2021


FOCUS DISCIPLINE GROWTH

Annual Report 2021

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 energy and other resource industries 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

2021 was a year of transition. Entering the year, the global economy remained hamstrung by the COVID-19 pandemic and the energy service industry faced a very challenging business environment. A historic decrease in investment by oil and natural gas producers following the outbreak of the COVID-19 pandemic in March of 2020 continued to weigh on industry entering 2021 but also sowed the seeds for an eventual recovery. Improving global economic conditions gave rise to increasing demand for oil and natural gas which in turn drove a steady improvement in global energy prices during the year. While industry activity levels modestly improved during the second half of 2021, oil and natural gas producers generally remained constrained with their capital expenditure programs relative to prior periods of similar commodity prices.

Total Energy's diversified geographic and business exposure provided a measure of stability during yet another challenging year, as evidenced by the Company's return to profitability during the second half of 2021 with only a modest increase in activity levels. Total Energy also demonstrated its ability to generate significant free cash flow despite extremely challenging industry conditions over the past two years. Such free cash flow was used to reduce bank debt by $100.8 million, or 39%, from January 1, 2020 to December 31, 2021. Total Energy also returned $10.0 million to shareholders during 2021 with the repurchase of 2.1 million shares under the Company's normal course issuer bid and entered 2022 with a strong balance sheet and significant financial liquidity.

LOOKING FORWARD

Commodity prices, particularly oil prices, have continued to strengthen in 2022 and Total Energy's diversified business platform and efficient cost structure provides the Company with significant leverage to increasing energy industry activity levels. Demand for the Company's products and services has increased thus far in 2022 and at current commodity prices Total Energy expects market conditions will continue to improve in all business segments.

Total Energy announced a preliminary 2022 capital expenditure budget of $26.1 million on January 10, 2022, which is being directed towards the expansion of the Company's Compression and Process Services business and the maintenance and upgrade of equipment in all business segments in direct response to increased customer demand. Total Energy expects to fund its 2022 capital expenditure budget with cash on hand, which was $33.4 million at December 31, 2021, and cash flow.

Total Energy's track record of disciplined capital spending and prudent operational management has enabled the Company to get through some very challenging times. As we celebrate Total Energy's 25th anniversary in business this year, our owners and other stakeholders can be assured that Total Energy remains committed to its core values of focus, discipline and growth that have served us well over the past quarter century.

On behalf of the Board of Directors of Total Energy, I would like to thank our employees for their perseverance and hard work over the past year that has positioned our Company well to capitalize on what looks to be better times ahead.

Daniel Halyk.

DANIEL K. HALYK
President and Chief Executive Officer

March 2022

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 10, 2022 and focuses on information and key statistics from the audited consolidated financial statements of the Company for the year ended December 31, 2021 (the "2021 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 Company's 2021 Financial Statements, the Company's 2021 Annual Report, the Annual Information Form ("AIF") for the year ended December 31, 2021 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		
	2021	2020	Change	**2021**	2020	Change
Revenue	**$ 134,629**	$ 83,472	61%	**$ 431,576**	$ 365,750	18%
Operating income (loss)	**1,680**	(4,013)	nm	**(1,413)**	(36,539)	(96%)
EBITDA (1)	**22,567**	19,546	15%	**86,015**	81,204	6%
Cashflow	**22,144**	18,431	20%	**80,191**	73,437	9%
Net income (loss)	**1,036**	(1,732)	nm	**(428)**	(30,455)	(99%)
Attributable to shareholders	**1,049**	(1,739)	nm	**(360)**	(30,450)	(99%)
Per Share Data (Diluted)						
EBITDA (1)	**$ 0.52**	$ 0.43	21%	**$ 1.93**	$ 1.80	7%
Cashflow	**$ 0.51**	$ 0.41	24%	**$ 1.80**	$ 1.63	10%
Attributable to shareholders:						
Net income (loss)	**$ 0.02**	$ (0.04)	nm	**$ (0.01)**	$ (0.68)	(99%)
Common shares (000's) (3)						
Basic	**43,341**	45,081	(4%)	**44,384**	45,083	(2%)
Diluted	**43,818**	45,081	(3%)	**44,673**	45,083	(1%)

	December 31		
Financial Position at	**2021**	2020	Change
Total Assets	**$ 813,522**	$ 849,579	(4%)
Long-Term Debt and Lease Liabilities (excluding current portion)	**196,007**	238,937	(18%)
Working Capital (2)	**137,304**	138,940	(1%)
Net Debt (1)	**58,703**	99,997	(41%)
Shareholders' Equity	**493,437**	510,987	(3%)

(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 2021 Financial Statements.

"nm" - calculation not meaningful

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 energy and other resource industries 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 energy and other industrial operations ("RTS"), the fabrication, sale, rental and servicing of new and used gas compression and 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, 2021, the Company operated a total fleet of 95 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	
AC triples	3
AC doubles	13
Mechanical doubles	35
Australian shallow	5
TDS and singles	39
	95

By Geography	
Canada	77
United States	13
Australia	5
	95

Rentals and Transportation Services: Total Energy's RTS business is presently conducted from 12 locations in western Canada and three locations in the United States. At December 31, 2021, this segment had approximately 9,420 pieces of major rental equipment (excluding access matting), a fleet of 79 heavy trucks and an 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 oil, natural gas and other process equipment. At December 31, 2021 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, 2021 the CPS segment also had a network of 13 branch locations throughout western Canada and the United States from which its natural gas compression parts and service business is conducted. This segment had 53,800 horsepower of compression in its rental fleet at December 31, 2021.

Well Servicing: At December 31, 2021, the Company operated a total fleet of 80 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	29
Australian specification	9
Flush-by	4
	80

By Geography	
Canada	57
United States	11
Australia	12
	80

OVERALL PERFORMANCE

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)	**2021**	2020	2019
Revenue	**$ 431,576**	$ 365,750	$ 757,398
Cash provided by operations	**89,575**	86,122	73,055
Cashflow	**80,191**	73,437	111,727
Net (loss) income	**(428)**	(30,455)	10,091
Attributable to shareholders	**(360)**	(30,450)	10,527
Per share (diluted)	**(0.01)**	(0.68)	0.23
Dividends declared per share	**–**	–	0.24
Total assets	**813,522**	849,579	997,161
Long term liabilities (excluding current lease liabilities, current portion of long-term debt and deferred tax liability)	**196,007**	238,937	248,448

Total Energy's results for the fourth quarter and year ended December 31, 2021 reflect continued improving North American industry conditions from the difficult industry environment that began in March of 2020 and continued into the first half of 2021 as a result of the COVID-19 pandemic and resultant decreases in economic activity and demand for oil and natural gas. As social mobility restrictions began to ease globally over the past several months, global oil and natural gas demand has continued to recover, resulting in improved oil and natural gas prices. Higher commodity prices contributed to improved year over year North American industry activity levels which in turn contributed to a realization of operating income in the fourth quarter of 2021. This is the second consecutive quarter of operating income since the collapse in oil prices in April of 2020. Activity levels in Australia were lower for the year ended December 31, 2021 compared to 2020. Wet field conditions combined with reduced capital expenditure programs that began in the third quarter of 2020 in response to the decline in global crude oil and natural gas prices contributed to the decline in Australian activity levels. Additionally, two Australian drilling rigs were removed from service in the third quarter of 2020 for recertification and upgrades. The first rig was completed and commenced operations in late April of 2021 and the second rig commenced operations in late July of 2021. A third rig was removed from service in the third quarter of 2021 and commenced operations in early February of 2022.

Included in the financial results for the three months and year ended December 31, 2021 was a $0.4 million unrealized loss and a $2.2 million unrealized gain, respectively, of unrealized foreign exchange gains and losses from the translation of intercompany working capital balances of foreign subsidiaries. For the three months and year ended December 31, 2020 results included $0.8 million of unrealized foreign exchange losses and $6.0 million of unrealized foreign exchange gains, respectively. Also negatively impacting financial results for the year ended December 31, 2020 was $26.3 million of non-recurring depreciation expense as a result of a change in CDS depreciation estimates effective April 1, 2020.

The Company's financial condition remains strong, with a positive working capital balance of $137.3 million as at December 31, 2021, which is fairly consistent with December 31, 2020. Shareholders' equity decreased by $17.6 million from December 31, 2020 due primarily to a $10.0 million decrease resulting from the repurchase and cancellation of shares under the Company's normal course issuer bid and an $8.0 million other comprehensive loss arising from currency translation of foreign subsidiaries' financial statements as a result of the appreciation of the Canadian dollar relative to the U.S. and Australian dollars during the year ended December 31, 2021.

Revenue

	Three months ended			Year ended		
December 31	**2021**	2020	Change	**2021**	2020	Change
Revenue	**$ 134,629**	$ 83,472	61%	**$ 431,576**	$ 365,750	18%

The global energy sector recovery from the dual shocks of the COVID-19 pandemic and the collapse in oil prices continued during the fourth quarter of 2021 with increasing product demand and commodity prices. As a result, revenues in the fourth quarter and year ended December 31, 2021 improved relative to the same periods in 2020. North American activity levels were the main drivers of the year over year increase as Australian activity levels remained lower compared to 2020 until the fourth quarter.

Cost of Services and Gross Margin

	Three months ended			Year ended		
December 31	**2021**	2020	Change	**2021**	2020	Change
Cost of services	**$ 103,657**	$ 59,107	75%	**$ 323,092**	$ 266,720	21%
Gross margin	**$ 30,972**	$ 24,365	27%	**$ 108,484**	$ 99,030	10%
Gross margin, as a percentage of revenue	**23%**	29%	(21%)	**25%**	27%	(7%)

The increase in costs of services during the fourth quarter and year ending December 31, 2021 relative to the same periods in 2020 is primarily due to increased activity in North America and $0.3 million and $1.9 million, respectively, of rig reactivation costs. This was partially offset by lower Australian activity. Reducing operating costs for the three months and year ended December 31, 2021 was the recognition of $1.3 million and $17.8 million, respectively, of funds from various COVID-19 relief programs as compared to $8.0 million and $18.0 million of funds, respectively, for the same periods in 2020. Gross margin percentage for both the three months and year ended December 31, 2021 was lower as compared to the same periods last year due to a combination of segment revenue mix, costs incurred to reactivate rigs in the U.S. and Australia and less COVID-19 relief funds recorded in 2021.

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			Year ended		
December 31	**2021**	2020	Change	**2021**	2020	Change
Selling, general and administration expenses	**$ 8,372**	$ 5,277	59%	**$ 28,234**	$ 27,309	3%

Selling, general and administration expenses increased in the fourth quarter and year ended December 31, 2021 relative to the same periods in 2020 primarily due to the restoration of employee remuneration to pre-COVID levels combined with a reduction in funds recognized under various COVID-19 relief programs. Also included in selling, general and administrative expenses is a $1.1 million increase to the bad debt allowance during the year ended December 31, 2021. Reducing costs for the three months and year ended December 31, 2021, was $0.1 million and $2.0 million, respectively, of assistance recognized under various COVID-19 relief programs as compared to $1.1 million and $3.1 million, respectively, recognized during the same periods in 2020.

