

Q3



FOCUS DISCIPLINE GROWTH

Third 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 third quarter of 2019 reflect relatively stable activity levels in the United States and Australia offset by worsening industry conditions in Canada as compared to 2018. Reduced production activity in the Company's Compression and Process Services segment also contributed to lower third quarter results relative to 2018.

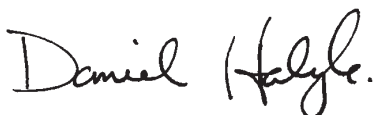
The quality of Total Energy's equipment and service has allowed the Company to increase its market share in the United States even in a modestly contracting market. During the third quarter, the Company's Rentals and Transportation Services segment continued to expand its presence in the United States with the relocation of underutilized rental equipment from Canada, targeted investment in new equipment and the acquisition of certain transportation assets on a going concern basis in mid-August.

LOOKING FORWARD

The United States and Australia remain stable and growing markets while Canada remains very challenging. However, recent improvements in Canadian natural gas prices are encouraging and bode well for near term industry cash flow. Progress on the construction of previously approved and much-needed energy transportation and export infrastructure, including the Trans Mountain pipeline expansion and west-coast LNG export capacity, is obviously of critical importance to reviving industry activity levels in Canada.

Global economic uncertainty and resultant commodity and capital markets volatility continue to weigh on the capital expenditure budgets of North American oil and natural gas producers. As such, Total Energy remains focused on the efficient and sustainable operation of its various businesses, preservation of balance sheet strength and prudent stewardship of owners' capital.

As the current industry downturn enters its sixth year in Canada, the energy industry has been forced to become more efficient through downsizing, consolidation and the adoption of new technologies and methods of doing business. Negative regulatory headwinds, including the passage of Bills C-48 and C-69 by the federal government, have exacerbated the unique challenges faced by the Canadian oil and natural gas industry. As difficult as this downturn has been, particularly for the many companies that were not able to weather the storm, the industry will eventually emerge stronger, more efficient and able to compete globally for investment as the world continues with its insatiable demand for oil and natural gas.



DANIEL K. HALYK

President and Chief Executive Officer

November 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 November 7, 2019 and focuses on information and key statistics from the unaudited condensed interim consolidated financial statements of the Company for the three and nine months ended September 30, 2019 (the "Interim Financial Statements") and pertains to known risks and uncertainties relating to the energy services sector. This discussion should not be considered all-inclusive as it does not include all changes regarding general economic, political, governmental and environmental conditions.

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

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

FINANCIAL HIGHLIGHTS

	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Revenue	\$ 171,213	\$ 232,925	(26%)	\$ 605,898	\$ 631,963	(4%)
Operating income (loss) ⁽⁴⁾	(5,012)	14,294	nm	2,334	25,810	(91%)
EBITDA ⁽¹⁾	24,913	34,632	(28%)	71,874	85,513	(16%)
Cashflow	23,959	34,799	(31%)	74,831	78,420	(5%)
Net income (loss)	(6,114)	8,655	nm	1,498	15,645	(90%)
Attributable to shareholders	(6,159)	8,910	nm	2,004	15,903	(87%)
Per Share Data (Diluted)						
EBITDA ⁽¹⁾	\$ 0.55	\$ 0.75	(27%)	\$ 1.57	\$ 1.85	(15%)
Cashflow	0.53	0.75	(29%)	1.64	1.70	(4%)
Attributable to shareholders:						
Net income (loss)	(0.14)	0.19	nm	0.04	0.34	(88%)
Financial Position at				Sept 30,	Dec 31,	Change
				2019	2018	
Total Assets				\$ 991,176	\$ 1,078,124	(8%)
Long-Term Debt and Lease Liabilities (excluding current portion)				251,724	286,319	(12%)
Working Capital ⁽²⁾				85,778	124,967	(31%)
Net Debt ⁽¹⁾				165,946	161,352	3%
Shareholders' Equity				538,790	560,576	(4%)
Common shares (000's) ⁽³⁾						
Basic and diluted	45,457	46,099	(1%)	45,652	46,186	(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.

(4) Included in operating Income (loss) for the three and nine months ended September 30, 2019 is \$7.9 million of incremental non-recurring and \$1.0 million of incremental recurring depreciation expense resulting from a change in depreciation estimates in the RTS segment effective July 1, 2019 (see "Critical Accounting Estimates" for further details).

"nm" – calculation not meaningful

BUSINESS OF THE COMPANY

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

Contract Drilling Services: At September 30, 2019, the Company operated a total fleet of 107 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	3	Canada	82
AC doubles	13	United States	20
Mechanical doubles	45	Australia	5
Australian shallow	5		107
TDS and singles	41		
	<u>107</u>		

Rentals and Transportation Services: Total Energy's RTS business is presently conducted from 20 locations in western Canada and three locations in the United States. At September 30, 2019, this segment had approximately 10,590 pieces of major rental equipment (excluding access matting), a fleet of 95 heavy trucks and a significant inventory of small rental equipment and access matting.

Compression and Process Services: The Company fabricates a full range of natural gas compression equipment as well as select oil and natural gas process equipment. At September 30, 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 September 30, 2019 the CPS segment also had a network of 11 branch locations throughout western Canada and the United States from which its natural gas compression parts and service business is conducted. This segment had 47,000 horsepower of compression in its rental fleet at September 30, 2019.

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

<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 September 30, 2019 reflect relatively stable industry activity levels in the United States and Australia offset by a significant decrease in drilling and completion activity in Canada as compared to 2018. Negatively impacting the Company's results for the third quarter and first nine months of 2019 was approximately \$0.5 million and \$2.2 million of equipment relocation expenses in the CDS and RTS segments as the Company consolidated U.S. drilling operations and continued to relocate underutilized rental equipment from Canada to the U.S. Also negatively impacting financial results for the three and nine months ending September 30, 2019 was \$7.9 million of non-recurring and \$1.0 million of recurring incremental depreciation expense resulting from a change in depreciation estimates in the RTS segment effective July 1, 2019. Included in the financial results for the three and nine months ending September 30, 2019 was, respectively, other income of \$1.0 million and \$1.9 million of other expense relating to unrealized foreign exchange differences from translation of working capital balances of foreign subsidiaries as compared to an unrealized loss of \$0.4 million in the third quarter of 2018 and an unrealized gain of \$2.9 million for the first nine months of 2018.

The Company's financial condition remains strong, with a positive working capital balance of \$85.8 million as at September 30, 2019. The \$39.2 million decrease in working capital since December 31, 2018 was due primarily to the classification of a \$41.4 million mortgage loan maturing in 2020 as current in the second quarter of 2019. After returning \$12.5 million to shareholders through \$8.2 million of dividends and \$4.3 million of share repurchases, shareholders' equity decreased by \$21.8 million from December 31, 2018. Also contributing to the decrease of shareholder equity was \$7.9 million of non-recurring depreciation expense recorded in the third quarter of 2019 following a change in depreciation estimates in the RTS segment and an accumulated other comprehensive loss as a result of strengthening of the Canadian dollar since the beginning of 2019 and its impact on the translation of foreign subsidiary balances.

Revenue

	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Revenue	\$ 171,213	\$ 232,925	(26%)	\$ 605,898	\$ 631,963	(4%)

The decrease in revenue for the three months ended September 30, 2019 relative to the same period in 2018 was the result of decreases in all segments primarily due to lower activity levels in Canada. For the nine months ended September 30, 2019 revenue decreased compared to the same period in 2018 due to decreased activity in all segments except for the CPS segment.

Cost of Services and Gross Margin

	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Cost of services	\$ 134,285	\$ 184,374	(27%)	\$ 495,124	\$ 507,993	(3%)
Gross margin	\$ 36,928	\$ 48,551	(24%)	\$ 110,774	\$ 123,970	(11%)
Gross margin, as a percentage of revenue	22%	21%	5%	18%	20%	(10%)

The decrease in costs of services during the three and nine months ended September 30, 2019 relative to the same periods in 2018 is mostly due to the decreased activity in all business segments as a result of an industry slow-down primarily in Canada.

While the consolidated gross margin for the three months ended September 30 was higher in 2019 compared to 2018 due to segment revenue mix, lower gross margins were realized in all of the Company's segments on a year over year basis as a result of lower activity levels. Negatively impacting gross margin during the third quarter of 2019 was \$0.5 million of expenses incurred by the RTS segment with the relocation of equipment from Canada to the United States. This was offset

by a \$0.7 million reduction in cost of services on adoption to IFRS 16 Leases. Gross margin realized in the first nine months of 2019 was \$13.2 million lower compared to the same period in 2018. Contributing to the decrease was lower margins in all of the Company's segments on a year over year basis. Also negatively impacting gross margin for the first nine months of 2019 was \$2.2 million of expenses incurred by the CDS and RTS segments with the relocation of equipment. This was partially offset by a \$2.0 million reduction in cost of services on adoption of IFRS 16 Leases.

