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FOCUS DISCIPLINE GROWTH

Second Quarter Report 2023

TOTAL ENERGY SERVICES INC.

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

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

REPORT TO SHAREHOLDERS

Total Energy's results for the three months ended June 30, 2023 represent record second quarter financial results for the Company. These results reflect stable industry conditions and the deployment of equipment upgraded pursuant to the Company's 2022 capital expenditure budget.

During the second quarter of 2023, Total Energy generated $43.9 million of cashflow after changes in non-cash working capital items that was used to fund $12.7 million of capital expenditures, repay $10.5 million of bank debt, reduce the number of outstanding common shares by 1.0% with $3.3 million of share repurchases and pay $3.2 million of dividends to our owners. The Company exited the second quarter in a strong financial position, with net debt of $2.7 million and $108.6 million of positive working capital, including $29.9 million of cash.

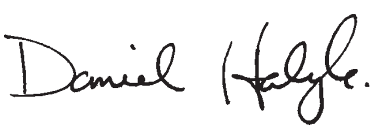
LOOKING FORWARD

Industry activity levels during the second quarter of 2023 reflected the normal seasonal slowdown in Canada, which was exacerbated by lower well abandonment activity with the expiry of various government incentive programs. Canadian activity levels gained momentum as we entered the third quarter and we currently expect market conditions in all four business segments to remain constructive for the second half of the year in all jurisdictions provided commodity prices remain relatively stable.

Contributing to our constructive outlook for the remainder of 2023 is the reactivation of equipment being upgraded and recertified pursuant to our 2023 capital expenditure budget. Such equipment includes a triple drilling rig that was relocated to Canada from the United States and an Australian drilling rig that both returned to service in July following recertification and upgrades completed during the second quarter.

In direct response to customer demand, Total Energy has increased its 2023 capital expenditure budget to $72.1 million. This $6.0 million increase will be directed primarily towards continued equipment recertifications and upgrades. With $42.5 million of the Company's 2023 capital expenditure budget funded to June 30, 2023, the remaining $29.6 million will be funded with cash on hand and cash flow. While Total Energy expects to generate significant free cash flow for the remainder of 2023, management remains committed to exercising discipline in the deployment of our owners' capital.

On behalf of the Board of Directors of Total Energy, I would like to wish all our stakeholders a safe and enjoyable summer (winter for our Australian colleagues).



DANIEL K. HALYK
President and Chief Executive Officer

August 2023

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	Note	June 30 2023	December 31 2022
		(unaudited)	(audited)
ASSETS			
Current assets:			
Cash and cash equivalents		$ 29,866	$ 34,061
Accounts receivable		149,396	154,581
Inventory		111,658	91,614
Prepaid expenses and deposits		18,701	18,847
Income taxes receivable		169	496
Current portion of lease asset		220	378
		310,010	299,977
Property, plant and equipment		566,984	567,515
Income taxes receivable		7,070	7,070
Goodwill		4,053	4,053
		$ 888,117	$ 878,615
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		$ 135,355	$ 114,274
Deferred revenue		55,690	63,895
Dividends payable		3,212	2,490
Current portion of lease liabilities		5,157	5,173
Current portion of long-term debt	4	2,019	1,991
		201,433	187,823
Long-term debt	4	101,976	117,997
Lease liabilities		9,268	9,631
Deferred income tax liability		45,486	41,141
Shareholders' equity:			
Share capital	5	252,611	261,109
Contributed surplus		3,492	3,590
Accumulated other comprehensive loss		(22,332)	(17,032)
Non-controlling interest		529	552
Retained earnings		295,654	273,804
		529,954	522,023
		$ 888,117	$ 878,615

The notes on pages 6 to 12 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME

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

	Note	Three months ended June 30 2023	Three months ended June 30 2022	Six months ended June 30 2023	Six months ended June 30 2022
REVENUE		**$ 208,845**	$ 179,204	**$ 446,622**	$ 340,656
Cost of services		**169,049**	140,917	**347,035**	270,715
Selling, general and administration		**10,126**	10,108	**21,559**	18,894
Other income		**(440)**	(485)	**(446)**	(675)
Share-based compensation	6	**367**	259	**756**	479
Depreciation		**20,342**	19,979	**40,297**	39,127
Operating income		**9,401**	8,426	**37,421**	12,116
Gain on sale of property, plant and equipment		**512**	394	**1,012**	1,870
Finance costs, net		**(1,796)**	(1,563)	**(3,499)**	(3,369)
Net income before income taxes		**8,117**	7,257	**34,934**	10,617
Current income tax expense (recovery)		**47**	21	**371**	(442)
Deferred income tax expense		**1,890**	1,131	**4,345**	2,487
Total income tax expense		**1,937**	1,152	**4,716**	2,045
Net income		**$ 6,180**	$ 6,105	**$ 30,218**	$ 8,572
Net income (loss) attributable to:					
Shareholders of the Company		**$ 6,201**	$ 6,113	**$ 30,241**	$ 8,585
Non-controlling interest		**(21)**	(8)	**(23)**	(13)
Income per share					
Basic	5	**$ 0.15**	$ 0.14	**$ 0.74**	$ 0.20
Diluted		**$ 0.15**	$ 0.14	**$ 0.73**	$ 0.20

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended June 30 2023	Three months ended June 30 2022	Six months ended June 30 2023	Six months ended June 30 2022
Net income	**$ 6,180**	$ 6,105	**$ 30,218**	$ 8,572
Unrealized foreign currency translation	**(4,682)**	114	**(5,300)**	211
Total other comprehensive income (loss) for the period	**(4,682)**	114	**(5,300)**	211
Total comprehensive income	**$ 1,498**	$ 6,219	**$ 24,918**	$ 8,783
Total comprehensive income (loss) attributable to:				
Shareholders of the Company	**$ 1,519**	$ 6,227	**$ 24,941**	$ 8,796
Non-controlling interest	**(21)**	(8)	**(23)**	(13)

The notes on pages 6 to 12 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

As at and for the six months ended June 30, 2023 and 2022, and year ended December 31, 2022