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 (Income) Expense

	Three months ended			Year ended		
December 31	**2021**	2020	Change	**2021**	2020	Change
Other (income) expense	**$ 448**	$ 844	(47%)	**$ (2,206)**	$ (5,969)	(63%)

Other (income) expense arises from unrealized foreign exchange differences on translation of intercompany working capital balances of foreign subsidiaries. In the fourth quarter of both 2021 and 2020, the depreciation of the Canadian dollar relative to the Australian dollar combined with the geographical composition of intercompany balances resulted in a net unrealized foreign exchange loss. For the year ended December 31, 2021 the overall strengthening of the Canadian dollar relative to the Australian and U.S. dollars in combination with the geographical composition of intercompany balances resulted in a net unrealized foreign exchange gain of $2.2 million. This compares to a net unrealized gain of $6.0 million for the same period last year, which was primarily driven by the geographical composition of intercompany balances as the Canadian dollar strengthened relative to the U.S. dollar and the Canadian dollar depreciated relative to the Australian dollar.

Share-based Compensation Expense

	Three months ended			Year ended		
December 31	**2021**	2020	Change	**2021**	2020	Change
Share-based compensation expense	**$ 228**	$ 176	30%	**$ 804**	$ 866	(7%)

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 ended December 31, 2021 was higher relative to the same period in 2020 due to the grant of options during the period that was partially offset by previously granted options fully vesting. For the year ended December 31, 2021 share-based compensation expense was relatively consistent with 2020.

Depreciation Expense

	Three months ended			Year ended		
December 31	**2021**	2020	Change	**2021**	2020	Change
Depreciation expense	**$ 20,244**	$ 22,081	(8%)	**$ 83,065**	$ 113,363	(27%)

The decrease in depreciation expense for the three months and year ended December 31, 2021 compared to the same periods in 2020 is mostly due to a change in depreciation estimates in the CDS segment effective April 1, 2020 as well as certain assets reaching full depreciation. This change in depreciation estimates resulted in $2.9 million of incremental recurring depreciation expense for the year ended December 31, 2021 and $26.3 million of non-recurring depreciation expense for the same period in 2020. See "Critical Accounting Estimates" below for further details.

Operating Income (Loss)

	Three months ended			Year ended		
December 31	**2021**	2020	Change	**2021**	2020	Change
Operating income (loss)	**$ 1,680**	$ (4,013)	nm	**$ (1,413)**	$ (36,539)	(96%)

"nm" - calculation not meaningful

Increased North American activity contributed to the realization of operating income in the fourth quarter of 2021 as compared to an operating loss for the same period in 2020. Included in operating income for the fourth quarter of 2021 was a $0.4 million unrealized loss on foreign exchange translation of intercompany working capital as compared to a $0.8 million unrealized loss in the comparable prior year period. In the fourth quarter of 2021 $1.4 million of COVID-19 relief funds were recognized, as compared to $9.1 million of COVID-19 funds recognized in the prior year comparable period. For the year ended December 31, 2021 operating losses were lower as compared to 2020. Included in the year ended December 31, 2020 was $26.3 million of non-recurring depreciation expense as a result of a change in depreciation estimates in the CDS segment. Offsetting expenses for the year ended December 31, 2021 was $19.8 million of COVID-19 relief funds as compared to $21.1 million of funds recognized in the year ended December 31, 2020. Also included in the 2021 year was a $2.2 million unrealized gain on foreign exchange translation of intercompany working capital as compared to a $6.0 million unrealized gain on foreign exchange translation of intercompany working capital in 2020.

Gain on Sale of Property, Plant and Equipment

	Three months ended			Year ended		
December 31	**2021**	2020	Change	**2021**	2020	Change
Gain on sale of property, plant and equipment	**$ 643**	$ 1,478	(56%)	**$ 4,363**	$ 4,380	–
Proceeds on the sale of property, plant and equipment	**$ 1,351**	$ 468	189%	**$ 10,507**	$ 5,936	77%

Disposals of property, plant and equipment result from the rationalization, replacement and upgrade of older equipment in the Company's equipment fleet.

Equipment disposed of during the three months and year ended December 31, 2021 included underutilized rental equipment and heavy trucks, access matting, light duty vehicles, compression rental units, decommissioned drilling and well servicing rigs and ancillary drilling and well servicing equipment. Equipment disposed of during the three months and year ended December 31, 2020 consisted of underutilized rental equipment, light duty vehicles, compression rental equipment, decommissioned drilling rigs and ancillary drilling equipment.

Finance Costs

	Three months ended			Year ended		
December 31	**2021**	2020	Change	**2021**	2020	Change
Finance costs	**$ 1,583**	$ 2,283	(31%)	**$ 6,837**	$ 10,346	(34%)

Finance costs for the three months and year ended December 31, 2021 were lower than the prior year comparable periods due to lower effective interest rates combined with a lower year over year average outstanding balance on the Company's credit facilities.

Income Taxes and Net Income (Loss)

	Three months ended			Year ended		
December 31	**2021**	2020	Change	**2021**	2020	Change
Current income tax expense (recovery)	**$ (285)**	$ 768	nm	**$ (862)**	$ 3,075	nm
Deferred income tax recovery	**(11)**	(3,854)	(100%)	**(2,597)**	(15,125)	(83%)
Total income tax recovery	**$ (296)**	$ (3,086)	(90%)	**$ (3,459)**	$ (12,050)	(71%)
Net income (loss)	**$ 1,036**	$ (1,732)	nm	**$ (428)**	$ (30,455)	(99%)

"nm" - calculation not meaningful

The change from a current income tax expense to recovery on a year over year basis for both the fourth quarter and year ended December 31, 2021 is primarily due to the occurrence of Australian operating losses in 2021 and the resultant recovery of income taxes previously paid.

The year over year change in deferred income tax was primarily a result of changes to temporary differences on the Company's property and equipment following a change in depreciation estimates in the CDS segment in 2020. The deferred tax recovery in 2020 includes the effect of a two percentage point decrease to the Alberta provincial corporate income tax rate substantially enacted effective July 1, 2020.

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 31, 2021	Sept 30, 2021	June 30, 2021	March 31, 2021
Revenue	**$ 134,629**	$ 118,881	$ 84,876	$ 93,190
Operating income (loss)	**1,680**	6,415	(4,089)	(5,419)
EBITDA (1)	**22,567**	27,015	19,716	16,717
Cashflow	**22,144**	26,253	16,462	15,332
Cash provided by operating activities	**27,793**	13,294	31,622	16,866
Net income (loss)	**1,036**	4,279	(2,136)	(3,607)
Attributable to shareholders	**1,049**	4,278	(2,108)	(3,579)
Per share data (diluted)				
EBITDA (1)	**$ 0.52**	$ 0.60	$ 0.44	$ 0.37
Cashflow	**0.51**	0.58	0.37	0.34
Net income (loss) attributable to shareholders	**0.02**	0.09	(0.05)	(0.08)
Financial Position				
Total Assets	**$ 813,522**	$ 822,898	$ 811,615	$ 831,963
Long-Term Debt and Lease Liabilities (excluding current portion)	**196,007**	201,967	210,132	229,627
Working Capital (2)	**137,304**	138,383	127,201	135,347
Net Debt (1)	**58,703**	63,584	82,931	94,280
Shareholders' Equity	**493,437**	497,356	492,259	501,950
Common Shares (000's) (3)				
Basic	**43,341**	44,921	44,830	45,072
Diluted	**43,818**	45,164	45,066	45,231

	Financial Quarter Ended			
	Dec 31, 2020	Sept 30, 2020	June 30, 2020	March 31, 2020
Revenue	$ 83,472	$ 77,240	$ 70,770	$ 134,268
Operating income (loss)	(4,013)	(5,894)	(37,161)	10,529
EBITDA [1]	19,546	17,869	12,886	30,903
Cashflow	18,431	19,810	13,793	21,911
Cash provided by operating activities	19,226	14,391	36,162	16,343
Net income (loss)	(1,732)	(4,602)	(28,845)	4,724
Attributable to shareholders	(1,739)	(4,618)	(28,765)	4,672
Per share data (diluted)				
EBITDA [1]	$ 0.43	$ 0.40	$ 0.29	$ 0.69
Cashflow	0.41	0.44	0.31	0.49
Net income (loss) attributable to shareholders	(0.04)	(0.10)	(0.64)	0.10
Financial Position				
Total Assets	$ 849,579	$ 873,891	$ 898,940	$ 999,229
Long-Term Debt and Lease Liabilities (excluding current portion)	238,937	250,643	255,538	252,035
Working Capital [2]	138,940	138,973	130,968	124,010
Net Debt [1]	99,997	111,670	124,570	128,025
Shareholders' Equity	510,987	517,067	523,979	552,995
Common Shares (000's) [3]				
Basic and diluted	45,081	45,081	45,081	45,087

(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 2021 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	**2021**	2020	Change	**2021**	2020	Change
Revenue	**$ 48,766**	$ 23,288	109%	**$ 146,411**	$ 96,661	51%
Canada	**25,004**	11,587	116%	**72,979**	42,618	71%
United States	**13,909**	5,092	173%	**40,290**	15,233	164%
Australia	**9,853**	6,609	49%	**33,142**	38,810	(15%)
Operating income (loss)	**$ 3,347**	$ (3,608)	nm	**$ (2,932)**	$ (45,924)	(94%)
Canada	**1,152**	(2,762)	nm	**(3,051)**	(35,861)	(91%)
United States	**56**	(2,304)	nm	**(4,285)**	(17,050)	(75%)
Australia	**2,139**	1,458	47%	**4,404**	6,987	(37%)
Operating days [(1)]	**2,340**	1,210	93%	**7,334**	4,533	62%
Canada	**1,342**	747	80%	**4,307**	2,648	63%
United States	**663**	286	132%	**2,041**	781	161%
Australia	**335**	177	89%	**986**	1,104	(11%)
Revenue per operating day [(1)], dollars	**$ 20,840**	$ 19,246	8%	**$ 19,963**	$ 21,324	(6%)
Canada	**18,632**	15,511	20%	**16,944**	16,094	5%
United States	**20,979**	17,804	18%	**19,740**	19,504	1%
Australia	**29,412**	37,339	(21%)	**33,613**	35,154	(4%)
Utilization	**27%**	13%	108%	**21%**	12%	75%
Canada	**19%**	10%	90%	**15%**	9%	67%
United States	**55%**	24%	129%	**43%**	13%	231%
Australia	**73%**	38%	92%	**54%**	60%	(10%)
Rigs, average for period	**95**	98	(3%)	**97**	102	(5%)
Canada	**77**	80	(4%)	**79**	81	(2%)
United States	**13**	13	–	**13**	16	(19%)
Australia	**5**	5	–	**5**	5	–

(1) Operating days include drilling and paid stand-by days.