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

Selling, General and Administration Expenses

	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Selling, general and administration expenses	\$ 12,590	\$ 13,904	(9%)	\$ 37,615	\$ 41,543	(9%)

Selling, general and administration expenses decreased in the three and nine months ended September 30, of 2019 relative to the same periods in 2018 as a result of cost savings activities and a positive impact of \$0.6 million and \$1.8 million, respectively, on the adoption of IFRS 16 Leases. As a percentage of revenue, selling, general and administration expenses for the first nine months of 2019 compared to the same period in 2018 was fairly consistent due primarily to cost management as activity levels decreased across the Company's segments.

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

Other Expense (Income)

	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Other expense (income)	\$ (1,018)	\$ 376	nm	\$ 1,858	\$ (2,904)	nm

"nm" - calculation not meaningful

Other expense (income) arises from unrealized foreign exchange differences on translation of intercompany working capital balances of foreign subsidiaries. A weakening of the Canadian dollar relative to the US dollar during the period gave rise to an unrealized foreign exchange gain for the third quarter of 2019 with the opposite giving rise to an unrealized foreign exchange loss for the nine months ended September 30, 2019.

Share-based Compensation Expense

	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Share-based compensation expense	\$ 438	\$ 499	(12%)	\$ 1,300	\$ 1,798	(28%)

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

Depreciation Expense

	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Depreciation expense	\$ 29,930	\$ 19,478	54%	\$ 67,667	\$ 57,723	17%

Depreciation expense for the three and nine months ended September 30, 2019 increased compared to the same periods in 2018. Included in 2019 depreciation expense in the third quarter and first nine months of 2019 is \$1.1 million and \$3.4 million of depreciation on assets recognized pursuant to IFRS 16. Also included in depreciation expense for the three and nine months ended September 30, 2019 is \$7.9 million of non-recurring and \$1.0 million of recurring incremental depreciation expense resulting from a change in depreciation estimates in the RTS segment effective July 1, 2019 (see "Critical Accounting Estimates" for further details). The \$7.9 million of non-recurring depreciation expense related to the reduction in residual value for certain assets. These increases were partially offset by lower depreciation on reduced activity in the CDS segment. All of the Company's property, plant and equipment is depreciated on a straight-line basis with the exception of contract drilling equipment, which is depreciated on a utilization basis subject to a minimum annual depreciation expense equal to an annual utilization of 96 days.

Operating Income (Loss)

	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Operating income (loss)	\$ (5,012)	\$ 14,294	nm	\$ 2,334	\$ 25,810	(91%)

"nm" - calculation not meaningful

Included in operating income (loss) for the three and nine months ended September 30, 2019, respectively, was \$1.0 million unrealized gain and \$1.9 million unrealized loss on foreign exchange translation of intercompany working capital balances compared to a loss of \$0.4 million and a gain of \$2.9 million in the same periods in 2018. Also negatively impacting operating income (loss) for the three and nine months ended September 30, 2019 was \$0.5 million and \$2.2 million of equipment relocation expenses incurred by the CDS and RTS segments. An increase in depreciation expense arising from a change in accounting estimates effective July 1, 2019 also negatively impacted operating income. Operating income, excluding unrealized foreign exchange differences on intercompany working capital balances and \$7.9 million non-recurring depreciation expense due to a change in accounting estimates, was \$1.9 million and \$12.1 million for the three and nine months ended September 30, 2019, respectively, as compared to \$14.7 million and \$22.9 million for the same periods in 2018.

Gain on Sale of Property, Plant and Equipment

	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Gain (loss) on sale of property, plant and equipment	\$ (5)	\$ 860	nm	\$ 1,873	\$ 1,980	(5%)
Proceeds on the sale of property, plant and equipment	\$ 949	\$ 1,695	(44%)	\$ 6,849	\$ 3,798	80%

"nm" - calculation not meaningful

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

Equipment disposed of in the third quarter of 2019 included four decommissioned drilling rigs, older heavy trucks and underutilized rental equipment. Equipment disposed of during the first nine months of 2019 consisted primarily of

compression rental equipment purchased by customers in the ordinary course of business, seven decommissioned drilling rigs, older heavy trucks and underutilized rental equipment.

Finance Costs

	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Finance costs	\$ 3,098	\$ 2,940	5%	\$ 9,705	\$ 10,293	(6%)

Finance costs for the three months ended September 30, 2019 were higher than the prior year comparable period mostly due to interest on lease liabilities arising from the adoption of IFRS 16. For the nine months ended September 30, 2019 finance costs were lower than the prior year comparable period due to lower average bank debt balances during the nine months ended September 30, 2019 as compared to the same period of 2018. The decrease was offset somewhat by higher applicable interest rates on variable rate debt due to increases in the Canadian prime rate of interest over the past year and interest on lease liabilities arising from adoption of IFRS 16.

Income Taxes and Net Income

	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Current income tax (recovery) expense	\$ (883)	\$ 2,963	nm	\$ 74	\$ 5,737	(99%)
Deferred income tax (recovery) expense	(1,118)	596	nm	(7,070)	(3,885)	82%
Total income tax (recovery) expense	\$ (2,001)	\$ 3,559	nm	\$ (6,996)	\$ 1,852	nm
Net income (loss)	\$ (6,114)	\$ 8,655	nm	\$ 1,498	\$ 15,645	(90%)

"nm" - calculation not meaningful

The year over year changes in current income tax expense is primarily due to decreased profitability in the three and nine months ended September 30, 2019 as compared to the same periods in 2018.

On June 28, 2019 Bill 3 "Job Creation Tax Cut" came into force in Alberta pursuant to which the Alberta corporate income tax rate will be reduced from 12% to 8% by the end of 2021. This reduction in the Alberta corporate tax rate was the primary reason for the increase in the deferred income tax recovery in the first nine months 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			
	September 30 2019	June 30 2019	March 31 2019	December 31 2018
Revenue	\$ 171,213	\$ 212,695	\$ 221,990	\$ 219,846
Operating income (loss)	(5,012)	(1,091)	8,437	10,748
EBITDA ⁽¹⁾	24,913	17,546	29,415	29,153
Cashflow	23,959	22,419	28,453	23,070
Cash provided (used) by operating activities	(21,800)	4,123	50,187	30,658
Net income (loss)	(6,114)	2,853	4,759	8,570
Attributable to shareholders	(6,159)	3,403	4,760	8,555
Per share data				
EBITDA ⁽¹⁾	\$ 0.55	\$ 0.38	\$ 0.64	\$ 0.63
Cashflow	0.53	0.49	0.62	0.50
Net income (loss) attributable to shareholders	(0.14)	0.07	0.10	0.19
Financial Position				
Total Assets	\$ 991,176	\$ 1,026,564	\$ 1,101,027	\$ 1,078,124
Long-Term Debt and Lease Liabilities (excluding current portion)	251,724	239,287	286,829	286,319
Working Capital ⁽²⁾	85,778	74,283	117,914	124,967
Net Debt ⁽¹⁾	165,946	165,004	168,915	161,352
Shareholders' Equity	538,790	549,851	558,054	560,576
Common Shares (000's) ⁽³⁾				
Basic and diluted	45,457	45,746	45,829	45,933

(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.

TOTAL ENERGY SERVICES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

(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

September 30	Three Months Ended			Nine Months Ended		
	2019	2018	Change	2019	2018	Change
Revenue	\$ 47,855	\$ 57,687	(17%)	\$ 127,180	\$ 156,930	(19%)
Operating (loss) income	\$ (877)	\$ 2,239	nm	\$ (8,022)	\$ (417)	(1,824%)
Operating spud to release days	2,163	2,836	(24%)	5,397	7,353	(27%)
Revenue per spud to release day, dollars	\$ 22,124	\$ 20,341	9%	\$ 23,565	\$ 21,342	10%

"nm" - calculation not meaningful

North American drilling activity during the third quarter and first nine months of 2019 was lower compared to 2018. Included in CDS results for the first nine months of 2019 was \$0.9 million of net expenses incurred to relocate drilling equipment in the United States as this segment consolidated its U.S. operations. Subsequent to September 30, 2019 the Company received US\$13.5 million (approximately \$17.6 million Canadian dollars) as compensation for the early termination of contracts for three U.S. drilling rigs that occurred in October 2017. Revenue relating to this payment will be recorded in the fourth quarter of 2019.

