

2023



FOCUS DISCIPLINE GROWTH

Annual Report 2023

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.

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REPORT TO SHAREHOLDERS

2023 was a solid year for Total Energy. The Company generated record annual financial results despite net income being negatively impacted by a Canadian tax court ruling related to Total Energy's conversion from an income trust in 2009 that resulted in the Company recording \$26.8 million of non-recurring income tax and related interest and penalties in the fourth quarter of 2023.

Continued investment in growing North American LNG export capacity provided tailwinds for all business segments during 2023, particularly the Compression and Process Services which experienced strong demand arising from the natural gas infrastructure build. Total Energy's targeted investments in equipment upgrades over the past two years, particularly within the Contract Drilling Services segment, also contributed to the Company's solid financial performance in 2023.

Total Energy remained focused on the safety and efficiency of its operations. Notably, the Rentals and Transportation Services segment recorded a zero TRIF (total recordable injury frequency) in Canada for 2023, a significant achievement given the nature of their operations and the harsh environments they often find themselves working in.

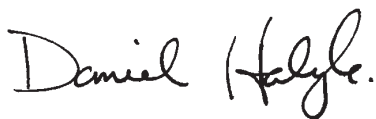
Finally, Total Energy remained committed to providing its owners with industry leading shareholder returns during 2023. \$52.7 million was allocated towards \$27 million of debt repayment, \$13.6 million of share repurchases and \$12.1 million of dividends. The Company exited 2023 in a very strong financial position, with bank debt less cash on hand of only \$45.1 million.

LOOKING FORWARD

While oil prices remain relatively stable, North American natural gas prices have weakened considerably over the past few months. In such an environment, Total Energy remains focused on operating in a safe and efficient manner and exercising discipline in the investment of our owners' capital.

Total Energy's preliminary 2024 capital expenditure budget of \$46.5 million maintains current operating levels and provides our operating segments with capital to pursue compelling growth opportunities. In addition, the Company's wholly owned Australian subsidiary recently completed the acquisition of Saxon Energy Services Australia Pty Ltd. The Saxon acquisition significantly increases the Company's exposure to the Australian land drilling market with the addition of 11 drilling rigs to Savanna Australia's existing fleet of five rigs. With the pending delivery of a newly constructed rig to Australia, Total Energy will have a diversified fleet of 17 drilling rigs in Australia by mid-year, making Australia an increasingly important market for the Company.

On behalf of the Board of Directors and management of Total Energy, I would like to welcome the employees of Saxon to our corporate family. We are excited by this opportunity to grow our Australian presence and look forward to working with all of you as we continue to build a world class contract drilling business.



DANIEL K. HALYK
President and Chief Executive Officer

March 2024

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

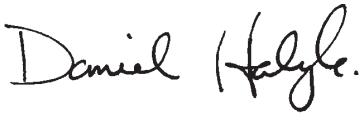
The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies in the notes to financial statements. When necessary, management 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, 2022 to December 31, 2023.

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

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

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



DANIEL K. HALYK
President and Chief Executive Officer

March 7, 2024



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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Total Energy Services Inc.:

Opinion

We have audited the consolidated financial statements of Total Energy Services Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and December 31, 2022, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

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, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Key Audit Matters

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

*Goodwill Impairment Analysis**Key Audit Matter Description*

We refer to notes 2(f), 3(g), 9 and 10. As at December 31, 2023, the Company has recorded goodwill of \$4,053,000. Goodwill is required to be tested for impairment annually and an impairment is recognized if the carrying amount of the cash generating unit ("CGU" or "CGU's") exceeds its recoverable amount. Management has determined the recoverable amount of the CGU's based on their value in use which incorporates the following significant assumptions:

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

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

Audit Response

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

Other Information

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

- Management's Discussion and Analysis; and,
- 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 audits of the consolidated financial statements, our responsibility is to read the other information, identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

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

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

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

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

Calgary, Alberta
March 7, 2024

The logo for MNP LLP, featuring the letters 'MNP' in a large, bold, sans-serif font, followed by 'LLP' in a smaller, all-caps, sans-serif font.

Chartered Professional Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	Note	December 31, 2023	December 31, 2022
ASSETS			
Current assets:			
Cash and cash equivalents	6	\$ 47,935	\$ 34,061
Accounts receivable	7	137,604	154,581
Inventory	8	98,179	91,614
Prepaid expenses and deposits		16,735	18,847
Income taxes receivable	14	–	496
Current portion of lease asset	13	–	378
		300,453	299,977
Property, plant and equipment	9	557,152	567,515
Income taxes receivable	24	–	7,070
Goodwill	10	4,053	4,053
		\$ 861,658	\$ 878,615
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	11	\$ 116,794	\$ 114,274
Deferred revenue		39,321	63,895
Income taxes payable	14	9,771	–
Dividends payable		3,198	2,490
Current portion of lease liabilities	13	5,880	5,173
Current portion of long-term debt	12	2,050	1,991
		177,014	187,823
Long-term debt	12	90,947	117,997
Lease liabilities	13	9,887	9,631
Deferred income tax liability	14	53,052	41,141
Shareholders' equity:			
Share capital	15	251,283	261,109
Contributed surplus		4,805	3,590
Accumulated other comprehensive loss		(25,506)	(17,032)
Non-controlling interest		521	552
Retained earnings		299,655	273,804
		530,758	522,023
		\$ 861,658	\$ 878,615

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

Approved by the Board of Total Energy Services Inc.



Director: Greg Melchin



Director: George Chow

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2023 and 2022
(in thousands of Canadian dollars except per share amounts)

	Note	2023	2022
REVENUE	17	\$ 892,396	\$ 759,813
Cost of services	18	678,246	589,809
Selling, general and administration	19	46,828	39,671
Other expense (income)		(300)	1,035
Share-based compensation	16	2,186	1,142
Depreciation	9	80,814	78,813
Operating income		84,622	49,343
Gain on sale of property, plant and equipment	9	3,525	3,164
Finance costs, net	21	(17,425)	(7,374)
Net income before income taxes		70,722	45,133
Current income tax expense	14	17,217	1,250
Deferred income tax expense	14	11,911	5,884
Total income tax expense	14	29,128	7,134
Net income for the year		\$ 41,594	\$ 37,999
Net income (loss) attributable to:			
Shareholders of the Company		\$ 41,625	\$ 38,008
Non-controlling interest		\$ (31)	\$ (9)
Earnings per share:			
Basic earnings per share	15	\$ 1.03	\$ 0.90
Diluted earnings per share	15	\$ 1.01	\$ 0.88
		2023	2022
Net income for the year		\$ 41,594	\$ 37,999
<i>Other Comprehensive Income (loss) (OCI):</i>			
Foreign currency translation		(8,474)	9,672
Total other comprehensive income (loss) for the year		(8,474)	9,672
Total comprehensive income		\$ 33,120	\$ 47,671
Total comprehensive income (loss) attributable to:			
Shareholders of the Company		\$ 33,151	\$ 47,680
Non-controlling interest		\$ (31)	\$ (9)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended December 31, 2023 and 2022
(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, 2021		\$ 270,905	\$ 5,757	\$ (26,704)	\$ 561	\$ 242,918	\$ 493,437
Net income (loss)		-	-	-	(9)	38,008	37,999
Other comprehensive income		-	-	9,672	-	-	9,672
<i>Transactions with shareholders, recorded directly in equity</i>							
Dividends (\$0.18 per common share)	15	-	-	-	-	(7,489)	(7,489)
Repurchase of common shares	15	(10,350)	-	-	-	(2,288)	(12,638)
Issue of share capital from exercise of stock options	15	554	(220)	-	-	(434)	(100)
Share options expired	16	-	(3,089)	-	-	3,089	-
Share-based compensation	16	-	1,142	-	-	-	1,142
		(9,796)	(2,167)	-	-	(7,122)	(19,085)
Balance at December 31, 2022		\$ 261,109	\$ 3,590	\$ (17,032)	\$ 552	\$ 273,804	\$ 522,023
Net income (loss)		-	-	-	(31)	41,625	41,594
Other comprehensive loss		-	-	(8,474)	-	-	(8,474)
<i>Transactions with shareholders, recorded directly in equity</i>							
Dividends (\$0.32 per common share)	15	-	-	-	-	(12,850)	(12,850)
Repurchase of common shares	15	(10,155)	-	-	-	(3,432)	(13,587)
Issue of share capital from exercise of stock options	15	329	(150)	-	-	(313)	(134)
Share options expired	16	-	(821)	-	-	821	-
Share-based compensation	16	-	2,186	-	-	-	2,186
		(9,826)	1,215	-	-	(15,774)	(24,385)
Balance at December 31, 2023		\$ 251,283	\$ 4,805	\$ (25,506)	\$ 521	\$ 299,655	\$ 530,758

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2023 and 2022
(in thousands of Canadian dollars)

	Note	2023	2022
Cash provided by (used in):			
Operations:			
Net income for the year		\$ 41,594	\$ 37,999
Add (deduct) items not affecting cash:			
Depreciation	9	80,814	78,813
Share-based compensation	16	2,186	1,142
Gain on sale of property, plant and equipment	9	(3,525)	(3,164)
Finance costs, net	21	17,425	7,374
Unrealized (gain) loss on foreign currencies translation		(4,420)	1,035
Current income tax expense	14	17,217	1,250
Deferred income tax expense	14	11,911	5,884
Income taxes recovered		119	462
Cashflow		163,321	130,795
Changes in non-cash working capital items:			
Accounts receivable	7	16,977	(64,103)
Inventory	8	(6,565)	(1,690)
Prepaid expenses and deposits		2,112	(9,639)
Accounts payable and accrued liabilities	11	(5,325)	40,417
Deferred revenue		(24,574)	47,621
		145,946	143,401
Investing:			
Purchase of property, plant and equipment	9	(75,242)	(56,735)
Proceeds on disposal of property, plant and equipment		11,516	6,292
Changes in non-cash working capital items		(3,107)	8,181
		(66,833)	(42,262)
Financing:			
Repayment of long-term debt	12	(26,991)	(70,529)
Repayment of lease liabilities	13	(5,912)	(4,966)
Payment of dividends	15	(12,142)	(4,999)
Repurchase of common shares	15	(13,587)	(12,638)
Shares issued on exercise of options		42	158
Interest paid		(6,649)	(7,469)
		(65,239)	(100,443)
Change in cash and cash equivalents		13,874	696
Cash and cash equivalents, beginning of year		34,061	33,365
Cash and cash equivalents, end of year		\$ 47,935	\$ 34,061

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2023 and 2022
(Tabular amounts in thousands of Canadian dollars)

1. Reporting entity

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

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

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and are presented in thousands of Canadian dollars. The material 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 7, 2024.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2023 and 2022
(Tabular amounts in thousands of Canadian dollars)

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

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

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

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

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

(f) Key sources of estimation uncertainty

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

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

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

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

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

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

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

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. Material accounting policy information

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2023 and 2022
(Tabular amounts in thousands of Canadian dollars)

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) Classification*

The classification of the Company's financial assets, financial liabilities and forward foreign exchange contracts depends on the Company's business model for managing the financial assets, financial liabilities or forward foreign exchange contracts and the contractual terms of the cash flows.

