

# Q1



## FOCUS DISCIPLINE GROWTH

First Quarter Report 2019

**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.

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**REPORT TO SHAREHOLDERS**

Total Energy's financial results for the first quarter of 2019 improved compared to the first quarter of 2018 despite continued challenging industry conditions in Canada. Offsetting Canadian weakness was relatively strong activity levels in the United States and Australia such that 57% of 2019 first quarter revenues were generated outside of Canada as compared to 49% during the first three months of 2018.

The decline in global oil prices during the fourth quarter of 2018 tempered industry sentiment going into 2019, particularly in Canada where the differential between global oil prices and the price received by Canadian producers increased substantially due to a lack of pipeline and other export capacity. In response to the widening price differential, the Alberta government imposed mandatory oil production cuts that came into effect in January 2019. While Canadian oil prices have recovered since the curtailment was imposed, many producers scaled back or cancelled winter drilling programs in response to such production restrictions resulting in an approximate 30% year over year decline in first quarter Canadian drilling activity. This pullback in activity impacted all business segments, particularly the CDS and RTS segments.

Total Energy continued to generate significant cash flow despite prolonged challenging industry conditions in Canada. During the first quarter of 2019 Total Energy made \$14.7 million of capital expenditures, repaid \$10.9 million of debt and returned \$3.6 million to shareholders by way of dividends and share buybacks. At March 31, 2019 the Company had \$117.9 million of positive working capital, including \$50.3 million of cash and marketable securities.

**LOOKING FORWARD**

With oil prices having recovered much of their late 2018 losses thus far in 2019, industry sentiment in the United States and Australia has stabilized and oilfield activity levels in these markets are relatively strong. Canada remains the exception, with 2019 activity levels at times approaching the lows experienced in 2016. As such, the focus for 2019 will remain similar to 2018, that being capital discipline, international growth and the relocation or disposal of underutilized equipment.

With increased fabrication capacity coming on line in late 2018, the CPS segment has recently expanded its United States sales presence in order to continue to grow its share of that market. The RTS segment has seen strong demand in the United States for quality equipment and service and continues to grow its market share by displacing third party equipment with underutilized equipment relocated from Canada and targeted investment in new equipment. Further geographic consolidation of United States drilling operations during the first quarter of 2019 is expected to bring efficiencies to that business going forward.

Finally, all Shareholders and other interested persons are invited to attend the annual meeting of Shareholders that will commence at 10:00 a.m. (MDT) on Wednesday, May 15, 2019 at the Calgary Petroleum Club, 319 – 5th Avenue S.W., Calgary, Alberta.



DANIEL K. HALYK  
President and Chief Executive Officer

May 2019

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

The following MD&A for Total Energy Services Inc. ("Total Energy" or the "Company") was prepared as at May 9, 2019 and focuses on information and key statistics from the unaudited condensed interim consolidated financial statements of the Company for the three months ended March 31, 2019 (the "Interim Financial Statements") and pertains to known risks and uncertainties relating to the energy services sector. This discussion should not be considered all-inclusive as it does not include all changes regarding general economic, political, governmental and environmental conditions.

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

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

### FINANCIAL HIGHLIGHTS

	Three months ended March 31		
	2019	2018	Change
Revenue	\$ 221,990	\$ 205,215	8%
Operating income	8,437	7,560	12%
EBITDA <sup>(1)</sup>	29,415	27,655	6%
Cashflow	28,453	21,149	35%
Net income	4,759	3,328	43%
Attributable to shareholders	4,760	3,164	50%
Per Share Data (Diluted)			
EBITDA <sup>(1)</sup>	0.64	0.60	7%
Cashflow	0.62	0.46	35%
Attributable to shareholders:			
Net income	0.10	0.07	43%
<b>Financial Position at</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>Change</b>
Total Assets	\$ 1,101,027	\$ 1,078,124	2%
Long-Term Debt and Lease Liabilities (excluding current portion)	286,829	286,319	–
Working Capital <sup>(2)</sup>	117,914	124,967	(6%)
Net Debt <sup>(1)</sup>	168,915	161,352	5%
Shareholders' Equity	558,054	560,576	–
<b>Common shares (000's) <sup>(3)</sup></b>			
Basic and Diluted	45,829	46,122	(1%)

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

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

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

## BUSINESS OF THE COMPANY

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

**Contract Drilling Services:** At March 31, 2019, the Company operated a total fleet of 114 drilling rigs. The rig fleet is supported by an extensive fleet of owned top drives, walking systems, pumps and other ancillary equipment. Composition of the Company's drilling rig fleet is as follows:

<u>By Type</u>		<u>By Geography</u>	
Triples	4	Canada	85
AC doubles	13	United States	24
Mechanical doubles	51	Australia	5
Australian shallow	5		114
TDS and singles	41		
	<u>114</u>		

**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 March 31, 2019, this segment had approximately 10,660 pieces of major rental equipment (excluding access matting), a fleet of 91 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 March 31, 2019 the CPS segment occupied approximately 246,000 square feet of production facilities located in Calgary, Alberta and a 100,000 square foot production facility in Weirton, West Virginia. As at March 31, 2019 the CPS segment also had a network of 11 branch locations throughout western Canada and the United States from which its natural gas compression parts and service business is conducted. This segment had 47,000 horsepower of compression in its rental fleet at March 31, 2019.

**Well Servicing:** At March 31, 2019, the Company operated a total fleet of 83 well servicing rigs across western Canada, northwest United States and Australia. Composition of the Company's service rig fleet is as follows:

<u>By Type</u>		<u>By Geography</u>	
Singles	38	Canada	57
Doubles	32	United States	14
Australian spec	9	Australia	12
Flush-by	4		83
	<u>83</u>		

## OVERALL PERFORMANCE

Total Energy's results for the three months ended March 31, 2019 reflect relatively stable industry activity levels in the United States and Australia offset by a significant decrease in drilling and completion activity in Canada as compared to 2018. Negatively impacting the Company's results for the first quarter of 2019 was approximately \$1.3 million of non-recurring equipment relocation expenses in the CDS and RTS segments as the Company continued to consolidate U.S. drilling operations and relocate underutilized equipment from Canada to the U.S. Also negatively impacting 2019 first quarter results was \$1.2 million of other expense which consisted of unrealized foreign exchange losses on differences relating to translation of working capital balances of foreign subsidiaries as compared to unrealized gains in 2018.

The Company's financial condition remains strong, with a positive working capital balance of \$117.9 million as at March 31, 2019, a decrease of \$7.1 million from the working capital position at December 31, 2018. This decrease was due primarily to an increase in the current portion of capital leases relating to real estate recognized in the first quarter on the adoption of International Financial Reporting Standards ("IFRS") 16. Shareholders' equity decreased by \$2.5 million from December 31, 2018 primarily as a result of a strengthening of the Canadian dollar since the beginning of the first quarter and its impact on translation of foreign subsidiary balances.

### Revenue

	Three months ended March 31		
	2019	2018	Change
Revenue	\$ 221,990	\$ 205,215	8%

The increase in revenue for the three months ended March 31, 2019 relative to the same period in 2018 was the result of higher activity levels in the CPS segment, offset somewhat by lower revenue in the CDS and RTS segments. WS revenue was flat on a year over year basis.