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

Q3 2019	Drilling Canada	Drilling U.S.	Drilling Australia	Total
Revenue	\$ 18,373	\$ 16,268	\$ 13,214	\$ 47,855
Operating income (loss)	\$ (2,176)	\$ (930)	\$ 2,229	\$ (877)
Spud to release days	1,136	671	356	2,163
Revenue per spud to release day, dollars	\$ 16,173	\$ 24,244	\$ 37,118	\$ 22,124
Utilization % (spud to release)	15%	34%	76%	22%
Q3 2018	Drilling Canada	Drilling U.S.	Drilling Australia	Total
Revenue	\$ 27,527	\$ 17,051	\$ 13,109	\$ 57,687
Operating income (loss)	\$ 1,195	\$ (1,459)	\$ 2,503	\$ 2,239
Spud to release days	1,687	783	366	2,836
Revenue per spud to release day, dollars	\$ 16,317	\$ 21,777	\$ 35,817	\$ 20,341
Utilization % (spud to release)	21%	34%	80%	27%
YTD 2019	Drilling Canada	Drilling U.S.	Drilling Australia	Total
Revenue	\$ 46,323	\$ 41,655	\$ 39,202	\$ 127,180
Operating income (loss)	\$ (7,068)	\$ (7,322)	\$ 6,368	\$ (8,022)
Spud to release days	2,700	1,689	1,008	5,397
Revenue per spud to release day, dollars	\$ 17,157	\$ 24,663	\$ 38,891	\$ 23,565
Utilization % (spud to release)	12%	27%	74%	18%
YTD 2018	Drilling Canada	Drilling U.S.	Drilling Australia	Total
Revenue	\$ 71,489	\$ 45,965	\$ 39,476	\$ 156,930
Operating income (loss)	\$ (360)	\$ (9,435)	\$ 9,378	\$ (417)
Spud to release days	4,225	2,200	928	7,353
Revenue per spud to release day, dollars	\$ 16,920	\$ 20,893	\$ 42,539	\$ 21,342
Utilization % (spud to release)	18%	31%	68%	23%

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

Rentals and Transportation Services

September 30	Three Months Ended			Nine Months Ended		
	2019	2018	Change	2019	2018	Change
Revenue	\$ 15,476	\$ 19,462	(20%)	\$ 49,539	\$ 56,656	(13%)
Operating loss	\$ (12,308)	\$ (598)	(1,958%)	\$ (16,915)	\$ (4,122)	(310%)
Pieces of rental equipment	10,590	11,000	(4%)	10,590	11,000	(4%)
Heavy trucks	95	112	(15%)	95	112	(15%)
Rental equipment utilization	14%	24%	(42%)	17%	22%	(23%)

The revenue reported from the RTS segment for the third quarter and first nine months of 2019 decreased as compared with the same periods in 2018 due to poor market conditions in Canada, which was partially offset by a larger U.S. equipment fleet operating at consistent utilization as compared to 2018.

The operating loss in the third quarter and first nine months of 2019 increased as compared to the same periods in 2018 primarily due to poor market conditions in Canada combined with higher depreciation expense in the third quarter resulting from changes to accounting estimates on the useful life and residual values of RTS equipment. As a result of this estimate change, \$7.9 million of non-recurring depreciation expense was recognized on now fully depreciated equipment. An additional \$1.0 million of depreciation expense was also incurred in the third quarter of 2019 as a result of these accounting estimate changes. Also, negatively impacting RTS results for the third quarter and first nine months of 2019 was \$0.5 million and \$1.3 million of expenses incurred with the relocation of underutilized equipment from Canada to the United States. Excluding the relocation expenses and one-time additional depreciation, the operating loss was \$3.9 million and \$7.7 million for the third quarter and first nine months of 2019, respectively.

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 and first nine months of 2019. Such fixed cost structure includes costs associated with its significant operating branch infrastructure, including maintenance and repairs, utilities, insurance, property taxes and other infrastructure costs. In addition, depreciation expense on this segment's equipment fleet is recorded on a straight-line basis and is not correlated to levels of activity.

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

Q3 2019	RTS Canada	RTS U.S.	Total
Revenue	\$ 8,788	\$ 6,688	\$ 15,476
Operating (loss) income	\$ (12,231)	\$ (77)	\$ (12,308)
Pieces of rental equipment	9,800	790	10,590
Rental equipment utilization	12%	35%	14%

Q3 2018	RTS Canada	RTS U.S.	Total
Revenue	\$ 15,554	\$ 3,908	\$ 19,462
Operating (loss) income	\$ (1,041)	\$ 443	\$ (598)
Pieces of rental equipment	10,400	600	11,000
Rental equipment utilization	23%	37%	24%

YTD 2019	RTS Canada	RTS U.S.	Total
Revenue	\$ 30,510	\$ 19,029	\$ 49,539
Operating (loss) income	\$ (18,822)	\$ 1,907	\$ (16,915)
Pieces of rental equipment	9,800	790	10,590
Rental equipment utilization	15%	37%	17%

YTD 2018	RTS Canada	RTS U.S.	Total
Revenue	\$ 45,514	\$ 11,142	\$ 56,656
Operating (loss) income	\$ (5,386)	\$ 1,264	\$ (4,122)
Pieces of rental equipment	10,400	600	11,000
Rental equipment utilization	22%	36%	22%

RTS Canada revenue decreased in the three and nine months ended September 30, 2019 compared to the same periods in 2018 due to lower industry activity and a smaller fleet of equipment following the disposal and relocation to the United States of underutilized equipment. Lower revenue combined with high fixed costs resulted in increased operating losses in 2019. Also contributing to increased operating losses was \$7.5 million of non-recurring depreciation expense and \$1.0 million of increased recurring depreciation expense as a result of the change in accounting estimates for residual values and useful life of RTS equipment. Excluding the non-recurring depreciation expense of \$7.5 million, RTS Canada's operating loss was \$4.7 million and \$11.3 million, respectively, for the three and nine months ended September 30, 2019.

RTS U.S. revenue for the three and nine months ended September 30, 2019 increased compared to the same periods in 2018 due to relatively stable utilization of a larger equipment fleet. Also contributing to the improved results was stronger pricing and a change in the mix of equipment utilized. Negatively impacting operating income (loss) in the third quarter and first nine months of 2019 was, respectively, \$0.5 million and \$1.3 million of equipment relocation expenses as well as \$0.4 million of non-recurring depreciation expense as a result of change in accounting estimates in both periods. Excluding these expenses, operating income in RTS U.S. was \$0.8 million and \$3.6 million, respectively, for the three and nine months ended September 30, 2019.

Effective August 15, 2019 the Company, through a wholly-owned United States subsidiary, acquired certain oilfield transportation assets for \$2.3 million (US\$1.7 million). The Company financed the acquisition utilizing cash on hand and existing credit facilities.

Compression and Process Services

September 30	Three Months Ended			Nine Months Ended		
	2019	2018	Change	2019	2018	Change
Revenue	\$ 72,070	\$ 114,811	(37%)	\$ 326,072	\$ 305,082	7%
Operating income	\$ 5,595	\$ 11,806	(53%)	\$ 25,930	\$ 28,344	(9%)
Operating income, % of revenue	8%	10%	(20%)	8%	9%	(11%)
Sales backlog at period end, \$ million	\$ 39.8	\$ 236.7	(83%)	\$ 39.8	\$ 236.7	(83%)
Horsepower of equipment on rent at period end	34,000	31,500	8%	34,000	31,500	8%
Rental equipment utilization (HP)	70%	69%	1%	69%	56%	23%

The revenue reported from the CPS segment decreased for the three months ended September 30, 2019 as compared to the same period in 2018. Contributing to this decrease was lower fabrication sales bookings in the first nine months of 2019 as compared to the same period in 2018 driven by lower industry activity. Revenue for the first nine months of 2019 increased compared to the same period in 2018 due 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. Operating income for the third quarter and first nine months of 2019 decreased compared to the same periods in 2018. The decrease was primarily due to the completion of lower margin fabrication projects and higher overhead costs relative to the same periods in 2018. This decrease was partially offset by improved results from the U.S. and increased utilization of the compression rental fleet (which generates a higher operating income margin than other sources of CPS revenue).