(ii) 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 consolidated 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 22).

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(iii) Non-derivative financial liabilities

The Company initially recognizes debt 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 expired.

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

The Company has the following non-derivative financial liabilities:

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

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

(iv) Forward foreign exchange contracts

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

(v) 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.

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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.

(iii) Depreciation

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

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

The estimated useful lives are as follows:

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

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

(e) Leased assets

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

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

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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.

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

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

(f) Inventory

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

(g) Impairment

(i) Non-financial assets

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

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

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

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

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

(h) Employee benefits*(i) Short-term employee benefits*

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

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

(ii) Share-based payment transactions

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

(i) Revenue from contracts with customers

The Company enters into a variety of contracts and recognizes revenue when performance obligations have been fulfilled. The following describes the recognition of revenue for each of the Company's contracts, which is consistent with its reportable operating segments outlined in Note 5.

Contract Drilling

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

Well Servicing

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

Rentals and Transportation

The Company enters into contracts with its customers to provide rental and transportation equipment used in the drilling, completion and production of oil and natural gas 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

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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

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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.

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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. 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.

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As at and for the year ended December 31, 2023	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate ⁽¹⁾	Total
Revenue	\$ 287,333	\$ 84,906	\$ 417,646	\$ 102,511	\$ –	\$ 892,396
Cost of services	201,363	46,210	352,079	78,594	–	678,246
Selling, general and administration	10,988	8,634	13,416	4,448	9,342	46,828
Other (income) loss	(65)	(35)	25	–	(225)	(300)
Share-based compensation	–	–	–	–	2,186	2,186
Depreciation	37,775	19,731	10,350	11,944	1,014	80,814
Operating income (loss)	37,272	10,366	41,776	7,525	(12,317)	84,622
Gain on sale of property, plant and equipment	663	807	1,691	364	–	3,525
Finance costs, net	(65)	(113)	(463)	(74)	(16,710)	(17,425)
Net income (loss) before income taxes	37,870	11,060	43,004	7,815	(29,027)	70,722
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	364,968	169,847	255,055	69,398	2,390	861,658
Total liabilities	64,810	29,502	93,980	6,383	136,225	330,900
Capital expenditures	46,810	7,223	14,452	6,516	241	75,242

Year ended December 31, 2023	Canada	United States	Australia	Total
Revenue	\$ 419,618	\$ 381,396	\$ 91,382	\$ 892,396
Non-current assets ⁽²⁾	384,448	129,817	46,940	561,205

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

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

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

(2) Includes property, plant and equipment and goodwill.

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6. Cash and cash equivalents

Cash and cash equivalents represent cash in bank.

7. Accounts receivable

	December 31, 2023	December 31, 2022
Trade receivables, net of allowance for doubtful accounts	\$ 102,917	\$ 105,041
Accrued and other receivables	34,687	49,540
	\$ 137,604	\$ 154,581

The Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 22. Included in accrued and other receivables is \$16.3 million (2022: \$30.6 million) of amounts pertaining to contracts in progress as at December 31, 2023.

8. Inventory

	December 31, 2023	December 31, 2022
Finished goods	\$ 935	\$ 935
Work-in-progress	39,065	36,796
Parts and raw materials	58,179	53,883
	\$ 98,179	\$ 91,614

For the year ended December 31, 2023, finished goods, work-in-progress and parts and raw materials of \$332.4 million (December 31, 2022: \$280.0 million) are included in cost of services (note 18).

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9. Property, plant and equipment

	Land and buildings	Rental equipment	Automotive equipment	Leased assets	Shop machinery and equipment	Drilling rigs and related equipment	Service rigs and related equipment	Furniture, fixtures and other	Total
Cost									
As at December 31, 2021	\$ 120,479	\$ 332,189	\$ 51,427	\$ 26,412	\$ 22,422	\$ 488,350	\$ 115,562	\$ 9,607	\$ 1,166,448
Additions	321	15,315	1,347	7,727	780	34,578	3,731	663	64,462
Disposals	(158)	(3,215)	(3,889)	(617)	–	(1,704)	(511)	(17)	(10,111)
Transfers to inventory	–	–	–	–	–	–	(3)	–	(3)
Effect of changes in foreign exchange rates	359	4,724	401	655	390	8,755	589	125	15,998
As at December 31, 2022	\$ 121,001	\$ 349,013	\$ 49,286	\$ 34,177	\$ 23,592	\$ 529,979	\$ 119,368	\$ 10,378	\$ 1,236,794
Additions	351	19,555	2,744	7,404	153	45,936	5,895	608	82,646
Disposals	–	(8,352)	(3,045)	(583)	–	(3,352)	(1,162)	–	(16,494)
Derecognition of assets	–	(779)	–	(3,503)	–	(6,097)	(267)	(1,097)	(11,743)
Effect of changes in foreign exchange rates	(133)	(2,193)	(165)	(374)	(147)	(3,497)	(1,737)	(29)	(8,275)
As at December 31, 2023	\$ 121,219	\$ 357,244	\$ 48,820	\$ 37,121	\$ 23,598	\$ 562,969	\$ 122,097	\$ 9,860	\$ 1,282,928
Accumulated Depreciation									
As at December 31, 2021	\$ 35,570	\$ 178,344	\$ 40,514	\$ 16,725	\$ 17,283	\$ 223,073	\$ 70,756	\$ 8,270	\$ 590,535
Depreciation expense	4,615	19,616	1,717	4,877	977	35,131	11,337	543	78,813
Disposals	(35)	(1,846)	(2,717)	(611)	–	(1,345)	(410)	(19)	(6,983)
Effect of changes in foreign exchange rates	114	1,431	200	349	201	3,938	623	58	6,914
As at December 31, 2022	\$ 40,264	\$ 197,545	\$ 39,714	\$ 21,340	\$ 18,461	\$ 260,797	\$ 82,306	\$ 8,852	\$ 669,279
Depreciation expense	4,652	20,308	1,944	5,118	681	37,099	10,461	551	80,814
Disposals	–	(1,425)	(2,545)	(512)	–	(2,972)	(1,049)	–	(8,503)
Derecognition of assets	–	(779)	–	(3,503)	–	(6,097)	(267)	(1,097)	(11,743)
Effect of changes in foreign exchange rates	(55)	(724)	(120)	(228)	(85)	(1,725)	(1,131)	(3)	(4,071)
As at December 31, 2023	\$ 44,861	\$ 214,925	\$ 38,993	\$ 22,215	\$ 19,057	\$ 287,102	\$ 90,320	\$ 8,303	\$ 725,776
Net Book Value									
As at December 31, 2021	\$ 84,909	\$ 153,845	\$ 10,913	\$ 9,687	\$ 5,139	\$ 265,277	\$ 44,806	\$ 1,337	\$ 575,913
As at December 31, 2022	\$ 80,737	\$ 151,468	\$ 9,572	\$ 12,837	\$ 5,131	\$ 269,182	\$ 37,062	\$ 1,526	\$ 567,515
As at December 31, 2023	\$ 76,358	\$ 142,319	\$ 9,827	\$ 14,906	\$ 4,541	\$ 275,867	\$ 31,777	\$ 1,557	\$ 557,152

As at December 31, 2023, there was \$23.8 million (December 31, 2022: \$26.4 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, 2023 was \$6.1 million net book value (December 31, 2022: \$7.8 million net book value) of assets relating to building leases and \$8.8 million net book value (December 31, 2022: \$5.0 million net book value) of assets relating to vehicle leases. Included in leased assets depreciation expense for the year ended December 31, 2023 was \$3.1 million of right of use assets depreciation expense relating to building leases (2022: \$2.8 million). Additions of right of use leased assets relating to buildings were \$1.4 million (2022: \$3.4 million).

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At each reporting period, the Company reviews the carrying value of its property, plant and equipment for indicators of impairment. Based on an improved industry environment during the course of 2023 and the resultant increase in industry activity levels, no indications of impairment were identified during the year ended December 31, 2023.

10. 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, 2023	December 31, 2022
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 (2022: nil).

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

Unless indicated otherwise, value-in-use in 2023 was determined similarly as in 2022. 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 2023 and 2022.
- An after-tax discount rate of 9.77% (2022: 9.40%) was applied in determining the recoverable amount of the unit.
- The expectation is that activity levels will remain relatively stable in 2024 and thereafter.

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

11. Accounts payable and accrued liabilities

	December 31, 2023	December 31, 2022
Trade payables	\$ 43,395	\$ 53,211
Wages and salaries payables and related accruals	13,314	12,289
Accrued costs and other payables	60,085	48,774
	\$ 116,794	\$ 114,274

Included in accrued costs and other payables is \$2.2 million (2022: \$6.2 million) relating to contracts in progress as at December 31, 2023.

