2019

FOCUS DISCIPLINE GROWTH

Annual Report 2019

TOTAL ENERGY SERVICES INC.

Total Energy Services Inc. ("Total Energy" or the "Company") is a public energy services company based in Calgary, Alberta that provides a variety of products and services to the oil and natural gas industry through its subsidiaries and aboriginal partnerships. Total Energy is involved in four businesses: contract drilling services, the rental and transportation of equipment used in the drilling, completion and production of oil and natural gas wells, the fabrication, sale, rental and servicing of new and used natural gas compression and oil and natural gas process equipment and well servicing. Together these businesses provide a platform for building long-term shareholder value. Total Energy has achieved its growth by maintaining a disciplined acquisition strategy and undertaking strategic internal growth.

The shares of Total Energy are listed and trade on the Toronto Stock Exchange under the symbol TOT.

REPORT TO SHAREHOLDERS

Total Energy's financial results for the fourth quarter of 2019 reflect continued challenging industry conditions in Canada that were exacerbated by poor field conditions due to wet weather and reduced production activity in the Compression and Process Services segment. Offsetting this weakness were relatively stable business conditions in the United States and Australia and receipt of US $13.5 million as compensation for the early termination in October 2017 of contracts for three drilling rigs operating in the United States.

During 2019 Total Energy continued to pay down debt, with net debt (being total bank debt and lease liabilities minus working capital) decreasing by $16.1 million, or 10%. $16.3 million was returned to shareholders by way of dividends and share buybacks and $49.3 million (excluding capital leases) was invested to grow, upgrade and maintain the Company's asset base. Older, underutilized equipment was disposed of for net proceeds of $8.3 million, resulting in a $2.4 million gain on sale.

Given the unique challenges facing the Canadian energy industry, during 2019 Total Energy spent $3.6 million to relocate underutilized equipment to areas of high activity in the United States, most notably in the Rentals and Transportation Services segment. The quality of Total Energy's equipment and the means and commitment to operate in a safe and efficient manner allowed the Company to increase its market share in the United States even in a contracting market. Consequentially, almost 60% of 2019 consolidated annual revenue was generated outside of Canada. Unless and until there is a fundamental change in the manner in which the federal government approaches natural resource development in Canada, capital, equipment and jobs will continue to leave Canada.

LOOKING FORWARD

Global economic uncertainty and market volatility are increasing with concerns over the potential economic impact of the coronavirus and recent turmoil in global oil markets. North American energy industry activity levels are certain to decrease in the near term following the recent decline in oil prices which was the largest in almost 30 years.

In such an environment, Total Energy remains focused on the efficient operation of its businesses and the preservation of its liquidity and balance sheet strength. As such, the Board of Directors has determined to suspend the payment of a dividend effective immediately and to reduce the Company's 2020 capital expenditure budget from $23 million to $10 million. Until such time as market conditions stabilize and visibility improves, free cash flow will be directed towards the accelerated repayment of debt and share buybacks.

Current public equity market valuations for the energy industry are unprecedented since Total Energy commenced business in 1997 and warrant extraordinary action. For example, Total Energy's shares trade at a material discount to net book value while the net proceeds received from the sale of old equipment during 2019 by auction and otherwise represented a 40% premium to book value. Current equity market valuations support the Company's decision to suspend the payment of dividends and divert such funds towards debt repayment and share buybacks until such time as market conditions normalize.

On behalf of the Board of Directors of Total Energy, I would like to thank our employees for their continued perseverance, hard work and dedication to doing their jobs well in a stressful environment. To the many people in the energy industry who have lost their jobs through no fault of their own, I wish them the very best as we all look forward to better times.

Daniel Halyk.

DANIEL K. HALYK
President and Chief Executive Officer

March 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

The following MD&A for Total Energy Services Inc. ("Total Energy" or the "Company") was prepared as at March 12, 2020 and focuses on information and key statistics from the audited consolidated financial statements of the Company for the year ended December 31, 2019 (the "2019 Financial Statements") and pertains to known risks and uncertainties relating to the energy services sector. This discussion should not be considered all-inclusive as it does not include all changes regarding general economic, political, governmental and environmental conditions.

This MD&A should be read in conjunction with the 2019 Financial Statements, the Company's 2019 Annual Report, the Annual Information Form ("AIF") for the year ended December 31, 2019 and the cautionary statement regarding forward-looking information and statements below. Additional information relating to Total Energy, including the Company's AIF, may be found on SEDAR at www.sedar.com.

Unless otherwise indicated, all dollar amounts presented herein are in thousands of Canadian dollars except per share amounts which are presented in Canadian dollars.

FINANCIAL HIGHLIGHTS

	Three months ended December 31			Year ended December 31		
	2019	2018	Change	**2019**	2018	Change
Revenue [5]	**$ 151,500**	$ 219,846	(31%)	**$ 757,398**	$ 851,809	(11%)
Operating income [4]	**14,468**	10,748	35%	**16,802**	36,558	(54%)
EBITDA [1]	**35,805**	29,153	23%	**107,679**	114,666	(6%)
Cashflow	**36,896**	23,070	60%	**111,727**	101,490	10%
Net income	**8,593**	8,570	–	**10,091**	24,215	(58%)
Attributable to shareholders	**8,523**	8,555	–	**10,527**	24,458	(57%)
Per Share Data (Diluted)						
EBITDA [1]	**$ 0.79**	$ 0.63	25%	**$ 2.36**	$ 2.49	(5%)
Cashflow	**$ 0.82**	$ 0.50	64%	**$ 2.45**	$ 2.20	11%
Attributable to shareholders:						
Net income	**$ 0.19**	$ 0.19	–	**$ 0.23**	$ 0.53	(57%)

				December 31		
Financial Position at				**2019**	2018	Change
Total Assets				**$ 997,161**	$ 1,078,124	(8%)
Long-Term Debt and Lease Liabilities (excluding current portion)				**248,448**	286,319	(13%)
Working Capital [2]				**103,234**	124,967	(17%)
Net Debt [1]				**145,214**	161,352	(10%)
Shareholders' Equity				**543,142**	560,576	(3%)
Common shares (000's) [3]						
Basic and diluted	**45,262**	45,933	(1%)	**45,553**	46,122	(1%)

(1) Please see "Non-IFRS Measures" below for the definition of EBITDA and Net Debt.

(2) Working capital means current assets minus current liabilities.

(3) Basic and diluted shares outstanding reflect the weighted average number of common shares outstanding for the period. See note 16 to the Financial Statements.

(4) Included in operating income for the year ended December 31, 2019 is $7.9 million of incremental non-recurring and $2.0 million of incremental recurring depreciation expense resulting from a change in depreciation estimates in the RTS segment effective July 1, 2019 (see "Critical Accounting Estimates" for further details).

(5) Included in revenue for the three months and the year ended December 31, 2019 is US$13.5 million (approximately $17.6 million Canadian Dollars) of payment received by Company's wholly-owned subsidiary Savanna Drilling LLC in regard to the early termination of contracts for the three drilling rigs operating in the United States in October of 2017.

BUSINESS OF THE COMPANY

Total Energy is a public energy services company based in Calgary, Alberta that provides a variety of products and services to the oil and natural gas industry through its subsidiaries and aboriginal partnerships. Total Energy is involved in four businesses: contract drilling services ("CDS"), the rental and transportation of equipment used in the drilling, completion and production of oil and natural gas wells ("RTS"), the fabrication, sale, rental and servicing of new and used natural gas compression and oil and natural gas process equipment ("CPS") and well servicing, including completion, workover, maintenance and abandonment services ("WS"). The Company's operations are conducted within Canada, the United States of America ("United States" or "U.S.") and Australia. Corporate and public issuer affairs are conducted in the Company's Corporate segment.

Contract Drilling Services: At December 31, 2019, the Company operated a total fleet of 107 drilling rigs. The rig fleet is supported by an extensive fleet of owned top drives, walking systems, pumps and other ancillary equipment. Composition of the Company's drilling rig fleet is as follows:

By Type	
Triples	3
AC doubles	13
Mechanical doubles	45
Australian shallow	5
TDS and singles	41
	107

By Geography	
Canada	82
United States	20
Australia	5
	107

Rentals and Transportation Services: Total Energy's RTS business is presently conducted from 13 locations in western Canada and three locations in the United States. At December 31, 2019, this segment had approximately 10,590 pieces of major rental equipment (excluding access matting), a fleet of 87 heavy trucks and a significant inventory of small rental equipment and access matting.

Compression and Process Services: The Company fabricates a full range of natural gas compression equipment as well as select oil and natural gas process equipment. At December 31, 2019 the CPS segment occupied approximately 246,000 square feet of production facilities located in Calgary, Alberta and a 100,000 square foot production facility in Weirton, West Virginia. As at December 31, 2019 the CPS segment also had a network of 11 branch locations throughout western Canada and the United States from which its natural gas compression parts and service business is conducted. This segment had 50,200 horsepower of compression in its rental fleet at December 31, 2019.

Well Servicing: At December 31, 2019, the Company operated a total fleet of 83 well servicing rigs across western Canada, northwest United States and Australia. Composition of the Company's service rig fleet is as follows:

By Type	
Singles	38
Doubles	32
Australian spec	9
Flush-by	4
	83

By Geography	
Canada	57
United States	14
Australia	12
	83

SELECTED FINANCIAL INFORMATION

Selected annual financial information derived from the audited consolidated financial statements of the Company for the three most recently completed financial years is set forth below and is prepared in accordance with IFRS.

	Year ended December 31,		
(in thousands of dollars except per share amounts)	**2019**	2018	2017
Revenue	**$ 757,398**	$ 851,809	$ 604,662
Cash provided by operations	**73,055**	115,705	64,384
Cashflow	**111,727**	101,490	76,571
Net income (loss)	**10,091**	24,215	(3,703)
Attributable to shareholders	**10,527**	24,458	(1,916)
Per share (basic and diluted)	**0.23**	0.53	(0.05)
Dividends declared per share	**0.24**	0.24	0.24
Total assets	**997,161**	1,078,124	1,066,781
Long term liabilities (excluding current lease liabilities, current portion of long-term debt and deferred tax liability)	**248,448**	287,893	260,579

OVERALL PERFORMANCE

Total Energy's results for the three months and the year ended December 31, 2019 reflect relatively stable industry activity levels in the United States and Australia offset by a significant decrease in drilling and completion activity in Canada as compared to 2018. Negatively impacting the Company's results for the fourth quarter and 2019 was approximately $1.4 million and $3.6 million of equipment relocation expenses in the CDS and RTS segments as the Company consolidated U.S. drilling operations and continued to relocate underutilized rental equipment from Canada to the U.S. Also negatively impacting financial results for the year ended December 31, 2019 was $7.9 million of non-recurring and $2.0 million of recurring incremental depreciation expense resulting from a change in depreciation estimates in the RTS segment effective July 1, 2019. Included in the financial results for the three months and the year ended December 31, 2019 was, respectively, $2.1 million and $3.9 million of other expense relating to unrealized foreign exchange losses from translation of working capital balances of foreign subsidiaries as compared to unrealized gains of $2.7 million and $5.6 million, respectively, in the fourth quarter and the year ended December 31, 2018. Included in revenue for the three months and the year ended December 31, 2019 is US$13.5 million (approximately $17.6 million Canadian dollars) received by the Company's wholly-owned subsidiary Savanna Drilling, LLC ("SDUS") in regard to the early termination of contracts in October of 2017 for three drilling rigs operating in the United States.

The Company's financial condition remains strong, with a positive working capital balance of $103.2 million as at December 31, 2019. The $21.7 million decrease in working capital since December 31, 2018 was due primarily to the classification of a $40.9 million mortgage loan maturing in 2020 as current in the second quarter of 2019. After returning $16.3 million to shareholders through $10.9 million of dividends and $5.3 million of share repurchases, shareholders' equity decreased by $17.4 million from December 31, 2018. Also contributing to the decrease of shareholder equity was an accumulated other comprehensive loss in 2019 as a result of the strengthening Canadian dollar since the beginning of 2019 and its impact on the translation of foreign subsidiary balances.

Revenue

	Three months ended December 31			Year ended December 31		
	2019	2018	Change	**2019**	2018	Change
Revenue	**$ 151,500**	$ 219,846	(31%)	**$ 757,398**	$ 851,809	(11%)

The decrease in revenue for the three months and the year ended December 31, 2019 relative to the same period in 2018 was the result of decreases in all segments primarily due to lower activity levels in Canada and reduced activity in the CPS segment. Included in revenue for the three months and the year ended December 31, 2019 is US$13.5 million (approximately $17.6 million Canadian dollars) received by the Company's wholly-owned subsidiary Savanna Drilling LLC in regard to the early termination of contracts in October of 2017 for three drilling rigs operating in the United States.

Cost of Services and Gross Margin

	Three months ended December 31			Year ended December 31		
	2019	2018	Change	**2019**	2018	Change
Cost of services	**$ 102,212**	$ 178,695	(43%)	**$ 597,336**	$ 686,688	(13%)
Gross margin	**$ 49,288**	$ 41,151	20%	**$ 160,062**	$ 165,121	(3%)
Gross margin, as a percentage of revenue	**33%**	19%	74%	**21%**	19%	11%

The decrease in costs of services during the three months ended December 31, 2019 relative to the same periods in 2018 is mostly due to the decreased activity in all business segments as a result of an industry slow-down primarily in Canada.

While the consolidated gross margin for the three months and the year ended December 31 was higher in 2019 compared to 2018 due to segment revenue mix and the receipt of a $17.6 million contract termination payment in the CDS segment, lower gross margins were realized in all segments other than the CDS segment on a year over year basis as a result of lower activity levels. Excluding the $17.6 million contract termination payment in the CDS segment, consolidated gross margin was lower in all segments in 2019 compared to 2018. Negatively impacting gross margin during the fourth quarter of 2019 was $1.4 million of expenses incurred by the RTS and WS segments with the relocation of equipment from Canada to the United States and repositioning of equipment within the United States. This was offset by a $0.4 million reduction in cost of services on adoption to IFRS 16 Leases. Negatively impacting gross margin for 2019 was $3.6 million of expenses incurred by the CDS, WS and RTS segments with the relocation of equipment. This was partially offset by a $2.4 million reduction in cost of services on adoption of IFRS 16 Leases.

