

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	Note	September 30 2023 (unaudited)	December 31 2022 (audited)
ASSETS			
Current assets:			
Cash and cash equivalents		\$ 29,885	\$ 34,061
Accounts receivable		162,977	154,581
Inventory		101,464	91,614
Prepaid expenses and deposits		24,054	18,847
Income taxes receivable		198	496
Current portion of lease asset		6	378
		318,584	299,977
Property, plant and equipment		564,618	567,515
Income taxes receivable		7,070	7,070
Goodwill		4,053	4,053
		\$ 894,325	\$ 878,615
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 126,861	\$ 114,274
Deferred revenue		53,586	63,895
Dividends payable		3,198	2,490
Current portion of lease liabilities		5,339	5,173
Current portion of long-term debt	4	2,034	1,991
		191,018	187,823
Long-term debt	4	101,463	117,997
Lease liabilities		9,696	9,631
Deferred income tax liability		49,620	41,141
Shareholders' equity:			
Share capital	5	251,283	261,109
Contributed surplus		4,076	3,590
Accumulated other comprehensive loss		(24,066)	(17,032)
Non-controlling interest		535	552
Retained earnings		310,700	273,804
		542,528	522,023
		\$ 894,325	\$ 878,615

The notes on pages 6 to 12 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME

Unaudited (in thousands of Canadian dollars except per share amounts)

	Note	Three months ended September 30		Nine months ended September 30	
		2023	2022	2023	2022
REVENUE		\$ 232,016	\$ 207,678	\$ 678,638	\$ 548,334
Cost of services		175,235	156,803	522,270	427,518
Selling, general and administration		12,027	9,695	33,586	28,589
Other expense (income)		238	(405)	(208)	(1,080)
Share-based compensation	6	701	312	1,457	791
Depreciation		20,124	19,651	60,421	58,778
Operating income		23,691	21,622	61,112	33,738
Gain on sale of property, plant and equipment		1,140	1,062	2,152	2,932
Finance costs, net		(1,691)	(1,911)	(5,190)	(5,280)
Net income before income taxes		23,140	20,773	58,074	31,390
Current income tax expense (recovery)		(231)	403	140	(39)
Deferred income tax expense		4,134	3,207	8,479	5,694
Total income tax expense		3,903	3,610	8,619	5,655
Net income		\$ 19,237	\$ 17,163	\$ 49,455	\$ 25,735
Net income (loss) attributable to:					
Shareholders of the Company		\$ 19,231	\$ 17,179	\$ 49,472	\$ 25,764
Non-controlling interest		6	(16)	(17)	(29)
Income per share					
Basic	5	\$ 0.48	\$ 0.41	\$ 1.22	\$ 0.61
Diluted		\$ 0.47	\$ 0.40	\$ 1.20	\$ 0.60

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Net income	\$ 19,237	\$ 17,163	\$ 49,455	\$ 25,735
Foreign currency translation	(1,734)	8,496	(7,034)	8,707
Total other comprehensive income (loss) for the period	(1,734)	8,496	(7,034)	8,707
Total comprehensive income	\$ 17,503	\$ 25,659	\$ 42,421	\$ 34,442
Total comprehensive income (loss) attributable to:				
Shareholders of the Company	\$ 17,497	\$ 25,675	\$ 42,438	\$ 34,471
Non-controlling interest	6	(16)	(17)	(29)

The notes on pages 6 to 12 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

As at and for the nine months ended September 30, 2023 and 2022, and year ended December 31, 2022
Unaudited (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)		-	-	-	-	(7,489)	(7,489)
Repurchase of common shares	5	(10,350)	-	-	-	(2,288)	(12,638)
Exercise of share options	5	554	(220)	-	-	(434)	(100)
Share options expired	6	-	(3,089)	-	-	3,089	-
Share-based compensation	6	-	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)		-	-	-	(17)	49,472	49,455
Other comprehensive loss		-	-	(7,034)	-	-	(7,034)
<i>Transactions with shareholders, recorded directly in equity:</i>							
Dividends (\$0.24 per common share)		-	-	-	-	(9,652)	(9,652)
Repurchase of common shares	5	(10,155)	-	-	-	(3,432)	(13,587)
Exercise of share options	5	329	(150)	-	-	(313)	(134)
Share options expired	6	-	(821)	-	-	821	-
Share-based compensation	6	-	1,457	-	-	-	1,457
		(9,826)	486	-	-	(12,576)	(21,916)
Balance at September 30, 2023		\$ 251,283	\$ 4,076	\$ (24,066)	\$ 535	\$ 310,700	\$ 542,528