"nm" - calculation not meaningful

North American drilling activity continued to significantly recover into the fourth quarter of 2021 as compared to 2020 as commodity prices continued to rise. In the U.S., market share gains contributed to a disproportionate increase in operating days relative to the overall increase in industry drilling activity. In Australia, results improved in the fourth quarter of 2021 as two drilling rigs returned to service after completing necessary recertifications and upgrades. During the third quarter of 2021 one drilling rig was removed from service in Australia to complete necessary recertifications and upgrades and returned to service in early February of 2022.

In Canada, revenues increased in both the three months and year ended December 31, 2021 as compared to 2020 due to higher activity levels. Effective day rates for both the fourth quarter and 2021 year were higher compared to 2020 due to the mix of rigs operating and modest rate increases. The realization of operating income in the fourth quarter of 2021 was primarily due to the increased activity levels and was partially offset by a wage increase implemented in the second quarter of 2021. For the year ended December 31, 2021 operating losses decreased relative to the same period last year due primarily to increased activity levels that began in the second quarter of 2021. Negatively impacting financial results for the CDS segment for the year ended December 31, 2020 was $19.3 million of non-recurring depreciation expense on fully depreciated assets as a result of a change in CDS depreciation estimates.

In the US, revenues and operating income (losses) improved for both the three months and year ended December 31, 2021 relative to 2020 as a result of increased activity through a combination of market share gains and overall improvements in industry activity levels. Effective day rates in the fourth quarter and for 2021 were higher compared to 2020 due to the mix of rigs working and modest rate increases. Operating income was realized in the fourth quarter of 2021 as a result of improved activity levels. For the year ended December 31, 2021 operating losses decreased due to increased activity compared to the same period last year, a $1.1 million recovery on the resolution of a property tax dispute in the third quarter of 2021 and a non-recurring $6.4 million increase in 2020 depreciation expense as a result of a change in CDS depreciation estimates. Negatively impacting financial results for the three months and year ended December 31, 2021 was $0.3 million and $1.7 million, respectively, of non-recurring expenses to reactivate idle rigs.

In Australia, revenues and operating income for the fourth quarter of 2021 increased compared to the same period in 2020 due to higher activity levels as two drilling rigs removed from service in the third quarter of 2020 for recertification and upgrades returned to service. One rig returned to service in late April of 2021 and the second in late July of 2021. Effective day rates during the fourth quarter of 2021 were lower than the comparable prior year period due to a decrease in ancillary revenues and the mix of equipment operating. For the year ended December 31, 2021 revenue and operating income was lower compared to the same period last year due to a combination of reduced activity on fewer rigs in service and lower effective day rates as a result of decreased ancillary revenues and the mix of equipment operating. Negatively impacting the year ended December 31, 2021 was $0.2 million of non-recurring mobilization costs incurred to bring the two rigs back in service. Included in the year ended December 31, 2020 was $0.6 million of non-recurring depreciation expense on fully depreciated Australian assets recognized in the period as a result of a change in CDS depreciation estimates.

Rentals and Transportation Services

	Three months ended			Year ended		
December 31	**2021**	2020	Change	**2021**	2020	Change
Revenue	**$ 10,873**	$ 6,975	56%	**$ 36,974**	$ 34,529	7%
Canada	**6,570**	4,826	36%	**25,979**	22,023	18%
United States	**4,303**	2,149	100%	**10,995**	12,506	(12%)
Operating loss	**$ (2,478)**	$ (3,606)	(31%)	**$ (9,858)**	$ (15,085)	(35%)
Canada	**(2,374)**	(2,988)	(21%)	**(8,074)**	(13,297)	(39%)
United States	**(104)**	(618)	(83%)	**(1,784)**	(1,788)	–
Pieces of rental equipment	**9,420**	10,650	(12%)	**9,420**	10,650	(12%)
Canada	**8,540**	9,710	(12%)	**8,540**	9,710	(12%)
United States	**880**	940	(6%)	**880**	940	(6%)
Rental equipment utilization	**14%**	7%	100%	**11%**	8%	38%
Canada	**12%**	6%	100%	**10%**	7%	43%
United States	**30%**	13%	131%	**19%**	19%	–
Heavy trucks	**79**	87	(9%)	**79**	87	(9%)
Canada	**56**	62	(10%)	**56**	62	(10%)
United States	**23**	25	(8%)	**23**	25	(8%)

Revenue from the RTS segment for the fourth quarter and 2021 year increased as compared to the same periods in 2020 as a result of higher utilization in both Canada and the United States as industry activity continued to improve from the extremely challenging industry conditions in North America that began in March of 2020. For the year ended December 31, 2021 relative to the same period in 2020, revenue in Canada improved as activity levels began to recover late in the second quarter of 2021. In the U.S., revenues for the year ended December 31, 2021 were lower than 2020 as industry conditions did not recover to the same extent as Canada.

In Canada, operating losses decreased during the three months and year ended December 31, 2021 relative to 2020. Improved industry activity combined with significant reductions to the fixed cost structure contributed to improved results on a year over year basis. In the U.S., operating losses were lower in the fourth quarter of 2021 as compared to the same period in 2020 as a result of improved activity levels during the period. For the year ended December 31, 2021 operating losses were consistent with 2020 as United States activity levels did not begin to materially improve until the third quarter of 2021. This segment's relatively high fixed cost structure as compared to the Company's other business segments combined with the current inability to increase prices to the extent necessary to offset cost inflation continues to weigh on its financial performance during periods of low equipment utilization. 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.

Compression and Process Services

	Three months ended			Year ended		
December 31	**2021**	2020	Change	**2021**	2020	Change
Revenue	**$ 49,314**	$ 32,767	50%	**$ 155,315**	$ 136,005	14%
Canada	**37,630**	23,050	63%	**118,555**	96,961	22%
United States	**11,684**	9,717	20%	**36,760**	39,044	(6%)
Operating income (loss)	**$ 1,263**	$ 2,507	(50%)	**$ 9,855**	$ 11,731	(16%)
Canada	**(4)**	1,893	nm	**4,595**	9,447	(51%)
United States	**1,267**	614	106%	**5,260**	2,284	130%
Operating income (loss), % of revenue	**3%**	8%	(63%)	**6%**	9%	(33%)
Canada	**0%**	8%	(100%)	**4%**	10%	(60%)
United States	**11%**	6%	83%	**14%**	6%	133%
Horsepower of equipment on rent at period end	**25,755**	23,700	9%	**25,755**	23,700	9%
Canada	**10,930**	11,150	(2%)	**10,930**	11,150	(2%)
United States	**14,825**	12,550	18%	**14,825**	12,550	18%
Rental equipment utilization during the period (HP)	**50%**	45%	11%	**48%**	61%	(21%)
Canada	**33%**	39%	(15%)	**33%**	50%	(34%)
United States	**75%**	62%	21%	**72%**	86%	(16%)
Sales backlog at period end, $ million	**$ 147.5**	$ 43.9	236%	**$ 147.5**	$ 43.9	236%

Overall revenue reported from the CPS segment increased for the three months and year ended December 31, 2021 as compared to the same periods in 2020. This was mostly due to an increase in Canadian fabrication sales. Fabrication sales bookings began a steady and significant decline starting in 2019. This decline was reversed during the fourth quarter of 2020 and the sales backlog continued its recovery during the fourth quarter of 2021, increasing by another $52.0 million, or 54%, compared to the $95.5 million backlog at September 30, 2021. 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.

Overall operating income for the three months and year ended December 31, 2021 decreased as compared to the same periods in 2020. In Canada, a small operating loss was realized in the fourth quarter of 2021 due to a combination of lower utilization on the compression rental fleet and costs to prepare for substantially higher fabrication activity levels. For the year ended December 31, 2021, operating income in Canada was impacted by lower compression rental fleet utilization, higher costs in preparation of increased activity and an $0.8 million increase to the provision for bad debt expense. In the U.S., operating income increased for both the three months and year ended December 31, 2021 as compared to 2020. This was mostly due to modestly improved pricing, the recognition of COVID-19 relief funds in the second quarter of 2021 upon the forgiveness of a PPP loan received in 2020 and the continued recovery of rental fleet utilization following the return of 6,500 horsepower of compressional rental units in late 2020 with the bankruptcy of a U.S. customer.

Well Servicing

	Three months ended			Year ended		
December 31	**2021**	2020	Change	**2021**	2020	Change
Revenue	**$ 25,676**	$ 20,442	26%	**$ 92,876**	$ 98,555	(6%)
Canada	**12,428**	8,130	53%	**40,035**	26,747	50%
United States	**2,524**	1,277	98%	**9,579**	7,799	23%
Australia	**10,724**	11,035	(3%)	**43,262**	64,009	(32%)
Operating income (loss)	**$ 2,795**	$ 3,087	(9%)	**$ 7,810**	$ 12,858	(39%)
Canada	**1,620**	1,134	43%	**4,356**	(193)	nm
United States	**212**	(114)	nm	**659**	(472)	nm
Australia	**963**	2,067	(53%)	**2,795**	13,523	(79%)
Service hours (1)	**30,525**	24,333	25%	**111,585**	113,428	(2%)
Canada	**16,061**	13,042	23%	**56,562**	42,011	35%
United States	**3,559**	1,837	94%	**13,765**	10,734	28%
Australia	**10,906**	9,454	15%	**41,259**	60,683	(32%)
Revenue per service hour, dollars	**$ 841**	$ 840	–	**$ 832**	$ 869	(4%)
Canada	**774**	623	24%	**708**	637	11%
United States	**709**	695	2%	**696**	727	(4%)
Australia	**983**	1,167	(16%)	**1,049**	1,055	(1%)
Utilization (2)	**33%**	25%	32%	**29%**	26%	12%
Canada	**31%**	25%	24%	**27%**	20%	35%
United States	**32%**	14%	129%	**27%**	21%	29%
Australia	**41%**	36%	14%	**39%**	58%	(33%)
Rigs, average for period	**83**	83	–	**83**	83	–
Canada	**57**	57	–	**57**	57	–
United States	**12**	14	(14%)	**14**	14	–
Australia	**12**	12	–	**12**	12	–

(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.

"nm" – calculation not meaningful

Overall segment revenue in the fourth quarter of 2021 increased as compared to the same period in 2020, whereas overall revenues decreased for the year ended December 31, 2021 relative to 2020. North American results for the year ended December 31, 2021 improved compared to the same period in 2020 as the challenging market conditions following the outbreak of COVID-19 in March of 2020 began to ease. Increased well abandonment programs in Canada also contributed to the increase in North American activity during 2021 as compared to 2020. Activity in Australia, which began to moderate in the third quarter of 2020, modestly improved in the fourth quarter of 2021 on a year over year basis.

