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FOCUS DISCIPLINE GROWTH

Second Quarter Report 2016

TOTAL ENERGY SERVICES INC.

Total Energy Services Inc. ("Total Energy" or the "Company") is a growth oriented energy services company based in Calgary, Alberta. Through various operating divisions, wholly-owned subsidiaries and partnerships, Total Energy is involved in three businesses: contract drilling services, rentals and transportation services and the fabrication, sale, rental and servicing of new and used natural gas compression and oil and natural gas process equipment. 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 common shares of Total Energy are listed and trade on the TSX under the symbol TOT.

REPORT TO SHAREHOLDERS

Difficult industry conditions continued through the second quarter, compounded by the seasonal slowdown in Canada known as "spring break-up". Activity levels in our Contract Drilling Services and Rentals and Transportation Services segments were at historic lows, in part due to our determination not to pursue unprofitable work.

During the second quarter, Total Energy completed two separate acquisitions at a total cost of $5.1 million to bolster our Rental and Transportation Service segment's presence in North Dakota. Included in such acquisitions was an operating facility located in Watford City where our North Dakota operations are being consolidated.

Total Energy's financial condition remains very strong, with a positive working capital position of $79.4 million at June 30, 2016, which includes $14.9 million of cash and marketable securities. Our only bank debt consists of a $47.8 million mortgage that is secured by approximately 60% of the Company's owned real estate. Throughout this downturn, we have not had to renegotiate our banking arrangements and have remained solidly in compliance with all bank covenants. Our $65 million operating line was undrawn at June 30, 2016 and remains undrawn today.

LOOKING FORWARD

Total Energy continues to focus on pursuing sensible business opportunities, managing our cost structure, protecting our financial strength and liquidity position and evaluating investment opportunities. In navigating through these difficult times, we have and continue to take steps to align ourselves with stable and reputable business partners so as to mitigate the negative consequences of counter-party defaults and to better position the Company for an eventual recovery.

Our Compression and Process Services segment's efforts over the past several years to develop a meaningful presence in Australia have begun to bear fruit. Earlier this year we received a $7.3 million order for gas compression equipment from an intermediate Australian natural gas producer and in late July this segment received a $21.3 million compression order from a large Australian natural gas producer. We are optimistic that further business opportunities will emanate from this region.

I am proud of the manner in which our managers and employees have persevered during this difficult period for the energy services industry. While difficult times call for difficult decisions, our people have not compromised on the quality, safety or integrity of our operations. Total Energy is ready, willing and able to ramp up operations when our industry is ready to go back to work.

Daniel Halyk.

DANIEL K. HALYK
President and Chief Executive Officer

August 10, 2016

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 August 10, 2016 and focuses on information and key statistics from the unaudited condensed interim consolidated financial statements of the Company for the three and six month period ended June 30, 2016 (the "Interim Financial Statements") and pertains to known risks and uncertainties relating to the oil and gas 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 Condensed Interim Financial Statements, the Company's 2015 Annual Report, the Annual Information Form ("AIF") for the year ended December 31, 2015 and the cautionary statement regarding forward-looking information and statements below. Additional information relating to Total Energy, including the Company's AIF, may be found on SEDAR at www.sedar.com. Unless otherwise indicated, all dollar amounts presented herein are in Canadian dollars.

BUSINESS OF THE COMPANY

Total Energy is a public energy services company based in Calgary, Alberta. Through its operating divisions, wholly owned subsidiaries and limited partnerships, Total Energy is involved in three businesses: contract drilling services ("CDS"), the rental and transportation of equipment used in the drilling, completion and production of oil and natural gas wells ("RTS") and the fabrication, sale, rental and servicing of new and used natural gas compression and oil and natural gas process equipment ("CPS"). Substantially all of the Company's operations are conducted within Canada although RTS and CPS conduct a limited amount of business in the United States through United States corporate affiliates. CPS generates international sales from its Calgary-based facilities.

Contract Drilling Services: At June 30, 2016, the Company operated a fleet of 18 rigs in Canada. Of these rigs, 16 are telescopic doubles and two are telescopic singles with integrated top drives. The Company also maintains an extensive inventory of top drives, drill pipe and spare components to support its operations.

Rentals and Transportation Services: Total Energy's RTS business is presently conducted from 20 locations in western Canada and two locations in the northwestern United States. At June 30, 2016, this segment had approximately 10,000 pieces of rental equipment and a fleet of 112 heavy trucks.

Compression and Process Services: The Company fabricates a full range of natural gas compression equipment as well as select oil and natural gas process equipment. CPS currently occupies approximately 208,000 square feet of production facilities located in Calgary, Alberta which support Canadian and international equipment sales. CPS also currently operates a network of 10 branch locations throughout western Canada and the northwestern United States from which its natural gas compression parts and service business is conducted. This business segment had 39,240 horsepower of compression in its rental fleet at June 30, 2016.

FINANCIAL HIGHLIGHTS

(in thousands of dollars except per share amounts)	Three Months Ended June 30 2016	2015	% Change	Six Months Ended June 30 2016	2015	% Change
Revenue	**$ 43,893**	$ 71,908	(39%)	**$ 93,849**	$ 164,398	(43%)
Operating income (loss)	**(5,289)**	3,155	(268%)	**(7,802)**	17,730	(144%)
EBITDA (1)	**1,368**	13,276	(90%)	**5,671**	35,151	(84%)
Cashflow (2)	**1,775**	6,482	(73%)	**6,814**	13,982	(51%)
Cash provided by operating activities	**6,741**	12,555	(46%)	**19,427**	36,294	(46%)
Net (Loss) Income	**(4,203)**	921	(556%)	**(6,335)**	10,104	(163%)
Per Share Data (Diluted)						
EBITDA (1)	**$ 0.04**	$ 0.43	(91%)	**$ 0.18**	$ 1.13	(84%)
Cashflow (2)	**0.06**	0.21	(71%)	**0.22**	0.45	(51%)
Net Earnings (Loss)	**(0.14)**	0.03	(567%)	**(0.20)**	0.33	(161%)

	June 30 2016	Dec. 31 2015	% Change
Financial Position		(audited)	
Total Assets	**$ 509,349**	$ 532,379	(4%)
Long-Term Debt and Obligations Under Finance Leases (excluding current portion)	**47,483**	49,185	(3%)
Working Capital	**79,386**	90,314	(12%)
Net Debt (1)	**nil**	nil	–
Shareholders' Equity	**374,004**	383,335	(2%)
Shares Outstanding (000's)			
Basic and Diluted	**30,985**	30,997	–

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

(2) Cashflow for the six months ended June 30, 2015 is net of $12.7 million of income taxes paid during the period that relates to 2014 taxable income as a result of the Company not having been required to make income tax installment payments during 2014.

