation of the applicable tax legislation and regulations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

At December 31, 2022, the Company had \$25.9 million (2021: \$21.8 million) of unrecognized tax benefits relating to non-capital losses that, if recognized, would have a favorable impact on the Company's effective income tax rate in future periods.

At December 31, 2022, the Company's non-capital losses available to carry forward totaled \$232.5 million (2021: \$244.1 million), of which \$85.1 million relate to Canadian entities (2021: \$117.1 million), \$136.4 million relate to United States entities (2021: \$118.7 million) and \$11.0 million to Australian entities (2021: \$8.3 million). The unused tax losses, which begin to expire in 2026, may be applied to reduce future taxable income and future income taxes payable.

Movement in temporary differences during the period:

	Dec 31, 2020	Recognized in net income	Dec 31, 2021	Recognized in net income	Dec 31, 2022
Deferred income tax assets:					
Non-capital losses	\$ 38,394	\$ 146	\$ 38,540	\$ (6,150)	\$ 32,390
Long-term leave provision	1,737	(248)	1,489	(141)	1,348
Unrealized foreign exchange on intercompany working capital balances	(1,518)	1,550	32	93	125
Deferred income tax liabilities:					
Property, plant and equipment	(76,491)	1,237	(75,254)	308	(74,946)
Other	24	(88)	(64)	6	(58)
Deferred tax recovery (expense)	\$ (37,854)	\$ 2,597	\$ (35,257)	\$ (5,884)	\$ (41,141)

Income tax expense (recovery) differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates. The reasons for the differences are as follows:

	2022	2021
Net income (loss) before income taxes	\$ 45,133	\$ (3,887)
Income tax rate	23%	23%
Expected income tax expense (recovery)	\$ 10,380	\$ (894)
Changes in taxes resulting from:		
Change in tax rates	–	(1,520)
Non-taxable (non-deductible) items	(806)	(548)
Utilization of tax losses not previously recognized	(2,761)	–
Other	321	(497)
Total income tax expense (recovery)	\$ 7,134	\$ (3,459)

TOTAL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

16. Share capital

(a) Common share capital

Common shares of Total Energy Services Inc.

(i) Authorized:

Unlimited number of common voting shares, without nominal or par value.

Unlimited number of preferred shares.

(ii) Common shares issued:

	Number of shares (thousands)	Amount
Balance, December 31, 2020	45,081	\$ 284,077
Repurchased and cancelled	(2,099)	(13,227)
Share options exercised	18	55
Balance, December 31, 2021	43,000	\$ 270,905
Repurchased and cancelled	(1,644)	(10,350)
Share options exercised	166	554
Sunset clause cancellation	(22)	–
Balance, December 31, 2022	41,500	\$ 261,109

During the year ended December 31, 2022, 1,643,624 common shares (year ended December 31, 2021: 2,099,634) were repurchased and cancelled under the Company's normal course issuer bid at an average price of \$7.69 per share including commissions (2021: \$4.76 per share).

(b) Per share amounts

Basic and diluted earnings per share have been calculated on the basis of the weighted average number of common shares outstanding as outlined below:

	2022	2021
Net income (loss) for the year attributable to shareholders	\$ 38,008	\$ (360)
Weighted average number of shares outstanding – basic and diluted	42,216	44,384
Earnings (loss) per share – basic	\$ 0.90	\$ (0.01)
Net income (loss) for the year attributable to shareholders	38,008	(360)
Weighted average number of shares outstanding – basic	42,216	44,384
Share option dilution	764	289
Weighted average number of shares outstanding – diluted	42,980	44,673
Earnings (loss) per share – diluted	\$ 0.88	\$ (0.01)

For the year ended December 31, 2022, 1,040,000 options (2021: 3,245,000) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

During 2022, the Company declared dividends of \$7.5 million (2021: nil) or \$0.18 per common share (2021: nil).

