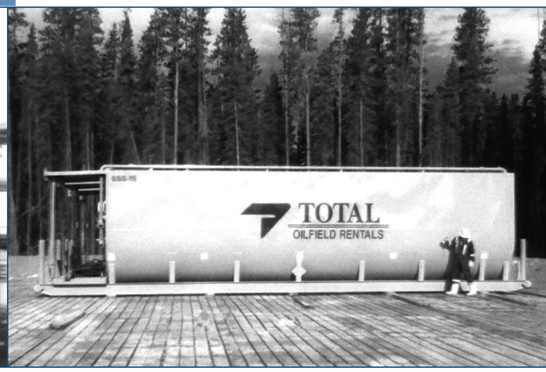
# Q2





FOCUS DISCIPLINE GROWTH

Second Quarter Report 2019

TOTAL ENERGY SERVICES INC.

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

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

# REPORT TO SHAREHOLDERS

Total Energy's financial results for the second quarter of 2019 reflect relatively stable industry activity levels in the United States and Australia offset by a significant decrease in drilling and completion activity in Canada as compared to 2018.

Total Energy's strategy to geographically diversify its revenue base given the unique challenges faced by the energy industry in Canada continued to bear fruit during the second quarter of 2019, with two thirds of consolidated quarterly revenue being generated outside of Canada. This stands in stark contrast to 2015 when over 96% of Total Energy's revenues were generated in Canada.

Despite the challenges facing the energy industry, Total Energy continues to generate significant free cash flow. During the first half of 2019, the Company completed $22.1 million, or 55% of its $40.5 million capital expenditure budget for 2019, reduced long term debt by $16.5 million and returned $8.8 million to shareholders by way of dividends and share repurchases.

## LOOKING FORWARD

Continued global economic uncertainty and resultant commodity price and equity market volatility gives rise to caution and has curtailed the capital expenditure budgets of North American oil and natural gas producers. Market conditions in Australia remain relatively stable. In such environment, Total Energy remains focused on the efficient and sustainable operation of its various businesses, preservation of balance sheet strength and prudent stewardship of owners' capital. Total Energy's continued commitment to investing in equipment additions, upgrades and maintenance supports and enhances the Company's position in a competitive marketplace at a time when financial constraints limit the ability of many competitors to simply maintain, let alone expand, their productive capacity.

On behalf of the Board of Directors and senior management of Total Energy, I would like to thank our many employees from around the world for their continued perseverance, hard work and commitment. We also appreciate the continued confidence and support of our owners and other stakeholders as we navigate through these uncertain times.

Daniel Halyk

DANIEL K. HALYK
President and Chief Executive Officer

August 2019

# 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 8, 2019 and focuses on information and key statistics from the unaudited condensed interim consolidated financial statements of the Company for the three and six months ended June 30, 2019 (the "Interim Financial Statements") and pertains to known risks and uncertainties relating to the energy services sector. This discussion should not be considered all-inclusive as it does not include all changes regarding general economic, political, governmental and environmental conditions.*

*This MD&A should be read in conjunction with the Company's Interim Financial Statements, the Company's 2018 Annual Report, the Annual Information Form ("AIF") for the year ended December 31, 2018 and the cautionary statement regarding forward-looking information and statements below. Additional information relating to Total Energy, including the Company's AIF, may be found on SEDAR at www.sedar.com.*

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

## FINANCIAL HIGHLIGHTS

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Revenue | **$ 212,695** | $ 193,823 | 10% | **$ 434,685** | $ 399,038 | 9% |
| Operating income (loss) | **(1,091)** | 3,956 | nm | **7,346** | 11,516 | (36%) |
| EBITDA (1) | **17,546** | 23,226 | (24%) | **46,961** | 50,881 | (8%) |
| Cashflow | **22,419** | 22,472 | – | **50,872** | 43,621 | 17% |
| Net income | **2,853** | 3,662 | (22%) | **7,612** | 6,990 | 9% |
| Attributable to shareholders | **3,403** | 3,829 | (11%) | **8,163** | 6,993 | 17% |
| Per Share Data (Diluted) | | | | | | |
| EBITDA (1) | **$ 0.38** | $ 0.50 | (24%) | **$ 1.03** | $ 1.10 | (6%) |
| Cashflow | **0.49** | 0.49 | – | **1.11** | 0.94 | 18% |
| Attributable to shareholders: | | | | | | |
| Net income | **0.07** | 0.08 | (13%) | **0.18** | 0.15 | 20% |
| **Financial Position at** | | | | **June 30 2019** | Dec 31 2018 | Change |
| Total Assets | | | | **$ 1,026,564** | $1,078,124 | (5%) |
| Long-Term Debt and Lease Liabilities (excluding current portion) | | | | **239,287** | 286,319 | (16%) |
| Working Capital (2) | | | | **74,283** | 124,967 | (41%) |
| Net Debt (1) | | | | **165,004** | 161,352 | 2% |
| Shareholders' Equity | | | | **549,851** | 560,576 | (2%) |
| **Common shares** (000's) (3) | | | | | | |
| Basic | **45,746** | 46,223 | (1%) | **45,755** | 46,231 | (1%) |
| Diluted | **45,746** | 46,223 | (1%) | **45,755** | 46,232 | (1%) |

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

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

(3) Basic and diluted shares outstanding reflect the weighted average number of common shares outstanding for the period. See note 6 to the Interim Financial Statements.

"nm" – calculation not meaningful

## BUSINESS OF THE COMPANY

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

**Contract Drilling Services:** At June 30, 2019, the Company operated a total fleet of 111 drilling rigs. The rig fleet is supported by an extensive fleet of owned top drives, walking systems, pumps and other ancillary equipment. Composition of the Company's drilling rig fleet is as follows:

| By Type | |
|---|---|
| Triples | 4 |
| AC doubles | 13 |
| Mechanical doubles | 48 |
| Australian shallow | 5 |
| TDS and singles | 41 |
| | 111 |

| By Geography | |
|---|---|
| Canada | 82 |
| United States | 24 |
| Australia | 5 |
| | 111 |

**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, 2019, this segment had approximately 10,650 pieces of major rental equipment (excluding access matting), a fleet of 86 heavy trucks and a significant inventory of small rental equipment.

**Compression and Process Services:** The Company fabricates a full range of natural gas compression equipment as well as select oil and natural gas process equipment. At June 30, 2019 the CPS segment occupied approximately 246,000 square feet of production facilities located in Calgary, Alberta and a 100,000 square foot production facility in Weirton, West Virginia. As at June 30, 2019 the CPS segment also had a network of 11 branch locations throughout western Canada and the United States from which its natural gas compression parts and service business is conducted. This segment had 46,700 horsepower of compression in its rental fleet at June 30, 2019.

**Well Servicing:** At June 30, 2019, the Company operated a total fleet of 83 well servicing rigs across western Canada, northwest United States and Australia. Composition of the Company's service rig fleet is as follows:

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

| By Geography | |
|---|---|
| Canada | 57 |
| United States | 14 |
| Australia | 12 |
| | 83 |

## OVERALL PERFORMANCE

Total Energy's results for the three months ended June 30, 2019 reflect relatively stable industry activity levels in the United States and Australia offset by a significant decrease in drilling and completion activity in Canada as compared to 2018. Negatively impacting the Company's results for the second quarter and first half of 2019 was approximately $0.4 million and $1.7 million of equipment relocation expenses in the CDS and RTS segments as the Company continued to consolidate U.S. drilling operations and relocate underutilized rental equipment from Canada to the U.S. Also negatively impacting financial results for the three and six months ending June 30, 2019 was $1.7 million and $2.9 million of other expense which consisted of unrealized foreign exchange losses on differences relating to translation of working capital balances of foreign subsidiaries as compared to unrealized gains in 2018.

The Company's financial condition remains strong, with a positive working capital balance of $74.3 million as at June 30, 2019. The $50.7 million decrease in working capital since December 31, 2018 was due primarily to an increase in the current portion of capital leases relating to real estate recognized on the adoption of International Financial Reporting Standards ("IFRS") 16 and the classification of a $41.9 million mortgage loan maturing in 2020 as current in the second quarter of 2019. Shareholders' equity decreased by $10.7 million from December 31, 2018 primarily as a result of repurchases of shares and strengthening of the Canadian dollar since the beginning of the year and its impact on translation of foreign subsidiary balances.

### Revenue

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Revenue | **$ 212,695** | $ 193,823 | 10% | **$ 434,685** | $ 399,038 | 9% |

The increase in revenue for the three months June 30, 2019 relative to the same period in 2018 was the result of higher activity levels in the CPS and RTS segments partially offset by lower year over year revenue in the CDS and WS segments. For the six months ended June 30, 2019 revenue increased compared to the same period in 2018 due to increased activity in the CPS segment which was somewhat offset by decreases in all other segments.

### Cost of Services and Gross Margin

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Cost of services | **$ 180,861** | $ 158,050 | 14% | **$ 360,839** | $ 323,619 | 12% |
| Gross margin | **$ 31,834** | $ 35,773 | (11%) | **$ 73,846** | $ 75,419 | (2%) |
| Gross margin, as a percentage of revenue | **15%** | 18% | (17%) | **17%** | 19% | (11%) |

The increase in costs of services during the three and six months ended June 30, 2019 relative to the same periods in 2018 is mostly due to the increased contribution of the CPS segment to consolidated revenue and cost of services.

Gross margin, as a percentage of revenue, for the three and six months ended June 30, 2019 was 15% and 17% compared to 18% and 19% for the same periods in 2018. Lower gross margins were realized in all of the Company's segments on a year over year basis except for the RTS segment, which achieved improved results in the second quarter of 2019 due primarily to increased activity and pricing in the United States and cost reduction efforts in Canada. Negatively impacting gross margin during the second quarter of 2019 was $0.4 million of expenses incurred by the RTS segment with the relocation of equipment from Canada to the United States. This was offset by a $0.7 million reduction in cost of services on adoption to IFRS 16 Leases. Gross margin realized in the first half of 2019 was $1.6 million lower compared to the same period in 2018. Contributing to the decrease was lower margins in the second quarter of 2019 combined with year over year lower utilization in the CDS and WS segments. Also negatively impacting gross margin for the first half of 2019 was $1.7 million of expenses incurred by the CDS and RTS segments with the relocation of equipment. This was partially offset by a $1.4 million reduction in cost of services on adoption of IFRS 16 Leases.