Cost of services includes salaries and benefits for operations personnel, equipment repairs and maintenance, fuel, inventory used to manufacture compression and process equipment, utilities, property taxes and other occupancy costs related to manufacturing facilities and operations branches.

Selling, General and Administration Expenses

	Three months ended December 31			Year ended December 31		
	2019	2018	Change	**2019**	2018	Change
Selling, general and administration expenses	**$ 11,778**	$ 14,758	(20%)	**$ 49,393**	$ 56,301	(12%)

Selling, general and administration expenses decreased in the three months and the year ended December 31, 2019 relative to the same periods in 2018 as a result of cost savings activities and a positive impact of $0.6 million and $2.4 million, respectively, on the adoption of IFRS 16 Leases.

Included in selling, general and administration expenses are salaries and benefits for sales, office and administrative staff, utilities, property taxes and other occupancy costs related to the Company's various divisional offices and its corporate head office as well as professional fees and other costs incurred to maintain the Company's public listing and conduct investor relations activities. Also included is compensation for directors and officers pursuant to the Company's cash based compensation plans.

Other Expense (Income)

	Three months ended December 31			Year ended December 31		
	2019	2018	Change	**2019**	2018	Change
Other expense (income)	**$ 2,070**	$ (2,730)	nm	**$ 3,928**	$ (5,634)	nm

"nm" – calculation not meaningful

Other expense (income) arises from unrealized foreign exchange differences on translation of intercompany working capital balances of foreign subsidiaries. A strengthening of the Canadian dollar relative to the US dollar during the periods gave rise to an unrealized foreign exchange loss for the fourth quarter and the 2019 year.

Share-based Compensation Expense

	Three months ended December 31			Year ended December 31		
	2019	2018	Change	**2019**	2018	Change
Share-based compensation expense	**$ 199**	$ 598	(67%)	**$ 1,499**	$ 2,396	(37%)

Share-based compensation expense arises from share options granted pursuant to the share option plan implemented in 2015. Share-based compensation expense for the three months and year ended December 31, 2019 was lower than the prior year comparable period due to certain options fully vesting in 2018.

Depreciation Expense

	Three months ended December 31			Year ended December 31		
	2019	2018	Change	**2019**	2018	Change
Depreciation expense	**$ 20,773**	$ 17,777	17%	**$ 88,440**	$ 75,500	17%

Depreciation expense for the three months and the year ended December 31, 2019 increased compared to the same periods in 2018. Included in 2019 depreciation expense in the fourth quarter and year is $1.2 million and $4.5 million of depreciation on assets recognized pursuant to IFRS 16. Also included in depreciation expense in 2019 is $7.9 million of non-recurring and $2.0 million of recurring incremental depreciation expense resulting from a change in depreciation estimates in the RTS segment effective July 1, 2019 (see "Critical Accounting Estimates" for further details). The $7.9 million of non-recurring depreciation expense related to the reduction in residual value for certain assets. These increases were partially offset by lower depreciation on reduced activity in the CDS segment. All of the Company's property, plant and equipment is depreciated on a straight-line basis with the exception of contract drilling equipment, which is depreciated on a utilization basis subject to a minimum annual depreciation expense equal to an annual utilization of 96 days.

Operating Income

	Three months ended December 31			Year ended December 31		
	2019	2018	Change	**2019**	2018	Change
Operating income	**$ 14,468**	$ 10,748	35%	**$ 16,802**	$ 36,558	(54%)

During the fourth quarter of 2019 the Company's wholly-owned subsidiary, SDUS, reached an agreement in regard to the early termination of contracts that occurred during 2017 for three drilling rigs operating in the United States. In October 2019 SDUS received a total of US$13.5 million (approximately $17.6 million Canadian dollars) for such early terminations that was recorded as revenue in the fourth quarter of 2019.

Included in operating income for the three months and the year ended December 31, 2019, respectively, was $2.1 million and $3.9 million unrealized losses on foreign exchange translation of intercompany working capital balances compared to unrealized gains of $2.7 million and $5.6 million in the same periods in 2018. Also negatively impacting operating income (loss) for the three months and the year ended December 31, 2019 was $1.4 million and $3.6 million of equipment relocation expenses incurred by the CDS, RTS and WS segments. An increase in depreciation expense arising from a change in accounting estimates in the RTS segment effective July 1, 2019 also negatively impacted operating income. Operating income, normalized for the items described above and the change of depreciation estimates, was $1.3 million and $16.6 million, respectively, for the three months and the year ended December 31, 2019, as compared to $8.0 million and $32.7 million for the same periods in 2018.

Gain on Sale of Property, Plant and Equipment

	Three months ended December 31			Year ended December 31		
	2019	2018	Change	**2019**	2018	Change
Gain on sale of property, plant and equipment	**$ 564**	$ 628	(10%)	**$ 2,437**	$ 2,608	(7%)
Proceeds on the sale of property, plant and equipment	**$ 1,573**	$ 3,790	(58%)	**$ 8,422**	$ 7,588	11%

Disposals of property, plant and equipment result from the rationalization, replacement and upgrade of older equipment in the Company's equipment fleet and the disposition of compression rental equipment typically upon exercise of purchase options by customers in the ordinary course of business.

Equipment disposed of in the fourth quarter of 2019 included underutilized rental and other older equipment. Equipment disposed of during 2019 consisted primarily of compression rental equipment purchased by customers in the ordinary course of business, seven decommissioned drilling rigs, older heavy trucks and underutilized rental equipment.

Finance Costs

	Three months ended December 31			Year ended December 31		
	2019	2018	Change	**2019**	2018	Change
Finance costs	**$ 3,233**	$ 3,485	(7%)	**$ 12,938**	$ 13,778	(6%)

Finance costs for the three months and the year ended December 31, 2019 were lower than the prior year comparable period mostly due to lower debt balances and lower applicable interest rates as a result of lower Canadian prime rate of interest during the respective periods. This was somewhat off-set by interest on leases of $0.2 million and $0.9 million, respectively, for the three months and the year ended December 31, 2019 arising from adoption of IFRS 16.

Income Taxes and Net Income

	Three months ended December 31			Year ended December 31		
	2019	2018	Change	**2019**	2018	Change
Current income tax recovery	**$ (235)**	$ (7,807)	(97%)	**$ (161)**	$ (2,070)	(92%)
Deferred income tax expense (recovery)	**$ 3,441**	$ 7,128	(52%)	**$ (3,629)**	$ 3,243	nm
Total income tax expense (recovery)	**$ 3,206**	$ (679)	nm	**$ (3,790)**	$ 1,173	nm
Net income	**$ 8,593**	$ 8,570	–	**$ 10,091**	$ 24,215	(58%)

"nm" – calculation not meaningful

The year over year changes in current income tax expense is primarily due to decreased profitability for the year ended December 31, 2019 as compared to 2018 in all segments except for the CDS segment.

On June 28, 2019 Bill 3 "Job Creation Tax Cut" came into force in Alberta pursuant to which the Alberta corporate income tax rate will be reduced from 12% to 8% by the end of 2021. This reduction in the Alberta corporate tax rate was the primary reason for the increase in the deferred income tax recovery in 2019.

SEASONALITY

A significant portion of the Company's field operations are conducted in Canada where the ability to move heavy equipment is dependent on ground conditions. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until such roads have thoroughly dried out. The duration of this "spring breakup" has a direct impact on the Company's activity levels and operating results in Canada. In addition, many exploration and production areas in northern Canada are accessible only in winter months when the ground is frozen hard enough to support heavy equipment. The timing of freeze up and spring breakup affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Company's slowest period in Canada. Additionally, wet weather in Australia, normally in the first quarter, can restrict the Company's Australian operations. Consequently, quarterly operating results may not be indicative of full year operating results.

SUMMARY OF QUARTERLY RESULTS

	Financial Quarter Ended			
	Dec 13, 2019	Sept 30, 2019	June 30, 2019	March 31, 2019
Revenue	**$ 151,500**	$ 171,213	$ 212,695	$ 221,990
Operating income (loss)	**14,468**	(5,012)	(1,091)	8,437
EBITDA [(1)]	**35,805**	24,913	17,546	29,415
Cashflow	**36,896**	23,959	22,419	28,453
Cash provided (used) by operating activities	**40,545**	(21,800)	4,123	50,187
Net income (loss)	**8,593**	(6,114)	2,853	4,759
Attributable to shareholders	**8,523**	(6,159)	3,403	4,760
Per share data				
EBITDA [(1)]	**$ 0.79**	$ 0.55	$ 0.38	$ 0.64
Cashflow	**0.82**	0.53	0.49	0.62
Net income (loss) attributable to shareholders	**0.19**	(0.14)	0.07	0.10
Financial Position				
Total Assets	**$ 997,161**	$ 991,176	$ 1,026,564	$ 1,101,027
Long-Term Debt and Lease Liabilities (excluding current portion)	**248,448**	251,724	239,287	286,829
Working Capital [(2)]	**103,234**	85,778	74,283	117,914
Net Debt [(1)]	**145,214**	165,946	165,004	168,915
Shareholders' Equity	**543,142**	538,790	549,851	558,054
Common Shares (000's)[(3)]				
Basic and diluted	**45,262**	45,457	45,746	45,829

	Financial Quarter Ended			
	Dec 31, 2018	Sept 30, 2018	June 30, 2018	March 31, 2018
Revenue	$ 219,846	$ 232,925	$ 193,823	$ 205,215
Operating income	10,748	14,294	3,956	7,560
EBITDA (1)	29,153	34,632	23,226	27,655
Cashflow	23,070	34,799	22,472	21,149
Cash provided by (used in) operating activities	30,658	19,928	42,335	22,784
Net income	8,570	8,655	3,662	3,328
Attributable to shareholders	8,555	8,910	3,829	3,164
Per share data (diluted)				
EBITDA (1)	$ 0.63	$ 0.75	$ 0.50	$ 0.60
Cashflow	0.50	0.75	0.49	0.46
Net income attributable to shareholders	0.19	0.19	0.08	0.07
Financial Position				
Total Assets	$ 1,078,124	$ 1,063,813	$ 1,050,740	$ 1,065,499
Long-Term Debt and Lease Liabilities (excluding current portion)	286,319	295,545	295,914	247,087
Working Capital (2)	124,967	117,586	103,113	54,906
Net Debt (1)	161,352	177,959	192,801	192,181
Shareholders' Equity	560,576	549,238	551,612	550,732
Common Shares (000's) (3)				
Basic	45,933	46,099	46,223	46,238
Diluted	45,933	46,099	46,223	46,241

(1) Please see "Non-IFRS Measures" below for the definition of EBITDA and Net Debt.

(2) Working capital means current assets minus current liabilities.

(3) Basic and diluted shares outstanding reflect the weighted average number of common shares outstanding for the period. See note 16 to the 2019 Financial Statements.

Aboriginal Partnerships

The Company conducts certain of its operations through limited partnerships in which each of the Company and an Aboriginal partner hold one half of the partnership interest. The Company fully consolidates all of these partnerships, with the Aboriginal partners' share in the equity and net earnings of the partnerships reported as non-controlling interests.

SEGMENTED RESULTS

Contract Drilling Services

	Three Months Ended			Year Ended		
December 31	**2019**	2018	Change	**2019**	2018	Change
Revenue	**$ 59,688**	$ 47,254	26%	**$ 186,868**	$ 204,184	(8%)
Operating income (loss)	**$ 17,814**	$ (1,532)	nm	**$ 9,792**	$ (1,949)	nm
Operating spud to release days	**1,805**	2,152	(16%)	**7,202**	9,505	(24%)
Revenue per spud to release day, dollars	**$ 33,068**	$ 21,958	51%	**$ 25,947**	$ 21,482	21%

"nm" – calculation not meaningful

North American drilling activity during the fourth quarter and the year 2019 was lower compared to the same periods in 2018. Included in CDS results for 2019 was $0.9 million of net expenses incurred to relocate drilling equipment in the

United States as this segment consolidated its U.S. operations. In October of 2019 the Company received US$13.5 million (approximately $17.6 million Canadian dollars) as compensation for the early termination of contracts for three U.S. drilling rigs that occurred in October 2017. This amount is included in revenue for the segment in the fourth quarter of 2019.

The following summarizes the operating results for the CDS segment by geographic area for the three months and year ended December 31, 2019.

Q4 2019	Drilling Canada	Drilling U.S.	Drilling Australia	**Total**
Revenue	$ 16,075	$ 31,055	$ 12,558	**$ 59,688**
Operating income (loss)	$ (1,926)	$ 17,470	$ 2,270	**$ 17,814**
Spud to release days	902	564	339	**1,805**
Revenue per spud to release day, dollars	$ 17,822	$ 55,062	$ 37,044	**$ 33,068**
Utilization % (spud to release)	12%	31%	74%	**18%**

Q4 2018	Drilling Canada	Drilling U.S.	Drilling Australia	Total
Revenue	$ 21,389	$ 14,186	$ 11,679	$ 47,254
Operating income (loss)	$ (280)	$ (3,092)	$ 1,840	$ (1,532)
Spud to release days	1,208	640	304	2,152
Revenue per spud to release day, dollars	$ 17,706	$ 22,166	$ 38,418	$ 21,958
Utilization % (spud to release)	15%	29%	66%	21%

2019	Drilling Canada	Drilling U.S.	Drilling Australia	**Total**
Revenue	$ 62,398	$ 72,710	$ 51,760	**$ 186,868**
Operating income (loss)	$ (8,994)	$ 10,148	$ 8,638	**$ 9,792**
Spud to release days	3,602	2,253	1,347	**7,202**
Revenue per spud to release day, dollars	$ 17,324	$ 32,273	$ 38,426	**$ 25,947**
Utilization % (spud to release)	12%	28%	74%	**18%**

2018	Drilling Canada	Drilling U.S.	Drilling Australia	Total
Revenue	$ 92,878	$ 60,151	$ 51,155	$ 204,184
Operating income (loss)	$ (640)	$ (12,527)	$ 11,218	$ (1,949)
Spud to release days	5,433	2,840	1,232	9,505
Revenue per spud to release day, dollars	$ 17,095	$ 21,180	$ 41,522	$ 21,482
Utilization % (spud to release)	17%	30%	68%	22%

The overall increase in CDS segment revenue during the fourth quarter of 2019 relative to the same period in 2018 is primarily a result of a US$13.5 million (approximately $17.6 million Canadian dollars) contract cancellation payment received by SDUS, increased utilization in Australia and slightly higher pricing in North America. Partially offsetting that was lower utilization in Canada, where continued challenging industry conditions were exacerbated by the implementation of an oil production curtailment by the Alberta government in early 2019 as well as lower operating days in the U.S. Lower revenues for the year ended 2019 as compared to 2018 were primarily due to lower utilization in Canada and U.S.