### Cost of Services and Gross Margin

	Three months ended March 31		
	2019	2018	Change
Cost of services	\$ 179,978	\$ 165,569	9%
Gross margin	\$ 42,012	\$ 39,646	6%
Gross margin, as a percentage of revenue	19%	19%	

The increase in costs of services during the first quarter of 2019 relative to the same period in 2018 is primarily due to increased activity levels in the CPS segment.

Gross margin, as a percentage of revenue, for the three months ended March 31, 2019 was consistent with the same period in 2018 at 19%. Realized gross margin was \$2.4 million higher in the first three months of 2019 compared to the same period in 2018 as a result of improved profitability in the CPS segment as well as a \$0.6 million reduction in cost of services on adoption to IFRS 16 Leases. Negatively impacting gross margin for the three months was \$1.3 million of non-recurring expenses incurred by the CDS and RTS segments with the relocation of equipment.

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

### Selling, General and Administration Expenses

	Three months ended March 31		
	2019	2018	Change
Selling, general and administration expenses	\$ 12,762	\$ 13,637	(6%)

Selling, general and administration expenses decreased in the first quarter of 2019 relative to the same period in 2018 as a result of cost savings activities and a \$0.6 million positive impact on adoption to IFRS 16 Leases. Partially offsetting this decrease is increased performance-based compensation as a result of increased profitability in the CPS segment. As a percentage of revenue, selling, general and administration expenses were 14% lower in the first quarter of 2019 compared to the same period in 2018. This year over year decrease is due primarily to synergies achieved with the integration of Savanna Energy Services Corp. ("Savanna"), which was acquired in 2017.

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

### Other income (expense)

	Three months ended March 31		
	2019	2018	Change
Other income (expense)	\$ (1,161)	\$ 1,592	nm

"nm" - calculation not meaningful

Other income (expense) arises from unrealized foreign exchange differences on translation of working capital balances of foreign subsidiaries.

### Share-based Compensation Expense

	Three months ended March 31		
	2019	2018	Change
Share-based compensation expense	\$ 368	\$ 441	(17%)

Share-based compensation expense arises from share options granted pursuant to the share option plan implemented in 2015. Share-based compensation expense for the three months ended March 31, 2019 was lower than the prior year comparable period due to certain options fully vesting in 2018.

### Depreciation Expense

	Three months ended March 31		
	2019	2018	Change
Depreciation expense	\$ 19,284	\$ 19,600	(2%)

Depreciation expense for the first quarter of 2019 was slightly lower than the same period in 2018. Included in 2019 depreciation expense is \$1.2 million of depreciation on assets recognized pursuant to IFRS 16 which was offset by lower depreciation on reduced activity in the CDS segment. All of the Company's property, plant and equipment is depreciated on a straight-line basis with the exception of contract drilling equipment, which is depreciated on a utilization basis subject to a minimum annual depreciation expense equal to an annual utilization of 96 days.

### Operating Income

	Three months ended March 31		
	2019	2018	Change
Operating income	\$ 8,437	\$ 7,560	12%

Operating income for the three months ended March 31, 2019 improved compared to the same period in 2018. The increase in the first quarter of 2019 compared to 2018 was primarily due to increased activity in the CPS segment. Negatively impacting operating income for the three months was \$1.3 million of non-recurring relocation expenses incurred by the CDS and RTS segments.

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

	Three months ended March 31		
	2019	2018	Change
Gain on sale of property, plant and equipment	\$ 1,694	\$ 495	242%
Proceeds on the sale of property, plant and equipment	\$ 2,670	\$ 1,239	115%

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

Equipment disposed of during the first quarter of 2019 consisted primarily of compression rental equipment that was sold in the ordinary course of business.

### Finance Costs

	Three months ended March 31		
	2019	2018	Change
Finance costs	\$ 3,245	\$ 3,856	(16%)

Finance costs for the three months ended March 31, 2019 were lower than the prior year comparable period due to a \$41.6 million reduction in bank debt at March 31, 2019 as compared to a year earlier. The decrease was offset somewhat by higher applicable interest rates on variable rate debt due to increases in the Canadian prime rate of interest over the past year.

### Income Taxes and Net Income

	Three months ended March 31		
	2019	2018	Change
Current income tax expense	\$ 700	\$ 835	(16%)
Deferred income tax expense	1,427	36	nm
Total income tax expense	\$ 2,127	\$ 871	144%
Net income	\$ 4,759	\$ 3,328	43%

"nm" - calculation not meaningful

The year over year changes in current and deferred income tax expense is primarily due to increased profitability in the first quarter of 2019.



## SEASONALITY

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

## SUMMARY OF QUARTERLY RESULTS

	Financial Quarter Ended			
	March 31, 2019	Dec 31, 2018	Sept 30, 2018	June 30, 2018
Revenue	\$ 221,990	\$ 219,846	\$ 232,925	\$ 193,823
Operating income	8,437	10,748	14,294	3,956
EBITDA <sup>(1)</sup>	29,415	29,153	34,632	23,226
Cashflow	28,453	23,070	34,799	22,472
Cash provided by operating activities	50,187	30,658	19,928	42,335
Net income	4,759	8,570	8,655	3,662
Attributable to shareholders	4,760	8,555	8,910	3,829
<b>Per share data</b>				
EBITDA <sup>(1)</sup>	\$ 0.64	\$ 0.63	\$ 0.75	\$ 0.50
Cashflow	0.62	0.50	0.75	0.49
Net income attributable to shareholders	0.10	0.19	0.19	0.08
<b>Financial Position</b>				
Total Assets	\$ 1,101,027	\$ 1,078,124	\$ 1,063,813	\$ 1,050,740
Long-Term Debt and Lease Liabilities (excluding current portion)	286,829	286,319	295,545	295,914
Working Capital <sup>(2)</sup>	117,914	124,967	117,586	103,113
Net Debt <sup>(1)</sup>	168,915	161,352	177,959	192,801
Shareholders' Equity	558,054	560,576	549,238	551,612
<b>Common Shares (000's) <sup>(3)</sup></b>				
Basic	45,829	45,933	46,099	46,223
Diluted	45,829	45,933	46,099	46,223

TOTAL ENERGY SERVICES INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

	Financial Quarter Ended			
	March 31, 2018	Dec 31, 2017	Sept 30, 2017	June 30, 2017
Revenue	\$ 205,215	\$ 180,230	\$ 185,158	\$ 154,922
Operating income (loss)	7,560	9,680	6,871	(13,105)
EBITDA <sup>(1)</sup>	27,655	29,729	27,356	6,577
Cashflow	21,149	27,803	30,044	10,903
Cash provided by (used in) operating activities	22,784	26,727	(2,329)	45,287
Net income (loss)	3,328	6,554	3,737	(13,141)
Attributable to shareholders	3,164	6,195	4,307	(11,565)
<b>Per share data (diluted)</b>				
EBITDA <sup>(1)</sup>	\$ 0.60	\$ 0.64	\$ 0.59	\$ 0.15
Cashflow	0.46	0.60	0.65	0.25
Net income (loss) attributable to shareholders	0.07	0.13	0.09	(0.26)
<b>Financial Position</b>				
Total Assets	\$ 1,065,499	\$ 1,066,781	\$ 1,056,538	\$ 1,053,302
Long-Term Debt and Lease Liabilities (excluding current portion)	247,087	257,845	257,981	256,266
Working Capital <sup>(2)</sup>	54,906	54,892	37,053	21,309
Net Debt <sup>(1)</sup>	192,181	202,953	220,928	234,957
Shareholders' Equity	550,732	546,574	544,647	547,405
<b>Common Shares (000's) <sup>(3)</sup></b>				
Basic	46,238	46,238	46,238	43,718
Diluted	46,241	46,238	46,238	43,718

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

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

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

### Aboriginal Partnerships

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

## SEGMENTED RESULTS

### Contract Drilling Services

March 31	Three Months Ended		
	2019	2018	Change
Revenue	\$ 45,704	\$ 60,980	(25%)
Operating (loss) income	\$ (2,610)	\$ 507	nm
Operating spud to release days	1,930	2,924	(34%)
Revenue per spud to release day, dollars	\$ 23,681	\$ 20,855	14%

"nm" - calculation not meaningful

Canadian drilling activity during the first quarter of 2019 was approximately 30% lower compared to 2018. Also impacting CDS results was \$0.9 million of non-recurring expenses incurred to relocate drilling equipment in the United States as this segment continued to consolidate U.S. operations during the first quarter of 2019.

