# Q3


FOCUS DISCIPLINE GROWTH

Third Quarter Report 2018

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 results for the third quarter of 2018 represent the fifth consecutive profitable quarter for the Company. Providing a tailwind for profitability was improving energy industry conditions in the United States and Australia. While Canadian industry conditions remain challenging, cost synergies and economies of scale arising from the successful integration of Savanna Energy Services Corp. as well as improved discipline in declining unprofitable work also contributed to the substantial improvement in the Company's third quarter financial performance compared to 2017.

Excluding capital leases, to September 30, 2018 Total Energy has made $28.5 million of capital expenditures. $30 million of the anticipated $54 million of 2018 capital investment is targeting growth opportunities with the remainder, which includes $4.0 million of budgeted light duty vehicle capital leases, being allocated to equipment maintenance and upgrades.

## LOOKING FORWARD

While the recent decision of LNG Canada to proceed with construction of a liquefied natural gas export terminal on Canada's west coast was a positive development for Canada, it is not expected to impact natural gas prices in the near term. As such, Canadian oil and gas producers continue to suffer substantial price discounts relative to global benchmark prices due to a lack of energy infrastructure required to transport oil and natural gas to international markets. The current regulatory environment in Canada makes the advancement of energy infrastructure projects challenging and the anticipated federal passage of Bill C69 is widely expected to exacerbate the challenges facing proponents of such projects. Additionally, regulatory and tax changes, particularly in Alberta, have contributed to higher labour, fuel, utilities and other operating costs at a time when market conditions prevent service providers from increasing prices to the extent necessary to recover such increased costs.

Given the relatively poor energy investment climate in Canada, substantially all of the Company's 2018 growth capital has been directed to expanding Total Energy's international presence, particularly in the United States, and economic opportunities to relocate underutilized equipment continue to be pursued. In this context, the Rentals and Transportation Services ("RTS") segment determined to close five branch locations in Canada by the end of 2018, the first such closures in Total Energy's 22-year history. Such closures are necessary to adjust this business segment's fixed cost structure to the reality of current industry conditions in Canada and will reduce the number of Canadian RTS branches by 20% to 20.

While current issues facing the Canadian energy industry create challenges, they also give rise to opportunity. With a record fabrication backlog of $236.7 million at September 30, 2018 and current Canadian compression production facilities operating at capacity, the Compression and Process Services ("CPS") segment recently sublet a Calgary-based facility that will replace an existing leased facility and increase this segment's Canadian production space by approximately 30%. This increased capacity will permit the CPS segment to continue to grow its share of the Canadian and international markets on a cost-effective basis.

Total Energy's financial position remains strong. During the first nine months of 2018, the Company has repaid $32.1 million of long-term debt. At September 30, 2018 Total Energy had $27.9 million of cash and marketable securities on hand against $236 million drawn on the Company's $295 million of available revolving credit facilities. Debt, net of $117.6 million of positive working capital, was $178.0 million at the end of September 2018.

On behalf of the Board of Directors of Total Energy, I would like to thank our shareholders and employees for their patience and perseverance as we navigate through these uncertain times.

DANIEL K. HALYK
President and Chief Executive Officer

November 2018

# 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 November 8, 2018 and focuses on information and key statistics from the unaudited condensed interim consolidated financial statements of the Company for the three and nine months ended September 30, 2018 (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 2017 Annual Report, the Annual Information Form ("AIF") for the year ended December 31, 2017 and the cautionary statement regarding forward-looking information and statements below. Additional information relating to Total Energy, including the Company's AIF, may be found on SEDAR at www.sedar.com. Unless otherwise indicated, all dollar amounts presented herein are in Canadian dollars.*

## FINANCIAL HIGHLIGHTS

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | Change | **2018** | 2017 | Change |
| Revenue | **$ 232,925** | $ 185,158 | 26% | **$ 631,963** | $ 424,432 | 49% |
| Operating income (loss) | **14,294** | 6,871 | 108% | **25,810** | (6,475) | nm |
| EBITDA (1) | **34,632** | 27,356 | 27% | **85,513** | 41,875 | 104% |
| Cashflow | **34,799** | 30,044 | 16% | **78,420** | 48,768 | 61% |
| Net income (loss) | **8,655** | 3,737 | 132% | **15,645** | (10,257) | nm |
| Attributable to shareholders | **8,910** | 4,307 | 107% | **15,903** | (8,111) | nm |
| Per Share Data (Diluted) | | | | | | |
| EBITDA (1) | **0.75** | 0.59 | 27% | **1.85** | 1.03 | 80% |
| Cashflow | **0.75** | 0.65 | 15% | **1.70** | 1.20 | 42% |
| Attributable to shareholders: | | | | | | |
| Net income (loss) | **0.19** | 0.09 | 111% | **0.34** | (0.20) | nm |
| **Financial Position at** | | | | **Sept 30, 2018** | Dec 31, 2017 | |
| Total Assets | | | | **$ 1,063,813** | $ 1,066,781 | 0% |
| Long-Term Debt and Obligations Under Finance Leases (excluding current portion) | | | | **295,545** | 257,845 | 15% |
| Working Capital (2) | | | | **117,586** | 54,892 | 114% |
| Net Debt (1) | | | | **177,959** | 202,953 | (12%) |
| Shareholders' Equity | | | | **549,238** | 546,574 | 0% |
| **Common shares** (000's) (3) | | | | | | |
| Basic and Diluted | **46,099** | 46,238 | 0% | **46,186** | 40,523 | 14% |

(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 is 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.

### Acquisition

During the second quarter of 2017, the Company completed the acquisition of Savanna Energy Services Corp. ("Savanna"). Results for the nine months ended September 30, 2018 were materially impacted by such acquisition. For further information on the Savanna acquisition, please refer to note 5 to the 2017 Annual Financial Statements.

**Contract Drilling Services:** At September 30, 2018, the Company operated a total fleet of 116 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 | 15 |
| Mechanical doubles | 51 |
| Australian shallow | 5 |
| TDS and singles | 41 |
| | 116 |

| By Geography | |
|---|---|
| Canada | 86 |
| United States | 25 |
| Australia | 5 |
| | 116 |

**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 September 30, 2018, this segment had approximately 11,000 pieces of major rental equipment (excluding access matting), a fleet of 112 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 September 30, 2018 the CPS segment occupied approximately 187,000 square feet of production facilities located in Calgary, Alberta and a 100,000 square foot facility in Weirton, West Virginia. As at September 30, 2018 the CPS segment also had a network of 12 branch locations throughout western Canada and the United States from which its natural gas compression parts and service business is conducted. This segment had 45,500 horsepower of compression in its rental fleet at September 30, 2018.

**Well Servicing:** The Company entered the well servicing business through the acquisition of Savanna. At September 30, 2018, 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 September 30, 2018 reflect improving industry activity levels in the United States and Australia as well as economies of scale and cost synergies arising from the integration of Savanna. Despite higher activity, market conditions remain relatively challenging, particularly in Canada where operating profit margins remain under pressure. Negatively impacting the Company's results for the first nine months of 2018 was approximately $1.8 million of rig relocation expenses incurred by the Company's drilling operation in the United States as the Company undertook a strategic consolidation of its U.S. contract drilling operations and $0.8 million of legal expenses related to two claims made against Savanna following the takeover of Savanna by the Company.

The Company's financial condition remains strong, with a positive working capital balance of $117.6 million as at September 30, 2018, an increase of $62.7 million from the working capital position at December 31, 2017. This increase was primarily due to improved financial performance and the refinancing and repayment of short-term debt during the first nine months of 2018. Shareholders' equity increased by $2.7 million from December 31, 2017.

### Revenue

The increase in revenue for the three months ended September 30, 2018 relative to the same period in 2017 was primarily the result of higher activity levels in the CPS segment. For the nine months ended September 30, 2018 revenue relative to the same period in 2017 increased in all of the Company's segments and as a result of the acquisition of Savanna effective April 5, 2017. Revenue during the three and nine months ended September 30, 2018 was $232.9 million and $632.0 million as compared to $185.2 million and $424.4 million during the same periods in 2017.

### Cost of Services

Cost of services increased by 28% and 46% to $184.8 million and $505.1 million for the three and nine months ended September 30, 2018, as compared to $144.4 million and $346.6 million for the same periods in 2017. The increase in costs of services during the third quarter and first nine months of 2018 was in line with higher activity levels in all business segments and the increased scale of operations arising from the acquisition of Savanna.

Gross margin, as a percentage of revenue, for the three and nine months ended September 30, 2018 was 21% and 20% as compared to 22% and 18% for the same periods in 2017. Gross margin percentage realized in the third quarter of 2018 was lower than the third quarter of 2017 due primarily to higher contribution of CPS segments to the consolidated margin. Negatively impacting gross margin was reduced gross margin in the RTS segment in Canada and $1.8 million of non-recurring expenses incurred by the CDS segment with the relocation of drilling equipment to Texas and Colorado from the north-eastern United States.

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

### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 8% to $13.9 million for the three months ended September 30, 2018, relative to the prior year comparable period. Included in 2018 third quarter selling, general and administrative expenses is $0.6 million of legal expenses related to two claims made against Savanna following the takeover of Savanna by the Company. For the nine months ended September 30, 2018, selling, general and administrative expenses increased by 18% to $41.5 million relative to the same period in 2017. Such increase was due primarily to the acquisition of Savanna in the second quarter of 2017. As a percentage of revenue, selling, general and administrative expenses were 6% in the third quarter and 7% in the first nine months of 2018 compared to 7% and 8% in the same periods of 2017. This decrease is due primarily to synergies achieved with the integration of Savanna.