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12. Long-term debt

At December 31, 2023 the Company's long-term debt consisted of the following:

	December 31, 2023		December 31, 2022	
	Interest rate	Principal amount	Interest rate	Principal amount
Credit Facility	7.09%	\$ 50,000	6.04%	\$ 75,000
Mortgage loan (2025 maturity)	3.10%	42,997	3.10%	44,988
	5.25%	92,997	4.94%	119,988
Less current portion		2,050		1,991
		\$ 90,947		\$ 117,997

At December 31, 2023 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"). Following several renewals and at the request of the Company the Credit Facility was reduced to \$170 million and the maturity date extended to November 10, 2026. The Credit Facility includes a Canadian \$18 million operating line, an Australian \$2 million operating line and a Canadian \$150 million revolving facility. 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 bears interest at the banks' Canadian prime rate plus 0.25% to 1.25%, bankers' acceptances, letters of credit, LIBOR or BBSY advances plus a 1.5% to 2.5% stamping fee. The applicable interest rate within such ranges is dependent on certain financial ratios of the Company. A standby fee ranging from 0.25% to 0.5% per annum is paid quarterly on the unused portion of the facility depending on certain financial ratios of the Company. In January of 2024, term CORRA rates have replaced bankers' acceptances and SOFR rates have replaced LIBOR, with no changes in pricing or premiums. At December 31, 2023, the applicable interest rate on amounts drawn on the Credit Facility was 7.09% and the standby rate was 0.25%. Letters of credit ("LOC") of \$0.3 million were outstanding at December 31, 2023 which reduces the amount of credit available under the Credit Facility by an equivalent amount.

In August of 2018 a U.S. \$20 million letter of credit facility was established (the "LOC Facility"). LOCs issued pursuant to the LOC Facility do not reduce availability under the Credit Facility. In April of 2020 this facility was reduced at the request of the Company to U.S. \$10 million. At December 31, 2023 \$3.9 million Canadian dollars of LOCs were outstanding under the LOC Facility (December 31, 2022: \$5.1 million).

In addition to the Credit Facility, a subsidiary of the Company has established a \$5 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At December 31, 2023 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, 2023	Threshold
Twelve-month trailing Bank EBITDA to interest expense	10.51	minimum 3.00
Total Senior Debt to twelve-month trailing Bank EBITDA	0.09	maximum 3.00

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

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

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

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

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

At December 31, 2023 the Company was in compliance with all debt covenants.

13. Lease liabilities

	December 31, 2023	December 31, 2022
Lease liability	\$ 15,767	\$ 14,804
Less current portion	5,880	5,173
Long-term lease liability, end of year	\$ 9,887	\$ 9,631

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 1.75% to 7.36% (December 31, 2022: 1.76% to 7.00%) and mature on various dates up to 2028.

	December 31, 2023	December 31, 2022
Lease liability	\$ 15,767	\$ 14,804
Less lease asset	-	378
Net lease liability, end of year	\$ 15,767	\$ 14,426

In 2023, interest of \$0.9 million (December 31, 2022: \$0.8 million) relating to lease liabilities has been included in finance costs (note 21).

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	Minimum lease payments		Present value of minimum lease payments	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Not later than one year	\$ 7,698	\$ 5,970	\$ 5,880	\$ 4,795
Later than one year and not later than five years	13,887	11,257	9,887	9,008
Later than 5 years	–	642	–	623
	21,585	17,869	15,767	14,426
Less: future finance charges	(5,818)	(3,443)	–	–
Present value of minimum lease payments	\$ 15,767	\$ 14,426	\$ 15,767	\$ 14,426

Included in lease liability at December 31, 2023 was \$7.2 million relating to building right of use assets (2022: \$9.1 million).

14. Income tax

The components of the net deferred income tax liability at December 31, 2023 and 2022 are as follows:

	December 31, 2023	December 31, 2022
Deferred income tax assets:		
Non-capital losses	\$ 14,331	\$ 32,390
Long-term leave provision	1,364	1,348
Deferred income tax liabilities:		
Property, plant and equipment	(68,579)	(74,946)
Unrealized foreign exchange on working capital balances	(62)	125
Other	(106)	(58)
Net deferred income tax liabilities	\$ (53,052)	\$ (41,141)

By Country:

	December 31, 2023	December 31, 2022
Deferred income tax liabilities:		
Canada	\$ (35,011)	\$ (34,540)
United States	(16,255)	(3,901)
Australia	(1,786)	(2,700)
Net deferred income tax liabilities	\$ (53,052)	\$ (41,141)

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, 2023, the Company had \$16.0 million (2022: \$25.9 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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At December 31, 2023, the Company's non-capital losses available to carry forward totaled \$121.6 million (2022: \$232.5 million), of which \$59.7 million relate to Canadian entities (2022: \$85.1 million), \$49.4 million relate to United States entities (2022: \$136.4 million) and \$12.5 million to Australian entities (2022: \$11.0 million). The unused tax losses, which begin to expire in 2028, may be applied to reduce future taxable income and future income taxes payable.

Movement in temporary differences during the period:

	Dec 31, 2021	Recognized in net income	Dec 31, 2022	Recognized in net income	Dec 31, 2023
Deferred income tax assets:					
Non-capital losses	\$ 38,540	\$ (6,150)	\$ 32,390	\$ (18,059)	\$ 14,331
Long-term leave provision	1,489	(141)	1,348	16	1,364
Deferred income tax liabilities:					
Property, plant and equipment	(75,254)	308	(74,946)	6,367	(68,579)
Unrealized foreign exchange on intercompany working capital balances	32	93	125	(187)	(62)
Other	(64)	6	(58)	(48)	(106)
Deferred tax expense	\$ (35,257)	\$ (5,884)	\$ (41,141)	\$ (11,911)	\$ (53,052)

Income tax expense 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:

	2023	2022
Net income before income taxes	\$ 70,722	\$ 45,133
Income tax rate	23%	23%
Expected income tax expense	\$ 16,266	\$ 10,380
Changes in taxes resulting from:		
Non-deductible (non-taxable) items	1,572	(806)
Utilization of tax losses not previously recognized	(5,014)	(2,761)
Prior period income tax re-assessment	16,203	-
Other	101	321
Total income tax expense	\$ 29,128	\$ 7,134

On February 2, 2024, the Company received a judgement from the Tax Court of Canada ruling in favor of Canada Revenue Agency (the "CRA") reassessments of certain of the Company's income tax filings related to its conversion from an income trust to a corporation in 2009. As a result, the Company recorded \$16.2 million of income tax expense and \$10.6 million of interest and penalties in 2023.

TOTAL ENERGY SERVICES INC.
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15. 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, 2021	43,000	\$ 270,905
Repurchased and cancelled	(1,644)	(10,350)
Share options exercised	166	554
Sunset clause cancellation	(22)	–
Balance, December 31, 2022	41,500	\$ 261,109
Repurchased and cancelled	(1,614)	(10,155)
Share options exercised	89	329
Balance, December 31, 2023	39,975	\$ 251,283

During the year ended December 31, 2023, 1,614,151 common shares (year ended December 31, 2022: 1,643,624) were repurchased and cancelled under the Company's normal course issuer bid at an average price of \$8.42 per share including commissions (2022: \$7.69 per share).

(b) Per share amounts

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

	2023	2022
Net income for the year attributable to shareholders	\$ 41,625	\$ 38,008
Weighted average number of shares outstanding – basic	40,409	42,216
Earnings per share – basic	\$ 1.03	\$ 0.90
Net income for the year attributable to shareholders	\$ 41,625	\$ 38,008
Weighted average number of shares outstanding – basic	40,409	42,216
Share option dilution	738	764
Weighted average number of shares outstanding – diluted	41,147	42,980
Earnings per share – diluted	\$ 1.01	\$ 0.88

For the year ended December 31, 2023, 2,120,000 options (2022: 1,040,000) 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 the purpose of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

During 2023, the Company declared dividends of \$12.9 million (2022: \$7.5 million) or \$0.32 per common share (2022: \$0.18).

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16. Share-based compensation

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

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

Share option transactions during 2023 and 2022 were as follows:

	Weighted average exercise price	Number of Options
Balance, December 31, 2021	\$ 8.30	3,931,666
Granted	7.36	930,000
Exercised	2.55	(165,769)
Surrendered	2.88	(95,901)
Expired	12.42	(1,335,000)
Forfeited	3.27	(83,332)
Balance, December 31, 2022	\$ 6.90	3,181,664
Granted	10.06	1,380,000
Expired	13.54	(300,000)
Exercised	2.81	(89,151)
Surrendered	3.65	(62,516)
Balance, December 31, 2023	\$ 7.61	4,109,997

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 May 17, 2024 to August 10, 2028.

There were 89,151 options exercised during 2023 (2022: 165,769). During 2023, the weighted average market price at the time of exercise of options was \$9.70 per share (2022: \$8.29 per share).

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

Outstanding at December 31, 2023	Exercise Price	Remaining life (years)	Exercisable at December 31, 2023
740,000	\$ 9.51	0.40	740,000
296,665	2.31	1.60	296,665
55,000	3.50	2.00	36,667
676,666	3.72	2.60	438,336
46,666	4.49	2.70	23,333
825,000	7.46	3.60	265,000
90,000	6.42	3.80	30,000
1,380,000	10.06	4.60	–
4,109,997	\$ 7.61	3.02	1,830,001

Outstanding at December 31, 2022	Exercise Price	Remaining life (years)	Exercisable at December 31, 2022
300,000	\$ 13.54	0.20	300,000
740,000	9.51	1.40	740,000
409,998	2.31	2.60	220,002
55,000	3.50	3.00	18,334
676,666	3.72	3.60	200,005
70,000	4.49	3.70	23,334
840,000	7.46	4.60	–
90,000	6.42	4.80	–
3,181,664	\$ 6.90	2.89	1,501,675

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 2023 was \$2.77 (2022: \$2.32) per option using the following assumptions:

	December 31, 2023	December 31, 2022
Expected volatility	38.35% - 47.54%	40.94% - 52.35%
Annual dividend yield	3.18%	3.22%-3.74%
Risk free interest rate	3.93% - 4.37%	3.34% - 3.82%
Forfeitures	9.86%	11%
Expected life (years)	3 to 5 years	3 to 5 years

For the year ended December 31, 2023, the Company recognized share-based compensation expense of \$2.2 million (2022: \$1.1 million).