The following summarizes the operating results for the CDS segment by geographic area for the three months ended March 31, 2019.

Q1 2019	Drilling Canada	Drilling U.S.	Drilling Australia	Total
Revenue	\$ 20,257	\$ 12,912	\$ 12,535	\$ 45,704
Operating income (loss)	\$ (256)	\$ (4,088)	\$ 1,734	\$ (2,610)
Spud to release days	1,110	522	298	1,930
Revenue per spud to release day, dollars	\$ 18,250	\$ 24,736	\$ 42,064	\$ 23,681
Utilization % (spud to release)	15%	24%	65%	19%

Q1 2018	Drilling Canada	Drilling U.S.	Drilling Australia	Total
Revenue	\$ 35,036	\$ 14,097	\$ 11,847	\$ 60,980
Operating income (loss)	\$ 2,203	\$ (4,424)	\$ 2,728	\$ 507
Spud to release days	1,999	714	211	2,924
Revenue per spud to release day, dollars	\$ 17,527	\$ 19,744	\$ 56,147	\$ 20,855
Utilization % (spud to release)	26%	32%	47%	28%

The overall decrease in CDS segment revenue during the first quarter of 2019 relative to the same period in 2018 is primarily a result of lower utilization in Canada and the United States. In Canada, activity levels were negatively impacted by the implementation of an oil production curtailment by the Alberta government. In the United States, the combination of higher effective per day rates due to the rig mix working and the appreciation of the U.S. dollar was somewhat offset by reduced activity levels. Utilization in Australia increased due to an additional rig commencing operations as compared to the same period in 2018. Effective day rates in Australia were lower in Q1 2019 as compared to Q1 2018 due to a combination of lower contracted pricing and lower camp and other ancillary revenue. Also impacting revenue was the depreciation of the Australian dollar relative to the Canadian dollar.

The realization of operating losses during 2019 in comparison to 2018 is due to lower activity levels and price competition in North America and lower effective day rates in Australia. In the United States, \$0.9 million of non-recurring costs to relocate a drilling rig from Colorado to Texas during the first quarter of 2019 also negatively impacted U.S. CDS margins.

### Rentals and Transportation Services

March 31	Three Months Ended		
	2019	2018	Change
Revenue	\$ 18,407	\$ 22,312	(18%)
Operating loss	\$ (1,632)	\$ (278)	487%
Pieces of rental equipment	10,660	11,000	(3%)
Heavy trucks	91	112	(19%)
Rental equipment utilization	23%	27%	(15%)

The revenue reported from the RTS segment for the three months ended March 31, 2019 decreased as compared with the same period in 2018 due to decreased utilization in Canada as a result of a substantial year over year decline in Canadian industry activity. Partially offsetting this decrease was improved pricing in the United States and a change in the mix of equipment utilized.

Operating loss in the first quarter of 2019 increased as compared to the same period in 2018 due to a 36% decrease in Canadian revenue. This was partially offset by cost rationalization measures and increased utilization and pricing in the United States. Also impacting RTS results was \$0.4 million of non-recurring expenses incurred with the relocation of underutilized equipment from Canada to the United States during the first quarter of 2019. This segment's relatively high fixed cost structure as compared to the Company's other business segments combined with the inability to increase prices to the extent necessary to offset cost inflation in Canada contributed to the operating loss for the quarter. Such fixed cost structure includes costs associated with its significant operating branch infrastructure, including maintenance and repairs, utilities, insurance, property taxes and other infrastructure costs. In addition, depreciation expense on this segment's equipment fleet is recorded on a straight-line basis and is not correlated to levels of activity.

The following summarizes the operating results for the RTS segment by geographic area for the three months ended March 31, 2019.

Q1 2019	RTS Canada	RTS U.S.	Total
Revenue	\$ 11,925	\$ 6,482	\$ 18,407
Operating (loss) income	\$ (3,014)	\$ 1,382	\$ (1,632)
Pieces of rental equipment	9,930	730	10,660
Rental equipment utilization	22%	43%	23%

Q1 2018	RTS Canada	RTS U.S.	Total
Revenue	\$ 18,637	\$ 3,675	\$ 22,312
Operating (loss) income	\$ (930)	\$ 652	\$ (278)
Pieces of rental equipment	10,400	600	11,000
Rental equipment utilization	26%	41%	27%

RTS Canada revenue decreased in the three months ended March 31, 2019 compared to the same period in 2018 due to lower industry activity and a smaller fleet of equipment following the disposal and relocation to the United States of underutilized equipment. Lower revenue combined with high fixed costs resulted in operating losses in 2019. RTS U.S. revenue for the three months ended March 31, 2019 increased compared to the same period in 2018 due to higher utilization of a larger equipment fleet. As a result, RTS U.S. realized higher operating income for the three months ended March 31, 2019 as compared to same period in 2018.

### Compression and Process Services

March 31	Three Months Ended		
	2019	2018	Change
Revenue	\$ 121,075	\$ 85,118	42%
Operating income	\$ 11,773	\$ 5,981	97%
Operating income, % of revenue	10%	7%	43%
Sales backlog at period end, \$ million	\$ 159.8	\$ 207.0	(23%)
Horsepower of equipment on rent at period end	30,600	18,500	65%
Rental equipment utilization (HP)	68%	53%	28%

The revenue reported from the CPS segment increased for the three months ended March 31, 2019 as compared to the same period in 2018. This was due primarily to higher international activity levels and increased manufacturing throughput following a 30% increase in Canadian fabrication capacity in the fourth quarter of 2018. The timeline for conversion of the sales backlog into revenue varies from order to order and often changes due to factors outside of the Company's control.

The increase in operating income in the CPS segment during the three months ended March 31, 2019, as compared to the same period in 2018 was due primarily to increased business activity in international markets, an increase in Canadian fabrication capacity in the fourth quarter of 2018, the continued ramp up of operations in Weirton and increased utilization of the compression rental fleet (which generates a higher operating income margin than other sources of CPS revenue).

### Well Servicing

March 31	Three Months Ended		
	2019	2018	Change
Revenue	\$ 36,804	\$ 36,805	–
Operating income	\$ 3,964	\$ 3,686	8%
Operating income, % of revenue	11%	10%	10%
Service hours <sup>(1)</sup>	42,649	41,114	4%
Revenue per service hour	\$ 863	\$ 895	(4%)
Utilization <sup>(2)</sup>	43%	41%	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 first quarter of 2019 was consistent with the same period in 2018 with higher activity being offset by a modest decrease in per hour revenue. Operating income for the first quarter of 2019 was higher, primarily due to realization of operating income in Canada as compared to an operating loss in 2018.