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

### Share-based Compensation Expense

Share-based compensation expense arises from share options granted pursuant to the share option plan implemented in 2015. The decrease in share-based compensation expense for the three months ended September 30, 2018 compared to the prior year comparable period was due to vesting of several tranches of share options. The increase in share-based compensation expense for the nine months ended September 30, 2018 compared to the same period in 2017 was due to the issuance of share options in 2018.

### Depreciation Expense

Depreciation expense for the three and nine months ended September 30, 2018 decreased by 4% and increased by 20% as compared to the same periods in 2017. The decrease in the third quarter of 2018 compared to 2017 was primarily due to lower utilization in the Canadian and U.S. CDS segments. The increase in depreciation for the first nine months of 2018 relative to 2017 is due to the increase in property plant and equipment following the acquisition of Savanna. 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)

Operating income for the three and nine months ended September 30, 2018 improved to $14.3 million and $25.8 million as compared to operating income of $6.9 million and an operating loss of $6.5 million for the comparable periods in 2017. The realization of operating income for 2018 was primarily a result of the improved results from all business segments, except for RTS, as compared to 2017, contribution of the WS segment with the acquisition of Savanna in June of 2017 and realization of economies of scale and cost synergies arising from the integration of Savanna. Negatively impacting operating income in the first nine months of 2018 was $1.8 million of rig relocation expenses incurred by the CDS segment and $0.8 million of legal expenses related to two claims made against Savanna following the takeover of Savanna by the Company.

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

Disposals of 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.

During the three and nine months ended September 30, 2018, proceeds from the sale of property, plant and equipment totaled $1.7 million and $3.8 million and resulted in a gain on sale of $0.9 million and $2.0 million. Equipment disposed of during the third quarter of 2018 included light duty vehicles, older rental equipment, a decommissioned well servicing rig in the United States and excess drilling equipment in Canada and the United States. Disposals in the first nine months of 2018 included three decommissioned drilling rigs and three service rigs located in the United States, light duty vehicles, excess rental equipment and excess drilling equipment in Canada and the United States. During the three and nine months ending September 30, 2017, proceeds from the sale of property, plant and equipment totaled $1.8 million and $2.8 million and resulted in a gain on sale of $0.2 million and $0.4 million.

### Finance Costs

Finance costs for the three months ended September 30, 2018 were lower than the prior year comparable period due to refinancing of Savanna debt at lower effective interest rates and the repayment of approximately $32.1 million of long-term debt during the first nine months of 2018. Finance costs for the nine months ended September 30, 2018 is consistent with the same period in 2017 due to the acquisition of Savanna debt in the second quarter of 2017 and higher applicable interest rates in the first nine months of 2018 compared to 2017 due to increases to the Canadian prime rate of interest during 2018.

### Income Taxes and Net income (loss)

During the three and nine months ended September 30, 2018 the Company had a current income tax expense of $3.0 million and $5.7 million as compared to a current income tax expense of $1.8 million and an income tax recovery of $3.2 million during the same periods in 2017. A deferred income tax expense of $0.6 million and recovery of $3.9 million was recorded for the three and nine months ended September 30, 2018 as compared to a deferred income tax recovery of $1.5 million and $3.0 million for the corresponding periods in 2017. This year over year change in current and deferred income tax experience is due to several factors, including a return to profitability, acceleration of non-capital losses on change in partnership taxation in 2017 and the recently announced decrease in the federal corporate income tax rate in the United States. Also contributing to the increase in deferred income tax recovery is the accelerated recognition of the income tax benefit on deferred financing costs following the refinancing of certain of Savanna's long-term debt. The tax benefit arising from Savanna's deferred financing costs were not recognized by the Company on the acquisition of Savanna for accounting purposes.

The third quarter of 2018 represented the fifth consecutive profitable quarter for the Company.

## 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

(in thousands of dollars except per share amounts)

| | Financial Quarter Ended | | | |
|---|---|---|---|---|
| | **Sept 30, 2018** | June 30, 2018 | March 31, 2018 | Dec 31, 2017 |
| Revenue | **$ 232,925** | $ 193,823 | $ 205,215 | $ 180,230 |
| Operating income | **14,294** | 3,956 | 7,560 | 9,680 |
| EBITDA (1) | **34,632** | 23,226 | 27,655 | 29,729 |
| Cashflow | **34,799** | 22,472 | 21,149 | 27,803 |
| Cash provided by operating activities | **19,928** | 42,335 | 22,784 | 26,727 |
| Net income | **8,655** | 3,662 | 3,328 | 6,554 |
| Attributable to shareholders | **8,910** | 3,829 | 3,164 | 6,195 |
| **Per share data** | | | | |
| EBITDA (1) | **$ 0.75** | $ 0.50 | $ 0.60 | $ 0.64 |
| Cashflow | **0.75** | 0.49 | 0.46 | 0.60 |
| Net income attributable to shareholders | **0.19** | 0.08 | 0.07 | 0.13 |
| **Financial Position** | | | | |
| Total Assets | **$ 1,063,813** | $1,050,740 | $1,065,499 | $1,066,781 |
| Long-Term Debt and Obligations Under Finance Leases (excluding current portion) | **295,545** | 295,914 | 247,087 | 257,845 |
| Working Capital (2) | **117,586** | 103,113 | 54,906 | 54,892 |
| Net Debt (1) | **177,959** | 192,801 | 192,181 | 202,953 |
| Shareholders' Equity | **549,238** | 551,612 | 550,732 | 546,574 |
| **Common Shares** (000's) (3) | | | | |
| Basic | **46,099** | 46,223 | 46,238 | 46,238 |
| Diluted | **46,099** | 46,223 | 46,241 | 46,238 |

| | Financial Quarter Ended | | | |
|---|---|---|---|---|
| | Sept 30, 2017 | June 30, 2017 | March 31, 2017 | Dec 31, 2016 |
| Revenue | $ 185,158 | $ 154,922 | $ 84,352 | $ 57,415 |
| Operating income (loss) | 6,871 | (13,105) | (241) | (4,296) |
| EBITDA [(1)] | 27,356 | 6,577 | 7,942 | 3,554 |
| Cashflow | 30,044 | 10,903 | 7,821 | 2,827 |
| Cash provided by (used in) operating activities | (2,329) | 45,287 | (5,301) | 17,100 |
| Net income (loss) | 3,737 | (13,141) | (853) | (3,667) |
| Attributable to shareholders | 4,307 | (11,565) | (853) | (3,667) |
| **Per share data** (diluted) | | | | |
| EBITDA [(1)] | $ 0.59 | $ 0.15 | $ 0.25 | $ 0.11 |
| Cashflow | 0.65 | 0.25 | 0.25 | 0.09 |
| Net income (loss) attributable to shareholders | 0.09 | (0.26) | (0.03) | (0.12) |
| **Financial Position** | | | | |
| Total Assets | $ 1,056,538 | $ 1,053,302 | $ 635,240 | $ 522,599 |
| Long-Term Debt and Obligations Under Finance Leases (excluding current portion) | 257,981 | 256,266 | 58,053 | 46,557 |
| Working Capital [(2)] | 37,053 | 21,309 | 77,158 | 71,770 |
| Net Debt [(1)] | 220,928 | 234,957 | nil | nil |
| Shareholders' Equity | 544,647 | 547,405 | 466,149 | 364,302 |
| **Common Shares** (000's) [(3)] | | | | |
| Basic | 46,238 | 43,718 | 31,448 | 30,920 |
| Diluted | 46,238 | 43,718 | 31,489 | 30,920 |

(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 2017 Financial Statements.

### Aboriginal Partnerships

Savanna conducts a portion of its operations through limited partnerships in which each of Savanna and an Aboriginal partner hold approximately 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

| (in thousands of dollars, unless otherwise indicated) | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| **September 30** | **2018** | 2017 | Change | **2018** | 2017 | Change |
| Revenue | **$ 57,687** | $ 58,634 | (2%) | **$ 156,930** | $ 106,634 | 47% |
| Operating income (loss) | **$ 2,020** | $ (3,265) | nm | **$ 231** | $ (14,535) | nm |
| Operating spud to release days | **2,836** | 3,153 | (10%) | **7,353** | 5,616 | 31% |
| Revenue per spud to release day, dollars | **$ 20,341** | $ 18,596 | 9% | **$ 21,342** | $ 18,988 | 12% |

"nm" - calculation not meaningful

The scope and scale of the contract drilling segment increased significantly in the second quarter of 2017 through the acquisition of Savanna. Prior to the Savanna acquisition, the CDS segment had 18 drilling rigs all located in Canada. In the fourth quarter of 2017, Total Energy discontinued CDS operations in the northeastern United States. During the first nine months of 2018, $1.8 million of non-recurring expenses were incurred to relocate drilling equipment to Texas and Colorado. Effective January 1, 2018 the Company began including CDS employee subsistence payments received from CDS customers in Canada as revenue, which has no impact on operating income, as the offsetting costs were also recognized. For the three and nine months ended September 30, 2018 such payments amounted to $2.9 million and $7.3 million, or approximately $1,700 per operating day in Canada.