17. Revenue

	2023	2022
Rendering of services	\$ 536,679	\$ 483,939
Sale of goods	355,717	275,874
	\$ 892,396	\$ 759,813

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18. Cost of services

	2023	2022
Wages and salaries	\$ 238,165	\$ 215,960
Inventory	332,353	279,913
Repair and maintenance	84,948	54,437
Fuel and travel	16,272	17,123
Rent and services	1,991	2,829
Other	4,517	19,547
	\$ 678,246	\$ 589,809

19. Selling, general and administration

	2023	2022
Wages and salaries	\$ 33,226	\$ 26,993
Professional and legal	4,162	3,902
Marketing and risk management	4,372	5,142
Travel and fuel	1,609	1,362
Rent and services	1,338	590
Other	2,121	1,682
	\$ 46,828	\$ 39,671

20. Employee compensation

	2023	2022
Cost of services	\$ 238,165	\$ 215,960
Selling, general and administration	33,226	26,993
Share-based compensation	2,186	1,142
	\$ 273,577	\$ 244,095

21. Finance costs, net

	2023	2022
Interest on long-term debt	\$ 6,027	\$ 6,543
Interest on re-assessment (Note 14)	10,539	-
Interest on lease liabilities	859	673
Other expense	-	158
	\$ 17,425	\$ 7,374

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22. 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, 2023 and 2022 these ratios were as follows:

	December 31, 2023	December 31, 2022
Long-term debt (including current portion)	\$ 92,997	\$ 119,988
Shareholders' equity	530,758	522,023
Total capitalization	\$ 623,755	\$ 642,011
Long-term debt to capitalization ratio	0.15	0.19

As at December 31, 2023, the Company was subject to externally imposed minimum capital requirements relating to the Credit Facility and Mortgage loan (2025 maturity) as described in note 12. The Company monitored these requirements to ensure compliance with them. As at December 31, 2023 and 2022 the Company was in compliance with all external minimum capital requirements.

Financial instruments

The Company's financial instruments as at December 31, 2023, include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and long-term debt. The fair value of cash and cash equivalents, accounts receivable and accounts payable, dividends 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 5.86% for a similar debt instrument at December 31, 2023 was \$41.5 million (December 31, 2022: market rate of 6.05%, \$42.2 million). The carrying value and Company's liability with respect to the 2025 Mortgage loan is \$43.0 million.

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

- Credit risk
- Liquidity risk
- Market risk

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

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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, and generally considers the balance to be overdue when it ages over 90 days. As at December 31, 2023, \$8.3 million, or 6% of accounts receivable (2022: \$10.4 million or 7%) were more than 90 days overdue, which includes \$1.1 million of doubtful accounts for which a provision has been recognized (December 31, 2022: \$1.6 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, 2021	\$ 1,762
Provisions and revisions	(116)
Balance at December 31, 2022	\$ 1,646
Provisions and revisions	(501)
Balance at December 31, 2023	\$ 1,145

The Company did not have significant exposure to any individual customer or counter party in 2023. 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, 2023, the Company maintained credit facilities which were available to a maximum of \$175 million and mortgage debt of \$43.0 million (December 31, 2022: of \$225 million and \$45.0 million, respectively) to ensure the Company has sufficient working capital to operate its business.

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

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

As at December 31, 2023	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 11)	\$ 116,794	\$ –	\$ –	\$ 116,794
Long-term debt (note 12)	6,887	97,942	–	104,829
Lease liabilities (note 13)	7,698	13,887	–	21,585
Total	\$ 131,379	\$ 111,829	\$ –	\$ 243,208

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As at December 31, 2022	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 11)	\$ 114,274	\$ –	\$ –	\$ 114,274
Long-term debt (note 12)	7,889	123,618	–	131,507
Lease liabilities (note 13)	5,970	11,257	642	17,869
Total	\$ 128,133	\$ 134,875	\$ 642	\$ 263,650

Market risk

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

- Foreign currency exchange rate risk

Transaction exposure

The Company is exposed to foreign currency exchange risk on revenues, capital expenditures, or financial instruments that are denominated in a currency other than the Company's functional currency (Canadian dollars). Where sales are denominated in a currency other than Canadian dollars, the Company may enter into forward currency contracts to mitigate its exposure to exchange rate fluctuations from the date of sale until the date of receipt of funds. The Company estimates that in its Canadian operations approximately 16% of its cost of services in 2023 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, 2023 the net amount of foreign exchange gain related to transaction exposure recorded in net income was \$0.8 million (2022: foreign exchange loss of \$0.8 million).

Translation exposure

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

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

For the year ended December 31, 2023	United States Dollar	Australian Dollar	Total
Net income (loss) before income taxes	\$ 1,835	\$ (462)	\$ 1,373
Other comprehensive income	10,266	3,255	13,521
	\$ 12,101	\$ 2,793	\$ 14,894

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2023 and 2022
(Tabular amounts in thousands of Canadian dollars)

For the year ended December 31, 2022	United States Dollar	Australian Dollar	Total
Net income (loss) before income taxes	\$ 820	\$ (53)	\$ 767
Other comprehensive income	10,226	1,495	11,721
	<u>\$ 11,046</u>	<u>\$ 1,442</u>	<u>\$ 12,488</u>

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, 2023 was \$22.7 million (December 31, 2022: \$22.8 million). These contracts are short term in nature. The fair value of the forward foreign exchange contracts was determined using quoted forward rates for the identical contracts at December 31, 2023 (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, 2023 was \$1.35 Canadian dollar per United States dollar (December 31, 2022: \$1.35 Canadian dollar per United States dollar, \$0.92 Canadian dollar per Australian dollar). For the year ended December 31, 2023 the mark to market gain on foreign exchange contracts was \$0.8 million (2022: \$1.6 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, 2023, if interest rates had been 100 basis points lower with all other variables held constant, after-tax net income for the period would have been approximately \$0.6 million higher (2022 - \$1.0 million). An equal and opposite impact would have occurred to net income had interest rates been 100 basis points higher. The sensitivity in 2023 is lower as compared to 2022 due primarily to a decrease in the Company's long-term debt balances, partially offset by a higher interest rate environment.

The Company had no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2023.

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

23. Commitments

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

	December 31, 2023	December 31, 2022
Less than one year	\$ 117	\$ 83
Between one and five years	8	19
	<u>\$ 125</u>	<u>\$ 102</u>

The Company also has purchase obligations of \$38.7 million as at December 31, 2023 (December 31, 2022: \$54.5 million) relating to commitments to purchase inventory.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2023 and 2022
(Tabular amounts in thousands of Canadian dollars)

24. Contingencies

On February 2, 2024, the Company's appeal of certain Canadian income tax reassessments related to the Company's conversion from an income trust in 2009 was dismissed by the Tax Court of Canada. The CRA reassessed the Company for \$16.2 million of income tax expense and \$10.6 million of interest and penalties, which have been recorded in 2023. Of the \$16.2 million of income tax expense, \$7.1 million was previously remitted by the Company. On February 8, 2024 the Company remitted \$9.1 million of reassessed income taxes together with \$10.6 million of interest and penalties. The Company has appealed the judgement.

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 Energy Services Corp. ("Savanna"), a wholly owned subsidiary of the Company. 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.

25. 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 16).

Key management personnel compensation is comprised of:

	December 31, 2023	December 31, 2022
Short-term employee benefits	\$ 5,703	\$ 5,960
Share-based compensation ⁽¹⁾	2,109	1,095
	\$ 7,812	\$ 6,868

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

At December 31, 2023 directors and officers of the Company own or control 8.0 percent of the voting shares of the Company (2022: 7.3 percent).

There have been no transactions over the reporting period with key management personnel (2022: nil), and no outstanding balances exist as at period end (2022: nil).

TOTAL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2023 and 2022
 (Tabular amounts in thousands of Canadian dollars)

26. Subsidiaries

Significant subsidiaries and partnerships

	Country of Incorporation	Ownership Interest, %	
		2023	2022
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	n/a	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

27. Subsequent event

On January 17, 2024 the Company's wholly owned subsidiary Savanna Energy Services Australia Pty Ltd. entered into an agreement with SLB to acquire all the shares of Saxon Energy Services Australia Pty Ltd. for U.S. \$37.0 million cash. The Acquisition was completed on March 7, 2024.

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 7, 2024 and focuses on information and key statistics from the audited consolidated financial statements of the Company for the year ended December 31, 2023 (the "2023 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 2023 Financial Statements, the Company's 2023 Annual Report, the Annual Information Form ("AIF") for the year ended December 31, 2023 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.sedarplus.ca.

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		
	2023	2022	Change	2023	2022	Change
Revenue	\$ 213,758	\$ 211,479	1%	\$ 892,396	\$ 759,813	17%
Operating income	23,510	15,605	51%	84,622	49,343	71%
EBITDA ⁽¹⁾	45,276	35,872	26%	168,961	131,320	29%
Cashflow	44,457	38,590	15%	163,321	130,795	25%
Net (loss) income ⁽⁴⁾	(7,861)	12,264	nm	41,594	37,999	9%
Attributable to shareholders	(7,847)	12,244	nm	41,625	38,008	10%
Per share data (diluted)						
EBITDA ⁽¹⁾	\$ 1.11	\$ 0.84	32%	\$ 4.11	\$ 3.06	34%
Cashflow	\$ 1.09	\$ 0.91	20%	\$ 3.97	\$ 3.04	31%
Attributable to shareholders:						
Net (loss) income	\$ (0.19)	\$ 0.29	nm	\$ 1.01	0.88	15%
Common shares (000's) ⁽³⁾						
Basic	39,975	41,652	(4%)	40,409	42,216	(4%)
Diluted	40,623	42,524	(4%)	41,147	42,980	(4%)

Financial Position at	December 31		
	2023	2022	Change
Total Assets	\$ 861,658	\$ 878,615	(2%)
Long-Term Debt and Lease Liabilities (excluding current portion)	100,834	127,628	(21%)
Working Capital ⁽²⁾	123,439	112,154	10%
Net Debt ⁽¹⁾	–	15,474	(100%)
Shareholders' Equity	530,758	522,023	2%

(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 15 to the 2023 Financial Statements.