The following summarizes the operating results for the WS segment by geographic area for the three months ended March 31, 2019.

Q1 2019	WS Canada	WS U.S.	WS Australia	Total
Revenue	\$ 14,244	\$ 3,230	\$ 19,330	\$ 36,804
Operating income	\$ 964	\$ 71	\$ 2,929	\$ 3,964
Operating income, % of revenue	7%	2%	15%	11%
Service hours <sup>(1)</sup>	20,825	3,923	17,901	42,649
Revenue per service hour, dollars	\$ 684	\$ 823	\$ 1,080	\$ 863
Utilization % <sup>(2)</sup>	41%	31%	69%	43%

Q1 2018	WS Canada	WS U.S.	WS Australia	Total
Revenue	\$ 11,882	\$ 3,141	\$ 21,782	\$ 36,805
Operating income (loss)	\$ (541)	\$ 59	\$ 4,168	\$ 3,686
Operating income (loss), % of revenue	nm	2%	19%	10%
Service hours <sup>(1)</sup>	18,978	4,724	17,412	41,114
Revenue per service hour, dollars	\$ 626	\$ 665	\$ 1,251	\$ 895
Utilization % <sup>(2)</sup>	37%	37%	67%	41%

"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 months ended March 31, 2019 compared to the same period in 2018. This is primarily due to modestly improved pricing and utilization compared with 2018 as well as continued cost control.

In the United States revenue for the first quarter of 2019 was comparable to the same period in 2018 despite lower utilization as a result of adverse weather conditions and labor shortages that limited field operations. Operating income for the three months ended March 31, 2019 increased relative to the same period in 2018 due to modest increases in per hour revenue.

Well servicing revenue and operating income in Australia for the first quarter of 2019 was lower compared to the same period in 2018 primarily due to modestly lower pricing, lower camp and other ancillary revenue and the depreciation of the Australian dollar relative to the Canadian dollar.

### Corporate

March 31	Three months ended		
	2019	2018	Change
Operating loss	\$ (3,058)	\$ (2,336)	31%

Total Energy's Corporate segment includes activities related to the Company's corporate and public issuer affairs. This segment does not generate any revenue but provides sales, operating, financial, treasury, analytical and other management and support services to Total Energy's business segments and manages the corporate affairs of the Company, including matters related to its public listing. The operating loss for the Corporate segment in 2019 was greater than 2018 due to \$1.2 million of unrealized foreign exchange losses on translation of working capital balances of foreign subsidiaries as compared to \$1.6 million of unrealized gains recorded in 2018.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Provided by Operating Activities and Cashflow

March 31	Three months ended		
	2019	2018	Change
Cash provided by operating activities	\$ 50,187	\$ 22,784	120%
Per Share Data (Diluted)	1.10	0.49	124%
Cashflow	\$ 28,453	\$ 21,149	35%
Per Share Data (Diluted)	0.62	0.46	35%

The changes in cash provided by operating activities and cashflow were due primarily to improved consolidated operating results compared to 2018 with a resultant increase in operating income. The Company reinvests any remaining cash provided by operating activities after required long-term debt and lease liability payments and dividend payments to shareholders into the internal growth of existing businesses, acquisitions, voluntary repayment of long-term debt or the repurchase of the Company's shares pursuant to the Company's normal course issuer bid.

### Investing Activities

March 31	Three months ended		
	2019	2018	Change
Net cash used in investing activities	\$ (9,781)	\$ (7,580)	29%
Proceeds from sale of PP&E	\$ 2,670	\$ 1,239	115%
Purchase of PP&E	\$ (14,700)	\$ (7,605)	93%

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 first quarter of 2019 equipment disposed consisted primarily of compression rental units previously on rent.

During the first quarter of 2019, \$14.7 million of PP&E purchases were allocated as follows: \$2.8 million in the CDS segment relating to the purchase of rig equipment and rig recertifications and upgrades, \$7.6 million in the RTS segment relating to purchases of rental equipment and leased vehicles, \$2.4 million in the CPS segment relating to additions to the compression rental fleet, \$1.7 million in the WS segment relating to service rig recertifications and upgrades and \$0.2 million in Corporate relating to information technology infrastructure upgrades.

### Financing Activities

March 31	Three months ended		
	2019	2018	Change
Net cash used in financing activities	\$ (21,296)	\$ (16,955)	26%

During the first quarter of 2019 \$10.0 million of long-term debt was voluntarily repaid in addition to \$0.9 million of regular principal repayments on the Company's mortgage loans. Increased payments on lease liabilities and timing of payment of interest on long term debt also contributed to the increase in cash used in financing activities as compared to the first quarter of 2018.

### Liquidity and Capital Resources

The Company had a working capital surplus of \$117.9 million as at March 31, 2019 compared to \$125.0 million as at December 31, 2018. This decrease was due primarily to a higher current portion of lease liabilities relating to real estate leases recognized in the first quarter on the adoption of IFRS 16. As at March 31, 2019 and the date of this MD&A, the Company is in compliance with all debt covenants.

On June 19, 2017 the Company entered into a three year \$225.0 million revolving syndicated credit facility ("Credit Facility"). On April 25, 2018 the Credit Facility was increased by \$65.0 million to \$290.0 million and the maturity date extended to June 19, 2021. The Company has the option to increase such facility by \$75.0 million subject to certain terms and conditions, including the agreement of the lenders to increase their commitments. The Credit Facility includes a Canadian \$18.0 million operating line, an Australian \$2.0 million operating line and a Canadian \$270.0 million revolving facility. The Credit Facility bears interest at the banks' Canadian prime rate plus 0.25% to 2.75%, bankers' acceptance, letter of credit, LIBOR or BBSY advances plus a 1.5% to 4.0% stamping fee. The applicable interest rate within such ranges is dependent on certain financial ratios of the Company. A standby fee ranging from 0.25% to 0.8% per annum is paid quarterly on the unused portion of the facility depending on certain financial ratios of the Company. At March 31, 2019, the applicable interest rate on amounts drawn on the Credit Facility was 4.42% and the standby rate was 0.44%. Letters of credit ("LOC") of \$0.3 million were outstanding at March 31, 2019 which reduces the amount of credit available under the Credit Facility by an equivalent amount.

In August of 2018 a U.S. \$20 million LOC was established. LOCs issued pursuant to this facility do not reduce availability under the Credit Facility. At March 31, 2019 \$2.3 million U.S. dollars (\$3.0 million Canadian dollars) and \$1.4 million Canadian dollars of LOCs were outstanding under this facility.

In addition to the Credit Facility, a subsidiary of the Company has established a \$5.0 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At March 31, 2019 this facility was undrawn and fully available.

At March 31, 2019 the Company's long-term debt consisted of the following:

	March 31, 2019	
	Interest rate	Principal Amount
Credit Facility	4.42%	\$ 217,000
Mortgage loan (2020 maturity)	3.06%	42,455
Mortgage loan (2041 maturity)	4.55%	15,469
		\$ 274,924
Less current portion		2,755
		\$ 272,169

At March 31, 2019 amounts owing under the Credit Facility and other debt were denominated in Canadian dollars. The weighted average interest rate on the Company's debt at March 31, 2019 was 4.21%.