The following summarizes the operating results for the CDS segment by geographic area for the three and nine months ended September 30, 2018.

| (in thousands of dollars, unless otherwise indicated)<br>**Q3 2018** | Drilling Canada | Drilling U.S. | Drilling Australia | Total |
|---|---|---|---|---|
| Revenue | $ 27,527 | $ 17,051 | $ 13,109 | **$ 57,687** |
| Operating (loss) income | $ 976 | $ (1,459) | $ 2,503 | **$ 2,020** |
| Spud to release days | 1,687 | 783 | 366 | **2,836** |
| Revenue per spud to release day, dollars | $ 16,317 | $ 21,777 | $ $ 35,817 | **$ 20,341** |
| Utilization % (spud to release) | 21% | 34% | 80% | **27%** |

| (in thousands of dollars, unless otherwise indicated)<br>**Q3 2017** | Drilling Canada | Drilling U.S. | Drilling Australia | Total |
|---|---|---|---|---|
| Revenue | $ 25,908 | $ 22,412 | $ 10,314 | $ 58,634 |
| Operating (loss) income | $ (718) | $ (4,273) | $ 1,726 | $ (3,265) |
| Spud to release days | 1,913 | 1,009 | 231 | 3,153 |
| Revenue per spud to release day, dollars | $ 13,543 | $ 22,212 | $ 44,649 | $ 18,596 |
| Utilization % (spud to release) | 24% | 39% | 50% | 29% |

| (in thousands of dollars, unless otherwise indicated)<br>**YTD 2018** | Drilling Canada | Drilling U.S. | Drilling Australia | Total |
|---|---|---|---|---|
| Revenue | $ 71,489 | $ 45,965 | $ 39,476 | **$ 156,930** |
| Operating (loss) income | $ 288 | $ (9,435) | $ 9,378 | **$ 231** |
| Spud to release days | 4,225 | 2,200 | 928 | **7,353** |
| Revenue per spud to release day, dollars | $ 16,920 | $ 20,893 | $ 42,539 | **$ 21,342** |
| Utilization % (spud to release) | 18% | 31% | 68% | **23%** |

| (in thousands of dollars, unless otherwise indicated)<br>**YTD 2017** | Drilling Canada | Drilling U.S. | Drilling Australia | Total |
|---|---|---|---|---|
| Revenue | $ 45,722 | $ 44,190 | $ 16,722 | $ 106,634 |
| Operating (loss) income | $ (8,229) | $ (8,650) | $ 2,344 | $ (14,535) |
| Spud to release days | 3,327 | 1,899 | 390 | 5,616 |
| Revenue per spud to release day, dollars | $ 13,743 | $ 23,270 | $ 42,877 | $ 18,988 |
| Utilization % (spud to release) | 19% | 37% | 42% | 24% |

The overall decrease in CDS segment revenue relative to the three months ended September 30, 2017 is primarily a result of lower utilization in Canada and the United States as the CDS segment declined unprofitable work. Such decrease in revenue was offset by improved cost management and increased utilization in Australia. Utilization in Australia increased due to operations from an additional rig as compared to the same period in 2017. For the nine months ended September 30, 2018, overall revenue increased significantly due to the acquisition of Savanna and the operating days generated by the drilling rigs acquired.

Operating income for the third quarter and first nine months of 2018 was $2.0 million and $0.2 million as compared to an operating loss of $3.3 million and $14.5 million for the same periods in 2017. The realization of operating income in comparison to the same periods in 2017 which had losses is due to higher utilization in Australia, improved discipline in declining unprofitable work and cost control measures introduced in 2017. Offsetting these gains were lower North American operating days, continued price competition in Canada and legacy contracts in the United States that limited the ability to increase prices to the extent necessary to offset increasing operating costs. $1.8 million of non-recurring rig relocation costs for two drilling rigs relocated from Pennsylvania to Texas and Colorado during the first nine months of 2018 also negatively impacted U.S. CDS margins.

### Rentals and Transportation Services

| (in thousands of dollars, unless otherwise indicated) | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| **September 30** | **2018** | 2017 | Change | **2018** | 2017 | Change |
| Revenue | **$ 19,462** | $ 19,535 | 0% | **$ 56,656** | $ 50,468 | 12% |
| Operating (loss) income | **$ (441)** | $ 1,097 | nm | **$ (3,429)** | $ (2,589) | (32%) |
| Pieces of rental equipment | **11,000** | 11,700 | (6%) | **11,000** | 11,700 | (6%) |
| Heavy trucks | **112** | 125 | (10%) | **112** | 125 | (10%) |
| Rental equipment utilization | **24%** | 24% | 0% | **22%** | 22% | 0% |

"nm" - calculation not meaningful

The revenue reported from the RTS segment for the three months ended September 30, 2018 was consistent with the same period in 2017 and for the nine months ended September 30, 2018 revenue increased as compared to the same period in 2017. This was due primarily to increased utilization and improved pricing in the United States, a change in the mix of equipment utilized and an increase in the number of pieces of rental equipment following the acquisition of Savanna in the second quarter of 2017. During the first nine months of 2018, approximately 100 pieces of major rental equipment were relocated from Canada to the United States.

The increase in operating loss in both the third quarter and first nine months of 2018 as compared to 2017 resulted primarily from this segment's relatively high fixed cost structure as compared to the Company's other business segments combined with limited pricing increases in Canada. Such fixed cost structure includes costs associated with its significant operating branch infrastructure, including maintenance and repairs, utilities, insurance, property taxes and rent. 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. Given continued low activity levels in Canada, five RTS branch locations have been or will be closed by the end of 2018 in an effort to reduce fixed costs.

The following summarizes the operating results for the RTS segment by geographic area for the three and nine months ended September 30, 2018.

| (in thousands of dollars, unless otherwise indicated)<br>**Q3 2018** | RTS<br>Canada | RTS<br>U.S. | **Total** |
|---|---|---|---|
| Revenue | $ 15,554 | $ 3,908 | **$ 19,462** |
| Operating income (loss) | $ (884) | $ 443 | **$ (441)** |
| Pieces of rental equipment | 10,400 | 600 | **11,000** |
| Rental equipment utilization | 23% | 37% | **24%** |

| (in thousands of dollars, unless otherwise indicated) Q3 2017 | RTS Canada | RTS U.S. | Total |
|---|---|---|---|
| Revenue | $ 17,448 | $ 2,087 | $ 19,535 |
| Operating income (loss) | $ 1,220 | $ (123) | $ 1,097 |
| Pieces of rental equipment | 11,200 | 500 | 11,700 |
| Rental equipment utilization | 24% | 26% | 24% |

| (in thousands of dollars, unless otherwise indicated) YTD 2018 | RTS Canada | RTS U.S. | **Total** |
|---|---|---|---|
| Revenue | $ 45,514 | $ 11,142 | **$ 56,656** |
| Operating income (loss) | $ (4,693) | $ 1,264 | **$ (3,429)** |
| Pieces of rental equipment | 10,400 | 600 | **11,000** |
| Rental equipment utilization | 22% | 36% | **22%** |

| (in thousands of dollars, unless otherwise indicated) YTD 2017 | RTS Canada | RTS U.S. | Total |
|---|---|---|---|
| Revenue | $ 45,280 | $ 5,188 | $ 50,468 |
| Operating loss | $ (2,080) | $ (509) | $ (2,589) |
| Pieces of rental equipment | 11,200 | 500 | 11,700 |
| Rental equipment utilization | 21% | 28% | 22% |

RTS Canada revenue decreased in the three months ended September 30, 2018 and remained consistent for the nine months ended September 30, 2018 compared to the same periods in 2017 due to sluggish industry activity and resultant pricing constraints in the Canadian market. This, combined with high fixed costs in Canada as well as labour, fuel and utility cost inflation arising from regulatory changes in Alberta, resulted in higher operating losses compared to the same periods in 2017. RTS U.S. revenue for the three and nine months ended September 30, 2018 increased compared to the same periods in 2017 due to higher utilization as industry activity improved significantly from the prior year. RTS U.S. realized operating income for the three and nine months ended September 30, 2018 as compared to operating losses in the same periods in 2017.

### Compression and Process Services

| (in thousands of dollars, unless otherwise indicated) | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| **September 30** | **2018** | 2017 | Change | **2018** | 2017 | Change |
| Revenue | **$ 114,811** | $ 67,707 | 70% | **$ 305,082** | $ 193,163 | 58% |
| Operating income | **$ 11,460** | $ 6,956 | 65% | **$ 28,675** | $ 14,307 | 100% |
| Operating income, % of revenue | **10%** | 10% | | **9%** | 7% | |
| Sales backlog at period end, $ million | **$ 236.7** | $ 160.7 | 47% | **$ 236.7** | $ 160.7 | 47% |
| Horsepower of equipment on rent at period end | **31,500** | 20,200 | 56% | **31,500** | 20,200 | 56% |
| Rental equipment utilization (HP) | **69%** | 46% | 50% | **56%** | 42% | 33% |

The revenue reported from the CPS segment increased for the three and nine months ended September 30, 2018 as compared to the same periods in 2017. This was due primarily to higher international activity levels and increasing contribution from the Weirton, West Virginia facility. Demand from international customers has continued to increase and contributes to the substantial increase in the fabrication sales backlog at September 30, 2018 compared to 2017. 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 increase in operating income in the CPS segment during the three and nine months ended September 30, 2018, as compared to the same periods in 2017 was due primarily 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). In response to increasing demand, subsequent to September 30, 2018 the CPS segment leased a fabrication facility that will result in an additional net 59,600 square feet of fabrication space in Canada. This facility will be put into service over the next few quarters and will increase Canadian fabrication space in this segment by approximately 30%.