(4) On February 2, 2024, the Company received a judgement from the Tax Court of Canada ruling in favor of Canada Revenue Agency (the "CRA") re-assessments of certain of the Company's income tax filings related to its conversion from an income trust to a corporation in 2009. As a result, the Company recorded \$16.2 million of income tax expense and \$10.6 million of interest and penalties in 2023. Excluding the impact of these re-assessments, net income for the three months and the year ended December 31, 2023 is \$18.9 million and \$68.4 million, respectively, and the diluted earnings per share are \$0.47 and \$1.66 for the same periods, respectively.

"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, 2023, the Company operated a total fleet of 94 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:

<u>By Type</u>		<u>By Geography</u>	
AC triples	3	Canada	77
AC doubles	13	United States	12
Mechanical doubles	35	Australia	5
Australian shallow	5		
TDS and singles	38		
	<u>94</u>		<u>94</u>

Rentals and Transportation Services: Total Energy's RTS business is presently conducted from 15 locations in western Canada and three locations in the United States. At December 31, 2023, this segment had approximately 7,700 pieces of major rental equipment (excluding access matting), a fleet of 67 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, 2023 the CPS segment occupied approximately 225,000 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, 2023 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 57,500 horsepower of compression in its rental fleet at December 31, 2023.

Well Servicing: At December 31, 2023, the Company operated a total fleet of 79 well servicing rigs across western Canada, northwest United States and Australia. Composition of the Company's service rig fleet is as follows:

<u>By Type</u>		<u>By Geography</u>	
Singles	35	Canada	56
Doubles	31	United States	11
Australian specification	9	Australia	12
Flush-by	4		
	<u>79</u>		<u>79</u>

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.

(in thousands of dollars except per share amounts)	Year ended December 31		
	2023	2022	2021
Revenue	\$ 892,396	\$ 759,813	\$ 431,576
Cash provided by operations	145,946	143,401	89,575
Cashflow	163,321	130,795	80,191
Net (loss) income	41,594	37,999	(428)
Attributable to shareholders	41,625	38,008	(360)
Per share (diluted)	\$ 1.01	\$ 0.88	\$ (0.01)
Dividends declared per share	\$ 0.32	\$ 0.18	\$ –
Total assets	\$ 861,658	\$ 878,615	\$ 813,522
Long term liabilities (excluding current lease liabilities, current portion of long-term debt and deferred tax liability)	100,834	127,628	196,007

Total Energy's results for the three months and the year ended December 31, 2023 reflect relatively stable industry conditions. Higher activity in the CDS and CPS segments in all geographical regions, marginally improved pricing and market share gains resulting from equipment upgrades contributed to modestly higher fourth quarter results in 2023 as compared to the same period in 2022. Fourth quarter Australian revenue was lower compared to the prior year due to lower service rig activity.

The Company's financial condition remains strong, with a positive working capital balance of \$123.4 million as at December 31, 2023, which was \$11.3 million higher than December 31, 2022. Shareholders' equity increased by \$8.7 million from December 31, 2022 due to the realization of \$41.6 million of net income, which was partially offset by \$13.6 million of share repurchases under the Company's normal course issuer bid, \$12.9 million of declared dividends and a \$8.5 million unrealized foreign exchange loss on translation of foreign subsidiaries.

Revenue

December 31	Three months ended			Year ended		
	2023	2022	Change	2023	2022	Change
Revenue	\$ 213,758	\$ 211,479	1%	\$ 892,396	\$ 759,813	17%

Global energy industry conditions remained relatively strong during the three months and the year ended December 31, 2023 after recovering during the second half of 2022 from the significant decline caused by the outbreak of the COVID-19 pandemic and related collapse in oil prices in 2020. As a result, revenues during the three months and the year ended December 31, 2023 were modestly higher than the same periods in 2022.

Cost of Services and Gross Margin

December 31	Three months ended			Year ended		
	2023	2022	Change	2023	2022	Change
Cost of services	\$ 155,976	\$ 162,291	(4%)	\$ 678,246	\$ 589,809	15%
Gross margin	\$ 57,782	\$ 49,188	17%	\$ 214,150	\$ 170,004	26%
Gross margin, as a percentage of revenue	27%	23%	17%	24%	22%	9%

The decrease in costs of services during the three months ended December 31, 2023 relative to the same period in 2022 is primarily due to lower activity levels in the RTS and WS segment. For the year ended December 31, 2023 cost of services increased compared to the same period last year due to improved North American activity. Increased North American gross margins, particularly in the CDS and RTS segment, were partially offset by lower gross margins in the WS segment and in Australia with three service rigs taken out of service for recertification and upgrades.

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

December 31	Three months ended			Year ended		
	2023	2022	Change	2023	2022	Change
Selling, general and administration expenses	\$ 13,242	\$ 11,082	19%	\$ 46,828	\$ 39,671	18%

Selling, general and administration expenses during the three months and the year ended December 31, 2023 were higher than in the same periods in 2022 due to cost-of-living wage increases and higher profit-based incentive compensation in certain segments as a result of higher profitability.

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

Other expense (income)

December 31	Three months ended			Year ended		
	2023	2022	Change	2023	2022	Change
Other expense (income)	\$ (92)	\$ 2,115	nm	\$ (300)	\$ 1,035	nm

"nm" - calculation not meaningful

Other expense (income) arises from unrealized foreign exchange differences on translation of intercompany working capital balances of foreign subsidiaries. During the three months ended December 31, 2023, a net unrealized foreign exchange gain was primarily due to period end appreciation of the Canadian dollar relative to U.S. dollar and depreciation of the Canadian dollar relative to the Australian dollar. During the year ended December 31, 2023 net unrealized foreign exchange income was primarily due to the change in the geographical mix of foreign currency denominated intercompany balances and appreciation of the Canadian dollar relative to the Australian and U.S. dollars in 2023. During both the three months and year ended December 31, 2022 net unrealized foreign exchange expense was primarily due to the appreciation of the Canadian dollar relative to the Australian dollar and the depreciation of the Canadian dollar relative to the U.S. dollar combined with changes in the geographical mix of foreign currency denominated intercompany balances.

Share-based Compensation Expense

December 31	Three months ended			Year ended		
	2023	2022	Change	2023	2022	Change
Share-based compensation expense	\$ 729	\$ 351	108%	\$ 2,186	\$ 1,142	91%

Share-based compensation expense arises from share options granted pursuant to the share option plan implemented in 2015. Share-based compensation expense for the three months and year ended December 31, 2023 relative to the same prior year periods was higher due to the issuance of share options in the third quarter of 2023.

Depreciation Expense

December 31	Three months ended			Year ended		
	2023	2022	Change	2023	2022	Change
Depreciation expense	\$ 20,393	\$ 20,035	2%	\$ 80,814	\$ 78,813	3%

The increase in depreciation expense for the three months and year ended December 31, 2023 as compared to the same periods in 2022 is due to additions to property, plant and equipment during 2023 and 2022.

Operating Income

December 31	Three months ended			Year ended		
	2023	2022	Change	2023	2022	Change
Operating income	\$ 23,510	\$ 15,605	51%	\$ 84,622	\$ 49,343	71%

Increased North American revenue contributed to the increase in operating income during the three months and year ended December 31, 2023 as compared to 2022. Also contributing to the increase was improved North American pricing in all segments.

Gain on Sale of Property, Plant and Equipment

December 31	Three months ended			Year ended		
	2023	2022	Change	2023	2022	Change
Gain on sale of property, plant and equipment	\$ 1,373	\$ 232	492%	\$ 3,525	\$ 3,164	11%
Proceeds on the sale of property, plant and equipment	\$ 5,106	\$ 332	1,438%	\$ 11,516	\$ 6,292	83%

Disposals of property, plant and equipment ("PP&E") 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, 2023 included underutilized rental equipment and heavy trucks, compression rental equipment, ancillary drilling and well servicing equipment and light duty vehicles. Equipment disposed of during the three months and year ended December 31, 2022 included underutilized rental equipment and heavy trucks, light duty vehicles, compression rental equipment and ancillary drilling and well servicing equipment.

Finance Costs

December 31	Three months ended			Year ended		
	2023	2022	Change	2023	2022	Change
Finance costs, net	\$ 12,235	\$ 2,094	484%	\$ 17,425	\$ 7,374	136%

Finance costs for the three months and year ended December 31, 2023 were higher than the prior year comparable periods due to \$10.5 million of interest relating to tax reassessments. On February 2, 2024, the Company received a judgement from the Tax Court of Canada ruling in favor of CRA re-assessments of certain of the Company's income tax filings related to its conversion from an income trust to a corporation in 2009. As a result, the Company recorded \$10.5 million of interest on outstanding tax balances during the three months and year ended December 31, 2023. Excluding this additional interest, net finance cost was 19% and 7% lower, respectively, during the three months and year ended December 31, 2023, due to lower debt balances as compared to the prior year periods.

