

Q1



FOCUS DISCIPLINE GROWTH

First Quarter Report 2020

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

2020 began on a relatively positive note as compared to 2019. However, things rapidly changed with the outbreak of the novel coronavirus (COVID-19) and on March 11, 2020 the World Health Organization declared COVID-19 to be a global pandemic.

Measures taken in response to the pandemic gave rise to a sudden and substantial decline in economic activity and, consequently, global oil consumption. Concurrently, Saudi Arabia and Russia engaged in a battle for market share in the global oil market with devastating consequences for near term oil prices. The Canadian energy industry was particularly vulnerable to the dual shocks of the COVID-19 pandemic and the oil price war given the lack of oil pipeline capacity necessary for Canadian oil to reach eastern Canadian and global markets.

COVID-19 has arguably resulted in the most challenging operating environment ever experienced by Total Energy. The significant decline in global oil prices has resulted in a material decline in North American activity and while Australian activity has not yet been materially impacted, we are monitoring industry conditions there closely.

As we navigate through uncharted waters, the Company's top priority is the health and safety of its employees, other stakeholders and the public at large. Protocols were immediately put in place throughout the Company's global operations to mitigate the spread of COVID-19 and I am pleased to advise that our efforts have been highly successful thus far with no reported cases of COVID-19 infection in any of our operations to date.

Total Energy has made unprecedented adjustments to its North American cost structure in order to protect its balance sheet and financial liquidity. Such actions include suspension of the dividend, a 57% decrease to the 2020 capital budget, substantial reductions in employee headcount and compensation and strategic contraction of operational capacity to lower costs and preserve the Company's equipment fleet until such time as industry conditions recover.

Despite the challenging environment, Total Energy successfully refinanced a \$40.2 million term loan that matured in April 2020 with a new \$50.0 million five-year term loan bearing interest at 3.10%. Such loan is secured by approximately 45% of Total Energy's real estate (based on net book values at December 31, 2019) and illustrates not

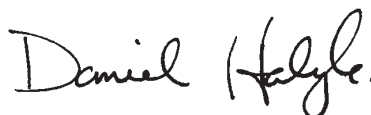
only the confidence our banks have in the Company but also the ability to lever our significant real estate portfolio to enhance our liquidity and lower our cost of capital.

The North American energy services industry has entered what we believe will be a historic process of rationalization and consolidation that is being forced upon it by the basic economic laws of supply and demand. While that process will be brutal and will negatively impact many stakeholders, it is necessary to ensure the future sustainability and economic viability of the industry.

Total Energy would not be successful without the efforts and support of our employees, owners and other stakeholders. While we regret the job losses and suspension of our dividend, we are grateful for our remaining employees who are working harder for less pay and without complaint. The understanding and support of our owners and bankers has allowed management to remain focused on running our business and the established relationships we have with our many customers and suppliers are critical as we work together to get through these challenging times for our industry.

Total Energy has demonstrated over its 24-year history the ability to successfully navigate through industry downturns. The current downturn has once again put our Company to the test. Our discipline during better times together with the extraordinary measures we have taken thus far to adjust our cost structure, our geographic and business diversification and the strength of our relationships with key stakeholders gives us confidence that Total Energy will not only pass this latest test but emerge as a stronger and more significant player in the global energy service industry.

On behalf of the Board of Directors of Total Energy, I extend our best wishes to all our employees, shareholders and other stakeholders and their families for their good health and wellbeing.



DANIEL K. HALYK
President and Chief Executive Officer

May 6, 2020

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

The following MD&A for Total Energy Services Inc. ("Total Energy" or the "Company") was prepared as at May 6, 2020 and focuses on information and key statistics from the unaudited condensed interim consolidated financial statements of the Company for the three months ended March 31, 2020 (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 2019 Annual Report, the Annual Information Form ("AIF") for the year ended December 31, 2019 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 March 31		
	2020	2019	Change
Revenue	\$ 134,268	\$ 221,990	(40%)
Operating income	10,529	8,437	25%
EBITDA ⁽¹⁾	30,903	29,415	5%
Cashflow	21,911	28,453	(23%)
Net income	4,724	4,759	(1%)
Attributable to shareholders	4,672	4,760	(2%)
Per Share Data (Diluted)			
EBITDA ⁽¹⁾	\$ 0.69	\$ 0.64	8%
Cashflow	\$ 0.49	\$ 0.62	(21%)
Attributable to shareholders:			
Net income	\$ 0.10	\$ 0.10	–
Financial Position at	March 31, 2020	Dec 31, 2019	Change
Total Assets	\$ 999,229	\$ 997,161	–
Long-Term Debt and Lease Liabilities (excluding current portion)	252,035	248,448	1%
Working Capital ⁽²⁾	124,010	103,234	20%
Net Debt ⁽¹⁾	128,025	145,214	(12%)
Shareholders' Equity	552,995	543,142	2%
Common shares (000's) ⁽³⁾			
Basic and diluted	45,087	45,829	(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 5 to the Interim Financial Statements.

BUSINESS OF THE COMPANY

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

Contract Drilling Services: At March 31, 2020, 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 13 locations in western Canada and three locations in the United States. At March 31, 2020, this segment had approximately 10,610 pieces of major rental equipment (excluding access matting), a fleet of 87 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 March 31, 2020 the CPS segment occupied approximately 246,000 square feet of production facilities located in Calgary, Alberta and a 100,000 square foot production facility in Weirton, West Virginia. As at March 31, 2020 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 50,400 horsepower of compression in its rental fleet at March 31, 2020.

Well Servicing: At March 31, 2020, the Company operated a total fleet of 83 well servicing rigs across western Canada, northwest United States and Australia. Composition of the Company's service rig fleet is as follows:

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

OVERALL PERFORMANCE

Total Energy's results for the three months ended March 31, 2020 reflect continued challenging industry conditions in Canada, a deterioration of industry conditions in the United States and reduced production activity in the CPS segment. This was somewhat offset by relatively stable industry activity levels in Australia. Included in the financial results for the three months ended March 31, 2020 was \$7.9 million of income relating to unrealized foreign exchange gains from translation of working capital balances of foreign subsidiaries as compared to unrealized losses of \$1.2 million in the same period in 2019 and a \$0.4 million increase to the Company's allowance for doubtful accounts receivable.