CONSOLIDATED RESULTS

The results for the three and six months ended June 30, 2016 reflect continued challenging North American energy industry conditions. Continued low oil and natural gas drilling and completion activity gave rise to low equipment utilization and fierce price competition, particularly within the CDS and RTS segments. In such environment, the Company remains focused on maintaining its financial strength and liquidity, preserving its operating assets and retaining key personnel. The Company has generally declined to pursue business opportunities where variable operating costs are not covered (including depreciation in the case of drilling rigs) or customer credit risk is determined to be unacceptable. While this strategy has resulted in lower equipment utilization, it is expected to benefit the Company in two ways. First, bad debt expense will be minimized. Second, when industry conditions improve, the Company's equipment fleet will be in a good state of repair and ready to resume normal operations in short order with relatively minimal expense.

The Company's financial condition remains strong, with a positive working capital balance of $79.4 million as at June 30, 2016 as compared to $90.3 million of working capital at December 31, 2015. Shareholders' equity decreased by $9.3 million during the first half of 2016 due to the realization of a net loss and continued payment of dividends.

Revenue

Revenue decreased 39% to $43.9 million for the three months ended June 30, 2016 versus $71.9 million for the comparable period in 2015, and decreased 43% to $93.8 million for the six months ended June 30, 2016 versus $164.4 million for the comparable period in 2015.

Cost of Services

Cost of services decreased by 32% and 35% to $37.2 million and $76.9 million, respectively, for the three and six months ended June 30, 2016, as compared to $54.3 million and $117.4 million for the same periods in 2015. The decrease in cost of services resulted primarily from lower activity levels in all three operating segments. Gross margin, as a percentage of revenue, for the three and six months ended June 30, 2016 was 15% and 18%, respectively, as compared to 24% and 29% for the same periods in 2015. The lower gross margin realized in 2016 compared to 2015 is a result of the CDS and RTS segments contributing a lower portion of consolidated revenue in 2016 as compared to 2015 as these segments historically generate a higher gross margin percentage than the CPS segment. Lower pricing in all three segments during 2016 as compared to 2015 also contributed to the lower realized gross margin. Cost of services includes salaries and benefits for operations personnel, equipment repairs and maintenance, fuel, inventory used to manufacture compression and process equipment and rent, utilities and property taxes related to manufacturing facilities and operations branches.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by 28% and 26% to $5.3 million and $11.1 million, respectively, for the three and six months ended June 30, 2016, as compared to $7.3 million and $15.0 million for the prior year comparable periods. The decrease was due to decreased activity levels and efforts to reduce such costs given weak industry conditions. Cost reductions were achieved primarily through lower staffing levels, reductions in wages and salaries and negotiated pricing discounts from third party suppliers. Offsetting realized cost savings were bad debt provisions of $0.2 million and $0.4 million for the three and six months ended June 30, 2016.

Included in selling, general and administrative costs are salaries and benefits for sales, office and administrative staff, rent, utilities and property taxes 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 in these costs is compensation for directors and officers pursuant to the Company's cash based compensation plans.

Share-based Compensation Expense

Share-based compensation expense was $0.5 million and $1.0 million, respectively, for the three and six months ended June 30, 2016, as compared to $0.3 million and $0.5 million for the prior year comparable periods. Share-based compensation expense arises from share options granted pursuant to the share option plans implemented in 2015 and 2012. The increase in share-based compensation expense was due to share options being granted in the second half of 2015.

Depreciation Expense

Depreciation expense decreased by 8% to $6.2 million for the three months ended June 30, 2016, as compared to $6.8 million for the prior year comparable period, and decreased by 8% to $12.7 million for the six months ended June 30, 2016, as compared to $13.8 million for the prior year comparable period. The decrease in depreciation expense was primarily due to a smaller compression rental fleet in the CPS segment due to significant disposals during 2015 and lower equipment utilization in the CDS segment. All of the Company's property, plant and equipment are depreciated on a straight-line basis with the exception of contract drilling equipment, which is depreciated on a utilization basis.

Operating Income (Loss)

Results from the Company's operating activities decreased to an operating loss of $5.3 million and $7.8 million, respectively, for the three and six months ended June 30, 2016, as compared to operating income of $3.2 million and $17.7 million for the comparable periods in 2015. This move from operating income to an operating loss is a result of decreased business activity and lower pricing in all three segments that was not fully offset by proportionate cost reductions.

Finance income

Finance income was minimal for the three and six months ended June 30, 2016, as compared to $0.3 million and $0.4 million for the same periods in 2015. Finance income includes dividends, interest income on bank balances and other ancillary interest income.

Finance Costs

Finance costs were $0.8 million and $1.3 million, respectively, for the three and six months ended June 30, 2016, as compared to $1.3 million and $3.9 million for the same periods in 2015. This decrease in finance costs was due primarily to a lower unrealized decrease in the market value of other assets and lower interest expense due to the redemption of $69 million of convertible debentures in May 2015. Other assets include marketable securities of publically traded entities. Finance costs also include interest paid on finance leases, interest expense on the Term Loan (as defined under the heading "Liquidity and Capital Resources") and, during the six months ended June 30, 2015, interest expense (including accretion) on the convertible debentures.

Gain on Sale of Property, Plant and Equipment

During the three and six months ended June 30, 2016, the Company realized a gain on disposal of equipment of $0.4 million and $0.8 million, respectively, as compared to $3.3 million and $3.6 million for the prior year comparable periods. Disposals of equipment result from the exercise of purchase options on compression equipment previously on lease in the CPS segment as well as the replacement and upgrade of older equipment in the Company's equipment fleet.

Income Taxes and Net income

The Company recorded a net loss of $4.2 million ($0.14 loss per share basic and diluted) and $6.3 million ($0.20 loss per share basic and diluted), respectively, for the three and six months ended June 30, 2016 as compared to net income of $0.9 million ($0.03 per share basic and diluted) and $10.1 million ($0.33 per share basic and diluted) for the corresponding periods in 2015. The Company recorded a current income tax expense of $0.1 million and $0.4 million, respectively, for the three and six months ended June 30, 2016, as compared to $4.3 million and $6.7 million for the corresponding periods in 2015. The Company recorded a deferred income tax recovery of $1.5 million and $2.4 million, respectively, for the three and six months ended June 30, 2016, as compared to a deferred tax expense of $0.2 million and $1.1 million for the corresponding periods in 2015. The decrease in current and deferred income taxes during the first half of 2016 was due primarily to the Company realizing a net loss before income taxes as compared to the same period in 2015 when the Company was profitable.