	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)		-	-	-	(29)	25,764	25,735
Other comprehensive income		-	-	8,707	-	-	8,707
<i>Transactions with shareholders, recorded directly in equity:</i>							
Dividends (\$0.12 per common share)		-	-	-	-	(4,999)	(4,999)
Repurchase of common shares	5	(7,089)	-	-	-	(1,058)	(8,147)
Exercise of share options	5	294	(107)	-	-	(171)	16
Share options expired	6	-	(2,928)	-	-	2,928	-
Share-based compensation	6	-	791	-	-	-	791
		(6,795)	(2,244)	-	-	(3,300)	(12,339)
Balance at September 30, 2022		\$ 264,110	\$ 3,513	\$ (17,997)	\$ 532	\$ 265,382	\$ 515,540

The notes on pages 6 to 12 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)

	Note	Three months ended September 30		Nine months ended September 30	
		2023	2022	2023	2022
Cash provided by (used in):					
Operations:					
Net income for the period		\$ 19,237	\$ 17,163	\$ 49,455	\$ 25,735
Add (deduct) items not affecting cash:					
Depreciation		20,124	19,651	60,421	58,778
Share-based compensation	6	701	312	1,457	791
Gain on sale of property, plant and equipment		(1,140)	(1,062)	(2,152)	(2,932)
Finance costs, net		1,691	1,911	5,190	5,280
Foreign currency translation		(3,934)	(405)	(4,284)	(1,080)
Current income tax expense (recovery)		(231)	403	140	(39)
Deferred income tax expense		4,134	3,207	8,479	5,694
Income taxes recovered (paid)		202	(102)	158	(22)
Cashflow		40,784	41,078	118,864	92,205
Changes in non-cash working capital items:					
Accounts receivable		(13,516)	(33,689)	(8,396)	(73,667)
Inventory		10,194	123	(9,850)	(3,467)
Prepaid expenses and deposits		(5,353)	(3,856)	(5,207)	(10,105)
Accounts payable and accrued liabilities		(8,066)	16,121	10,480	44,960
Deferred revenue		(2,104)	(933)	(10,309)	38,866
Cash provided by operating activities		21,939	18,844	95,582	88,792
Investing:					
Purchase of property, plant and equipment		(17,177)	(17,063)	(59,631)	(42,022)
Proceeds on disposal of property, plant and equipment		4,906	2,083	6,410	5,960
Changes in non-cash working capital items		(12)	6,603	2,492	9,554
Cash used in investing activities		(12,283)	(8,377)	(50,729)	(26,508)
Financing:					
Repayment of long-term debt	4	(498)	(10,651)	(16,491)	(41,955)
Repayment of lease liabilities		(1,558)	(1,326)	(4,714)	(3,607)
Dividends to shareholders		(3,212)	(2,482)	(8,944)	(2,482)
Repurchase of common shares	5	(2,298)	(2,248)	(13,587)	(8,147)
Shares issued on exercise of share options		42	85	42	116
Interest paid		(2,113)	(1,887)	(5,335)	(5,271)
Cash used in financing activities		(9,637)	(18,509)	(49,029)	(61,346)
Change in cash and cash equivalents		19	(8,042)	(4,176)	938
Cash and cash equivalents, beginning of period		29,866	42,345	34,061	33,365
Cash and cash equivalents, end of period		\$ 29,885	\$ 34,303	\$ 29,885	\$ 34,303

The notes on pages 6 to 12 are an integral part of these condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2023 and 2022
Unaudited (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 condensed interim 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 Presentation

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” of International Financial Reporting Standards (“IFRS”) and using the accounting policies outlined in the Company’s audited consolidated financial statements for the year ended December 31, 2022 (the “2022 Financial Statements”). These condensed interim consolidated financial statements do not include all the necessary annual disclosures and should be read in conjunction with the 2022 Financial Statements.

These condensed interim consolidated financial statements were approved by the Board of Directors on November 9, 2023.

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 equipment. The timing of freeze up and spring breakup affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Company’s slowest period in Canada. Additionally, wet weather in Australia, normally in the first quarter, can restrict the Company’s Australian operations. Consequently, quarterly operating results may not be indicative of full year operating results.

3. Segmented Information

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2023 and 2022

Unaudited (tabular amounts in thousands of Canadian dollars)

As at and for the three months ended September 30, 2023	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate ⁽¹⁾	Total
Revenue	\$ 75,815	\$ 21,137	\$ 110,959	\$ 24,105	\$ –	\$ 232,016
Cost of services	51,265	11,828	94,122	18,020	–	175,235
Selling, general and administration	2,581	2,240	3,327	1,208	2,671	12,027
Other (income) loss	308	7	(131)	–	54	238
Share-based compensation	–	–	–	–	701	701
Depreciation	9,580	4,903	2,585	2,802	254	20,124
Operating income (loss)	12,081	2,159	11,056	2,075	(3,680)	23,691
Gain on sale of property, plant and equipment	9	201	763	167	–	1,140
Finance costs, net	(14)	(28)	(121)	(18)	(1,510)	(1,691)
Net income (loss) before income taxes	12,076	2,332	11,698	2,224	(5,190)	23,140
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	367,553	176,330	275,886	74,376	180	894,325
Total liabilities	72,824	28,851	110,391	6,980	132,751	351,797
Capital expenditures	9,094	1,643	4,268	1,937	235	17,177