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, 2021		$ 270,905	$ 5,757	$ (26,704)	$ 561	$ 242,918	$ 493,437
Net income (loss)		–	–	–	(9)	38,008	37,999
Other comprehensive income		–	–	9,672	–	–	9,672
Transactions with shareholders, recorded directly in equity:							
Dividends ($0.18 per common share)		–	–	–	–	(7,489)	(7,489)
Repurchase of common shares	5	(10,350)	–	–	–	(2,288)	(12,638)
Issue of share capital from exercise of stock options	5	554	(220)	–	–	(434)	(100)
Share options expired	6	–	(3,089)	–	–	3,089	–
Share-based compensation	6	–	1,142	–	–	–	1,142
		(9,796)	(2,167)	–	–	(7,122)	(19,085)
Balance at December 31, 2022		$ 261,109	$ 3,590	$ (17,032)	$ 552	$ 273,804	$ 522,023
Net income (loss)		–	–	–	(23)	30,241	30,218
Other comprehensive loss		–	–	(5,300)	–	–	(5,300)
Transactions with shareholders, recorded directly in equity:							
Dividends ($0.16 per common share)		–	–	–	–	(6,454)	(6,454)
Repurchase of common shares	5	(8,565)	–	–	–	(2,724)	(11,289)
Exercise of share options	5	67	(33)	–	–	(34)	–
Share options expired	6	–	(821)	–	–	821	–
Share-based compensation	6	–	756	–	–	–	756
		(8,498)	(98)	–	–	(8,391)	(16,987)
Balance at June 30, 2023		**$ 252,611**	**$ 3,492**	**$ (22,332)**	**$ 529**	**$ 295,654**	**$ 529,954**

	Note	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Non-controlling Interest	Retained Earnings	Total Equity
Balance at December 31, 2021		$ 270,905	$ 5,757	$ (26,704)	$ 561	$ 242,918	$ 493,437
Net income (loss)		–	–	–	(13)	8,585	8,572
Other comprehensive income		–	–	211	–	–	211
Transactions with shareholders, recorded directly in equity:							
Dividends ($0.06 per common share)		–	–	–	–	(2,532)	(2,532)
Repurchase of common shares	5	(5,176)	–	–	–	(723)	(5,899)
Issue of share capital from exercise of stock options	5	40	(9)	–	–	–	31
Share options expired	6	–	(2,793)	–	–	2,793	–
Share-based compensation	6	–	479	–	–	–	479
		(5,136)	(2,323)	–	–	(462)	(7,921)
Balance at June 30, 2022		$ 265,769	$ 3,434	$ (26,493)	$ 548	$ 251,041	$ 494,299

The notes on pages 6 to 12 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)

	Note	Three months ended June 30		Six months ended June 30	
		2023	2022	**2023**	2022
Cash provided by (used in):					
Operations:					
Net income for the period		**$ 6,180**	$ 6,105	**$ 30,218**	$ 8,572
Add (deduct) items not affecting cash:					
Depreciation		**20,342**	19,979	**40,297**	39,127
Share-based compensation	6	**367**	259	**756**	479
Gain on sale of property, plant and equipment		**(512)**	(394)	**(1,012)**	(1,870)
Finance costs, net		**1,796**	1,563	**3,499**	3,369
Unrealized gain on foreign currencies translation		**(702)**	(485)	**(350)**	(675)
Current income tax expense (recovery)		**47**	21	**371**	(442)
Deferred income tax expense		**1,890**	1,131	**4,345**	2,487
Income taxes paid (recovered)		**–**	397	**(44)**	80
Cashflow		**29,408**	28,576	**78,080**	51,127
Changes in non-cash working capital items:					
Accounts receivable		**22,124**	(15,130)	**5,120**	(39,978)
Inventory		**(9,241)**	2,937	**(20,044)**	(3,590)
Prepaid expenses and deposits		**(491)**	(6,307)	**146**	(6,249)
Accounts payable and accrued liabilities		**14,534**	12,170	**18,546**	28,839
Deferred revenue		**(12,432)**	2,747	**(8,205)**	39,799
Cash provided by operating activities		**43,902**	24,993	**73,643**	69,948
Investing:					
Purchase of property, plant and equipment		**(12,665)**	(13,406)	**(42,454)**	(24,959)
Proceeds on disposal of property, plant and equipment		**741**	838	**1,504**	3,877
Changes in non-cash working capital items		**(10,229)**	1,608	**2,504**	2,951
Cash used in investing activities		**(22,153)**	(10,960)	**(38,446)**	(18,131)
Financing:					
Repayment of long-term debt	4	**(10,496)**	(10,651)	**(15,993)**	(31,304)
Repayment of lease liabilities		**(1,539)**	(1,219)	**(3,156)**	(2,281)
Dividends to shareholders		**(3,242)**	–	**(5,732)**	–
Repurchase of common shares	5	**(3,275)**	(2,371)	**(11,289)**	(5,899)
Shares issued on exercise of share options		**–**	31	**–**	31
Interest paid		**(1,559)**	(1,639)	**(3,222)**	(3,384)
Cash used in financing activities		**(20,111)**	(15,849)	**(39,392)**	(42,837)
Change in cash and cash equivalents		**1,638**	(1,816)	**(4,195)**	8,980
Cash and cash equivalents, beginning of period		**28,228**	44,161	**34,061**	33,365
Cash and cash equivalents, end of period		**$ 29,866**	$ 42,345	**$ 29,866**	$ 42,345

The notes on pages 6 to 12 are an integral part of these condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2023 and 2022
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 1000, 734 – 7th Avenue S.W. The condensed interim consolidated financial statements include the accounts of the Company, its subsidiaries and aboriginal 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 energy and other resource industries primarily in Canada, the United States and Australia, including contract drilling services, the rental and transportation of equipment used in energy and other industrial operations, the fabrication, sale, rental and servicing of gas compression and 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, 2022 (the "2022 Financial Statements"). These condensed interim consolidated financial statements do not include all the necessary annual disclosures and should be read in conjunction with the 2022 Financial Statements.

These condensed interim consolidated financial statements were approved by the Board of Directors on August 10, 2023.

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.

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.

Unaudited (tabular amounts in thousands of Canadian dollars)

As at and for the three months ended June 30, 2023	**Contract Drilling Services**	**Rentals and Transportation Services**	**Compression and Process Services**	**Well Servicing**	**Corporate (1)**	**Total**
Revenue	**$ 54,282**	**$ 19,812**	**$ 113,130**	**$ 21,621**	**$ –**	**$ 208,845**
Cost of services	**42,783**	**10,994**	**97,513**	**17,759**	**–**	**169,049**
Selling, general and administration	**1,986**	**2,076**	**3,218**	**1,072**	**1,774**	**10,126**
Other (income) loss	**(288)**	**(7)**	**43**	**–**	**(188)**	**(440)**
Share-based compensation	**–**	**–**	**–**	**–**	**367**	**367**
Depreciation	**9,479**	**4,845**	**2,614**	**3,142**	**262**	**20,342**
Operating income (loss)	**322**	**1,904**	**9,742**	**(352)**	**(2,215)**	**9,401**
Gain on sale of property, plant and equipment	**90**	**315**	**43**	**64**	**–**	**512**
Finance costs, net	**(15)**	**(17)**	**(111)**	**(17)**	**(1,636)**	**(1,796)**
Net income (loss) before income taxes	**397**	**2,202**	**9,674**	**(305)**	**(3,851)**	**8,117**
Goodwill	**–**	**2,514**	**1,539**	**–**	**–**	**4,053**
Total assets	**354,433**	**177,972**	**278,289**	**75,584**	**1,839**	**888,117**
Total liabilities	**65,250**	**27,464**	**132,616**	**6,196**	**126,637**	**358,163**
Capital expenditures	**7,614**	**2,596**	**542**	**1,913**	**–**	**12,665**