The Company's financial condition remains strong, with a positive working capital balance of \$124.0 million as at March 31, 2020. The \$20.8 million increase in working capital since December 31, 2019 was due primarily to higher inventory level as a result of committed purchases within the CPS segment. Lower accounts payable and accrued liabilities based on reduced capital spending also contributed to increased working capital at March 31, 2020. Despite \$0.4 million of share repurchases, shareholders' equity increased by \$9.9 million from December 31, 2019. Also contributing to the increase of shareholder equity was \$5.2 million of accumulated other comprehensive income in the first three months of 2020 as a result of the weakening of the Canadian dollar relative to the U.S. dollar during the first quarter of 2020 and the corresponding impact on the translation of U.S. foreign subsidiary balances which was partially offset by the strengthening of the Canadian dollar relative to the Australian dollar and the resulting impact on the translation of Australian foreign subsidiary balances.

Revenue

	Three months ended March 31		
	2020	2019	Change
Revenue	\$ 134,268	\$ 221,990	(40%)

The decrease in revenue for the three months ended March 31, 2020 relative to the same period in 2019 was the result of decreases in all segments, particularly in the CPS segment due to a material decrease in year over year production activity.

Cost of Services and Gross Margin

	Three months ended March 31		
	2020	2019	Change
Cost of services	\$ 100,683	\$ 179,978	(44%)
Gross margin	\$ 33,585	\$ 42,012	(20%)
Gross margin, as a percentage of revenue	25%	19%	32%

The decrease in costs of services during the three months ended March 31, 2020 relative to the same period in 2019 is primarily due to decreased production activity in the CPS segment. The improvement in the gross margin percentage is a result of a change in the segment revenue mix and realized cost efficiencies in all segments.

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

Selling, General and Administration Expenses

	Three months ended March 31		
	2020	2019	Change
Selling, general and administration expenses	\$ 10,585	\$ 12,762	(17%)

Selling, general and administration expenses decreased in the first three months of 2020 relative to the same period in 2019 as a result of cost savings activities and lower sales and profit incentive compensation in certain 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 March 31		
	2020	2019	Change
Other expense (income)	\$ (7,928)	\$ 1,161	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 offset somewhat by a strengthening of the Canadian dollar relative to the Australian dollar during the period gave rise to an unrealized foreign exchange gain for the first three months of 2020.

Share-based Compensation Expense

	Three months ended March 31		
	2020	2019	Change
Share-based compensation expense	\$ 405	\$ 368	10%

Share-based compensation expense arises from share options granted pursuant to the share option plan implemented in 2015. Share-based compensation expense for the first three months of 2020 relative to the same period in 2019 is higher due to options being granted in the second quarter of 2019.

Depreciation Expense

	Three months ended March 31		
	2020	2019	Change
Depreciation expense	\$ 19,994	\$ 19,284	4%

The increase in depreciation expense for the first three months of 2020 compared to 2019 is due to higher depreciation expense in the RTS segment following a change in depreciation estimates effective July 1, 2019 (see "Critical Accounting Estimates" below for further details). This was partially offset by lower depreciation expense in the WS segment as a result of certain assets becoming fully depreciated. All of the Company's property, plant and equipment is depreciated on a straight-line basis with the exception of contract drilling equipment, which is depreciated on a utilization basis subject to a minimum annual depreciation expense equal to an annual utilization of 96 days.

Operating Income

	Three months ended March 31		
	2020	2019	Change
Operating income	\$ 10,529	\$ 8,437	25%

Included in operating income for the three months ended March 31, 2020, was a \$7.9 million unrealized gain on foreign exchange translation of intercompany working capital balances compared to an unrealized loss of \$1.2 million in the same period in 2019 and a \$0.4 million increase to the Company's allowance for doubtful accounts receivable during the first quarter of 2020. Operating income, normalized for these items was \$3.0 million for the three months ended March 31, 2020, as compared to \$9.6 million for the same period in 2019. The decrease in normalized operating income in Q1 2020 relative to Q1 2019 is primarily due to reduced production activity in the CPS segment.

Gain on Sale of Property, Plant and Equipment

	Three months ended March 31		
	2020	2019	Change
Gain on sale of property, plant and equipment	\$ 380	\$ 1,694	(78%)
Proceeds on the sale of property, plant and equipment	\$ 1,705	\$ 2,670	(36%)

Disposals of property, plant and equipment result from the rationalization, replacement and upgrade of older equipment in the Company's equipment fleet.

Equipment disposed of in the first quarter of 2020 included older rental equipment and light duty vehicles. Equipment disposed of during the first quarter of 2019 consisted primarily of compression rental equipment purchased by customers in the ordinary course of business.

Finance Costs

	Three months ended March 31		
	2020	2019	Change
Finance costs	\$ 3,439	\$ 3,245	6%

Finance costs for the three months ended March 31, 2020 were higher than the prior year comparable period mostly due to a higher year over year outstanding balance on the Company's credit facility.

Income Taxes and Net Income

	Three months ended March 31		
	2020	2019	Change
Current income tax expense	\$ 1,336	\$ 700	91%
Deferred income tax expense	1,410	1,427	(1%)
Total income tax expense	\$ 2,746	\$ 2,127	29%
Net income	\$ 4,724	\$ 4,759	(1%)

The year over year increase in current income tax expense is primarily due to increased profitability in Australia for the three months ended March 31, 2020 as compared to the same period in 2019.

SEASONALITY

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

SUMMARY OF QUARTERLY RESULTS

	Financial Quarter Ended			
	March 31, 2020	Dec 31, 2019	Sept 30, 2019	June 30, 2019
Revenue	\$ 134,268	\$ 151,500	\$ 171,213	\$ 212,695
Operating income (loss)	10,529	14,468	(5,012)	(1,091)
EBITDA ⁽¹⁾	30,903	35,805	24,913	17,546
Cashflow	21,911	36,896	23,959	22,419
Cash provided (used) by operating activities	16,343	40,545	(21,800)	4,123
Net income (loss)	4,724	8,593	(6,114)	2,853
Attributable to shareholders	4,672	8,523	(6,159)	3,403
Per share data				
EBITDA ⁽¹⁾	\$ 0.69	\$ 0.79	\$ 0.55	\$ 0.38
Cashflow	0.49	0.82	0.53	0.49
Net income (loss) attributable to shareholders	0.10	0.19	(0.14)	0.07
Financial Position				
Total Assets	\$ 999,229	\$ 997,161	\$ 991,176	\$ 1,026,564
Long-Term Debt and Lease Liabilities (excluding current portion)	252,035	248,448	251,724	239,287
Working Capital ⁽²⁾	124,010	103,234	85,778	74,283
Net Debt ⁽¹⁾	128,025	145,214	165,946	165,004
Shareholders' Equity	552,995	543,142	538,790	549,851
Common Shares (000's) ⁽³⁾				
Basic and diluted	45,087	45,262	45,457	45,746

TOTAL ENERGY SERVICES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

(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 5 to the Interim Financial Statements and note 16 to the 2019 Financial Statements that are included in the 2019 Annual Report.