SUMMARY OF QUARTERLY RESULTS

(in thousands of dollars except per share amounts)	Financial Quarter Ended (Unaudited)			
	June 30, 2016	March 31, 2016	Dec 31, 2015	Sept 30, 2015
Revenue	**$ 43,893**	$ 49,956	$ 52,082	$ 66,713
Cashflow	**1,775**	5,039	5,662	(580)
Cash provided by (used in) operating activities	**6,741**	12,686	6,410	(1,960)
Net income (loss)	**(4,203)**	(2,132)	(3,019)	1,570
Per share (basic and diluted)	**(0.14)**	(0.07)	(0.10)	0.05

	Financial Quarter Ended (Unaudited)			
	June 30, 2015	March 31, 2015	Dec 31, 2014	Sept 30, 2014
Revenue	$ 71,908	$ 92,490	$ 121,109	$ 108,223
Cashflow	6,482	7,500	30,279	24,184
Cash provided by operating activities	12,555	23,739	22,592	2,456
Net income	921	9,183	13,309	11,752
Per share (basic)	0.03	0.30	0.43	0.38
Per share (diluted)	0.03	0.30	0.42	0.37

Variations over the quarters are due in part to the cyclical nature of the energy service industry in Canada due to the occurrence of a "breakup". The first quarter has generally been the strongest quarter for the Company. This strength is due to the northern exposure that the Company has, particularly in its CDS and RTS segments. The northern areas are busiest in the winter as these areas are frozen and allow for improved access to operations locations. The second quarter has generally been the slowest quarter due to a "breakup" as described above. Many of the areas that the Company operates in are not accessible during this period when ground conditions do not permit the movement of heavy equipment. The third quarter has generally been the third busiest quarter, as some of the issues associated with a "breakup" are no longer affecting access to areas of operations. The fourth quarter has usually been the second busiest quarter of the year as customers are generally able to start accessing northern areas with the onset of winter and the ground freezing. Notwithstanding the foregoing, the significant downturn in North American oil and natural gas industry activity that began in mid-2014 has skewed activity levels such that historical Canadian seasonality trends have not been experienced since the latter part of 2015.

SEGMENTED RESULTS

Contract Drilling Services

The revenue reported from the CDS segment decreased by 68% to $0.7 million for the three months ended June 30, 2016, as compared to $2.1 million for the same period in 2015 and decreased by 47% to $3.9 million for the six-month period ended June 30, 2016, as compared to $7.4 million for the same period in 2015. For the second quarter of 2016 the CDS segment achieved a utilization rate, on a spud to rig-release basis, of 3% and year to date utilization of 8%, as compared to 8% and 12%, respectively, for the same periods in 2015. This decrease in utilization during 2016 relative to 2015 was due to substantially decreased oil and natural gas drilling activity in Canada and the Company's decision to foregoing opportunities to deploy equipment due to unacceptably low pricing. Operating days (spud to rig-release) for the three and six months ended June 30, 2016 totaled 52 and 247 days, respectively, as compared to 126 and 389 days for the same periods in 2015. Revenue per operating day received for contract drilling services for the three and six months ended June 30, 2016 decreased 23% and 17%, respectively, as compared to revenue per operating day during the same periods of 2015. The decrease in revenue per operating day was due primarily to lower spot market pricing as the Company had no drilling rigs under term fixed price contracts.

The CDS segment realized an operating loss of $0.5 million and $0.3 million, respectively, for the three and six months ended June 30, 2016, as compared to an operating loss of $0.1 million and operating earnings of $1.0 million for the prior year comparable periods. This segment was unable to reduce its costs proportionately to the steep decline in revenues to the extent necessary to remain profitable in 2016.

Rentals and Transportation Services

The revenue reported from the RTS segment decreased by 55% and 60% to $6.1 million and $17.2 million, respectively, for the three and six months ended June 30, 2016, as compared to $13.6 million and $43.4 million for the same periods in 2015. The revenue decrease was due to reduced equipment utilization and lower pricing. Average utilization of the rental assets was 10% and 12%, respectively, for the three and six months ended June 30, 2016, as compared to 19% and 28% for the prior year comparable periods. Segment revenue per utilized rental piece decreased 15% for the second quarter of 2016 compared to the same period in 2015, and decreased 7% for the first six months of 2016 compared to the same period in 2015. This segment exited the second quarter of 2016 with approximately 10,000 pieces of rental equipment and a fleet of 112 heavy trucks as compared to 10,000 pieces of rental equipment and 120 heavy trucks at the end of June 2015.

The RTS segment realized an operating loss of $5.2 million and $8.1 million, respectively, for the three and six months ended June 30, 2016, as compared to an operating loss of $1.6 million and operating income of $4.8 million for the comparable periods in 2015. This decline resulted from lower equipment utilization and pricing as compared to 2015 and the inability of this segment to reduce costs proportionately to the decline in revenue. This segment has a relatively high fixed cost structure as compared to the Company's other business segments. Such fixed cost structure includes costs associated with its significant operating branch infrastructure (such as utilities, insurance, property taxes and rent) as well as depreciation expense on its equipment that is recorded on a straight-line basis and is not correlated to levels of activity.

Compression and Process Services

The revenue reported from the CPS segment decreased by 34% and 36% to $37.1 million and $72.8 million, respectively, for the three and six months ended June 30, 2016, as compared to $56.2 million and $113.6 million for the same periods in 2015. The revenue decrease was due primarily to lower demand for new equipment and a smaller compression rental fleet operating at a lower utilization rate compared to the prior year period. The reduction in the size of the compression rental fleet compared to 2015 was due to the disposal of rental units during 2015 pursuant to customers' exercising purchase options. This segment exited the second quarter of 2016 with a backlog of fabrication sales orders of approximately $35.9 million, as compared to a backlog of $68.0 million as at June 30, 2015 and $48.9 million at December 31, 2015. The timeline for conversion of such sales backlog into revenue varies from order to order and often changes due to factors outside of the Company's control. Included in the December 31, 2015 and June 30, 2016 backlog is an $8.1 million order purported to be cancelled without payment of the prescribed cancellation fee. Legal action has been taken to enforce such contract and no revenue has or will be recorded in respect of such order until resolution. As at June 30, 2016, the total horsepower of compressors on rent was approximately 12,000 as compared to approximately 28,900 as at June 30, 2015. The compression rental fleet experienced an average utilization of 30% and 33% (based on fleet horsepower), respectively, during three and six months ended June 30, 2016, as compared to 69% and 73% for the same periods in 2015.

The CPS segment generated operating income of $1.7 million and $3.1 million, respectively, for the three and six months ended June 30, 2016, as compared to $6.4 million and $14.6 million for the comparable periods in 2015. Operating income margins in this segment were 5% and 4%, respectively, for the three and six months ended June 30, 2016, as compared to 11% and 13% for the comparable periods in 2015. The decrease in operating income margin during the first half of 2016 compared to 2015 was a result of lower production levels due to lower customer demand, which in turn resulted in lower overhead absorption, as well as a 58% decrease in compression horsepower on rent at June 30, 2016 compared to June 30, 2015.

Corporate

Total Energy's Corporate segment consists of the Company's corporate and other activities. This segment does not generate any revenue but provides sales, operating, financial, treasury, analytical and other support services to Total Energy's business segments and manages the corporate affairs of the Company, including matters related to its public listing.

The Corporate segment realized a net loss of $1.3 million and $2.5 million, respectively, for the three and six months ended June 30, 2016, as compared to $1.7 million and $2.6 million for the comparable periods in 2015. The decrease in the results from operating activities during the three and six months ended June 30, 2016 was due to cost reductions achieved through initiatives taken in response to challenging industry conditions, including voluntary director and senior officer compensation reductions.