Three months ended June 30, 2023	**Canada**	**United States**	**Australia**	**Total**
Revenue	**$ 83,257**	**$ 98,820**	**$ 26,768**	**$ 208,845**
Non-current assets (2)	**395,421**	**128,222**	**47,394**	**571,037**

As at and for the three months ended June 30, 2022	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate (1)	Total
Revenue	$ 49,440	$ 13,441	$ 92,782	$ 23,541	$ –	$ 179,204
Cost of services	39,171	8,213	74,989	18,544	–	140,917
Selling, general and administration	1,754	1,702	2,930	1,310	2,412	10,108
Other income	–	–	–	–	(485)	(485)
Share-based compensation	–	–	–	–	259	259
Depreciation	8,882	4,886	2,779	3,218	214	19,979
Operating income (loss)	(367)	(1,360)	12,084	469	(2,400)	8,426
Gain (loss) on sale of property, plant and equipment	293	(26)	85	42	–	394
Finance costs, net	(4)	(23)	(102)	(4)	(1,430)	(1,563)
Net income (loss) before income taxes	(78)	(1,409)	12,067	507	(3,830)	7,257
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	339,585	181,049	247,172	87,703	5,474	860,983
Total liabilities	71,626	13,936	103,052	6,756	171,314	366,684
Capital expenditures	7,282	2,524	1,691	1,909	–	13,406

Three months ended June 30, 2022	Canada	United States	Australia	Total
Revenue	$ 96,074	$ 45,714	$ 37,416	$ 179,204
Non-current assets (2)	374,963	140,254	53,480	568,697

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

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

Unaudited (tabular amounts in thousands of Canadian dollars)

As at and for the six months ended June 30, 2023	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate [(1)]	Total
Revenue	$ 136,818	$ 44,225	$ 211,248	$ 54,331	$ –	$ 446,622
Cost of services	102,201	23,897	179,485	41,452	–	347,035
Selling, general and administration	4,971	4,134	6,795	1,916	3,743	21,559
Other (income) loss	(288)	(7)	43	–	(194)	(446)
Share-based compensation	–	–	–	–	756	756
Depreciation	18,527	9,717	5,237	6,289	527	40,297
Operating income (loss)	11,407	6,484	19,688	4,674	(4,832)	37,421
Gain on sale of property, plant and equipment	226	513	73	170	30	1,012
Finance costs, net	(30)	(35)	(232)	(33)	(3,169)	(3,499)
Net income (loss) before income taxes	11,603	6,962	19,529	4,811	(7,971)	34,934
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	354,433	177,972	278,289	75,584	1,839	888,117
Total liabilities	65,250	27,464	132,616	6,196	126,637	358,163
Capital expenditures	31,434	4,134	2,515	4,371	–	42,454

Six months ended June 30, 2023	Canada	United States	Australia	Total
Revenue	$ 191,384	$ 203,827	$ 51,411	$ 446,622
Non-current assets [(2)]	395,421	128,222	47,394	571,037

As at and for the six months ended June 30, 2022	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate [(1)]	Total
Revenue	$ 109,502	$ 28,841	$ 151,347	$ 50,966	$ –	$ 340,656
Cost of services	86,165	17,060	129,322	38,168	–	270,715
Selling, general and administration	3,356	3,328	4,724	2,578	4,908	18,894
Other income	–	–	–	–	(675)	(675)
Share-based compensation	–	–	–	–	479	479
Depreciation	17,759	9,795	4,692	6,420	461	39,127
Operating income (loss)	2,222	(1,342)	12,609	3,800	(5,173)	12,116
Gain on sale of property, plant and equipment	268	640	905	57	–	1,870
Finance costs, net	(6)	(39)	(174)	(9)	(3,141)	(3,369)
Net income (loss) before income taxes	2,484	(741)	13,340	3,848	(8,314)	10,617
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	339,585	181,049	247,172	87,703	5,474	860,983
Total liabilities	71,626	13,936	103,052	6,756	171,314	366,684
Capital expenditures	17,464	2,758	2,761	1,965	11	24,959

Six months ended June 30, 2022	Canada	United States	Australia	Total
Revenue	$ 184,267	$ 89,358	$ 67,031	$ 340,656
Non-current assets [(2)]	374,963	140,254	53,480	568,697

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

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

Unaudited (tabular amounts in thousands of Canadian dollars)

4. Long-term Debt

At June 30, 2023 the Company's long-term debt consisted of the following:

	June 30, 2023	
	Interest rate	Principal Amount
Credit Facility	6.55%	$ 60,000
Mortgage loan (2025 maturity)	3.10%	43,995
		103,995
Less current portion		2,019
	5.09%	$ 101,976

At June 30, 2023 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"). Following several renewals and at the request of the Company the Credit Facility was reduced to $170 million and the maturity date extended to November 10, 2026. The Credit Facility includes a Canadian $18 million operating line, an Australian $2 million operating line and a Canadian $150 million revolving facility. 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 bears interest at the banks' Canadian prime rate plus 0.25% to 1.25%, bankers' acceptance, letter of credit, LIBOR or BBSY advances plus a 1.5% to 2.5% 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 0.5% per annum is paid quarterly on the unused portion of the facility depending on certain financial ratios of the Company. At June 30, 2023, the applicable interest rate on amounts drawn on the Credit Facility was 6.55% and the standby rate was 0.25%. Letters of credit ("LOC") of $0.3 million were outstanding at June 30, 2023 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"). LOCs issued pursuant to the LOC Facility do not reduce availability under the Credit Facility. In April of 2020 this facility was reduced at the request of the Company to U.S. $10 million. At June 30, 2023 $3.9 million Canadian dollars of LOCs were outstanding under the LOC Facility (December 31, 2022: $5.1 million).

In addition to the Credit Facility, a subsidiary of the Company has established a $5 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At June 30, 2023 this facility was undrawn and fully available.

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

	June 30, 2023	Threshold
Twelve-month trailing Bank EBITDA to interest expense	29.59	minimum 3.00
Total Senior Debt to twelve-month trailing Bank EBITDA	0.27	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.

Unaudited (tabular amounts in thousands of Canadian dollars)

The Credit Facility is secured by a general security agreement over all the present and future property of the Company and its subsidiaries.

Mortgage Loan (2025 maturity) is a loan maturing on April 29, 2025 that is amortized over 20 years with blended monthly principal and interest payments of approximately $279,800. 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 3.10% and is secured by certain of the Company's real estate.

At June 30, 2023 the Company was in compliance with all debt covenants.