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

### Selling, General and Administration Expenses

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Selling, general and administration expenses | **$ 12,263** | $ 14,002 | (12%) | **$ 25,025** | $ 27,639 | (9%) |

Selling, general and administration expenses decreased in the three and six months ended June 30, of 2019 relative to the same periods in 2018 as a result of cost savings activities and a positive impact of $0.6 million and $1.2 million, respectively, on the adoption of IFRS 16 Leases. As a percentage of revenue, selling, general and administration expenses were lower both in the second quarter and first half of 2019 compared to the same periods in 2018. This year over year decrease is due primarily to cost management.

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

### Other Expense (Income)

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Other expense (income) | **$ 1,715** | $ (1,688) | nm | **$ 2,876** | $ (3,280) | nm |

"nm" - calculation not meaningful

Other expense (income) arises from unrealized foreign exchange differences on translation of intercompany working capital balances of foreign subsidiaries. A strengthening of the Canadian dollar relative to the US dollar gave rise to an unrealized foreign exchange loss for the three and six months ended June 30, 2019.

### Share-based Compensation Expense

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Share-based compensation expense | **$ 494** | $ 858 | (42%) | **$ 862** | $ 1,299 | (34%) |

Share-based compensation expense arises from share options granted pursuant to the share option plan implemented in 2015. Share-based compensation expense for the three and six months ended June 30, 2019 was lower than the prior year comparable period due to certain options fully vesting in 2018.

### Depreciation Expense

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Depreciation expense | **$ 18,453** | $ 18,645 | (1%) | **$ 37,737** | $ 38,245 | (1%) |

Depreciation expense for the three and six months ended June 30, 2019 was relatively flat compared to the same periods in 2018. Included in 2019 depreciation expense in the second quarter and first half of 2019 is $1.1 million and $2.3 million of depreciation on assets recognized pursuant to IFRS 16. This was offset by lower depreciation on reduced activity in the CDS segment. All of the Company's property, plant and equipment is depreciated on a straight-line basis with the exception of contract drilling equipment, which is depreciated on a utilization basis subject to a minimum annual depreciation expense equal to an annual utilization of 96 days.

### Operating Income (Loss)

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Operating income (loss) | **$ (1,091)** | $ 3,956 | nm | **$ 7,346** | $ 11,516 | (36%) |

"nm" - calculation not meaningful

Operating income (loss) for the three and six months ended June 30, 2019 decreased compared to the same periods in 2018. Included in operating income (loss) for the three and six months ended June 30, 2019 was $1.7 million and $2.9 million of unrealized foreign exchange losses on intercompany working capital compared to gains of $1.7 million and $3.3 million in the same periods in 2018. Also negatively impacting operating income (loss) for the three and six months ended June 30, 2019 was $0.4 million and $1.7 million of equipment relocation expenses incurred by the CDS and RTS segments. Operating income, excluding unrealized foreign exchange differences on intercompany working capital balances, was $0.6 million and $10.2 million for the three and six months ended June 30, 2019, respectively, as compared to $2.3 million and $8.2 million for the same periods in 2018.

### Gain on Sale of Property, Plant and Equipment

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Gain on sale of property, plant and equipment | **$ 184** | $ 625 | (71%) | **$ 1,878** | $ 1,120 | 68% |
| Proceeds on the sale of property, plant and equipment | **$ 3,230** | $ 864 | 274% | **$ 5,900** | $ 2,103 | 181% |

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

Equipment disposed of in the second quarter of 2019 included two decommissioned drilling rigs, older heavy trucks and underutilized rental equipment. Equipment disposed of during the first half of 2019 consisted primarily of compression rental equipment bought out by the customers in the ordinary course of business, two decommissioned drilling rigs, older heavy trucks and underutilized rental equipment.

### Finance Costs

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Finance costs | **$ 3,362** | $ 3,497 | (4%) | **$ 6,607** | $ 7,353 | (10%) |

Finance costs for the three and six months ended June 30, 2019 were lower than the prior year comparable period due to a $28.6 million reduction in bank debt at June 30, 2019 as compared to a year earlier. The decrease was offset somewhat by higher applicable interest rates on variable rate debt due to increases in the Canadian prime rate of interest over the past year and interest on lease liabilities arising from adoption of IFRS 16.

### Income Taxes and Net Income

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Current income tax expense | **$ 257** | $ 1,939 | (87%) | **$ 957** | $ 2,774 | (66%) |
| Deferred income tax recovery | **(7,379)** | (4,517) | 63% | **(5,952)** | (4,481) | 33% |
| Total income tax recovery | **$ (7,122)** | $ (2,578) | 176% | **$ (4,995)** | $ (1,707) | 193% |
| Net income | **$ 2,853** | $ 3,662 | (22%) | **$ 7,612** | $ 6,990 | 9% |

The year over year changes in current income tax expense is primarily due to decreased profitability in the second quarter of 2019.

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

## SEASONALITY

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

## SUMMARY OF QUARTERLY RESULTS

| | Financial Quarter Ended | | | |
|---|---|---|---|---|
| | **June 30 2019** | March 31 2019 | December 31 2018 | September 30 2018 |
| Revenue | **$ 212,695** | $ 221,990 | $ 219,846 | $ 232,925 |
| Operating income (loss) | **(1,091)** | 8,437 | 10,748 | 14,294 |
| EBITDA (1) | **17,546** | 29,415 | 29,153 | 34,632 |
| Cashflow | **22,419** | 28,453 | 23,070 | 34,799 |
| Cash provided by operating activities | **4,123** | 50,187 | 30,658 | 19,928 |
| Net income | **2,853** | 4,759 | 8,570 | 8,655 |
| Attributable to shareholders | **3,403** | 4,760 | 8,555 | 8,910 |
| **Per share data** | | | | |
| EBITDA (1) | **$ 0.38** | $ 0.64 | $ 0.63 | $ 0.75 |
| Cashflow | **0.49** | 0.62 | 0.50 | 0.75 |
| Net income attributable to shareholders | **0.07** | 0.10 | 0.19 | 0.19 |
| **Financial Position** | | | | |
| Total Assets | **$ 1,026,564** | $ 1,101,027 | $ 1,078,124 | $ 1,063,813 |
| Long-Term Debt and Lease Liabilities (excluding current portion) | **239,287** | 286,829 | 286,319 | 295,545 |
| Working Capital (2) | **74,283** | 117,914 | 124,967 | 117,586 |
| Net Debt (1) | **165,004** | 168,915 | 161,352 | 177,959 |
| Shareholders' Equity | **549,851** | 558,054 | 560,576 | 549,238 |
| **Common Shares** (000's) (3) | | | | |
| Basic and diluted | **45,746** | 45,829 | 45,933 | 46,099 |

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

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

(3) Basic and diluted shares outstanding reflect the weighted average number of common shares outstanding for the period. See note 17 to the 2018 Financial Statements.

| | Financial Quarter Ended | | | |
|---|---|---|---|---|
| | June 30 2018 | March 31 2018 | December 31 2017 | September 30 2017 |
| Revenue | $ 193,823 | $ 205,215 | $ 180,230 | $ 185,158 |
| Operating income | 3,956 | 7,560 | 9,680 | 6,871 |
| EBITDA (1) | 23,226 | 27,655 | 29,729 | 27,356 |
| Cashflow | 22,472 | 21,149 | 27,803 | 30,044 |
| Cash provided by (used in) operating activities | 42,335 | 22,784 | 26,727 | (2,329) |
| Net income | 3,662 | 3,328 | 6,554 | 3,737 |
| Attributable to shareholders | 3,829 | 3,164 | 6,195 | 4,307 |
| **Per share data (diluted)** | | | | |
| EBITDA (1) | $ 0.50 | $ 0.60 | $ 0.64 | $ 0.59 |
| Cashflow | 0.49 | 0.46 | 0.60 | 0.65 |
| Net income attributable to shareholders | 0.08 | 0.07 | 0.13 | 0.09 |
| **Financial Position** | | | | |
| Total Assets | $ 1,050,740 | $ 1,065,499 | $ 1,066,781 | $ 1,056,538 |
| Long-Term Debt and Lease Liabilities (excluding current portion) | 295,914 | 247,087 | 257,845 | 257,981 |
| Working Capital (2) | 103,113 | 54,906 | 54,892 | 37,053 |
| Net Debt (1) | 192,801 | 192,181 | 202,953 | 220,928 |
| Shareholders' Equity | 551,612 | 550,732 | 546,574 | 544,647 |
| **Common Shares** (000's) (3) | | | | |
| Basic | 46,223 | 46,238 | 46,238 | 46,238 |
| Diluted | 46,223 | 46,241 | 46,238 | 46,238 |

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

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

(3) Basic and diluted shares outstanding reflect the weighted average number of common shares outstanding for the period. See note 17 to the 2018 Financial Statements.

### Aboriginal Partnerships

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

## SEGMENTED RESULTS

### Contract Drilling Services

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| **June 30** | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Revenue | **$ 33,621** | $ 38,263 | (12%) | **$ 79,325** | $ 99,243 | (20%) |
| Operating loss | **$ (4,535)** | $ (3,163) | 43% | **$ (7,145)** | $ (2,656) | 169% |
| Operating spud to release days | **1,304** | 1,593 | (18%) | **3,234** | 4,517 | (28%) |
| Revenue per spud to release day, dollars | **$ 25,783** | $ 24,019 | 7% | **$ 24,528** | $ 21,971 | 12% |

North American drilling activity during the second quarter and first half of 2019 was lower compared to 2018. Included in CDS results for the first half of 2019 was $0.9 million of net expenses incurred to relocate drilling equipment in the United States as this segment continued to consolidate U.S. operations in 2019.