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operating Activities and Cashflow

Cash provided by operating activities was $6.7 million and $19.4 million, respectively, for the three and six months ended June 30, 2016, as compared to $12.6 million and $36.3 million for the comparable periods in 2015. Cashflow was $1.8 million and $6.8 million, respectively, for the three and six months ended June 30, 2016, as compared to $6.5 million and $14.0 million for the comparable periods in 2015. The changes in cash provided by operating activities and cashflow were due primarily to changes in operating income and working capital balances, including income taxes of $12.7 million paid in 2015 that related to 2014 taxable income. The Company reinvests the remaining cash provided by operating activities after required long-term debt and finance lease payments and dividend payments to shareholders into the internal growth of existing businesses, acquisitions, voluntary repayment of long-term debt or the repurchase of the Company's shares pursuant to the Company's normal course issuer bid.

Investing Activities

Net cash used in investing activities was $5.8 million and $11.4 million, respectively, for the three and six months ended June 30, 2016, as compared to $16.2 million of net cash generated and $2.5 million of net cash used in investing activities for the comparable periods in 2015. During the first half of 2015, the Company realized $22.1 million of proceeds from the sale of property, plant and equipment ("PP&E") primarily from the disposal of compression rental equipment during the second quarter pursuant to the exercise of customer purchase options. Also contributing to the increase in cash used in investing activities during the first half of 2016 compared to 2015 was the completion of $8.7 million of acquisitions in 2016 as described in Note 4 of the Interim Financial Statements.

During the first half of 2016 $4.9 million of PP&E purchases and $8.7 million of acquisitions were allocated as follows: $0.2 million in the CDS segment relating primarily to the purchase of rig equipment, $12.0 million in the RTS segment relating primarily to acquisitions and purchases of new and used rental equipment and $1.3 million in the CPS segment relating primarily to additions to the compression rental fleet. During the first half of 2015, PP&E additions were as follows: $0.4 million in the CDS segment, $5.9 million in the RTS segment and $4.0 million in the CPS segment. Such purchases were offset by $4.2 million of proceeds on disposal of PP&E during the first half of 2016 as compared to $22.1 million during the same period of 2015. The disposal of PP&E arises primarily from the sale of compression rental equipment and the replacement and upgrade of older equipment in the Company's fleet.

Financing Activities

Net cash used in financing activities was $3.6 million and $7.2 million, respectively, for the three and six months ended June 30, 2016, as compared to $22.9 million and $27.5 million for the comparable periods in 2015. The decrease in net cash used in financing activities in 2016 was primarily due to the redemption of $69 million of convertible debentures in May of 2015 that was funded by the $50.0 million Term Loan (as defined below) and cash on hand.

Liquidity

The Company had a working capital surplus of $79.4 million as at June 30, 2016 compared to $90.3 million as at December 31, 2015. As at June 30, 2016 and the date of this MD&A, the Company is in compliance with all debt covenants.

The Company has a $65 million committed revolving facility (the "Operating Facility") with a major Canadian financial institution. Repayment of amounts drawn on the Operating Facility is not required until February 2017 in the event such facility is not renewed. The Operating Facility bears interest at the lender's prime rate plus 0.40% and is secured by the Company's cash and cash equivalents, accounts receivable and inventory. As at June 30, 2016, this facility was undrawn and available to the extent of $45.8 million based on a prescribed margin requirement. Such margin requirement is determined based on 75% of invoiced trade accounts receivable that are outstanding for less than 90 days plus 50% of materials inventory up to a maximum of $30 million, less certain priority payments such as required government payroll and GST remittances.

In connection with the redemption of $69 million of convertible unsecured subordinated debentures in May of 2015, the Company secured a $50 million bank loan (the "Term Loan") with the Company's primary bank. Please see page 17 of the 2015 Annual Report for further information.

The Term Loan and the Operating Facility require that the Company's total debt to equity ratio not exceed 2.5 to 1.0 and that the Company maintain a current ratio of at least 1.3 to 1.0. As at June 30, 2016, the Company's total debt to equity ratio was 0.11 to 1.0 and the current ratio was 4.33 to 1.0. For purposes of determining compliance with such financial covenants, total debt includes bank debt and finance lease obligations, including the current portion, minus cash and cash equivalents and the current ratio is equal to current assets minus current liabilities (excluding the current portion of long-term debt and obligations under finance leases).

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

Dividends

For the three and six months ended June 30, 2016 and 2015, the Company declared dividends of $1.9 million ($0.06 per share) and $3.7 million ($0.12 per share), respectively.

For 2016, the Company currently expects cash provided by operating activities and cashflow to exceed dividends to shareholders. Management and the Board of Directors of the Company continue to monitor the Company's dividend policy in the context of industry conditions and forecasted net income, cashflow, cash provided by operating activities, debt levels, capital expenditures and other investment opportunities and will aim to finance future dividends through cash provided by operating activities.

OUTLOOK

Industry Conditions

North American oil and natural gas drilling and completion activity levels during the second quarter of 2016 were substantially lower than activity levels during the same period of 2015 and remain low by historical standards. While there has been some improvement in oil and natural gas prices thus far in 2016, the prices for these commodities has been volatile and remain low compared to historical levels. Many North American oil and natural gas producers are in a difficult financial position, which in turn has resulted in substantial reductions to their capital expenditure programs. As such, despite a recent increase in the number of drilling rigs operating onshore in North America, the Company expects that industry conditions for North American energy services providers will remain challenging for the near term.

Despite a challenging near term outlook, the Company believes that medium to long-term fundamentals require continued exploration and development in Canada and elsewhere, particularly in respect of unconventional reserves, to meet global demand for oil and natural gas. A continued focus on the development of unconventional oil and natural gas resources in Canada is expected to continue to drive activity in the future, particularly should export opportunities for Canadian producers increase through the construction of new liquefied natural gas ("LNG") export terminals and additional pipeline or other take-away capacity.

Capital Spending

Capital spending in 2016 is currently expected to be \$17.2 million, of which \$13.6 million has been expended to June 30, 2016. The remaining \$3.6 million relates primarily to continued expansion of the Company's compression rental fleet and is largely discretionary in nature.

CONTRACTUAL OBLIGATIONS

At June 30, 2016, the Company had the following contractual obligations:

		Payments due by year				
(in thousands of dollars)	Total	2016	2017	2018	2019	2020 and after
Long-term debt	$ 48,092	$ 1,192	$ 1,938	$ 1,998	$ 2,060	$ 40,904
Commitments (1)	4,575	1,115	1,943	990	527	–
Finance leases	3,248	933	1,267	613	338	97
Purchase obligations (2)	7,071	7,071	–	–	–	–
Total contractual obligations	$ 62,986	$ 10,311	$ 5,148	$ 3,601	$ 2,925	$ 41,001

(1) Commitments are described in Note 26 to the 2015 Audited Consolidated Financial Statements.