TOTAL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

17. Share-based compensation

On May 21, 2015, the Company implemented a share option plan which was drafted to comply with the policies of the Toronto Stock Exchange (“TSX”). Under the plan, options to acquire common shares of the Company may be granted to officers and employees of the Company. The terms of the plan (the “TSX Plan”) are outlined below.

The aggregate number of common shares issuable upon the exercise of options outstanding under the TSX Plan at any time may not exceed 10% of the issued and outstanding common shares and the aggregate number of common shares issuable to any one officer or employee of the Company may not exceed 5% of the total number of issued and outstanding common shares. The period to which an option granted under the TSX Plan is exercisable may not exceed ten years from the date such option is granted. The price at which common shares may be acquired upon the exercise of an option is determined with reference to the weighted average closing price of the common shares for the five business days immediately prior to the date of grant on which a board lot of common shares trades on the TSX.

Share option transactions during 2022 and 2021 were as follows:

	Weighted average exercise price	Number of Options
Balance, December 31, 2020	\$ 9.65	3,025,000
Granted	3.77	925,000
Exercised	2.31	(18,334)
Balance, December 31, 2021	\$ 8.30	3,931,666
Granted	7.36	930,000
Exercised	2.55	(165,769)
Surrendered	2.88	(95,901)
Expired	12.42	(1,335,000)
Forfeited	3.27	(83,332)
Balance, December 31, 2022	\$ 6.90	3,181,664

The share options issued vest 1/3 on the first, second and third anniversary from the grant date and expire five years from the date of grant. The options expire on various dates ranging from March 7, 2023 to October 3, 2027.

There were 165,769 options exercised during 2022 (2021: 18,334). During 2022, the weighted average market price at the time of exercise of options was \$8.29 per share (2021: \$5.39 per share).

Summary information with respect to share options outstanding is provided below:

Outstanding at December 31, 2022	Exercise Price	Remaining life (years)	Exercisable at December 31, 2022
300,000	\$ 13.54	0.20	300,000
740,000	9.51	1.40	740,000
409,998	2.31	2.60	220,002
55,000	3.5	3.00	18,334
676,666	3.72	3.60	200,005
70,000	4.49	3.70	23,334
840,000	7.46	4.60	–
90,000	6.42	4.80	–
3,181,664	\$ 6.90	2.89	1,501,675

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

Outstanding at December 31, 2021	Exercise Price	Remaining life (years)	Exercisable at December 31, 2021
1,175,000	\$ 12.69	0.50	1,175,000
60,000	12.00	0.60	60,000
300,000	13.54	1.20	200,000
840,000	9.51	2.40	560,002
631,666	2.31	3.60	216,667
55,000	3.50	4.00	–
800,000	3.72	4.60	–
70,000	4.49	4.70	–
3,931,666	\$ 8.30	2.42	2,211,669

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value of the share options granted. The average per share fair value of the options granted during 2022 was \$2.32 (2021: \$1.15) per option using the following assumptions:

	December 31, 2022	December 31, 2021
Expected volatility	40.94% - 52.35%	41.26% - 46.68%
Annual dividend yield	3.22% - 3.74%	0%
Risk free interest rate	3.34% - 3.82%	0.19% - 1.11%
Forfeitures	11%	12%
Expected life (years)	3 to 5 years	3 to 5 years

For the year ended December 31, 2022, the Company recognized share-based compensation expense of \$1.1 million (2021 – \$0.8 million).