For 2019 Australian utilization increased due to an additional rig commencing operations as compared to the same period in 2018. Effective day rates in Australia were lower in the fourth quarter of 2019 as compared to the same period in 2018 primarily due to a decrease in rental and ancillary revenue which was partially offset by increased spud to release days. For the year 2019, the effective day rate was impacted by a combination of lower contracted pricing and lower camp and other ancillary revenue. Also negatively impacting U.S. and Australian results was the translation of foreign financial results into Canadian dollars given the depreciation of the U.S. and Australian currencies relative to the Canadian dollar during 2019.

Rentals and Transportation Services

	Three Months Ended			Year Ended		
December 31	**2019**	2018	Change	**2019**	2018	Change
Revenue	**$ 15,907**	$ 19,959	(20%)	**$ 65,446**	$ 76,615	(15%)
Operating loss	**$ (4,496)**	$ (858)	424%	**$ (21,411)**	$ (4,980)	330%
Pieces of rental equipment	**10,590**	10,600	0%	**10,590**	10,600	0%
Heavy trucks	**87**	90	(3%)	**87**	90	(3%)
Rental equipment utilization	**13%**	27%	(52%)	**16%**	23%	(30%)

The revenue reported from the RTS segment for the fourth quarter and the year 2019 decreased as compared with the same periods in 2018 due to poor market conditions in Canada, which was partially offset by a larger U.S. equipment fleet operating at higher utilization as compared to 2018.

Operating loss in the fourth quarter and 2019 year increased as compared to the same periods in 2018 primarily due to challenging market conditions in Canada combined with higher depreciation expense in the second half of 2019 resulting from changes to accounting estimates on the useful life and residual values of RTS equipment. As a result of this estimate change, $7.9 million of non-recurring depreciation expense was recognized on now fully depreciated equipment. An additional $2.0 million of recurring depreciation expense was also incurred in the second half of 2019 as a result of these accounting estimate changes. Also negatively impacting RTS results for the fourth quarter and the year 2019 was $1.0 million and $2.3 million, respectively, of expenses incurred with the relocation of underutilized equipment from Canada to the United States. Excluding the relocation expenses and non-recurring depreciation, the operating loss was $3.5 million and $11.1 million for the fourth quarter and the year ended 2019, respectively.

This segment's relatively high fixed cost structure as compared to the Company's other business segments combined with the inability to increase prices to the extent necessary to offset cost inflation in Canada contributed to the operating loss for the quarter and the year 2019. Such fixed cost structure includes costs associated with its significant operating branch infrastructure, including maintenance and repairs, utilities, insurance, property taxes and other infrastructure costs. In addition, depreciation expense on this segment's equipment fleet is recorded on a straight-line basis and is not correlated to levels of activity.

The following summarizes the operating results for the RTS segment by geographic area for the three months and the year ended December 31, 2019.

Q4 2019	RTS Canada	RTS U.S.	Total
Revenue	$ 8,147	$ 7,760	**$ 15,907**
Operating (loss) income	$ (5,367)	$ 871	**$ (4,496)**
Pieces of rental equipment	9,710	880	**10,590**
Rental equipment utilization	10%	42%	**13%**

Q4 2018	RTS Canada	RTS U.S.	Total
Revenue	$ 14,711	$ 5,248	$ 19,959
Operating (loss) income	$ (2,082)	$ 1,224	$ (858)
Pieces of rental equipment	9,950	650	10,600
Rental equipment utilization	27%	40%	27%

2019	RTS Canada	RTS U.S.	Total
Revenue	$ 38,657	$ 26,789	**$ 65,446**
Operating (loss) income	$ (24,189)	$ 2,778	**$ (21,411)**
Pieces of rental equipment	9,710	880	**10,590**
Rental equipment utilization	14%	38%	**16%**

2018	RTS Canada	RTS U.S.	Total
Revenue	$ 60,225	$ 16,390	$ 76,615
Operating (loss) income	$ (7,468)	$ 2,488	$ (4,980)
Pieces of rental equipment	9,950	650	10,600
Rental equipment utilization	23%	37%	23%

RTS Canada revenue decreased in the three months and the year ended December 31, 2019 compared to the same periods in 2018 due to lower industry activity and a smaller fleet of equipment following the disposal and relocation to the United States of underutilized equipment. Lower revenue combined with high fixed costs resulted in increased operating losses in 2019. Also contributing to increased operating losses was $7.5 million of non-recurring depreciation expense and $2.0 million of increased recurring depreciation expense as a result of the change in accounting estimates for residual values and useful life of RTS equipment. Excluding the non-recurring depreciation expense of $7.5 million, RTS Canada's operating loss was $5.4 million and $16.7 million, respectively, for the three months and the year ended December 31, 2019.

RTS U.S. revenue for the three months and the year ended December 31, 2019 increased compared to the same periods in 2018 due to increased utilization of a larger equipment fleet. Also contributing to the improved results was stronger pricing and a change in the mix of equipment utilized. Negatively impacting operating income in fourth quarter and 2019 year was, respectively, $1.0 million and $2.3 million of equipment relocation expenses as well as $0.4 million of non-recurring depreciation expense as a result of change in accounting estimates in both periods. Excluding these expenses, operating income in RTS U.S. was $1.9 million and $5.5 million, respectively for the three months and the year ended December 31, 2019.

Effective August 15, 2019 the Company, through a wholly-owned United States subsidiary, acquired certain oilfield transportation assets for $2.3 million (US$1.7 million). The Company financed the acquisition utilizing cash on hand and existing credit facilities.

Compression and Process Services

	Three Months Ended			Year Ended		
December 31	**2019**	2018	Change	**2019**	2018	Change
Revenue	**$ 40,666**	$ 115,582	(65%)	**$ 366,738**	$ 420,664	(13%)
Operating income	**$ 1,939**	$ 11,244	(83%)	**$ 27,869**	$ 39,588	(30%)
Operating income, % of revenue	**5%**	10%	(50%)	**8%**	9%	(11%)
Sales backlog at period end, $ million	**$ 48.6**	$ 222.9	(78%)	**$ 48.6**	$ 222.9	(78%)
Horsepower of equipment on rent at period end	**34,800**	34,800	0%	**34,800**	34,800	0%
Rental equipment utilization during the period (HP)	**72%**	70%	3%	**69%**	60%	15%

The revenue reported from the CPS segment decreased for the three months and the year ended December 31, 2019 as compared to the same periods in 2018. Contributing to this decrease was lower fabrication sales bookings in 2019 as compared to 2018 driven by lower industry activity. The timeline for conversion of the sales backlog into revenue varies from order to order and often changes due to factors outside of the Company's control. Operating income for the fourth quarter and 2019 year decreased compared to the same periods in 2018. The decrease was primarily due to the reduced activity levels and the resultant reduction in the absorption of overhead costs due to lower production levels. This decrease was partially offset by increased utilization of the compression rental fleet (which generates higher comparative operating margin percentage as compared to other lines of services).

Well Servicing

	Three Months Ended			Year Ended		
December 31	**2019**	2018	Change	**2019**	2018	Change
Revenue	**$ 35,239**	$ 37,051	(5%)	**$ 138,346**	$ 150,346	(8%)
Operating income	**$ 4,166**	$ 4,592	(9%)	**$ 14,744**	$ 17,329	(15%)
Operating income, % of revenue	**12%**	12%	–	**11%**	12%	(8%)
Service hours (1)	**42,175**	42,382	–	**158,142**	164,414	(4%)
Revenue per service hour	**$ 836**	$ 874	(4%)	**$ 875**	$ 914	(4%)
Utilization (2)	**41%**	41%	–	**38%**	40%	(5%)

(1) Service hours is defined as well servicing hours of service provided to customers and includes paid rig move and standby.

(2) The Company reports its service rig utilization for its operational service rigs in North America based on service hours of 3,650 per rig per year to reflect standard 10 hour operations per day. Utilization for the Company's service rigs in Australia is calculated based on service hours of 8,760 per rig per year to reflect standard 24 hour operations.

Overall revenue and operating income for the fourth quarter and the year 2019 was lower compared with the same periods in 2018 due to a combination of lower activity as well as lower per hour revenue due to the mix of equipment utilized.

The following summarizes the operating results for the WS segment by geographic area for the three months and the year ended December 31, 2019.

Q4 2019	WS Canada	WS U.S.	WS Australia	**Total**
Revenue	$ 11,893	$ 3,417	$ 19,929	**$ 35,239**
Operating income (loss)	$ 643	$ (763)	$ 4,286	**$ 4,166**
Operating income, % of revenue	5%	nm	22%	**12%**
Service hours (1)	18,387	4,716	19,072	**42,175**
Revenue per service hour, dollars	$ 647	$ 725	$ 1,045	**$ 836**
Utilization % (2)	35%	37%	72%	**41%**

"nm" – calculation not meaningful

Q4 2018	WS Canada	WS U.S.	WS Australia	Total
Revenue	$ 12,700	$ 2,853	$ 21,498	$ 37,051
Operating income (loss)	$ 532	$ (282)	$ 4,342	$ 4,592
Operating income, % of revenue	4%	nm	20%	12%
Service hours (1)	19,467	3,624	19,291	42,382
Revenue per service hour, dollars	$ 652	$ 787	$ 1,114	$ 874
Utilization % (2)	37%	28%	73%	41%

"nm" – calculation not meaningful

2019	WS Canada	WS U.S.	WS Australia	**Total**
Revenue	$ 44,242	$ 14,150	$ 79,954	**$ 138,346**
Operating income (loss)	$ 419	$ (232)	$ 14,557	**$ 14,744**
Operating income (loss), % of revenue	1%	nm	18%	**11%**
Service hours (1)	66,995	17,961	73,186	**158,142**
Revenue per service hour, dollars	$ 660	$ 788	$ 1,092	**$ 875**
Utilization % (2)	32%	35%	70%	**38%**

"nm" – calculation not meaningful

2018	WS Canada	WS U.S.	WS Australia	Total
Revenue	$ 46,929	$ 13,944	$ 89,473	$ 150,346
Operating income	$ 692	$ 541	$ 16,096	$ 17,329
Operating income, % of revenue	1%	4%	18%	12%
Service hours (1)	72,343	18,306	73,765	164,414
Revenue per service hour, dollars	$ 649	$ 762	$ 1,213	$ 914
Utilization % (2)	35%	36%	70%	40%

(1) Service hours is defined as well servicing hours of service provided to customers and includes paid rig move and standby.

(2) The Company reports its service rig utilization for its operational service rigs in North America based on service hours of 3,650 per rig per year to reflect standard 10 hour operations per day. Utilization for the Company's service rigs in Australia is calculated based on service hours of 8,760 per rig per year to reflect standard 24 hour operations.

Canadian revenue decreased in the fourth quarter of 2019 primarily due to lower utilization compared with the same period in 2018. Operating income for the fourth quarter of 2019 was consistent with the same period in 2018. Canadian revenue and operating income decreased for the year ended December 31, 2019 compared to the same periods in 2018 primarily due to lower utilization compared with 2018 as a result of challenging market conditions.

In the United States revenue increased compared to the same period in 2018 due to increased activity as three well servicing rigs were reactivated in the period. Operating income for the fourth quarter and 2019 year decreased compared to the same periods in 2018 primarily due to activity which was impacted by weather conditions that limited the mobilization of rigs. Also negatively impacting operating results of Well Servicing in the United States in the fourth quarter of 2019 was $0.4 million of expenses incurred to reactivate the three well servicing rigs.

Well servicing revenue in Australia for the fourth quarter of 2019 was lower compared to the same periods in 2018 due to decreased lower margin camp and other ancillary revenue, which in its turn positively contributed to higher operating income margin percentage. Operating income for the fourth quarter of 2019 was marginally lower as compared to the same period in 2018 due to lower utilization. For the year ended 2019 well servicing revenue and operating income in Australia was lower compared to the same period in 2018. Lower service hours combined with lower pricing, as well as lower camp and other ancillary revenue contributed to the decrease. Also negatively impacting U.S. and Australian results was the translation of foreign financial results into Canadian dollars given the depreciation of the U.S. and Australian currencies relative to the Canadian dollar during 2019.

Corporate

	Three months ended			Year ended		
December 31	**2019**	2018	Change	**2019**	2018	Change
Operating loss	**$ (4,955)**	$ (2,698)	84%	**$ (14,192)**	$ (13,430)	6%

Total Energy's Corporate segment includes activities related to the Company's corporate and public issuer affairs. This segment does not generate any revenue but provides sales, operating, financial, treasury, analytical and other management and support services to Total Energy's business segments and manages the corporate affairs of the Company, including matters related to its public listing. Included in the Corporate segment for the three months and the year ended December 31, 2019 is $2.1 million and $3.9 million, respectively, of unrealized losses on the translation of working capital balances of foreign subsidiaries as compared to $2.7 million and $5.6 million, respectively, of unrealized gains for the same periods in 2018.