(2) Purchase obligations are described in Note 26 to the 2015 Audited Consolidated Financial Statements. As at June 30, 2016, purchase obligations relate to Total Energy's commitment to purchase \$0.1 million of capital assets for the Rentals and Transportation Services segment and \$7.0 million of inventory for the Compression and Process Services segment.

OFF-BALANCE SHEET ARRANGEMENTS

During the first half of 2016 and 2015, the Company had no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During the first half of 2016 and 2015, the Company had no material transactions with related parties.

FINANCIAL INSTRUMENTS

Fair values

As at June 30, 2016, the fair value of other assets was approximately $5.3 million. The net present value of future cash repayments of the Term Loan is $48.3 million utilizing an interest rate for a similar debt instrument at June 30, 2016 of 2.77%. The carrying value and Company`s liability with respect to the Term Loan is $47.8 million.

OUTSTANDING COMPANY SHARE DATA

As at the date of this MD&A the Company had 30,975,000 common shares outstanding. Subsequent to June 30, 2016, 10,000 common shares were cancelled pursuant to the Company's normal course issuer bid.

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

Outstanding at June 30, 2016	Exercise Price	Remaining life (years)	Exercisable at June 30, 2016
75,000	$ 14.21	–	75,000
1,140,000	13.74	0.90	1,140,000
76,666	14.96	1.60	76,666
53,334	14.72	1.90	53,334
150,000	17.61	2.30	100,000
1,400,000	14.13	4.10	–
2,895,000	$ 14.19	2.53	1,445,000

RISK FACTORS AND RISK MANAGEMENT

In the normal course of business, Total Energy is exposed to financial and operating risks that may potentially impact its operating results. The Company employs risk management strategies with a view to mitigating these risks on a cost-effective basis. There have been no significant changes in risk and risk management since the 2015 Annual Report other than as described below.

Industry Conditions

While oil and natural gas prices have increased somewhat from the beginning of 2016, they remain low by historical standards. As a result, there continues to be significant uncertainty and volatility in the oil and gas industry and North American oil and natural gas drilling and completion activity remains very low. These low industry activity levels have resulted in fierce price competition for the products and services provided by the Company, particularly in the CDS and RTS segments. While the Company has been proactive in managing its operating cost structure to adapt to the current environment, continued low industry activity levels may require additional substantive measures be taken to preserve the Company's financial strength and flexibility.

Credit Risk

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

The Company does not have significant exposure to any individual customer or counter party other than two intermediate oil and gas companies that accounted for over 10% of revenue, one during the three-month period and both during the six-month period ended June 30, 2016. No other customer accounted for more than 10% of revenue during this period. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry.

Government Regulation

Total Energy's business and the business of its customers are subject to significant and evolving laws and government regulations, including in the areas of environment, health and safety. The planned implementation of a "carbon tax" by the Government of Alberta in 2017 is expected to increase the Company's operating costs although the Company is not able to quantify the full impact of such tax at this time.

CRITICAL ACCOUNTING ESTIMATES

There have been no material changes to our Critical Accounting Estimates since December 31, 2015. For further information, see page 19 of the 2015 Annual Report.

FUTURE ACCOUNTING POLICIES CHANGES

There has been no significant future accounting policy changes since December 31, 2015. For further information, please see page 41 of the 2015 Annual Report.

NON-IFRS MEASURES

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

EBITDA (in thousands of Canadian dollars)	**Three months ended June 30, 2016**	Three months ended June 30, 2015	**Six months ended June 30, 2016**	Six months ended June 30, 2015
Net income (loss) and total comprehensive income (loss)	**$ (4,203)**	$ 921	**$ (6,335)**	$ 10,104
Add back (deduct):				
Depreciation	**6,215**	6,792	**12,697**	13,775
Finance income	**(11)**	(262)	**(11)**	(395)
Finance costs	**804**	1,313	**1,327**	3,859
Income tax (recovery) expense	**(1,437)**	4,512	**(2,007)**	7,808
EBITDA	**$ 1,368**	$ 13,276	**$ 5,671**	$ 35,151

Net Debt is equal to long-term debt plus obligations under finance leases plus current liabilities minus current assets.

EBITDA and Cashflow per share amounts are calculated by dividing the relevant measure by the number of basic and diluted shares outstanding.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying unaudited condensed interim 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 accompanying unaudited condensed interim consolidated financial statements. The Audit Committee is also responsible for determining that management fulfills its responsibilities in the financial control of operations, including disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR").

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes in the design of the Company's ICFR during the quarter ended June 30, 2016 that would materially affect, or is reasonably likely to materially affect the Company's ICFR.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

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

The information and statements contained in this MD&A that are not historical facts are forward-looking statements. Forward-looking statements (often, but not always, identified by the use of words such as "seek", "plan", "continue", "estimate", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "expect", "may", "anticipate" or "will" and similar expressions) may include plans, expectations, opinions, or guidance that are not statements of fact. Forward-looking statements are based upon the opinions, expectations and estimates of management as at the date the statements are made and are subject to a variety of risks and uncertainties and other factors that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking statements. These factors include, but are not limited to, such things as changes in industry conditions (including the levels of capital expenditures made by oil and gas producers and explorers), the credit risk to which the Company is exposed in the conduct of its business, fluctuations in prevailing commodity prices or currency and interest rates, the competitive environment to which the various business divisions are, or may be, exposed in all aspects of their business, the ability of the Company's various business divisions to access equipment (including parts) and new technologies and to maintain relationships with key suppliers, the ability of the Company's various business divisions to attract and maintain key personnel and other qualified employees, various environmental risks to which the Company's business divisions are exposed in the conduct of their operations, inherent risks associated with the conduct of the businesses in which the Company's business divisions operate, timing and costs associated with the acquisition of capital equipment, the impact of weather and other seasonal factors that affect business operations, availability of financial resources or third-party financing and the impact of new laws and regulations or changes in existing laws, regulations or administrative practices on the part of regulatory authorities, including without limitation taxation 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, 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" below 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.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (tabular amounts in thousands of Canadian dollars)

	Note	June 30, 2016	December 31, 2015
ASSETS			
Current assets:			
Cash and cash equivalents		$ 9,669	$ 8,875
Accounts receivable		37,031	48,091
Inventory		50,769	59,066
Income taxes receivable		2,152	2,733
Other assets	5	5,259	5,768
Prepaid expenses and deposits		3,232	4,101
		108,112	128,634
Property, plant and equipment		390,114	392,622
Income taxes receivable	9	7,070	7,070
Goodwill		4,053	4,053
		$ 509,349	$ 532,379
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		$ 17,207	$ 22,002
Deferred revenue		5,803	10,556
Dividends payable		1,859	1,860
Current portion of obligations under finance leases		1,703	2,023
Current portion of long term debt		2,154	1,879
		28,726	38,320
Long-term debt		45,938	46,900
Obligations under finance leases		1,545	2,285
Deferred tax liability		59,136	61,539
Shareholders' equity:			
Share capital	6	88,710	88,875
Contributed surplus		8,262	8,255
Retained earnings		277,032	286,205
		374,004	383,335
Commitments and contingencies	9		
		$ 509,349	$ 532,379