Aboriginal Partnerships

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

SEGMENTED RESULTS

Contract Drilling Services

March 31	Three Months Ended		
	2020	2019	Change
Revenue	\$ 43,025	\$ 45,704	(6%)
Operating income (loss)	\$ 291	\$ (2,610)	nm
Operating spud to release days ⁽¹⁾	2,166	2,021	7%
Revenue per spud to release day, dollars	\$ 19,864	\$ 22,615	(12%)

"nm" – calculation not meaningful

(1) Spud to release days is defined as time for operational drilling rigs and includes stand-by time in Australia.

Revenue in the CDS segment decreased in Q1 2020 as compared to Q1 2019 due to decreased activity in U.S. which was partially offset by increased activity in Canada and stable activity in Australia. Overall this increased activity in Canada combined with measures to control and stabilize costs and the receipt of standby revenue in Australia resulted in the realization of operating income in Q1 2020 as compared to an operating loss in Q1 2019. Included in Q1 2019 CDS results was \$0.9 million of expenses incurred to relocate drilling equipment in the United States as the segment consolidated U.S. operations.

The following summarizes the operating results for the CDS segment by geographic area for the three months ended March 31, 2020.

Q1 2020	Drilling Canada	Drilling U.S.	Drilling Australia	Total
Revenue	\$ 24,699	\$ 6,769	\$ 11,557	\$ 43,025
Operating income (loss)	\$ 4	\$ (2,230)	\$ 2,517	\$ 291
Spud to release days ⁽¹⁾	1,457	327	382	2,166
Revenue per spud to release day, dollars	\$ 16,952	\$ 20,700	\$ 30,254	\$ 19,864
Utilization % (spud to release)	20%	18%	84%	22%

Q1 2019	Drilling Canada	Drilling U.S.	Drilling Australia	Total
Revenue	\$ 20,257	\$ 12,912	\$ 12,535	\$ 45,704
Operating income (loss)	\$ (256)	\$ (4,088)	\$ 1,734	\$ (2,610)
Spud to release days ⁽¹⁾	1,110	522	389	2,021
Revenue per spud to release day, dollars	\$ 18,250	\$ 24,736	\$ 32,224	\$ 22,615
Utilization % (spud to release)	15%	24%	85%	20%

(1) Spud to release days is defined as time for operational drilling rigs and includes stand-by time in Australia.

The overall decrease in CDS segment revenue during the first quarter of 2020 relative to the same period in 2019 is primarily a result of reduced activity in the United States. Partially offsetting that was higher utilization in Canada, where activity modestly recovered compared to the same quarter last year. Australian activity levels during the first quarter of 2020 were consistent with the prior year due to the receipt of standby revenue. Overall lower effective day rates in North America was a result of continued price competition in the North American market combined with the mix of rigs working in the U.S., which was somewhat offset by the translation of foreign financial results into Canadian dollars given the appreciation of the U.S. dollar relative to the Canadian dollar during the first quarter of 2020. Effective day rates in Australia were consistent in Q1 2020 as compared to Q1 2019 and were negatively impacted by the translation of foreign financial results into Canadian dollars given the weakening of the Australian dollar relative to the Canadian dollar during the first quarter of 2020.

Operating income (loss) in the first quarter of 2020 improved relative to the same period in 2019 in all geographic regions despite the reduced utilization in the U.S. Operating income was realized in Canada as compared to an operating loss in Q1 2019 as a result of improved activity levels combined with cost control measures and minimal cold rig start-up costs. In the U.S., operating losses were reduced in Q1 2020 as compared to Q1 2019 as a result of cost control efforts and \$0.9 million of expenses incurred to relocate drilling equipment in the United States in Q1 2019. In Australia, operating income increased in Q1 2020 compared to Q1 2019 due primarily to increased rig standby due to unusually wet weather conditions.

Rentals and Transportation Services

March 31	Three Months Ended		
	2020	2019	Change
Revenue	\$ 16,833	\$ 18,407	(9%)
Operating loss	\$ (2,438)	\$ (1,632)	49%
Pieces of rental equipment	10,610	10,660	–
Heavy trucks	87	91	(4%)
Rental equipment utilization	15%	23%	(35%)

The revenue from the RTS segment for the first quarter of 2020 decreased as compared with the same period in 2019 mostly due to continued weak industry conditions in Canada, which was partially offset by a larger U.S. equipment fleet operating at a higher utilization as compared to 2019.

Operating loss in the first quarter of 2020 increased as compared to the same period in 2019 primarily due to challenging market conditions in Canada combined with higher depreciation expense resulting from changes to accounting estimates on the useful life and residual values of RTS equipment effective July 1, 2019.

This segment's relatively high fixed cost structure as compared to the Company's other business segments combined with the inability to increase prices to the extent necessary to offset cost inflation in Canada contributed to the operating loss for the first quarter of 2020. Such fixed cost structure includes costs associated with its significant operating branch infrastructure, including maintenance and repairs, utilities, insurance, property taxes and other infrastructure costs. In addition, depreciation expense on this segment's equipment fleet is recorded on a straight-line basis and is not correlated to levels of activity.

The following summarizes the operating results for the RTS segment by geographic area for the three months ended March 31, 2020.