Canadian revenue in the fourth quarter and year ended 2021 was higher than the same periods in 2020 due to substantially higher activity levels, driven by improved industry activity levels and increased well abandonment activity arising from the federal government's $1.7 billion well abandonment program implemented in 2020. Higher utilization in Canada combined with higher pricing and the mix of equipment operating contributed to improved financial results for the three months and year ended December 31, 2021 as compared to the same periods in 2020.

In the United States, fourth quarter revenue increased in 2021 as compared to 2020 as service hours almost doubled. For the year ended December 31, 2021 revenue was also higher due increased activity, which was partially offset by lower pricing as compared to 2020. Negatively impacting annual results for 2021 as compared to 2020 was the impact of foreign currency translation of foreign results as the Canadian dollar appreciated against the U.S. dollar during 2021. Operating income was realized in both the fourth quarter and year ended December 31, 2021 as compared to operating losses in the same periods in 2020 due primarily to increased activity beginning in the second quarter of 2021.

In Australia lower revenue and operating income for the fourth quarter and year ended December 31, 2021 as compared to the same periods in 2020 was due primarily to lower industry activity levels that began in the third quarter of 2020 as customers reduced their capital spending. Extended wet weather conditions that restricted field operations for much of the first quarter of 2021 continued into the second quarter and also contributed to the decline in activity in for the year ended December 31, 2021 as compared to the same period in 2020.

Corporate

	Three months ended			Year ended		
December 31	**2021**	2020	Change	**2021**	2020	Change
Operating loss	**$ (3,247)**	$ (2,393)	36%	**$ (6,288)**	$ (119)	nm

"nm" – calculation not meaningful

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. Included in the Corporate segment for the three months and year ended December 31, 2021 is $0.4 million of unrealized losses and $2.2 million of unrealized gains, respectively, on the translation of working capital balances of foreign subsidiaries. This compares to a $0.8 million unrealized loss and a $6.0 million unrealized gain for the three months and year ended December 31, 2020.

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operating Activities and Cashflow

	Three months ended			Year ended		
December 31	**2021**	2020	Change	**2021**	2020	Change
Cash provided by operating activities	**$ 27,793**	$ 19,226	45%	**$ 89,575**	$ 86,122	4%
Per Share Data (Diluted), dollars	**$ 0.63**	$ 0.43	47%	**$ 2.01**	$ 1.91	5%
Cashflow	**$ 22,144**	$ 18,431	20%	**$ 80,191**	$ 73,437	9%
Per Share Data (Diluted), dollars	**$ 0.51**	$ 0.41	24%	**$ 1.80**	$ 1.63	10%

The changes in cash provided by operating activities were due primarily to changes in the working capital requirements of the various business segments. Also contributing to the increase in cash provided by operating activities during the three months and year ended December 31, 2021 was $9.4 million and $5.1 million, respectively, of net consumption of previously purchased inventory in the CPS segment due to increased activity. Cash flow increased in the three months and year ended December 31, 2021 compared to the same periods in 2020 as a result of higher EBITDA from increased activity levels. Given uncertain economic and industry conditions, the Company's current priority is to maintain strong financial liquidity, continue to repay long-term debt and repurchase and cancel shares under the normal course issuer bid.

Investing Activities

	Three months ended			Year ended		
December 31	**2021**	2020	Change	**2021**	2020	Change
Net cash used in investing activities	**$ (6,521)**	$ (3,900)	67%	**$ (14,253)**	$ (13,538)	5%
Proceeds from sale of PP&E	**$ 1,351**	$ 468	189%	**$ 10,507**	$ 5,936	77%
Purchase of PP&E	**$ (11,753)**	$ (4,606)	155%	**$ (28,983)**	$ (16,904)	71%

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 the fourth quarter and year ended December 31, 2021, equipment disposed of consisted primarily of light-duty vehicles, underutilized heavy trucks and rental equipment, access matting, compression rental units, decommissioned drilling and well servicing rigs and ancillary drilling and well servicing equipment. For the year ended December 31, 2020 equipment disposed of consisted primarily of underutilized rental equipment, light-duty vehicles, compression and rental equipment, decommissioned drilling rigs and ancillary drilling equipment.

The following summarizes PP&E purchases by segment for the three months and year ended December 31, 2021.

	Three months ended			Year ended		
December 31	**2021**	2020	Change	**2021**	2020	Change
CDS	**$ 7,934**	$ 2,163	267%	**$ 20,491**	$ 4,703	336%
RTS	**883**	167	429%	**1,224**	1,024	20%
CPS	**2,714**	988	175%	**6,205**	7,922	(22%)
WS	**213**	1,288	(83%)	**1,054**	3,243	(67%)
Corporate	**9**	–	nm	**9**	12	(25%)
Purchase of PP&E	**$ 11,753**	$ 4,606	155%	**$ 28,983**	$ 16,904	71%

"nm" – calculation not meaningful

During the fourth quarter and year ended December 31, 2021, PP&E purchases were as follows: drilling rig upgrades, recertifications and ancillary rig equipment purchases in the CDS segment, heavy truck recertifications and rental equipment in the RTS segment, additions to the compression rental fleet in the CPS segment and service rig recertifications and upgrades in the WS segment. Included in 2021 capital expenditures was approximately $1.1 million of capital commitments carried forward from 2020 (2020: $3.7 million carried forward from 2019).

During the fourth quarter and year ended December 31, 2020, PP&E purchases included the following: ancillary rig equipment and rig recertification and upgrades in the CDS segment, information technology upgrades and heavy truck recertifications in the RTS segment, additions to the compression rental fleet in the CPS segment and service rig recertifications and upgrades in the WS segment.

Financing Activities

	Three months ended			Year ended		
December 31	**2021**	2020	Change	**2021**	2020	Change
Net cash used in financing activities	**$ (13,476)**	$ (17,183)	(22%)	**$ (64,953)**	$ (69,461)	(6%)

During the three months and year ended December 31, 2021 net cash used in financing activities was $3.7 million and $4.5 million, respectively, lower as compared to the same periods last year. Contributing to the decrease during the fourth quarter of 2021 was lower interest and debt payments. This was partially offset by $5.3 million of share repurchases in the period. For the year ended December 31, 2021 the decrease in cash used in financing activities as compared to the same period in 2020 was due to $6.5 million lower interest payments, no dividend payments and $2.5 million lower finance lease payments. Partially offsetting this decrease was a $9.6 million year over year increase in share repurchases.

During the fourth quarter of 2021 the Company paid $1.5 million of interest, repaid $5.6 million of long-term debt, made $1.1 million of lease liability payments and repurchased 987,634 shares under the Company's normal course issuer bid for $5.2 million.

During the year ended December 31, 2021 the Company paid $6.6 million of interest, repaid $42.6 million of long-term debt, made $5.8 million of lease liability payments and repurchased 2,099,634 million shares under the Company's normal course issuer bid for $10.0 million.

Liquidity and Capital Resources

The Company had a working capital surplus of $137.3 million as at December 31, 2021 compared to $138.9 million as at December 31, 2020. As at December 31, 2021 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 $225.0 million revolving syndicated credit facility (the "Credit Facility"). On April 25, 2018 the Credit Facility was increased by $65.0 million to $290.0 million. On November 10, 2020, at the request of the Company the Credit Facility was reduced to $250.0 million and the maturity date extended to November 10, 2023. On January 12, 2022, at the request of the Company the Credit Facility was reduced to $220.0 million and extended to November 10, 2024. The Company has the option to increase such facility by $75.0 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 $200.0 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, 2021, the applicable interest rate on amounts drawn on the Credit Facility was 2.49% and the standby rate was 0.30%. Letters of credit ("LOC") of $0.3 million were outstanding at December 31, 2021 which reduces the amount of credit available under the Credit Facility by an equivalent amount.

In August of 2018 a U.S. $20.0 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. In April of 2020 this facility was reduced at the request of the Company to U.S. $10.0 million. At December 31, 2021 $6.6 million Canadian dollars of LOCs were outstanding under the LOC Facility (December 31, 2020: $3.7 million).

In addition to the Credit Facility, a subsidiary of the Company has a $5.0 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At December 31, 2021 this facility was undrawn and fully available.

At December 31, 2021 the Company's long-term debt consisted of the following:

	December 31, 2021	
	Interest rate	Principal Amount
Credit Facility	2.49%	$ 130,000
Mortgage loan (2025 maturity)	3.10%	46,920
Mortgage loan (2041 maturity)	3.05%	13,597
		190,517
Less current portion		2,611
		$ 187,906

At December 31, 2021 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, 2021 was 2.68%.

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 2021	Threshold
Twelve-month trailing Bank EBITDA to interest expense	**17.35**	minimum 3.00
Total Senior Debt to twelve-month trailing Bank EBITDA	**1.40**	maximum 3.00

The Company was in compliance with all of its Credit Facility and other debt covenants at December 31, 2021. For further information regarding Credit Facility compliance requirements and details on the Company's borrowings, please refer to note 13 to the 2021 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.

Dividends

The Company suspended payment of a dividend on March 12, 2020 given the sudden and material deterioration in industry conditions.

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 any future dividends through cash provided by operating activities.

Capital Spending

Capital spending for the three months and year ended December 31, 2021 consisted of $11.8 million and $29.0 million of PP&E purchases, respectively. Capital spending was funded by cash flow and $1.4 million and $10.5 million of proceeds from the sale of PP&E during the fourth quarter and year ended December 31, 2021, respectively.

CONTRACTUAL OBLIGATIONS

At December 31, 2021 the Company had the following contractual obligations:

	Payments due by year					
	Total	2022	2023	2024	2025	2026 and after
Long-term debt and bank indebtedness	$ 190,517	$ 2,611	$ 132,671	$ 2,730	$ 41,627	$ 10,878
Commitments (1)	257	217	35	2	3	–
Lease liabilities, net of lease assets	11,283	3,543	2,447	1,719	1,236	2,338
Purchase obligations (2)	29,503	29,503	–	–	–	–
Total contractual obligations	$ 231,560	$ 35,874	$ 135,153	$ 4,451	$ 42,866	$ 13,216

(1) Commitments are described in Note 24 to the 2021 Financial Statements.

(2) Purchase obligations are described in Note 24 to the 2021 Financial Statements. As at December 31, 2021 purchase obligations primarily relate to commitments to purchase inventory in the CPS segment.

OFF-BALANCE SHEET ARRANGEMENTS

During 2021 and 2020, the Company had no off-balance sheet arrangements other than short-term leases.

TRANSACTIONS WITH RELATED PARTIES

During 2021 and 2020 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 2025 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 3.93% for a similar debt instrument at December 31, 2021 was $45.8 million (December 31, 2020: market rate of 3.08%, $48.8 million). The carrying value and Company`s liability with respect to this mortgage is $46.9 million.