The notes on pages 19 to 24 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

		Three months ended June 30		Six months ended June 30	
	Note	**2016**	2015	**2016**	2015
REVENUE		**$ 43,893**	$ 71,908	**$ 93,849**	$ 164,398
Cost of services		**37,202**	54,337	**76,856**	117,413
Selling, general and administration		**5,264**	7,301	**11,088**	15,029
Share-based compensation	7	**501**	323	**1,010**	451
Depreciation		**6,215**	6,792	**12,697**	13,775
Operating income (loss)		**(5,289)**	3,155	**(7,802)**	17,730
Gain on sale of property, plant and equipment		**442**	3,329	**776**	3,646
Finance income		**11**	262	**11**	395
Finance costs	5	**(804)**	(1,313)	**(1,327)**	(3,859)
Net income (loss) before income taxes		**(5,640)**	5,433	**(8,342)**	17,912
Current income tax expense		**81**	4,293	**396**	6,663
Deferred income tax (recovery) expense		**(1,518)**	219	**(2,403)**	1,145
Total income tax (recovery) expense		**(1,437)**	4,512	**(2,007)**	7,808
Net income (loss) and total comprehensive income (loss) for the period		**$ (4,203)**	$ 921	**$ (6,335)**	$ 10,104
Earnings (loss) per share					
Basic earnings (loss) per share	6	**$ (0.14)**	$ 0.03	**$ (0.20)**	$ 0.33
Diluted earnings (loss) per share	6	**$ (0.14)**	$ 0.03	**$ (0.20)**	$ 0.33

The notes on pages 19 to 24 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EQUITY

As at and for the six months ended June 30, 2016 and 2015, and year ended December 31, 2015
Unaudited (Tabular amounts in thousands of Canadian dollars)

	Note	Share Capital	Contributed Surplus	Equity portion of convertible debenture	Retained earnings	Total Equity
Balance at December 31, 2014		$ 88,899	$ 6,880	$ 4,601	$ 281,683	$ 382,063
Net income and total comprehensive income for the year		–	–	–	8,655	8,655
Transactions with shareholders, recorded directly in equity:						
Dividends to shareholders ($0.24 per common share)		–	–	–	(7,440)	(7,440)
Repurchase of common shares	6	(24)	–	–	(84)	(108)
Redemption of convertible debentures		–	–	(4,601)	3,391	(1,210)
Share-based compensation	7	–	1,375	–	–	1,375
		(24)	1,375	(4,601)	(4,133)	(7,383)
Balance at December 31, 2015		$ 88,875	$ 8,255	$ –	$ 286,205	$ 383,335
Net loss and total comprehensive loss for the period		–	–	–	(6,335)	(6,335)
Transactions with shareholders, recorded directly in equity:						
Dividends to shareholders ($0.12 per common share)		–	–	–	(3,718)	(3,718)
Repurchase of common shares	6	(165)	–	–	(123)	(288)
Share-based compensation	7	–	1,010	–	–	1,010
Expiration of share options		–	(1,003)	–	1,003	–
		(165)	7	–	(2,838)	(2,996)
Balance at June 30, 2016		**$ 88,710**	**$ 8,262**	**$ –**	**$ 277,032**	**$ 374,004**

	Note	Share Capital	Contributed Surplus	Equity portion of convertible debenture	Retained earnings	Total Equity
Balance at December 31, 2014		$ 88,899	$ 6,880	$ 4,601	$ 281,683	$ 382,063
Net income and total comprehensive income for the period		–	–	–	10,104	10,104
Transactions with shareholders, recorded directly in equity:						
Dividends to shareholders ($0.12 per common share)		–	–	–	(3,720)	(3,720)
Redemption of convertible debentures		–	–	(4,601)	3,391	(1,210)
Repurchase of common shares	6	(15)	–	–	(54)	(69)
Share-based compensation	7	–	451	–	–	451
		(15)	451	(4,601)	(383)	(4,548)
Balance at June 30, 2015		$ 88,884	$ 7,331	$ –	$ 291,404	$ 387,619

The notes on pages 19 to 24 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (Tabular amounts in thousands of Canadian dollars)

	Note	Three months ended June 30		Six months ended June 30	
		2016	2015	**2016**	2015
Cash provided by (used in):					
Operations:					
Net income (loss) for the period		**$ (4,203)**	$ 921	**$ (6,335)**	$ 10,104
Add (deduct) items not affecting cash:					
Depreciation		**6,215**	6,792	**12,697**	13,775
Share-based compensation		**501**	323	**1,010**	451
Gain on sale of property, plant and equipment		**(442)**	(3,329)	**(776)**	(3,646)
Unrealized loss (gain) on other assets	5	**354**	(439)	**379**	560
Finance costs		**450**	1,752	**948**	3,299
Unrealized loss (gain) on foreign currencies translation		**(41)**	141	**713**	(347)
Current income tax expense		**81**	4,293	**396**	6,663
Deferred income tax expense (recovery)		**(1,518)**	219	**(2,403)**	1,145
Income taxes recovered (paid)		**378**	(4,191)	**185**	(18,022)
Cashflow		**1,775**	6,482	**6,814**	13,982
Changes in non-cash working capital items:					
Accounts receivable		**2,881**	24,384	**10,421**	43,022
Inventory		**7,023**	969	**8,297**	(5,545)
Prepaid expenses and deposits		**450**	(348)	**869**	2,136
Accounts payable and accrued liabilities		**(2,543)**	(16,624)	**(2,221)**	(21,680)
Deferred revenue		**(2,845)**	(2,308)	**(4,753)**	4,379
Cash provided by operating activities		**6,741**	12,555	**19,427**	36,294
Investing:					
Purchase of property, plant and equipment		**(2,571)**	(2,620)	**(4,882)**	(9,113)
Acquisitions	4	**(5,099)**	–	**(8,689)**	(1,231)
Proceeds on sale of other assets		**13**	–	**66**	–
Purchase of other assets		**–**	(197)	**–**	(5,272)
Proceeds on disposal of property, plant and equipment		**1,916**	20,896	**4,221**	22,124
Changes in non-cash working capital items		**(100)**	(1,873)	**(2,128)**	(8,982)
Cash provided by (used in) investing activities		**(5,841)**	16,206	**(11,412)**	(2,474)
Financing:					
Advances under long-term debt		**–**	50,000	**–**	50,000
Repayment of long-term debt		**(536)**	(303)	**(1,000)**	(303)
Repayment of obligations under finance leases		**(601)**	(871)	**(1,266)**	(1,591)
Repayment of convertible debentures		**–**	(69,000)	**–**	(69,000)
Dividends to shareholders		**(1,859)**	(1,860)	**(3,719)**	(3,720)
Repurchase of common shares	6	**(131)**	–	**(288)**	(69)
Interest paid		**(450)**	(823)	**(948)**	(2,863)
Cash used in financing activities		**(3,577)**	(22,857)	**(7,221)**	(27,546)
Change in cash and cash equivalents		**(2,677)**	5,904	**794**	6,274
Cash and cash equivalents, beginning of period		**12,346**	8,115	**8,875**	7,745
Cash and cash equivalents, end of period		**$ 9,669**	$ 14,019	**$ 9,669**	$ 14,019

The notes on pages 19 to 24 are an integral part of these condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the six months ended June 30, 2016 and 2015
Unaudited (tabular amounts in thousands of Canadian dollars)

1. Reporting Entity

Total Energy Services Inc. (the "Company") is domiciled in Canada and is incorporated under the Business Corporations Act (Alberta).