Three months ended September 30, 2023	Canada	United States	Australia	Total
Revenue	\$ 111,945	\$ 99,790	\$ 20,281	\$ 232,016
Non-current assets ⁽²⁾	393,168	129,263	46,240	568,671

As at and for the three months ended September 30, 2022	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate ⁽¹⁾	Total
Revenue	\$ 73,976	\$ 18,070	\$ 86,654	\$ 28,978	\$ –	\$ 207,678
Cost of services	50,189	8,501	77,234	20,879	–	156,803
Selling, general and administration	2,011	1,662	2,139	1,399	2,484	9,695
Other income	–	–	–	–	(405)	(405)
Share-based compensation	–	–	–	–	312	312
Depreciation	8,888	4,855	2,415	3,247	246	19,651
Operating income (loss)	12,888	3,052	4,866	3,453	(2,637)	21,622
Gain on sale of property, plant and equipment	1	190	675	196	–	1,062
Finance costs, net	(8)	(20)	(114)	(8)	(1,761)	(1,911)
Net income (loss) before income taxes	12,881	3,222	5,427	3,641	(4,398)	20,773
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	358,510	186,260	258,328	87,568	6,418	897,084
Total liabilities	79,604	18,246	110,036	7,121	166,537	381,544
Capital expenditures	10,506	2,260	2,801	1,427	69	17,063

Three months ended September 30, 2022	Canada	United States	Australia	Total
Revenue	\$ 98,020	\$ 77,165	\$ 32,493	\$ 207,678
Non-current assets ⁽²⁾	374,894	149,528	51,074	575,496

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2023 and 2022

Unaudited (tabular amounts in thousands of Canadian dollars)

As at and for the nine months ended September 30, 2023	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate ⁽¹⁾	Total
Revenue	\$ 212,633	\$ 65,362	\$ 322,207	\$ 78,436	\$ –	\$ 678,638
Cost of services	153,466	35,725	273,607	59,472	–	522,270
Selling, general and administration	7,552	6,374	10,122	3,124	6,414	33,586
Other (income) loss	20	–	(88)	–	(140)	(208)
Share-based compensation	–	–	–	–	1,457	1,457
Depreciation	28,107	14,620	7,822	9,091	781	60,421
Operating income (loss)	23,488	8,643	30,744	6,749	(8,512)	61,112
Gain on sale of property, plant and equipment	235	714	836	337	30	2,152
Finance costs, net	(44)	(63)	(353)	(51)	(4,679)	(5,190)
Net income (loss) before income taxes	23,679	9,294	31,227	7,035	(13,161)	58,074
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	367,553	176,330	275,886	74,376	180	894,325
Total liabilities	72,824	28,851	110,391	6,980	132,751	351,797
Capital expenditures	40,528	5,777	6,783	6,308	235	59,631
Nine months ended September 30, 2023	Canada	United States	Australia	Total		
Revenue	\$ 303,329	\$ 303,617	\$ 71,692	\$ 678,638		
Non-current assets ⁽²⁾	393,168	129,263	46,240	568,671		
As at and for the nine months ended September 30, 2022	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate ⁽¹⁾	Total
Revenue	\$ 183,478	\$ 46,911	\$ 238,001	\$ 79,944	\$ –	\$ 548,334
Cost of services	136,354	25,561	206,556	59,047	–	427,518
Selling, general and administration	5,367	4,990	6,863	3,977	7,392	28,589
Other income	–	–	–	–	(1,080)	(1,080)
Share-based compensation	–	–	–	–	791	791
Depreciation	26,647	14,650	7,107	9,667	707	58,778
Operating income (loss)	15,110	1,710	17,475	7,253	(7,810)	33,738
Gain on sale of property, plant and equipment	269	830	1,580	253	–	2,932
Finance costs, net	(14)	(59)	(288)	(17)	(4,902)	(5,280)
Net income (loss) before income taxes	15,365	2,481	18,767	7,489	(12,712)	31,390
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	358,510	186,260	258,328	87,568	6,418	897,084
Total liabilities	79,604	18,246	110,036	7,121	166,537	381,544
Capital expenditures	27,970	5,018	5,562	3,392	80	42,022
Nine months ended September 30, 2022	Canada	United States	Australia	Total		
Revenue	\$ 282,287	\$ 166,523	\$ 99,524	\$ 548,334		
Non-current assets ⁽²⁾	374,894	149,528	51,074	575,496		