OUTSTANDING COMPANY SHARE DATA

As at the date of this MD&A, the Company had 42,710,000 common shares outstanding.

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

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

OUTLOOK

Industry Conditions

The COVID-19 pandemic and resultant historic decline in global economic activity and oil prices contributed to unprecedented challenges and uncertainty for the global energy industry during 2020 and the first half of 2021. A significant rise in oil and natural gas prices over the course of 2021 and into 2022 has resulted in steadily improving industry conditions, particularly in North America, although producers generally remain disciplined in regard to their capital expenditure programs. Continued uncertainty surrounding the near-term economic impact of COVID-19 mutations causes the Company to remain cautious and manage its business and affairs in a manner to protect its balance sheet and financial liquidity.

The severity of the recent downturn resulted in a substantial increase in bankruptcies and insolvencies among the Company's competitors and customers. While this led to short term challenges, it is expected to result in more balanced market conditions over the long-term in the various markets in which the Company competes as global energy supply and demand rebalances with normalized global economic activity.

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. A discussion of the Company's business risks is set out in its AIF under the heading "Risk Factors" and is incorporated herein. 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 2021 other than as described below.

Industry Conditions

The dual shocks of the COVID-19 pandemic and collapse in oil prices contributed to extremely negative industry conditions for the global energy industry that only recently have begun to ease. The Company's North American customers have only recently begun to increase capital spending from historic lows and current activity levels are below levels experienced during previous periods of similar oil and natural gas prices. Activity levels in Australia moderated in the third quarter of 2020 and began to recover in the fourth quarter of 2021. While the Company has been proactive in managing its operating cost structure, capital expenditures and dividend policy to adapt to a volatile and uncertain industry environment, a decrease in future industry activity levels may require additional substantive measures be taken to preserve the Company's financial strength and flexibility.

Credit Risk

A sustained increase in oil and gas prices has mitigated counterparty credit risk as a substantial portion of the Company's dealings are with entities involved in the oil and gas industry. Notwithstanding such improvement in the industry environment, 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 during the three months and year ended December 31, 2021. In the fourth quarter of 2020 and year ended December 31, 2020, the Company did not have any significant exposure to any individual customer or counter party except for one major oil and gas producing company and two major oil and gas producing companies, respectively, that each accounted for over 10% of consolidated revenue.

The Company increased its allowance for doubtful accounts receivable by $1.0 million and wrote-off $1.2 million against the allowance for doubtful accounts during the year ended December 31, 2021, bringing such allowance to an aggregate of $1.8 million as at December 31, 2021.

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 were no material changes to the Company's Critical Accounting Estimates during 2021.

During the second quarter of 2020, the Company conducted a review of its drilling equipment within its CDS 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 April 1, 2020 certain changes were made to the Company's estimates of the useful life and residual values of various CDS assets, which are summarized as follows:

	Previous estimated useful lives	New estimated useful lives	Previous basis of depreciation	New basis of depreciation
Drilling rigs and related equipment	600 to 8,000 operating days	3 – 25 years	utilization (minimum annual deemed utilization of 96 days)	straight-line

As a result of these changes in estimates which related primarily to the estimated useful life and method of depreciation, a non-recurring depreciation expense relating to now fully depreciated assets of $26.3 million was incurred during the second quarter of 2020.

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 expected future credit losses 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 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.

FUTURE ACCOUNTING POLICIES CHANGES

Certain pronouncements were issued recently by the International Accounting Standards Board ("IASB") of the International Financial Reporting Standards ("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

As described throughout this MD&A, the Company references the following financial measures that are not recognized under IFRS: EBITDA, operating income, cashflow, working capital and net debt. Management believes that, in addition to the amounts reported in the Company's 2021 financial statements, these measures are useful in assessing the Company's performance and liquidity. These measures are unlikely to be comparable with similar measures presented by other companies. The non-IFRS measures referenced in this MD&A reconcile to the IFRS measures reported in the Company's 2021 financial statements as follows, unless reconciled elsewhere:

EBITDA	Three months ended		Year ended	
December 31	**2021**	2020	**2021**	2020
Net income (loss)	**$ 1,036**	$ (1,732)	**$ (428)**	$ (30,455)
Add back (deduct):				
Depreciation	**20,244**	22,081	**83,065**	113,363
Finance costs	**1,583**	2,283	**6,837**	10,346
Income tax recovery	**(296)**	(3,086)	**(3,459)**	(12,050)
EBITDA	**$ 22,567**	$ 19,546	**$ 86,015**	$ 81,204

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

Net Debt	As at December 31, 2021
Long-term debt	$ 187,906
Lease liabilities	8,101
Add back (deduct):	
Current liabilities	88,428
Current assets	(225,732)
Net Debt	$ 58,703

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 2021 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, 2021. 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, 2021.

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, 2021 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, 2021.

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 global economic conditions, changes in industry conditions (including the levels of capital expenditures made by oil and gas producers and explorers), pandemics, 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, 2020 to December 31, 2021.

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

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

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

DANIEL K. HALYK
President and Chief Executive Officer

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

March 10, 2022

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Total Energy Services Inc.:

Opinion

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

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

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

Key Audit Matters

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

Goodwill Impairment Analysis

Key Audit Matter Description

We refer to notes 2(f), 3(g)(ii), 10 and 11. As at December 31, 2021, the Company has recorded goodwill of $4,053,000. Goodwill is required to be tested for impairment annually and an impairment is recognized if the carrying amount of the cash generating unit ("CGU" or "CGUs") exceeds its recoverable amount. Management has determined the recoverable amount of the CGUs based on their value in use which incorporates the following significant assumptions:

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

The recoverable amount of the Company's Rentals and Transportation ("RTS") and Compression and Process Services ("CPS") CGUs requires significant judgment to be used by management. As a result, goodwill impairment analysis was considered a key audit matter.

This resulted in an increased extent of audit effort, including the involvement of internal valuation specialists.

Audit Response

We responded to this matter by performing procedures in relation to goodwill impairment analysis. Our audit work in relation to this included, but was not restricted to, the following:

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

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

Other Matter

The consolidated financial statements of the Company as at and for the year ended December 31, 2020 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on March 11, 2021.

Other Information

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

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

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

MNP LLP

Calgary, Alberta
March 10, 2022

Chartered Professional Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	Note	**December 31, 2021**	December 31, 2020
ASSETS			
Current assets:			
Cash and cash equivalents	7	**$ 33,365**	$ 22,996
Accounts receivable	8	**90,543**	73,373
Inventory	9	**89,921**	95,586
Prepaid expenses and deposits		**9,208**	6,876
Income taxes receivable	15	**2,208**	1,287
Current portion of finance lease asset	14	**487**	566
		225,732	200,684
Property, plant and equipment	10	**575,913**	636,996
Income taxes receivable	25	**7,070**	7,070
Deferred income tax asset	15	**393**	57
Lease asset	14	**361**	719
Goodwill	11	**4,053**	4,053
		$ 813,522	$ 849,579
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	12	**$ 65,513**	$ 46,410
Deferred revenue		**16,274**	6,365
Current portion of lease liabilities	14	**4,030**	6,417
Current portion of long-term debt	13	**2,611**	2,552
		88,428	61,744
Long-term debt	13	**187,906**	230,517
Lease liabilities	14	**8,101**	8,420
Deferred income tax liability	15	**35,650**	37,911
Shareholders' equity:			
Share capital	16	**270,905**	284,077
Contributed surplus		**5,757**	4,966
Accumulated other comprehensive loss		**(26,704)**	(18,736)
Non-controlling interest		**561**	629
Retained earnings		**242,918**	240,051
		493,437	510,987
		$ 813,522	$ 849,579

The notes on pages 33 to 63 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 LOSS

(in thousands of Canadian dollars except per share amounts)

	Note	2021	2020
REVENUE	18	**$ 431,576**	$ 365,750
Cost of services	19	**323,092**	266,720
Selling, general and administration	20	**28,234**	27,309
Other income		**(2,206)**	(5,969)
Share-based compensation	17	**804**	866
Depreciation	10	**83,065**	113,363
Operating loss		**(1,413)**	(36,539)
Gain on sale of property, plant and equipment	10	**4,363**	4,380
Finance costs, net	22	**(6,837)**	(10,346)
Net loss before income taxes		**(3,887)**	(42,505)
Current income tax (recovery)	15	**(862)**	3,075
Deferred income tax recovery	15	**(2,597)**	(15,125)
Total income tax recovery	15	**(3,459)**	(12,050)
Net loss for the year		**$ (428)**	$ (30,455)
Net loss attributable to:			
Shareholders of the Company		**$ (360)**	$ (30,450)
Non-controlling interest		**$ (68)**	$ (5)
Loss per share:			
Basic and diluted earnings per share	16	**$ (0.01)**	$ (0.68)

	Note	2021	2020
Net loss for the year		**$ (428)**	$ (30,455)
Other Comprehensive Loss (OCI):			
Foreign currency translation adjustment		**(7,968)**	(2,416)
Deferred tax effect	15	**–**	402
Total other comprehensive loss for the year		**(7,968)**	(2,014)
Total comprehensive loss		**$ (8,396)**	$ (32,469)
Total comprehensive loss attributable to:			
Shareholders of the Company		**$ (8,328)**	$ (32,464)
Non-controlling interest		**$ (68)**	$ (5)

The notes on pages 33 to 63 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended December 31, 2021 and 2020
(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, 2019		$ 284,510	$ 7,528	$ (16,722)	$ (236)	$ 268,062	$ 543,142
Net loss		–	–	–	(5)	(30,450)	(30,455)
Other comprehensive loss		–	–	(2,014)	–	–	(2,014)
Transactions with shareholders, recorded directly in equity:							
Repurchase of common shares	16	(433)	–	–	–	6	(427)
Share-based compensation	17	–	866	–	–	–	866
Stock options expired		–	(3,428)	–	–	3,428	–
Dissolution of limited partnership		–	–	–	995	(995)	–
Partnership distributions		–	–	–	(125)	–	(125)
		(433)	(2,562)	–	870	2,439	314
Balance at December 31, 2020		$ 284,077	$ 4,966	$ (18,736)	$ 629	$ 240,051	$ 510,987
Net loss		–	–	–	(68)	(360)	(428)
Other comprehensive loss		–	–	(7,968)	–	–	(7,968)
Transactions with shareholders, recorded directly in equity:							
Repurchase of common shares	16	(13,227)	–	–	–	3,227	(10,000)
Issue of share capital on exercise of stock options	17	55	(13)	–	–	–	42
Share-based compensation	17	–	804	–	–	–	804
		(13,172)	791	–	–	3,227	(9,154)
Balance at December 31, 2021		**$ 270,905**	**$ 5,757**	**$ (26,704)**	**$ 561**	**$ 242,918**	**$ 493,437**