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:

	March 31 2019	Threshold
Twelve-month trailing Bank EBITDA to interest expense	7.34	minimum 3.00
Total Senior Debt to twelve-month trailing Bank EBITDA	1.61	maximum 3.00

The Company was in compliance with all of its Credit Facility and other debt covenants at March 31, 2019. For further information regarding Credit Facility compliance requirements and details on the Company's borrowings, please refer to note 4 to the Interim Financial Statements.

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



### Dividends

For the three months ended March 31, 2019 the Company declared dividends of \$2.7 million (\$0.06 per share) as compared to \$2.8 million (\$0.06 per share) for the same period in 2018. The decrease in the aggregate dividend paid during 2019 compared to 2018 reflects the decreased number of shares of the Company following the repurchase and cancellation of shares under the normal course issuer bid.

For the three months ended March 31, 2019 cash provided by operating activities, cashflow and net income exceeded dividends to shareholders. Management and the Board of Directors of the Company continue to monitor the Company's dividend policy in the context of industry conditions and forecasted net income, cashflow, cash provided by operating activities, debt levels, capital expenditures and other investment opportunities and will aim to finance future dividends through cash provided by operating activities.

### Capital Spending

Capital spending for the three months ending March 31, 2019 consisted of \$14.7 million of PP&E purchases. Capital spending was funded with cash on hand and available credit facilities.

### CONTRACTUAL OBLIGATIONS

At March 31, 2019 the Company had the following contractual obligations:

	Total	Payments due by year				
		2019	2020	2021	2022	2023 and after
Long-term debt	\$ 274,924	\$ 2,061	\$ 41,585	\$ 217,680	\$ 680	\$ 12,918
Commitments <sup>(1)</sup>	343	236	85	18	3	1
Lease liabilities	22,531	5,998	6,975	4,951	1,802	2,805
Purchase obligations <sup>(2)</sup>	58,918	58,918	-	-	-	-
<b>Total contractual obligations</b>	<b>\$ 356,716</b>	<b>\$ 67,213</b>	<b>\$ 48,645</b>	<b>\$ 222,649</b>	<b>\$ 2,485</b>	<b>\$ 15,724</b>

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

(2) Purchase obligations are described in Note 25 to the 2018 Financial Statements. As at March 31, 2019 purchase obligations primarily relate to commitments to purchase inventory in the CPS segment.

### OFF-BALANCE SHEET ARRANGEMENTS

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

### TRANSACTIONS WITH RELATED PARTIES

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

## FINANCIAL INSTRUMENTS

### Fair values

The discounted future cash repayments of the Company's mortgage loan due in 2020 are calculated using prevailing market rates of a similar debt instrument as at the reporting date. The net present value of future cash repayments of such mortgage and related interest at the prevailing market rate of 3.62% for a similar debt instrument at March 31, 2019 was \$42.4 million (December 31, 2018: market rate of 4.05%, \$42.4 million). The carrying value and Company's liability with respect to this mortgage is \$42.5 million.

As at March 31, 2019, the fair value of other assets was approximately \$0.6 million.

## OUTSTANDING COMPANY SHARE DATA

As at the date of this MD&A, the Company had 45,740,800 common shares outstanding.

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

Outstanding at March 31, 2019	Exercise Price	Remaining life (years)	Exercisable at March 31, 2019
1,180,000	\$ 14.13	1.30	1,180,000
1,228,334	12.69	3.20	418,337
60,000	12.00	3.40	20,000
525,000	13.54	3.90	175,000
150,000	12.99	4.10	-
3,143,334	\$ 13.37	2.65	1,793,337

## OUTLOOK

### Industry Conditions

Despite a meaningful recovery in oil prices during the first quarter of 2019, political and regulatory uncertainty has contributed to challenging and uncertain energy market conditions and reduced industry capital spending in Canada as oil and natural gas producers continue to face a shortage of export pipeline capacity. As such, current expectations are that oil and natural gas industry activity for 2019 will remain stable in the United States and Australia but decrease in Canada as compared to 2018. 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. Pricing for the Company's products and services remains low by historical standards, particularly in Canada within the CDS, RTS and WS segments. Higher activity levels will need to be sustained for some time before meaningful price recovery is achieved. Continued global economic uncertainty and volatility in global oil and natural gas prices and energy equity markets gives rise to caution regarding future activity levels.

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

Despite near term challenges and uncertainties, the Company believes that medium to long-term fundamentals require continued exploration and development in the markets in which it competes, particularly in respect of unconventional

reserves, to meet global demand for oil and natural gas. A continued focus on the development of unconventional oil and natural gas resources in Canada and elsewhere is expected to continue to drive activity in the future.

## RISK FACTORS AND RISK MANAGEMENT

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

### Industry Conditions

While oil prices have increased from the lows of 2016, they remain volatile and North American natural gas prices remain low by historical standards. 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 first quarter of 2019. No other customer accounted for more than 10% of revenue during these periods. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry.

### Government Regulation

Total Energy's business and the business of its customers are subject to significant, evolving and often unanticipated laws and government regulations, including in the areas of environment, labor, health and safety and taxation. 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 2019.

### **Critical Judgments in Applying Accounting Policies**

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

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

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

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

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

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

### **Key Sources of Estimation Uncertainty**

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

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

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

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

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

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

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

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

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

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

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

## STANDARDS ADOPTED IN THE PERIOD

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

### IFRS 16

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

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

- (i) Grandfather the assessment of which contracts contained leases under IFRS 16 to only those previously identified as leases under IAS 17 and related interpretations;
- (ii) leases of low dollar value will continue to be expensed as incurred;
- (iii) leases for which the lease term ends within 12 months of the date of initial application will continue to be expensed as incurred;
- (iv) apply a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- (v) the Company may rely on the assessment of its onerous lease and adjust its right-of-use assets at the date of initial application by the amount of onerous lease recognized immediately before the date of initial application.

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

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

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

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

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

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

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

### FUTURE ACCOUNTING POLICIES CHANGES

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

### NON-IFRS MEASURES

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

#### EBITDA

March 31	Three months ended	
	2019	2018
Net income	\$ 4,759	\$ 3,328
Add back (deduct):		
Depreciation	19,284	19,600
Finance costs	3,245	3,856
Income tax expense	2,127	871
<b>EBITDA</b>	<b>\$ 29,415</b>	<b>\$ 27,655</b>

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

#### Net Debt

	As at March 31, 2019
Long-term debt	\$ 272,169
Lease liabilities	14,660
Add back (deduct):	
Current liabilities	197,528
Current assets	(315,442)
<b>NET DEBT</b>	<b>\$ 168,915</b>

## 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 March 31, 2019 that would materially affect, or is reasonably likely to materially affect the Company's ICFR.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