18. Revenue

	2022	2021
Rendering of services	\$ 483,939	\$ 326,392
Sale of goods	275,874	105,184
	\$ 759,813	\$ 431,576

19. Cost of services

	2022	2021
Wages and salaries	\$ 215,960	\$ 142,567
Inventory	279,913	117,981
Repair and maintenance	54,437	45,758
Fuel and travel	17,123	11,236
Rent and services	2,829	1,938
Other	19,547	3,612
	\$ 589,809	\$ 323,092

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

20. Selling, general and administration

	2022	2021
Wages and salaries	\$ 26,993	\$ 18,293
Professional and legal	3,902	2,823
Marketing and risk management	5,142	2,634
Travel and fuel	1,362	873
Rent and services	590	730
Other	1,682	2,881
	<u>\$ 39,671</u>	<u>\$ 28,234</u>

21. Employee compensation

	2022	2021
Cost of services	\$ 215,960	\$ 142,567
Selling, general and administration	26,993	18,293
Share-based compensation	1,142	804
	<u>\$ 244,095</u>	<u>\$ 161,664</u>

22. Finance costs, net

	2022	2021
Interest on long-term debt	\$ 6,543	\$ 6,135
Interest on lease liabilities	673	657
Other expense	158	45
	<u>\$ 7,374</u>	<u>\$ 6,837</u>

23. Financial risk management and financial instruments overview

Capital management

The Company's capital management strategy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain the future development of the Company's business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying businesses. The Company seeks to maintain an appropriate balance between the level of long-term debt and shareholders' equity to ensure access to the capital markets to fund growth and working capital having regard to the cyclical nature of the energy services industry. Historically the Company has maintained a conservative ratio of long-term debt to long-term debt plus equity. As at December 31, 2022 and 2021 these ratios were as follows:

	December 31, 2022	December 31, 2021
Long-term debt (including current portion)	\$ 119,988	\$ 190,517
Shareholders' equity	522,023	493,437
Total capitalization	<u>\$ 642,011</u>	<u>\$ 683,954</u>
Long-term debt to capitalization ratio	<u>0.19</u>	<u>0.28</u>

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

As at December 31, 2022, the Company was subject to externally imposed minimum capital requirements relating to the Credit Facility and Mortgage loan (2025 maturity) as described in note 13. The Company monitored these requirements to ensure compliance with them. As at December 31, 2022 and 2021 the Company was in compliance with all external minimum capital requirements.

Financial instruments

The Company's financial instruments as at December 31, 2022, include cash and cash equivalents, accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities and long-term debt. The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity. The discounted future cash repayments of the Company's 2025 Mortgage loan are calculated using prevailing market rates of a similar debt instrument as at the reporting date. The net present value of future cash repayments of the 2025 Mortgage loan and related interest at the prevailing market rate of 6.05% for a similar debt instrument at December 31, 2022 was \$42.2 million (December 31, 2021: market rate of 3.93%, \$45.8 million). The carrying value and Company's liability with respect to the 2025 Mortgage loan is \$45.0 million.

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily from the Company's trade accounts receivable. The carrying amount of cash and cash equivalents and accounts receivable included on the statement of financial position represent the maximum credit exposure.

The vast majority of the Company's trade accounts receivable are customers involved in the oil and gas industry, and the ultimate collection of the accounts receivable is dependent on both industry related factors and customer specific factors. Industry related factors that may affect collection include commodity prices and access to capital. Customer specific factors that may affect collection include realized commodity prices, the success of drilling programs, well reservoir decline rates and access to capital. The Company continuously monitors the recoverability of accounts receivable balances and subject to agreed payment terms, generally considers the balance to be overdue when it ages over 90 days. As at December 31, 2022, \$10.4 million, or 7% of accounts receivable (2021: \$2.1 million or 2%) were more than 90 days overdue, which includes \$1.6 million of doubtful accounts for which a provision has been recognized (December 31, 2021: \$1.8 million).

The ageing of accounts receivable is in the range of expectations given current market conditions.