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, 2021	43,000	$ 270,905
Repurchased and cancelled	(1,644)	(10,350)
Share options exercised	166	554
Sunset clause cancellation	(22)	–
Balance, December 31, 2022	41,500	$ 261,109
Repurchased and cancelled	**(1,361)**	**(8,565)**
Share options exercised	**11**	**67**
Balance, June 30, 2023	**40,150**	**$ 252,611**

During the six months ended June 30, 2023, 1,361,347 shares (June 30, 2022: 820,334 shares) were repurchased under the Company's normal course issuer bid at an average price of $8.29 (June 30, 2022: $7.19) per share including commissions.

(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 June 30		Six months ended June 30	
	2023	2022	**2023**	2022
Net income for the period attributable to shareholders	**$ 6,201**	$ 6,113	**$ 30,241**	$ 8,585
Weighted average number of shares outstanding – basic	**40,325**	42,307	**40,821**	42,509
Income per share – basic	**$ 0.15**	$ 0.14	**$ 0.74**	$ 0.20
Net income for the period attributable to shareholders	**$ 6,201**	$ 6,113	**$ 30,241**	$ 8,585
Weighted average number of shares outstanding – basic	**40,325**	42,307	**40,821**	42,509
Share option dilution	**723**	896	**747**	810
Weighted average number of shares outstanding – diluted	**41,048**	43,203	**41,568**	43,319
Income per share – diluted	**$ 0.15**	$ 0.14	**$ 0.73**	$ 0.20

Unaudited (tabular amounts in thousands of Canadian dollars)

For the three and six months ended June 30, 2023, 740,000 and 1,580,000 share options, respectively (June 30, 2022: 1,543,332 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.

6. Share-Based Compensation Plan

Share option transactions during 2023 and 2022 were as follows:

	Weighted average exercise price	Number of Options
Balance, December 31, 2021	$ 8.30	3,931,666
Granted	7.36	930,000
Exercised	2.55	(165,769)
Surrendered	2.88	(95,901)
Expired	12.42	(1,335,000)
Forfeited	3.27	(83,332)
Balance, December 31, 2022	$ 6.90	3,181,664
Expired	**13.54**	**(300,000)**
Exercised	**4.49**	**(11,347)**
Surrendered	**4.49**	**(11,987)**
Balance, June 30, 2023	**$ 6.21**	**2,858,330**

A total of 1,196,674 outstanding options were exercisable at June 30, 2023 at a weighted average price of $7.03 per option.

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 2022 was $2.32 per option using the following assumptions:

	December 31, 2022
Expected volatility	40.94% - 52.35%
Annual dividend	3.22% - 3.74%
Risk free interest rate	3.34% - 3.87%
Forfeitures	11%
Expected life (years)	3 to 5 years

The share options issued during 2020, 2021 and 2022 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 May 17, 2024 to October 3, 2027.

7. Financial Instruments

The Company's financial instruments as at June 30, 2023 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and long-term debt. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and the Credit Facility approximate their carrying amounts due to their short terms to maturity.

The discounted future cash repayments of the Company's mortgage loan (maturity 2025) 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 6.30% for a similar debt instrument at June 30, 2023 was $41.7 million (December 31, 2022: market rate of 6.05%, $42.2 million). The carrying value and Company's liability with respect to the mortgage loan is $44.0 million.

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 trial of this matter commenced in June 2022 and will conclude when final arguments are submitted and a judgment is rendered. The timing of concluding such trial is not certain at this time. Management believes that it will be successful in defending its tax filing position, and as such, the Company has not recognized any provision for the Reassessment at June 30, 2023. 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 $18.7 million of cash may be owing and $25.8 million of income tax expense would be recognized.

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 Energy Services Corp. ("Savanna"), a wholly owned subsidiary of the Company. In early 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. Following the completion of discoveries, Savanna has filed a counterclaim against AIMCo and certain former directors of Savanna for $7.3 million.

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

The following MD&A for Total Energy Services Inc. ("Total Energy" or the "Company") was prepared as at August 10, 2023 and focuses on information and key statistics from the unaudited condensed interim consolidated financial statements of the Company for the three and six months ended June 30, 2023 (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 2022 Annual Report, the Annual Information Form ("AIF") for the year ended December 31, 2022 and the cautionary statement regarding forward-looking information and statements below. Additional information relating to Total Energy, including the Company's AIF, may be found on SEDAR at www.sedar.com.

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

FINANCIAL HIGHLIGHTS

	Three months ended June 30			Six months ended June 30		
	2023	2022	Change	**2023**	2022	Change
Revenue	**$ 208,845**	$ 179,204	17%	**$ 446,622**	$ 340,656	31%
Operating income	**9,401**	8,426	12%	**37,421**	12,116	209%
EBITDA (1)	**30,255**	28,799	5%	**78,730**	53,113	48%
Cashflow	**29,408**	28,576	3%	**78,080**	51,127	53%
Net income	**6,180**	6,105	1%	**30,218**	8,572	253%
Attributable to shareholders	**6,201**	6,113	1%	**30,241**	8,585	252%
Per share data (diluted)						
EBITDA (1)	**$ 0.74**	$ 0.67	10%	**$ 1.89**	$ 1.23	54%
Cashflow	**$ 0.72**	$ 0.66	9%	**$ 1.88**	$ 1.18	59%
Attributable to shareholders:						
Net income	**$ 0.15**	$ 0.14	7%	**$ 0.73**	$ 0.20	265%
Common shares (000's) (3)						
Basic	**40,325**	42,307	(5%)	**40,821**	42,509	(4%)
Diluted	**41,048**	43,203	(5%)	**41,568**	43,319	(4%)

Financial Position at	**June 30 2023**	Dec 31 2022	Change
Total Assets	**$ 888,117**	$ 878,615	1%
Long-Term Debt and Lease Liabilities (excluding current portion)	**111,244**	127,628	(13%)
Working Capital (2)	**108,577**	112,154	(3%)
Net Debt (1)	**2,667**	15,474	(83%)
Shareholders' Equity	**529,954**	522,023	2%

(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 energy and other resource industries 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 energy and other industrial operations ("RTS"), the fabrication, sale, rental and servicing of new and used gas compression and process equipment ("CPS") and well servicing, including completion, workover, maintenance and abandonment services ("WS"). The Company's operations are conducted within Canada, the United States of America ("United States" or "U.S.") and Australia. Corporate and public issuer affairs are conducted in the Company's Corporate segment.