### Well Servicing

| (in thousands of dollars, except revenue per hour) | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| **September 30** | **2018** | 2017 | Change | **2018** | 2017 | Change |
| Revenue | **$ 40,965** | $ 39,282 | 4% | **$ 113,295** | $ 74,167 | 53% |
| Operating income | **$ 6,106** | $ 5,963 | 2% | **$ 13,969** | $ 8,849 | 58% |
| Operating income, % of revenue | **15%** | 15% | | **12%** | 12% | |
| Service hours | **44,447** | 41,256 | 8% | **122,032** | 76,191 | 60% |
| Revenue per service hour (1) | **$ 922** | $ 952 | (3%) | **$ 928** | $ 973 | (5%) |
| Utilization (2) | **44%** | 37% | 19% | **39%** | 37% | 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 third quarter and first nine months of 2018 increased relative to the same comparable periods in 2017. The increase in revenue and operating income from the third quarter of 2017 was primarily due to the types of contracts and change in equipment utilized in Canada, improved discipline in declining unprofitable work and cost control measures implemented in 2017 across all geographic regions. Results for the first nine months of the year compared to 2017 reflect the acquisition of the WS segment in the second quarter of 2017.

The following summarizes the operating results for the WS segment by geographic area for the three and nine months ended September 30, 2018.

| (in thousands of dollars, except per hour amounts)<br>**Q3 2018** | WS<br>Canada | WS<br>U.S. | WS<br>Australia | **WS<br>Total** |
|---|---|---|---|---|
| Revenue | $ 13,577 | $ 4,028 | $ 23,360 | **$ 40,965** |
| Operating income | $ 1,823 | $ 454 | $ 3,829 | **$ 6,106** |
| Operating income, % of revenue | 13% | 11% | 16% | **15%** |
| Service hours (1) | 20,703 | 4,829 | 18,915 | **44,447** |
| Revenue per service hour, dollars | $ 656 | $ 834 | $ 1,235 | **$ 922** |
| Utilization % (2) | 39% | 37% | 71% | **44%** |

| (in thousands of dollars, except per hour amounts)<br>**Q3 2017** | WS<br>Canada | WS<br>U.S. | WS<br>Australia | WS<br>Total |
|---|---|---|---|---|
| Revenue | $ 10,592 | $ 4,311 | $ 24,379 | $ 39,282 |
| Operating income | $ 716 | $ 257 | $ 4,990 | $ 5,963 |
| Operating income, % of revenue | 7% | 6% | 20% | 15% |
| Service hours (1) | 18,164 | 6,187 | 16,905 | 41,256 |
| Revenue per service hour, dollars | $ 583 | $ 697 | $ 1,442 | $ 952 |
| Utilization % (2) | 35% | 37% | 64% | 37% |

| (in thousands of dollars, except per hour amounts)<br>**YTD 2018** | WS<br>Canada | WS<br>U.S. | WS<br>Australia | **WS<br>Total** |
|---|---|---|---|---|
| Revenue | $ 34,229 | $ 11,091 | $ 67,975 | **$ 113,295** |
| Operating income | $ 1,392 | $ 823 | $ 11,754 | **$ 13,969** |
| Operating income, % of revenue | 4% | 7% | 17% | **12%** |
| Service hours (1) | 52,876 | 14,682 | 54,474 | **122,032** |
| Revenue per service hour, dollars | $ 647 | $ 755 | $ 1,248 | **$ 928** |
| Utilization % (2) | 34% | 36% | 69% | **39%** |

| (in thousands of dollars, except per hour amounts)<br>**YTD 2017** | WS<br>Canada | WS<br>U.S. | WS<br>Australia | WS<br>Total |
|---|---|---|---|---|
| Revenue | $ 18,162 | $ 8,328 | $ 47,677 | $ 74,167 |
| Operating income (loss) | $ (1,258) | $ 753 | $ 9,354 | $ 8,849 |
| Operating income, % of revenue | nm | 9% | 20% | 12% |
| Service hours (1) | 31,291 | 12,025 | 32,875 | 76,191 |
| Revenue per service hour, dollars | $ 580 | $ 693 | $ 1,450 | $ 973 |
| Utilization % (2) | 30% | 36% | 64% | 37% |

"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 and operating income improved for the three and nine months ended September 30, 2018 compared to the same periods in 2017. This is primarily due to equipment mix, improved pricing and discipline in declining unprofitable work and higher utilization compared with 2017. Despite improved industry conditions, in the United States revenue and utilization for the third quarter of 2018 was consistent with the same period in 2017 due to adverse weather conditions that limited field operations. Pricing gains and increases in service hours resulted in higher revenues for the nine months ended September 30, 2018 compared to the same period in 2017. Operating income in the U.S. for both the three and nine months ended September 30, 2018 increased relative to the same periods in 2017 due to price increases and cost control initiatives. Despite higher utilization well servicing revenue in Australia for the third quarter of 2018 was lower compared to the same period in 2017 due primarily to a decrease in the Australian dollar relative to the Canadian dollar. Operating income in Australian well servicing was lower during the three months ended September 30, 2018 as compared to the same period in 2017 primarily due to a change in the mix of standby versus operating revenue, redeployment of one rig at a lower rate than the previous legacy contract provided for and mobilization costs incurred to bring a previously idle rig back into operation. For the nine months ended September 30, 2018 operating income was higher due to higher utilization compared to the same period in 2017, offset somewhat by lower realized pricing.

## Corporate

| (in thousands of dollars) | Three months ended | | | Nine months ended | | |
|---|---|---|---|---|---|---|
| **September 30** | **2018** | 2017 | Change | **2018** | 2017 | Change |
| Operating loss | **$ (4,851)** | $ (3,880) | 25% | **$ (13,636)** | $ (12,507) | 9% |

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.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Provided by Operating Activities and Cashflow

| (in thousands of dollars) | Three months ended | | | Nine months ended | | |
|---|---|---|---|---|---|---|
| **September 30** | **2018** | 2017 | Change | **2018** | 2017 | Change |
| Cash provided by operating activities | **$ 19,928** | $ (2,329) | nm | **$ 85,047** | $ 37,657 | 126% |
| Per Share Data (Diluted) | **0.43** | (0.05) | nm | **1.84** | 0.93 | 98% |
| Cashflow | **$ 34,799** | $ 30,044 | 16% | **$ 78,420** | $ 48,768 | 61% |
| Per Share Data (Diluted) | **0.75** | 0.65 | 15% | **1.70** | 1.20 | 42% |

"nm" - calculation not meaningful

The changes in cash provided by operating activities and cashflow were due primarily to the acquisition of Savanna, as well as increased activity levels and improved operating results compared to 2017 with resultant changes in operating income (loss) as described above. The Company reinvests any remaining cash provided by operating activities after required long-term debt and finance lease payments and dividend payments to shareholders into the internal growth of existing businesses, acquisitions, voluntary repayment of long-term debt or the repurchase of the Company's shares pursuant to the Company's normal course issuer bid.

### Investing Activities

| (in thousands of dollars) | Three months ended | | | Nine months ended | | |
|---|---|---|---|---|---|---|
| **September 30** | **2018** | 2017 | Change | **2018** | 2017 | Change |
| Net cash used in investing activities | **$ (4,432)** | $ (6,499) | (32%) | **$ (25,198)** | $ (29,664) | (15%) |
| Proceeds from sale of PP&E | **$ 1,695** | $ 1,814 | (7%) | **$ 3,798** | $ 2,842 | 34% |
| Purchase of PP&E | **$ (7,425)** | $ (8,874) | (16%) | **$ (28,502)** | $ (22,306) | 28% |

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 third quarter of 2018 equipment disposed consisted of older light duty vehicles and rental equipment, a decommissioned well servicing rig in the United States and older spare drilling equipment in Canada and the United States. During the first nine months of 2018 equipment disposed consisted of three decommissioned drilling rigs and three service rigs located in the United States, light duty vehicles, rental equipment and excess drilling equipment in Canada and the United States.

During the third quarter of 2018, $7.4 million of PP&E purchases were allocated as follows: $2.1 million in the CDS segment relating to the purchase of rig equipment and rig recertifications and upgrades, $2.9 million in the RTS segment relating to purchases of rental equipment and trailers, $2.1 million in the CPS segment relating to additions to the compression rental fleet and $0.3 million in the WS segment relating to service rig recertifications and upgrades. During the first nine months of 2018, $28.5 million of PP&E purchases were allocated as follows: $10.6 million in the CDS segment relating to the purchase of rig equipment and rig recertifications and upgrades, $8.1 million in the RTS segment relating to equipment upgrades and purchases of rental equipment and trailers, $7.2 million in the CPS segment relating to additions to the compression rental fleet and $2.6 million in the WS segment relating to service rig recertifications and upgrades.

### Financing Activities

| (in thousands of dollars) | Three months ended | | | Nine months ended | | |
|---|---|---|---|---|---|---|
| **September 30** | **2018** | 2017 | Change | **2018** | 2017 | Change |
| Net cash used in financing activities | **$ (11,151)** | $ (4,212) | 165% | **$ (56,589)** | $ (20,837) | 172% |

During the three months ended September 30, 2018 $1.2 million principal in partnership long-term debt was repaid with cash on hand and regular principal repayments were made on the Company's mortgage loans. The increase in cash used in financing activities for the nine months ended September 30, 2018 compared to the same period in 2017 was primarily due to a voluntary $10.0 million principal repayment of long-term debt during the first quarter of 2018 and the repayment of $67.5 million of senior unsecured notes that were previously issued by Savanna during the second quarter of 2018.

**Liquidity and Capital Resources**

The Company had a working capital surplus of $117.6 million as at September 30, 2018 compared to $54.9 million as at December 31, 2017. This increase was due primarily to improved financial performance and the refinancing and repayment of short-term debt during the first nine months of 2018. As at September 30, 2018 and the date of this MD&A, the Company is in compliance with all debt covenants.

On April 25, 2018 the Company increased its primary revolving bank credit facility (the "Credit Facility") by $65 million to $290 million and its term was extended to June 2021. All other terms and conditions of the credit facility remained unchanged.

On May 25, 2018 the Company repaid $67.5 million principal amount of 7.0% senior unsecured notes previously issued by Savanna.