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

The information and statements contained in this MD&A that are not historical facts are forward-looking statements. Forward-looking statements (often, but not always, identified by the use of words such as “seek”, “plan”, “continue”, “estimate”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe”, “expect”, “may”, “anticipate” or “will” and similar expressions) may include plans, expectations, opinions, or guidance that are not statements of fact. Forward-looking statements are based upon the opinions, expectations and estimates of management as at the date the statements are made and are subject to a variety of risks and uncertainties and other factors that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking statements. These factors include, but are not limited to, such things as changes in industry conditions (including the levels of capital expenditures made by oil and gas producers and explorers), the credit risk to which the Company is exposed in the conduct of its business, fluctuations in prevailing commodity prices or currency and interest rates, the competitive environment to which the various business divisions are, or may be, exposed in all aspects of their business, the ability of the Company's various business divisions to access equipment (including parts) and new technologies and to maintain relationships with key suppliers, the ability of the Company's various business divisions to attract and maintain key personnel and other qualified employees, various environmental risks to which the Company's business divisions are exposed in the conduct of their operations, inherent risks associated with the conduct of the businesses in which the Company's business divisions operate, timing and costs associated with the acquisition of capital equipment, the impact of weather and other seasonal factors that affect business operations, availability of financial resources or third-party financing and the impact of new laws and regulations or changes in existing laws, regulations or administrative practices on the part of regulatory authorities, including without limitation taxation, labour and environmental laws and regulations and changes in how such laws and regulations are interpreted and enforced. Forward-looking information respecting the anticipated costs associated with the purchase of capital equipment are based upon historical prices for various classes of equipment, expectations relating to the impact of inflation on the future cost of such equipment and management's views concerning the negotiating position of the Company and its affiliates. Forward-looking information concerning the nature and timing of growth within the various business divisions is based on the current budget of the Company (which is subject to change), factors that affected the historical growth of such business divisions, sources of historic growth opportunities and expectations relating to future economic and operating conditions. Forward-looking information concerning the future competitive position of the Company's business divisions is based upon the current competitive environment in which those business divisions operate, expectations relating to future economic and operating conditions, current and announced build programs and other expansion plans of other organizations that operate in the energy service business. Forward-looking information concerning the financing of future business activities is based upon the financing sources on which the Company and its predecessors have historically relied and expectations relating to future economic and operating conditions. Forward-looking information concerning future economic and operating conditions is based upon historical economic and operating conditions, 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	March 31, 2019	December 31, 2018
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents		\$ 49,750	\$ 30,640
Accounts receivable		147,447	155,946
Inventory		95,719	84,743
Prepaid expenses and deposits		14,642	17,776
Income taxes receivable		6,613	7,299
Other assets		576	527
Current portion of finance lease asset	2	695	–
		315,442	296,931
Property, plant and equipment		773,177	768,613
Income taxes receivable		7,070	7,070
Finance lease asset	2	720	–
Deferred tax asset		565	1,457
Goodwill		4,053	4,053
		\$ 1,101,027	\$ 1,078,124
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 139,957	\$ 126,608
Deferred revenue		44,198	37,316
Dividends payable		2,747	2,752
Current portion of lease liabilities	2	7,871	2,376
Current portion of long-term debt	4	2,755	2,912
		197,528	171,964
Long-term debt	4	272,169	282,863
Lease liabilities	2	14,660	3,456
Onerous lease liability	5	–	1,574
Deferred tax liability		58,616	57,691
Shareholders' equity:			
Share capital	6	288,352	288,902
Contributed surplus		6,752	6,384
Accumulated other comprehensive loss		(9,380)	(5,320)
Non-controlling interest		237	238
Retained earnings		272,093	270,372
		558,054	560,576
		\$ 1,101,027	\$ 1,078,124

The notes on pages 27 to 35 are an integral part of these condensed interim consolidated financial statements.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME

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

	Note	Three months ended March 31	
		2019	2018
<b>REVENUE</b>		\$ 221,990	\$ 205,215
Cost of services		179,978	165,569
Selling, general and administration		12,762	13,637
Other expense (income)		1,161	(1,592)
Share-based compensation	7	368	441
Depreciation		19,284	19,600
Operating income		8,437	7,560
Gain on sale of property, plant and equipment		1,694	495
Finance costs		(3,245)	(3,856)
Net income before income taxes		6,886	4,199
Current income tax expense		700	835
Deferred income tax expense		1,427	36
Total income tax expense		2,127	871
<b>Net income for the period</b>		\$ 4,759	\$ 3,328
<b>Net income (loss) attributable to:</b>			
Shareholders of the Company		\$ 4,760	\$ 3,164
Non-controlling interest		(1)	164
<b>Income per share</b>			
Basic and diluted	6	\$ 0.10	\$ 0.07

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

	Three months ended March 31	
	2019	2018
<b>Net income for the period</b>	\$ 4,759	\$ 3,328
Foreign currency translation adjustment	(3,670)	3,555
Deferred tax effect	(390)	(392)
Total other comprehensive income (loss) for the period	(4,060)	3,163
<b>Total comprehensive income</b>	\$ 699	\$ 6,491
<b>Total comprehensive income (loss) attributable to:</b>		
Shareholders of the Company	\$ 700	\$ 6,327
Non-controlling interest	(1)	164

The notes on pages 27 to 35 are an integral part of these condensed interim consolidated financial statements.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EQUITY

As at and for the three months ended March 31, 2019 and 2018, and year ended December 31, 2018  
Unaudited (in thousands of Canadian dollars)

	Note	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Non- controlling Interest	Retained earnings	Total Equity
Balance at December 31, 2017		\$ 291,317	\$ 4,550	\$ (10,194)	\$ 1,196	\$ 259,705	\$ 546,574
Net income (loss)		-	-	-	(243)	24,458	24,215
Other comprehensive income		-	-	4,874	-	-	4,874
<i>Transactions with shareholders, recorded directly in equity:</i>							
Dividends to shareholders (\$0.24 per common share)		-	-	-	-	(10,985)	(10,985)
Repurchase of common shares	6	(2,415)	-	-	-	(1,776)	(4,191)
Share-based compensation	7	-	2,396	-	-	-	2,396
Stock options expired		-	(562)	-	-	562	-
Purchase of partners' share in limited partnership		-	-	-	10	(1,592)	(1,582)
Partnership distributions		-	-	-	(725)	-	(725)
		(2,415)	1,834	-	(715)	(13,791)	(15,087)
Balance at December 31, 2018		\$ 288,902	\$ 6,384	\$ (5,320)	\$ 238	\$ 270,372	\$ 560,576
Net income (loss)		-	-	-	(1)	4,760	4,759
Other comprehensive loss		-	-	(4,060)	-	-	(4,060)
<i>Transactions with shareholders, recorded directly in equity:</i>							
Dividends to shareholders (\$0.06 per common share)		-	-	-	-	(2,747)	(2,747)
Repurchase of common shares	6	(550)	-	-	-	(292)	(842)
Share-based compensation	7	-	368	-	-	-	368
		(550)	368	-	-	(3,039)	(3,221)
<b>Balance at March 31, 2019</b>		<b>\$ 288,352</b>	<b>\$ 6,752</b>	<b>\$ (9,380)</b>	<b>\$ 237</b>	<b>\$ 272,093</b>	<b>\$ 558,054</b>

	Note	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Non- controlling Interest	Retained earnings	Total Equity
Balance at December 31, 2017		\$ 291,317	\$ 4,550	\$ (10,194)	\$ 1,196	\$ 259,705	\$ 546,574
Net income		-	-	-	164	3,164	3,328
Other comprehensive income		-	-	3,163	-	-	3,163
<i>Transactions with shareholders, recorded directly in equity:</i>							
Dividends to shareholders (\$0.06 per common share)		-	-	-	-	(2,774)	(2,774)
Share-based compensation	7	-	441	-	-	-	441
Expiration of share options	7	-	(330)	-	-	330	-
		-	111	-	-	(2,444)	(2,333)
Balance at March 31, 2018		\$ 291,317	\$ 4,661	\$ (7,031)	\$ 1,360	\$ 260,425	\$ 550,732