Income Taxes and Net Income (Loss)

December 31	Three months ended			Year ended		
	2023	2022	Change	2023	2022	Change
Current income tax expense	\$ 17,077	\$ 1,289	1,225%	\$ 17,217	\$ 1,250	1,277%
Deferred income tax expense	3,432	190	1,706%	11,911	5,884	102%
Total income tax expense	\$ 20,509	\$ 1,479	1,287%	\$ 29,128	\$ 7,134	308%
Net income (loss)	\$ (7,861)	\$ 12,264	nm	\$ 41,594	\$ 37,999	9%

"nm" - calculation not meaningful

The Company recorded an additional \$16.2 million of current income tax expense during the three months and year ended December 31, 2023 in regard to the CRA re-assessments of certain prior periods income tax filings. Excluding the effect of the additional current income tax expense relating to the re-assessments, income tax expense was 191% and 81% higher, respectively, for the three months and the year ended December 31, 2023 as compared to the same periods in 2022. This increase was due to increased profitability. Before recognition of the additional re-assessment income tax expense, the effective tax rate during the three months ended December 31, 2023 was higher than the prior year comparable due to higher profitability and lower utilization of previously unrecognized tax losses. The effective tax rate, before the recognition of additional re-assessment income tax expense, for the 2023 year was comparable to the 2022 year.

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 historically 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, 2023	Sept 30, 2023	June 30, 2023	March 31, 2023
Revenue	\$ 213,758	\$ 232,016	\$ 208,845	\$ 237,777
Operating income	23,510	23,691	9,401	28,020
EBITDA ⁽¹⁾	45,276	44,955	30,255	48,475
Cashflow	44,457	40,784	29,408	48,672
Cash provided by operating activities	50,364	21,939	43,902	29,741
Net income (loss)	(7,861)	19,237	6,180	24,038
Attributable to shareholders	(7,847)	19,231	6,201	24,040
Per share data (diluted)				
EBITDA ⁽¹⁾	\$ 1.11	\$ 1.10	\$ 0.74	\$ 1.15
Cashflow	1.09	1.00	0.72	1.16
Net income (loss) attributable to shareholders	(0.19)	0.47	0.15	0.57
Financial Position				
Total Assets	\$ 861,658	\$ 894,325	\$ 888,117	\$ 910,408
Long-Term Debt and Lease Liabilities (excluding current portion)	100,834	111,159	111,244	122,714
Working Capital ⁽²⁾	123,439	127,566	108,577	111,312
Net Debt ⁽¹⁾	–	–	2,667	11,402
Shareholders' Equity	530,758	542,528	529,954	534,576
Common Shares (000's) ⁽³⁾				
Basic	39,975	40,149	40,325	41,322
Diluted	40,623	40,961	41,048	42,048

(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 15 to the 2023 Financial Statements.

TOTAL ENERGY SERVICES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

	Financial Quarter Ended			
	Dec 31, 2022	Sept 30, 2022	June 30, 2022	March 31, 2022
Revenue	\$ 211,479	\$ 207,678	\$ 179,204	\$ 161,452
Operating income	15,605	21,622	8,426	3,690
EBITDA ⁽¹⁾	35,872	42,335	28,799	24,314
Cashflow	38,590	41,078	28,576	22,551
Cash provided by operating activities	54,609	18,844	24,993	44,955
Net income	12,264	17,163	6,105	2,467
Attributable to shareholders	12,244	17,179	6,113	2,472
Per share data (diluted)				
EBITDA ⁽¹⁾	\$ 0.84	\$ 0.98	\$ 0.67	\$ 0.56
Cashflow	0.91	0.95	0.66	0.52
Net income attributable to shareholders	0.29	0.40	0.14	0.06
Financial Position				
Total Assets	\$ 878,615	\$ 897,084	\$ 860,983	\$ 847,022
Long-Term Debt and Lease Liabilities (excluding current portion)	127,628	155,429	165,767	174,970
Working Capital ⁽²⁾	112,154	129,354	122,043	126,489
Net Debt ⁽¹⁾	15,474	26,075	43,724	48,481
Shareholders' Equity	522,023	515,540	494,299	492,693
Common Shares (000's) ⁽³⁾				
Basic	41,652	42,339	42,307	42,713
Diluted	42,524	43,090	43,203	43,423

(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 15 to the 2023 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

December 31	Three months ended			Year ended		
	2023	2022	Change	2023	2022	Change
Revenue	\$ 74,700	\$ 69,185	8%	\$ 287,333	\$ 252,663	14%
Canada	51,337	39,304	31%	180,265	140,097	29%
United States	10,852	19,478	(44%)	58,893	68,694	(14%)
Australia	12,511	10,403	20%	48,175	43,872	10%
Operating income (loss)	\$ 13,784	\$ 8,815	56%	\$ 37,272	\$ 23,925	56%
Canada	11,864	8,124	46%	30,758	16,069	91%
United States	414	(540)	nm	2,018	1,405	44%
Australia	1,506	1,231	22%	4,496	6,451	(30%)
Operating days ⁽¹⁾	2,588	2,600	–	10,311	10,485	(2%)
Canada	1,890	1,588	19%	6,913	6,263	10%
United States	356	689	(48%)	2,052	2,734	(25%)
Australia	342	323	6%	1,346	1,488	(10%)
Revenue per operating day ⁽¹⁾ , dollars	\$ 28,864	\$ 26,610	8%	\$ 27,867	\$ 24,098	16%
Canada	27,162	24,751	10%	26,076	22,369	17%
United States	30,483	28,270	8%	28,700	25,126	14%
Australia	36,582	32,207	14%	35,791	29,484	21%
Utilization	30%	30%	–	30%	30%	–
Canada	27%	22%	23%	25%	22%	14%
United States	32%	58%	(45%)	47%	58%	(19%)
Australia	74%	70%	6%	74%	82%	(10%)
Rigs, average for period	94	94	–	94	94	–
Canada	77	76	1%	77	76	1%
United States	12	13	(8%)	12	13	(8%)
Australia	5	5	–	5	5	–

(1) Operating days include drilling and paid standby days.

"nm" – calculation not meaningful

The moderation of North American industry drilling activity that began in the third quarter of 2023 continued into the fourth quarter of 2023. Market share gains resulting from rig upgrades mitigated the decline in Canada. Decreases in U.S. activity were also impacted by the relocation of one triple rig to Canada. In Australia, the return of one drilling rig to service in October of 2023 contributed to an increase in utilization and improved financial results.

In Canada, revenue increased during the three months ended December 31, 2023 as compared to the same period in 2022 due to increased pricing and utilization. Revenue per day in Canada increased year over year due to higher drilling rates realized on upgraded equipment and the relocation of a triple drilling rig to Canada from the United States during the second quarter of 2023. Operating income in Canada increased for the three months and year ended December 31, 2023 relative to the same periods in 2022 primarily due to increased activity levels, higher pricing realized for upgraded rigs and general pricing increases that more than offset cost inflation.

U.S. revenue for the three months and the year ended December 31, 2023, was lower than the prior year periods due to lower operating days commensurate with a moderation in industry activity and the transfer of one triple drilling rig to Canada. Lower activity was somewhat offset by an increase in pricing due in part to the mix of equipment operating. Despite lower

utilization, increased pricing and cost management contributed to the realization of operating income in the fourth quarter of 2023 as compared to an operating loss for the same period in 2022. Higher pricing and cost management resulted in improved operating income for the year ended December 31, 2023 as compared to 2022.

In Australia, revenue increased for the three months and year ended December 31, 2023 as compared to same periods in 2022 due to increased pricing combined with higher utilization during the fourth quarter of 2023. Effective day rates during 2023 were higher as compared to 2022 as a result of an increase in the rate on several upgraded rigs and a higher number of full-rate operating days as compared to lower rate standby days realized in 2022 due to wet weather. Operating income increased in the fourth quarter of 2023 as compared to the prior year comparable period due to increased pricing combined with improved utilization with the return of one drilling rig to service in October of 2023. Operating income for the year ended December 31, 2023 was lower than the prior year due to lower utilization and the impact of a weakening Australian dollar relative to the Canadian and U.S. dollars which was partially offset by increased pricing.

Rentals and Transportation Services

December 31	Three months ended			Year ended		
	2023	2022	Change	2023	2022	Change
Revenue	\$ 19,544	\$ 20,043	(2%)	\$ 84,906	\$ 66,954	27%
Canada	11,134	11,772	(5%)	48,728	41,198	18%
United States	8,410	8,271	2%	36,178	25,756	40%
Operating income (loss)	\$ 1,723	\$ 1,111	55%	\$ 10,366	\$ 2,821	267%
Canada	202	(373)	nm	2,053	(616)	nm
United States	1,521	1,484	2%	8,313	3,437	142%
Pieces of rental equipment	7,700	9,440	(18%)	7,700	9,440	(18%)
Canada	6,790	8,540	(20%)	6,790	8,540	(20%)
United States	910	900	1%	910	900	1%
Rental equipment utilization	18%	18%	–	18%	16%	13%
Canada	16%	16%	–	16%	15%	7%
United States	33%	33%	–	35%	29%	21%
Heavy trucks	67	71	(6%)	67	71	(6%)
Canada	46	48	(4%)	46	48	(4%)
United States	21	23	(9%)	21	23	(9%)

"nm" – calculation not meaningful

Revenue from the RTS segment for the fourth quarter of 2023 marginally decreased as compared to the same period in 2022. This was primarily due to the deferral of certain projects in Canada which were partially offset by market share gains in the United States. For the year ended December 31, 2023 revenue increased in both Canada and the United States as compared to the same period last year due to increased pricing, improved Canadian results in the first half of 2023 and market share gains in the United States.