The notes on pages 33 to 63 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2021 and 2020
(in thousands of Canadian dollars)

	Note	**2021**	2020
Cash provided by (used in):			
Operations:			
Net loss for the year		**$ (428)**	$ (30,455)
Add (deduct) items not affecting cash:			
Depreciation	10	**83,065**	113,363
Share-based compensation	17	**804**	866
Gain on sale of property, plant and equipment	10	**(4,363)**	(4,380)
Finance costs, net	22	**6,837**	10,346
Unrealized gain on foreign currencies translation		**(2,206)**	(5,910)
Current income tax expense (recovery)	15	**(862)**	3,075
Deferred income tax recovery	15	**(2,597)**	(15,125)
Income taxes recovered (paid)		**(59)**	1,657
Cashflow		**80,191**	73,437
Changes in non-cash working capital items:			
Accounts receivable	8	**(17,637)**	41,129
Inventory	9	**5,107**	10,086
Prepaid expenses and deposits		**(2,332)**	2,386
Accounts payable and accrued liabilities	12	**14,337**	(43,398)
Deferred revenue		**9,909**	2,482
		89,575	86,122
Investing:			
Purchase of property, plant and equipment	10	**(28,983)**	(16,904)
Proceeds on disposal of property, plant and equipment		**10,507**	5,936
Changes in non-cash working capital items		**4,223**	(2,570)
		(14,253)	(13,538)
Financing:			
Advances under long-term debt	13	**–**	29,796
Repayment of long-term debt	13	**(42,552)**	(74,590)
Repayment of lease liabilities	14	**(5,803)**	(8,266)
Partnership distributions to non-controlling interests		**–**	(125)
Payment of dividends	16	**–**	(2,710)
Repurchase of common shares	16	**(10,000)**	(427)
Shares issued on exercise of options		**42**	–
Interest paid		**(6,640)**	(13,139)
		(64,953)	(69,461)
Change in cash and cash equivalents		**10,369**	3,123
Cash and cash equivalents, beginning of year		**22,996**	19,873
Cash and cash equivalents, end of year		**$ 33,365**	$ 22,996

The notes on pages 33 to 63 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2021 and 2020
(Tabular amounts in thousands of Canadian dollars)

1. Reporting entity

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

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

2. Basis of preparation

(a) Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 10, 2022.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

(e) Critical judgments in applying accounting policies

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

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 dismantling and transportation costs.

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

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

As it pertains to property, plant and equipment the Company is required to estimate the residual value and useful lives of assets for purposes of depreciation. Effective April 1, 2020 the Company revised its estimates of the useful life and residual values of various assets which is described further in note 10.

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 share-based compensation is dependent upon estimates of future volatility and forfeiture rates.

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

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

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Business combinations and goodwill

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

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

Goodwill is measured at cost less accumulated impairment losses.

(ii) Subsidiaries and partnerships

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

(iii) Transactions eliminated on consolidation

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

(b) Foreign currency

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

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

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

(c) Financial instruments

(i) Non-derivative financial assets

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

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

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

The Company has the following non-derivative financial assets:

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

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

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

(ii) Non-derivative financial liabilities

The Company initially recognizes debt 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
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 fair value. Transaction costs are recognized in net income or loss when incurred.

(iv) Share capital

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(Tabular amounts in thousands of Canadian dollars)

(iii) Depreciation

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

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

The estimated useful lives are as follows:

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

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

(e) Leased assets

Under IFRS 16, leases in scope are recognized on the Company's statement of financial position with a right-of-use asset and corresponding lease obligation initially measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at the date the lease commenced. The right-of-use assets are included in property, plant and equipment on the statement of financial position and are depreciated over the shorter of either the asset's estimated useful life or the term of the lease. The lease obligation is subsequently 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.

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

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

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

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

(f) Inventory

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

(g) Impairment

(i) 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 6.

Contract Drilling

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

Well Servicing

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

Rentals and Transportation

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

Compression and Process Services

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

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

(j) Provisions

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

(k) Onerous contracts

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

(l) Finance income and finance costs

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

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

(m) Income tax

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

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

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

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

(n) Earnings per share

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

(o) Segment reporting

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

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

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

(p) Government grants

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

4. Determination of fair values

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

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

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

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

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

(a) Property, plant and equipment

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

(b) Inventories

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

(c) Accounts receivable

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

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

(d) Non-derivative financial liabilities

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

(e) Share-based payment transactions

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

5. Government grants

In response to the COVID-19 pandemic, various governments have established programs to assist companies through this challenging period. The Company has determined that it qualifies for certain programs and recognizes such government grants when there is a reasonable assurance the grant will be received. During 2021 the Company recognized $19.8 million under various COVID-19 relief programs in Canada, the United States and Australia (2020: $21.1 million). These funds have been recognized as a reduction of operating and administrative expenses by $17.8 million and $2.0 million for the year ended December 31, 2021, respectively (2020: $18.0 million and $3.1 million, respectively).

(Tabular amounts in thousands of Canadian dollars)

6. Operating segments

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

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

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

Year ended December 31, 2021	Canada	United States	Australia	Other	Total
Revenue	$ 242,613	$ 105,305	$ 83,656	$ 2	$ 431,576
Non-current assets (3)	378,519	141,552	60,256	–	580,327

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

(2) Effective April 1, 2020 the Company changed certain estimates relating to the useful life and residual value of equipment in the Contract Drilling Services segment. See note 10 for further details.

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

(Tabular amounts in thousands of Canadian dollars)

As at and for the year ended December 31, 2020	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate [1]	Total
Revenue	$ 96,661	$ 34,529	$ 136,005	$ 98,555	$ –	$ 365,750
Cost of services	72,388	20,429	108,197	65,706	–	266,720
Selling, general and administration	5,900	5,692	6,474	4,750	4,493	27,309
Other income	–	–	–	–	(5,969)	(5,969)
Share-based compensation	–	–	–	–	866	866
Depreciation [2]	64,297	23,493	9,603	15,241	729	113,363
Operating income (loss)	(45,924)	(15,085)	11,731	12,858	(119)	(36,539)
Gain on sale of property, plant and equipment	1,126	1,065	572	27	1,590	4,380
Finance costs, net	(161)	(93)	(374)	(31)	(9,687)	(10,346)
Net income (loss) before income taxes	(44,959)	(14,113)	11,929	12,854	(8,216)	(42,505)
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	319,075	199,793	215,533	104,743	10,435	849,579
Total liabilities	56,557	11,022	29,229	5,899	235,885	338,592
Capital expenditures	4,703	1,024	7,922	3,243	12	16,904

Year ended December 31, 2020	Canada	United States	Australia	Other	Total
Revenue	$ 177,519	$ 84,294	$ 103,884	$ 53	$ 365,750
Non-current assets [3]	419,332	155,175	67,261	–	641,768

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

(2) Effective April 1, 2020 the Company changed certain estimates relating to the useful life and residual value of equipment in the Contract Drilling Services segment. See note 10 for further details.

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

7. Cash and cash equivalents

Cash and cash equivalents represent cash in bank.

8. Accounts receivable

	December 31, 2021	December 31, 2020
Trade receivables, net of allowance for doubtful accounts	**$ 68,219**	$ 49,397
Accrued and other receivables	**22,324**	23,976
	$ 90,543	$ 73,373

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 $9.4 million (2020: $15.3 million) of amounts pertaining to contracts in progress as at December 31, 2021.

(Tabular amounts in thousands of Canadian dollars)

9. Inventory

	December 31, 2021	December 31, 2020
Finished goods	$ 935	$ 1,005
Work-in-progress	24,236	13,325
Parts and raw materials	64,750	81,256
	$ 89,921	$ 95,586

For the year ended December 31, 2021, finished goods, work-in-progress and parts and raw materials of $118.0 million (December 31, 2020: $92.1 million) are included in cost of services (note 19).

10. Property, plant and equipment

	Land and buildings	Rental equipment	Automotive equipment	Leased assets	Shop machinery and equipment	Drilling rigs and related equipment	Service rigs and related equipment	Furniture, fixtures and other	Total
Cost									
As at December 31, 2019	$ 121,093	$ 335,986	$ 53,660	$ 29,028	$ 22,108	$ 468,332	$ 110,968	$ 9,093	$ 1,150,268
Additions	11	7,264	860	3,362	421	4,623	3,297	428	20,266
Disposals	(511)	(4,046)	(737)	(3,300)	(13)	(1,422)	–	(7)	(10,036)
Effect of changes in foreign exchange rates	(98)	(1,240)	(64)	60	(117)	(31)	5,078	(36)	3,552
As at December 31, 2020	120,495	337,964	53,719	29,150	22,399	471,502	119,343	9,478	1,164,050
Additions	61	7,158	83	3,818	79	20,150	1,301	151	32,801
Disposals	(46)	(12,620)	(2,250)	(6,321)	(33)	(596)	(684)	(11)	(22,561)
Transfers from inventory	–	–	–	–	–	167	391	–	558
Effect of changes in foreign exchange rates	(31)	(313)	(125)	(235)	(23)	(2,873)	(4,789)	(11)	(8,400)
As at December 31, 2021	**120,479**	**332,189**	**51,427**	**26,412**	**22,422**	**488,350**	**115,562**	**9,607**	**1,166,448**
Accumulated Depreciation									
As at December 31, 2019	26,477	148,206	35,881	11,709	14,989	129,948	45,352	7,271	419,833
Depreciation expense	4,589	22,072	3,331	7,072	1,277	61,413	13,102	507	113,363
Disposals	–	(2,803)	(698)	(2,752)	–	(958)	–	(2)	(7,213)
Effect of changes in foreign exchange rates	(34)	(403)	20	(29)	(61)	(500)	2,095	(17)	1,071
As at December 31, 2020	31,032	167,072	38,534	16,000	16,205	189,903	60,549	7,759	527,054
Depreciation expense	4,588	20,085	2,582	6,848	1,115	34,624	12,702	521	83,065
Disposals	(46)	(8,774)	(517)	(6,051)	(35)	(536)	(234)	(6)	(16,199)
Effect of changes in foreign exchange rates	(4)	(39)	(85)	(72)	(2)	(918)	(2,261)	(4)	(3,385)
As at December 31, 2021	**35,570**	**178,344**	**40,514**	**16,725**	**17,283**	**223,073**	**70,756**	**8,270**	**590,535**
Net Book Value									
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, 2020	89,463	170,892	15,185	13,150	6,194	281,599	58,794	1,719	636,996
As at December 31, 2021	**$ 84,909**	**$ 153,845**	**$ 10,913**	**$ 9,687**	**$ 5,139**	**$ 265,277**	**$ 44,806**	**$ 1,337**	**$ 575,913**

(Tabular amounts in thousands of Canadian dollars)

As at December 31, 2021, there was $7.3 million (December 31, 2020: $3.3 million) of property plant and equipment under construction. The Company has not capitalized any borrowing costs as there were no borrowing costs directly attributable to the acquisition and construction of property, plant and equipment.