The following summarizes the operating results for the CDS segment by geographic area for the three and six months ended June 30, 2019.

| **Q2 2019** | Drilling Canada | Drilling U.S. | Drilling Australia | Total |
|---|---|---|---|---|
| Revenue | $ 7,693 | $ 12,475 | $ 13,453 | **$ 33,621** |
| Operating income (loss) | $ (4,636) | $ (2,304) | $ 2,405 | **$ (4,535)** |
| Spud to release days | 454 | 496 | 354 | **1,304** |
| Revenue per spud to release day, dollars | $ 16,945 | $ 25,151 | $ 38,003 | **$ 25,783** |
| Utilization % (spud to release) | 6% | 23% | 77% | **13%** |

| **Q2 2018** | Drilling Canada | Drilling U.S. | Drilling Australia | Total |
|---|---|---|---|---|
| Revenue | $ 8,926 | $ 14,817 | $ 14,520 | $ 38,263 |
| Operating income (loss) | $ (3,758) | $ (3,552) | $ 4,147 | $ (3,163) |
| Spud to release days | 539 | 703 | 351 | 1,593 |
| Revenue per spud to release day, dollars | $ 16,560 | $ 21,077 | $ 41,368 | $ 24,019 |
| Utilization % (spud to release) | 7% | 30% | 77% | 15% |

| **YTD 2019** | Drilling Canada | Drilling U.S. | Drilling Australia | Total |
|---|---|---|---|---|
| Revenue | $ 27,950 | $ 25,387 | $ 25,988 | $ 79,325 |
| Operating income (loss) | $ (4,892) | $ (6,392) | $ 4,139 | $ (7,145) |
| Spud to release days | 1,564 | 1,018 | 652 | 3,234 |
| Revenue per spud to release day, dollars | $ 17,871 | $ 24,938 | $ 39,859 | $ 24,528 |
| Utilization % (spud to release) | 10% | 23% | 72% | 16% |

| **YTD 2018** | Drilling Canada | Drilling U.S. | Drilling Australia | Total |
|---|---|---|---|---|
| Revenue | $ 43,962 | $ 28,914 | $ 26,367 | $ 99,243 |
| Operating income (loss) | $ (1,555) | $ (7,976) | $ 6,875 | $ (2,656) |
| Spud to release days | 2,538 | 1,417 | 562 | 4,517 |
| Revenue per spud to release day, dollars | $ 17,322 | $ 20,405 | $ 46,916 | $ 21,971 |
| Utilization % (spud to release) | 16% | 31% | 62% | 22% |

The overall decrease in CDS segment revenue during the second quarter and first half of 2019 relative to the same periods in 2018 is primarily a result of lower utilization in North America. In Canada, activity levels were negatively impacted by the mandated implementation of an oil production curtailment by the Alberta government combined with continued poor market conditions and wet weather which limited activity. In the United States, the combination of higher effective per day rates due to the rig mix working was offset by reduced activity levels. Utilization in Australia for the second quarter of 2019 was consistent compared to the same period in 2018. Utilization for the first six months of 2019 increased due to an additional rig commencing operations as compared to the same period in 2018. Effective day rates in Australia were lower in the second quarter and first half of 2019 as compared to the same periods in 2018 due to a combination of lower contracted pricing and lower camp and other ancillary revenue. Also negatively impacting U.S. and Australian results was the translation of foreign financial results into Canadian dollars given the depreciation of the U.S. and Australian currencies relative to the Canadian dollar over the past year.

### Rentals and Transportation Services

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| **June 30** | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Revenue | **$ 15,656** | $ 14,882 | 5% | **$ 34,063** | $ 37,194 | (8%) |
| Operating loss | **$ (2,975)** | $ (3,246) | (8%) | **$ (4,607)** | $ 3,524) | 31% |
| Pieces of rental equipment | **10,650** | 11,000 | (3%) | **10,650** | 11,000 | (3%) |
| Heavy trucks | **86** | 112 | (23%) | **86** | 112 | (23%) |
| Rental equipment utilization | **13%** | 19% | (32%) | **18%** | 22% | (18%) |

The revenue reported from the RTS segment for the three months ended June 30, 2019 increased as compared with the same period in 2018 due to a larger U.S. equipment fleet operating at consistent utilization compared to 2018 offset by lower Canadian utilization of a smaller fleet. Also contributing to the improved results was stronger pricing in the United States and a change in the mix of equipment utilized. Negatively impacting U.S. results was the translation of U.S. financial results into Canadian dollars given the depreciation of the U.S. dollar relative to the Canadian dollar over the past year. Revenue for the six months ended June 30, 2019 decreased as compared with the same period in 2018 primarily due to lower activity levels in Canada.

Operating loss in the second quarter of 2019 decreased as compared to the same period in 2018 primarily due to cost rationalization measures in Canada and increased utilization and pricing in the United States. Negatively impacting RTS results was $0.4 million of expenses incurred with the relocation of underutilized equipment from Canada to the United States during the second quarter of 2019. Operating loss in the first six months of 2019 increased compared to the same period in 2018 due to lower equipment utilization in Canada, particularly in the first quarter of 2019. Negatively impacting RTS results for the first half of 2019 was $0.8 million of expenses incurred with the relocation of underutilized equipment from Canada to the United States.

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

The following summarizes the operating results for the RTS segment by geographic area for the three and six months ended June 30, 2019.

| **Q2 2019** | RTS Canada | RTS U.S. | Total |
|---|---|---|---|
| Revenue | $ 9,797 | $ 5,859 | **$ 15,656** |
| Operating (loss) income | $ (3,577) | $ 602 | **$ (2,975)** |
| Pieces of rental equipment | 9,890 | 760 | **10,650** |
| Rental equipment utilization | 11% | 33% | **13%** |

| **Q2 2018** | RTS Canada | RTS U.S. | Total |
|---|---|---|---|
| Revenue | $ 11,323 | $ 3,559 | $ 14,882 |
| Operating (loss) income | $ (3,415) | $ 169 | $ (3,246) |
| Pieces of rental equipment | 10,400 | 600 | 11,000 |
| Rental equipment utilization | 18% | 34% | 19% |

| **YTD 2019** | RTS Canada | RTS U.S. | Total |
|---|---|---|---|
| Revenue | $ 21,722 | $ 12,341 | **$ 34,063** |
| Operating (loss) income | $ (6,591) | $ 1,984 | **$ (4,607)** |
| Pieces of rental equipment | 9,890 | 760 | **10,650** |
| Rental equipment utilization | 16% | 38% | **18%** |

| **YTD 2018** | RTS Canada | RTS U.S. | Total |
|---|---|---|---|
| Revenue | $ 29,960 | $ 7,234 | $ 37,194 |
| Operating (loss) income | $ (4,345) | $ 821 | $ (3,524) |
| Pieces of rental equipment | 10,400 | 600 | 11,000 |
| Rental equipment utilization | 21% | 40% | 22% |

RTS Canada revenue decreased in the three and six months ended June 30, 2019 compared to the same periods in 2018 due to lower industry activity and a smaller fleet of equipment following the disposal and relocation to the United States of underutilized equipment. Lower revenue combined with high fixed costs resulted in increased operating losses in 2019. RTS U.S. revenue for the three and six months ended June 30, 2019 increased compared to the same periods in 2018 due to relatively stable utilization of a larger equipment fleet. As a result, RTS U.S. realized higher operating income for the three and six months ended June 30, 2019 as compared to same period in 2018.

### Compression and Process Services

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| June 30 | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Revenue | **$ 132,927** | $ 105,153 | 26% | **$ 254,002** | $ 190,271 | 33% |
| Operating income | **$ 8,562** | $ 10,557 | (19%) | **$ 20,335** | $ 16,538 | 23% |
| Operating income, % of revenue | **6%** | 10% | (40%) | **8%** | 9% | (11%) |
| Sales backlog at period end, $ million | **$ 77.2** | $ 216.9 | (64%) | **$ 77.2** | $ 216.9 | (64%) |
| Horsepower of equipment on rent at period end | **31,800** | 24,800 | 28% | **31,800** | 24,800 | 28% |
| Rental equipment utilization (HP) | **68%** | 57% | 19% | **68%** | 53% | 28% |

The revenue reported from the CPS segment increased for the three and six months ended June 30, 2019 as compared to the same periods in 2018. Contributing to the increase was higher international activity levels and increased manufacturing throughput following a 30% increase in Canadian fabrication capacity in the fourth quarter of 2018. The timeline for conversion of the sales backlog into revenue varies from order to order and often changes due to factors outside of the Company's control.

The decrease in operating income in the CPS segment during the three months ended June 30, 2019 was primarily due to the completion of lower margin fabrication projects and higher overhead costs relative to the same period in 2018. For the six months ended June 30, 2019 operating income increased by 23% due to increased business activity in international markets, the continued ramp up of operations in Weirton and increased utilization of the compression rental fleet (which generates a higher operating income margin than other sources of CPS revenue).

### Well Servicing

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| **June 30** | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Revenue | **$ 30,491** | $ 35,525 | (14%) | **$ 67,295** | $ 72,330 | (7%) |
| Operating income | **$ 2,131** | $ 2,977 | (28%) | **$ 6,095** | $ 6,663 | (9%) |
| Operating income, % of revenue | **7%** | 8% | (13%) | **9%** | 9% | – |
| Service hours (1) | **31,109** | 36,472 | (15%) | **73,758** | 77,585 | (5%) |
| Revenue per service hour | **$ 980** | $ 974 | 1% | **$ 912** | $ 932 | (2%) |
| Utilization (2) | **28%** | 34% | (18%) | **36%** | 38% | (5%) |

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

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

Overall revenue for the second quarter and first half of 2019 was lower compared with the same periods in 2018 due to lower activity as per hour revenue was relatively flat. Operating income as a percentage of revenue for the three and six months ended June 30, 2019 was relatively consistent compared to the same periods in 2018.

The following summarizes the operating results for the WS segment by geographic area for the three and six months ended June 30, 2019.

| Q2 2019 | WS Canada | WS U.S. | WS Australia | Total |
|---|---|---|---|---|
| Revenue | $ 6,437 | $ 4,042 | $ 20,012 | **$ 30,491** |
| Operating income (loss) | $ (1,756) | $ 455 | $ 3,432 | **$ 2,131** |
| Operating income (loss), % of revenue | nm | 11% | 17% | **7%** |
| Service hours (1) | 9,460 | 4,830 | 16,819 | **31,109** |
| Revenue per service hour, dollars | $ 680 | $ 837 | $ 1,190 | **$ 980** |
| Utilization % (2) | 18% | 38% | 64% | **28%** |

"nm" - calculation not meaningful

| Q2 2018 | WS Canada | WS U.S. | WS Australia | Total |
|---|---|---|---|---|
| Revenue | $ 8,770 | $ 3,922 | $ 22,833 | $ 35,525 |
| Operating income (loss) | $ (1,090) | $ 310 | $ 3,757 | $ 2,977 |
| Operating income (loss), % of revenue | nm | 8% | 16% | 8% |
| Service hours (1) | 13,195 | 5,130 | 18,147 | 36,472 |
| Revenue per service hour, dollars | $ 665 | $ 765 | $ 1,258 | $ 974 |
| Utilization % (2) | 25% | 38% | 69% | 34% |