TOTAL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

The movement in the Company's allowance for doubtful accounts was as follows:

	Allowance for doubtful accounts
Balance at December 31, 2020	\$ 2,030
Provisions and revisions	(268)
Balance at December 31, 2021	\$ 1,762
Provisions and revisions	(116)
Balance at December 31, 2022	\$ 1,646

The Company did not have significant exposure to any individual customer or counter party in 2022. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry as a whole.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, to the extent reasonably possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable costs or losses or risking harm to the Company's reputation. As at December 31, 2022, the Company maintained credit facilities which were available to a maximum of \$225 million and mortgage debt of \$45.0 million (December 31, 2021: of \$255 million and \$60.5 million, respectively) to ensure the Company has sufficient working capital to operate its business.

The Company expects that cash and cash equivalents, and cash flow from operations, together with existing and available credit facilities, will be sufficient to fund its presently anticipated requirements for investments in working capital, capital assets, dividend payments and the Company's share repurchases.

The following maturity analysis shows the remaining contractual maturities for the Company's financial liabilities, including future interest payments:

	No later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
As at December 31, 2022				
Accounts payable and accrued liabilities (note 12)	\$ 114,274	\$ –	\$ –	\$ 114,274
Long-term debt (note 13)	7,889	123,618	–	131,507
Lease liabilities (note 14)	5,970	11,257	642	17,869
Total	\$ 128,133	\$ 134,875	\$ 642	\$ 263,650

	No later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
As at December 31, 2021				
Accounts payable and accrued liabilities (note 12)	\$ 65,513	\$ –	\$ –	\$ 65,513
Long-term debt (note 13)	7,685	184,998	12,543	205,226
Lease liabilities (note 14)	4,548	7,590	1,474	13,612
Total	\$ 77,746	\$ 192,588	\$ 14,017	\$ 284,351

TOTAL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's net income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

- Foreign currency exchange rate risk

Transaction exposure

The Company is exposed to foreign currency exchange risk on revenues, capital expenditures, or financial instruments that are denominated in a currency other than the Company's functional currency (Canadian dollars). Where sales are denominated in a currency other than Canadian dollars, the Company may enter into forward currency contracts to mitigate its exposure to exchange rate fluctuations from the date of sale until the date of receipt of funds. The Company estimates that in its Canadian operations approximately 9% of its cost of services in 2022 were purchased using a foreign currency. Where foreign currency denominated purchases are made, it is the Company's practice to pay invoiced amounts within 15 days of receipt of invoice to reduce the Company's exposure to foreign exchange risk. In addition, from time to time the Company purchases funds in the foreign currency to which the order is denominated to mitigate against foreign exchange rate changes from the date of ordering to when payment is made. Pricing to customers is also customarily adjusted to reflect changes in the Canadian dollar landed cost of imported goods. For the year ended December 31, 2022 the net amount of foreign exchange loss related to transaction exposure recorded in net income was \$0.8 million (2021: foreign exchange loss of \$0.4 million).

Translation exposure

Translation exposures arise from financial and non-financial items held by an entity (for example, a subsidiary) with a functional currency different from the Company's presentation currency. However, foreign currency denominated inter-company receivables and payables which do not form part of a net investment in a foreign operation would be included in the sensitivity analysis for foreign currency risks, because even though the balances eliminate in the consolidated balance sheet, the effect on profit or loss of their revaluation under IAS 21 is not fully eliminated.

The Company's sensitivity to foreign currency fluctuations is as follows: all else being equal, a hypothetical strengthening of 5% of each of the United States dollar and Australian dollar against the Canadian dollar would have increased (decreased) income (loss) before income taxes and other comprehensive loss as follows:

For the year ended December 31, 2022	United States Dollar	Australian Dollar	Total
Net income (loss) before income taxes	\$ 820	\$ (53)	\$ 767
Other comprehensive income	10,226	1,495	11,721
	\$ 11,046	\$ 1,442	\$ 12,488
For the year ended December 31, 2021	United States Dollar	Australian Dollar	Total
Net income (loss) before income taxes	\$ (95)	\$ 24	\$ (71)
Other comprehensive income	11,484	5,377	16,861
	\$ 11,389	\$ 5,401	\$ 16,790

For a hypothetical 5% weakening of each of the United States dollar and Australian dollar against the Canadian dollar, there would be an equal and opposite effect on income before income taxes and other comprehensive income (loss) to that presented above.