Well Servicing

September 30	Three Months Ended			Nine Months Ended		
	2019	2018	Change	2019	2018	Change
Revenue	\$ 35,812	\$ 40,965	(13%)	\$ 103,107	\$ 113,295	(9%)
Operating income	\$ 4,483	\$ 6,074	(26%)	\$ 10,578	\$ 12,737	(17%)
Operating income, % of revenue	13%	15%	(13%)	10%	11%	(9%)
Service hours ⁽¹⁾	42,210	44,447	(5%)	115,967	122,032	(5%)
Revenue per service hour	\$ 848	\$ 922	(8%)	\$ 889	\$ 928	(4%)
Utilization ⁽²⁾	40%	44%	(9%)	37%	39%	(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 and operating income for the third quarter and first nine months of 2019 was lower compared with the same periods in 2018 due to a combination of lower activity and per hour revenue due to rig mix utilized.

TOTAL ENERGY SERVICES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Q3 2019	WS Canada	WS U.S.	WS Australia	Total
Revenue	\$ 11,668	\$ 3,461	\$ 20,683	\$ 35,812
Operating income	\$ 568	\$ 5	\$ 3,910	\$ 4,483
Operating income, % of revenue	5%	0%	19%	13%
Service hours ⁽¹⁾	18,324	4,492	19,394	42,210
Revenue per service hour, dollars	\$ 637	\$ 770	\$ 1,066	\$ 848
Utilization % ⁽²⁾	35%	35%	73%	40%

Q3 2018	WS Canada	WS U.S.	WS Australia	Total
Revenue	\$ 13,577	\$ 4,028	\$ 23,360	\$ 40,965
Operating income	\$ 1,791	\$ 454	\$ 3,829	\$ 6,074
Operating income, % of revenue	13%	11%	16%	15%
Service hours ⁽¹⁾	20,703	4,829	18,915	44,447
Revenue per service hour, dollars	\$ 656	\$ 834	\$ 1,235	\$ 922
Utilization % ⁽²⁾	39%	37%	71%	44%

YTD 2019	WS Canada	WS U.S.	WS Australia	Total
Revenue	\$ 32,349	\$ 10,733	\$ 60,025	\$ 103,107
Operating income (loss)	\$ (224)	\$ 531	\$ 10,271	\$ 10,578
Operating income (loss), % of revenue	nm	5%	17%	10%
Service hours ⁽¹⁾	48,608	13,245	54,114	115,967
Revenue per service hour, dollars	\$ 666	\$ 810	\$ 1,109	\$ 889
Utilization % ⁽²⁾	31%	35%	69%	37%

"nm" - calculation not meaningful

YTD 2018	WS Canada	WS U.S.	WS Australia	Total
Revenue	\$ 34,229	\$ 11,091	\$ 67,975	\$ 113,295
Operating income	\$ 160	\$ 823	\$ 11,754	\$ 12,737
Operating income, % of revenue	0%	7%	17%	11%
Service hours ⁽¹⁾	52,876	14,682	54,474	122,032
Revenue per service hour, dollars	\$ 647	\$ 755	\$ 1,248	\$ 928
Utilization % ⁽²⁾	34%	36%	69%	39%

"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 decreased for the three and nine months ended September 30, 2019 compared to the same periods in 2018 primarily due to lower utilization compared with 2018 as a result of poor market conditions and wet weather which limited activity for the period. In the United States revenue and operating income for the third quarter and first nine months of 2019 decreased compared to the same periods in 2018 primarily due to activity which was also impacted by weather conditions that limited the mobilization of rigs. Well servicing revenue in Australia for the third quarter of 2019 was lower compared to the same periods in 2018 due to modestly lower pricing, lower camp and other ancillary revenue which was partially offset by higher service hours. Operating income for the third quarter of 2019 was relatively consistent with the same period in 2018. For the nine months ended September 30, 2019 well servicing revenue and operating income in Australia was lower compared to the same period in 2018. Lower service hours combined with lower pricing, lower camp and other ancillary revenue contributed to the decrease. Also negatively impacting U.S. and Australian results was the translation of foreign financial results into Canadian dollars given the depreciation of the U.S. and Australian currencies relative to the Canadian dollar over the past year.

Corporate

September 30	Three months ended			Nine months ended		
	2019	2018	Change	2019	2018	Change
Operating loss	\$ (1,905)	\$ (5,227)	(64%)	\$ (9,237)	\$ (10,732)	(14%)

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. Included in the Corporate segment for the three and nine months ended September 30, 2019 is \$1.0 million unrealized gain and \$1.9 million unrealized loss, respectively, on the translation of working capital balances of foreign subsidiaries as compared to a \$0.4 million unrealized loss and \$2.9 million unrealized gain for the same periods in 2018.

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by (Used in) Operating Activities and Cashflow

September 30	Three months ended			Nine months ended		
	2019	2018	Change	2019	2018	Change
Cash provided by (used in) operating activities	\$ (21,800)	19,928	nm	\$ 32,510	\$ 85,047	(62%)
Per Share Data (Diluted)	(0.48)	0.43	nm	0.71	1.84	(61%)
Cashflow	\$ 23,959	34,799	(31%)	\$ 74,831	\$ 78,420	(5%)
Per Share Data (Diluted)	0.53	0.75	(29%)	1.64	1.70	(4%)

"nm" - calculation not meaningful

The changes in cash provided by operating activities was due primarily to changes in the working capital requirements of the various business segments. Cash flow decreased in the third quarter and first nine months of 2019 compared to 2018 as a result of lower EBITDA compared to the same periods in 2018. 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

September 30	Three months ended			Nine months ended		
	2019	2018	Change	2019	2018	Change
Net cash used in investing activities	\$ (17,159)	\$ (4,764)	260%	\$ (31,861)	\$ (25,530)	25%
Proceeds from sale of PP&E	\$ 949	\$ 1,695	(44%)	\$ 6,849	\$ 3,798	80%
Purchase of PP&E	\$ (18,231)	\$ (7,425)	146%	\$ (40,300)	\$ (28,502)	41%

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 nine months of 2019 equipment disposed consisted primarily of compression rental units previously on rent, decommissioned drilling rigs, underutilized older rental equipment and heavy trucks and older light-duty vehicles.

During the third quarter of 2019, \$18.2 million of PP&E purchases were allocated as follows: \$1.2 million in the CDS segment relating to the purchase of rig equipment and rig recertifications and upgrades, \$7.8 million in the RTS segment relating primarily to purchases of rental and transportation equipment in the U.S., \$8.1 million in the CPS segment relating to additions to the compression rental fleet, \$1.0 million in the WS segment relating to service rig recertifications and upgrades and \$0.1 million in Corporate relating to information technology infrastructure upgrades. During the first nine months of 2019, \$40.3 million of PP&E purchases were allocated as follows: \$6.8 million in the CDS segment relating primarily to the purchase of rig equipment and rig recertifications and upgrades, \$17.2 million in the RTS segment relating primarily to purchases of rental and transportation equipment in the U.S., \$11.5 million in the CPS segment relating primarily to additions to the compression rental fleet, \$4.3 million in the WS segment relating to service rig recertifications and upgrades and \$0.5 million in Corporate relating to real estate development and information technology infrastructure upgrades.

Financing Activities

September 30	Three months ended			Nine months ended		
	2019	2018	Change	2019	2018	Change
Net cash provided by (used in) financing activities	\$ 5,092	\$ (10,819)	nm	\$ (31,289)	\$ (56,257)	(44%)

"nm" - calculation not meaningful

Net cash provided by financing activities in the third quarter of 2019 was due to a \$10.0 million draw of long-term debt and a \$3.1 million increase in bank indebtedness. During the first nine months of 2019 \$5.0 million of long-term debt was voluntarily repaid in addition to \$2.2 million of regular principal repayments on the Company's mortgage loans. During the first nine months of 2019, \$4.3 million was spent purchasing shares under the Company's normal course issuer bid, a \$1.6 million increase from 2018.

Liquidity and Capital Resources

The Company had a working capital surplus of \$85.8 million as at September 30, 2019 compared to \$125.0 million as at December 31, 2018. This decrease was due primarily to the classification of the \$41.4 million mortgage loan maturing in 2020 as current and a higher current portion of lease liabilities relating to rental contracts recognized on the adoption of IFRS 16. As at September 30, 2019 and the date of this MD&A, the Company was in compliance with all debt covenants.