"nm" - calculation not meaningful

| YTD 2019 | WS Canada | WS U.S. | WS Australia | Total |
|---|---|---|---|---|
| Revenue | $ 20,681 | $ 7,272 | $ 39,342 | **$ 67,295** |
| Operating income (loss) | $ (792) | $ 526 | $ 6,361 | **$ 6,095** |
| Operating income (loss), % of revenue | nm | 7% | 16% | **9%** |
| Service hours (1) | 30,285 | 8,753 | 34,720 | **73,758** |
| Revenue per service hour, dollars | $ 683 | $ 831 | $ 1,133 | **$ 912** |
| Utilization % (2) | 29% | 35% | 67% | **36%** |

"nm" - calculation not meaningful

| YTD 2018 | WS Canada | WS U.S. | WS Australia | Total |
|---|---|---|---|---|
| Revenue | $ 20,652 | $ 7,063 | $ 44,615 | $ 72,330 |
| Operating income (loss) | $ (1,631) | $ 369 | $ 7,925 | $ 6,663 |
| Operating income (loss), % of revenue | nm | 5% | 18% | 9% |
| Service hours (1) | 32,173 | 9,854 | 35,558 | 77,585 |
| Revenue per service hour, dollars | $ 642 | $ 717 | $ 1,255 | $ 932 |
| Utilization % (2) | 31% | 36% | 69% | 38% |

"nm" - calculation not meaningful

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

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

Canadian revenue decreased for the three months ended June 30, 2019 compared to the same period in 2018 primarily due to lower utilization compared with 2018 due to poor market conditions and wet weather which limited activity for the period. Operating loss for the second quarter of 2019 increased compared to the same period in 2018 as a result of the 28% decrease in Canadian service hours. Revenue for the six months ended June 30, 2019 was consistent with the same period in 2018 due to a modest increase in per hour revenue which was somewhat offset by lower utilization. Operating loss for the six months ended June 30, 2019 improved compared to the same period in 2018 due to the modest increase in pricing as well as continued cost control measures. In the United States revenue and operating income for the second quarter and first half of 2019 increased compared to the same periods in 2018 primarily due to increases in per hour rates. Utilization was flat year over year. Well servicing revenue and operating income in Australia for the second quarter and first half of 2019 was lower compared to the same periods in 2018 due to modestly lower pricing, lower camp and other ancillary revenue. Also negatively impacting U.S. and Australian results was the translation of foreign financial results into Canadian dollars given the depreciation of the U.S. and Australian currencies relative to the Canadian dollar over the past year.

### Corporate

| | Three months ended | | | Six months ended | | |
|---|---|---|---|---|---|---|
| **June 30** | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Operating loss | **$ (4,274)** | $ (3,169) | 35% | **$ (7,332)** | $ (5,505) | 33% |

Total Energy's Corporate segment includes activities related to the Company's corporate and public issuer affairs. This segment does not generate any revenue but provides sales, operating, financial, treasury, analytical and other management and support services to Total Energy's business segments and manages the corporate affairs of the Company, including matters related to its public listing. The operating loss for the Corporate segment for the three and six months ended June 30, 2019 was greater than 2018 primarily due to $1.7 million and $2.9 million of unrealized foreign exchange losses on translation of working capital balances of foreign subsidiaries as compared to $1.7 million and $3.3 million of unrealized gains recorded in 2018.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Provided by Operating Activities and Cashflow

| | Three months ended | | | Six months ended | | |
|---|---|---|---|---|---|---|
| **June 30** | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Cash provided by operating activities | **$ 4,123** | $ 42,335 | (90%) | **$ 54,310** | $ 65,119 | (17%) |
| Per Share Data (Diluted) | **0.09** | 0.92 | (90%) | **1.19** | 1.41 | (16%) |
| Cashflow | **$ 22,419** | $ 22,472 | – | **$ 50,872** | $ 43,621 | 17% |
| Per Share Data (Diluted) | **0.49** | 0.49 | – | **1.11** | 0.94 | 18% |

The changes in cash provided by operating activities was due primarily to changes in the working capital requirements of the various business segments. Cash flow was relatively flat for the second quarter of 2019 compared to 2018. Cashflow for the first half of 2019 was higher than 2018 due to higher first quarter cashflow in 2019. The Company reinvests any remaining cash provided by operating activities after required long-term debt and lease liability payments and dividend payments to shareholders into the internal growth of existing businesses, acquisitions, voluntary repayment of long-term debt or the repurchase of the Company's shares pursuant to the Company's normal course issuer bid.

### Investing Activities

| | Three months ended | | | Six months ended | | |
|---|---|---|---|---|---|---|
| **June 30** | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Net cash used in investing activities | **$ (4,921)** | $ (13,186) | (63%) | **$ (14,702)** | $ (20,766) | (29%) |
| Proceeds from sale of PP&E | **$ 3,230** | $ 864 | 274% | **$ 5,900** | $ 2,103 | 181% |
| Purchase of PP&E | **$ (7,369)** | $ (13,472) | (45%) | **$ (22,069)** | $ (21,077) | 5% |

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

During the second quarter of 2019, $7.4 million of PP&E purchases were allocated as follows: $2.8 million in the CDS segment relating to the purchase of rig equipment and rig recertifications and upgrades, $1.8 million in the RTS segment relating to purchases of rental equipment, $1.1 million in the CPS segment relating to additions to the compression rental fleet, $1.5 million in the WS segment relating to service rig recertifications and upgrades and $0.2 million in Corporate relating to information technology infrastructure upgrades. During the first half of 2019, $22.1 million of PP&E purchases were allocated as follows: $5.6 million in the CDS segment relating primarily to the purchase of rig equipment and rig recertifications and upgrades, $9.4 million in the RTS segment relating primarily purchases of new rental and transportation equipment, $3.5 million in the CPS segment relating primarily to additions to the compression rental fleet, $3.2 million in the WS segment relating to service rig recertifications and upgrades and $$0.4 million in Corporate relating to real estate development and information technology infrastructure upgrades.

### Financing Activities

| | Three months ended | | | Six months ended | | |
|---|---|---|---|---|---|---|
| **June 30** | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Net cash used in financing activities | **$ (15,085)** | $ (28,483) | (47%) | **$ (36,381)** | $ (45,438) | (20%) |

During the second quarter of 2019 $5.0 million of long-term debt was voluntarily repaid in addition to $0.7 million of regular principal repayments on the Company's mortgage loans. In the first half of 2019 $15.0 million of long-term debt was voluntarily repaid in addition to $1.5 million of regular principal repayments on the Company's mortgage loans. During the first half of 2019, $3.3 million was spent purchasing shares under the Company's normal course issuer bid, a $2.7 million or 453% increase from 2018.

### Liquidity and Capital Resources

The Company had a working capital surplus of $74.3 million as at June 30, 2019 compared to $125.0 million as at December 31, 2018. This decrease was due primarily to the classification of the $41.9 million mortgage loan maturing in 2020 as current and a higher current portion of lease liabilities relating to real estate leases recognized on the adoption of IFRS 16. As at June 30, 2019 and the date of this MD&A, the Company is in compliance with all debt covenants.

On June 19, 2017 the Company entered into a three year $225.0 million revolving syndicated credit facility ("Credit Facility"). On April 25, 2018 the Credit Facility was increased by $65.0 million to $290.0 million. On May 31, 2019 the maturity date was extended to June 19, 2022. The Company has the option to increase such facility by $75.0 million subject to certain terms and conditions, including the agreement of the lenders to increase their commitments. The Credit Facility includes a Canadian $18.0 million operating line, an Australian $2.0 million operating line and a Canadian $270.0 million revolving facility. The Credit Facility bears interest at the banks' Canadian prime rate plus 0.25% to 2.75%, bankers' acceptance, letter of credit, LIBOR or BBSY advances plus a 1.5% to 4.0% stamping fee. The applicable interest rate within such ranges is dependent on certain financial ratios of the Company. A standby fee ranging from 0.25% to 0.8% per annum is paid quarterly on the unused portion of the facility depending on certain financial ratios of the Company. At June 30, 2019, the applicable interest rate on amounts drawn on the Credit Facility was 4.34% and the standby rate was 0.44%. Letters of credit ("LOC") of $0.3 million were outstanding at June 30, 2019 which reduces the amount of credit available under the Credit Facility by an equivalent amount.

In August of 2018 a U.S. $20 million LOC was established. LOCs issued pursuant to this facility do not reduce availability under the Credit Facility. At June 30, 2019 $2.3 million U.S. dollars ($3.0 million Canadian dollars) and $1.4 million Canadian dollars of LOCs were outstanding under this facility.

In addition to the Credit Facility, a subsidiary of the Company has established a $5.0 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At June 30, 2019 this facility was undrawn and fully available.

At June 30, 2019 the Company's long-term debt consisted of the following:

| | June 30, 2019 | |
|---|---|---|
| | Interest rate | Principal Amount |
| Credit Facility | 4.34% | $ 212,000 |
| Mortgage loan (2020 maturity) | 3.06% | 41,943 |
| Mortgage loan (2041 maturity) | 4.55% | 15,298 |
| | | 269,241 |
| Less current portion | | 42,622 |
| | | $ 226,619 |

At June 30, 2019 amounts owing under the Credit Facility and other debt were denominated in Canadian dollars. The weighted average interest rate on the Company's debt at June 30, 2019 was 4.15%.

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:

| | June 30, 2019 | Threshold |
|---|---|---|
| Twelve-month trailing Bank EBITDA to interest expense | 6.91 | minimum 3.00 |
| Total Senior Debt to twelve-month trailing Bank EBITDA | 1.79 | maximum 3.00 |

The Company was in compliance with all of its Credit Facility and other debt covenants at June 30, 2019. For further information regarding Credit Facility compliance requirements and details on the Company's borrowings, please refer to note 4 to the Interim Financial Statements.

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

### Dividends

For the three and six months ended June 30, 2019 the Company declared dividends of $2.7 million ($0.06 per share) and $5.5 million ($0.12 per share) which was consistent with the same periods in 2018.

For the three and six months ended June 30, 2019 cash provided by operating activities, cashflow and net income exceeded dividends to shareholders. Management and the Board of Directors of the Company continue to monitor the Company's dividend policy in the context of industry conditions and forecasted net income, cashflow, cash provided by operating activities, debt levels, capital expenditures and other investment opportunities and will aim to finance future dividends through cash provided by operating activities.

### Capital Spending

Capital spending for the three and six months ending June 30, 2019 consisted of $7.4 million and $22.1 million of PP&E purchases. Capital spending was funded with cash on hand, including $5.9 million of proceeds from the sale of PP&E during the first six months of 2019.