Contract Drilling Services: At June 30, 2023, the Company operated a total fleet of 94 drilling rigs. The rig fleet is supported by an extensive fleet of owned top drives, walking systems, pumps and other ancillary equipment. Composition of the Company's drilling rig fleet is as follows:

By Type	
AC triples	3
AC doubles	13
Mechanical doubles	35
Australian shallow	5
TDS and singles	38
	94

By Geography	
Canada	77
United States	12
Australia	5
	94

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 June 30, 2023, this segment had approximately 7,667 pieces of major rental equipment (excluding access matting), a fleet of 69 heavy trucks and an 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 oil, natural gas and other process equipment. At June 30, 2023 the CPS segment occupied approximately 225,000 square feet of production facilities located in Calgary, Alberta and a 100,000 square foot production facility in Weirton, West Virginia. As at June 30, 2023 the CPS segment also had a network of 13 branch locations throughout western Canada and the United States from which its natural gas compression parts and service business is conducted. This segment had 55,200 horsepower of compression in its rental fleet at June 30, 2023.

Well Servicing: At June 30, 2023, the Company operated a total fleet of 79 well servicing rigs across western Canada, north-west United States and Australia. Composition of the Company's service rig fleet is as follows:

By Type	
Singles	35
Doubles	31
Australian specification	9
Flush-by	4
	79

By Geography	
Canada	56
United States	11
Australia	12
	79

OVERALL PERFORMANCE

Total Energy's results for the second quarter and first half of 2023 reflect stable industry conditions. Relatively strong commodity prices underpinned increased year over year North American industry activity levels which in turn contributed to a realization of net income in the second quarter and first half of 2023. Australian activity levels were lower compared to the prior year as one drilling rig and one service rig were taken out of service during the second quarter for recertification and upgrades.

The Company's financial condition remains strong, with a positive working capital balance of $108.6 million as at June 30, 2023, $3.6 million lower than December 31, 2022. Shareholders' equity increased by $7.9 million from December 31, 2022 due to the realization of $30.2 million of net income, which was partially offset by $11.3 million of share repurchases under the Company's normal course issuer bid, $6.5 million of declared dividends and a $5.3 million unrealized foreign exchange loss on translation of foreign subsidiaries.

Revenue

	Three months ended June 30			Six months ended June 30		
	2023	2022	Change	**2023**	2022	Change
Revenue	**$ 208,845**	$ 179,204	17%	**$ 446,622**	$ 340,656	31%

Global energy industry conditions remained relatively strong during the second quarter and first half of 2023 after recovering during the second half of 2022 from the significant decline caused by the outbreak of the COVID-19 pandemic and related collapse in oil prices in 2020. As a result, revenues during the three and six months ended June 30, 2023 improved relative to the same periods in 2022, underpinned by higher North American activity levels on a year over year basis. Included in revenue in 2022 was $7.4 million of contract cancellation revenue in the CPS segment.

Cost of Services and Gross Margin

	Three months ended June 30			Six months ended June 30		
	2023	2022	Change	**2023**	2022	Change
Cost of services	**$ 169,049**	$ 140,917	20%	**$ 347,035**	$ 270,715	28%
Gross margin	**$ 39,796**	$ 38,287	4%	**$ 99,587**	$ 69,941	42%
Gross margin, as a percentage of revenue	**19%**	21%	(10%)	**22%**	21%	5%

The increase in costs of services during the three and six months ended June 30, 2023 relative to the same periods in 2022 is primarily due to increased North American activity. The decrease in gross margin percentage for the second quarter is primarily due to lower utilization in Australia as one drilling and one service rig were taken out of service for recertification and upgrades and the higher relative contribution of the CPS segment to consolidated revenue given its lower margin compared to the other business segments. The increased gross margin percentage for the six months on a year over year basis was due in part to improved margins in the CDS and RTS segments as a result of improved pricing that moderately exceeded cost inflation.

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

Selling, General and Administration Expenses

	Three months ended June 30			Six months ended June 30		
	2023	2022	Change	**2023**	2022	Change
Selling, general and administration expenses	**$ 10,126**	$ 10,108	–	**$ 21,599**	$ 18,894	14%

Selling, general and administration expenses in the second quarter of 2023 remained comparative to the same period in 2022 as income-based incentive compensation remained comparable with prior year. Selling, general and administration expenses for the six months ended June 30, 2023 were higher as compared to the same period in 2022 primarily due to cost of living increases and higher profit incentive compensation in certain segments as a result of higher profitability.

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

Other income

	Three months ended June 30			Six months ended June 30		
	2023	2022	Change	**2023**	2022	Change
Other income	**$ (440)**	$ (485)	(9%)	**$ (446)**	$ (675)	(34%)

Other income arose from unrealized foreign exchange differences on translation of intercompany working capital balances of foreign subsidiaries. During both the three months and six months ended June 30, 2023 and 2022 net unrealized foreign exchange income was primarily due to the appreciation of the Canadian dollar relative to the Australian dollar and U.S. dollar combined with changes in the geographical mix of foreign currency denominated intercompany balances.

Share-based Compensation Expense

	Three months ended June 30			Six months ended June 30		
	2023	2022	Change	**2023**	2022	Change
Share-based compensation expense	**$ 367**	$ 259	42%	**$ 756**	$ 479	58%

Share-based compensation expense arises from share options granted pursuant to the share option plan implemented in 2015. Share-based compensation expense for the three and six months ended June 30, 2023 relative to the same prior year periods was higher due to the issuance of share options in the third quarter of 2022.

Depreciation Expense

	Three months ended June 30			Six months ended June 30		
	2023	2022	Change	**2023**	2022	Change
Depreciation expense	**$ 20,342**	$ 19,979	2%	**$ 40,297**	$ 39,127	3%

The increase in depreciation expense for the three and six months ended June 30, 2023 as compared to the same periods in 2022 is due to additions to property, plant and equipment subsequent to June 30, 2022.

Operating Income

	Three months ended June 30			Six months ended June 30		
	2023	2022	Change	**2023**	2022	Change
Operating income	**$ 9,401**	$ 8,426	12%	**$ 37,421**	$ 12,116	209%

Increased North American activity contributed to the increase in operating income during the three and six months ended June 30, 2023 as compared to 2022. Contributing to the increased operating income was North American pricing gains in all segments. Included in the second quarter and first half of 2022 was $7.4 million of contract cancellation revenue in the CPS segment. Excluding contract cancellation revenue, operating income increased over nine times for the second quarter of 2023 and almost eight times for the first half of 2023 as compared to 2022.

Gain on Sale of Property, Plant and Equipment

	Three months ended June 30			Six months ended June 30		
	2023	2022	Change	**2023**	2022	Change
Gain on sale of property, plant and equipment	**$ 512**	$ 394	30%	**$ 1,012**	$ 1,870	(46%)
Proceeds on the sale of property, plant and equipment	**$ 741**	$ 838	(12%)	**$ 1,504**	$ 3,877	(61%)

Disposals of property, plant and equipment ("PP&E") result from the rationalization, replacement and upgrade of older equipment in the Company's equipment fleet.