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operating Activities and Cashflow

	Three months ended			Year ended		
December 31	**2019**	2018	Change	**2019**	2018	Change
Cash provided by operating activities	**$ 40,545**	$ 30,658	32%	**$ 73,055**	$ 115,705	(37%)
Per Share Data (Diluted), dollars	**$ 0.90**	$ 0.67	34%	**$ 1.60**	$ 2.51	(36%)
Cashflow	**$ 36,896**	$ 23,070	60%	**$ 111,727**	$ 101,490	10%
Per Share Data (Diluted), dollars	**$ 0.82**	$ 0.50	64%	**$ 2.45**	$ 2.20	11%

The changes in cash provided by operating activities was due primarily to changes in the working capital requirements of the various business segments. Cash flow increased in the fourth quarter of 2019 compared to 2018 as a result of higher EBITDA in fourth quarter and higher income tax recoveries during the year as compared to the same period in 2018. The Company reinvests any remaining cash provided by operating activities after required long-term debt and lease liability payments and dividend payments to shareholders into the internal growth of existing businesses, acquisitions, voluntary repayment of long-term debt or the repurchase of the Company's shares pursuant to the Company's normal course issuer bid.

Investing Activities

	Three months ended			Year ended		
December 31	**2019**	2018	Change	**2019**	2018	Change
Net cash used in investing activities	**$ (7,348)**	$ (6,361)	16%	**$ (39,209)**	$ (31,891)	23%
Proceeds from sale of PP&E	**$ 1,573**	$ 3,790	(58%)	**$ 8,422**	$ 7,588	11%
Purchase of PP&E	**$ (9,013)**	$ (12,128)	(26%)	**$ (49,313)**	$ (40,630)	21%

Proceeds from the sale of property, plant and equipment ("PP&E") are derived primarily from the disposal of equipment in the ordinary course of business and the replacement and upgrade of older equipment in the Company's fleet. During 2019 equipment disposed consisted primarily of compression rental units previously on rent, decommissioned drilling rigs, underutilized older rental equipment and heavy trucks and older light-duty vehicles.

During the fourth quarter of 2019, $9.0 million of PP&E purchases were allocated as follows: $3.4 million in the CDS segment relating to the purchase of rig equipment and rig recertifications and upgrades, $2.2 million in the RTS segment relating primarily to purchases of rental and transportation equipment in the U.S. and rental equipment in Canada, $2.7 million in the CPS segment relating to additions to the compression rental fleet and $0.7 million in the WS segment relating to service rig recertifications and upgrades. During 2019, $49.3 million of PP&E purchases were allocated to the business segments as follows: $10.2 million in the CDS segment relating primarily to the purchase of rig equipment and rig recertifications and upgrades, $19.4 million in the RTS segment relating primarily to purchases of rental and transportation equipment in the U.S., $14.3 million in the CPS segment relating primarily to additions to the compression rental fleet, $4.9 million in the WS segment relating to service rig recertifications and upgrades and $0.5 million in Corporate relating to real estate development and information technology infrastructure upgrades.

Financing Activities

	Three months ended			Year ended		
December 31	**2019**	2018	Change	**2019**	2018	Change
Net cash used in financing activities	**$ (13,324)**	$ (18,071)	(26%)	**$ (44,613)**	$ (74,328)	(40%)

During the fourth quarter of 2019 $3.1 million of bank indebtedness was repaid and $1.1 million was spent to repurchase common shares, a $0.4 million decrease from the fourth quarter of 2018. During 2019 $5.0 million of long-term debt was voluntarily repaid in addition to $2.9 million of regular principal repayments on the Company's mortgage loans. During 2019, $5.3 million was spent purchasing shares under the Company's normal course issuer bid, a $1.2 million increase from 2018.

Liquidity and Capital Resources

The Company had a working capital surplus of $103.2 million as at December 31, 2019 compared to $125.0 million as at December 31, 2018. This decrease was due primarily to the classification of the $40.9 million mortgage loan maturing in 2020 as current and a higher current portion of lease liabilities relating to rental contracts recognized on the adoption of IFRS 16. As at December 31, 2019 and the date of this MD&A, the Company was in compliance with all debt covenants.

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 May 31, 2019 the maturity date was extended to June 19, 2022. 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 $18.0 million operating line, an Australian $2.0 million operating line and a Canadian $270.0 million revolving facility. The Credit Facility bears interest at the banks' Canadian prime rate plus 0.25% to 2.75%, bankers' acceptance, letter of credit, LIBOR or BBSY advances plus a 1.5% to 4.0% 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 0.8% per annum is paid quarterly on the unused portion of the facility depending on certain financial ratios of the Company. At December 31, 2019, the applicable interest rate on amounts drawn on the Credit Facility was 4.25% and the standby rate was 0.5%. Letters of credit ("LOC") of $0.1 million were outstanding at December 31, 2019 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"). Letters of credit ("LOC") issued pursuant to the LOC Facility do not reduce availability under the Credit Facility. At December 31, 2019 $4.4 million Canadian dollars of LOCs were outstanding under the LOC Facility (2018: $4.5 million under the Credit Facility).

In addition to the Credit Facility, a subsidiary of the Company has established a $5.0 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At December 31, 2019 this facility was undrawn and fully available.

At December 31, 2019 the Company's long-term debt consisted of the following:

	December 31, 2019	
	Interest rate	**Principal Amount**
Credit Facility	4.25%	$ 222,000
Mortgage loan (2020 maturity)	3.06%	40,905
Mortgage loan (2041 maturity)	4.55%	14,958
		277,863
Less current portion		41,585
		$ 236,278

At December 31, 2019 amounts owing under the Credit Facility and the two mortgage loans were denominated in Canadian dollars. The weighted average interest rate on the Company's debt at December 31, 2019 was 4.09%.

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, 2019	Threshold
Twelve-month trailing Bank EBITDA to interest expense	9.49	minimum 3.00
Total Senior Debt to twelve-month trailing Bank EBITDA	2.06	maximum 3.00

The Company was in compliance with all of its Credit Facility and other debt covenants at December 31, 2019. For further information regarding Credit Facility compliance requirements and details on the Company's borrowings, please refer to Note 13 to the 2019 Financial Statements.

The Company expects that cash and cash equivalents, cash flow from operating activities, together with existing and available credit facilities, will be sufficient to fund its presently anticipated requirements for investments in working capital and capital assets as well as required debt and lease liability payments, dividend payments and common share repurchases.

Dividends

For the three months and the year ended December 31, 2019 the Company declared dividends of $2.7 million ($0.06 per share) and $10.9 million ($0.24 per share) which was consistent with the same periods in 2018.

For the year ended December 31, 2019 cash provided by operating activities and cashflow exceeded dividends to shareholders. Management and the Board of Directors of the Company continue to monitor the Company's dividend policy in the context of industry conditions and forecasted net income, cashflow, cash provided by operating activities, debt levels, capital expenditures and other investment opportunities and will aim to finance future dividends through cash provided by operating activities.

Capital Spending

Capital spending for the three months and the year ending December 31, 2019 consisted of $9.0 million and $49.3 million, respectively, of PP&E purchases. Capital spending was funded by cash flow and $8.4 million of proceeds from the sale of PP&E during 2019.

CONTRACTUAL OBLIGATIONS

At December 31, 2019 the Company had the following contractual obligations:

		Payments due by year				
	Total	2020	2021	2022	2023	2024 and after
Long-term debt and bank indebtedness	$ 277,863	$ 41,585	$ 680	$ 222,680	$ 680	$ 12,238
Commitments [(1)]	413	277	109	23	3	1
Lease liabilities, net of lease assets	19,597	7,606	6,016	2,875	1,337	1,763
Purchase obligations [(2)]	14,234	14,234	–	–	–	–
Total contractual obligations	$ 312,107	$ 63,702	$ 6,805	$ 225,578	$ 2,020	$ 14,002

(1) Commitments are described in Note 24 to the 2019 Financial Statements.

(2) Purchase obligations are described in Note 24 to the 2019 Financial Statements. As at December 31, 2019 purchase obligations primarily relate to commitments to purchase inventory in the CPS segment.

OFF-BALANCE SHEET ARRANGEMENTS

During 2019 and 2018, the Company had no off-balance sheet arrangements other than short-term leases.

TRANSACTIONS WITH RELATED PARTIES

During 2019 and 2018 the Company had no material transactions with related parties.

FINANCIAL INSTRUMENTS

Fair values

The discounted future cash repayments of the Company's mortgage loan due in 2020 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 such mortgage and related interest at the prevailing market rate of 3.85% for a similar debt instrument at December 31, 2019 was $40.8 million (December 31, 2018: market rate of 4.05%, $42.4 million). The carrying value and Company`s liability with respect to this mortgage is $40.9 million.

OUTSTANDING COMPANY SHARE DATA

As at the date of this MD&A, the Company had 45,081,300 common shares outstanding.

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

Outstanding at December 31, 2019	Exercise Price	Remaining life (years)	Exercisable at December 31, 2019
1,070,000	$ 14.13	0.60	1,070,000
1,215,000	$ 12.69	2.50	810,004
60,000	$ 12.00	2.60	40,000
425,000	$ 13.54	3.20	175,000
150,000	$ 12.99	3.40	50,000
1,015,000	$ 9.51	4.40	–
3,935,000	$ 12.35	2.58	2,145,004

OUTLOOK

Industry Conditions

Economic, political and regulatory uncertainty continue to weigh on energy markets, particularly in Canada. As a result, energy investment has remained stagnant or, in the case of Canada, declined during 2019 compared to 2018. The recent outbreak of the COVID-19 virus and turmoil in global oil markets have led to a sharp decline in oil prices and are expected to result in lower industry activity levels in the near term. Pricing for the Company's products and services remains low by historical standards, particularly in Canada and higher activity levels will need to be sustained for some time before meaningful price recovery is achieved. Continued global economic uncertainty and volatility in global oil and natural gas prices and energy equity markets gives rise to caution regarding future activity levels.

During 2019 the Company took substantive action to reduce its fixed cost structure in the RTS segment, which included closing several branch locations in Canada and the Company expects to continue to rationalize Canadian operations particularly given the recent substantial decline in oil prices. Continued contraction of energy service industry capacity in Canada as a result of the protracted industry downturn that began in late 2014 is expected to contribute to a more balanced market over time. The Company's strategy to geographically diversify its revenue base has also mitigated the risks associated with historically having generated almost all of its revenue in Canada.

Despite near term challenges and uncertainties, the Company believes that medium to long-term fundamentals require continued exploration and development in the markets in which it competes, particularly in respect of unconventional reserves, to meet global demand for oil and natural gas. A continued focus on the development of unconventional oil and natural gas resources is expected to continue to drive activity in the future.

RISK FACTORS AND RISK MANAGEMENT

In the normal course of business, Total Energy is exposed to financial and operating risks that may potentially and materially impact its operating results. The Company employs risk management strategies with a view to mitigating these risks on a cost-effective basis. There have been no significant changes in risk and risk management in 2019 other than as described below.

Industry Conditions

Despite having increased from the lows of 2016, oil prices remain volatile and North American natural gas prices remain low by historical standards. Global economic uncertainty and equity market volatility have contributed to the headwinds facing the energy industry, and the COVID-19 pandemic and recent developments in global oil markets have significantly exacerbated such headwinds. In addition, oil and natural gas producers in Canada face unique political and regulatory challenges that have contributed to a significant lack of pipeline and other energy export capacity. This infrastructure deficit has contributed to a significant decline in Canadian energy investment. Activity levels in the United States moderated somewhat over the course of 2019 while remaining relatively stable in Australia. While the Company has been proactive in managing its operating cost structure to adapt to the current environment, continued challenging industry activity levels may require additional substantive measures be taken to preserve the Company's financial strength and flexibility.

Credit Risk

As a result of the challenging oil and natural gas market conditions, particularly in Canada, the Company continues to face heightened counterparty credit risk as a substantial portion of the Company's dealings are with entities involved in the oil and gas industry. In regard to accounts receivable, the Company remains focused on actively managing credit risk. Specifically, management has remained diligent in assessing credit levels granted to customers, monitoring the aging of receivables and taking proactive steps to secure and collect outstanding balances.

The Company did not have significant exposure to any individual customer or counter party in the fourth quarter of 2019, other than two major oil and gas producing companies that accounted for over 10% of the consolidated revenue. In 2019 the Company did not have significant exposure to any individual customer, with no single customer accounting for more than 10% of revenue during the year. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry.

Government Regulation

Total Energy's business and the business of its customers are subject to significant, evolving and often unanticipated laws and government regulations, including in the areas of environment, labor, health and safety and taxation. Political intervention in the regulation of energy infrastructure construction has also created additional risk and uncertainty which in turn has resulted in reduced capital expenditures and industry activity in Canada.

CRITICAL ACCOUNTING ESTIMATES

Management is responsible for applying judgment in preparing accounting estimates. Certain estimates and related disclosures included within the financial statements are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from management's current judgments. An accounting estimate is considered critical only if it requires the Company to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and different estimates the Company could have used would have a material impact on Total Energy's financial condition, changes in financial condition or results of operations.

There have been no material changes to the Company's Critical Accounting Estimates during 2019, other than the following:

Change in accounting estimates

During the third quarter of 2019, the Company conducted a review of its rentals and transportation equipment within its RTS segment. Such review was based on the current economic and operating environment and considered the operating history of these assets in order to assess their useful lives, pace of economic consumption and residual values. As a result of this review, effective July 1, 2019 certain changes were made to the Company's estimates of the useful life and residual values of various assets and are summarized as follows:

	Previous estimated useful lives, years	New estimated useful lives, years	Previous Residual Value	New Residual Value
Rental and transportation equipment				
Rental equipment	5 - 15	3 - 20	25% - 33%	0% - 25%
Transportation equipment	7	7 - 10	25%	25%

As a result of these changes in estimates, a non-recurring depreciation expense of $7.9 million was incurred during the second half of 2019 on salvage values of previously fully depreciated assets. In addition, recurring incremental depreciation expense increased by $2.0 million in 2019 as a result of this change in estimate.