On June 19, 2017 the Company entered into a three-year \$225.0 million revolving syndicated credit facility ("Credit Facility"). On April 25, 2018 the Credit Facility was increased by \$65.0 million to \$290.0 million. On May 31, 2019 the maturity date was extended to June 19, 2022. The Company has the option to increase such facility by \$75.0 million subject to certain terms and conditions, including the agreement of the lenders to increase their commitments. The Credit Facility includes a Canadian \$18.0 million operating line, an Australian \$2.0 million operating line and a Canadian \$270.0 million revolving facility. The Credit Facility bears interest at the banks' Canadian prime rate plus 0.25% to 2.75%, bankers' acceptance,

letter of credit, LIBOR or BBSY advances plus a 1.5% to 4.0% stamping fee. The applicable interest rate within such ranges is dependent on certain financial ratios of the Company. A standby fee ranging from 0.25% to 0.8% per annum is paid quarterly on the unused portion of the facility depending on certain financial ratios of the Company. At September 30, 2019, the applicable interest rate on amounts drawn on the Credit Facility was 4.02% and the standby rate was 0.44%. Letters of credit ("LOC") of \$0.3 million were outstanding at September 30, 2019 which reduces the amount of credit available under the Credit Facility by an equivalent amount.

In August of 2018 a U.S. \$20 million LOC was established. LOCs issued pursuant to this facility do not reduce availability under the Credit Facility. At September 30, 2019 \$2.2 million U.S. dollars (\$2.9 million Canadian dollars) and \$1.5 million Canadian dollars of LOCs were outstanding under this facility.

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

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

	September 30, 2019	
	Interest rate	Principal Amount
Credit Facility	4.02%	\$ 225,068
Mortgage loan (2020 maturity)	3.06%	41,426
Mortgage loan (2041 maturity)	4.55%	15,128
		281,622
Less current portion		42,105
		\$ 239,517

At September 30, 2019 amounts owing under the Credit Facility and other debt were denominated in Canadian dollars. The weighted average interest rate on the Company's debt at September 30, 2019 was 3.92%.

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

	September 30 2019	Threshold
Twelve-month trailing Bank EBITDA to interest expense	6.66	minimum 3.00
Total Senior Debt to twelve-month trailing Bank EBITDA	2.53	maximum 3.00

The Company was in compliance with all of its Credit Facility and other debt covenants at September 30, 2019. For further information regarding Credit Facility compliance requirements and details on the Company's borrowings, please refer to note 5 to the Interim Financial Statements.

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

Dividends

For the three and nine months ended September 30, 2019 the Company declared dividends of \$2.7 million (\$0.06 per share) and \$8.2 million (\$0.18 per share) which was consistent with the same periods in 2018.

For the nine months ended September 30, 2019 cash provided by operating activities and cashflow exceeded dividends to shareholders. Management and the Board of Directors of the Company continue to monitor the Company's dividend policy

in the context of industry conditions and forecasted net income, cashflow, cash provided by operating activities, debt levels, capital expenditures and other investment opportunities and will aim to finance future dividends through cash provided by operating activities.

Capital Spending

Capital spending for the three and nine months ending September 30, 2019 consisted of \$18.2 million and \$40.3 million, respectively, of PP&E purchases. Capital spending was funded by cash flow, including \$6.8 million of proceeds from the sale of PP&E during the first nine months of 2019.

CONTRACTUAL OBLIGATIONS

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

	Payments due by year					
	Total	2019	2020	2021	2022	2023 and after
Long-term debt and bank indebtedness	\$ 281,622	\$ 691	\$ 41,586	\$ 680	\$ 225,748	\$ 12,917
Commitments ⁽¹⁾	242	100	92	38	11	1
Lease liabilities, net of lease assets	19,919	1,992	7,034	5,495	2,311	3,087
Purchase obligations ⁽²⁾	31,640	31,640	-	-	-	-
Total contractual obligations	\$ 333,423	\$ 34,423	\$ 48,712	\$ 6,213	\$ 228,070	\$ 16,005

(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 September 30, 2019 purchase obligations primarily relate to commitments to purchase inventory in the CPS segment.

OFF-BALANCE SHEET ARRANGEMENTS

During 2019 and 2018, the Company had no off-balance sheet arrangements other than short-term 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 3.56% for a similar debt instrument at September 30, 2019 was \$41.5 million (December 31, 2018: market rate of 4.05%, \$42.4 million). The carrying value and Company's liability with respect to this mortgage is \$41.4 million.

OUTSTANDING COMPANY SHARE DATA

As at the date of this MD&A, the Company had 45,321,900 common shares outstanding.

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

Outstanding at September 30, 2019	Exercise Price	Remaining life (years)	Exercisable at September 30, 2019
1,070,000	\$ 14.13	0.80	1,070,000
1,215,000	12.69	2.70	810,004
60,000	12.00	2.90	40,000
525,000	13.54	3.40	175,000
150,000	12.99	3.60	50,000
1,090,000	9.51	4.60	–
4,110,000	\$ 12.33	2.84	2,145,004

OUTLOOK

Industry Conditions

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

Total Energy's strategy of preserving its asset base, operating capacity and financial strength through the downturn has enabled it to recover lost market share while avoiding significant start-up costs and undue operational and human resource challenges. Continued contraction of energy service industry capacity in Canada as a result of the protracted industry 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. Global economic uncertainty and equity market volatility have contributed to the headwinds facing the energy industry. In addition, oil and natural gas producers in Canada face unique political and regulatory challenges that have contributed to a significant lack of pipeline and other energy export capacity. This infrastructure deficit has contributed to a significant decline in Canadian energy investment. Activity levels in the United States have moderated somewhat over the course of 2019 while they remain relatively stable in Australia. While the Company has been proactive in managing its operating cost structure to adapt to the current environment, continued challenging industry activity levels may require additional substantive measures be taken to preserve the Company's financial strength and flexibility.

Credit Risk

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

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

Government Regulation

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

CRITICAL ACCOUNTING ESTIMATES

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

There have been no material changes to the Company's Critical Accounting Estimates during 2019, other than the following:

Change in accounting estimates

During the third quarter of 2019, the Company conducted a review of its rentals and transportation equipment within its Rentals and Transportation Services segment. Such review was based on the current economic and operating environment and considered the operating history of these assets in order to assess their useful lives, pace of economic consumption and residual values. As a result of this review, effective July 1, 2019 certain changes were made to the Company's estimates of the useful lives and residual values of various assets and are summarized as follows:

	Previous estimated useful lives, years	New estimated useful lives, years	Previous residual value	New residual value
Rental and transportation equipment				
Rental equipment	5 - 15	3 - 20	25% - 33%	0% - 25%
Transportation equipment	7	7 - 10	25%	25%

As a result of these changes in estimates, a non-recurring depreciation expense of \$7.9 million was incurred during the three and nine months ended September 30, 2019. In addition, recurring incremental depreciation expense increased by \$1.0 million for the three and nine months ended September 30, 2019.

Critical Judgments in Applying Accounting Policies

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

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

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

The Company's functional currency is based on the primary economic environment in which it operates and is based on an analysis of several factors including which currency principally affects sales prices of products sold by the Company, which currency influences the main expenses of providing services, in which currency the Company keeps 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 consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

STANDARDS ADOPTED IN THE PERIOD

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

IFRS 16

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

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

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

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

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

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

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

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

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

IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in

other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do so without using hindsight. Adoption of IFRIC 23 did not have a material effect on the Company's consolidated financial statements.

FUTURE ACCOUNTING POLICIES CHANGES

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

NON-IFRS MEASURES

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

EBITDA

September 30	Three months ended		Nine months ended	
	2019	2018	2019	2018
Net income (loss)	\$ (6,114)	\$ 8,655	\$ 1,498	\$ 15,645
Add back (deduct):				
Depreciation	29,930	19,478	67,667	57,723
Finance costs	3,098	2,940	9,705	10,293
Income tax expense (recovery)	(2,001)	3,559	(6,996)	1,852
EBITDA	\$ 24,913	\$ 34,632	\$ 71,874	\$ 85,513

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

Net Debt

	As at September 30, 2019
Long-term debt	\$ 239,517
Lease liabilities	12,207
Add back (deduct):	
Current liabilities	150,308
Current assets	(236,086)
Net Debt	\$ 165,946

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying unaudited condensed interim consolidated financial statements, and has in place appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Company, and has reviewed and approved this MD&A and the accompanying unaudited condensed interim consolidated financial statements.