Included in leased assets as at December 31, 2021 was $6.9 million net book value (December 31, 2020: $7.8 million net book value) of assets relating to building leases and $2.8 million net book value (December 31, 2020: $5.3 million net book value) of assets relating to vehicle leases.

At each reporting period, the Company reviews the carrying value of its property, plant and equipment for indicators of impairment. Based on a steadily improving industry environment during the course of 2021 and the resultant increase in industry activity levels, no indications of impairment were identified during the year ended December 31, 2021.

Change in accounting estimates

During the second quarter of 2020, the Company conducted a review of its drilling equipment within its Contract Drilling 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 April 1, 2020 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	New estimated useful lives	Previous basis of depreciation	New basis of depreciation
Drilling rigs and related equipment	600 to 8,000 operating days	3 – 25 years	utilization (minimum annual deemed utilization of 96 days)	straight-line

As a result of these changes in estimates which related primarily to the estimated useful life and method of depreciation, a non-recurring depreciation expense relating to now fully depreciated assets of $26.3 million was incurred during 2020. In addition, recurring depreciation expense increased by $11.6 million during 2020.

11. Goodwill

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

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

	December 31, 2021	December 31, 2020
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 (2020: nil).

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

(Tabular amounts in thousands of Canadian dollars)

Unless indicated otherwise, value in use in 2021 was determined similarly as in 2020. 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 2021 and 2020.
- An after-tax discount rate of 8.73% (2020: 8.58%) was applied in determining the recoverable amount of the unit.
- The expectation is that activity levels will continue to recover into 2022 and continue to improve in 2023 as global COVID-19 restrictions are lifted.

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

12. Accounts payable and accrued liabilities

	December 31, 2021	December 31, 2020
Trade payables	**$ 33,647**	$ 16,518
Wages and salaries payables and related accruals	**9,808**	11,640
Accrued costs and other payables	**22,058**	18,252
	$ 65,513	$ 46,410

Included in accrued costs and other payables is $1.4 million (2020: $1.8 million) relating to contracts in progress as at December 31, 2021.

13. Long-term debt

At December 31, 2021 the Company's long-term debt consisted of the following:

	December 31, 2021		December 31, 2020	
	Interest rate	**Principal amount**	Interest rate	Principal amount
Credit Facility	**2.49%**	**$ 130,000**	2.59%	$ 170,000
Mortgage loan (2025 maturity)	**3.10%**	**46,920**	3.10%	48,791
Mortgage loan (2041 maturity)	**3.05%**	**13,597**	3.05%	14,278
		190,517		233,069
Less current portion		**2,611**		2,552
		$ 187,906		$ 230,517

At December 31, 2021 amounts owing under the Credit Facility were denominated in Canadian dollars.

On June 19, 2017 the Company entered into a three-year $225 million revolving syndicated credit facility (the "Credit Facility"). On April 25, 2018 the Credit Facility was increased by $65 million to $290 million. On November 10, 2020, at the request of the Company the Credit Facility was reduced to $250 million and the maturity date extended to November 10, 2023. On January 12, 2022, at the request of the Company the Credit Facility was reduced to $220 million and extended to November 10, 2024. The Company has the option to increase such facility by $75 million subject to certain terms and conditions, including the agreement of the lenders to increase their commitments. The Credit Facility includes a Canadian $18.0 million operating line, an Australian $2.0 million operating line and a Canadian $200.0 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, 2021, the applicable interest rate on amounts drawn on the Credit Facility was 2.49% and the standby rate was 0.30%. Letters of credit ("LOC") of $0.3 million were outstanding at December 31, 2021 which reduces the amount of credit available under the Credit Facility by an equivalent amount.

(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"). LOCs issued pursuant to the LOC Facility do not reduce availability under the Credit Facility. In April 2020 this facility was reduced at the request of the Company to U.S. $10 million. At December 31, 2021 $6.6 million Canadian dollars of LOCs were outstanding under the LOC Facility (2020: $3.7 million).

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, 2021 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 2021	Threshold
Twelve-month trailing Bank EBITDA to interest expense	**17.35**	minimum 3.00
Total Senior Debt to twelve-month trailing Bank EBITDA	**1.40**	maximum 3.00

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

- Bank EBITDA is determined (on a 12 month trailing basis) as earnings before finance expenses, income taxes, depreciation, share-based compensation and certain non-recurring and non-cash income and expenses as defined in the credit agreement and excludes amounts from certain non-guarantor subsidiaries and the limited partnerships partially owned by the Company.

- Senior Debt is determined as total long-term debt (including the current portions thereof but excluding the mortgage loans, the limited partnership facilities and certain other obligations identified in the credit agreement) minus cash on hand.

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

Mortgage Loan (2025 maturity) is a loan maturing on April 29, 2025 that is amortized over 20 years with blended monthly principal and interest payments of approximately $279,800. At maturity, approximately $40.2 million of principal will become due and payable assuming only regular monthly payments are made. This loan bears interest at a fixed rate of 3.10% and is secured by certain of the Company`s real estate. This loan was taken to repay a $40.2 million term loan that matured on April 29, 2020 and to repay $9.6 million owing under the Credit Facility.

Mortgage Loan (2041 maturity) is a loan maturing on December 31, 2041 and bears interest at a floating rate that was 3.05% at December 31, 2021. This loan is secured by certain of the Company's real estate.

At December 31, 2021 the Company was in compliance with all debt covenants.

(Tabular amounts in thousands of Canadian dollars)

14. Lease liabilities

	December 31, 2021	December 31, 2020
Lease liability	$ 12,131	$ 14,837
Less current portion	4,030	6,417
Long-term finance lease liability, end of year	$ 8,101	$ 8,420

The Company has entered into various agreements with third parties for the purpose of financing certain automotive equipment and for the purposes of renting real estate properties. The leases bear interest at rates ranging from 1.4% to 7.0% (December 31, 2020: 2.30% to 7.00%) and mature on various dates up to 2028.

	December 31, 2021	December 31, 2020
Lease liability	$ 12,131	$ 14,837
Less lease asset	848	1,285
Net lease liability, end of year	$ 11,283	$ 13,552

In 2021, interest of $0.7 million (December 31, 2020 – $0.9 million) relating to lease liabilities has been included in finance costs (note 22).

	Minimum lease payments		Present value of minimum lease payments	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Not later than one year	$ 4,548	$ 6,998	$ 3,543	$ 5,851
Later than one year and not later than five years	7,590	7,606	6,336	6,113
Later than 5 years	1,474	1,716	1,404	1,588
	13,612	16,320	11,283	13,552
Less: future finance charges	(2,329)	(2,768)	–	–
Present value of minimum lease payments	$ 11,283	$ 13,552	$ 11,283	$ 13,552

15. Deferred income tax assets and (liabilities)

The components of the net deferred income tax liability at December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Deferred income tax assets:		
Non-capital losses	$ 38,540	$ 38,394
Unrealized foreign exchange on capital items	–	–
Long-term leave provision	1,489	1,737
Other	(64)	24
Deferred income tax liabilities:		
Property, plant and equipment	(75,254)	(76,491)
Unrealized foreign exchange on capital items	–	–
Unrealized foreign exchange on working capital balances	32	(1,518)
	$ (35,257)	$ (37,854)
Deferred income tax assets, net	393	57
Deferred income tax liabilities, net	(35,650)	(37,911)
Net deferred income tax liabilities	$ (35,257)	$ (37,854)

(Tabular amounts in thousands of Canadian dollars)

By Country:

	December 31, 2021	December 31, 2020
Deferred income tax assets:		
United States	$ 393	$ 57
Deferred income tax liabilities:		
Canada	(31,927)	(35,728)
United States	–	–
Australia	(3,723)	(2,183)
Net deferred income tax liabilities	$ (35,257)	$ (37,854)

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, 2021, the Company had $21.8 million (2020: $23.5 million) of unrecognized tax benefits relating to non-capital losses that, if recognized, would have a favorable impact on the Company's effective income tax rate in future periods.

At December 31, 2021, the Company's non-capital losses available to carry forward totaled $244.1 million (2020: $252.9 million), of which $117.1 million relate to Canadian entities (2020: $129.0 million), $118.7 million relate to United States entities (2020: $123.7 million) and $8.3 million to Australian entities (2020: $0.3 million). The unused tax losses, which begin to expire in 2026, may be applied to reduce future taxable income and future income taxes payable.

Movement in temporary differences during the period:

	Dec 31, 2019	Recognized in net income	Recognized in OCI	Dec 31, 2020	Recognized in net income	Dec 31, 2021
Deferred income tax assets:						
Non-capital losses	$ 27,642	$ 10,752	$ –	$ 38,394	$ 146	$ 38,540
Long-term leave provision	2,171	(434)	–	1,737	(248)	1,489
Deferred income tax liabilities:						
Property, plant and equipment	(82,281)	5,790	–	(76,491)	1,237	(75,254)
Unrealized foreign exchange on capital items	(402)	–	402	–	–	–
Unrealized foreign exchange on intercompany working capital balances	(154)	(1,364)	–	(1,518)	1,550	32
Other	(357)	381	–	24	(88)	(64)
Deferred tax recovery (expense)	$ (53,381)	$ 15,125	$ 402	$ (37,854)	$ 2,597	$ (35,257)

(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:

	2021	2020
Net loss before income taxes	$ (3,887)	$ (42,505)
Income tax rate	23%	24%
Expected income tax recovery	$ (894)	$ (10,201)
Changes in taxes resulting from:		
Change in tax rates	(1,520)	(2,205)
Non-taxable (non-deductible) items	(548)	63
Other	(497)	293
Total income tax recovery	$ (3,459)	$ (12,050)

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, 2019	45,150	$ 284,510
Repurchased and cancelled	(69)	(433)
Balance, December 31, 2020	45,081	$ 284,077
Repurchased and cancelled	**(2,099)**	**(13,227)**
Share options exercised	**18**	**55**
Balance, December 31, 2021	**43,000**	**$ 270,905**

During the year ended December 31, 2021 2,099,634 common shares (year ended December 31, 2020: 68,700) were repurchased and cancelled under the Company's normal course issuer bid at an average price of $4.76 per share including commissions.

(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:

	2021	2020
Net loss for the year attributable to shareholders	$ (360)	$ (30,450)
Weighted average number of shares outstanding – basic and diluted	44,384	45,083
Loss per share – basic	$ (0.01)	$ (0.68)
Net loss for the year attributable to shareholders	(360)	(30,450)
Weighted average number of shares outstanding – basic	44,384	45,083
Share option dilution	289	–
Weighted average number of shares outstanding – diluted	44,673	45,083
Loss per share – diluted	$ (0.01)	$ (0.68)

For the year ended December 31, 2021, 3,245,000 options (December 31, 2020: 3,025,000) 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 2021 and 2020 the Company did not declare any dividends.