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.

The Company's assets are aggregated into cash-generating units for the 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 have been met. The Company considers whether a present obligation exists, probability of loss and if a reliable estimate can be formulated.

The Company's functional currency 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 it 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.

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.

Key Sources of Estimation Uncertainty

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in the 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 dismantle 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 recognizes revenue over time in accounting for its equipment manufacturing contract revenue. Recognizing revenue over time requires estimates of the stage of completion of the contract to date as a proportion of the total work to be performed.

As 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 pertains to accounts receivable the Company is required to estimate allowances for doubtful accounts 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.

The Company's estimate of share-based compensation is dependent upon estimates of historic 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 / rates.

The Company's estimate of the fair value of other assets is based on the market prices quoted on the relevant stock exchanges. Such market prices are volatile and subject to change.

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.

STANDARDS ADOPTED IN THE PERIOD

As at January 1, 2019 the Company adopted the following International Financial Reporting Standards:

IFRS 16

IFRS 16, published on January 13, 2016, supersedes International Accounting Standard ("IAS") 17 – Leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases. IFRS 16 applies to reporting periods beginning on or after January 1, 2019.

The Company has adopted IFRS 16 effective January 1, 2019 using the modified retrospective method. Under this method, financial information will not be restated and will continue to be reported under the accounting standards in effect for the relevant periods. The Company applied the following practical expedients permitted under the new standard:

- *(i)* Grandfather the assessment of which contracts contained leases under IFRS 16 to only those previously identified as leases under IAS 17 and related interpretations;
- *(ii)* leases of low dollar value will continue to be expensed as incurred;
- *(iii)* leases for which the lease term ends within 12 months of the date of initial application will continue to be expensed as incurred;
- *(iv)* apply a single discount rate to a portfolio of leases with reasonably similar characteristics; and

(v) the Company may rely on the assessment of its onerous lease and adjust its right-of-use assets at the date of initial application by the amount of onerous lease recognized immediately before the date of initial application.

Historically office and shop leases were accounted for as operating leases under IAS 17 and were only recognized at the time of payment in either cost of services or selling, general and administrative expense. The Company treated vehicle leases as finance leases under IAS 17.

Under IFRS 16, those operating leases in scope were recognized on the Company's statement of financial position with a right-of-use asset and corresponding lease obligation representing 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. The lease obligation is measured at amortized cost using the effective interest rate method. Under this method, finance charges are applied to accrete the lease obligation to the present value of future lease payments. As lease payments are recognized, the lease obligation is reduced.

As at January 1, 2019 the Company recognized approximately $13.2 million in right-of-use assets, $14.8 million of incremental lease obligations on transition and $1.6 million of finance lease assets on sub-leases.

Refer to note 3 of the Financial Statements for further details.

International Financial Reporting Interpretation Committee's Interpretation 23 – "Uncertainty over Income Tax Treatments" ("IFRIC 23")

IFRIC 23 clarifies the accounting for uncertainties in income taxes. The interpretation requires the entity to use the most likely amount or the expected value of the tax treatment if it concludes that it is not probable that a particular tax treatment will be accepted. It requires an entity to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so.

IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do so without using hindsight. Adoption of IFRIC 23 did not have a material effect on the Company's consolidated financial statements.

FUTURE ACCOUNTING POLICIES CHANGES

Certain pronouncements were issued recently by the IASB of the IFRS Interpretations Committee that are mandatory for accounting periods beginning in future years. Accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

NON-IFRS MEASURES

Management believes that EBITDA (earnings before interest, taxes, depreciation and amortization) is a useful measure because it gives an indication of the results from the Company's primary business activities prior to consideration of how such activities are financed and the impact of taxation and non-cash depreciation and amortization charges. Reconciliation of this non-IFRS measure to net income is set forth below.

EBITDA

	Three months ended		Year ended	
December 31	**2019**	2018	**2019**	2018
Net income	**$ 8,593**	$ 8,570	**$ 10,091**	$ 24,215
Add back (deduct):				
Depreciation	**20,773**	17,777	**88,440**	75,500
Finance costs	**3,233**	3,485	**12,938**	13,778
Income tax expense (recovery)	**3,206**	(679)	**(3,790)**	1,173
EBITDA	**$ 35,805**	$ 29,153	**$ 107,679**	$ 114,666

Net debt is equal to long-term debt plus lease liabilities plus current liabilities minus current assets.

Net Debt

	As at December 31, 2019
Long-term debt	**$ 236,278**
Lease liabilities	**12,170**
Add back (deduct):	
Current liabilities	**152,190**
Current assets	**(255,424)**
Net Debt	**$ 145,214**

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying consolidated financial statements, and has in place appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Company, and has reviewed and approved this MD&A and the 2019 Financial Statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer, together with other members of management (collectively, the "Officers"), have designed the Company's disclosure controls and procedures in order to provide reasonable assurance that the information required to be disclosed by the Company and its consolidated divisions, subsidiaries and partnerships in its filings or other reports submitted by it under securities legislation is in compliance with the time periods specified in the securities legislation. These disclosure controls and procedures include controls and procedures which have been designed to ensure that the information required to be disclosed by the Company and its consolidated divisions and subsidiaries in its filings or other reports submitted by it under securities legislation is accumulated and communicated to the Officers and others within those entities to allow timely decisions regarding required disclosure.

Disclosure Controls and Procedures: The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is reported within the time periods specified under securities laws, and include controls and procedures that are designed to ensure that information is communicated to management of Total Energy, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. An evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) was conducted as at December 31, 2019. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer of Total Energy have concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2019.

Internal Control Over Financial Reporting: The Chief Executive Officer and the Chief Financial Officer of Total Energy are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards ("IFRS"). The Chief Executive Officer and the Chief Financial Officer of Total Energy directed the assessment of the design and operating effectiveness of the Company's internal control over financial reporting as at December 31, 2019 and based on that assessment determined that the Company's internal control over financial reporting was, in all material respects, appropriately designed and operating effectively. There were no changes to internal controls over financial reporting that would materially affect, or be reasonably likely to materially affect, the Company's internal controls over financial reporting during the quarter ended December 31, 2019.

While the Officers have designed the Company's disclosure controls and procedures and internal controls over financial reporting, they expect that these controls and procedures will not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain information and statements contained in this MD&A constitute forward-looking information, including the anticipated costs associated with the purchase of capital equipment, expectations concerning the nature and timing of growth within the various business divisions operated through affiliates of Total Energy, expectations respecting the competitive position of such business divisions, expectations concerning the financing of future business activities, statements as to future economic and operating conditions and expectations regarding the payment of dividends in the future. Readers should review the cautionary statement respecting forward-looking information that appears below.

The information and statements contained in this MD&A that are not historical facts are forward-looking statements. Forward-looking statements (often, but not always, identified by the use of words such as "seek", "plan", "continue", "estimate", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "expect", "may", "anticipate" or "will" and similar expressions) may include plans, expectations, opinions, or guidance that are not statements of fact. Forward-looking statements are based upon the opinions, expectations and estimates of management as at the date the statements are made and are subject to a variety of risks and uncertainties and other factors that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking statements. These factors include, but are not limited to, such things as changes in industry conditions (including the levels of capital expenditures made by oil and gas producers and explorers), the credit risk to which the Company is exposed in the conduct of its business, fluctuations in prevailing commodity prices or currency and interest rates, the competitive environment to which the various business divisions are, or may be, exposed in all aspects of their business, the ability of the Company's various business divisions to access equipment (including parts) and new technologies and to maintain relationships with key suppliers, the ability of the Company's various business divisions to attract and maintain key personnel and other qualified employees, various environmental risks to which the Company's business divisions are exposed in the conduct of their operations, inherent risks associated with the conduct of the businesses in which the Company's business divisions operate, timing and costs associated with the acquisition of capital equipment, the impact of weather and other seasonal factors that affect business operations, availability of financial resources or third-party financing and the impact of new laws and regulations or changes in existing laws, regulations or administrative practices on the part of regulatory authorities, including without limitation taxation, labour and environmental laws and regulations and changes in how such laws and regulations are interpreted and enforced. Forward-looking information respecting the anticipated costs associated with the purchase of capital equipment are based upon historical prices for various classes of equipment, expectations relating to the impact of inflation on the future cost of such equipment and management's views concerning the negotiating position of the Company and its affiliates. Forward-looking information concerning the nature and timing of growth within the various business divisions is based on the current budget of the Company (which is subject to change), factors that affected the historical growth of such business divisions, sources of historic growth opportunities and expectations relating to future economic and operating conditions. Forward-looking information concerning the future competitive position of the Company's business divisions is based upon the current competitive environment in which those business divisions operate, expectations relating to future economic and operating conditions, current and announced build programs and other expansion plans of other organizations that operate in the energy service business. Forward-looking information concerning the financing of future business activities is based upon the financing sources on which the Company and its predecessors have historically relied and expectations relating to future economic and operating conditions. Forward-looking information concerning future economic and operating conditions is based upon historical economic and operating conditions, and opinions of third-party analysts respecting anticipated economic and operating conditions. Although management of the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Accordingly, readers should not place undue reliance upon any of the forward-looking information set out in this MD&A. All of the forward-looking statements of the Company contained in this MD&A are expressly qualified, in their entirety, by this cautionary statement. The various risks to which the Company is exposed are described in additional detail in this MD&A under the heading "Risk Factors" and in the Company's AIF. Except as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking information or statements, whether as a result of new information, future events or otherwise.

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, 2018 to December 31, 2019.

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.

KPMG LLP, an independent firm of Chartered Accountants, was engaged, as approved by a vote of shareholders at Total Energy's most recent annual general meeting, to audit the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion.

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 Halyk

DANIEL K. HALYK
President and Chief Executive Officer

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

March 12, 2020

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Total Energy Services Inc.

Opinion

We have audited the consolidated financial statements of Total Energy Services Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, the consolidated statements of comprehensive income (loss), the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and notes, to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other 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.

Other Information

Management is responsible for the other information. Other information comprises Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the 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 audit of the 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 financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' 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 in the auditors' report.

We have nothing to report in this regard.

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

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

In preparing the 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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the financial statements.

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 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 auditors' report to the related disclosures in the 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 auditors' 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditors' report is Lee Bardwell.

KPMG LLP

Chartered Professional Accountants Calgary, Canada

March 12, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	Note	December 31, 2019	December 31, 2018
ASSETS			
Current assets:			
Cash and cash equivalents	6	$ 19,873	$ 30,640
Accounts receivable	7	113,934	155,946
Inventory	8	105,672	84,743
Prepaid expenses and deposits		10,878	17,776
Income taxes receivable	15	4,403	7,299
Other assets	10	–	527
Current portion of finance lease asset	14	664	–
		255,424	296,931
Property, plant and equipment	9	730,435	768,613
Income taxes receivable	25	7,070	7,070
Deferred tax asset	15	–	1,457
Lease asset	14	179	–
Goodwill	11	4,053	4,053
		$ 997,161	$ 1,078,124
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	12	$ 95,742	$ 126,608
Deferred revenue		3,883	37,316
Dividends payable		2,710	2,752
Current portion of lease liabilities	14	8,270	2,376
Current portion of long-term debt	13	41,585	2,912
		152,190	171,964
Long-term debt	13	236,278	282,863
Lease liabilities	14	12,170	3,456
Onerous lease liability	12	–	1,574
Deferred tax liability	15	53,381	57,691
Shareholders' equity:			
Share capital	16	284,510	288,902
Contributed surplus		7,528	6,384
Accumulated other comprehensive loss		(16,722)	(5,320)
Non-controlling interest		(236)	238
Retained earnings		268,062	270,372
		543,142	560,576
		$ 997,161	$ 1,078,124

The notes on pages 36 to 68 are an integral part of these consolidated financial statements.

Approved by the Board of Total Energy Services Inc.

Director: Greg Melchin

Director: Bruce L. Pachkowski

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands of Canadian dollars except per share amounts)

	Note	2019	2018
REVENUE	18	$ 757,398	$ 851,809
Cost of services	19	597,336	686,688
Selling, general and administration	20	49,393	56,301
Other expense (income)		3,928	(5,634)
Share-based compensation	17	1,499	2,396
Depreciation	9	88,440	75,500
Operating income		16,802	36,558
Gain on sale of property, plant and equipment	9	2,437	2,608
Finance costs, net	22	(12,938)	(13,778)
Net income before income taxes		6,301	25,388
Current income tax recovery	15	(161)	(2,070)
Deferred income tax expense (recovery)	15	(3,629)	3,243
Total income tax expense (recovery)	15	(3,790)	1,173
Net income for the year		$ 10,091	$ 24,215
Net income (loss) attributable to:			
Shareholders of the Company		$ 10,527	$ 24,458
Non-controlling interest		$ (436)	$ (243)
Income per share:			
Basic and diluted earnings per share	16	$ 0.23	$ 0.53

	Note	2019	2018
Net income for the year		$ 10,091	$ 24,215
Other Comprehensive Income (Loss) (OCI):			
Foreign currency translation adjustment		(10,626)	5,539
Deferred tax effect	15	(776)	(665)
Total other comprehensive income (loss) for the year		(11,402)	4,874
Total comprehensive income (loss)		$ (1,311)	$ 29,089
Total comprehensive income (loss) attributable to:			
Shareholders of the Company		$ (875)	$ 29,332
Non-controlling interest		$ (436)	$ (243)