The consolidated financial statements include the accounts of the Company, its subsidiaries and its partnerships established in Canada, the United States of America and Australia.

The Company's business is the provision of contract drilling services, the rental and transportation of equipment used in oil and natural gas drilling, completion and production processes and the fabrication, sale, rental and servicing of natural gas compression and oil and natural gas process equipment to oil and gas exploration and production companies located primarily in Canada.

2. Basis of Presentation

(a) 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 consolidated financial statements for the year ended December 31, 2015. These condensed interim consolidated financial statements do not include all the necessary annual disclosures and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2015.

These condensed interim consolidated financial statements were approved by the Board of Directors on August 10, 2016.

(b) Seasonality

The Company's operations are conducted primarily in Canada. The ability to move heavy equipment in Canadian oil and natural gas fields is dependent on weather 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. 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.

3. Segmented Information

The Company operates primarily in Canada in three industry segments: Contract Drilling Services, Rental and Transportation Services and Compression and Process Services.

Contract Drilling Services includes the contracting of drilling equipment and the provision of labour required to operate the equipment. Rentals and Transportation Services includes the rental and transportation of equipment used in oil and natural gas drilling, completion and production processes. Compression and Process Services includes the fabrication, sale, rental and servicing of natural gas compression and oil and natural gas process equipment.

For each of the reporting segments, the Company's Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis.

Unaudited (tabular amounts in thousands of Canadian dollars)

Inter-segment pricing is determined on an arm's length basis. Interest is allocated based on capital employed in each segment.

As at and for the three months ended June 30, 2016	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Corporate [1]	Total
Revenue	$ 675	$ 6,091	$ 37,127	$ –	$ 43,893
Cost of services	619	4,492	32,091	–	37,202
Selling, general and administration	382	2,671	1,440	771	5,264
Share-based compensation	–	–	–	501	501
Depreciation	196	4,143	1,854	22	6,215
Operating income (loss)	(522)	(5,215)	1,742	(1,294)	(5,289)
Gain on sale of property, plant and equipment	10	125	307	–	442
Finance income	–	–	–	11	11
Finance costs	(89)	(186)	(109)	(420)	(804)
Net income (loss) before income taxes	(601)	(5,276)	1,940	(1,703)	(5,640)
Goodwill	–	2,514	1,539	–	4,053
Total assets	110,960	226,944	155,693	15,752	509,349
Total liabilities	20,083	37,961	28,340	48,961	135,345
Capital expenditures [2]	$ 195	$ 7,185	$ 286	$ 4	$ 7,670

As at and for the three months ended June 30, 2015	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Corporate [1]	Total
Revenue	$ 2,125	$ 13,553	$ 56,230	$ –	$ 71,908
Cost of services	1,243	7,805	45,289	–	54,337
Selling, general and administration	457	3,191	2,335	1,318	7,301
Share-based compensation	–	–	–	323	323
Depreciation	477	4,139	2,160	16	6,792
Operating income (loss)	(52)	(1,582)	6,446	(1,657)	3,155
Gain on sale of property, plant and equipment	28	327	2,968	6	3,329
Finance income	–	–	–	262	262
Finance costs	(173)	(360)	(238)	(542)	(1,313)
Net income (loss) before income taxes	(197)	(1,615)	9,176	(1,931)	5,433
Goodwill	–	2,514	1,539	–	4,053
Total assets	112,857	236,095	187,633	10,967	547,552
Total liabilities	17,472	45,484	43,339	53,638	159,933
Capital expenditures	$ 87	$ 1,272	$ 1,345	$ (84)	$ 2,620

Unaudited (tabular amounts in thousands of Canadian dollars)

As at and for the six months ended June 30, 2016	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Corporate [1]	Total
Revenue	$ 3,862	$ 17,235	$ 72,752	$ –	$ 93,849
Cost of services	2,556	11,685	62,615	–	76,856
Selling, general and administration	908	5,413	3,287	1,480	11,088
Share-based compensation	–	–	–	1,010	1,010
Depreciation	733	8,193	3,731	40	12,697
Operating income (loss)	(335)	(8,056)	3,119	(2,530)	(7,802)
Gain on sale of property, plant and equipment	10	180	586	–	776
Finance income	–	–	–	11	11
Finance costs	(182)	(375)	(220)	(550)	(1,327)
Net income (loss) before income taxes	(507)	(8,251)	3,485	(3,069)	(8,342)
Goodwill	–	2,514	1,539	–	4,053
Total assets	110,960	226,944	155,693	15,752	509,349
Total liabilities	20,083	37,961	28,340	48,961	135,345
Capital expenditures [2]	$ 245	$ 12,041	$ 1,281	$ 4	$ 13,571

As at and for the six months ended June 30, 2015	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Corporate [1]	Total
Revenue	$ 7,355	$ 43,424	$ 113,619	$ –	$ 164,398
Cost of services	4,273	23,180	89,960	–	117,413
Selling, general and administration	1,011	7,141	4,766	2,111	15,029
Share-based compensation	–	–	–	451	451
Depreciation	1,091	8,337	4,317	30	13,775
Operating income (loss)	980	4,766	14,576	(2,592)	17,730
Gain on sale of property, plant and equipment	33	254	3,353	6	3,646
Finance income	–	–	–	395	395
Finance costs	(377)	(799)	(542)	(2,141)	(3,859)
Net income (loss) before income taxes	636	4,221	17,387	(4,332)	17,912
Goodwill	–	2,514	1,539	–	4,053
Total assets	112,857	236,095	187,633	10,967	547,552
Total liabilities	17,472	45,484	43,339	53,638	159,933
Capital expenditures [3]	$ 421	$ 5,938	$ 3,965	$ 20	$ 10,344

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

(2) Includes the acquisitions described in note 4.

(3) Includes January 1, 2015 acquisition of a business described in note 5 to 2015 audited Financial Statements.

Unaudited (tabular amounts in thousands of Canadian dollars)

4. Acquisitions

Effective January 1, 2016 the Company, through a wholly-owned United States subsidiary, acquired certain oilfield rental assets for $3.6 million (US$2.6 million). The Company financed the acquisition with cash on hand.

Effective May of 2016 the Company, through a wholly-owned United States subsidiary, acquired certain oilfield rental and transportation assets and real estate for $5.1 million (US$3.9 million) in two separate transactions. The Company financed such acquisitions with cash on hand.