At September 30, 2018 the Company's long-term debt consisted of the following:

| | September 30, 2018 | |
|---|---|---|
| | Interest rate | Principal Amount |
| Credit Facility | 4.11% | $ 236,000 |
| Mortgage loan (2020 maturity) | 3.06% | 43,469 |
| Mortgage loan (2041 maturity) | 4.30% | 15,809 |
| Limited partnership credit facility | 5.50% | 340 |
| | | 295,618 |
| Less current portion | | 3,064 |
| | | $ 292,554 |

At September 30, 2018 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 September 30, 2018 was 4.11%.

In August of 2018 a U.S. $20 million letter of credit facility was established. Letters of credit ("LOC") issued pursuant to this facility do not reduce availability under the Credit Facility. At September 30, 2018 $1.1 million U.S. dollars ($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 September 30, 2018 this facility was fully available.

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

| | September 30, 2018 | Threshold |
|---|---|---|
| Twelve-month trailing Bank EBITDA to interest expense | 8.08 | minimum 3.00 |
| Total Senior Debt to twelve-month trailing Bank EBITDA | 2.02 | maximum 3.00 |

The Company was in compliance with all of its Credit Facility and other debt covenants at September 30, 2018. For further information regarding Credit Facility compliance requirements and further 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 finance lease payments, dividend payments and common share repurchases.

**Dividends**

For the three and nine months ended September 30, 2018 the Company declared dividends of $2.8 million ($0.06 per share) and $8.2 million ($0.18 per share) as compared to $2.8 million ($0.06 per share) and $7.9 million ($0.18 per share) for the same periods in 2017. The increase in the aggregate dividend paid for the first nine months of 2018 compared to 2017 reflects the increased number of shares of the Company outstanding following the acquisition of Savanna.

For the first nine months of 2018 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 nine months ending September 30, 2018 consisted of $7.4 million and $28.5 million of PP&E purchases. Capital spending was funded with cash on hand and available credit facilities.

## CONTRACTUAL OBLIGATIONS

At September 30, 2018, the Company had the following contractual obligations:

| | | Payments due by year | | | | |
|---|---|---|---|---|---|---|
| (in thousands of dollars) | Total | 2018 | 2019 | 2020 | 2021 | 2022 and after |
| Long-term debt | $ 295,618 | $ 843 | $ 2,912 | $ 41,585 | $ 236,680 | $ 13,598 |
| Commitments [1] | 15,876 | 1,608 | 5,449 | 4,693 | 2,749 | 1,377 |
| Finance leases | 5,046 | 593 | 1,953 | 1,532 | 711 | 257 |
| Purchase obligations [2] | 74,071 | 45,356 | 28,715 | – | – | – |
| Total contractual obligations | $ 390,611 | $ 48,400 | $ 39,029 | $ 47,810 | $ 240,140 | $ 15,232 |

(1) Commitments are described in Note 26 to the 2017 Annual Financial Statements.

(2) Purchase obligations are described in Note 26 to the 2017 Annual Financial Statements. As at September 30, 2018, purchase obligations primarily relate to commitments to purchase inventory in the CPS segment.

## OFF-BALANCE SHEET ARRANGEMENTS

During 2018 and 2017, the Company had no off-balance sheet arrangements other than operating leases.

## TRANSACTIONS WITH RELATED PARTIES

During the first nine months of 2018 and 2017 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 4.49% for a similar debt instrument at September 30, 2018 was $42.7 million (December 31, 2017: market rate of 4.04%, $44.0 million). The carrying value and Company`s liability with respect to this mortgage is $43.5 million.

As at September 30, 2018, the fair value of other assets was approximately $3.5 million.

## OUTSTANDING COMPANY SHARE DATA

As at the date of this MD&A, the Company had 45,965,787 common shares outstanding.

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

| Outstanding at September 30, 2018 | Exercise Price | Remaining life (years) | Exercisable at September 30, 2018 |
|---|---|---|---|
| 1,290,000 | $ 14.13 | 1.80 | 859,994 |
| 1,255,000 | $ 12.96 | 3.70 | 418,337 |
| 60,000 | $ 12.00 | 3.90 | 20,000 |
| 525,000 | $ 13.54 | 4.40 | – |
| 150,000 | $ 12.99 | 4.60 | – |
| 3,280,000 | $ 13.50 | 2.90 | 1,298,331 |

## OUTLOOK

### Industry Conditions

Canadian producers continue to suffer significant price discounts for oil and natural gas due to insufficient transportation infrastructure. Political and regulatory uncertainty in Canada has also contributed to uncertain energy market conditions and reduced industry capital spending. Realized oil and natural gas prices in the United States and Australia have improved over the past several quarters. As such, current expectations are that oil and natural gas industry activity for 2018 will increase in the United States and Australia but remain relatively flat in Canada as compared to 2017. Increased international drilling and completion activity has contributed to increased demand for compression and process equipment and related services, including increased demand for compression rental equipment. While pricing for the Company's products and services has improved modestly, it 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 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 continue to recover lost market share while avoiding significant start-up costs and undue operational and human resource challenges. 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. The Company's acquisition of Savanna in the second quarter of 2017 has given rise to significant economies and efficiencies of scale.

Regulatory changes in Alberta have resulted in increased labour, fuel and utility costs, which have particularly impacted the RTS segment where competitive market conditions have prevented recovery of such increased costs through price increases. As such, given the prospects of continued relatively low drilling and completions activity levels in Canada for the foreseeable future, five RTS branch locations have been or will be closed by the end of 2018 in an effort to reduce the fixed cost structure within the RTS segment.

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, particularly in light of the recent determination of a consortium led by Shell to proceed with the construction of a new liquefied natural gas ("LNG") export terminal at Kitimat, British Columbia.

## 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 2018 other than as described below.

### Industry Conditions

While oil prices have increased from the lows of 2016, they remain somewhat volatile and North American natural gas prices remain low by historical standards. As a result, there continues to be significant uncertainty and volatility in the oil and gas industry, particularly in Canada where oil and natural gas drilling and completion activity remains relatively low. These stagnant activity levels have resulted in continued price competition for the products and services provided by the Company, particularly in Canada within the CDS, RTS and WS segments. While the Company has been proactive in managing its operating cost structure to adapt to the current environment, continued stagnant 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 regards to accounts receivable, the Company remains focused on actively managing credit risk. Specifically, management has remained diligent in assessing credit levels granted to customers, monitoring the aging of receivables and taking proactive steps to collect outstanding balances.

The Company did not have significant exposure to any individual customer or counter party, except for one major oil and gas company which accounted for over 10% of revenue for the three and nine months ended September 30, 2018. 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 and evolving laws and government regulations, including in the areas of environment, labor and health and safety. For example, the implementation of a "carbon tax" and changes to employment standards in Alberta have increased the Company's cost of services in that jurisdiction. 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 2018.

### 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, 2018 the Company adopted the following International Financial Reporting Standards ("IFRS"):

### IFRS 15 – Revenue from Contracts with Customers

Effective January 1, 2018 the Company adopted IFRS 15, Revenue from Contracts with Customers using the cumulative-effect method of adoption. The adoption of this standard had no material impact on the amounts recorded in these Interim Financial Statements. Please see Note 2 to the Interim Financial Statements for further information.

### IFRS 9 – Financial Instruments

Effective January 1, 2018 the Company adopted the amendments in IFRS 9, Financial Instruments, including the classification and measurement of financial assets and the expected loss impairment model. The amendments to IFRS 9 are effective for annual periods on or after January 1, 2018 and are applied retrospectively. The standard addresses classification and measurement of financial assets and replaces multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement. The adoption of this standard had no material impact on the amounts recorded in these Interim Financial Statements. Please see Note 2 to the Interim Financial Statements for further information.

## FUTURE ACCOUNTING POLICIES CHANGES

There have been no significant future accounting policy changes during 2018.

Several new accounting pronouncements have been issued by the International Accounting Standards Board ("IASB") prior to 2018 that are applicable to, or may have a future impact on, the Company. Please see note 2 of the Company's Interim Financial Statements for the details of such pronouncements.

## NON-IFRS MEASURES

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

**EBITDA**

| (in thousands of Canadian dollars) | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| **September 30** | **2018** | 2017 | **2018** | 2017 |
| Net income (loss) | **$ 8,655** | $ 3,737 | **$ 15,645** | $ (10,257) |
| Add back (deduct): | | | | |
| Depreciation | **19,478** | 20,310 | **57,723** | 47,950 |
| Finance costs | **2,940** | 3,053 | **10,293** | 10,296 |
| Income tax expense (recovery) | **3,559** | 256 | **1,852** | (6,114) |
| **EBITDA** | **$ 34,632** | $ 27,356 | **$ 85,513** | $ 41,875 |

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

**NET DEBT**

| (in thousands of Canadian dollars) | **As at Sep 30, 2018** |
|---|---|
| Long-term debt | **$ 292,554** |
| Obligations under finance leases | **2,991** |
| Add back (deduct): | |
| Current liabilities | **167,149** |
| Current assets | **(284,735)** |
| **Net Debt** | **$ 177,959** |