The notes on pages 36 to 68 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended December 31, 2019 and 2018
(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, 2017		$ 291,317	$ 4,550	$ (10,194)	$ 1,196	$ 259,705	$ 546,574
Net income (loss)		–	–	–	(243)	24,458	24,215
Other comprehensive income		–	–	4,874	–	–	4,874
Transactions with shareholders, recorded directly in equity:							
Dividends to shareholders ($0.24 per common share)		–	–	–	–	(10,985)	(10,985)
Repurchase of common shares	16	(2,415)	–	–	–	(1,776)	(4,191)
Share-based compensation	17	–	2,396	–	–	–	2,396
Stock options expired		–	(562)	–	–	562	–
Purchase of partners' share in limited partnership		–	–	–	10	(1,592)	(1,582)
Partnership distributions		–	–	–	(725)	–	(725)
		(2,415)	1,834	–	(715)	(13,791)	(15,087)
Balance at December 31, 2018		$ 288,902	$ 6,384	$ (5,320)	$ 238	$ 270,372	$ 560,576
Net income (loss)		–	–	–	(436)	10,527	10,091
Other comprehensive loss		–	–	(11,402)	–	–	(11,402)
Transactions with shareholders, recorded directly in equity:							
Dividends to shareholders ($0.24 per common share)		–	–	–	–	(10,907)	(10,907)
Repurchase of common shares	16	(4,392)	–	–	–	(954)	(5,346)
Share-based compensation	17	–	1,499	–	–	–	1,499
Stock options expired		–	(355)	–	–	355	–
Dissolution of limited partnership		–	–	–	1,284	(1,284)	–
Purchase of partners' share in limited partnership		–	–	–	(81)	(47)	(128)
Partnership distributions		–	–	–	(1,241)	–	(1,241)
		(4,392)	1,144	–	(38)	(12,837)	(16,123)
Balance at December 31, 2019		**$ 284,510**	**$ 7,528**	**$ (16,722)**	**$ (236)**	**$ 268,062**	**$ 543,142**

The notes on pages 36 to 68 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

	Note	2019	2018
Cash provided by (used in):			
Operations:			
Net income for the year		$ 10,091	$ 24,215
Add (deduct) items not affecting cash:			
Depreciation	9	88,440	75,500
Share-based compensation	17	1,499	2,396
Gain on disposal of property, plant and equipment	9	(2,437)	(2,608)
Finance costs		12,257	9,991
Unrealized (gain) loss on foreign currencies translation		2,610	(5,124)
Current income tax recovery	15	(161)	(2,070)
Deferred income tax expense (recovery)	15	(3,629)	3,243
Income taxes (paid) recovered		3,057	(4,053)
Cashflow		111,727	101,490
Changes in non-cash working capital items:			
Accounts receivable	7	39,641	(5,893)
Inventory	8	(20,929)	(16,477)
Prepaid expenses and deposits		9,306	2,060
Accounts payable and accrued liabilities	12	(34,554)	19,993
Onerous leases	12	1,297	(1,159)
Deferred revenue		(33,433)	15,691
		73,055	115,705
Investments:			
Purchase of property, plant and equipment	9	(49,313)	(40,630)
Acquisition of non-controlling interest		(128)	(1,582)
Proceeds on sale of other assets		682	3,790
Proceeds on disposal of property, plant and equipment		8,422	7,588
Changes in non-cash working capital items		1,128	(1,057)
		(39,209)	(31,891)
Financing:			
Advances under long-term debt	13	15,000	50,000
Repayment of long-term debt	13	(22,912)	(91,923)
Repayment of lease liabilities	14	(7,164)	(2,227)
Partnership distributions to non-controlling interests		(1,241)	(725)
Payment of dividends	16	(10,949)	(11,007)
Repurchase of common shares	16	(5,346)	(4,191)
Interest paid		(12,001)	(14,255)
		(44,613)	(74,328)
Change in cash and cash equivalents		(10,767)	9,486
Cash and cash equivalents, beginning of year		30,640	21,154
Cash and cash equivalents, end of year		$ 19,873	$ 30,640

The notes on pages 36 to 68 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2019 and 2018
(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 800, 311 – 6th Avenue S.W. The annual consolidated financial statements include the accounts of the Company, its subsidiaries and its wholly and partially owned 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 oil and natural gas industry primarily in Canada, the United States and Australia, including contract drilling services, the rental and transportation of equipment used in oil and natural gas drilling, completion and production processes, the fabrication, sale, rental and servicing of natural gas compression and oil and natural gas 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 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 12, 2020.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for other assets and 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.

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 it 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 dismantle 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. Effective July 1, 2019 the Company revised its estimates of the useful life and residual values of various assets which are described further in note 9.

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.

The Company's estimate of stock-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 entities 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 income (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
Other assets	Fair value through profit or loss	Fair value through profit or loss

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

The Company initially recognizes trade and other receivables on the date that they originate. Impairment of trade and other receivables is recognized in selling, general and administration expenses when evidence of impairment arises. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss, or a portion of such is reversed. The amount of the impairment loss reversed may not exceed the original impairment amount. (see note 7).

Other assets are measured at fair value. Gains and losses relating to change in fair value are recognized entirely through profit or loss (see note 10).

(ii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated 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.

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
Lease liabilities	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 statement of financial position at estimated value. Transaction costs are recognized in net income 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.

Unaudited (tabular amounts in thousands of Canadian dollars)

(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. 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 except contract drilling equipment, which is depreciated using the utilization method based on operating days with a minimum annual deemed utilization. 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 to 20 years	0% to 25%	straight-line
Light duty vehicles	3 years	–	straight-line
Heavy duty vehicles	7 to 10 years	25%	straight-line
Drilling rigs and related equipment	600 to 8,000 operating days	–	utilization (minimum annual deemed utilization of 96 days)
Service rigs and related equipment	3 to 12 years	–	straight-line
Other	3 to 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, those operating leases in scope were recognized on the Company's statement of financial position with a right-of-use asset and corresponding lease obligation representing 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. The lease obligation is measured at amortized cost using the effective interest rate method. Under this method, finance charges are applied to accrete the lease obligation to the present value of future lease payments. 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.

Unaudited (tabular amounts in thousands of Canadian dollars)

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.

As at January 1, 2019 the Company recognized approximately $13.2 million in right-of-use assets, $14.8 million of incremental lease obligations on transition and $1.6 million of finance lease assets on sub-leases. As a result, no adjustment to the opening balance of retained earnings was required. The weighted average discount rate applied was 7.0%.

The following table reconciles the movement of assets recognized on adoption of IFRS 16 for the year ended December 31, 2019:

	Leased assets – office and shop leases
Cost	
Recognized on January 1, 2019	$ 13,173
Additions	1,625
Disposals	(23)
Effect of changes in foreign exchange rates	(306)
As at December 31, 2019	14,469
Accumulated Depreciation	
Recognized on January 1, 2019	–
Depreciation expense	4,542
Disposals	(23)
Effect of changes in foreign exchange rates	(23)
As at December 31, 2019	4,496
Net Book Value	
As at December 31, 2019	$ 9,973

The following table shows the impact of adopting IFRS 16 on the Company's statement of comprehensive income for the year ended December 31, 2019:

	Year ended December 31, 2019
Incremental finance costs	**$ 914**
Incremental depreciation	**4,542**
Reduced cost of services and selling, general and administration	**(4,823)**
Net incremental expense on adopting IFRS 16	**$ 633**

Included in cost of services and selling, general and administrative expense for the year ended December 31, 2019 is $0.4 million, respectively, of lease payments made on leases of low-value assets or leases with a term of less than one year.

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) Financial assets (including receivables)

A financial asset not carried at fair value through net income or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy or the disappearance of an active market for a security.

In assessing collective impairment, the Company uses historical experience as to the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions and other relevant circumstances are such that the actual losses are likely to be greater or less than suggested by historical experience.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net income or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net income or loss. Where financial assets are measured at fair value, gains and losses are recognized in profit or loss for the period.

(ii) 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 5.

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. 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 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, dividends received, realized and unrealized gains on other assets 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 and realized and unrealized loss on other assets. 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.

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.

Standards adopted in the period

As at January 1, 2019 the Company adopted the following standards:

IFRS 16 - Leases

IFRS 16, published on January 13, 2016, supersedes International Accounting Standards ("IAS") 17 – Leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases. IFRS 16 applies to reporting periods beginning on or after January 1, 2019.

The Company has adopted IFRS 16 effective January 1, 2019 using the modified retrospective method. Under this method, financial information will not be restated and will continue to be reported under the accounting standards in effect for the relevant periods. The Company applied the following practical expedients permitted under the new standard:

(i) grandfather the assessment of which contracts contained leases under IFRS 16 to only those previously identified as leases under IAS 17 and related interpretations;

(ii) leases of low dollar value will continue to be expensed as incurred;

(iii) leases for which the lease term ends within 12 months of the date of initial application will continue to be expensed as incurred;

(iv) apply a single discount rate to a portfolio of leases with reasonably similar characteristics; and

(v) the Company may rely on the assessment of its onerous lease and adjust its right-of-use assets at the date of initial application by the amount of onerous lease recognized immediately before the date of initial application.

Historically office and shop leases were accounted for as operating leases under IAS 17 and were only recognized at the time of payment in either cost of services or selling, general and administrative expense. The Company treated vehicle leases as finance leases under IAS 17.

International Financial Reporting Interpretation Committee's Interpretation 23 – "Uncertainty over Income Tax Treatments" ("IFRIC 23")

IFRIC 23 clarifies the accounting for uncertainties in income taxes. The interpretation requires the entity to use the most likely amount or the expected value of the tax treatment if it concludes that it is not probable that a particular tax treatment will be accepted. It requires an entity to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so.

IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do so without using hindsight. Adoption of IFRIC 23 did not have a material effect on the Company's consolidated financial statements.

Accounting pronouncements not yet adopted

Certain pronouncements were issued recently by the IASB of the IFRS Interpretations Committee that are mandatory for accounting periods beginning in future years. Accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

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.

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) Other assets

The fair value of other assets is determined based on prices quoted in an open market. The change in fair value is recorded in profit or loss for the period.

(e) 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.

(f) 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.

Unaudited (tabular amounts in thousands of Canadian dollars)

5. 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, 2019	**Contract Drilling Services**	**Rentals and Transportation Services**	**Compression and Process Services**	**Well Servicing**	**Corporate [1]**	**Total**
Revenue	**$ 186,868**	**$ 65,446**	**$ 366,738**	**$ 138,346**	**$ –**	**$ 757,398**
Cost of services	**135,999**	**42,764**	**318,267**	**100,306**	**–**	**597,336**
Selling, general and administration	**8,599**	**14,581**	**11,299**	**6,759**	**8,155**	**49,393**
Other expense	**–**	**–**	**–**	**–**	**3,928**	**3,928**
Share-based compensation	**–**	**–**	**–**	**–**	**1,499**	**1,499**
Depreciation [2]	**32,478**	**29,512**	**9,303**	**16,537**	**610**	**88,440**
Operating income (loss)	**9,792**	**(21,411)**	**27,869**	**14,744**	**(14,192)**	**16,802**
Gain (loss) on sale of property, plant and equipment	**(882)**	**1,447**	**1,607**	**69**	**196**	**2,437**
Finance costs	**(345)**	**(138)**	**(427)**	**(29)**	**(11,999)**	**(12,938)**
Net income (loss) before income taxes	**8,565**	**(20,102)**	**29,049**	**14,784**	**(25,995)**	**6,301**
Goodwill	**–**	**2,514**	**1,539**	**–**	**–**	**4,053**
Total assets	**392,832**	**233,124**	**222,820**	**119,823**	**28,562**	**997,161**
Total liabilities	**75,670**	**26,515**	**56,547**	**8,104**	**287,183**	**454,019**
Capital expenditures	**10,168**	**19,420**	**14,312**	**4,929**	**484**	**49,313**

As at and for the year ended December 31, 2018	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate [1]	Total
Revenue	$ 204,184	$ 76,615	$ 420,664	$ 150,346	$ –	$ 851,809
Cost of services	165,631	49,491	362,156	109,410	–	686,688
Selling, general and administration	8,261	14,135	12,876	4,441	16,588	56,301
Other income	–	–	–	–	(5,634)	(5,634)
Share-based compensation	–	–	–	–	2,396	2,396
Depreciation	32,241	17,969	6,044	19,166	80	75,500
Operating income (loss)	(1,949)	(4,980)	39,588	17,329	(13,430)	36,558
Gain on sale of property, plant and equipment	433	466	564	1,020	125	2,608
Finance costs	(87)	(96)	(46)	(113)	(13,436)	(13,778)
Net income (loss) before income taxes	(1,603)	(4,610)	40,106	18,236	(26,741)	25,388
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	435,247	241,837	245,226	134,921	20,893	1,078,124
Total liabilities	58,051	37,997	111,259	4,929	305,312	517,548
Capital expenditures	14,221	11,234	11,445	3,723	7	40,630

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

(2) Effective July 1, 2019 the Company changed certain estimates relating to the useful life and residual value of equipment in the Rentals and Transportation Services segment. See note 9 for further details.

Unaudited (tabular amounts in thousands of Canadian dollars)

Year ended December 31, 2019	**Canada**	**United States**	**Australia**	**Other**	**Total**
Revenue	**$ 308,274**	**$ 289,012**	**$ 152,736**	**$ 7,376**	**$ 757,398**
Non-current assets [(1)]	**490,960**	**173,779**	**69,928**	**–**	**734,667**

Year ended December 31, 2018	Canada	United States	Australia	Other	Total
Revenue	$ 423,796	$ 255,825	$ 172,105	$ 83	$ 851,809
Non-current assets [(1)]	524,756	167,760	80,150	–	772,666

(1) Includes property, plant and equipment, lease assets and goodwill.

6. Cash and cash equivalents

Cash and cash equivalents represent cash in bank.

7. Accounts receivable

	December 31, 2019	December 31, 2018
Trade receivables, net of allowance for doubtful accounts	**$ 88,900**	$ 118,420
Accrued and other receivables	**25,034**	37,526
	$ 113,934	$ 155,946

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 $16.5 million (2018: $26.5 million) of amounts pertaining to contracts in progress as at December 31, 2019.

8. Inventory

	December 31, 2019	December 31, 2018
Finished goods	**$ 1,005**	$ 1,005
Work-in-progress	**13,283**	38,795
Parts and raw materials	**91,384**	44,943
	$ 105,672	$ 84,743

For the year ended December 31, 2019, finished goods, work-in-progress and parts and raw materials of $298.1 million (December 31, 2018: $335.5 million) are included in cost of services (note 19).