The notes on pages 27 to 35 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 March 31	
		2019	2018
<b>Cash provided by (used in):</b>			
Operations:			
Net income for the period		\$ 4,759	\$ 3,328
Add (deduct) items not affecting cash:			
Depreciation		19,284	19,600
Share-based compensation		368	441
Gain on sale of property, plant and equipment		(1,694)	(495)
Finance costs		3,224	3,631
Unrealized loss (gain) on foreign currencies translation		399	(2,567)
Current income tax expense		700	835
Deferred income tax expense		1,427	36
Income taxes paid		(14)	(3,660)
Cashflow		28,453	21,149
Changes in non-cash working capital items:			
Accounts receivable		7,440	1,689
Inventory		(10,976)	(9,574)
Prepaid expenses and deposits		4,364	3,380
Accounts payable and accrued liabilities		12,727	5,650
Onerous leases		1,297	(903)
Deferred revenue		6,882	1,393
Cash provided by operating activities		50,187	22,784
Investing:			
Purchase of property, plant and equipment		(14,700)	(7,605)
Proceeds on sale of other assets		20	227
Proceeds on disposal of property, plant and equipment		2,670	1,239
Changes in non-cash working capital items		2,229	(1,441)
Cash used in investing activities		(9,781)	(7,580)
Financing:			
Repayment of long-term debt	4	(10,851)	(11,182)
Repayment of lease liabilities		(2,081)	(529)
Dividends to shareholders		(2,752)	(2,774)
Repurchase of common shares		(842)	-
Interest paid		(4,770)	(2,470)
Cash used in financing activities		(21,296)	(16,955)
Change in cash and cash equivalents		19,110	(1,751)
Cash and cash equivalents, beginning of period		30,640	21,154
Cash and cash equivalents, end of period		\$ 49,750	\$ 19,403

The notes on pages 27 to 35 are an integral part of these condensed interim consolidated financial statements.

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2019 and 2018  
Unaudited (tabular amounts in thousands of Canadian dollars)

### 1. Reporting Entity

Total Energy Services Inc. (the “Company”) is incorporated under the Business Corporations Act (Alberta) and its head office is located in Calgary, Alberta at Suite 800, 311 – 6th Avenue S.W. The condensed interim consolidated financial statements include the accounts of the Company, its subsidiaries and its wholly and partially owned partnerships established in Canada, the United States of America (the “United States”) and Australia.

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

### 2. Basis of Presentation

#### Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” of International Financial Reporting Standards (“IFRS”) and using the accounting policies outlined in the Company’s audited consolidated financial statements for the year ended December 31, 2018, except for IFRS 16 Leases which was adopted on January 1, 2019. These condensed interim consolidated financial statements do not include all the necessary annual disclosures and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2018.

These condensed interim consolidated financial statements were approved by the Board of Directors on May 9, 2019.

#### Seasonality

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

#### Standards Adopted in the Period

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

##### IFRS 16 – Leases

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2019 and 2018

Unaudited (tabular amounts in thousands of Canadian dollars)

- (i) Grandfather the assessment of which contracts contained leases under IFRS 16 to only those previously identified as leases under IAS 17 and related interpretations;
- (ii) leases of low dollar value will continue to be expensed as incurred;
- (iii) leases for which the lease term ends within 12 months of the date of initial application will continue to be expensed as incurred;
- (iv) apply a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- (v) the Company may rely on the assessment of its onerous lease and adjust its right-of-use assets at the date of initial application by the amount of onerous lease recognized immediately before the date of initial application.

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

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

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2019 and 2018  
 Unaudited (tabular amounts in thousands of Canadian dollars)

The following table reconciles the movement of assets recognized on adoption of IFRS 16 for the three months ended March 31, 2019:

	Leased assets – office and shop leases
<b>Cost</b>	
Recognized on January 1, 2019	\$ 13,173
Additions	201
Effect of changes in foreign exchange rates	(127)
As at March 31, 2019	13,247
<b>Accumulated Depreciation</b>	
Recognized on January 1, 2019	–
Depreciation expense	1,163
Effect of changes in foreign exchange rates	36
As at March 31, 2019	1,199
<b>Net Book Value</b>	
As at March 31, 2019	\$ 12,048

The following table shows the impact of adopting IFRS 16 on the Company's statement of comprehensive income for the three months ended March 31, 2019:

	Three months ended March 31, 2019
Incremental finance costs	\$ 240
Incremental depreciation	1,163
Reduced cost of services and selling, general and administration	(1,237)
Net impact of adopting IFRS 16	\$ 166

Included in cost of services and selling, general and administrative expense for the three months ended March 31, 2019 is \$0.1 million of lease payments made on leases of low-value assets or leases with a term of less than one year.

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2019 and 2018

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 March 31, 2019	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate <sup>(1)</sup>	Total
Revenue	\$ 45,704	\$ 18,407	\$ 121,075	\$ 36,804	\$ –	\$ 221,990
Cost of services	37,921	11,858	103,320	26,879	–	179,978
Selling, general and administration	2,199	3,660	3,648	1,760	1,495	12,762
Other expense	–	–	–	–	1,161	1,161
Share-based compensation	–	–	–	–	368	368
Depreciation	8,194	4,521	2,334	4,201	34	19,284
Operating income (loss)	(2,610)	(1,632)	11,773	3,964	(3,058)	8,437
Gain on sale of property, plant and equipment	74	129	1,404	–	87	1,694
Finance costs	(102)	(22)	(105)	(6)	(3,010)	(3,245)
Net income (loss) before income taxes	(2,638)	(1,525)	13,072	3,958	(5,981)	6,886
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	423,227	255,728	255,808	137,447	28,817	1,101,027
Total liabilities	77,260	41,239	128,558	8,587	287,329	542,973
Capital expenditures	\$ 2,795	\$ 7,567	\$ 2,405	\$ 1,682	\$ 251	\$ 14,700

As at and for the three months ended March 31, 2018	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate <sup>(1)</sup>	Total
Revenue	\$ 60,980	\$ 22,312	\$ 85,118	\$ 36,805	\$ –	\$ 205,215
Cost of services	49,931	14,084	74,662	26,892	–	165,569
Selling, general and administration	2,353	3,939	2,699	1,177	3,469	13,637
Other income	–	–	–	–	(1,592)	(1,592)
Share-based compensation	–	–	–	–	441	441
Depreciation	8,189	4,567	1,776	5,050	18	19,600
Operating income (loss)	507	(278)	5,981	3,686	(2,336)	7,560
Gain on sale of property, plant and equipment	50	51	–	394	–	495
Finance costs	7	(31)	(9)	(41)	(3,782)	(3,856)
Net income (loss) before income taxes	564	(258)	5,972	4,039	(6,118)	4,199
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	462,672	245,077	197,264	145,308	15,178	1,065,499
Total liabilities	52,260	41,066	76,430	2,486	342,525	514,767
Capital expenditures	\$ 3,012	\$ 2,121	\$ 1,794	\$ 678	\$ –	\$ 7,605

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2019 and 2018  
Unaudited (tabular amounts in thousands of Canadian dollars)

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

Three months ended March 31, 2019	Canada	United States	Australia	Other	Total
Revenue	\$ 95,455	\$ 74,548	\$ 51,939	\$ 48	\$ 221,990
Non-current assets <sup>(1)</sup>	525,904	172,167	79,159	–	777,230
Three months ended March 31, 2018	Canada	United States	Australia	Other	Total
Revenue	\$ 104,191	\$ 67,099	\$ 33,925	\$ –	\$ 205,215
Non-current assets <sup>(1)</sup>	560,335	140,310	89,783	–	790,428

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

#### 4. Long-term Debt

At March 31, 2019 the Company's long-term debt consisted of the following:

	March 31, 2019	
	Interest rate	Principal Amount
Credit Facility	4.42%	\$ 217,000
Mortgage loan (2020 maturity)	3.06%	42,455
Mortgage loan (2041 maturity)	4.55%	15,469
		274,924
Less current portion		2,755
		\$ 272,169

At March 31, 2019 amounts owing under the Credit Facility were denominated in Canadian dollars.