Q1 2020	RTS Canada	RTS U.S.	Total
Revenue	\$ 9,940	\$ 6,893	\$ 16,833
Operating (loss) income	\$ (3,307)	\$ 869	\$ (2,438)
Pieces of rental equipment	9,690	920	10,610
Rental equipment utilization	11%	46%	15%

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

RTS Canada revenue decreased in the three months ended March 31, 2020 compared to the same period in 2019 due to increasingly competitive industry conditions and a smaller fleet of equipment following the disposal and relocation to the United States of underutilized equipment. Lower revenue combined with an increase in depreciation expense following the change in depreciation estimates effective July 1, 2019 resulted in increased operating losses in Q1 2020 as compared to Q1 2019.

RTS U.S. revenue for the three months ended March 31, 2020 increased compared to the same period in 2019 due to increased utilization of a larger equipment fleet. Negatively impacting operating income in first quarter of 2020 was higher depreciation expense on a larger equipment fleet as compared to Q1 2019 following the change in depreciation estimates effective July 1, 2019. Q1 2019 results for RTS U.S. were negatively impacted by \$0.4 million of expenses incurred with the relocation of under-utilized equipment from Canada to the United States. Positively impacting operating results of RTS in the United States in the first quarter of 2020 was the translation of foreign financial results into Canadian dollars given the appreciation of the U.S. dollar relative to the Canadian dollar during the first quarter.

Compression and Process Services

March 31	Three Months Ended		
	2020	2019	Change
Revenue	\$ 40,744	\$ 121,075	(66%)
Operating income	\$ 2,824	\$ 11,773	(76%)
Operating income, % of revenue	7%	10%	(30%)
Sales backlog at period end, \$ million	\$ 44.5	\$ 159.8	(72%)
Horsepower of equipment on rent at period end	33,900	30,600	11%
Rental equipment utilization during the period (HP)	68%	68%	–

The revenue and operating income reported from the CPS segment decreased for the three months ended March 31, 2020 as compared to the same period in 2019, due primarily to a decrease in fabrication sales bookings beginning in 2019 and a resultant decline in fabrication sales. 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.

Well Servicing

March 31	Three Months Ended		
	2020	2019	Change
Revenue	\$ 33,666	\$ 36,804	(9%)
Operating income	\$ 4,211	\$ 3,964	6%
Operating income, % of revenue	13%	11%	18%
Service hours ⁽¹⁾	41,530	42,649	(3%)
Revenue per service hour, dollars	\$ 811	\$ 863	(6%)
Utilization ⁽²⁾	40%	43%	(7%)

(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 decreased in the first quarter of 2020 as compared to the same period in 2019 mostly due to lower activity in Canada and the mix of equipment utilized. Despite lower revenue, operating income increased in the first quarter of 2020 as compared to the same period in 2019 primarily due to improved operating results in Australia.

The following summarizes the operating results for the WS segment by geographic area for the three months ended March 31, 2020.

Q1 2020	WS Canada	WS U.S.	WS Australia	Total
Revenue	\$ 11,030	\$ 4,072	\$ 18,564	\$ 33,666
Operating income	\$ 14	\$ 118	\$ 4,079	\$ 4,211
Operating income, % of revenue	–	3%	22%	13%
Service hours ⁽¹⁾	16,552	5,571	19,407	41,530
Revenue per service hour, dollars	\$ 666	\$ 731	\$ 957	\$ 811
Utilization % ⁽²⁾	32%	44%	74%	40%

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

(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 in the first quarter of 2020 primarily due to lower utilization and decreased pricing as a result of the mix of equipment operating compared with the same period in 2019.

In the United States revenue and operating income increased compared to the same period in 2019 due to increased activity as one additional rig commenced operations during the period. Also positively impacting operating results of Well Servicing in the United States in the first quarter of 2020 was the translation of foreign financial results into Canadian dollars given the appreciation of the U.S. dollar relative to the Canadian dollar during the first quarter. Offsetting the utilization and foreign exchange gains was lower year over year pricing.

Well servicing revenue in Australia for the first quarter of 2020 was lower compared to the same period in 2019 due to lower ancillary revenues, notably for camp services, which was partially offset by increased activity. Operating income increased in Q1 2020 compared to Q1 2019 due to a combination of lower ancillary costs and higher activity, which in turn positively contributed to higher operating income margin percentage. Negatively impacting Australian results was the translation of foreign financial results into Canadian dollars given the depreciation of the Australian currency relative to the Canadian dollar during the first quarter of 2020.

Corporate

March 31	Three months ended		
	2020	2019	Change
Operating income (loss)	\$ 5,641	\$ (3,058)	nm

"nm" – calculation not meaningful

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 months ended March 31, 2020 is a \$7.9 million unrealized gain on the translation of working capital balances of foreign subsidiaries as compared to a \$1.2 million unrealized loss for the same period in 2019.

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operating Activities and Cashflow

March 31	Three months ended		
	2020	2019	Change
Cash provided by operating activities	\$ 16,343	\$ 50,187	(67%)
Per Share Data (Diluted), dollars	\$ 0.36	\$ 1.10	(67%)
Cashflow	\$ 21,911	\$ 28,453	(23%)
Per Share Data (Diluted), dollars	\$ 0.49	\$ 0.62	(21%)

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 first quarter of 2020 compared to 2019 as a result of lower EBITDA compared to Q1 2019 after excluding the translation of working capital balances of foreign subsidiaries. Given current industry conditions and the suspension of dividends in Q1 2020, the Company's current priority is to maintain sufficient financial liquidity and direct remaining cash provided by operating activities after required long-term debt and lease liability payments to the repayment of long-term debt.

Investing Activities

March 31	Three months ended		
	2020	2019	Change
Net cash used in investing activities	\$ (1,849)	\$ (9,781)	(81%)
Proceeds from sale of PP&E	\$ 1,705	\$ 2,670	(36%)
Purchase of PP&E	\$ (2,246)	\$ (14,700)	(85%)

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 three months of 2020 equipment disposed consisted primarily of underutilized older rental equipment and light-duty vehicles.

During the first quarter of 2020, \$2.2 million of PP&E purchases were allocated as follows: \$0.8 million in the CDS segment relating to the purchase of rig equipment and rig recertifications and upgrades, \$0.5 million in the RTS segment relating primarily to purchases of rental equipment, \$0.1 million in the CPS segment relating to additions to the compression rental fleet and \$0.8 million in the WS segment relating to service rig recertifications and upgrades. During the first quarter of 2019, \$14.7 million of PP&E purchases were allocated to the business segments as follows: \$2.8 million in the CDS segment, \$7.6 million in the RTS segment, \$2.4 million in the CPS segment, \$1.7 million in the WS segment and \$0.2 million in Corporate.