Unaudited (tabular amounts in thousands of Canadian dollars)

9. 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, 2017	$ 118,352	$ 299,062	$ 60,125	$ 9,921	$ 18,062	$ 449,005	$ 109,865	$ 7,895	$ 1,072,287
Additions	1,895	14,264	3,689	4,257	3,610	13,789	2,916	467	44,887
Disposals	(1,406)	(1,206)	(9,049)	(1,698)	(34)	(1,660)	(1,610)	–	(16,663)
Effect of changes in foreign exchange rates	454	1,653	222	54	362	10,031	(579)	128	12,325
As at December 31, 2018	119,295	313,773	54,987	12,534	22,000	471,165	110,592	8,490	1,112,836
Additions	**2,609**	**27,102**	**3,822**	**6,067**	**787**	**9,904**	**4,405**	**684**	**55,380**
IFRS 16 transition	**–**	**–**	**–**	**13,173**	**–**	**–**	**–**	**–**	**13,173**
Disposals	**(525)**	**(2,763)**	**(4,907)**	**(2,367)**	**(412)**	**(4,636)**	**(56)**	**–**	**(15,666)**
Effect of changes in foreign exchange rates	**(286)**	**(2,126)**	**(242)**	**(379)**	**(267)**	**(8,101)**	**(3,973)**	**(81)**	**(15,455)**
As at December 31, 2019	**121,093**	**335,986**	**53,660**	**29,028**	**22,108**	**468,332**	**110,968**	**9,093**	**1,150,268**
Accumulated Depreciation									
As at December 31, 2017	18,163	110,501	37,702	6,742	13,081	71,873	14,342	6,419	278,823
Depreciation expense	4,757	13,431	4,385	1,880	1,237	31,465	18,046	299	75,500
Disposals	(913)	(635)	(6,824)	(1,510)	(34)	(685)	(1,082)	–	(11,683)
Effect of changes in foreign exchange rates	34	80	81	5	61	1,245	37	40	1,583
As at December 31, 2018	22,041	123,377	35,344	7,117	14,345	103,898	31,343	6,758	344,223
Depreciation expense	**4,528**	**26,578**	**4,338**	**6,843**	**1,123**	**29,244**	**15,245**	**541**	**88,440**
Disposals	**(57)**	**(1,462)**	**(3,726)**	**(2,220)**	**(421)**	**(1,727)**	**(68)**	**–**	**(9,681)**
Effect of changes in foreign exchange rates	**(35)**	**(287)**	**(75)**	**(31)**	**(58)**	**(1,467)**	**(1,168)**	**(28)**	**(3,149)**
As at December 31, 2019	**26,477**	**148,206**	**35,881**	**11,709**	**14,989**	**129,948**	**45,352**	**7,271**	**419,833**
Net Book Value									
As at December 31, 2017	100,189	188,561	22,423	3,179	4,981	377,132	95,523	1,476	793,464
As at December 31, 2018	97,254	190,396	19,643	5,417	7,655	367,267	79,249	1,732	768,613
As at December 31, 2019	**$ 94,616**	**$ 187,780**	**$ 17,779**	**$ 17,319**	**$ 7,119**	**$ 338,384**	**$ 65,616**	**$ 1,822**	**$ 730,435**

As at December 31, 2019, there was $3.6 million (December 31, 2018: $3.7 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.

The Company reviews the current value of property, plant and equipment at each reporting period for indicators of impairment. Based on a relatively stable industry environment during the course of 2019 and the ability of the Company to increase or maintain its market share in such environment, no indications of impairment were identified during the period ended December 31, 2019.

Unaudited (tabular amounts in thousands of Canadian dollars)

Change in accounting estimates

During the third quarter of 2019, the Company conducted a review of its rentals and transportation equipment within its Rentals and Transportation Services segment. Such review was based on the current economic and operating environment and considered the operating history of these assets in order to assess their useful lives, pace of economic consumption and residual values. As a result of this review, effective July 1, 2019 certain changes were made to the Company's estimates of the useful life and residual values of various assets, which are summarized as follows:

	Previous estimated useful lives, years	New estimated useful lives, years	Previous Residual Value	New Residual Value
Rental equipment	5 to 15	3 to 20	25% to 33%	0% to 25%
Transportation equipment	7	7 to 10	25%	25%

As a result of these changes in estimates, a non-recurring depreciation expense of $7.9 million was incurred during the year ended December 31, 2019 which related primarily to the reduction of residual values for certain assets. In addition, recurring depreciation expense increased by $2.0 million for the year ended December 31, 2019.

10. Other assets

Other assets consist primarily of marketable securities of publicly traded entities (level 1 of fair value through profit or loss hierarchy with values based on quoted prices). Other assets are designated as financial assets measured at fair value through profit or loss, with changes in fair value recorded in the statement of comprehensive income (loss) as finance income or finance cost. During the year ended December 31, 2019, the Company recorded an unrealized gain of $0.8 million (2018: $3.9 million) resulting from changes in the market value of other assets and $0.7 million of realized loss on the sale of other assets (2018: $4.2 million). These amounts were included in finance costs.

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 unit are as follows:

	December 31, 2019	December 31, 2018
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 (2018: nil).

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

Unless indicated otherwise, value in use in 2019 was determined similarly as in 2018. 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 2019 and 2018.

- An after-tax discount rate of 8.08% (2018: 9.6%) was applied in determining the recoverable amount of the unit.

Unaudited (tabular amounts in thousands of Canadian dollars)

- The expectation is that activity levels stabilized in 2019 and will gradually recover through to 2022.

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 or all the key assumptions would not change the outcome of management's assessment of impairment.

12. Accounts payable and accrued liabilities

	December 31, 2019	December 31, 2018
Trade payables	$ 50,423	$ 70,247
Wages and salaries payables and related accruals	14,686	19,743
Accrued costs and other payables	30,633	35,731
Current portion of onerous lease liabilities	–	887
	$ 95,742	$ 126,608

Included in accrued costs and other payables is $1.7 million (2018: $4.6 million) relating to contracts in progress as at December 31, 2019.

Onerous lease liabilities related to provisions for office lease contracts that are no longer in use but for which the Company was still obligated to make payments. The aggregate liability was measured at the present value of the lower of the expected cost of terminating the contracts and the expected net cost of continuing with the contracts. The total onerous lease liability was $nil at December 31, 2019 (2018: $2.5 million). Of the total liability as at December 31, 2018, $0.9 million was included in accounts payable and accrued liabilities.

13. Long-term debt

At December 31, 2019 the Company's long-term debt consisted of the following:

	December 31, 2019		December 31, 2018	
	Interest rate	Principal Amount	Interest rate	Principal amount
Credit Facility	4.25%	$ 222,000	4.36%	$ 227,000
Mortgage loan (2020 maturity)	3.06%	40,905	3.06%	42,965
Mortgage loan (2041 maturity)	4.55%	14,958	4.55%	15,638
Limited partnership credit facility	–	–	5.50%	172
		277,863		285,775
Less current portion		41,585		2,912
		$ 236,278		$ 282,863

At December 31, 2019 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 May 31, 2019 the maturity date was extended to June 19, 2022. 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 $18.0 million operating line, an Australian $2.0 million operating line and a Canadian $270.0 million revolving facility. The Credit Facility bears interest at the banks' Canadian prime rate plus 0.25% to 2.75%, bankers' acceptance, letter of credit, LIBOR or BBSY advances plus a 1.5% to 4.0% 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 0.8% per annum is paid quarterly on the unused portion of the facility depending on certain financial ratios of the Company. At December 31, 2019, the applicable interest rate on amounts drawn on the Credit Facility was 4.25% and the standby rate was 0.5%. Letters of credit ("LOC") of $0.1 million were outstanding at December 31, 2019 which reduces the amount of credit available under the Credit Facility by an equivalent amount.

Unaudited (tabular amounts in thousands of Canadian dollars)

In August of 2018 a U.S. $20 million letter of credit facility was established (the "LOC Facility"). Letters of credit ("LOC") issued pursuant to the LOC Facility do not reduce availability under the Credit Facility. At December 31, 2019 $4.4 million Canadian dollars of LOCs were outstanding under the LOC Facility (2018: $4.5 million under the Credit Facility).

In addition to the Credit Facility, a subsidiary of the Company has established a $5.0 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At December 31, 2019 this facility was undrawn and fully available.

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, 2019	Threshold
Twelve-month trailing Bank EBITDA to interest expense	**9.49**	minimum 3.00
Total Senior Debt to twelve-month trailing Bank EBITDA	**2.06**	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.

On May 25, 2018 the Company repaid $67.5 million principal amount of 7.0% senior unsecured notes issued by a subsidiary together with $2.3 million of accrued interest thereon. Such repayment was funded by a $50.0 million draw on the Credit Facility and $19.8 million of cash on hand.

Mortgage Loan (2020 maturity) is a loan maturing on April 29, 2020 that is amortized over 20 years with blended monthly principal and interest payments of approximately $278,800. 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 3.06% and is secured by certain of the Company`s real estate.

Mortgage Loan (2041 maturity) is a loan maturing on December 31, 2041 and bears interest at a floating rate that was 4.55% at December 31, 2019. This loan is secured by certain of the Company's real estate.

At December 31, 2019 the Company was in compliance with all debt covenants.

Unaudited (tabular amounts in thousands of Canadian dollars)

14. Lease liabilities

	December 31, 2019	December 31, 2018
Lease liability	$ 20,440	$ 5,832
Less current portion	8,270	2,376
Long-term finance lease liability, end of year	$ 12,170	$ 3,456

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 2.49% to 7.00% (December 31, 2018: 2.49% to 4.88%) and mature on various dates up to 2028.

	December 31, 2019	December 31, 2018
Lease liability	$ 20,440	$ 5,832
Less lease asset	843	–
Net lease liability, end of year	$ 19,597	$ 5,832

In 2019, interest of $1.2 million (December 31, 2018 – $0.3 million) relating to lease liabilities has been included in finance costs.

	Minimum lease payments		Present value of minimum lease payments	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Not later than one year	$ 8,885	$ 2,698	$ 7,606	$ 2,376
Later than one year and not later than five years	13,147	4,429	10,751	3,456
Later than 5 years	1,363	–	1,240	–
	23,395	7,127	19,597	5,832
Less: future finance charges	(3,798)	(1,295)	–	–
Present value of minimum lease payments	$ 19,597	$ 5,832	$ 19,597	$ 5,832

15. Deferred income tax assets and (liabilities)

The components of the net deferred income tax liability at December 31, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
Deferred income tax assets:		
Non-capital losses	$ 27,642	$ 26,735
Unrealized foreign exchange on capital items	–	374
Long-term leave provision	2,171	2,283
Deferred income tax liabilities:		
Property, plant and equipment	(82,281)	(84,241)
Unrealized foreign exchange on capital items	(402)	–
Unrealized foreign exchange on working capital balances	(154)	(1,229)
Other	(357)	(156)
	$ (53,381)	$ (56,234)
Deferred income tax assets, net	–	1,457
Deferred income tax liabilities, net	(53,381)	(57,691)
Net deferred income tax liabilities	$ (53,381)	$ (56,234)

Unaudited (tabular amounts in thousands of Canadian dollars)

By Country:

	December 31, 2019	December 31,2018
Deferred income tax assets:		
Australia	**$ –**	$ 1,457
Deferred income tax liabilities:		
Canada	**(48,917)**	(55,284)
United States	**(4,247)**	(2,407)
Australia	**(217)**	–
Net deferred income tax liabilities	**$ (53,381)**	$ (56,234)

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.

At December 31, 2019, the Company had $25.9 million (2018: $29.7 million) of unrecognized tax benefits relating to non-capital losses that, if recognized, would have a favorable impact on Company's effective income tax rate in the future periods.

At December 31, 2019 the Company's non-capital losses available to carry forward totaling $206.0 million (2018: $208.9 million), of which $123.2 million relate to Canadian entities (2018: $126.8 million), $82.6 million relate to United States entities (2018: $81.8 million) and $0.2 million to Australian entities (2018: $0.4 million). The unused tax losses, which begin to expire in 2029, may be applied to reduce future taxable income and future income taxes payable.

Movement in temporary differences during the period:

	Dec 31, 2017	Recognized in net income	Recognized in OCI	Dec 31, 2018	**Recognized in net income**	**Recognized in OCI**	**Dec 31, 2019**
Deferred income tax assets:							
Non-capital losses	$ 34,628	$ (7,893)	$ –	$ 26,735	**$ 907**	**$ –**	**$ 27,642**
Unrealized foreign exchange on capital items	1,039	–	(665)	374	**–**	**(374)**	**–**
Long-term leave provision	–	2,283	–	2,283	**(112)**	**–**	**2,171**
Other assets	643	(643)	–	–	**–**	**–**	**–**
Deferred income tax liabilities:							
Property, plant and equipment	(88,320)	4,079	–	(84,241)	**1,960**	**–**	**(82,281)**
Unrealized foreign exchange on capital items	–	–	–	–	**–**	**(402)**	**(402)**
Unrealized foreign exchange on intercompany working capital balances	–	(1,229)	–	(1,229)	**1,075**	**–**	**(154)**
Other	(316)	160	–	(156)	**(201)**	**–**	**(357)**
Deferred tax recovery (expense)	$ (52,326)	$ (3,243)	$ (665)	$ (56,234)	**$ 3,629**	**$ (776)**	**$ (53,381)**

Unaudited (tabular amounts in thousands of Canadian dollars)

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:

	2019	2018
Net income before income taxes	$ 6,301	$ 25,388
Income tax rate	26%	27%
Expected income tax expense	$ 1,638	$ 6,855
Changes in taxes resulting from:		
Change in tax rates	(5,960)	474
Non-taxable items	223	(1,530)
Change in tax treatment of deferred charges	800	(1,431)
Other	(491)	(3,195)
Total income tax expense (recovery)	$ (3,790)	$ 1,173

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, 2017	46,238	$ 291,317
Redeemed pursuant to acquisition sunset clause	(7)	–
Repurchased and cancelled	(371)	(2,337)
Repurchased not cancelled	–	(78)
Balance, December 31, 2018	45,860	$ 288,902
Repurchased and cancelled	(710)	(4,392)
Balance, December 31, 2019	**45,150**	**$ 284,510**

During the year ended December 31, 2019 710,000 common shares (year ended December 31, 2018: 379,536, of which 8,600 were cancelled in 2019) were repurchased and cancelled under the Company's normal course issuer bid at an average price of $7.62 per share including commissions.