Equipment disposed of during the three months ended June 30, 2023 included underutilized rental equipment, a heavy truck and light duty vehicles. Equipment disposed of during the second quarter of 2022 included underutilized rental equipment and heavy trucks, light duty vehicles, compression rental equipment and ancillary drilling and well servicing equipment.

Finance Costs

	Three months ended June 30			Six months ended June 30		
	2023	2022	Change	**2023**	2022	Change
Finance costs, net	**$ 1,796**	$ 1,563	15%	**$ 3,499**	$ 3,369	4%

Finance costs for the three and six months ended June 30, 2023 were higher than the prior year comparable periods due to higher interest rates which were partially offset by lower debt balances.

Income Taxes and Net Income

	Three months ended June 30			Six months ended June 30		
	2023	2022	Change	**2023**	2022	Change
Current income tax expense (recovery)	**$ 47**	$ 21	124%	**$ 371**	$ (442)	nm
Deferred income tax expense	**1,890**	1,131	67%	**4,345**	2,487	75%
Total income tax expense	**$ 1,937**	$ 1,152	68%	**$ 4,716**	$ 2,045	131%
Net income	**$ 6,180**	$ 6,105	1%	**$ 30,218**	$ 8,572	253%

"nm" - calculation not meaningful

Increased year over year pre-tax profitability resulted in the year over year change from a current tax recovery to current tax expense and an increased deferred tax expense. The lower effective income tax rate for the first half of 2023 compared to 2022 is due to the application of previously unrecognized non-capital losses that reduced the current income tax expense.

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 historically the Company's slowest period in Canada. Additionally, wet weather in Australia, normally in the first quarter, can restrict the Company's Australian operations. Consequently, quarterly operating results may not be indicative of full year operating results.

SUMMARY OF QUARTERLY RESULTS

	Financial Quarter Ended			
	June 30 2023	March 31 2023	December 31 2022	September 30 2022
Revenue	**$ 208,845**	$ 237,777	$ 211,479	$ 207,678
Operating income	**9,401**	28,020	15,605	21,622
EBITDA (1)	**30,255**	48,475	35,872	42,335
Cashflow	**29,408**	48,672	38,590	41,078
Cash provided by operating activities	**43,902**	29,741	54,609	18,844
Net income	**6,180**	24,038	12,264	17,163
Attributable to shareholders	**6,201**	24,040	12,244	17,179
Per share data (diluted)				
EBITDA (1)	**$ 0.74**	$ 1.15	$ 0.84	$ 0.98
Cashflow	**0.72**	1.16	0.91	0.95
Net income attributable to shareholders	**0.15**	0.57	0.29	0.40
Financial Position				
Total Assets	**$ 888,117**	$ 910,408	$ 878,615	$ 897,084
Long-Term Debt and Lease Liabilities (excluding current portion)	**111,244**	122,714	127,628	155,429
Working Capital (2)	**108,577**	111,312	112,154	129,354
Net Debt (1)	**2,667**	11,402	15,474	26,075
Shareholders' Equity	**529,954**	534,576	522,023	515,540
Common Shares (000's) (3)				
Basic	**40,325**	41,322	41,652	42,339
Diluted	**41,048**	42,048	42,524	43,090

(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.

	Financial Quarter Ended			
	June 30 2022	March 31 2022	December 31 2021	September 30 2021
Revenue	$ 179,204	$ 161,452	$ 134,629	$ 118,881
Operating income (loss)	8,426	3,690	1,680	6,415
EBITDA (1)	28,799	24,314	22,567	27,015
Cashflow	28,576	22,551	22,144	26,253
Cash provided by operating activities	24,993	44,955	27,793	13,294
Net income (loss)	6,105	2,467	1,036	4,279
Attributable to shareholders	6,113	2,472	1,049	4,278
Per share data (diluted)				
EBITDA (1)	$ 0.67	$ 0.56	$ 0.52	$ 0.60
Cashflow	0.66	0.52	0.51	0.58
Net income (loss) attributable to shareholders	0.14	0.06	0.02	0.09
Financial Position				
Total Assets	$ 860,983	$ 847,022	$ 813,522	$ 822,898
Long-Term Debt and Lease Liabilities (excluding current portion)	165,767	174,970	196,007	201,967
Working Capital (2)	122,043	126,489	137,304	138,383
Net Debt (1)	43,724	48,481	58,703	63,584
Shareholders' Equity	494,299	492,693	493,437	497,356
Common Shares (000's) (3)				
Basic	42,307	42,713	43,341	44,921
Diluted	43,203	43,423	43,818	45,164

(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.

Aboriginal Partnerships

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

SEGMENTED RESULTS

Contract Drilling Services

	Three months ended June 30			Six months ended June 30		
	2023	2022	Change	**2023**	2022	Change
Revenue	**$ 54,282**	$ 49,440	10%	**$ 136,818**	$ 109,502	25%
Canada	**27,783**	21,496	29%	**79,664**	54,554	46%
United States	**15,599**	16,819	(7%)	**32,772**	32,128	2%
Australia	**10,900**	11,125	(2%)	**24,382**	22,820	7%
Operating income (loss)	**$ 322**	$ (367)	nm	**$ 11,407**	$ 2,222	413%
Canada	**(642)**	(2,158)	(70%)	**8,190**	(1,440)	nm
United States	**626**	152	312%	**841**	423	99%
Australia	**338**	1,639	(79%)	**2,376**	3,239	(27%)
Operating days (1)	**1,974**	2,105	(6%)	**4,843**	4,788	1%
Canada	**1,094**	1,009	8%	**3,014**	2,634	14%
United States	**571**	696	(18%)	**1,161**	1,397	(17%)
Australia	**309**	400	(23%)	**668**	757	(12%)
Revenue per operating day (1), dollars	**$ 27,498**	$ 23,487	17%	**$ 28,251**	$ 22,870	24%
Canada	**25,396**	21,304	19%	**26,431**	20,711	28%
United States	**27,319**	24,165	13%	**28,227**	22,998	23%
Australia	**35,275**	27,813	27%	**36,500**	30,145	21%
Utilization	**23%**	24%	(4%)	**29%**	28%	4%
Canada	**16%**	14%	14%	**22%**	19%	16%
United States	**52%**	59%	(12%)	**51%**	59%	(14%)
Australia	**68%**	88%	(23%)	**74%**	84%	(12%)
Rigs, average for period	**94**	95	(1%)	**94**	95	(1%)
Canada	**77**	77	–	**76**	77	(1%)
United States	**12**	13	(8%)	**13**	13	–
Australia	**5**	5	–	**5**	5	–

(1) Operating days include drilling and paid stand-by days.

nm – calculation not meaningful

Canadian drilling activity continued to recover during the first half of 2023, as compared to the same period in 2022. Lower commodity prices saw activity levels moderate in the United States. The decrease in operating days in Australia was due to one drilling rig being taken out of service for recertification and upgrades. This rig returned to service in July.