Financing Activities

March 31	Three months ended		
	2020	2019	Change
Net cash used in financing activities	\$ (4,421)	\$ (21,296)	(79%)

During the first quarter of 2020 the Company paid \$3.5 million of interest and \$2.7 million of dividends. Also, in the first quarter of 2020 \$5.0 million of long-term debt was drawn, net of repayments, \$2.1 million of lease liabilities were repaid and \$0.7 million of regular principal repayments on the Company's mortgage loans were made.

Liquidity and Capital Resources

The Company had a working capital surplus of \$124.0 million as at March 31, 2020 compared to \$103.2 million as at December 31, 2019. This increase was due primarily to higher inventory level as a result of committed purchases within the CPS segment. Lower accounts payable and accrued liabilities based on reduced capital spending also contributed to increased working capital at March 31, 2020. As at March 31, 2020 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 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 March 31, 2020, the applicable interest rate on amounts drawn on the Credit Facility was 4.50% and the standby rate was 0.44%. Letters of credit ("LOC") of \$0.1 million were outstanding at March 31, 2020 which reduces the amount of credit available under the Credit Facility by an equivalent amount.

In August of 2018 a U.S. \$20 million letter of credit facility was established (the "LOC Facility"). Letters of credit ("LOC") issued pursuant to the LOC Facility do not reduce availability under the Credit Facility. At March 31, 2020 \$4.7 million Canadian dollars of LOCs were outstanding under the LOC Facility (2019: \$4.4 million under the Credit Facility).

In addition to the Credit Facility, a subsidiary of the Company has a \$5.0 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At March 31, 2020 this facility was undrawn and fully available.

At March 31, 2020 the Company's long-term debt consisted of the following:

	March 31, 2020	
	Interest rate	Principal Amount
Credit Facility	4.50%	\$ 227,000
Mortgage loan (2020 maturity)	3.06%	40,380
Mortgage loan (2041 maturity)	4.36%	14,788
		\$ 282,168
Less current portion		41,060
		\$ 241,108

At March 31, 2020 amounts owing under the Credit Facility and the two mortgage loans were denominated in Canadian dollars.

The weighted average interest rate on the Company's debt at March 31, 2020 was 4.29%.

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

	March 31, 2020	Threshold
Twelve-month trailing Bank EBITDA to interest expense	8.66	minimum 3.00
Total Senior Debt to twelve-month trailing Bank EBITDA	2.18	maximum 3.00

The Company was in compliance with all of its Credit Facility and other debt covenants at March 31, 2020. For further information regarding Credit Facility compliance requirements and details on the Company's borrowings, please refer to note 4 to the Interim Financial Statements.

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

On April 29, 2020, the mortgage loan maturing in 2020 was renewed in the principal amount of \$50.0 million for a five-year term at a fixed annual rate of interest at 3.10%. This loan is amortized over 20 years with blended monthly principal and interest payments.

Dividends

On March 12, 2020 the Company suspended payment of a dividend given the sudden and material deterioration in industry conditions.

For the three months ended March 31, 2019 the Company declared dividends of \$2.7 million (\$0.06 per share).

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 any future dividends through cash provided by operating activities.

Capital Spending

Capital spending for the three months ending March 31, 2020 consisted of \$2.2 million of PP&E purchases. Capital spending for Q1 2020 was funded by cash flow and \$1.7 million of proceeds from the sale of PP&E.

On March 12, 2020 the Company reduced its previously announced 2020 capital expenditure budget from \$23.0 million to \$10.0 million.

CONTRACTUAL OBLIGATIONS

At March 31, 2020 the Company had the following contractual obligations:

	Payments due by year					
	Total	2020	2021	2022	2023	2024 and after
Long-term debt and bank indebtedness	\$ 282,168	\$ 41,060	\$ 680	\$ 227,680	\$ 680	\$ 12,068
Commitments ⁽¹⁾	275	169	81	21	4	–
Lease liabilities, net of lease assets	18,882	6,585	5,641	3,151	1,539	1,966
Purchase obligations ⁽²⁾	7,913	7,913	–	–	–	–
Total contractual obligations	\$ 309,238	\$ 55,727	\$ 6,402	\$ 230,852	\$ 2,223	\$ 14,034

(1) Commitments are described in Note 24 to the 2019 Financial Statements.

(2) Purchase obligations are described in Note 24 to the 2019 Financial Statements. As at March 31, 2020 purchase obligations primarily relate to commitments to purchase inventory in the CPS segment.

OFF-BALANCE SHEET ARRANGEMENTS

During 2020 and 2019, the Company had no off-balance sheet arrangements other than short-term leases.

TRANSACTIONS WITH RELATED PARTIES

During 2020 and 2019 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 2.74% for a similar debt instrument at March 31, 2020 was \$40.4 million (December 31, 2019: market rate of 3.85%, \$40.8 million). The carrying value and Company's liability with respect to this mortgage is \$40.4 million.

OUTSTANDING COMPANY SHARE DATA

As at the date of this MD&A, the Company had 45,081,300 common shares outstanding.

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

Outstanding at March 31, 2020	Exercise Price	Remaining life (years)	Exercisable at March 31, 2020
1,070,000	\$ 14.13	0.30	1,070,000
1,215,000	12.69	2.20	810,004
60,000	12.00	2.40	40,000
375,000	13.54	2.90	250,000
150,000	12.99	3.10	50,000
1,015,000	9.51	4.10	–
3,885,000	\$ 12.34	2.28	2,220,004

OUTLOOK

Industry Conditions

The COVID-19 pandemic and the resultant historic decline in global economic activity and oil prices have contributed to unprecedented challenges and uncertainty for the global energy industry. To date, energy industry activity levels have declined materially in North America while activity levels for the Company's Australian business have not yet been materially impacted. As such, the Company has taken immediate and significant steps to reduce cash outflows and protect its balance sheet and financial liquidity, including:

- suspended its dividend (\$10.8 million of annual cash savings);
- reduced its 2020 capital expenditure budget by \$13.0 million to \$10.0 million;
- reduced its North American employee head count to levels below those immediately prior to the Company's acquisition of Savanna Energy Services in June 2017;
- reduced director and officer compensation by 10% to 15%;
- reduced North American employee compensation by a minimum of 10% through salary and wage rollbacks, reduced hours of service and job sharing;
- reduced and eliminated discretionary North American employee benefit plans;
- further RTS segment branch closures in Canada and temporary withdrawal from service of a substantial portion of the North American heavy truck fleet;
- suspended all non-essential travel and discretionary spending; and
- applied for all available government assistance programs intended to protect jobs.