## CONTRACTUAL OBLIGATIONS

At June 30, 2019 the Company had the following contractual obligations:

| | Payments due by year | | | | | |
|---|---|---|---|---|---|---|
| | Total | 2019 | 2020 | 2021 | 2022 | 2023 and after |
| Long-term debt | $ 269,241 | $ 1,378 | $ 41,586 | $ 680 | $ 212,680 | $ 12,917 |
| Commitments (1) | 224 | 116 | 78 | 25 | 4 | 1 |
| Lease liabilities, net of lease assets | 20,089 | 3,712 | 6,595 | 5,046 | 1,975 | 2,761 |
| Purchase obligations (2) | 46,552 | 46,552 | – | – | – | – |
| Total contractual obligations | $ 336,106 | $ 51,758 | $ 48,259 | $ 5,751 | $ 214,659 | $ 15,679 |

(1) Commitments are described in Note 25 to the 2018 Financial Statements but exclude building lease commitments following the adoption of IFRS 16 on January 1, 2019.

(2) Purchase obligations are described in Note 25 to the 2018 Financial Statements. As at June 30, 2019 purchase obligations primarily relate to commitments to purchase inventory in the CPS segment.

## OFF-BALANCE SHEET ARRANGEMENTS

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

## TRANSACTIONS WITH RELATED PARTIES

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

## FINANCIAL INSTRUMENTS

### Fair values

The discounted future cash repayments of the Company's mortgage loan due in 2020 are calculated using prevailing market rates of a similar debt instrument as at the reporting date. The net present value of future cash repayments of such mortgage and related interest at the prevailing market rate of 3.54% for a similar debt instrument at June 30, 2019 was $41.9 million (December 31, 2018: market rate of 4.05%, $42.4 million). The carrying value and Company`s liability with respect to this mortgage is $41.9 million.

## OUTSTANDING COMPANY SHARE DATA

As at the date of this MD&A, the Company had 45,491,900 common shares outstanding.

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

| Outstanding at June 30, 2019 | Exercise Price | Remaining life (years) | Exercisable at June 30, 2019 |
|---|---|---|---|
| 1,070,000 | $ 14.13 | 1.10 | 1,070,000 |
| 1,215,000 | 12.69 | 3.00 | 810,004 |
| 60,000 | 12.00 | 3.10 | 20,000 |
| 525,000 | 13.54 | 3.70 | 175,000 |
| 150,000 | 12.99 | 3.90 | – |
| 1,090,000 | 9.51 | 4.90 | – |
| 4,110,000 | $ 12.33 | 3.13 | 2,075,004 |

## OUTLOOK

### Industry Conditions

Despite a recovery in oil prices during the first half of 2019, economic, political and regulatory uncertainty continue to weigh on energy markets, particularly in Canada. As a result, energy investment has remained stagnant or, in the case of Canada, has fallen substantially compared to the prior year. As such, current expectations are that oil and natural gas industry activity for 2019 will remain stable in Australia, decrease modestly in the United States and decrease significantly in Canada as compared to 2018. Pricing for the Company's products and services remains low by historical standards, particularly in Canada within the CDS, RTS and WS segments. Higher activity levels will need to be sustained for some time before meaningful price recovery is achieved. Continued global economic uncertainty and volatility in global oil and natural gas prices and energy equity markets gives rise to caution regarding future activity levels.

Total Energy's strategy of preserving its asset base, operating capacity and financial strength through the downturn has enabled it to recover lost market share while avoiding significant start-up costs and undue operational and human resource challenges. Continued contraction of energy service industry capacity in Canada as a result of the protracted industry downtown that began in late 2014 is expected to contribute to a more balanced market over time. The Company's strategy to geographically diversify its revenue base has also mitigated the risks associated with historically having generated almost all of its revenue in Canada.

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

## RISK FACTORS AND RISK MANAGEMENT

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

### Industry Conditions

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

### Credit Risk

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

The Company did not have significant exposure to any individual customer or counter party in the second quarter of 2019. In the first half of 2019 one major oil and gas company accounted for over 10% of revenue. No other customer accounted for more than 10% of revenue during these periods. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry.

### Government Regulation

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

## CRITICAL ACCOUNTING ESTIMATES

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

There have been no material changes to the Company's Critical Accounting Estimates during 2019.

### Critical Judgments in Applying Accounting Policies

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

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

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

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

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

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

### Key Sources of Estimation Uncertainty

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

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

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

The Company recognizes revenue over time in accounting for its equipment manufacturing contract revenue. Recognizing revenue over time requires estimates of the stage of completion of the contract to date as a proportion of the total work to be performed.

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

As pertains to accounts receivable the Company is required to estimate allowances for doubtful accounts based on historic collection trends and experiences with customers.

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

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

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

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

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

## STANDARDS ADOPTED IN THE PERIOD

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

### IFRS 16

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

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

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

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

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

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

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

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

Under IFRS 16, those operating leases in scope were recognized on the Company's statement of financial position with a right-of-use asset and corresponding lease obligation representing the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at the date the lease commenced. The right-of-use assets are included in property, plant and equipment on the statement of financial position and are depreciated over the shorter of either the asset's estimated useful life or the term of the lease. The lease obligation is measured at amortized cost using the effective interest rate method. Under this method, finance charges are applied to accrete the lease obligation to the present value of future lease payments. As lease payments are recognized, the lease obligation is reduced.

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

Refer to note 2 of the Interim Financial Statements for further details.

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

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

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

## FUTURE ACCOUNTING POLICIES CHANGES

There have been no significant future accounting policy changes during 2019.

## NON-IFRS MEASURES

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

**EBITDA**

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| **June 30** | **2019** | 2018 | **2019** | 2018 |
| Net income | **$ 2,853** | $ 3,662 | **$ 7,612** | $ 6,990 |
| Add back (deduct): | | | | |
| Depreciation | **18,453** | 18,645 | **37,737** | 38,245 |
| Finance costs | **3,362** | 3,497 | **6,607** | 7,353 |
| Income tax recovery | **(7,122)** | (2,578) | **(4,995)** | (1,707) |
| **EBITDA** | **$ 17,546** | $ 23,226 | **$ 46,961** | $ 50,881 |

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

**Net Debt**

| | **As at June 30, 2019** |
|---|---|
| Long-term debt | **$ 226,619** |
| Lease liabilities | **12,668** |
| Add back (deduct): | |
| Current liabilities | **185,810** |
| Current assets | **(260,093)** |
| **Net Debt** | **$ 165,004** |

## 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.

### Internal Control Over Financial Reporting ("ICFR")

There have been no significant changes in the design of the Company's ICFR during the quarter ended June 30, 2019 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, labour and environmental laws and regulations and changes in how such laws and regulations are interpreted and enforced. Forward-looking information respecting the anticipated costs associated with the purchase of capital equipment are based upon historical prices for various classes of equipment, expectations relating to the impact of inflation on the future cost of such equipment and management's views concerning the negotiating position of the Company and its affiliates. Forward-looking information concerning the nature and timing of growth within the various business divisions is based on the current budget of the Company (which is subject to change), factors that affected the historical growth of such business divisions, sources of historic growth opportunities and expectations relating to future economic and operating conditions. Forward-looking information concerning the future competitive position of the Company's business divisions is based upon the current competitive environment in which those business divisions operate, expectations relating to future economic and operating conditions, current and announced build programs and other expansion plans of other organizations that operate in the energy service business. Forward-looking information concerning the financing of future business activities is based upon the financing sources on which the Company and its predecessors have historically relied and expectations relating to future economic and operating conditions. Forward-looking information concerning future economic and operating conditions is based upon historical economic and operating conditions, and opinions of third-party analysts respecting anticipated economic and operating conditions. Although management of the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Accordingly, readers should not place undue reliance upon any of the forward-looking information set out in this MD&A. All of the forward-looking statements of the Company contained in this MD&A are expressly qualified, in their entirety, by this cautionary statement. The various risks to which the Company is exposed are described in additional detail in this MD&A under the heading "Risk Factors" and in the Company's AIF. Except as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking information or statements, whether as a result of new information, future events or otherwise.

# CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (in thousands of Canadian dollars)

| | Note | June 30, 2019 | December 31, 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | | $ 33,867 | $ 30,640 |
| Accounts receivable | | 128,050 | 155,946 |
| Inventory | | 84,392 | 84,743 |
| Prepaid expenses and deposits | | 10,721 | 17,776 |
| Income taxes receivable | | 2,308 | 7,299 |
| Other assets | | – | 527 |
| Current portion of finance lease asset | 2 | 755 | – |
| | | 260,093 | 296,931 |
| Property, plant and equipment | | 754,122 | 768,613 |
| Income taxes receivable | | 7,070 | 7,070 |
| Lease asset | 2 | 464 | – |
| Deferred tax asset | | 762 | 1,457 |
| Goodwill | | 4,053 | 4,053 |
| | | $ 1,026,564 | $ 1,078,124 |
| **LIABILITIES & SHAREHOLDERS' EQUITY** | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | | $ 110,731 | $ 126,608 |
| Deferred revenue | | 21,086 | 37,316 |
| Dividends payable | | 2,731 | 2,752 |
| Current portion of lease liabilities | 2 | 8,640 | 2,376 |
| Current portion of long-term debt | 4 | 42,622 | 2,912 |
| | | 185,810 | 171,964 |
| Long-term debt | 4 | 226,619 | 282,863 |
| Lease liabilities | 2 | 12,668 | 3,456 |
| Onerous lease liability | 5 | – | 1,574 |
| Deferred tax liability | | 51,616 | 57,691 |
| Shareholders' equity: | | | |
| Share capital | 6 | 286,649 | 288,902 |
| Contributed surplus | | 6,891 | 6,384 |
| Accumulated other comprehensive loss | | (15,112) | (5,320) |
| Non-controlling interest | | (894) | 238 |
| Retained earnings | | 272,317 | 270,372 |
| | | 549,851 | 560,576 |
| | | $ 1,026,564 | $ 1,078,124 |