Internal Control Over Financial Reporting ("ICFR")

There have been no significant changes in the design of the Company's ICFR during the quarter ended September 30, 2019 that would materially affect, or is reasonably likely to materially affect the Company's ICFR.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

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

The information and statements contained in this MD&A that are not historical facts are forward-looking statements. Forward-looking statements (often, but not always, identified by the use of words such as “seek”, “plan”, “continue”, “estimate”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe”, “expect”, “may”, “anticipate” or “will” and similar expressions) may include plans, expectations, opinions, or guidance that are not statements of fact. Forward-looking statements are based upon the opinions, expectations and estimates of management as at the date the statements are made and are subject to a variety of risks and uncertainties and other factors that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking statements. These factors include, but are not limited to, such things as changes in industry conditions (including the levels of capital expenditures made by oil and gas producers and explorers), the credit risk to which the Company is exposed in the conduct of its business, fluctuations in prevailing commodity prices or currency and interest rates, the competitive environment to which the various business divisions are, or may be, exposed in all aspects of their business, the ability of the Company's various business divisions to access equipment (including parts) and new technologies and to maintain relationships with key suppliers, the ability of the Company's various business divisions to attract and maintain key personnel and other qualified employees, various environmental risks to which the Company's business divisions are exposed in the conduct of their operations, inherent risks associated with the conduct of the businesses in which the Company's business divisions operate, timing and costs associated with the acquisition of capital equipment, the impact of weather and other seasonal factors that affect business operations, availability of financial resources or third-party financing and the impact of new laws and regulations or changes in existing laws, regulations or administrative practices on the part of regulatory authorities, including without limitation taxation, labour and environmental laws and regulations and changes in how such laws and regulations are interpreted and enforced. Forward-looking information respecting the anticipated costs associated with the purchase of capital equipment are based upon historical prices for various classes of equipment, expectations relating to the impact of inflation on the future cost of such equipment and management's views concerning the negotiating position of the Company and its affiliates. Forward-looking information concerning the nature and timing of growth within the various business divisions is based on the current budget of the Company (which is subject to change), factors that affected the historical growth of such business divisions, sources of historic growth opportunities and expectations relating to future economic and operating conditions. Forward-looking information concerning the future competitive position of the Company's business divisions is based upon the current competitive environment in which those business divisions operate, expectations relating to future economic and operating conditions, current and announced build programs and other expansion plans of other organizations that operate in the energy service business. Forward-looking information concerning the financing of future business activities is based upon the financing sources on which the Company and its predecessors have historically relied and expectations relating to future economic and operating conditions. Forward-looking information concerning future economic and operating conditions is based upon historical economic and operating conditions, and opinions of third-party analysts respecting anticipated economic and operating conditions. Although management of the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Accordingly, readers should not place undue reliance upon any of the forward-looking information set out in this MD&A. All of the forward-looking statements of the Company contained in this MD&A are expressly qualified, in their entirety, by this cautionary statement. The various risks to which the Company is exposed are described in additional detail in this MD&A under the heading “Risk Factors” and in the Company's AIF. Except as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking information or statements, whether as a result of new information, future events or otherwise.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (in thousands of Canadian dollars)

	Note	September 30 2019	December 31 2018
ASSETS			
Current assets:			
Cash and cash equivalents		\$ –	\$ 30,640
Accounts receivable		135,804	155,946
Inventory		83,058	84,743
Prepaid expenses and deposits		12,853	17,776
Income taxes receivable		3,598	7,299
Other assets		–	527
Current portion of finance lease asset	2	773	–
		236,086	296,931
Property, plant and equipment		743,302	768,613
Income taxes receivable		7,070	7,070
Lease asset	2	266	–
Deferred tax asset		399	1,457
Goodwill		4,053	4,053
		\$ 991,176	\$ 1,078,124
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 91,150	\$ 126,608
Deferred revenue		5,580	37,316
Dividends payable		2,722	2,752
Current portion of lease liabilities	2	8,751	2,376
Current portion of long-term debt	4	42,105	2,912
		150,308	171,964
Long-term debt	4	239,517	282,863
Lease liabilities	2	12,207	3,456
Onerous lease liability	5	–	1,574
Deferred tax liability		50,354	57,691
Shareholders' equity:			
Share capital	6	285,703	288,902
Contributed surplus		7,329	6,384
Accumulated other comprehensive loss		(16,756)	(5,320)
Non-controlling interest		(899)	238
Retained earnings		263,413	270,372
		538,790	560,576
		\$ 991,176	\$ 1,078,124

The notes on pages 30 to 40 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME

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

	Note	Three months ended September 30		Nine months ended September 30	
		2019	2018	2019	2018
REVENUE		\$ 171,213	\$ 232,925	\$ 605,898	\$ 631,963
Cost of services		134,285	184,374	495,124	507,993
Selling, general and administration		12,590	13,904	37,615	41,543
Other expense (income)		(1,018)	376	1,858	(2,904)
Share-based compensation	7	438	499	1,300	1,798
Depreciation		29,930	19,478	67,667	57,723
Operating income (loss)		(5,012)	14,294	2,334	25,810
Gain (loss) on sale of property, plant and equipment		(5)	860	1,873	1,980
Finance costs		(3,098)	(2,940)	(9,705)	(10,293)
Net income (loss) before income taxes		(8,115)	12,214	(5,498)	17,497
Current income tax expense (recovery)		(883)	2,963	74	5,737
Deferred income tax expense (recovery)		(1,118)	596	(7,070)	(3,885)
Total income tax expense (recovery)		(2,001)	3,559	(6,996)	1,852
Net income (loss) for the period		\$ (6,114)	\$ 8,655	\$ 1,498	\$ 15,645
Net income (loss) attributable to:					
Shareholders of the Company		\$ (6,159)	\$ 8,910	\$ 2,004	\$ 15,903
Non-controlling interest		45	(255)	(506)	(258)
Income (loss) per share					
Basic and diluted	6	\$ (0.14)	\$ 0.19	\$ 0.04	\$ 0.34

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Net income (loss) for the period	\$ (6,114)	\$ 8,655	\$ 1,498	\$ 15,645
Foreign currency translation adjustment	(1,425)	(6,994)	(10,645)	(3,295)
Deferred tax effect	(219)	680	(791)	275
Total other comprehensive loss for the period	(1,644)	(6,314)	(11,436)	(3,020)
Total comprehensive income (loss)	\$ (7,758)	\$ 2,341	\$ (9,938)	\$ 12,625
Total comprehensive income (loss) attributable to:				
Shareholders of the Company	\$ (7,803)	\$ 2,596	\$ (9,432)	\$ 12,883
Non-controlling interest	45	(255)	(506)	(258)

The notes on pages 30 to 40 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EQUITY

As at and for the nine months ended September 30, 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)		-	-	-	(506)	2,004	1,498
Other comprehensive loss		-	-	(11,436)	-	-	(11,436)
<i>Transactions with shareholders, recorded directly in equity:</i>							
Dividends to shareholders (\$0.18 per common share)		-	-	-	-	(8,198)	(8,198)
Repurchase of common shares	6	(3,199)	-	-	-	(1,073)	(4,272)
Partnership distributions		-	-	-	(550)	-	(550)
Purchase of partners' share in limited partnership		-	-	-	(81)	(47)	(128)
Share-based compensation	7	-	1,300	-	-	-	1,300
Share options expired		-	(355)	-	-	355	-
		(3,199)	945	-	(631)	(8,963)	(11,848)
Balance at September 30, 2019		\$ 285,703	\$ 7,329	\$ (16,756)	\$ (899)	\$ 263,413	\$ 538,790

	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)		-	-	-	(258)	15,903	15,645
Other comprehensive loss		-	-	(3,020)	-	-	(3,020)
<i>Transactions with shareholders, recorded directly in equity:</i>							
Dividends to shareholders (\$0.18 per common share)		-	-	-	-	(8,233)	(8,233)
Repurchase of common shares	6	(1,455)	-	-	-	(1,264)	(2,719)
Share-based compensation	7	-	1,798	-	-	-	1,798
Expiration of share options	7	-	(563)	-	-	563	-
Purchase of partners' share in limited partnership		-	-	-	(341)	9	(332)
Partnership distribution		-	-	-	(475)	-	(475)
		(1,455)	1,235	-	(816)	(8,925)	(9,961)
Balance at September 30, 2018		\$ 289,862	\$ 5,785	\$ (13,214)	\$ 122	\$ 266,683	\$ 549,238

The notes on pages 30 to 40 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)