The acquired assets were integrated into the Company's Rentals and Transportation Services segment's existing operations on the date such assets were acquired. As a result, it is impracticable to provide separate financial results for such assets.

5. Other Assets

Other assets consist primarily of marketable securities of publicly traded entities (level 1 of fair value hierarchy values based on quoted prices). Other assets are designated as financial assets measured at fair value, with changes in fair value recorded in the statement of comprehensive income as finance income or finance cost. During the three and six month period ended June 30, 2016, the Company recorded an unrealized loss of $0.4 million (three and six month ended June 30, 2015: an unrealized gain of $0.4 million and unrealized loss of $0.6 million, respectively), resulting from changes in the market value of other assets. During the three and six months ended June 30, 2016, the Company realized a loss on sale of other assets of nil and $0.1 million, respectively (three and six month ended June 30, 2015: nil). If the market value of securities on hand at June 30, 2016 would have decreased by 1%, with all other variables held constant, after tax net earnings for the six months ended June 30, 2016 would have been approximately $38,000 lower (six months ended June 30, 2015: $75,000).

6. 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, 2014	31,005	$ 88,899
Repurchased and cancelled	(8)	(24)
Balance, December 31, 2015	30,997	$ 88,875
Repurchased and cancelled	(12)	(34)
Repurchased and not cancelled	–	(131)
Balance, June 30, 2016	30,985	$ 88,710

During the six months ended June 30, 2016, 22,100 common shares (year ended December 31, 2015: 7,900) were repurchased under the Company's normal course issuer bid at an average price of $13.01 (year ended December 31, 2015: $13.64), including commissions. 12,100 shares repurchased under Company's normal course issuer bid were cancelled during the six-month period ended June 30, 2016, with the remaining 10,000 shares being cancelled in July 2016.

Unaudited (tabular amounts in thousands of Canadian dollars)

The excess of the price paid over the proportionate amount of the book value of share capital attributed to the shares repurchased and cancelled during the six months ended June 30, 2016 has been charged to retained earnings.

(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:

	Three months ended June 30		Six months ended June 30	
	2016	2015	**2016**	2015
Net income (loss) for the period	**$ (4,203)**	$ 921	**$ (6,335)**	$ 10,104
Weighted average number of shares outstanding – basic	**30,985**	31,000	**30,985**	31,002
Earnings (loss) per share – basic	**$ (0.14)**	$ 0.03	**$ (0.20)**	$ 0.33
Net income (loss) for the period	**$ (4,203)**	$ 921	**$ (6,335)**	$ 10,104
Weighted average number of shares outstanding – basic	**30,985**	31,000	**30,985**	31,002
Share option dilution	**–**	70	**–**	–
Weighted average number of shares outstanding – diluted	**30,985**	31,070	**30,985**	31,002
Earnings (loss) per share – diluted	**$ (0.14)**	$ 0.03	**$ (0.20)**	$ 0.33

For the three and six months ended June 30, 2016, 2,895,000 share options (June 30, 2015: 445,000 and 1,660,000, respectively) 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.

For the three and six months ended June 30, 2015, respectively, 2,450,107 and 2,373,964 shares that were potentially issuable upon conversion of convertible debentures were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. Such convertible debentures were redeemed on May 19, 2015.

7. Share-Based Compensation Plan

Share option transactions during 2016 and 2015 were as follows:

	Weighted average exercise price	Number of Options
Balance, December 31, 2014	$ 14.73	1,720,000
Granted	14.13	1,400,000
Forfeited	22.81	(60,000)
Balance, December 31, 2015	$ 14.30	3,060,000
Expired	16.18	(165,000)
Balance, June 30, 2016	$ 14.19	2,895,000

8. Financial instruments

The Company's financial instruments as at June 30, 2016 include cash and cash equivalents, accounts receivable, other assets, accounts payable and accrued liabilities, dividends payable, derivative instruments, obligations under finance leases and long-term debt. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and obligations under finance leases approximate their carrying amounts due to their short-terms to maturity. The Company continuously monitors the recoverability of accounts receivable balances and subject to agreed payment terms, generally considers the balance to be overdue when it ages over 90 days.

The fair value of other assets was determined based on market prices quoted on the relevant stock exchanges on which the marketable securities trade. Changes in fair value of other assets are recorded in the statement of comprehensive income in the period the changes in fair value occur. The discounted future cash repayments of the Company`s bank 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 bank loan and related interest at the prevailing market rate of 2.77% for a similar debt instrument at June 30, 2016 was $48.3 million. The carrying value and Company`s liability with respect to the bank loan is $47.8 million.

9. Contingencies

On August 30, 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. 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 June 30, 2016. 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 $12.7 million of cash may be owing and $19.8 million of income tax expense would be recognized.

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Bruce Pachkowski [3]
Chairman of the Board

Daniel Halyk
President and Chief Executive Officer

Gregory Fletcher [1, 2]

Randy Kwasnicia [1, 3]

Greg Melchin [1, 2]

Andrew Wiswell [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

TOTAL ENERGY SERVICES INC.

Daniel Halyk
President and Chief Executive Officer

Gerry Crawford
Vice President, Field Services

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

Yuliya Gorbach
Vice President, Finance and Chief Financial Officer

William Kosich
Vice President, Drilling Services

Brad Macson
Vice President, Operations

CHINOOK DRILLING, A DIVISION OF TOTAL ENERGY SERVICES INC.

Rod Rundell
General Manager

TOTAL OILFIELD RENTALS LIMITED PARTNERSHIP

Clint Gaboury
General Manager

BIDELL EQUIPMENT LIMITED PARTNERSHIP

Sean Ulmer
President

SPECTRUM PROCESS SYSTEMS INC.

Kelly Mantei
General Manager

HEAD OFFICE

Suite 2550, 300 - 5th Avenue S.W.

Calgary, Alberta T2P 3C4

Telephone: (403) 216-3939

Toll Free: (877) 818-6825

Fax: (403) 234-8731

Website: www.totalenergy.ca

Email: investorrelations@totalenergy.ca

AUDITOR

KPMG LLP

Calgary, Alberta

TRUSTEE, REGISTRAR AND TRANSFER AGENT

Computershare

Calgary, Alberta

LEGAL COUNSEL

Bennett Jones, LLP

Calgary, Alberta

BANKER

HSBC

Calgary, Alberta

STOCK EXCHANGE LISTING

Toronto Stock Exchange

Common Shares: TOT

CANADIAN LOCATIONS

Calgary • Carlyle • Dawson Creek • Drayton Valley • Drumheller • Edmonton • Edson • Fort Nelson • Fort St. John
Fox Creek • Grande Prairie • High Level • Lac La Biche • Lloydminster • Manning • Medicine Hat • Peace River
Red Deer • Red Earth • Rocky Mountain House • Slave Lake • Valleyview • Weyburn/Midale • Whitecourt

U.S. LOCATIONS

Denver, CO • Watford City, ND • Casper, WY

CHINOOK Drilling

TOTAL OILFIELD RENTALS LP

BIDELL™ GAS COMPRESSION

SPECTRUM Process Systems