## 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 September 30, 2018 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, 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 | Sept 30, 2018 | Dec 31, 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | | $ 24,414 | $ 21,154 |
| Accounts receivable | | 146,792 | 150,990 |
| Inventory | | 93,594 | 68,266 |
| Income taxes receivable | | – | 1,176 |
| Other assets | | 3,486 | 4,631 |
| Prepaid expenses and deposits | | 16,449 | 15,148 |
| | | 284,735 | 261,365 |
| Property, plant and equipment | | 765,728 | 793,464 |
| Income taxes receivable | | 7,070 | 7,070 |
| Deferred tax asset | | 2,227 | 829 |
| Goodwill | | 4,053 | 4,053 |
| | | $ 1,063,813 | $ 1,066,781 |
| **LIABILITIES & SHAREHOLDERS' EQUITY** | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | | $ 118,079 | $ 108,421 |
| Deferred revenue | | 39,665 | 21,625 |
| Income taxes payable | | 1,526 | – |
| Dividends payable | | 2,760 | 2,774 |
| Current portion of obligations under finance leases | | 2,055 | 1,595 |
| Current portion of long-term debt | 4 | 3,064 | 72,058 |
| | | 167,149 | 206,473 |
| Long-term debt | 4 | 292,554 | 255,640 |
| Obligations under finance leases | | 2,991 | 2,205 |
| Onerous lease liability | 5 | 1,488 | 2,734 |
| Deferred tax liability | | 50,393 | 53,155 |
| Shareholders' equity: | | | |
| Share capital | 6 | 289,862 | 291,317 |
| Contributed surplus | | 5,785 | 4,550 |
| Accumulated other comprehensive loss | | (13,214) | (10,194) |
| Non-controlling interest | | 122 | 1,196 |
| Retained earnings | | 266,683 | 259,705 |
| | | 549,238 | 546,574 |
| | | $ 1,063,813 | $ 1,066,781 |

*The notes on pages 27 to 36 are an integral part of these condensed interim consolidated financial statements.*

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS)

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

| | Note | Three months ended September 30 2018 | Three months ended September 30 2017 | Nine months ended September 30 2018 | Nine months ended September 30 2017 |
|---|---|---|---|---|---|
| **REVENUE** | | **$ 232,925** | $ 185,158 | **$ 631,963** | $ 424,432 |
| Cost of services | | **184,750** | 144,353 | **505,089** | 346,596 |
| Selling, general and administration | | **13,904** | 12,915 | **41,543** | 35,168 |
| Share-based compensation | 7 | **499** | 709 | **1,798** | 1,193 |
| Depreciation | | **19,478** | 20,310 | **57,723** | 47,950 |
| Operating income (loss) | | **14,294** | 6,871 | **25,810** | (6,475) |
| Gain on sale of property, plant and equipment | | **860** | 175 | **1,980** | 400 |
| Finance costs | | **(2,940)** | (3,053) | **(10,293)** | (10,296) |
| Net income (loss) before income taxes | | **12,214** | 3,993 | **17,497** | (16,371) |
| Current income tax expense (recovery) | | **2,963** | 1,802 | **5,737** | (3,156) |
| Deferred income tax expense (recovery) | | **596** | (1,546) | **(3,885)** | (2,958) |
| Total income tax expense (recovery) | | **3,559** | 256 | **1,852** | (6,114) |
| **Net income (loss) for the period** | | **$ 8,655** | $ 3,737 | **$ 15,645** | $ (10,257) |
| **Net income (loss) attributable to:** | | | | | |
| Shareholders of the Company | | **$ 8,910** | $ 4,307 | **$ 15,903** | $ (8,111) |
| Non-controlling interest | | **(255)** | (570) | **(258)** | (2,146) |
| **Income (loss) per share** | | | | | |
| Basic and diluted | 6 | **$ 0.19** | $ 0.09 | **$ 0.34** | $ (0.20) |

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

| | Three months ended September 30 2018 | Three months ended September 30 2017 | Nine months ended September 30 2018 | Nine months ended September 30 2017 |
|---|---|---|---|---|
| **Net income (loss) for the period** | **$ 8,655** | $ 3,737 | **$ 15,645** | $ (10,257) |
| Changes in fair value of long-term investment | **–** | – | **–** | 665 |
| Realized gain on long-term investment | **–** | – | **–** | (665) |
| Foreign currency translation adjustment | **(6,994)** | (6,069) | **(3,295)** | (10,820) |
| Deferred tax effect | **680** | 1,639 | **275** | 2,922 |
| Total other comprehensive loss for the period | **(6,314)** | (4,430) | **(3,020)** | (7,898) |
| **Total comprehensive income (loss)** | **$ 2,341** | $ (693) | **$ 12,625** | $ (18,155) |
| **Total comprehensive income (loss) attributable to:** | | | | |
| Shareholders of the Company | **$ 2,596** | $ (123) | **$ 12,883** | $ (16,009) |
| Non-controlling interest | **(255)** | (570) | **(258)** | (2,146) |

*The notes on pages 27 to 36 are an integral part of these condensed interim consolidated financial statements.*

# CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EQUITY

As at and for the nine months ended September 30, 2018 and 2017, and year ended December 31, 2017

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, 2016 | | $ 88,654 | $ 7,683 | $ – | $ – | $ 267,965 | $ 364,302 |
| Net loss for the year | | – | – | – | (1,787) | (1,916) | (3,703) |
| Other comprehensive loss | | – | – | (10,194) | – | – | (10,194) |
| *Transactions with shareholders, recorded directly in equity:* | | | | | | | |
| Dividends to shareholders ($0.24 per common share) | | – | – | – | – | (10,654) | (10,654) |
| Issuance of common shares | | 104,544 | – | – | – | – | 104,544 |
| Stock options exercised | 7 | 2,899 | (610) | – | – | – | 2,289 |
| Stock options expired | 7 | – | (4,310) | – | – | 4,310 | – |
| Share-based compensation | 7 | – | 1,787 | – | – | – | 1,787 |
| Partnership distributions | | – | – | – | (150) | – | (150) |
| Non-controlling interest assumed on acquisition | | – | – | – | 111,383 | – | 111,383 |
| Subsequent acquisition transactions – shares issued | | 95,220 | – | – | (95,220) | – | – |
| Subsequent acquisition transactions – cash payment | | – | – | – | (13,030) | – | (13,030) |
| | | 202,663 | (3,133) | – | 2,983 | (6,344) | 196,169 |
| Balance at December 31, 2017 | | $ 291,317 | $ 4,550 | $ (10,194) | $ 1,196 | $ 259,705 | $ 546,574 |
| Net income | | – | – | – | (258) | 15,903 | 15,645 |
| Other comprehensive loss | | – | – | (3,020) | – | – | (3,020) |
| *Transactions with shareholders, recorded directly in equity:* | | | | | | | |
| Dividends to shareholders *($0.18 per common share)* | | – | – | – | – | (8,233) | (8,233) |
| Repurchase of common shares | 6 | (1,455) | – | – | – | (1,264) | (2,719) |
| Share-based compensation | 7 | – | 1,798 | – | – | – | 1,798 |
| Expiration of share options | 7 | – | (563) | – | – | 563 | – |
| Purchase of partners' share in limited partnership | | – | – | – | (341) | 9 | (332) |
| Partnership distributions | | – | – | – | (475) | – | (475) |
| | | (1,455) | 1,235 | – | (816) | (8,925) | (9,961) |
| **Balance at September 30, 2018** | | **$ 289,862** | **$ 5,785** | **$ (13,214)** | **$ 122** | **$ 266,683** | **$ 549,238** |

| | Note | Share Capital | Contributed Surplus | Accumulated Other Comprehensive Income | Non-controlling Interest | Retained earnings | Total Equity |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2016 | | $ 88,654 | $ 7,683 | $ – | $ – | $ 267,965 | $ 364,302 |
| Net loss for the period | | – | – | – | (2,146) | (8,111) | (10,257) |
| Other comprehensive loss for the period | | – | – | (7,898) | – | – | (7,898) |
| *Transactions with shareholders, recorded directly in equity:* | | | | | | | |
| Dividends to shareholders *($0.18 per common share)* | | – | – | – | – | (7,879) | (7,879) |
| Issuance of common shares | | 104,544 | – | – | – | – | 104,544 |
| Stock options exercised | 7 | 2,899 | (610) | – | – | – | 2,289 |
| Stock options expired | 7 | – | (4,310) | – | – | 4,310 | – |
| Share-based compensation | | – | 1,193 | – | – | – | 1,193 |
| Non-controlling interest assumed on acquisition | | – | – | – | 111,383 | – | 111,383 |
| Subsequent acquisition transactions – shares issued | 6 | 95,220 | – | – | (95,220) | – | – |
| Subsequent acquisition transactions – cash payment | | – | – | – | (13,030) | – | (13,030) |
| | | 202,663 | (3,727) | – | 3,133 | (3,569) | 198,500 |
| Balance at September 30, 2017 | | $ 291,317 | $ 3,956 | $ (7,898) | $ 987 | $ 256,285 | $ 544,647 |

*The notes on pages 27 to 36 are an integral part of these condensed interim consolidated financial statements.*

# CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)

| | Note | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 |
| **Cash provided by (used in):** | | | | | |
| Operations: | | | | | |
| Net income (loss) for the period | | **$ 8,655** | $ 3,737 | **$ 15,645** | $ (10,257) |
| Add (deduct) items not affecting cash: | | | | | |
| Depreciation | | **19,478** | 20,310 | **57,723** | 47,950 |
| Share-based compensation | | **499** | 709 | **1,798** | 1,193 |
| Gain on sale of property, plant and equipment | | **(860)** | (175) | **(1,980)** | (400) |
| Finance costs | | **1,987** | 2,742 | **9,115** | 10,296 |
| Unrealized loss (gain) on foreign currencies translation | | **394** | 253 | **(2,698)** | 4,949 |
| Current income tax expense (recovery) | | **2,963** | 1,802 | **5,737** | (3,156) |
| Deferred income tax expense (recovery) | | **596** | (1,546) | **(3,885)** | (2,958) |
| Income taxes recovered (paid) | | **1,087** | 2,212 | **(3,035)** | 1,151 |
| Cashflow | | **34,799** | 30,044 | **78,420** | 48,768 |
| Changes in non-cash working capital items: | | | | | |
| Accounts receivable | | **(18,061)** | (32,570) | **2,806** | (15,978) |
| Inventory | | **(11,326)** | (913) | **(25,328)** | 4,523 |
| Prepaid expenses and deposits | | **(291)** | (4,488) | **781** | (10,654) |
| Accounts payable and accrued liabilities | | **3,250** | 5,590 | **11,574** | 7,009 |
| Onerous leases | | **(201)** | (227) | **(1,246)** | (270) |
| Deferred revenue | | **11,758** | 235 | **18,040** | 4,259 |
| Cash provided by (used in) operating activities | | **19,928** | (2,329) | **85,047** | 37,657 |
| Investing: | | | | | |
| Purchase of property, plant and equipment | | **(7,425)** | (8,874) | **(28,502)** | (22,306) |
| Acquisitions | | **–** | – | **–** | (26,830) |
| Cash acquired | | **–** | – | **–** | 16,167 |
| Proceeds on sale of other assets | | **954** | 143 | **1,181** | 258 |
| Proceeds on disposal of property, plant and equipment | | **1,695** | 1,814 | **3,798** | 2,842 |
| Changes in non-cash working capital items | | **344** | 418 | **(1,675)** | 205 |
| Cash used in investing activities | | **(4,432)** | (6,499) | **(25,198)** | (29,664) |
| Financing: | | | | | |
| Advances on long-term debt | | **–** | 6,023 | **50,000** | 210,023 |
| Repayment of long-term debt | 4 | **(2,237)** | (4,178) | **(82,080)** | (210,076) |
| Repayment of obligations under finance leases | | **(601)** | (433) | **(1,669)** | (1,377) |
| Dividends to shareholders | | **(2,772)** | (2,774) | **(8,247)** | (6,961) |
| Issuance of common shares | | **–** | – | **–** | 2,289 |
| Repurchase of common shares | | **(2,122)** | – | **(2,719)** | – |
| Partnership distributions | | **–** | – | **(475)** | – |
| Purchase of partners' share in limited partnership | | **(332)** | – | **(332)** | – |
| Interest paid | | **(3,087)** | (2,850) | **(11,067)** | (14,735) |
| Cash used in financing activities | | **(11,151)** | (4,212) | **(56,589)** | (20,837) |
| Change in cash and cash equivalents | | **4,345** | (13,040) | **3,260** | (12,844) |
| Cash and cash equivalents, beginning of period | | **20,069** | 16,112 | **21,154** | 15,916 |
| Cash and cash equivalents, end of period | | **$ 24,414** | $ 3,072 | **$ 24,414** | $ 3,072 |

*The notes on pages 27 to 36 are an integral part of these condensed interim consolidated financial statements.*

# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the nine months ended September 30, 2018 and 2017
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, 2017, except for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers which were adopted on January 1, 2018. 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, 2017.

These condensed interim consolidated financial statements were approved by the Board of Directors on November 8, 2018.

### 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, 2018 the Company adopted the following standards which had no material impact on the amounts recorded in these financial statements:

*IFRS 15 – Revenue from Contracts with Customers*

Effective January 1, 2018 the Company adopted IFRS 15, Revenue from Contracts with Customers using the cumulative-effect method of adoption.

The Company enters into a variety of contracts and recognizes revenue when performance obligations have been fulfilled. The following describes the recognition of revenue for each of the Company's contracts, which is consistent with its reportable operating segments outlined in Note 3.

*Contract Drilling*

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

*Well Servicing*

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

*Rentals and Transportation*

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

*Compression and Process Services*

The Company enters into contracts to supply equipment that involves the design, manufacture, installation and start-up and service of compression and process services. Performance obligations for these contracts are satisfied over time and are measured by reference to labour hours incurred to date as a proportion of total expected labour hours over the amount specified in the contract. Revenues and costs only begin to be recognized when the Company can reasonably measure its progress towards complete satisfaction of the contract. Parts and service performance obligations are satisfied at a point in time or over time at the monthly, daily, hourly or job rates specified in the contract.

### IFRS 9 Financial Instruments

Effective January 1, 2018 the Company adopted the amendments in IFRS 9, Financial Instruments, including the classification and measurement of financial assets and the expected loss impairment model. The amendments to IFRS 9 are effective for annual periods on or after January 1, 2018 and are applied retrospectively. The standard addresses classification and measurement of financial assets and replaces multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement.

The following table summarizes the changes to the Company's financial asset and liability classifications:

| Financial Instrument | IAS 39 Category | IFRS 9 Category |
|---|---|---|
| Cash and cash equivalents | Loans and receivables | Amortized cost |
| Accounts receivable | Loans and receivables | Amortized cost |
| Deposits | Loans and receivables | Amortized cost |
| Other assets | Fair value through profit or loss | Fair value through profit or loss |

## Accounting Pronouncements Not Yet Adopted

*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 unless a lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

IFRS 16 applies to reporting periods beginning on or after January 1, 2019. Management is in the process of assessing the adoption of IFRS 16. The adoption of IFRS 16 will have an impact on the Financial Statements, as the Company has office and shop leases that are currently classified as operating leases. Under IFRS 16, these operating leases will become finance leases, with the present value of the future lease payments used to estimate the value of the right of use assets and lease obligations. IFRS 16 will also result in additional disclosures in the notes to the Financial Statements.

*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. Management is assessing the impact of the adoption of IFRIC 23 on the Company's 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 September 30, 2018 | Contract Drilling Services | Rentals and Transportation Services | Compression and Process Services | Well Servicing | Corporate (1) | Total |
|---|---|---|---|---|---|---|
| Revenue | $ 57,687 | $ 19,462 | $ 114,811 | $ 40,965 | $ – | $ 232,925 |
| Cost of services | 45,287 | 12,474 | 98,215 | 28,774 | – | 184,750 |
| Selling, general and administration | 1,836 | 3,359 | 3,262 | 1,120 | 4,327 | 13,904 |
| Share-based compensation | – | – | – | – | 499 | 499 |
| Depreciation | 8,544 | 4,070 | 1,874 | 4,965 | 25 | 19,478 |
| Operating income (loss) | 2,020 | (441) | 11,460 | 6,106 | (4,851) | 14,294 |
| Gain (loss) on sale of property, plant and equipment | 298 | (144) | 193 | 513 | – | 860 |
| Finance costs | (17) | (18) | (10) | (26) | (2,869) | (2,940) |
| Net income (loss) before income taxes | 2,301 | (603) | 11,643 | 6,593 | (7,720) | 12,214 |
| Goodwill | – | 2,514 | 1,539 | – | – | 4,053 |
| Total assets | 432,267 | 240,689 | 234,413 | 134,966 | 21,478 | 1,063,813 |
| Total liabilities | 50,497 | 39,190 | 103,835 | 4,061 | 316,992 | 514,575 |
| Capital expenditures | $ 2,114 | $ 2,916 | $ 2,062 | $ 333 | $ – | $ 7,425 |

| As at and for the three months ended September 30, 2017 | Contract Drilling Services | Rentals and Transportation Services | Compression and Process Services | Well Servicing | Corporate (1) | Total |
|---|---|---|---|---|---|---|
| Revenue | $ 58,634 | $ 19,535 | $ 67,707 | $ 39,282 | $ – | $ 185,158 |
| Cost of services | 48,271 | 10,783 | 56,542 | 28,757 | – | 144,353 |
| Selling, general and administration | 2,774 | 3,136 | 2,357 | 1,664 | 2,984 | 12,915 |
| Share-based compensation | – | – | – | – | 709 | 709 |
| Depreciation | 10,854 | 4,519 | 1,852 | 2,898 | 187 | 20,310 |
| Operating income (loss) | (3,265) | 1,097 | 6,956 | 5,963 | (3,880) | 6,871 |
| Gain on sale of property, plant and equipment | 5 | 84 | 56 | (14) | 44 | 175 |
| Finance costs | (117) | (173) | (94) | (1) | (2,668) | (3,053) |
| Net income (loss) before income taxes | (3,377) | 1,008 | 6,918 | 5,948 | (6,504) | 3,993 |
| Goodwill | – | 2,514 | 1,539 | – | – | 4,053 |
| Total assets | 444,009 | 239,014 | 174,744 | 133,647 | 65,124 | 1,056,538 |
| Total liabilities | 59,066 | 44,339 | 60,881 | 14,678 | 332,927 | 511,891 |
| Capital expenditures | $ 2,377 | $ 3,894 | $ 1,843 | $ 444 | $ 316 | $ 8,874 |