Given the severity of the current downturn, the Company expects a substantial increase in bankruptcies and insolvencies among its competitors and customers. This in turn is expected to result in more balanced market conditions over the long-term in the various markets in which the Company competes as global energy supply and demand rebalances.

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. A discussion of the Company's business risks is set out in its AIF under the heading "Risk Factors" and is incorporated herein. 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 2020 other than as described below.

Industry Conditions

The dual shocks of the COVID-19 pandemic and collapse in oil prices have contributed to extremely negative industry conditions for the global energy industry, the duration of which is uncertain. The Company's North American customers have and are expected to continue to significantly reduce capital spending in the near term. As such, activity levels in North America have begun to decline materially. While activity levels have remained relatively stable in Australia to date, the Company is monitoring industry conditions closely and will make adjustments to its operating and administrative cost structures as may be required having regard to anticipated future activity levels. While the Company has been proactive in managing its operating cost structure, capital expenditures and dividend policy 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 increasingly challenging oil and natural gas market conditions, particularly in North America, 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 secure and collect outstanding balances.

The Company did not have significant exposure to any individual customer or counter party in the first quarter of 2020, other than two major oil and gas producing companies that accounted for over 10% of the consolidated revenue during the quarter. In the first quarter of 2019 the Company did not have significant exposure to any individual customer, other than one major oil and gas producing company that accounted for over 10% of consolidated revenue during the quarter. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry. The Company increased its allowance for doubtful accounts receivable by \$0.4 million during the first quarter of 2020, bringing such allowance to an aggregate \$2.7 million.

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 2020.

Change in accounting estimates

During the third quarter of 2019, the Company conducted a review of its rentals and transportation equipment within its RTS 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 life 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 second half of 2019 on salvage values of previously fully depreciated assets.

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 expected future credit losses 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 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.

FUTURE ACCOUNTING POLICIES CHANGES

Certain pronouncements were issued recently by the IASB of the IFRS Interpretations Committee that are mandatory for accounting periods beginning in future years. Accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

NON-IFRS MEASURES

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

EBITDA

	Three months ended March 31	
	2020	2019
Net income	\$ 4,724	\$ 4,759
Add back (deduct):		
Depreciation	19,994	19,284
Finance costs	3,439	3,245
Income tax expense	2,746	2,127
EBITDA	\$ 30,903	\$ 29,415

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

Net Debt

	As at March 31, 2020
Long-term debt	\$ 241,108
Lease liabilities	10,927
Add back (deduct):	
Current liabilities	139,712
Current assets	(263,722)
Net Debt	\$ 128,025

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

Internal Control Over Financial Reporting ("ICFR")

There have been no significant changes in the design of the Company's ICFR during the quarter ended March 31, 2020 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 global economic conditions, 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	March 31, 2020	December 31, 2019
ASSETS			
Current assets:			
Cash and cash equivalents		\$ 29,946	\$ 19,873
Accounts receivable		107,325	113,934
Inventory		113,071	105,672
Prepaid expenses and deposits		9,291	10,878
Income taxes receivable		3,508	4,403
Current portion of finance lease asset		581	664
		263,722	255,424
Property, plant and equipment		724,292	730,435
Income taxes receivable		7,070	7,070
Lease asset		92	179
Goodwill		4,053	4,053
		\$ 999,229	\$ 997,161
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 83,188	\$ 95,742
Deferred revenue		6,836	3,883
Dividends payable		–	2,710
Current portion of lease liabilities		8,628	8,270
Current portion of long-term debt	4, 9	41,060	41,585
		139,712	152,190
Long-term debt	4	241,108	236,278
Lease liabilities		10,927	12,170
Deferred tax liability		54,487	53,381
Shareholders' equity:			
Share capital	5	284,077	284,510
Contributed surplus		7,809	7,528
Accumulated other comprehensive loss		(11,571)	(16,722)
Non-controlling interest		(184)	(236)
Retained earnings		272,864	268,062
		552,995	543,142
		\$ 999,229	\$ 997,161

The notes on pages 26 to 32 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME

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

	Note	Three months ended March 31	
		2020	2019
REVENUE		\$ 134,268	\$ 221,990
Cost of services		100,683	179,978
Selling, general and administration		10,585	12,762
Other expense (income)		(7,928)	1,161
Share-based compensation	6	405	368
Depreciation		19,994	19,284
Operating income		10,529	8,437
Gain on sale of property, plant and equipment		380	1,694
Finance costs		(3,439)	(3,245)
Net income before income taxes		7,470	6,886
Current income tax expense		1,336	700
Deferred income tax expense		1,410	1,427
Total income tax expense		2,746	2,127
Net income for the period		\$ 4,724	\$ 4,759
Net income (loss) attributable to:			
Shareholders of the Company		\$ 4,672	\$ 4,760
Non-controlling interest		52	(1)
Income per share			
Basic and diluted	5	\$ 0.10	\$ 0.10

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended March 31	
	2020	2019
Net income for the period	\$ 4,724	\$ 4,759
Foreign currency translation adjustment	4,847	(3,670)
Deferred tax effect	304	(390)
Total other comprehensive income (loss) for the period	5,151	(4,060)
Total comprehensive income	\$ 9,875	\$ 699
Total comprehensive income (loss) attributable to:		
Shareholders of the Company	\$ 9,823	\$ 700
Non-controlling interest	52	(1)

The notes on pages 26 to 32 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EQUITY