In Canada, revenue increased during the three months ended June 30, 2023 as compared to the same period in 2022 due to increased customer demand. The revenue per day in Canada increased year over year due to higher drilling rates realized on upgraded equipment. The operating loss in Canada decreased substantially for the three months ended June 30, 2023 relative to the same period in 2022 primarily due to increased activity levels, higher pricing realized for upgraded rigs and general pricing increases that more than offset cost inflation. Revenue and operating income for the first half of 2023 in Canada increased due to higher activity and higher pricing on upgraded equipment and general pricing gains.

U.S. revenue for the three months ended June 30, 2023 was lower than the prior year quarter due to lower operating days with a moderation in industry activity and the transfer of one triple drilling rig to Canada. Lower activity was offset by a 13% increase in pricing. In the first half of 2023 the U.S. realized a modest improvement in revenue and operating income as lower drilling days were offset by increased pricing.

In Australia, revenue and operating income decreased for the second quarter of 2023 compared to 2022 as one drilling rig was taken out of operation for recertification and upgrades. This rig returned to service in July of 2023. Revenue for the first half increased as compared to prior year period as a decrease in operating days was more than offset by increased pricing. Effective day rates during the first half of 2023 were higher as compared to the 2022 as a result of an increase in the rate on several upgraded rigs and a higher number of full-rate operating days as compared to lower rate stand by days realized in 2022 due to wet weather. Operating income decreased for the second quarter and first half of 2023 as compared to prior year as additional expenses were incurred for crew retention and equipment relocation and the impact of a weakening Australian dollar relative to the Canadian and U.S. dollars.

Rentals and Transportation Services

	Three months ended June 30			Six months ended June 30		
	2023	2022	Change	**2023**	2022	Change
Revenue	**$ 19,812**	$ 13,441	47%	**$ 44,225**	$ 28,841	53%
Canada	**10,274**	8,440	22%	**24,516**	18,470	33%
United States	**9,538**	5,001	91%	**19,709**	10,371	90%
Operating income (loss)	**$ 1,904**	$ (1,360)	nm	**$ 6,484**	$ (1,342)	nm
Canada	**(634)**	(1,535)	(59%)	**1,006**	(2,364)	nm
United States	**2,538**	175	1350%	**5,478**	1,022	436%
Pieces of rental equipment	**7,667**	9,390	(18%)	**7,667**	9,390	(18%)
Canada	**6,779**	8,510	(20%)	**6,779**	8,510	(20%)
United States	**888**	880	1%	**888**	880	1%
Rental equipment utilization	**15%**	14%	7%	**21%**	15%	40%
Canada	**14%**	13%	8%	**18%**	14%	29%
United States	**34%**	25%	36%	**40%**	28%	43%
Heavy trucks	**69**	71	(3%)	**69**	71	(3%)
Canada	**48**	48	–	**48**	48	–
United States	**21**	23	(9%)	**21**	23	(9%)

nm – calculation not meaningful

Revenue from the RTS segment for the second quarter and first half of 2023 increased as compared to the same period in 2022 as a result of higher utilization and improved pricing in both Canada and the United States arising from improved industry conditions and market share gains.

In Canada, operating results improved during the second quarter and first half of 2023 relative to the same periods in 2022 due to increased equipment utilization and pricing. During the second quarter of 2023 a substantial number of older unutilized rental pieces were disposed of in Canada. In the U.S., second quarter and first half operating income increased substantially in 2023 compared to 2022 as a result of improved activity and pricing despite a moderation in U.S. drilling rig activity. This segment's relatively high fixed cost structure as compared to the Company's other business segments provides significant leverage to increased equipment utilization. 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.

Compression and Process Services

	Three months ended June 30			Six months ended June 30		
	2023	2022	**Change**	**2023**	2022	Change
Revenue	**$ 113,130**	$ 92,782	**22%**	**$ 211,248**	$ 151,347	40%
Canada	**56,819**	74,064	**(23%)**	**100,041**	121,596	(18%)
United States	**56,311**	18,718	**201%**	**111,207**	29,751	274%
Operating income	**$ 9,742**	$ 12,084	**(19%)**	**$ 19,688**	$ 12,609	56%
Canada	**3,394**	9,661	**(65%)**	**5,902**	9,308	(37%)
United States	**6,348**	2,423	**162%**	**13,786**	3,301	318%
Operating income, % of revenue	**9%**	13%	**(31%)**	**9%**	8%	13%
Canada	**6%**	13%	**(54%)**	**6%**	8%	(25%)
United States	**11%**	13%	**(15%)**	**12%**	11%	9%
Horsepower of equipment on rent at period end	**41,842**	30,970	**35%**	**41,842**	30,970	35%
Canada	**19,202**	13,975	**37%**	**19,202**	13,975	37%
United States	**22,640**	16,995	**33%**	**22,640**	16,995	33%
Rental equipment utilization during the period (HP)	**78%**	54%	**44%**	**78%**	53%	47%
Canada	**84%**	39%	**115%**	**78%**	38%	105%
United States	**73%**	75%	**(3%)**	**77%**	74%	4%
Sales backlog at period end, $ million	**$ 185.6**	$ 181.7	**2%**	**$ 185.6**	$ 181.7	2%

Revenue reported from the CPS segment increased in the second quarter and first half of 2023 as compared to the same periods in 2022. This was due to a substantial increase in U.S. fabrication sales and increased North American rental fleet utilization, partially offset by lower Canadian fabrication sales. The fabrication sales backlog increased to $185.6 million, compared to the $181.7 million backlog at June 30, 2022. Sequentially the quarter-end backlog decreased $41.8 million as the conversion of quote activity to completed sales moderated somewhat during the second quarter of 2023. The timeline for conversion of the sales backlog into revenue varies from order to order and often changes due to factors outside of the Company's control.

Operating income in Canada for the second quarter and first half of 2023 decreased as compared to the same period in 2022. This was due in part to $7.4 million of contract cancellation revenue recorded in second quarter of 2022. Excluding contract cancellation revenue, Canadian operating income was higher in both the second quarter and first half of 2023 as compared to 2022 driven by increased parts and service activity and higher rental fleet utilization. In the U.S., operating income increased during the three and six months ended June 30, 2023 as compared to the same period in 2022 due primarily to increased fabrication activity, higher utilization of the rental fleet and increased pricing. The strengthening of the U.S dollar relative to the Canadian dollar during the second quarter and first half of 2023 compared to 2022 contributed to the improved financial results.