	Note	Three months ended September 30		Nine months ended September 30	
		2019	2018	2019	2018
Cash provided by (used in):					
Operations:					
Net income (loss) for the period		\$ (6,114)	\$ 8,655	\$ 1,498	\$ 15,645
Add (deduct) items not affecting cash:					
Depreciation		29,930	19,478	67,667	57,723
Share-based compensation		438	499	1,300	1,798
Loss (gain) on sale of property, plant and equipment		5	(860)	(1,873)	(1,980)
Finance costs		3,098	1,987	9,023	9,115
Unrealized loss (gain) on foreign currencies translation		(989)	394	585	(2,698)
Current income tax expense (recovery)		(883)	2,963	74	5,737
Deferred income tax expense (recovery)		(1,118)	596	(7,070)	(3,885)
Income taxes recovered (paid)		(408)	1,087	3,627	(3,035)
Cashflow		23,959	34,799	74,831	78,420
Changes in non-cash working capital items:					
Accounts receivable		(8,281)	(18,061)	18,082	2,806
Inventory		1,334	(11,326)	1,685	(25,328)
Prepaid expenses and deposits		(1,823)	(291)	7,127	781
Accounts payable and accrued liabilities		(21,483)	3,250	(38,776)	11,574
Onerous leases		–	(201)	1,297	(1,246)
Deferred revenue		(15,506)	11,758	(31,736)	18,040
Cash provided by (used in) operating activities		(21,800)	19,928	32,510	85,047
Investing:					
Purchase of property, plant and equipment		(18,231)	(7,425)	(40,300)	(28,502)
Proceeds on sale of other assets		–	954	682	1,181
Proceeds on disposal of property, plant and equipment		949	1,695	6,849	3,798
Purchase of non-controlling interest		–	(332)	(128)	(332)
Changes in non-cash working capital items		123	344	1,036	(1,675)
Cash used in investing activities		(17,159)	(4,764)	(31,861)	(25,530)
Financing:					
Advances on long-term debt		13,068	–	13,068	50,000
Repayment of long-term debt	4	(687)	(2,237)	(17,221)	(82,080)
Repayment of lease liabilities		(1,387)	(601)	(5,283)	(1,669)
Dividends to shareholders		(2,730)	(2,772)	(8,228)	(8,247)
Repurchase of common shares		(970)	(2,122)	(4,272)	(2,719)
Partnership distributions		(50)	–	(550)	(475)
Interest paid		(2,152)	(3,087)	(8,803)	(11,067)
Cash provided by (used in) financing activities		5,092	(10,819)	(31,289)	(56,257)
Change in cash and cash equivalents		(33,867)	4,345	(30,640)	3,260
Cash and cash equivalents, beginning of period		33,867	20,069	30,640	21,154
Cash and cash equivalents, end of period		\$ –	\$ 24,414	\$ –	\$ 24,414

The notes on pages 30 to 40 are an integral part of these condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2019 and 2018
Unaudited (tabular amounts in thousands of Canadian dollars)

1. Reporting Entity

Total Energy Services Inc. (the “Company”) is incorporated under the Business Corporations Act (Alberta) and its head office is located in Calgary, Alberta at Suite 800, 311 – 6th Avenue S.W. The condensed interim consolidated financial statements include the accounts of the Company, its subsidiaries and its wholly and partially owned partnerships established in Canada, the United States of America (the “United States” or “US”) 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 November 7, 2019.

Change in accounting estimates

During the third quarter of 2019, the Company conducted a review of its rentals and transportation equipment within its Rentals and Transportation Services segment. Such review was based on the current economic and operating environment and considered the operating history of these assets in order to assess their useful lives, pace of economic consumption and residual values. As a result of this review, effective July 1, 2019 certain changes were made to the Company’s estimates of the useful lives and residual values of various assets, which are summarized as follows:

	Previous estimated useful lives, years	New estimated useful lives, years	Previous residual value	New residual value
Rental and transportation equipment				
Rental equipment	5 - 15	3 - 20	25% - 33%	0% - 25%
Transportation equipment	7	7 - 10	25%	25%

As a result of these changes in estimates, a non-recurring depreciation expense of \$7.9 million was incurred during the three and nine months ended September 30, 2019 which related primarily to the reduction of residual values for certain assets. In addition, recurring depreciation expense increased by \$1.0 million for the three and nine months ended September 30, 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2019 and 2018

Unaudited (tabular amounts in thousands of Canadian dollars)

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

Standards Adopted in the Period

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

IFRS 16 - Leases

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2019 and 2018

Unaudited (tabular amounts in thousands of Canadian dollars)

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%.

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

	Leased assets – office and shop leases
Cost	
Recognized on January 1, 2019	\$ 13,173
Additions	1,551
Effect of changes in foreign exchange rates	(316)
As at September 30, 2019	14,408
Accumulated Depreciation	
Recognized on January 1, 2019	–
Depreciation expense	3,395
Effect of changes in foreign exchange rates	(15)
As at September 30, 2019	3,380
Net Book Value	
As at September 30, 2019	\$ 11,028

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2019 and 2018

Unaudited (tabular amounts in thousands of Canadian dollars)

The following table shows the impact of adopting IFRS 16 on the Company's statement of comprehensive income for the three and nine months ended September 30, 2019:

	Three months ended September 30, 2019	Nine months ended September 30, 2019
Incremental finance costs	\$ 221	\$ 709
Incremental depreciation	1,104	3,392
Reduced cost of services and selling, general and administration	(1,253)	(3,789)
Net impact of adopting IFRS 16	\$ 72	\$ 312

Included in cost of services and selling, general and administrative expense for the three and nine months ended September 30, 2019 is \$0.1 million and \$0.3 million, respectively, of lease payments made on leases of low-value assets or leases with a term of less than one year.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 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 September 30, 2019	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate ⁽¹⁾	Total
Revenue	\$ 47,855	\$ 15,476	\$ 72,070	\$ 35,812	\$ –	\$ 171,213
Cost of services	37,798	9,932	61,054	25,501	–	134,285
Selling, general and administration	2,240	3,772	2,554	1,672	2,352	12,590
Other income	–	–	–	–	(1,018)	(1,018)
Share-based compensation	–	–	–	–	438	438
Depreciation ⁽²⁾	8,694	14,080	2,867	4,156	133	29,930
Operating income (loss)	(877)	(12,308)	5,595	4,483	(1,905)	(5,012)
Gain (loss) on sale of property, plant and equipment	(171)	124	105	(70)	7	(5)
Finance costs	(81)	(51)	(107)	(8)	(2,851)	(3,098)
Net income (loss) before income taxes	(1,129)	(12,235)	5,593	4,405	(4,749)	(8,115)
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	403,276	236,034	202,856	121,907	27,103	991,176
Total liabilities	73,851	23,480	55,119	7,011	292,925	452,386
Capital expenditures	\$ 1,169	\$ 7,839	\$ 8,107	\$ 1,032	\$ 84	\$ 18,231

As at and for the three months ended September 30, 2018	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate ⁽¹⁾	Total
Revenue	\$ 57,687	\$ 19,462	\$ 114,811	\$ 40,965	\$ –	\$ 232,925
Cost of services	45,068	12,631	97,869	28,806	–	184,374
Selling, general and administration	1,836	3,359	3,262	1,120	4,327	13,904
Other expense	–	–	–	–	376	376
Share-based compensation	–	–	–	–	499	499
Depreciation	8,544	4,070	1,874	4,965	25	19,478
Operating income (loss)	2,239	(598)	11,806	6,074	(5,227)	14,294
Gain (loss) on sale of property, plant and equipment	298	(144)	193	513	–	860
Finance costs	(17)	(18)	(10)	(26)	(2,869)	(2,940)
Net income (loss) before income taxes	2,520	(760)	11,989	6,561	(8,096)	12,214
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	432,267	240,689	234,413	134,966	21,478	1,063,813
Total liabilities	50,497	39,190	103,835	4,061	316,992	514,575
Capital expenditures	\$ 2,114	\$ 2,916	\$ 2,062	\$ 333	\$ –	\$ 7,425

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

(2) Effective July 1, 2019 the Company changed certain estimates relating to the useful life and residual value of equipment in the Rentals and Transportation Services segment. See note 2 for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2019 and 2018

Unaudited (tabular amounts in thousands of Canadian dollars)