As at and for the three months ended March 31, 2020 and 2019, and year ended December 31, 2019
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, 2018		\$ 288,902	\$ 6,384	\$ (5,320)	\$ 238	\$ 270,372	\$ 560,576
Net income (loss)		-	-	-	(436)	10,527	10,091
Other comprehensive loss		-	-	(11,402)	-	-	(11,402)
<i>Transactions with shareholders, recorded directly in equity:</i>							
Dividends to shareholders (\$0.24 per common share)		-	-	-	-	(10,907)	(10,907)
Repurchase of common shares	5	(4,392)	-	-	-	(954)	(5,346)
Share-based compensation	6	-	1,499	-	-	-	1,499
Stock options expired		-	(355)	-	-	355	-
Dissolution of limited partnership		-	-	-	1,284	(1,284)	-
Purchase of partners' share in limited partnership		-	-	-	(81)	(47)	(128)
Partnership distributions		-	-	-	(1,241)	-	(1,241)
		(4,392)	1,144	-	(38)	(12,837)	(16,123)
Balance at December 31, 2019		\$ 284,510	\$ 7,528	\$ (16,722)	\$ (236)	\$ 268,062	\$ 543,142
Net income		-	-	-	52	4,672	4,724
Other comprehensive income		-	-	5,151	-	-	5,151
<i>Transactions with shareholders, recorded directly in equity:</i>							
Repurchase of common shares	5	(433)	-	-	-	6	(427)
Share-based compensation	6	-	405	-	-	-	405
Stock options expired		-	(124)	-	-	124	-
		(433)	281	-	-	130	(22)
Balance at March 31, 2020		\$ 284,077	\$ 7,809	\$ (11,571)	\$ (184)	\$ 272,864	\$ 552,995

	Note	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Non- controlling Interest	Retained earnings	Total Equity
Balance at December 31, 2018		\$ 288,902	\$ 6,384	\$ (5,320)	\$ 238	\$ 270,372	\$ 560,576
Net income (loss)		-	-	-	(1)	4,760	4,759
Other comprehensive loss		-	-	(4,060)	-	-	(4,060)
<i>Transactions with shareholders, recorded directly in equity:</i>							
Dividends to shareholders (\$0.06 per common share)		-	-	-	-	(2,747)	(2,747)
Repurchase of common shares	5	(550)	-	-	-	(292)	(842)
Share-based compensation	6	-	368	-	-	-	368
		(550)	368	-	-	(3,039)	(3,221)
Balance at March 31, 2019		\$ 288,352	\$ 6,752	\$ (9,380)	\$ 237	\$ 272,093	\$ 558,054

The notes on pages 26 to 32 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)

	Note	Three months ended March 31	
		2020	2019
Cash provided by (used in):			
Operations:			
Net income for the period		\$ 4,724	\$ 4,759
Add (deduct) items not affecting cash:			
Depreciation		19,994	19,284
Share-based compensation		405	368
Gain on sale of property, plant and equipment		(380)	(1,694)
Finance costs		3,439	3,224
Unrealized loss (gain) on foreign currencies translation		(8,576)	399
Current income tax expense		1,336	700
Deferred income tax expense		1,410	1,427
Income taxes paid		(441)	(14)
Cashflow		21,911	28,453
Changes in non-cash working capital items:			
Accounts receivable		5,613	7,440
Inventory		(7,399)	(10,976)
Prepaid expenses and deposits		3,502	4,364
Accounts payable and accrued liabilities		(10,237)	12,727
Onerous leases		–	1,297
Deferred revenue		2,953	6,882
Cash provided by operating activities		16,343	50,187
Investing:			
Purchase of property, plant and equipment		(2,246)	(14,700)
Proceeds on sale of other assets		–	20
Proceeds on disposal of property, plant and equipment		1,705	2,670
Changes in non-cash working capital items		(1,308)	2,229
Cash used in investing activities		(1,849)	(9,781)
Financing:			
Advances on long-term debt		20,000	–
Repayment of long-term debt	4	(15,695)	(10,851)
Repayment of lease liabilities		(2,059)	(2,081)
Dividends to shareholders		(2,710)	(2,752)
Repurchase of common shares		(427)	(842)
Interest paid		(3,530)	(4,770)
Cash used in financing activities		(4,421)	(21,296)
Change in cash and cash equivalents		10,073	19,110
Cash and cash equivalents, beginning of period		19,873	30,640
Cash and cash equivalents, end of period		\$ 29,946	\$ 49,750

The notes on pages 26 to 32 are an integral part of these condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2020 and 2019
Unaudited (tabular amounts in thousands of Canadian dollars)

1. Reporting Entity

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

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

2. Basis of Presentation

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” of International Financial Reporting Standards (“IFRS”) and using the accounting policies outlined in the Company’s audited consolidated financial statements for the year ended December 31, 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, 2019 (the “2019 Financial Statements”).

These condensed interim consolidated financial statements were approved by the Board of Directors on May 6, 2020.

Seasonality

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2020 and 2019

Unaudited (tabular amounts in thousands of Canadian dollars)

3. Segmented Information

The Company manages its business in five reportable segments: Contract Drilling Services, Rental and Transportation Services, Compression and Process Services, Well Servicing and Corporate. For each of the reporting segments, the Company's Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis. Corporate includes activities related to corporate and public company affairs.

Inter-segment pricing is determined on an arm's length basis.

As at and for the three months ended March 31, 2020	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate ⁽¹⁾	Total
Revenue	\$ 43,025	\$ 16,833	\$ 40,744	\$ 33,666	\$ –	\$ 134,268
Cost of services	32,457	10,617	33,411	24,198	–	100,683
Selling, general and administration	2,441	2,503	2,216	1,727	1,698	10,585
Other income	–	–	–	–	(7,928)	(7,928)
Share-based compensation	–	–	–	–	405	405
Depreciation ⁽²⁾	7,836	6,151	2,293	3,530	184	19,994
Operating income (loss)	291	(2,438)	2,824	4,211	5,641	10,529
Gain on sale of property, plant and equipment	91	153	113	10	13	380
Finance costs	(42)	(23)	(98)	(9)	(3,267)	(3,439)
Net income (loss) before income taxes	340	(2,308)	2,839	4,212	2,387	7,470
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	394,120	232,602	235,487	111,510	25,510	999,229
Total liabilities	77,709	23,473	45,000	7,517	292,535	446,234
Capital expenditures	\$ 861	\$ 523	\$ 56	\$ 802	\$ 4	\$ 2,246