Unaudited (tabular amounts in thousands of Canadian dollars)

(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:

	Year ended December 31, 2019	Year ended December 31, 2018
Net income for the year attributable to shareholders	**$ 10,527**	$ 24,458
Weighted average number of shares outstanding – basic and diluted	**45,553**	46,122
Income per share – basic and diluted	**$ 0.23**	$ 0.53

For the year ended December 31, 2019, 3,935,000 options (December 31, 2018: 3,170,000) 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 2019, the Company declared dividends of $10.9 million (2018: $11.0 million) or $0.24 (2018: $0.24) per common share.

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 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 2019 and 2018 were as follows:

	Weighted average exercise price	Number of Options
Balance, December 31, 2017	$ 13.55	2,885,000
Granted	13.42	675,000
Forfeited	12.96	(260,000)
Expired	14.96	(130,000)
Balance, December 31, 2018	$ 13.47	3,170,000
Granted	**9.51**	**1,090,000**
Forfeited	**12.12**	**(201,666)**
Expired	**13.97**	**(123,334)**
Balance, December 31, 2019	**$ 12.35**	**3,935,000**

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 July 29, 2020 to May 17, 2024.

No options were exercised during 2019 (2018: nil).

Unaudited (tabular amounts in thousands of Canadian dollars)

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

Outstanding at December 31, 2019	Exercise Price	Remaining life (years)	Exercisable at December 31, 2019
1,070,000	**$ 14.13**	**0.60**	**1,070,000**
1,215,000	**12.69**	**2.50**	**810,004**
60,000	**12.00**	**2.60**	**40,000**
425,000	**13.54**	**3.20**	**175,000**
150,000	**12.99**	**3.40**	**50,000**
1,015,000	**9.51**	**4.40**	**–**
3,935,000	**$ 12.35**	**2.58**	**2,145,004**

Outstanding at December 31, 2018	Exercise Price	Remaining life (years)	Exercisable at December 31, 2018
1,180,000	$ 14.13	1.60	1,180,000
1,255,000	12.96	3.50	418,337
60,000	12.00	3.60	20,000
525,000	13.54	4.20	–
150,000	12.99	4.40	–
3,170,000	$ 13.47	2.95	1,618,337

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 2019 was $1.44 (2018: $2.46) per option using the following assumptions:

	December 31, 2019	December 31, 2018
Expected volatility	**24.21% - 27.16%**	25.88% - 27.88%
Annual dividend yield	**2.52%**	1.77% - 1.85%
Risk free interest rate	**1.46% - 1.50%**	1.93% - 2.17%
Forfeitures	**11%**	9%
Expected life (years)	**3 to 5 years**	3 to 5 years

For the year ended December 31, 2019 the Company recognized share-based compensation expense of $1.5 million (2018 - $2.4 million).

18. Revenue

	2019	2018
Rendering of services	**$ 455,066**	$ 486,838
Sale of goods	**302,332**	364,971
	$ 757,398	$ 851,809

Unaudited (tabular amounts in thousands of Canadian dollars)

19. Cost of services

	2019	2018
Inventory	$ 298,075	$ 338,303
Wages and salaries	199,537	230,074
Repair and maintenance	74,326	35,693
Fuel and travel	16,707	23,275
Rent and services	1,642	6,889
Other	7,049	6,673
	$ 597,336	$ 686,688

20. Selling, general and administration

	2019	2018
Wages and salaries	$ 32,780	$ 35,411
Professional and legal	5,010	5,126
Marketing and risk management	4,980	5,024
Rent and services	2,070	5,012
Travel and fuel	1,726	2,058
Other	2,827	3,670
	$ 49,393	$ 56,301

21. Employee compensation

	2019	2018
Cost of services	$ 199,537	$ 228,187
Selling, general and administration	32,780	35,411
Share-based compensation	1,499	2,396
	$ 233,816	$ 265,994

22. Finance costs, net

	2019	2018
Interest on long-term debt	$ 11,900	$ 13,720
Interest on lease liabilities	1,193	313
Other income	(155)	(255)
	$ 12,938	$ 13,778

Unaudited (tabular amounts in thousands of Canadian dollars)

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, 2019 and 2018 these ratios were as follows:

	December 31, 2019	December 31, 2018
Long-term debt (including current portion)	$ 277,863	$ 285,775
Shareholders' equity	543,142	560,576
Total capitalization	$ 821,005	$ 846,351
Long-term debt to capitalization ratio	0.34	0.34

As at December 31, 2019, the Company was subject to externally imposed minimum capital requirements relating to the Credit Facility and Mortgage loans (2020 and 2041 maturities) as described in note 13. The Company monitored these requirements to ensure compliance with them. As at December 31, 2019 and 2018 the Company was in compliance with all external minimum capital requirements.

Financial instruments

The Company's financial instruments as at December 31, 2019 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable, forward foreign exchange contracts, lease liabilities and long-term debt. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and obligations under finance leases approximate their carrying amounts due to their short-terms to maturity. The fair value of other assets was determined based on market prices quoted on the relevant stock exchanges on which the marketable securities trade (level 1 of fair value hierarchy). Changes in fair value of other assets were recorded in the statement of comprehensive income (loss) in the period the changes in fair value occurred. The discounted future cash repayments of the Company`s 2020 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 2020 Mortgage loan and related interest at the prevailing market rate of 3.85% for a similar debt instrument at December 31, 2019 was $40.8 million (December 31, 2018: market rate of 4.05%, $42.4 million). The carrying value and Company`s liability with respect to the 2020 Mortgage loan is $40.9 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.

Unaudited (tabular amounts in thousands of Canadian dollars)

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, 2019, $15.1 million, or 13% of accounts receivable (2018: $6.4 million or 4%) were more than 90 days overdue, which includes $2.2 million of doubtful accounts for which a provision has been recognized (December 31, 2018: $2.5 million).

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

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

	Allowance for doubtful accounts
Balance at December 31, 2017	$ 3,820
Provisions and revisions	(1,352)
Balance at December 31, 2018	$ 2,468
Provisions and revisions	(259)
Balance at December 31, 2019	**$ 2,209**

The Company does not have significant exposure to any individual customer or counter party during the year ended December 31, 2019. 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, 2019, the Company maintained credit facilities which were available to a maximum of $295 million and mortgage debt of $55.9 million (December 31, 2018, the Company maintained credit facilities which were available to a maximum of $295 million, mortgage debt of $58.6 million and limited partnership credit facilities of $0.2 million) 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.

Unaudited (tabular amounts in thousands of Canadian dollars)

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

As at December 31, 2019	**No later than 1 year**	**Later than 1 year and not later than 5 years**	**Later than 5 years**	**Total**
Accounts payable and accrued liabilities (note 12)	**$ 95,742**	**$ –**	**$ –**	**$ 95,742**
Dividends payable	**2,710**	**–**	**–**	**2,710**
Long-term debt (note 13)	**52,112**	**240,921**	**16,049**	**309,082**
Lease liabilities (note 14)	**8,885**	**13,147**	**1,363**	**23,395**
Total	**$ 159,449**	**$ 254,068**	**$ 17,412**	**$ 430,929**

As at December 31, 2018	No later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Accounts payable and accrued liabilities (note 12)	$ 125,721	$ –	$ –	$ 125,721
Dividends payable	2,752	–	–	2,752
Long-term debt (note 13)	14,756	287,890	16,995	319,641
Lease liabilities (note 14)	2,698	4,429	–	7,127
Onerous lease contracts (note 12)	887	2,031	–	2,918
Total	$ 146,814	$ 294,350	$ 16,995	$ 458,159

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 earnings 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 28% of its cost of services in 2019 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, 2019 the net amount of foreign exchange loss related to transaction exposure recorded in net income was $0.1 million (2018: foreign exchange loss of $1.5 million).

Unaudited (tabular amounts in thousands of Canadian dollars)

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 income (loss) as follows:

For the year ended December 31, 2019	United States Dollar	Australian Dollar	Total
Net income before income taxes	$ 426	$ 602	$ 1,028
Other comprehensive income	8,553	5,174	13,727
	$ 8,979	**$ 5,776**	**$ 14,775**

For the year ended December 31, 2018	United States Dollar	Australian Dollar	Total
Net income (loss) before income taxes	$ (554)	$ 619	$ 65
Other comprehensive income	8,545	5,277	13,822
	$ 7,991	$ 5,896	$ 13,887

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.

- Forward foreign exchange contracts

The notional principal amount of forward foreign exchange contracts outstanding as at December 31, 2019 was US$6.5 million (December 31, 2018: US$23.6 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, 2019 (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, 2019 was $1.30 Canadian dollar per United States dollar (December 31, 2018: $1.36 Canadian dollar per United States dollar). For the year ended December 31, 2019 the mark to market gain on foreign exchange contracts was $1.4 million (2018: $1.8 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 through the use of 30 to 90-day Banker's Acceptance and floating rates. For the year ended December 31, 2019, if interest rates had been 1% lower with all other variables held constant, after tax net earnings for the period would have been approximately $1.9 million higher (December 31, 2018 - $1.7 million). An equal and opposite impact would have occurred to net earnings had interest rates been 1% higher. The sensitivity in 2019 is higher as compared to 2018 due primarily to an increase in the Company's finance lease liabilities balances as a result of implementation of IFRS 16 (Note 3).

The Company had no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2019.

The Company's 2020 Mortgage loan bears fixed interest rate and thus is not exposed to interest rate risk.

Unaudited (tabular amounts in thousands of Canadian dollars)

24. Commitments

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

	December 31, 2019	December 31, 2018
Less than one year	$ 277	$ 4,735
Between one and five years	136	8,470
More than five years	–	1,948
	$ 413	$ 15,153

The Company also has purchase obligations of $14.2 million as at December 31, 2019 (December 31, 2018: $63.1 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 matter is expected to go to trial in 2021. 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, 2019. 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 $16.1 million of cash may be owing and $23.1 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. Management believes that Savanna will be successful in defending against the Western claim and, as such, the Company has not recognized any provision for such claim.

Unaudited (tabular amounts in thousands of Canadian dollars)

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. Subsequent to December 31, 2019 AIMCo amended its claim to remove Total Energy Services Inc. 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.

The Company, in the normal course of operations, will become subject to a variety of legal and other claims against it. Management and the Company's legal counsel evaluate all claims on their apparent merits and accrue management's best estimate of the costs to satisfy such claims. Management believes that the outcome of legal and other claims currently filed against the Company will not be material to the Company.

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, 2019	December 31, 2018
Short-term employee benefits	**$ 5,412**	$ 5,884
Share-based compensation [1]	**1,499**	2,396
	$ 6,911	$ 8,280

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

At December 31, 2019 directors and officers of the Company own or control 5.9 percent of the voting shares of the Company (2018: 5.6 percent).

There have been no transactions over the reporting period with key management personnel (2018: nil), and no outstanding balances exist as at period end (2018: nil).

Unaudited (tabular amounts in thousands of Canadian dollars)

27. Subsidiaries

Significant subsidiaries and partnerships

	Country of Incorporation	Ownership Interest, %	
		2019	2018
Total Oilfield Rentals Ltd.	Canada	**100**	100
Bidell Gas Compression Ltd.	Canada	**100**	100
Spectrum Process Systems Inc.	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 Australia 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 Partnership #5	Canada	**50**	50
Savanna Energy Services Partnership #6	Canada	**50**	50
Savanna Energy Services Partnership #9	Canada	**50**	50

CORPORATE INFORMATION

BOARD OF DIRECTORS

Bruce Pachkowski [2, 3]
Chairman of the Board

Daniel Halyk
President and Chief Executive Officer

George Chow [1]

Glenn Dagenais [2, 3]

Greg Melchin [1, 2]

Andrew Wiswell [1, 3]

[1] Member of the Compensation Committee
[2] Member of the Audit Committee
[3] Member of the Corporate Governance and Nominating Committee

MANAGEMENT TEAM

Daniel Halyk
President and Chief Executive Officer

Gerry Crawford
Vice President, Field Services

Cam Danyluk
Vice President, Legal, General Counsel and Corporate Secretary

Yuliya Gorbach
Vice President, Finance and Chief Financial Officer

William Kosich
Vice President, Drilling Services

Brad Macson
Vice President, Operations

Ashley Ting
Corporate Controller

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KPMG LLP

Calgary, Alberta

TRUSTEE, REGISTRAR AND TRANSFER AGENT

Computershare

Calgary, Alberta

LEGAL COUNSEL

Bennett Jones, LLP

Calgary, Alberta

BANKERS

HSBC

The Toronto Dominion Bank

The Bank of Nova Scotia

Alberta Treasury Branches

Export Development Corp.

STOCK EXCHANGE LISTING

Toronto Stock Exchange

Common Shares: TOT

CANADIAN LOCATIONS

Brooks • Calgary • Clairmont • Dawson Creek • Drayton Valley • Drumheller • Edson • Fort St. John
Fox Creek • Grande Prairie • High Level • Lac La Biche • Leduc • Lloydminster • Medicine Hat • Red Deer
Red Earth • Rocky Mountain House • Slave Lake • Swift Current • Weyburn/Midale • Whitecourt

U.S. LOCATIONS

Denver, CO • Greeley, CO • Dickinson, ND • Watford City, ND • Casper, WY • Gillette, WY• Weirton, WV • Odessa, TX

AUSTRALIAN LOCATIONS

Toowoomba, QLD