In Canada, RTS generated operating income during the three months and the year ended December 31, 2023 as compared to operating losses relative to the same periods in 2022. This was due to lower equipment re-activation costs, increases in prices and a change in revenue mix. During 2023 a substantial number of older unutilized rental pieces were disposed of in Canada. In the United States operating income during the three months and the year ended December 31, 2023 increased compared to 2022 as a result of market share gains despite a moderation in U.S. drilling rig activity. This segment's relatively high fixed cost structure as compared to the Company's other business segments provides significant leverage to increased 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

December 31	Three months ended			Year ended		
	2023	2022	Change	2023	2022	Change
Revenue	\$ 95,439	\$ 93,668	2%	\$ 417,646	\$ 331,669	26%
Canada	45,760	56,166	(19%)	194,147	238,646	(19%)
United States	49,679	37,502	32%	223,499	93,023	140%
Operating income	\$ 10,691	\$ 8,139	31%	\$ 41,776	\$ 25,614	63%
Canada	2,116	3,525	(40%)	8,964	15,329	(42%)
United States	8,575	4,614	86%	32,812	10,285	219%
Operating income, % of revenue	11%	9%	22%	10%	8%	25%
Canada	5%	6%	(17%)	5%	6%	(17%)
United States	17%	12%	42%	15%	11%	36%
Horsepower of equipment on rent at period end	39,496	41,243	(4%)	39,496	41,243	(4%)
Canada	13,856	18,768	(26%)	13,856	18,768	(26%)
United States	25,640	22,475	14%	25,640	22,475	14%
Rental equipment utilization during the period (HP)	67%	75%	(11%)	73%	61%	20%
Canada	76%	66%	15%	77%	47%	64%
United States	61%	84%	(27%)	70%	79%	(11%)
Sales backlog at period end, \$ million	\$ 162.8	\$ 219.5	(26%)	\$ 162.8	\$ 219.5	(26%)

Revenue reported from the CPS segment increased during the three months and year ended December 31, 2023 as compared to the same periods in 2022. This was due to a substantial increase in U.S. fabrication sales partially offset by lower Canadian fabrication sales. The fabrication sales backlog decreased to \$162.8 million, compared to the \$219.5 million backlog at December 31, 2022. Sequentially the quarter-end backlog increased by \$9.9 million. The timeline for conversion of the sales backlog into revenue varies from order to order and often changes due to factors outside of the Company's control.

Operating income in Canada for the three months and the year ended December 31, 2023 decreased as compared to the same periods in 2022. This was due, in part, to the revenue mix and type of projects during the period. Also contributing to the decrease was \$7.4 million of contract cancellation revenue recorded in the second quarter of 2022. Excluding contract cancellation revenue, Canadian operating income was higher for the year ended December 31, 2023 as compared to the same period in 2022. The increase was driven by higher parts and service activity and rental fleet utilization. In the U.S., operating income increased during the three months and year ended December 31, 2023 as compared to the same periods in 2022 due primarily to increased fabrication activity combined with higher pricing. The strengthening of the U.S. dollar relative to the Canadian dollar during the three months and the year ended December 31, 2023 compared to the same periods in 2022 also contributed to the improved financial results.

Well Servicing

December 31	Three months ended			Year ended		
	2023	2022	Change	2023	2022	Change
Revenue	\$ 24,075	\$ 28,583	(16%)	\$ 102,511	\$ 108,527	(6%)
Canada	12,377	13,881	(11%)	49,603	52,422	(5%)
United States	4,347	5,133	(15%)	22,749	17,228	32%
Australia	7,351	9,569	(23%)	30,159	38,877	(22%)
Operating income (loss)	\$ 1,117	\$ 3,054	(63%)	\$ 7,525	\$ 10,307	(27%)
Canada	1,339	2,109	(37%)	5,968	6,942	(14%)
United States	(524)	399	nm	1,547	1,799	(14%)
Australia	302	546	(45%)	10	1,566	(99%)
Service hours ⁽¹⁾	24,631	29,566	(17%)	106,551	117,306	(9%)
Canada	13,293	14,460	(8%)	52,281	57,123	(8%)
United States	4,707	5,374	(12%)	23,488	19,157	23%
Australia	6,631	9,732	(32%)	30,782	41,026	(25%)
Revenue per service hour, dollars	\$ 977	\$ 967	1%	\$ 962	\$ 925	4%
Canada	931	960	(3%)	949	918	3%
United States	924	955	(3%)	969	899	8%
Australia	1,109	983	13%	980	948	3%
Utilization ⁽²⁾	29%	33%	(13%)	31%	32%	(3%)
Canada	26%	28%	(7%)	26%	27%	(4%)
United States	47%	53%	(11%)	59%	48%	23%
Australia	25%	37%	(32%)	29%	39%	(26%)
Rigs, average for period	79	79	–	79	79	–
Canada	56	56	–	56	56	–
United States	11	11	–	11	11	–
Australia	12	12	–	12	12	–

"nm" – calculation not meaningful

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

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

Overall segment revenue and operating income for the three months and year ended December 31, 2023 decreased as compared to the same periods in 2022. This decrease was due to lower activity in all jurisdictions. Revenue and operating income for 2023 decreased as compared to 2022 due to decreased activity and pricing gains not fully offsetting cost inflation.

Canadian revenue and operating income in the three months and the year ended December 31, 2023 were lower as compared to 2022 primarily due to less well abandonment activity following the conclusion of government incentives combined with cost inflation.

In the United States, revenue decreased in the fourth quarter of 2023 as compared to the same period in 2022 as a result of decreased service hours combined with lower pricing and ancillary revenues. Higher pricing and utilization positively impacted revenue for the 2023 year, which was offset by cost inflation which contributed to lower operating income for the 2023 year as compared to 2022. Positively impacting operating income for the three months and the year ended December 31, 2023 was the appreciation of the U.S. dollar against the Canadian dollar.

In Australia, lower revenue for the three months and the year ended December 31, 2023 as compared to the same periods in 2022 was due to lower activity in 2023 as compared to 2022. Recertification and upgrade of one service rig was recently completed with such rig having commenced operations in late February of 2024. Two service rigs are currently undergoing recertification and upgrade with one expected to return to service in the second quarter of 2024 and the other in the third quarter of 2024. Lower activity and general cost inflation contributed to lower operating income during the three months and year ended December 31, 2023 as compared to 2022.

Corporate

December 31	Three months ended			Year ended		
	2023	2022	Change	2023	2022	Change
Operating loss	\$ (3,805)	\$ (5,514)	(31%)	\$ (12,317)	\$ (13,324)	(8%)

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. The decrease in operating loss during the three months and the year ended December 31, 2023 as compared to the same periods in 2022 was due primarily to a realization of a foreign exchange gain on translation of intercompany working capital balances during the three months and year ended December 31, 2023 as compared to a foreign exchange loss during the same periods in 2022.

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operating Activities and Cashflow

December 31	Three months ended			Year ended		
	2023	2022	Change	2023	2022	Change
Cash provided by operating activities	\$ 50,364	\$ 54,609	(8%)	\$ 145,946	\$ 143,401	2%
Per share data (diluted), dollars	\$ 1.24	\$ 1.28	(3%)	\$ 3.55	\$ 3.34	6%
Cashflow	\$ 44,457	\$ 38,590	15%	\$ 163,321	\$ 130,795	25%
Per share data (diluted), dollars	\$ 1.09	\$ 0.91	20%	\$ 3.97	\$ 3.04	31%

The changes in cash provided by operating activities were due primarily to changes in the working capital requirements of the various business segments and year-over-year increases in activity. Contributing to the decrease in cash provided by operating activities during the three months ended December 31, 2023 as compared to the same period in 2022 was a sequential quarterly decrease in deferred revenue. Cash flow increased during the three months and the year ended December 31, 2023 as compared to same periods in 2022 as a result of higher EBITDA from increased activity levels. The Company's current priorities are to maintain strong financial liquidity, continue to repay long-term debt and enhance shareholder returns, including by the purchase and cancellation of shares under the normal course issuer bid and payment of a dividend.

Investing Activities

December 31	Three months ended			Year ended		
	2023	2022	Change	2023	2022	Change
Net cash used in investing activities	\$ (16,104)	\$ (15,754)	2%	\$ (66,833)	\$ (42,262)	58%
Proceeds from sale of PP&E	\$ 5,106	\$ 332	1,438%	\$ 11,516	\$ 6,292	83%
Purchase of PP&E	\$ (15,611)	\$ (14,713)	6%	\$ (75,242)	\$ (56,735)	33%

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. Equipment

disposed of during the three months and year ended December 31, 2023 included underutilized rental equipment and heavy trucks, gas compression rental equipment, ancillary drilling equipment and light duty vehicles. Equipment disposed of during the three months and year ended December 31, 2022 included light-duty vehicles, underutilized heavy trucks and rental equipment, compression rental equipment and ancillary drilling and well servicing equipment.

The following summarizes PP&E purchases by segment for the three months and the year ended December 31, 2023.

December 31	Three months ended			Year ended		
	2023	2022	Change	2023	2022	Change
CDS	\$ 6,282	\$ 6,865	(8%)	\$ 46,810	\$ 34,835	34%
RTS	1,446	3,490	(59%)	7,223	8,508	(15%)
CPS	7,669	3,928	95%	14,452	9,490	52%
WS	208	400	(48%)	6,516	3,792	72%
Corporate	6	30	(80%)	241	110	119%
Purchase of PP&E	\$ 15,611	\$ 14,713	6%	\$ 75,242	\$ 56,735	33%

During the three months and year ended December 31, 2023 PP&E purchases were as follows: drilling rig upgrades, recertifications and ancillary rig equipment purchases in the CDS segment, 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 2023 capital expenditures was approximately \$4.0 million of capital commitments carried forward from 2022.

During the three months and year ended December 31, 2022 PP&E purchases were as follows: drilling rig upgrades, recertifications and ancillary rig equipment purchases in the CDS segment, rental equipment in the RTS segment, additions to the compression rental fleet in the CPS segment, service rig recertifications and upgrades in the WS segment and information and technology equipment in the Corporate segment. Included in 2022 capital expenditures was approximately \$2.0 million of capital commitments carried forward from 2021.

Capital spending for the three months and year ended December 31, 2023 was funded by cash flow and \$5.1 million and \$11.5 million, respectively, of proceeds from the sale of PP&E.