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

(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 9 to the 2019 Financial Statements for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2020 and 2019
Unaudited (tabular amounts in thousands of Canadian dollars)

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

Three months ended March 31, 2020	Canada	United States	Australia	Other	Total
Revenue	\$ 69,475	\$ 31,411	\$ 33,040	\$ 342	\$ 134,268
Non-current assets ⁽¹⁾	476,630	187,699	64,108	–	728,437
Three months ended March 31, 2019	Canada	United States	Australia	Other	Total
Revenue	\$ 95,455	\$ 74,548	\$ 51,939	\$ 48	\$ 221,990
Non-current assets ⁽¹⁾	525,904	172,167	79,159	–	777,230

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

4. Long-term Debt

At March 31, 2020 the Company's long-term debt consisted of the following:

	March 31, 2020	
	Interest rate	Principal Amount
Credit Facility	4.50%	\$ 227,000
Mortgage loan (2020 maturity)	3.06%	40,380
Mortgage loan (2041 maturity)	4.36%	14,788
		282,168
Less current portion		41,060
		\$ 241,108

At March 31, 2020 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 March 31, 2020, the applicable interest rate on amounts drawn on the Credit Facility was 4.50% and the standby rate was 0.44%. Letters of credit ("LOC") of \$0.1 million were outstanding at March 31, 2020 (2019: \$0.1 million) which reduces the amount of credit available under the Credit Facility by an equivalent amount.

In August of 2018 a U.S. \$20 million letter of credit facility was established (the "LOC Facility"). Letters of credit ("LOC") issued pursuant to the LOC Facility do not reduce availability under the Credit Facility. At March 31, 2020 \$4.7 million Canadian dollars of LOCs were outstanding under the LOC Facility (2019: \$4.4 million under the Credit Facility).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2020 and 2019
 Unaudited (tabular amounts in thousands of Canadian dollars)

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

	March 31, 2020	Threshold
Twelve-month trailing Bank EBITDA to interest expense	8.66	minimum 3.00
Total Senior Debt to twelve-month trailing Bank EBITDA	2.18	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 and certain other obligations identified in the credit agreement) minus cash on hand.

The Credit Facility is secured by a general security agreement over all the present and future property of the Company and its subsidiaries. The Company was in compliance with all of its Credit Facility covenants at March 31, 2020.

In addition to the Credit Facility, a subsidiary of the Company has a \$5.0 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At March 31, 2020 this facility was undrawn and fully available.

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. On April 29, 2020 the Company renewed this loan in the principal amount of \$50 million for a five-year term at a fixed annual rate of interest of 3.10% per annum.

Mortgage Loan (2041 maturity) is a loan maturing on December 31, 2041 and bears interest at a floating rate that was 4.36% at March 31, 2020. This loan is secured by certain of the Company's real estate.

At March 31, 2020 the Company was in compliance with all debt covenants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2020 and 2019
 Unaudited (tabular amounts in thousands of Canadian dollars)

5. 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, 2018	45,860	\$ 288,902
Repurchased and cancelled	(710)	(4,392)
Balance, December 31, 2019	45,150	\$ 284,510
Repurchased and cancelled	(69)	(433)
Balance, March 31, 2020	45,081	\$ 284,077

During the three months ended March 31, 2020, 68,700 shares (March 31, 2019: 85,400) were repurchased under the Company's normal course issuer bid at an average price of \$6.21 (March 31, 2019: \$9.85) per share including commissions. The repurchased shares were cancelled.

(b) Per Share Amounts

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

	Three months ended March 31	
	2020	2019
Net income for the period attributable to shareholders	\$ 4,672	\$ 4,760
Weighted average number of shares outstanding – basic and diluted	45,087	45,829
Earnings per share – basic and diluted	\$ 0.10	\$ 0.10

For the three months ended March 31, 2020, 3,885,000 share options (March 31, 2019: 3,143,334 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 months ended March 31, 2020 and 2019
Unaudited (tabular amounts in thousands of Canadian dollars)

6. Share-Based Compensation Plan

Share option transactions during 2020 and 2019 were as follows:

	Weighted average exercise price	Number of Options
Balance, December 31, 2018	\$ 13.47	3,170,000
Granted	9.51	1,090,000
Forfeited	12.12	(201,666)
Expired	13.97	(123,334)
Balance, December 31, 2019	\$ 12.35	3,935,000
Expired	9.51	(50,000)
Balance, March 31, 2020	\$ 12.34	3,885,000

A total of 2,220,004 outstanding options were exercisable at March 31, 2020.

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 (2018: \$2.46) per option using the following assumptions:

	December 31, 2019
Expected volatility	24.21% - 27.16%
Annual dividend yield	2.52%
Risk free interest rate	1.46% - 1.50%
Forfeitures	11%
Expected life (years)	3 to 5 years

The share options issued during 2019 vest 1/3 on the first, second and third anniversary from the grant date and expire five years from the date of grant.

The outstanding options expire on various dates ranging from July 29, 2020 to May 17, 2024.

7. Financial Instruments

The Company's financial instruments as at March 31, 2020 include cash and cash equivalents, accounts receivable, lease assets, accounts payable and accrued liabilities, 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 2.74% for a similar debt instrument at March 31, 2020 was \$40.4 million (December 31, 2019: market rate of 3.85%, \$40.8 million). The carrying value and Company's liability with respect to the mortgage loan is \$40.4 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2020 and 2019

Unaudited (tabular amounts in thousands of Canadian dollars)

8. 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. The matter is expected to go to trial in 2021. Management believes that it will be successful in defending its tax filing position, and as such, the Company has not recognized any provision for the Reassessment at March 31, 2020. 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 \$16.2 million of cash may be owing and \$23.3 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. In the beginning of 2020 AIMCo amended its claim to remove the Company as a defendant. AIMCo’s claim 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.

On March 11, 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the duration, nature and magnitude of the impact on the economy, commodity prices and the Company’s business is not known at this time. Such impact could include a material adverse impact on the Company’s financial liquidity position, impairments in the value of long-lived assets, future material decreases in revenue and the profitability of ongoing operations.

9. Subsequent Events

On April 29, 2020 the Company renewed the Mortgage Loan (2020 maturity) in the principal amount of \$50 million for a five-year term at a fixed annual rate of interest of 3.10% per annum.

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 • 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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