*The notes on pages 31 to 40 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 June 30 2019 | Three months ended June 30 2018 | Six months ended June 30 2019 | Six months ended June 30 2018 |
|---|---|---|---|---|---|
| **REVENUE** | | $ 212,695 | $ 193,823 | $ 434,685 | $ 399,038 |
| Cost of services | | 180,861 | 158,050 | 360,839 | 323,619 |
| Selling, general and administration | | 12,263 | 14,002 | 25,025 | 27,639 |
| Other expense (income) | | 1,715 | (1,688) | 2,876 | (3,280) |
| Share-based compensation | 7 | 494 | 858 | 862 | 1,299 |
| Depreciation | | 18,453 | 18,645 | 37,737 | 38,245 |
| Operating income (loss) | | (1,091) | 3,956 | 7,346 | 11,516 |
| Gain on sale of property, plant and equipment | | 184 | 625 | 1,878 | 1,120 |
| Finance costs | | (3,362) | (3,497) | (6,607) | (7,353) |
| Net (loss) income before income taxes | | (4,269) | 1,084 | 2,617 | 5,283 |
| Current income tax expense | | 257 | 1,939 | 957 | 2,774 |
| Deferred income tax recovery | | (7,379) | (4,517) | (5,952) | (4,481) |
| Total income tax recovery | | (7,122) | (2,578) | (4,995) | (1,707) |
| **Net income for the period** | | $ 2,853 | $ 3,662 | $ 7,612 | $ 6,990 |
| **Net income (loss) attributable to:** | | | | | |
| Shareholders of the Company | | $ 3,403 | $ 3,829 | $ 8,163 | $ 6,993 |
| Non-controlling interest | | (550) | (167) | (551) | (3) |
| **Income per share** | | | | | |
| Basic and diluted | 6 | $ 0.07 | $ 0.08 | $ 0.18 | $ 0.15 |

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| | Three months ended June 30 2019 | Three months ended June 30 2018 | Six months ended June 30 2019 | Six months ended June 30 2018 |
|---|---|---|---|---|
| **Net income for the period** | $ 2,853 | $ 3,662 | $ 7,612 | $ 6,990 |
| Foreign currency translation adjustment | (5,550) | 144 | (9,220) | 3,699 |
| Deferred tax effect | (182) | (13) | (572) | (405) |
| Total other comprehensive income (loss) for the period | (5,732) | 131 | (9,792) | 3,294 |
| **Total comprehensive income (loss)** | $ (2,879) | $ 3,793 | $ (2,180) | $ 10,284 |
| **Total comprehensive income (loss) attributable to:** | | | | |
| Shareholders of the Company | $ (2,329) | $ 3,960 | $ (1,629) | $ 10,287 |
| Non-controlling interest | (550) | (167) | (551) | (3) |

*The notes on pages 31 to 40 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, 2019 and 2018, and year ended December 31, 2018

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, 2017 | | $ 291,317 | $ 4,550 | $ (10,194) | $ 1,196 | $ 259,705 | $ 546,574 |
| Net income (loss) | | – | – | – | (243) | 24,458 | 24,215 |
| Other comprehensive income | | – | – | 4,874 | – | – | 4,874 |
| *Transactions with shareholders, recorded directly in equity:* | | | | | | | |
| Dividends to shareholders ($0.24 per common share) | | – | – | – | – | (10,985) | (10,985) |
| Repurchase of common shares | 6 | (2,415) | – | – | – | (1,776) | (4,191) |
| Share-based compensation | 7 | – | 2,396 | – | – | – | 2,396 |
| Stock options expired | | – | (562) | – | – | 562 | – |
| Purchase of partners' share in limited partnership | | – | – | – | 10 | (1,592) | (1,582) |
| Partnership distributions | | – | – | – | (725) | – | (725) |
| | | (2,415) | 1,834 | – | (715) | (13,791) | (15,087) |
| Balance at December 31, 2018 | | $ 288,902 | $ 6,384 | $ (5,320) | $ 238 | $ 270,372 | $ 560,576 |
| Net income (loss) | | – | – | – | (551) | 8,163 | 7,612 |
| Other comprehensive loss | | – | – | (9,792) | – | – | (9,792) |
| *Transactions with shareholders, recorded directly in equity:* | | | | | | | |
| Dividends to shareholders ($0.12 per common share) | | – | – | – | – | (5,477) | (5,477) |
| Repurchase of common shares | 6 | (2,253) | – | – | – | (1,049) | (3,302) |
| Partnership distributions | | – | – | – | (500) | – | (500) |
| Purchase of partners' share in limited partnership | | – | – | – | (81) | (47) | (128) |
| Share-based compensation | 7 | – | 862 | – | – | – | 862 |
| Share options expired | | – | (355) | – | – | 355 | – |
| | | (2,253) | 507 | – | (581) | (6,218) | (8,545) |
| **Balance at June 30, 2019** | | **$ 286,649** | **$ 6,891** | **$ (15,112)** | **$ (894)** | **$ 272,317** | **$ 549,851** |

| | Note | Share Capital | Contributed Surplus | Accumulated Other Comprehensive Loss | Non-controlling Interest | Retained earnings | Total Equity |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2017 | | $ 291,317 | $ 4,550 | $ (10,194) | $ 1,196 | $ 259,705 | $ 546,574 |
| Net income (loss) | | – | – | – | (3) | 6,993 | 6,990 |
| Other comprehensive income | | – | – | 3,294 | – | – | 3,294 |
| *Transactions with shareholders, recorded directly in equity:* | | | | | | | |
| Dividends to shareholders ($0.12 per common share) | | – | – | – | – | (5,473) | (5,473) |
| Repurchase of common shares | 6 | (412) | – | – | – | (185) | (597) |
| Share-based compensation | 7 | – | 1,299 | – | – | – | 1,299 |
| Expiration of share options | 7 | – | (563) | – | – | 563 | – |
| Partnership distribution | | – | – | – | (475) | – | (475) |
| | | (412) | 736 | – | (475) | (5,095) | (5,246) |
| Balance at June 30, 2018 | | $ 290,905 | $ 5,286 | $ (6,900) | $ 718 | $ 261,603 | $ 551,612 |

*The notes on pages 31 to 40 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 June 30 | | Six months ended June 30 | |
|---|---|---|---|---|---|
| | | **2019** | 2018 | **2019** | 2018 |
| **Cash provided by (used in):** | | | | | |
| Operations: | | | | | |
| Net income for the period | | **$ 2,853** | $ 3,662 | **$ 7,612** | $ 6,990 |
| Add (deduct) items not affecting cash: | | | | | |
| Depreciation | | **18,453** | 18,645 | **37,737** | 38,245 |
| Share-based compensation | | **494** | 858 | **862** | 1,299 |
| Gain on sale of property, plant and equipment | | **(184)** | (625) | **(1,878)** | (1,120) |
| Finance costs | | **2,702** | 3,497 | **5,926** | 7,128 |
| Unrealized loss (gain) on foreign currencies translation | | **1,175** | (525) | **1,574** | (3,092) |
| Current income tax expense | | **257** | 1,939 | **957** | 2,774 |
| Deferred income tax recovery | | **(7,379)** | (4,517) | **(5,952)** | (4,481) |
| Income taxes recovered (paid) | | **4,048** | (462) | **4,034** | (4,122) |
| Cashflow | | **22,419** | 22,472 | **50,872** | 43,621 |
| Changes in non-cash working capital items: | | | | | |
| Accounts receivable | | **18,923** | 19,178 | **26,363** | 20,867 |
| Inventory | | **11,327** | (4,428) | **351** | (14,002) |
| Prepaid expenses and deposits | | **4,586** | (2,308) | **8,950** | 1,072 |
| Accounts payable and accrued liabilities | | **(30,020)** | 2,674 | **(17,293)** | 8,324 |
| Onerous leases | | **–** | (142) | **1,297** | (1,045) |
| Deferred revenue | | **(23,112)** | 4,889 | **(16,230)** | 6,282 |
| Cash provided by operating activities | | **4,123** | 42,335 | **54,310** | 65,119 |
| Investing: | | | | | |
| Purchase of property, plant and equipment | | **(7,369)** | (13,472) | **(22,069)** | (21,077) |
| Proceeds on sale of other assets | | **662** | – | **682** | 227 |
| Proceeds on disposal of property, plant and equipment | | **3,230** | 864 | **5,900** | 2,103 |
| Purchase of non-controlling interest | | **(128)** | – | **(128)** | – |
| Changes in non-cash working capital items | | **(1,316)** | (578) | **913** | (2,019) |
| Cash used in investing activities | | **(4,921)** | (13,186) | **(14,702)** | (20,766) |
| Financing: | | | | | |
| Advances on long-term debt | | **–** | 50,000 | **–** | 50,000 |
| Repayment of long-term debt | 4 | **(5,683)** | (68,661) | **(16,534)** | (79,843) |
| Repayment of lease liabilities | | **(1,815)** | (539) | **(3,896)** | (1,068) |
| Dividends to shareholders | | **(2,746)** | (2,701) | **(5,498)** | (5,475) |
| Repurchase of common shares | | **(2,460)** | (597) | **(3,302)** | (597) |
| Partnership distributions | | **(500)** | (475) | **(500)** | (475) |
| Interest paid | | **(1,881)** | (5,510) | **(6,651)** | (7,980) |
| Cash used in financing activities | | **(15,085)** | (28,483) | **(36,381)** | (45,438) |
| Change in cash and cash equivalents | | **(15,883)** | 666 | **3,227** | (1,085) |
| Cash and cash equivalents, beginning of period | | **49,750** | 19,403 | **30,640** | 21,154 |
| Cash and cash equivalents, end of period | | **$ 33,867** | $ 20,069 | **$ 33,867** | $ 20,069 |

*The notes on pages 31 to 40 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, 2019 and 2018
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 800, 311 – 6th Avenue S.W. The condensed interim consolidated financial statements include the accounts of the Company, its subsidiaries and its wholly and partially owned partnerships established in Canada, the United States of America (the "United States") and Australia.

The Company provides a variety of products and services to the oil and natural gas industry primarily in Canada, the United States and Australia, including contract drilling services, the rental and transportation of equipment used in oil and natural gas drilling, completion and production processes, the fabrication, sale, rental and servicing of natural gas compression and oil and natural gas process equipment and well servicing.

## 2. Basis of 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, 2018, except for IFRS 16 Leases which was adopted on January 1, 2019. 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, 2018.

These condensed interim consolidated financial statements were approved by the Board of Directors on August 8, 2019.

### Seasonality

A significant portion of the Company's field operations are conducted in Canada where the ability to move heavy equipment is dependent on ground conditions. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until such roads have thoroughly dried out. The duration of this "spring breakup" has a direct impact on the Company's activity levels and operating results in Canada. In addition, many exploration and production areas in northern Canada are accessible only in winter months when the ground is frozen hard enough to support 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.

### Standards Adopted in the Period

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

**IFRS 16 – Leases**

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

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

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

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

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

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

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

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

Under IFRS 16, those operating leases in scope were recognized on the Company's statement of financial position with a right-of-use asset and corresponding lease obligation representing the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at the date the lease commenced. The right-of-use assets are included in property, plant and equipment on the statement of financial position and are depreciated over the shorter of either the asset's estimated useful life or the term of the lease. The lease obligation is measured at amortized cost using the effective interest rate method. Under this method, finance charges are applied to accrete the lease obligation to the present value of future lease payments. As lease payments are recognized, the lease obligation is reduced.