TOTAL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

- Forward foreign exchange contracts

The notional principal amount of forward foreign exchange contracts outstanding as at December 31, 2022 was \$22.8 million (December 31, 2021: \$13.5 million). These contracts are short term in nature. The fair value of the forward foreign exchange contracts was determined using quoted forward rates for the identical contracts at December 31, 2022 (level 2 of fair value hierarchy with values based on quoted prices). The forward market exchange rate used to fair value these outstanding contracts as at December 31, 2022 was \$1.35 Canadian dollar per United States dollar and \$0.92 Canadian dollar per Australian dollar (December 31, 2021: \$1.27 Canadian dollar per United States dollar, \$0.92 Canadian dollar per Australian dollar). For the year ended December 31, 2022 the mark to market loss on foreign exchange contracts was \$1.6 million (2021: \$0.3 million loss) and is included in net income.

- Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on borrowings under existing and available credit facilities which utilize a combination of short-term fixed rates using 30 to 90-day Banker's Acceptance and floating rates. For the year ended December 31, 2022, if interest rates had been 100 basis points lower with all other variables held constant, after tax net income for the period would have been approximately \$1.0 million higher (2021 – \$1.4 million). An equal and opposite impact would have occurred to net income had interest rates been 100 basis points higher. The sensitivity in 2022 is lower as compared to 2021 due primarily to a decrease in the Company's long-term debt balances, partially offset by a higher interest rate environment.

The Company had no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2022.

The Company's 2025 Mortgage loan bears fixed interest rate and thus is not exposed to interest rate risk.

24. Commitments

The Company has operating lease commitments for short term and low dollar value real estate properties payable as follows:

	December 31, 2022	December 31, 2021
Less than one year	\$ 83	\$ 217
Between one and five years	19	40
More than five years	–	–
	\$ 102	\$ 257

The Company also has purchase obligations of \$54.5 million as at December 31, 2022 (December 31, 2021: \$29.5 million) relating to commitments to purchase inventory.

25. Contingencies

In August of 2015 the Company was notified by the Canada Revenue Agency (the “CRA”) that certain of the Company’s income tax filings related to its conversion from an income trust to a corporation in 2009 were being re-assessed. Specifically, the CRA increased the Company’s taxable income by \$56.1 million and denied \$1.7 million of investment tax credits claimed (the “Reassessment”). The Reassessment is based entirely on the CRA’s proposed application of the general anti-avoidance rule (“GAAR”) and gives rise to approximately \$14.1 million of federal income tax payable. In September 2015 the Company paid one half of the reassessed amount, or \$7.1 million, on account of the Reassessment as required pending appeal. On November 4, 2015, related provincial income tax reassessments totaling \$5.6 million (including interest and penalties) were received.

The Company has received both legal and tax advice relating to its conversion from an income trust to a corporation indicating that its income tax filing position is strong. As such, the Company has filed notices of objection in response to the Reassessment and intends to vigorously defend its filing position and seek reimbursement from the CRA for the costs arising from having to defend such Reassessment to the fullest extent possible. The trial of this matter occurred in June 2022 and decision will be rendered pending a decision of the Supreme Court of Canada on another case. Management believes that it will be successful in defending its tax filing position, and as such, the Company has not recognized any provision for the Reassessment at December 31, 2022. The \$7.1 million paid on account of the Reassessment has been recorded as income tax receivable on the basis management believes it will be successful in defending the Company’s filing position. In the event the Company is not successful, an additional \$18.1 million of cash may be owing and \$25.2 million of income tax expense would be recognized.