Financing Activities

December 31	Three months ended			Year ended		
	2023	2022	Change	2023	2022	Change
Net cash used in financing activities	\$ (16,210)	\$ (39,097)	(59%)	\$ (65,239)	\$ (100,443)	(35%)

During the fourth quarter of 2023 net cash used in financing activities was \$22.9 million lower as compared to the same period in 2022. Contributing to the decrease was lower debt repayments that were partially offset by a \$0.7 million increase in dividend payments following the 33% dividend increase approved by the Board of Directors in the first quarter of 2023. During 2023 cash used in financing activities decreased by \$35.2 million compared to 2022, which was due primarily to a \$43.5 million year over year reduction in long-term debt repayments partially offset by a \$7.1 million increase in dividend payments and a \$0.9 million increase in share repurchases.

During the three months and the year ended December 31, 2023 the Company paid \$1.3 million and \$6.6 million, respectively, of interest and bank fees, repaid \$10.5 million and \$27.0 million, respectively, of long-term debt, made \$1.2 million and \$5.9 million, respectively, of lease liability payments, and paid \$3.2 million and \$12.1 million, respectively, of dividends. During 2023 the Company purchased \$13.6 million of shares under the Company's normal course issuer bid.

Liquidity and Capital Resources

The Company had a working capital surplus of \$123.4 million as at December 31, 2023 compared to \$112.2 million as at December 31, 2022. As at December 31, 2023 and the date of this MD&A, the Company was in compliance with all debt covenants.

On June 19, 2017 the Company entered into a three-year \$225 million revolving syndicated credit facility (the "Credit Facility"). Following several renewals and at the request of the Company the Credit Facility was reduced to \$170 million and the maturity date extended to November 10, 2026. The Credit Facility includes a Canadian \$18 million operating line, an Australian \$2 million operating line and a Canadian \$150 million revolving facility. 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 bears interest at the banks' Canadian prime rate plus 0.25% to 1.25%, bankers' acceptances, letters of credit, LIBOR or BBSY advances plus a 1.5% to 2.5% stamping fee. The applicable interest rate within such ranges is dependent on certain financial ratios of the Company. A standby fee ranging from 0.25% to 0.5% per annum is paid quarterly on the unused portion of the facility depending on certain financial ratios of the Company. In January of 2024, term CORRA rates have replaced bankers' acceptances and SOFR rates have replaced LIBOR, with no changes in the Company's pricing or premiums. At December 31, 2023, the applicable interest rate on amounts drawn on the Credit Facility was 7.09% and the standby rate was 0.25%. Letters of credit ("LOC") of \$0.3 million were outstanding at December 31, 2023 which reduces the amount of credit available under the Credit Facility by an equivalent amount.

In August of 2018 a U.S. \$20 million letter of credit facility was established (the "LOC Facility"). LOCs issued pursuant to the LOC Facility do not reduce availability under the Credit Facility. In April of 2020 this facility was reduced at the request of the Company to U.S. \$10 million. At December 31, 2023 \$3.9 million Canadian dollars of LOCs were outstanding under the LOC Facility (December 31, 2022: \$5.1 million).

In addition to the Credit Facility, a subsidiary of the Company has established a \$5 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At December 31, 2023 this facility was undrawn and fully available.

At December 31, 2023 the Company's long-term debt consisted of the following:

	December 31, 2023	
	Interest rate	Principal Amount
Credit Facility	7.09%	\$ 50,000
Mortgage loan (2025 maturity)	3.10%	42,997
	5.25%	92,997
Less current portion		2,050
		\$ 90,947

At December 31, 2023 amounts owing under the Credit Facility and the mortgage loan were denominated in Canadian dollars.

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

	December 31, 2023	Threshold
Twelve-month trailing Bank EBITDA to interest expense	10.51	minimum 3.00
Total Senior Debt to twelve-month trailing Bank EBITDA	0.09	maximum 3.00

The Company was in compliance with all of its Credit Facility and other debt covenants at December 31, 2023. For further information regarding Credit Facility compliance requirements and details on the Company's borrowings, please refer to note 12 to the 2023 Financial Statements.

The Company expects that cash and cash equivalents, cash flow from operating activities and 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 dividends on March 12, 2020 given the sudden and material deterioration in industry conditions. On May 11, 2022 the Board of Directors determined to reinstate a quarterly dividend to shareholders in the second quarter of 2022. On March 9, 2023 the Board of Directors increased the dividend by 33% and declared a dividend of \$0.08 per share for the quarter ended March 31, 2023. On November 9, 2023 the Board of Directors declared a dividend of \$0.08 per share for the quarter ended December 31, 2023.

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.

CONTRACTUAL OBLIGATIONS

At December 31, 2023 the Company had the following contractual obligations:

	Payments due by year					
	Total	2024	2025	2026	2027	2028 and after
Long-term debt and bank indebtedness	\$ 92,997	\$ 2,050	\$ 40,947	\$ 50,000	\$ –	\$ –
Commitments ⁽¹⁾	125	117	7	1	–	–
Lease liabilities	15,767	5,880	4,602	2,879	1,524	882
Purchase obligations ⁽²⁾	38,741	38,741	–	–	–	–
Total contractual obligations	\$ 147,630	\$ 46,788	\$ 45,556	\$ 52,880	\$ 1,524	\$ 882

(1) Commitments are described in Note 23 to the 2023 Financial Statements.

(2) Purchase obligations are described in Note 23 to the 2023 Financial Statements. As at December 31, 2023 purchase obligations primarily relate to commitments to purchase inventory in the CPS segment.

OFF-BALANCE SHEET ARRANGEMENTS

During 2023 and 2022, the Company had no off-balance sheet arrangements other than short-term leases.

TRANSACTIONS WITH RELATED PARTIES

During 2023 and 2022 the Company had no material transactions with related parties.

FINANCIAL INSTRUMENTS

Fair Values

The discounted future cash repayments of the Company's mortgage loan (maturity 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 the 2025 Mortgage loan and related interest at the prevailing market rate of 5.86% for a similar debt instrument at December 31, 2023 was \$41.5 million (December 31, 2022: market rate of 6.05%, \$42.2 million). The carrying value and Company's liability with respect to the 2025 Mortgage loan is \$43.0 million.

OUTSTANDING COMPANY SHARE DATA

As at the date of this MD&A, the Company had 39,975,000 common shares outstanding.

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

Outstanding at December 31, 2023	Exercise Price	Remaining life (years)	Exercisable at December 31, 2023
740,000	\$ 9.51	0.40	740,000
296,665	2.31	1.60	296,665
55,000	3.50	2.00	36,667
676,666	3.72	2.60	438,336
46,666	4.49	2.70	23,333
825,000	7.46	3.60	265,000
90,000	6.42	3.80	30,000
1,380,000	10.06	4.60	-
4,109,997	\$ 7.61	3.02	1,830,001

OUTLOOK

The recovery in oil and natural gas prices that began in the second half of 2021 has resulted in improved industry conditions, although producers generally remained disciplined in regard to their capital expenditure programs. While current indications are that global energy industry activity levels will remain stable on a seasonally adjusted basis, global economic and political uncertainty and recent weakness in North American natural gas prices cause 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 substantial consolidation and rationalization in the North American energy service industry that has contributed to more favorable market conditions as activity levels recovered.

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 2023 other than as described below.

Industry Conditions

The Company's North American customers modestly increased capital spending plans for 2024 although current capital spending levels remain 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. Current indications are that Australian activity will remain relatively stable in 2024.

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 an 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 that accounted for over 10% of the consolidated revenue, other than one major oil and gas producing company in the fourth quarter of 2023. The Company did not have significant exposure to any individual customer or counter party that accounted for over 10% of the consolidated revenue in the fourth quarter 2022. The Company did not have significant exposure to any individual customer or counter party that accounted for over 10% of the consolidated revenue for the years ended December 31, 2023 and 2022.

The Company's allowance for doubtful accounts receivable at December 31, 2023 decreased by \$0.5 million to \$1.1 million from the December 31, 2022 allowance of \$1.6 million.

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 2023.

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 its receipts from operating activities and in which currency the Company has received financing.

The Company makes judgments regarding the determination of its reportable segments, including aggregation criteria (as appropriate), for segmented reporting.

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 (asset). Management believes that, in addition to the amounts reported in the Consolidated Financial Statements, these measures are useful in assessing the Company's performance and liquidity. These measures are unlikely to be comparable to similar measures presented by other companies. The non-IFRS measures referenced in this MD&A reconcile to the IFRS measures reported in the Consolidated Financial Statements as follows, unless reconciled elsewhere:

EBITDA	Three months ended		Year ended	
	2023	2022	2023	2022
December 31				
Net income (loss)	\$ (7,861)	\$ 12,264	\$ 41,594	\$ 37,999
Add back:				
Depreciation	20,393	20,035	80,814	78,813
Finance costs, net	12,235	2,094	17,425	7,374
Income tax expense	20,509	1,479	29,128	7,134
EBITDA	\$ 45,276	\$ 35,872	\$ 168,961	\$ 131,320

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

	As at December 31, 2023
Net Debt (Asset)	
Long-term debt	\$ 90,947
Lease liabilities	9,887
Add back (deduct):	
Current liabilities	177,014
Current assets	(300,453)
Net Debt (Asset)	\$ (22,605)

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 2023 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, 2023. 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, 2023.

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, 2023 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 and year ended December 31, 2023.

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 (including COVID-19 pandemic), 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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

George Chow¹
Chairman of the Board

Daniel Halyk
President and Chief Executive Officer

Glenn Dagenais^{2,3}

Greg Melchin^{1,2}

Jessica Kirstine^{1,3}

Ken Mullen^{2,3}

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

Jeremy Busch-Howell
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

HEAD OFFICE

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Email: investorrelations@totalenergy.ca

AUDITOR

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

Alberta Treasury Branches

STOCK EXCHANGE LISTING

Toronto Stock Exchange

Common Shares: TOT

CANADIAN LOCATIONS

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

U.S. LOCATIONS

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

AUSTRALIAN LOCATIONS

Toowoomba, QLD



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