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

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

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

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

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

Unaudited (tabular amounts in thousands of Canadian dollars)

The following table reconciles the movement of assets recognized on adoption of IFRS 16 for the six months ended June 30, 2019:

| | Leased assets – office and shop leases |
|---|---|
| **Cost** | |
| Recognized on January 1, 2019 | $ 13,173 |
| Additions | 362 |
| Effect of changes in foreign exchange rates | (321) |
| As at June 30, 2019 | 13,214 |
| **Accumulated Depreciation** | |
| Recognized on January 1, 2019 | – |
| Depreciation expense | 2,288 |
| Effect of changes in foreign exchange rates | (13) |
| As at June 30, 2019 | 2,275 |
| **Net Book Value** | |
| As at June 30, 2019 | $ 10,939 |

The following table shows the impact of adopting IFRS 16 on the Company's statement of comprehensive income (loss) for the three and six months ended June 30, 2019:

| | Three months ended June 30, 2019 | Six months ended June 30, 2019 |
|---|---|---|
| Incremental finance costs | $ 249 | $ 489 |
| Incremental depreciation | 1,125 | 2,288 |
| Reduced cost of services and selling, general and administration | (1,299) | (2,536) |
| Net impact of adopting IFRS 16 | $ 75 | $ 241 |

Included in cost of services and selling, general and administrative expense for the three and six months ended June 30, 2019 is $0.1 million and $0.2 million, respectively, of lease payments made on leases of low-value assets or leases with a term of less than one year.

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

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

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

Unaudited (tabular amounts in thousands of Canadian dollars)

## 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.

| **As at and for the three months ended June 30, 2019** | **Contract Drilling Services** | **Rentals and Transportation Services** | **Compression and Process Services** | **Well Servicing** | **Corporate (1)** | **Total** |
|---|---|---|---|---|---|---|
| Revenue | **$ 33,621** | **$ 15,656** | **$ 132,927** | **$ 30,491** | **$ –** | **$ 212,695** |
| Cost of services | **28,698** | **10,019** | **119,485** | **22,659** | **–** | **180,861** |
| Selling, general and administration | **1,954** | **3,874** | **2,954** | **1,601** | **1,880** | **12,263** |
| Other expense | **–** | **–** | **–** | **–** | **1,715** | **1,715** |
| Share-based compensation | **–** | **–** | **–** | **–** | **494** | **494** |
| Depreciation | **7,504** | **4,738** | **1,926** | **4,100** | **185** | **18,453** |
| Operating income (loss) | **(4,535)** | **(2,975)** | **8,562** | **2,131** | **(4,274)** | **(1,091)** |
| Gain (loss) on sale of property, plant and equipment | **(961)** | **852** | **58** | **112** | **123** | **184** |
| Finance costs | **(91)** | **(34)** | **(108)** | **(6)** | **(3,123)** | **(3,362)** |
| Net income (loss) before income taxes | **(5,587)** | **(2,157)** | **8,512** | **2,237** | **(7,274)** | **(4,269)** |
| Goodwill | **–** | **2,514** | **1,539** | **–** | **–** | **4,053** |
| Total assets | **403,267** | **244,586** | **229,541** | **125,031** | **24,139** | **1,026,564** |
| Total liabilities | **69,185** | **29,152** | **95,646** | **5,793** | **276,937** | **476,713** |
| Capital expenditures | **$ 2,799** | **$ 1,805** | **$ 1,080** | **$ 1,536** | **$ 149** | **$ 7,369** |

| As at and for the three months ended June 30, 2018 | Contract Drilling Services | Rentals and Transportation Services | Compression and Process Services | Well Servicing | Corporate (1) | Total |
|---|---|---|---|---|---|---|
| Revenue | $ 38,263 | $ 14,882 | $ 105,153 | $ 35,525 | $ – | $ 193,823 |
| Cost of services | 31,929 | 10,472 | 89,197 | 26,452 | – | 158,050 |
| Selling, general and administration | 2,096 | 3,281 | 3,584 | 1,060 | 3,981 | 14,002 |
| Other income | – | – | – | – | (1,688) | (1,688) |
| Share-based compensation | – | – | – | – | 858 | 858 |
| Depreciation | 7,401 | 4,375 | 1,815 | 5,036 | 18 | 18,645 |
| Operating income (loss) | (3,163) | (3,246) | 10,557 | 2,977 | (3,169) | 3,956 |
| Gain (loss) on sale of property, plant and equipment | 77 | 311 | 238 | (1) | – | 625 |
| Finance costs | (34) | (25) | (11) | (37) | (3,390) | (3,497) |
| Net income (loss) before income taxes | (3,120) | (2,960) | 10,784 | 2,939 | (6,559) | 1,084 |
| Goodwill | – | 2,514 | 1,539 | – | – | 4,053 |
| Total assets | 440,103 | 238,414 | 208,471 | 140,518 | 23,234 | 1,050,740 |
| Total liabilities | 54,376 | 36,651 | 88,987 | 3,172 | 315,942 | 499,128 |
| Capital expenditures | $ 5,448 | $ 3,027 | $ 3,407 | $ 1,583 | $ 7 | $ 13,472 |

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

Unaudited (tabular amounts in thousands of Canadian dollars)

| As at and for the six months ended June 30, 2019 | Contract Drilling Services | Rentals and Transportation Services | Compression and Process Services | Well Servicing | Corporate (1) | Total |
|---|---|---|---|---|---|---|
| Revenue | $ 79,325 | $ 34,063 | $ 254,002 | $ 67,295 | $ – | $ 434,685 |
| Cost of services | 66,619 | 21,877 | 222,805 | 49,538 | – | 360,839 |
| Selling, general and administration | 4,153 | 7,534 | 6,602 | 3,361 | 3,375 | 25,025 |
| Other expense | – | – | – | – | 2,876 | 2,876 |
| Share-based compensation | – | – | – | – | 862 | 862 |
| Depreciation | 15,698 | 9,259 | 4,260 | 8,301 | 219 | 37,737 |
| Operating income (loss) | (7,145) | (4,607) | 20,335 | 6,095 | (7,332) | 7,346 |
| Gain (loss) on sale of property, plant and equipment | (887) | 981 | 1,462 | 112 | 210 | 1,878 |
| Finance costs | (193) | (56) | (213) | (12) | (6,133) | (6,607) |
| Net income (loss) before income taxes | (8,225) | (3,682) | 21,584 | 6,195 | (13,255) | 2,617 |
| Goodwill | – | 2,514 | 1,539 | – | – | 4,053 |
| Total assets | 403,267 | 244,586 | 229,541 | 125,031 | 24,139 | 1,026,564 |
| Total liabilities | 69,185 | 29,152 | 95,646 | 5,793 | 276,937 | 476,713 |
| Capital expenditures | $ 5,594 | $ 9,372 | $ 3,485 | $ 3,218 | $ 400 | $ 22,069 |

| As at and for the six months ended June 30, 2018 | Contract Drilling Services | Rentals and Transportation Services | Compression and Process Services | Well Services | Corporate (1) | Total |
|---|---|---|---|---|---|---|
| Revenue | $ 99,243 | $ 37,194 | $ 190,271 | $ 72,330 | $ – | $ 399,038 |
| Cost of services | 81,860 | 24,556 | 163,859 | 53,344 | – | 323,619 |
| Selling, general and administration | 4,449 | 7,220 | 6,283 | 2,237 | 7,450 | 27,639 |
| Other income | – | – | – | – | (3,280) | (3,280) |
| Share-based compensation | – | – | – | – | 1,299 | 1,299 |
| Depreciation | 15,590 | 8,942 | 3,591 | 10,086 | 36 | 38,245 |
| Operating income (loss) | (2,656) | (3,524) | 16,538 | 6,663 | (5,505) | 11,516 |
| Gain on sale of property, plant and equipment | 127 | 362 | 238 | 393 | – | 1,120 |
| Finance costs | (27) | (56) | (20) | (78) | (7,172) | (7,353) |
| Net income (loss) before income taxes | (2,556) | (3,218) | 16,756 | 6,978 | (12,677) | 5,283 |
| Goodwill | – | 2,514 | 1,539 | – | – | 4,053 |
| Total assets | 440,103 | 238,414 | 208,471 | 140,518 | 23,234 | 1,050,740 |
| Total liabilities | 54,376 | 36,651 | 88,987 | 3,172 | 315,942 | 499,128 |
| Capital expenditures | $ 8,460 | $ 5,148 | $ 5,201 | $ 2,261 | $ 7 | $ 21,077 |

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

Unaudited (tabular amounts in thousands of Canadian dollars)

The Company's operations are carried on in the following geographic locations:

| **Three months ended June 30, 2019** | **Canada** | **United States** | **Australia** | **Other** | **Total** |
|---|---|---|---|---|---|
| **Revenue** | **$ 69,184** | **$ 108,314** | **$ 33,920** | **$ 1,277** | **$ 212,695** |
| **Non-current assets (1)** | **515,439** | **167,900** | **75,300** | **–** | **758,639** |

| Three months ended June 30, 2018 | Canada | United States | Australia | Other | Total |
|---|---|---|---|---|---|
| Revenue | $ 88,244 | $ 62,773 | $ 42,806 | $ – | $ 193,823 |
| Non-current assets (1) | 543,091 | 157,785 | 86,405 | – | 787,281 |

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

| **Six months ended June 30, 2019** | **Canada** | **United States** | **Australia** | **Other** | **Total** |
|---|---|---|---|---|---|
| **Revenue** | **$ 164,639** | **$ 182,862** | **$ 85,859** | **$ 1,325** | **$ 434,685** |
| **Non-current assets (1)** | **515,439** | **167,900** | **75,300** | **–** | **758,639** |

| Six months ended June 30, 2018 | Canada | United States | Australia | Other | Total |
|---|---|---|---|---|---|
| Revenue | $ 192,435 | $ 129,872 | $ 76,731 | $ – | $ 399,038 |
| Non-current assets (1) | 543,091 | 157,785 | 86,405 | – | 787,281 |

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

## 4. Long-term Debt

At June 30, 2019 the Company's long-term debt consisted of the following:

| | **June 30, 2019** | |
|---|---|---|
| | **Interest rate** | **Principal Amount** |
| Credit Facility | **4.34%** | **$ 212,000** |
| Mortgage loan (2020 maturity) | **3.06%** | **41,943** |
| Mortgage loan (2041 maturity) | **4.55%** | **15,298** |
| | | **269,241** |
| Less current portion | | **42,622** |
| | | **$ 226,619** |

At June 30, 2019 amounts owing under the Credit Facility were denominated in Canadian dollars.