On June 19, 2017 the Company entered into a three year \$225 million revolving syndicated credit facility ("Credit Facility"). On April 25, 2018 the Credit Facility was increased by \$65 million to \$290 million 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 March 31, 2019, the applicable interest rate on amounts drawn on the Credit Facility was 4.42% and the standby rate was 0.44%. Letters of credit ("LOC") of \$0.3 million were outstanding at March 31, 2019 which reduces the amount of credit available under the Credit Facility by an equivalent amount.

In August of 2018 a U.S. \$20 million LOC was established. LOCs issued pursuant to this facility do not reduce availability under the Credit Facility. At March 31, 2019 \$2.3 million U.S. dollars (\$3.0 million Canadian dollars) and \$1.4 million Canadian dollars of LOCs were outstanding under this facility.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2019 and 2018

Unaudited (tabular amounts in thousands of Canadian dollars)

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

	March 31, 2019	Threshold
Twelve-month trailing Bank EBITDA to interest expense	7.34	minimum 3.00
Total Senior Debt to twelve-month trailing Bank EBITDA	1.61	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 March 31, 2019.

In addition to the Credit Facility, a subsidiary of the Company has established a \$5.0 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At March 31, 2019 this facility was undrawn and fully available.

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

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

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

At March 31, 2019 the Company was in compliance with all debt covenants.

## 5. Onerous leases

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2019 and 2018

Unaudited (tabular amounts in thousands of Canadian dollars)

## 6. Share Capital

## (a) Common share capital

Common shares of Total Energy Services Inc.

## (i) Authorized:

Unlimited number of common voting shares, without nominal or par value.

Unlimited number of preferred shares.

## (ii) Common shares issued:

	Number of shares (thousands)	Amount
Balance, December 31, 2017	46,238	\$ 291,317
Redeemed pursuant to acquisition sunset clause	(7)	–
Repurchased and cancelled	(371)	(2,337)
Repurchased not cancelled	–	(78)
Balance, December 31, 2018	45,860	\$ 288,902
Repurchased and cancelled	(83)	(444)
Repurchased not cancelled	–	(106)
<b>Balance, March 31, 2019</b>	<b>45,777</b>	<b>\$ 288,352</b>

During the three months ended March 31, 2019 85,400 shares (2018: nil) were repurchased under the Company's normal course issuer bid at an average price of \$9.85 per share including commissions and 83,000 shares were cancelled, including 8,600 previously purchased during 2018. Subsequent to March 31, 2019 11,000 shares were cancelled.

## (b) Per share amounts

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

	Three months ended March 31	
	2019	2018
Net income for the period attributable to shareholders	\$ 4,760	\$ 3,164
Weighted average number of shares outstanding – basic	45,829	46,238
Earnings per share – basic	\$ 0.10	\$ 0.07
Net income for the period attributable to shareholders	\$ 4,760	\$ 3,164
Weighted average number of shares outstanding – basic	45,829	46,238
Share option dilution	–	3
Weighted average number of shares outstanding – diluted	45,829	46,241
Earnings per share – diluted	\$ 0.10	\$ 0.07

For the three months ended March 31, 2019, 3,143,334 share options (March 31, 2018: 3,123,334) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2019 and 2018

Unaudited (tabular amounts in thousands of Canadian dollars)

**7. Share-Based Compensation Plan**

Share option transactions during 2019 and 2018 were as follows:

	Weighted average exercise price	Number of Options
Balance, December 31, 2017	\$ 13.55	2,885,000
Granted	13.42	675,000
Forfeited	12.69	(260,000)
Expired	14.96	(130,000)
Balance, December 31, 2018	\$ 13.47	3,170,000
Forfeited	12.69	(26,666)
<b>Balance, March 31, 2019</b>	<b>\$ 13.37</b>	<b>3,143,334</b>

A total of 1,793,337 outstanding options were exercisable at March 31, 2019.

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

	December 31, 2018
Expected volatility	25.88% - 27.88%
Annual dividend yield	1.77% - 1.85%
Risk free interest rate	1.93% - 2.17%
Forfeitures	9%
Expected life (years)	3 to 5 years

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

**8. Financial Instruments**

The Company's financial instruments as at March 31, 2019 include cash and cash equivalents, accounts receivable, other assets, lease assets, accounts payable and accrued liabilities, dividends payable, forward foreign exchange contracts, lease liabilities and long-term debt. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and lease liabilities approximate their carrying amounts due to their short-terms to maturity. The 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 3.62% for a similar debt instrument at March 31, 2019 was \$42.4 million (December 31, 2018: market rate of 4.05%, \$42.4 million). The carrying value and Company's liability with respect to the mortgage loan is \$42.5 million.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2019 and 2018

Unaudited (tabular amounts in thousands of Canadian dollars)

## 9. Contingencies

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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 March 31, 2019. The \$7.1 million paid on account of the Reassessment has been recorded as income tax receivable on the basis management believes it will be successful in defending the Company’s filing position. In the event the Company is not successful, an additional \$15.3 million of cash may be owing and \$22.4 million of income tax expense would be recognized.

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

In November of 2017 the Company received a Statement of Claim filed in the Alberta Court of Queen’s Bench by Her Majesty the Queen in Right of Alberta, by its agent, Alberta Investment Management Corporation (“AIMCo”) against the Company and Savanna. AIMCo’s claim primarily relates to Savanna’s refusal to pay a \$6 million change of control penalty (the “Additional Penalty”) to AIMCo. The Company and Savanna have received legal advice that AIMCo’s claim for the Additional Penalty is not enforceable and have filed a statement of defense. Savanna has also filed a third party claim against its former directors that seeks indemnity in the event that AIMCo is successful in its claim against Savanna.

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

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

Bruce Pachkowski<sup>2,3</sup>  
*Chairman of the Board*

Daniel Halyk  
*President and Chief Executive Officer*

George Chow<sup>1</sup>

Glenn Dagenais<sup>2,3</sup>

Greg Melchin<sup>1,2</sup>

Andrew Wiswell<sup>1,3</sup>

<sup>1</sup> Member of the Compensation Committee

<sup>2</sup> Member of the Audit Committee

<sup>3</sup> 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*

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

### U.S. LOCATIONS

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

### AUSTRALIAN LOCATIONS

Toowoomba, QLD



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