In April of 2017 one of the Company’s subsidiaries, Savanna Energy Services Corp. (“Savanna”), received a statement of claim from Western Energy Services Corp. (“Western”) for payment of a termination fee in the amount of \$20 million pursuant to an arrangement agreement between Savanna and Western dated March 8, 2017, as amended on March 14, 2017 (the “Arrangement Agreement”). Savanna terminated the Arrangement Agreement on March 28, 2017 following the acquisition by Total of over 50% of the outstanding common shares of Savanna in accordance with the terms and conditions of the Arrangement Agreement. Western is claiming Savanna was not entitled to terminate the Arrangement Agreement and therefore breached the Arrangement Agreement. Savanna has filed a statement of defense and has received legal advice that Western’s claim is without merit. On January 28, 2021, a Master of the Court of Queen’s Bench of Alberta summarily dismissed Western’s claim and awarded costs to Savanna. On April 11, 2022 Western’s appeal was dismissed by the Court of Queen’s Bench of Alberta and costs awarded to Savanna. On May 3, 2022 Western appealed this decision to the Alberta Court of Appeal, which appeal is scheduled to be heard on March 9, 2023.

In November of 2017 the Company received a Statement of Claim filed in the Alberta Court of Queen’s Bench by Her Majesty the Queen in Right of Alberta, by its agent, Alberta Investment Management Corporation (“AIMCo”) against the Company and Savanna. In early 2020 AIMCo amended its claim to remove the Company as a defendant. AIMCo’s claim relates to Savanna’s refusal to pay a \$6 million change of control penalty (the “Additional Penalty”) to AIMCo. The Company and Savanna have received legal advice that AIMCo’s claim for the Additional Penalty is not enforceable and have filed a statement of defense. Savanna has also filed a third party claim against its former directors that seeks indemnity in the event that AIMCo is successful in its claim against Savanna. Following the completion of discoveries, Savanna has filed a counterclaim against AIMCo and certain former directors of Savanna for \$7.3 million.

TOTAL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021
(Tabular amounts in thousands of Canadian dollars)

26. Related parties

Key management of the Company includes directors, executive officers, general managers and the president of its operating divisions.

In addition to their salaries, the Company also provides non-cash benefits to key management, except directors (see note 17).

Key management personnel compensation is comprised of:

	December 31, 2022	December 31, 2021
Short-term employee benefits	\$ 5,960	\$ 4,266
Share-based compensation ⁽¹⁾	1,095	804
	\$ 6,868	\$ 5,070

(1) Represents the amortization of share-based compensation associated with key management as recorded in the consolidated financial statements.

At December 31, 2022 directors and officers of the Company own or control 7.3 percent of the voting shares of the Company (2021: 8.2 percent).

There have been no transactions over the reporting period with key management personnel (2021: nil), and no outstanding balances exist as at period end (2021: nil).

27. Subsidiaries

Significant subsidiaries and partnerships

	Country of Incorporation	Ownership Interest, %	
		2022	2021
Total Oilfield Rentals Ltd.	Canada	100	100
Bidell Gas Compression Ltd.	Canada	100	100
Opsco Process Corp.	Canada	100	100
TES Investments Ltd.	Canada	100	100
TES Services Inc.	United States	100	100
Total Oilfield Rentals Inc.	United States	100	100
Bidell Gas Compression Inc.	United States	100	100
TES Land Inc.	United States	100	100
TES Energy Services Pty Ltd.	Australia	100	100
Savanna Energy Services (U.S.A.) Corp.	United States	100	100
Savanna Energy Services Pty Ltd.	Australia	100	100
Savanna Well Servicing Inc.	Canada	100	100
Savanna Well Servicing Corp.	United States	100	100
Savanna Drilling Corp.	Canada	100	100
Savanna Drilling LLC	United States	100	100
BR Enterprises Limited Partnership	Canada	100	100
Savanna Energy Services Limited Partnership #6	Canada	50	50
Heart Lake First Nation Savanna Energy Services Limited Partnership	Canada	50	50