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 2021 and 2020 were as follows:

	Weighted average exercise price	Number of Options
Balance, December 31, 2019	$ 12.35	3,935,000
Granted	2.31	650,000
Forfeited	11.06	(204,999)
Expired	13.78	(1,355,001)
Balance, December 31, 2020	$ 9.65	3,025,000
Granted	3.77	925,000
Exercised	2.31	(18,334)
Balance, December 31, 2021	**$ 8.30**	**3,931,666**

(Tabular amounts in thousands of Canadian dollars)

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 June 26, 2022 to September 26, 2026.

There were 18,334 options exercised during 2021 (2020: nil). During 2021, the weighted average market price at the time of exercise of options was $5.39 per share.

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

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

Outstanding at December 31, 2020	Exercise price	Remaining life (years)	Exercisable at December 31, 2020
1,175,000	$ 12.69	1.50	1,175,000
60,000	12.00	1.60	60,000
300,000	13.54	2.20	200,000
840,000	9.51	3.40	280,004
650,000	2.31	4.60	–
3,025,000	$ 9.65	2.77	1,715,004

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 2021 was $1.15 (2020: $0.64) per option using the following assumptions:

	December 31, 2021	December 31, 2020
Expected volatility	**41.26% - 46.68%**	38.79% - 44.38%
Annual dividend yield	**0%**	0%
Risk free interest rate	**0.19% - 1.11%**	0.30% - 0.41%
Forfeitures	**12%**	14%
Expected life (years)	**3 to 5 years**	3 to 5 years

For the year ended December 31, 2021 the Company recognized share-based compensation expense of $0.8 million (2020 – $0.9 million).

(Tabular amounts in thousands of Canadian dollars)

18. Revenue

	2021	2020
Rendering of services	$ 326,392	$ 272,059
Sale of goods	105,184	93,691
	$ 431,576	$ 365,750

19. Cost of services

	2021	2020
Wages and salaries	$ 142,567	$ 120,110
Inventory	117,981	92,054
Repair and maintenance	45,758	36,136
Fuel and travel	11,236	9,633
Rent and services	1,938	2,552
Other	3,612	6,235
	$ 323,092	$ 266,720

20. Selling, general and administration

	2021	2020
Wages and salaries	$ 18,293	$ 16,099
Professional and legal	2,823	3,431
Marketing and risk management	2,634	3,006
Rent and services	730	862
Travel and fuel	873	652
Other	2,881	3,259
	$ 28,234	$ 27,309

21. Employee compensation

	2021	2020
Cost of services	$ 142,567	$ 120,110
Selling, general and administration	18,293	16,099
Share-based compensation	804	866
	$ 161,664	$ 137,075

22. Finance costs, net

	2021	2020
Interest on long-term debt	$ 6,135	$ 9,306
Interest on lease liabilities	657	881
Other expense	45	159
	$ 6,837	$ 10,346

(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, 2021 and 2020 these ratios were as follows:

	December 31, 2021	December 31, 2020
Long-term debt (including current portion)	**$ 190,517**	$ 233,069
Shareholders' equity	**493,437**	510,987
Total capitalization	**$ 683,954**	$ 744,056
Long-term debt to capitalization ratio	**0.28**	0.31

As at December 31, 2021, the Company was subject to externally imposed minimum capital requirements relating to the Credit Facility and Mortgage loans (2025 and 2041 maturities) as described in note 13. The Company monitored these requirements to ensure compliance with them. As at December 31, 2021 and 2020 the Company was in compliance with all external minimum capital requirements.

Financial instruments

The Company's financial instruments as at December 31, 2021 include cash and cash equivalents, accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities and long-term debt. The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity. The discounted future cash repayments of the Company`s 2025 Mortgage loan are calculated using prevailing market rates of a similar debt instrument as at the reporting date. The net present value of future cash repayments of the 2025 Mortgage loan and related interest at the prevailing market rate of 3.93% for a similar debt instrument at December 31, 2021 was $45.8 million (December 31, 2020: market rate of 3.08%, $48.8 million). The carrying value and Company`s liability with respect to the 2025 Mortgage loan is $46.9 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.

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.

(Tabular amounts in thousands of Canadian dollars)

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, 2021, $2.1 million, or 2% of accounts receivable (2020: $12.4 million or 16%) were more than 90 days overdue, which includes $1.8 million of doubtful accounts for which a provision has been recognized (December 31, 2020: $2.0 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, 2019	$ 2,209
Provisions and revisions	(179)
Balance at December 31, 2020	$ 2,030
Provisions and revisions	(268)
Balance at December 31, 2021	**$ 1,762**

The Company did not have significant exposure to any individual customer or counter party in 2021. 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, 2021, the Company maintained credit facilities which were available to a maximum of $255 million and mortgage debt of $60.5 million (December 31, 2020, the Company maintained credit facilities which were available to a maximum of $255 million, mortgage debt of $63.1 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.

(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, 2021	**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)	**$ 65,513**	**$ –**	**$ –**	**$ 65,513**
Long-term debt (note 13)	**7,685**	**184,998**	**12,543**	**205,226**
Lease liabilities (note 14)	**4,548**	**7,590**	**1,474**	**13,612**
Total	**$ 77,746**	**$ 192,588**	**$ 14,017**	**$ 284,351**

As at December 31, 2020	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)	$ 46,410	$ –	$ –	$ 46,410
Long-term debt (note 13)	8,860	191,442	55,931	256,233
Lease liabilities (note 14)	6,998	7,606	1,716	16,320
Total	$ 62,268	$ 199,048	$ 57,647	$ 318,963

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 6% of its cost of services in 2021 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, 2021 the net amount of foreign exchange loss related to transaction exposure recorded in net income was $0.4 million (2020: foreign exchange loss of $0.6 million).

Translation exposure

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

(Tabular amounts in thousands of Canadian dollars)

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

For the year ended December 31, 2021	United States Dollar	Australian Dollar	Total
Net income (loss) before income taxes	$ (95)	$ 24	$ (71)
Other comprehensive income	11,484	5,377	16,861
	$ 11,389	**$ 5,401**	**$ 16,790**

For the year ended December 31, 2020	United States Dollar	Australian Dollar	Total
Net income (loss) before income taxes	$ (919)	$ 442	$ (477)
Other comprehensive income	11,947	5,826	17,773
	$ 11,028	$ 6,268	$ 17,296

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, 2021 was $13.5 million (December 31, 2020: nil). 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, 2021 (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, 2021 was $1.27 Canadian dollar per United States dollar and $0.92 Canadian dollar per Australian dollar (December 31, 2020: $1.27 Canadian dollar per United States dollar). For the year ended December 31, 2021 the mark to market gain on foreign exchange contracts was $0.3 million (2020: $0.2 million loss) and is included in net income.

- Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on borrowings under existing and available credit facilities which utilize a combination of short-term fixed rates using 30 to 90-day Banker's Acceptance and floating rates. For the year ended December 31, 2021, if interest rates had been 100 basis points lower with all other variables held constant, after tax net earnings for the period would have been approximately $1.4 million higher (December 31, 2020 – $1.7 million). An equal and opposite impact would have occurred to net earnings had interest rates been 100 basis points higher. The sensitivity in 2021 is lower as compared to 2020 due primarily to a decrease in the Company's long-term debt balances and lower interest rate environment.

The Company had no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2021.

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

(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, 2021	December 31, 2020
Less than one year	$ 217	$ 168
Between one and five years	40	120
More than five years	–	–
	$ 257	$ 288

The Company also has purchase obligations of $29.5 million as at December 31, 2021 (December 31, 2020: $7.0 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 2022. 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, 2021. 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 $17.2 million of cash may be owing and $24.3 million of income tax expense would be recognized.

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

(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. In early 2020 AIMCo amended its claim to remove the Company as a defendant. AIMCo's claim relates to Savanna's refusal to pay a $6 million change of control penalty (the "Additional Penalty") to AIMCo. The Company and Savanna have received legal advice that AIMCo's claim for the Additional Penalty is not enforceable and have filed a statement of defense. Savanna has also filed a third party claim against its former directors that seeks indemnity in the event that AIMCo is successful in its claim against Savanna. Following the completion of discoveries, Savanna has filed a counterclaim against AIMCo and certain former directors of Savanna for $7.3 million.

On March 11, 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the duration, nature and magnitude of the impact on the economy, commodity prices and the Company's business is not known at this time. Such impact could include a material adverse impact on the Company's financial liquidity position, impairments in the value of long-lived assets, future material decreases in revenue and the profitability of ongoing operations.

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, 2021	December 31, 2020
Short-term employee benefits	**$ 4,266**	$ 4,152
Share-based compensation [(1)]	**804**	866
	$ 5,070	$ 5,018

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

At December 31, 2021 directors and officers of the Company own or control 8.2 percent of the voting shares of the Company (2020: 7.8 percent).

There have been no transactions over the reporting period with key management personnel (2020: nil), and no outstanding balances exist as at period end (2020: nil).

(Tabular amounts in thousands of Canadian dollars)

27. Subsidiaries

Significant subsidiaries and partnerships

	Country of Incorporation	Ownership Interest, %	
		2021	2020
Total Oilfield Rentals Ltd.	Canada	**100**	100
Bidell Gas Compression Ltd.	Canada	**100**	100
Opsco Process Corp.	Canada	**100**	100
TES Investments Ltd.	Canada	**100**	100
TES Services Inc.	United States	**100**	100
Total Oilfield Rentals Inc.	United States	**100**	100
Bidell Gas Compression Inc.	United States	**100**	100
TES Land Inc.	United States	**100**	100
TES Energy Services Pty Ltd.	Australia	**100**	100
Savanna Energy Services (U.S.A.) Corp.	United States	**100**	100
Savanna Energy Services Pty Ltd.	Australia	**100**	100
Savanna Well Servicing Inc.	Canada	**100**	100
Savanna Well Servicing Corp.	United States	**100**	100
Savanna Drilling Corp.	Canada	**100**	100
Savanna Drilling LLC	United States	**100**	100
BR Enterprises Limited Partnership	Canada	**100**	100
Savanna Energy Services Limited Partnership #6	Canada	**50**	50
Heart Lake First Nation Savanna Energy Services Limited Partnership	Canada	**50**	50

CORPORATE INFORMATION

BOARD OF DIRECTORS

Bruce Pachkowski [2]
Chairman of the Board

Daniel Halyk
President and Chief Executive Officer

George Chow [1]

Glenn Dagenais [2, 3]

Greg Melchin [1, 2]

Jessica Kirstine [3]

Ken Mullen [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

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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MNP 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

STOCK EXCHANGE LISTING

Toronto Stock Exchange

Common Shares: TOT

CANADIAN LOCATIONS

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

U.S. LOCATIONS

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

AUSTRALIAN LOCATIONS

Toowoomba, QLD