On June 19, 2017 the Company entered into a three-year $225 million revolving syndicated credit facility ("Credit Facility"). On April 25, 2018 the Credit Facility was increased by $65 million to $290 million. On May 31, 2019 the maturity date was extended to June 19, 2022. The Company has the option to increase such facility by $75 million subject to certain terms and conditions, including the agreement of the lenders to increase their commitments. The Credit Facility includes a Canadian $18.0 million operating line, an Australian $2.0 million operating line and a Canadian $270.0 million revolving facility. The Credit Facility bears interest at the banks' Canadian prime rate plus 0.25% to 2.75%, bankers' acceptance, letter of credit, LIBOR or BBSY advances plus a 1.5% to 4.0% stamping fee. The applicable interest rate within such ranges is dependent on certain financial ratios of the Company. A standby fee ranging from 0.25% to 0.8% per annum is paid quarterly on the unused portion of the facility depending on certain financial ratios of the Company. At June 30, 2019, the applicable interest rate on amounts drawn on the Credit Facility was 4.34% and the standby rate was 0.44%. Letters of credit ("LOC") of $0.3 million were outstanding at June 30, 2019 which reduces the amount of credit available under the Credit Facility by an equivalent amount.

Unaudited (tabular amounts in thousands of Canadian dollars)

In August of 2018 a U.S. $20 million LOC was established. LOCs issued pursuant to this facility do not reduce availability under the Credit Facility. At June 30, 2019 $2.3 million U.S. dollars ($3.0 million Canadian dollars) and $1.4 million Canadian dollars of LOCs were outstanding under this facility.

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:

| | June 30, 2019 | Threshold |
|---|---|---|
| Twelve-month trailing Bank EBITDA to interest expense | **6.91** | minimum 3.00 |
| Total Senior Debt to twelve-month trailing Bank EBITDA | **1.79** | maximum 3.00 |

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

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

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

The Credit Facility is secured by a general security agreement over all the present and future property of the Company and its subsidiaries. The Company was in compliance with all of its Credit Facility covenants at June 30, 2019.

In addition to the Credit Facility, a subsidiary of the Company has established a $5.0 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At June 30, 2019 this facility was undrawn and fully available.

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

*Mortgage Loan (2020 maturity)* is a loan maturing on April 29, 2020 that is amortized over 20 years with blended monthly principal and interest payments of approximately $278,800. At maturity, approximately $40.2 million of principal will become due and payable assuming only regular monthly payments are made. This loan bears interest at a fixed rate of 3.06% and is secured by certain of the Company`s real estate.

*Mortgage Loan (2041 maturity)* is a loan maturing on December 31, 2041 and bears interest at a floating rate that was 4.55% at June 30, 2019. This loan is secured by certain of the Company's real estate.

At June 30, 2019 the Company was in compliance with all debt covenants.

## 5. Onerous Leases

Onerous lease liabilities related to provisions for office and shop lease contracts that are no longer in use but for which the Company is still obligated to make payments. The aggregate liability was measured at the present value of the lower of the expected cost of terminating the contracts and the expected net cost of continuing with the contracts. On adoption of IFRS 16, the Company elected to apply the practical expedient on initial application whereby onerous lease provisions recognized are adjusted against the respective right-of-use asset (note 2).

Unaudited (tabular amounts in thousands of Canadian dollars)

## 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, 2017 | 46,238 | $ 291,317 |
| Redeemed pursuant to acquisition sunset clause | (7) | – |
| Repurchased and cancelled | (371) | (2,337) |
| Repurchased not cancelled | – | (78) |
| Balance, December 31, 2018 | 45,860 | $ 288,902 |
| Repurchased and cancelled | (360) | (2,187) |
| Repurchased not cancelled | – | (66) |
| **Balance, June 30, 2019** | **45,500** | **$ 286,649** |

During the six months ended June 30, 2019 359,500 shares (2018: 31,000) were repurchased under the Company's normal course issuer bid at an average price of $9.18 per share including commissions and 360,000 shares were cancelled, including 8,600 previously purchased during 2018. Subsequent to June 30, 2019 8,100 shares were cancelled.

### (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 | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Net income for the period attributable to shareholders | **$ 3,403** | $ 3,829 | **$ 8,163** | $ 6,993 |
| Weighted average number of shares outstanding – basic | **45,746** | 46,223 | **45,755** | 46,231 |
| Earnings per share – basic | **$ 0.07** | $ 0.08 | **$ 0.18** | $ 0.15 |
| Net income for the period attributable to shareholders | **$ 3,403** | $ 3,829 | **$ 8,163** | $ 6,993 |
| Weighted average number of shares outstanding – basic | **45,746** | 46,223 | **45,755** | 46,231 |
| Share option dilution | **–** | – | **–** | 1 |
| Weighted average number of shares outstanding – diluted | **45,746** | 46,223 | **45,755** | 46,232 |
| Earnings per share – diluted | **$ 0.07** | $ 0.08 | **$ 0.18** | $ 0.15 |

For the three and six months ended June 30, 2019, 4,110,000 share options (June 30, 2018: 3,280,000 options for three months and 3,220,000 options for the six months) 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.

Unaudited (tabular amounts in thousands of Canadian dollars)

## 7. Share-Based Compensation Plan

Share option transactions during 2019 and 2018 were as follows:

| | Weighted average exercise price | Number of Options |
|---|---|---|
| Balance, December 31, 2017 | $ 13.55 | 2,885,000 |
| Granted | 13.42 | 675,000 |
| Forfeited | 12.69 | (260,000) |
| Expired | 14.96 | (130,000) |
| Balance, December 31, 2018 | $ 13.47 | 3,170,000 |
| Granted | 9.51 | 1,090,000 |
| Forfeited | 12.69 | (26,666) |
| Expired | 12.69 | (123,334) |
| **Balance, June 30, 2019** | **$ 12.33** | **4,110,000** |

A total of 2,075,004 outstanding options were exercisable at June 30, 2019.

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value of the share options granted. The average per share fair value of the options granted during 2019 was $1.44 per option (2018: $2.46 per option) using the following assumptions:

| | **June 30, 2019** | December 31, 2018 |
|---|---|---|
| Expected volatility | **24.21% - 27.16%** | 25.88% - 27.88% |
| Annual dividend yield | **2.52%** | 1.77% - 1.85% |
| Risk free interest rate | **1.46% - 1.50%** | 1.93% - 2.17% |
| Forfeitures | **11%** | 9% |
| Expected life (years) | **3 to 5 years** | 3 to 5 years |

The share options issued during 2018 vest 1/3 on the first, second and third anniversary from the grant date and expire five years from the date of grant.

The share options issued during 2019 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 July 29, 2020 to May 17, 2024.

## 8. Financial Instruments

The Company's financial instruments as at June 30, 2019 include cash and cash equivalents, accounts receivable, lease assets, accounts payable and accrued liabilities, dividends payable, forward foreign exchange contracts, lease liabilities and long-term debt. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and lease liabilities approximate their carrying amounts due to their short-terms to maturity.

The discounted future cash repayments of the Company`s mortgage loan (maturity 2020) are calculated using prevailing market rates of a similar debt instrument as at the reporting date. The net present value of future cash repayments of this mortgage loan and related interest at the prevailing market rate of 3.54% for a similar debt instrument at June 30, 2019 was $41.9 million (December 31, 2018: market rate of 4.05%, $42.4 million). The carrying value and Company`s liability with respect to the mortgage loan is $41.9 million.

## 9. 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. 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, 2019. The $7.1 million paid on account of the Reassessment has been recorded as income tax receivable on the basis management believes it will be successful in defending the Company`s filing position. In the event the Company is not successful, an additional $15.6 million of cash may be owing and $22.7 million of income tax expense would be recognized.

In April of 2017 one of the Company's subsidiaries, Savanna Energy Services Corp. ("Savanna"), received a statement of claim from Western Energy Services Corp. ("Western") for payment of a termination fee in the amount of $20 million pursuant to an arrangement agreement between Savanna and Western dated March 8, 2017, as amended on March 14, 2017 (the "Arrangement Agreement"). Savanna terminated the Arrangement Agreement on March 28, 2017 following the acquisition by Total of over 50% of the outstanding common shares of Savanna in accordance with the terms and conditions of the Arrangement Agreement. Western is claiming Savanna was not entitled to terminate the Arrangement Agreement and therefore breached the Arrangement Agreement. Savanna has filed a statement of defense and has received legal advice that Western's claim is without merit. Management believes that Savanna will be successful in defending against the Western claim and, as such, the Company has not recognized any provision for such claim.

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. AIMCo's claim primarily relates to Savanna's refusal to pay a $6 million change of control penalty (the "Additional Penalty") to AIMCo. The Company and Savanna have received legal advice that AIMCo's claim for the Additional Penalty is not enforceable and have filed a statement of defense. Savanna has also filed a third party claim against its former directors that seeks indemnity in the event that AIMCo is successful in its claim against Savanna.

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

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Bruce Pachkowski [2, 3]
*Chairman of the Board*

Daniel Halyk
*President and Chief Executive Officer*

George Chow [1]

Glenn Dagenais [2, 3]

Greg Melchin [1, 2]

Andrew Wiswell [1, 3]

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

## MANAGEMENT TEAM

Daniel Halyk
*President and Chief Executive Officer*

Gerry Crawford
*Vice President, Field Services*

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

Yuliya Gorbach
*Vice President, Finance and Chief Financial Officer*

William Kosich
*Vice President, Drilling Services*

Brad Macson
*Vice President, Operations*

Ashley Ting
*Corporate Controller*

## HEAD OFFICE

Suite 800, 311 – 6th Avenue SW

Calgary, Alberta T2P 3H2

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

## BANKERS

HSBC

The Toronto Dominion Bank

The Bank of Nova Scotia

Alberta Treasury Branches

Export Development Corp.

## STOCK EXCHANGE LISTING

Toronto Stock Exchange

Common Shares: TOT

## CANADIAN LOCATIONS

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

## U.S. LOCATIONS

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

## AUSTRALIAN LOCATIONS

Toowoomba, QLD

TOTAL ENERGY SERVICES INC.

BIDELL™ GAS COMPRESSION

SPECTRUM Process Systems

Savanna Drilling

Savanna Well Servicing

TOTAL OILFIELD RENTALS LTD.