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2023 and 2022

Unaudited (tabular amounts in thousands of Canadian dollars)

4. Long-term Debt

At September 30, 2023 the Company's long-term debt consisted of the following:

	September 30, 2023	
	Interest rate	Principal Amount
Credit Facility	6.99%	\$ 60,000
Mortgage loan (2025 maturity)	3.10%	43,497
		103,497
Less current portion		2,034
	5.35%	\$ 101,463

At September 30, 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. At September 30, 2023, the applicable interest rate on amounts drawn on the Credit Facility was 6.99% and the standby rate was 0.25%. Letters of credit ("LOC") of \$0.3 million were outstanding at September 30, 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 September 30, 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 September 30, 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:

	Sept 30, 2023	Threshold
Twelve-month trailing Bank EBITDA to interest expense	29.04	minimum 3.00
Total Senior Debt to twelve-month trailing Bank EBITDA	0.27	maximum 3.00

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2023 and 2022

Unaudited (tabular amounts in thousands of Canadian dollars)

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.

At September 30, 2023 the Company was in compliance with all debt covenants.

5. 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, September 30, 2023	39,975	\$ 251,283

During the nine months ended September 30, 2023, 1,614,151 shares (September 30, 2022: 1,125,086 shares) were repurchased under the Company's normal course issuer bid at an average price of \$8.42 (September 30, 2022: \$7.24) per share including commissions.

(b) Per Share Amounts

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

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Net income for the period attributable to shareholders	\$ 19,231	\$ 17,179	\$ 49,472	\$ 25,764
Weighted average number of shares outstanding – basic	40,149	42,339	40,555	42,367
Income per share – basic	\$ 0.48	\$ 0.41	\$ 1.22	\$ 0.61
Net income for the period attributable to shareholders	\$ 19,231	\$ 17,179	\$ 49,472	\$ 25,764
Weighted average number of shares outstanding – basic	40,149	42,339	40,555	42,367
Share option dilution	812	751	736	775
Weighted average number of shares outstanding – diluted	40,961	43,090	41,291	43,142
Income per share – diluted	\$ 0.47	\$ 0.40	\$ 1.20	\$ 0.60

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2023 and 2022

Unaudited (tabular amounts in thousands of Canadian dollars)

For the three and nine months ended September 30, 2023, 2,120,000 share options (September 30, 2022: 1,140,000 options) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

6. Share-Based Compensation Plan

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, September 30, 2023	\$ 7.61	4,109,997

A total of 1,800,001 outstanding options were exercisable at September 30, 2023 at a weighted average price of \$6.42 per option.

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

	September 30, 2023	December 31, 2022
Expected volatility	38.35% – 47.54%	40.94% – 52.35%
Annual dividend	3.18%	3.22% – 3.74%
Risk free interest rate	3.93% – 4.37%	3.34% – 3.87%
Forfeitures	9.86%	11%
Expected life (years)	3 to 5 years	3 to 5 years

The share options issued during 2021, 2022 and 2023 vest 1/3 on the first, second and third anniversary from the grant date and expire five years from the date of grant. The outstanding options expire on various dates ranging from May 17, 2024 to August 10, 2028.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2023 and 2022

Unaudited (tabular amounts in thousands of Canadian dollars)

7. Financial Instruments

The Company's financial instruments as at September 30, 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, accounts payable and accrued liabilities, dividends payable and the Credit Facility approximate their carrying amounts due to their short terms to maturity.

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 this mortgage loan and related interest at the prevailing market rate of 7.01% for a similar debt instrument at September 30, 2023 was \$41.0 million (December 31, 2022: market rate of 6.05%, \$42.2 million). The carrying value and Company's liability with respect to the mortgage loan is \$43.5 million.

8. Contingencies

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

The Company has received both legal and tax advice relating to its conversion from an income trust to a corporation indicating that its income tax filing position is strong. As such, the Company has filed notices of objection in response to the Reassessment and intends to vigorously defend its filing position and seek reimbursement from the CRA for the costs arising from having to defend such Reassessment to the fullest extent possible. The trial of this matter commenced in June 2022 and will conclude when final arguments are submitted and a judgment is rendered. The timing of concluding such trial is not certain at this time. Management believes that it will be successful in defending its tax filing position, and as such, the Company has not recognized any provision for the Reassessment at September 30, 2023. The \$7.1 million paid on account of the Reassessment has been recorded as income tax receivable on the basis management believes it will be successful in defending the Company's filing position. In the event the Company is not successful, an additional \$19.3 million of cash may be owing and \$26.4 million of income tax expense would be recognized.

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.