(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 nine months ended September 30, 2018 | Contract Drilling Services | Rentals and Transportation Services | Compression and Process Services | Well Services | Corporate (1) | Total |
|---|---|---|---|---|---|---|
| Revenue | $ 156,930 | $ 56,656 | $ 305,082 | $ 113,295 | $ – | $ 631,963 |
| Cost of services | 126,280 | 36,494 | 261,397 | 80,918 | – | 505,089 |
| Selling, general and administration | 6,285 | 10,579 | 9,545 | 3,357 | 11,777 | 41,543 |
| Share-based compensation | – | – | – | – | 1,798 | 1,798 |
| Depreciation | 24,134 | 13,012 | 5,465 | 15,051 | 61 | 57,723 |
| Operating income (loss) | 231 | (3,429) | 28,675 | 13,969 | (13,636) | 25,810 |
| Gain on sale of property, plant and equipment | 425 | 218 | 431 | 906 | – | 1,980 |
| Finance costs | (44) | (74) | (30) | (104) | (10,041) | (10,293) |
| Net income (loss) before income taxes | 612 | (3,285) | 29,076 | 14,771 | (23,677) | 17,497 |
| Goodwill | – | 2,514 | 1,539 | – | – | 4,053 |
| Total assets | 432,267 | 240,689 | 234,413 | 134,966 | 21,478 | 1,063,813 |
| Total liabilities | 50,497 | 39,190 | 103,835 | 4,061 | 316,992 | 514,575 |
| Capital expenditures | $ 10,574 | $ 8,064 | $ 7,263 | $ 2,594 | $ 7 | $ 28,502 |

| As at and for the nine months ended September 30, 2017 | Contract Drilling Services | Rentals and Transportation Services | Compression and Process Services | Well Servicing | Corporate (1) | Total |
|---|---|---|---|---|---|---|
| Revenue | $ 106,634 | $ 50,468 | $ 193,163 | $ 74,167 | $ – | $ 424,432 |
| Cost of services | 94,367 | 30,413 | 167,214 | 54,602 | – | 346,596 |
| Selling, general and administration | 6,424 | 9,096 | 6,145 | 3,244 | 10,259 | 35,168 |
| Share-based compensation | – | – | – | – | 1,193 | 1,193 |
| Depreciation | 20,378 | 13,548 | 5,497 | 7,472 | 1,055 | 47,950 |
| Operating income (loss) | (14,535) | (2,589) | 14,307 | 8,849 | (12,507) | (6,475) |
| Gain on sale of property, plant and equipment | 5 | 279 | 86 | (14) | 44 | 400 |
| Finance costs | (305) | (530) | (281) | (1) | (9,179) | (10,296) |
| Net income (loss) before income taxes | (14,835) | (2,840) | 14,112 | 8,834 | (21,642) | (16,371) |
| Goodwill | – | 2,514 | 1,539 | – | – | 4,053 |
| Total assets | 444,009 | 239,014 | 174,744 | 133,647 | 65,124 | 1,056,538 |
| Total liabilities | 59,066 | 44,339 | 60,881 | 14,678 | 332,927 | 511,891 |
| Capital expenditures | $ 7,618 | $ 8,595 | $ 4,309 | $ 777 | $ 1,007 | $ 22,306 |

(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 Sept 30, 2018** | **Canada** | **United States** | **Australia** | **Other** | **Total** |
|---|---|---|---|---|---|
| **Revenue** | **$ 125,404** | **$ 68,713** | **$ 38,714** | **$ 94** | **$ 232,925** |
| **Non-current assets (1)** | **534,879** | **154,279** | **80,623** | **–** | **769,781** |

| Three months ended Sept 30, 2017 | Canada | United States | Australia | Other | Total |
|---|---|---|---|---|---|
| Revenue | $ 91,739 | $ 58,405 | $ 34,981 | $ 33 | $ 185,158 |
| Non-current assets (1) | 578,765 | 138,208 | 94,150 | – | 811,123 |

| **Nine months ended Sept 30, 2018** | **Canada** | **United States** | **Australia** | **Other** | **Total** |
|---|---|---|---|---|---|
| **Revenue** | **$ 317,839** | **$ 198,585** | **$ 115,445** | **$ 94** | **$ 631,963** |
| **Non-current assets (1)** | **534,879** | **154,279** | **80,623** | **–** | **769,781** |

| Nine months ended Sept 30, 2017 | Canada | United States | Australia | Other | Total |
|---|---|---|---|---|---|
| Revenue | $ 251,421 | $ 102,458 | $ 70,509 | $ 44 | $ 424,432 |
| Non-current assets (1) | 578,765 | 138,208 | 94,150 | – | 811,123 |

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

## 4. Long-term Debt

At September 30, 2018 the Company's long-term debt consisted of the following:

| | **September 30, 2018** | |
|---|---|---|
| | **Interest rate** | **Principal Amount** |
| Credit Facility | **4.11%** | **$ 236,000** |
| Mortgage loan (2020 maturity) | **3.06%** | **43,469** |
| Mortgage loan (2041 maturity) | **4.30%** | **15,809** |
| Limited partnership credit facility | **5.50%** | **340** |
| | | **295,618** |
| Less current portion | | **3,064** |
| | | **$ 292,554** |

At September 30, 2018 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 and the maturity date extended to June 19, 2021. 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 September 30, 2018, the applicable interest rate on amounts drawn on the Credit Facility was 4.11% and the standby rate was 0.44%. $3.2 million of letters of credit ("LOC") were outstanding at September 30, 2018 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 letter of credit facility was established. Letters of credit issued pursuant to this facility do not reduce availability under the Credit Facility. At September 30, 2018 $1.1 million U.S. dollars ($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:

| | September 30 2018 | Threshold |
|---|---|---|
| Twelve-month trailing Bank EBITDA to interest expense | **8.08** | minimum 3.00 |
| Total Senior Debt to twelve-month trailing Bank EBITDA | **2.02** | 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 September 30, 2018.

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 September 30, 2018 this facility was 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 4.30% at September 30, 2018. This loan is secured by certain of the Company's real estate.

Limited partnership credit facility is a loan with an aboriginal partnership that is secured by a general assignment of book debts and a general security agreement charging all present and after-acquired property of the partnership. On September 6, 2018 the Company repaid $1.2 million principal amount owing under a second aboriginal limited partnership credit facility. Such repayment was funded by cash on hand.

At September 30, 2018 the Company was in compliance with all debt covenants.

Unaudited (tabular amounts in thousands of Canadian dollars)

## 5. Onerous Leases

Onerous lease liabilities relate 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.

## 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, 2016 | 30,920 | $ 88,654 |
| Issued on acquisition | 7,924 | 104,544 |
| Issued on subsequent acquisition transactions | 7,228 | 95,220 |
| Issued on exercise of stock options | 166 | 2,899 |
| Balance, December 31, 2017 | 46,238 | $ 291,317 |
| Redeemed pursuant to acquisition sunset clause | (7) | – |
| Repurchased and cancelled | (231) | (1,455) |
| **Balance, September 30, 2018** | **46,000** | **$ 289,862** |

### (b) Per share amounts

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Net income (loss) for the period attributable to shareholders | **$ 8,910** | $ 4,307 | **$ 15,903** | $ (8,111) |
| Weighted average number of shares outstanding – basic and diluted | **46,099** | 46,238 | **46,186** | 40,523 |
| Earnings (loss) per share – basic and diluted | **$ 0.19** | $ 0.09 | **$ 0.34** | $ (0.20) |

For the three and nine months ended September 30, 2018, 3,280,000 share options (September 30, 2017: 2,885,000) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

Unaudited (tabular amounts in thousands of Canadian dollars)

## 7. Share-Based Compensation Plan

Share option transactions during 2018 and 2017 were as follows:

| | Weighted average exercise price | Number of Options |
|---|---|---|
| Balance, December 31, 2016 | $ 13.99 | 2,560,000 |
| Granted | 12.93 | 1,715,000 |
| Exercised | 13.74 | (166,600) |
| Forfeited | 12.96 | (250,000) |
| Expired | 13.74 | (973,400) |
| Balance, December 31, 2017 | $ 13.55 | 2,885,000 |
| Granted | 13.42 | 675,000 |
| Forfeited | 12.96 | (150,000) |
| Expired | 14.96 | (130,000) |
| **Balance, September 30, 2018** | **$ 13.50** | **3,280,000** |

A total of 1,298,331 outstanding options were exercisable at September 30, 2018.

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 2018 was $2.46 per option (2017: $2.36 per option) using the following assumptions:

| | **September 30, 2018** | December 31, 2017 |
|---|---|---|
| Expected volatility | **25.88% – 27.88%** | 26.05% – 29.14% |
| Annual dividend yield | **1.77% – 1.85%** | 1.85% – 2.00% |
| Risk free interest rate | **1.93% – 2.17%** | 0.96% – 1.43% |
| Forfeitures | **9%** | 5% |
| Expected life (years) | **3 to 5 years** | 3 to 5 years |

The share options issued during 2018 and 2017 vest 1/3 on the first, second and third anniversary from the grant date and expire five years from the date of grant. The options expire on various dates ranging from July 29, 2020 to May 11, 2023.

## 8. Financial Instruments

The Company's financial instruments as at September 30, 2018 include cash and cash equivalents, accounts receivable, other assets, accounts payable and accrued liabilities, dividends payable, forward foreign exchange contracts, obligations under finance leases and long-term debt. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and obligations under finance leases approximate their carrying amounts due to their short-terms to maturity. The fair value of other assets was determined based on market prices quoted on the relevant stock exchanges on which the marketable securities trade (level 1 of fair value hierarchy).

Changes in fair value of other assets are recorded in the statement of comprehensive income in the period the changes in fair value occur. The discounted future cash repayments of the Company`s 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 4.49% for a similar debt instrument at September 30, 2018 was $42.7 million (December 31, 2017: market rate of 4.04%, $44.0 million). The carrying value and Company`s liability with respect to the mortgage loan is $43.5 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 September 30, 2018. 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 $14.9 million of cash may be owing and $22.0 million of income tax expense would be recognized.

In June of 2017, one of the Company's subsidiaries, 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, 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

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## 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 • Lac La Biche • Leduc • Lloydminster • Manning • Medicine Hat
Red Deer • Red Earth • Rocky Mountain House • Slave Lake • Swift Current • Weyburn/Midale • Whitecourt

## U.S. LOCATIONS

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

## AUSTRALIAN LOCATIONS

Toowoomba, QLD

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SPECTRUM Process Systems

Savanna Drilling

Savanna Well Servicing

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