As at and for the nine months ended September 30, 2019	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate ⁽¹⁾	Total
Revenue	\$ 127,180	\$ 49,539	\$ 326,072	\$ 103,107	\$ –	\$ 605,898
Cost of services	104,417	31,809	283,859	75,039	–	495,124
Selling, general and administration	6,393	11,306	9,156	5,033	5,727	37,615
Other expense	–	–	–	–	1,858	1,858
Share-based compensation	–	–	–	–	1,300	1,300
Depreciation ⁽²⁾	24,392	23,339	7,127	12,457	352	67,667
Operating income (loss)	(8,022)	(16,915)	25,930	10,578	(9,237)	2,334
Gain (loss) on sale of property, plant and equipment	(1,058)	1,105	1,567	42	217	1,873
Finance costs	(274)	(107)	(320)	(20)	(8,984)	(9,705)
Net income (loss) before income taxes	(9,354)	(15,917)	27,177	10,600	(18,004)	(5,498)
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	403,276	236,034	202,856	121,907	27,103	991,176
Total liabilities	73,851	23,480	55,119	7,011	292,925	452,386
Capital expenditures	\$ 6,763	\$ 17,211	\$ 11,592	\$ 4,250	\$ 484	\$ 40,300

As at and for the nine months ended September 30, 2018	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate ⁽¹⁾	Total
Revenue	\$ 156,930	\$ 56,656	\$ 305,082	\$ 113,295	\$ –	\$ 631,963
Cost of services	126,928	37,187	261,728	82,150	–	507,993
Selling, general and administration	6,285	10,579	9,545	3,357	11,777	41,543
Other income	–	–	–	–	(2,904)	(2,904)
Share-based compensation	–	–	–	–	1,798	1,798
Depreciation	24,134	13,012	5,465	15,051	61	57,723
Operating income (loss)	(417)	(4,122)	28,344	12,737	(10,732)	25,810
Gain on sale of property, plant and equipment	425	218	431	906	–	1,980
Finance costs	(44)	(74)	(30)	(104)	(10,041)	(10,293)
Net income (loss) before income taxes	(36)	(3,978)	28,745	13,539	(20,773)	17,497
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	432,267	240,689	234,413	134,966	21,478	1,063,813
Total liabilities	50,497	39,190	103,835	4,061	316,992	514,575
Capital expenditures	\$ 10,574	\$ 8,064	\$ 7,263	\$ 2,594	\$ 7	\$ 28,502

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

(2) Effective July 1, 2019 the Company changed certain estimates relating to the useful life and residual value of equipment in the Rentals and Transportation Services segment. See note 2 for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 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 Sept 30, 2019	Canada	United States	Australia	Other	Total
Revenue	\$ 71,593	\$ 58,976	\$ 34,313	\$ 6,331	\$ 171,213
Non-current assets ⁽¹⁾	505,707	170,893	71,021	–	747,621

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

Nine months ended Sept 30, 2019	Canada	United States	Australia	Other	Total
Revenue	\$ 236,232	\$ 241,838	\$ 120,172	\$ 7,656	\$ 605,898
Non-current assets ⁽¹⁾	505,707	170,893	71,021	–	747,621

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

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

4. Long-term Debt

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

	September 30, 2019	
	Interest rate	Principal Amount
Credit Facility	4.02%	\$ 225,068
Mortgage loan (2020 maturity)	3.06%	41,426
Mortgage loan (2041 maturity)	4.55%	15,128
		281,622
Less current portion		42,105
		\$ 239,517

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

On June 19, 2017 the Company entered into a three-year \$225 million revolving syndicated credit facility (the "Credit Facility"). On April 25, 2018 the Credit Facility was increased by \$65 million to \$290 million. On May 31, 2019 the maturity date was extended to June 19, 2022. The Company has the option to increase such facility by \$75 million subject to certain terms and conditions, including the agreement of the lenders to increase their commitments. The Credit Facility includes a Canadian \$18.0 million operating line, an Australian \$2.0 million operating line and a Canadian \$270.0 million revolving facility. The Credit Facility bears interest at the banks' Canadian prime rate plus 0.25% to 2.75%, bankers' acceptance, letter of credit, LIBOR or BBSY advances plus a 1.5% to 4.0% stamping fee. The applicable interest rate within such ranges is dependent on certain financial ratios of the Company. A standby fee ranging from 0.25% to 0.8% per annum is paid quarterly on the unused portion of the facility depending on certain financial ratios of the Company. At September 30, 2019, the applicable interest rate on amounts drawn on the Credit Facility was 4.02% and the standby rate was 0.44%. Letters of credit ("LOC") of \$0.3 million were outstanding at September 30, 2019 which reduces the amount of credit available under the Credit Facility by an equivalent amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2019 and 2018

Unaudited (tabular amounts in thousands of Canadian dollars)

In August of 2018 a U.S. \$20 million LOC was established. LOCs issued pursuant to this facility do not reduce availability under the Credit Facility. At September 30, 2019 \$2.2 million U.S. dollars (\$2.9 million Canadian dollars) and \$1.5 million Canadian dollars of LOCs were outstanding under this facility.

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

	September 30, 2019	Threshold
Twelve-month trailing Bank EBITDA to interest expense	6.66	minimum 3.00
Total Senior Debt to twelve-month trailing Bank EBITDA	2.53	maximum 3.00

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2019 and 2018

Unaudited (tabular amounts in thousands of Canadian dollars)

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).

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	(510)	(3,132)
Repurchased not cancelled	-	(67)
Balance, September 30, 2019	45,350	\$ 285,703

During the nine months ended September 30, 2019 511,400 shares (2018: 231,000) were repurchased under the Company's normal course issuer bid at an average price of \$8.66 per share including commissions and 510,000 shares were cancelled, including 8,600 previously purchased during 2018. Subsequent to September 30, 2019 10,000 shares were cancelled.

(b) Per Share Amounts

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

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Net income (loss) for the period attributable to shareholders	\$ (6,159)	\$ 8,910	\$ 2,004	\$ 15,903
Weighted average number of shares outstanding – basic	45,457	46,099	45,652	46,186
Earnings (loss) per share – basic and diluted	\$ (0.14)	\$ 0.19	\$ 0.04	\$ 0.34

For the three and nine months ended September 30, 2019, 4,110,000 share options (September 30, 2018: 3,280,000 options) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 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
Granted	9.51	1,090,000
Forfeited	12.69	(26,666)
Expired	12.69	(123,334)
Balance, September 30, 2019	\$ 12.33	4,110,000

A total of 2,145,004 outstanding options were exercisable at September 30, 2019.

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

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

The share options issued during 2019 and 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 outstanding options expire on various dates ranging from July 29, 2020 to May 17, 2024.

8. Financial Instruments

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

The discounted future cash repayments of the Company's mortgage loan (maturity 2020) are calculated using prevailing market rates of a similar debt instrument as at the reporting date. The net present value of future cash repayments of this mortgage loan and related interest at the prevailing market rate of 3.56% for a similar debt instrument at September 30, 2019 was \$41.5 million (December 31, 2018: market rate of 4.05%, \$42.4 million). The carrying value and Company's liability with respect to the mortgage loan is \$41.4 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2019 and 2018

Unaudited (tabular amounts in thousands of Canadian dollars)

9. Contingencies

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

The Company has received both legal and tax advice relating to its conversion from an income trust to a corporation indicating that its income tax filing position is strong. As such, the Company has filed notices of objection in response to the Reassessment and intends to vigorously defend its filing position and seek reimbursement from the CRA for the costs arising from having to defend such Reassessment to the fullest extent possible. Management believes that it will be successful in defending its tax filing position, and as such, the Company has not recognized any provision for the Reassessment at September 30, 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 \$15.8 million of cash may be owing and \$22.9 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.

10. Subsequent Events

The Company’s wholly-owned subsidiary, Savanna Drilling, LLC (“Savanna”), reached an agreement in regard to the early termination of contracts for three Savanna drilling rigs operating in the United States. In October 2019 Savanna received a total of US\$13.5 million (approximately \$17.6 million Canadian dollars) for such early terminations which occurred in October 2017 that will be recorded as revenue in the fourth quarter of 2019.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Bruce Pachkowski^{2,3}
Chairman of the Board

Daniel Halyk
President and Chief Executive Officer

George Chow¹

Glenn Dagenais^{2,3}

Greg Melchin^{1,2}

Andrew Wiswell^{1,3}

¹ Member of the Compensation Committee

² Member of the Audit Committee

³ Member of the Corporate Governance and Nominating Committee

MANAGEMENT TEAM

Daniel Halyk
President and Chief Executive Officer

Gerry Crawford
Vice President, Field Services

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

Yuliya Gorbach
Vice President, Finance and Chief Financial Officer

William Kosich
Vice President, Drilling Services

Brad Macson
Vice President, Operations

Ashley Ting
Corporate Controller

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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 • Clairmont • Dawson Creek • Drayton Valley • Drumheller • Edson • 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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