Well Servicing

	Three months ended June 30			Six months ended June 30		
	2023	2022	Change	**2023**	2022	Change
Revenue	**$ 21,621**	$ 23,541	(8%)	**$ 54,331**	$ 50,966	7%
Canada	**8,802**	9,903	(11%)	**26,016**	23,521	11%
United States	**5,726**	4,062	41%	**12,387**	7,459	66%
Australia	**7,093**	9,576	(26%)	**15,928**	19,986	(20%)
Operating income	**$ (352)**	$ 469	nm	**$ 4,674**	$ 3,800	23%
Canada	**(436)**	(72)	506%	**3,370**	1,913	76%
United States	**418**	606	(31%)	**1,502**	945	59%
Australia	**(334)**	(65)	414%	**(198)**	942	nm
Service hours [(1)]	**22,630**	26,007	(13%)	**55,876**	56,846	(2%)
Canada	**9,357**	10,707	(13%)	**26,848**	27,157	(1%)
United States	**5,767**	4,556	27%	**12,411**	8,710	42%
Australia	**7,506**	10,744	(30%)	**16,617**	20,979	(21%)
Revenue per service hour, dollars	**$ 955**	$ 905	6%	**$ 972**	$ 897	8%
Canada	**941**	925	2%	**969**	866	12%
United States	**993**	892	11%	**998**	856	17%
Australia	**945**	891	6%	**959**	953	1%
Utilization [(2)]	**25%**	27%	(7%)	**32%**	31%	3%
Canada	**18%**	21%	(14%)	**26%**	26%	–
United States	**58%**	46%	26%	**62%**	44%	41%
Australia	**29%**	41%	(29%)	**32%**	40%	(20%)
Rigs, average for period	**79**	80	(1%)	**79**	80	(1%)
Canada	**56**	57	(2%)	**56**	57	(2%)
United States	**11**	11	–	**11**	11	–
Australia	**12**	12	–	**12**	12	–

nm – calculation not meaningful

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

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

Overall segment revenue in the three months ended June 30, 2023 decreased as compared to the same period in 2022. This decrease was primarily due to lower well abandonment activity in Canada and the removal of an Australian service rig from service for recertification and upgrades. This was partially offset by increased activity in the United States. Segment operating income for the second quarter decreased as compared to 2022 due to lower activity in Canada and Australia. First half revenue and operating income improved compared to 2022 due to increased activity in North America and pricing gains in all geographies that was partially offset by lower activity in Australia.

Canadian revenue and operating income in the second quarter of 2023 was lower as compared to 2022 due primarily to less well abandonment activity following the conclusion of government incentives.

In the United States, revenue increased in the quarter ended June 30, 2023 as compared to the same period in 2022 as a result of increased service hours combined with higher pricing and ancillary revenues. Also positively impacting operating income in the second quarter and first half of 2023 was the appreciation of the U.S. dollar against the Canadian dollar.

In Australia, lower revenue for the second quarter and first half of 2023 as compared to the same periods in 2022 was due to lower activity in 2023 as compared to 2022. Contributing to lower activity was the removal from service of one service rig during the first quarter of 2023 for recertification and upgrades. This rig is expected to be returned to service later in 2023. These factors contributed to Australia generating an operating loss in the second quarter and first half of 2023.

Corporate

	Three months ended June 30			Six months ended June 30		
	2023	2022	Change	**2023**	2022	Change
Operating loss	**$ (2,215)**	$ (2,400)	(8%)	**$ (4,832)**	$ (5,173)	(7%)

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.

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operating Activities and Cashflow

	Three months ended June 30			Six months ended June 30		
	2023	2022	Change	**2023**	2022	Change
Cash provided by operating activities	**$ 43,902**	$ 24,993	76%	**$ 73,643**	$ 69,948	5%
Per share data (diluted), dollars	**$ 1.07**	$ 0.58	84%	**$ 1.77**	$ 1.61	10%
Cashflow	**$ 29,408**	$ 28,576	3%	**$ 78,080**	$ 51,127	53%
Per share data (diluted), dollars	**$ 0.72**	$ 0.66	9%	**$ 1.88**	$ 1.18	59%

The changes in cash provided by operating activities were due primarily to changes in the working capital requirements of the various business segments and year-over-year increases in activity. Contributing to the increase in cash provided by operating activities during the second quarter and first half of 2023 was increased EBITDA and accelerated accounts receivable collections. Partially offsetting this was an increase in inventory resulting from increased activity in CPS segment and a decrease in deferred revenue due to a sequential quarterly decrease in the backlog of fabrication orders. Cash flow increased during the second quarter and first half of 2023 compared to the same period in 2022 as a result of higher EBITDA from increased activity levels. The Company's current priorities are to maintain strong financial liquidity, continue to repay long-term debt and enhance shareholder returns, including by the purchase and cancellation of shares under the normal course issuer bid and payment of a dividend.

Investing Activities

	Three months ended June 30			Six months ended June 30		
	2023	2022	Change	**2023**	2022	Change
Net cash used in investing activities	**$ (22,153)**	$ (10,960)	102%	**$ (38,446)**	$ (18,131)	112%
Proceeds from sale of PP&E	**$ 741**	$ 838	(12%)	**$ 1,504**	$ 3,877	(61%)
Purchase of PP&E	**$ (12,665)**	$ (13,406)	(6%)	**$ (42,454)**	$ (24,959)	70%

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. Equipment disposed of during the second quarter and first half of 2023 included underutilized rental equipment, a heavy truck and light duty vehicles. Equipment disposed of during the second quarter of 2022 included underutilized rental equipment and heavy trucks, light duty vehicles, compression rental equipment and ancillary drilling and well servicing equipment.

The following summarizes PP&E purchases by segment for the three and six months ended June 30, 2023.

	Three months ended June 30			Six months ended June 30		
	2023	2022	Change	**2023**	2022	Change
CDS	**$ 7,614**	$ 7,282	5%	**$ 31,434**	$ 17,464	80%
RTS	**2,596**	2,524	3%	**4,134**	2,758	50%
CPS	**542**	1,691	(68%)	**2,515**	2,761	(9%)
WS	**1,913**	1,909	–	**4,371**	1,965	122%
Corporate	**–**	–	–	**–**	11	(100%)
Purchase of PP&E	**$ 12,665**	$ 13,406	(6%)	**$ 42,454**	$ 24,959	70%

nm – calculation not meaningful

During the second quarter and first half of 2023 PP&E purchases were as follows: drilling rig upgrades, recertifications and ancillary rig equipment purchases in the CDS segment, rental equipment in the RTS segment, additions to the compression rental fleet in the CPS segment and service rig recertifications and upgrades in the WS segment. Included in 2023 capital expenditures was approximately $4.0 million of capital commitments carried forward from 2022 (2022: $2.0 million carried forward from 2021).

During the second quarter and first half of 2022 PP&E purchases were as follows drilling rig upgrades, recertifications and ancillary rig equipment purchases in the CDS segment, rental equipment in the RTS segment, additions to the compression rental fleet in the CPS segment, service rig recertifications and upgrades in the WS segment and information and technology equipment in the Corporate segment.

Capital spending for the second quarter and first half of 2023 was funded by cash flow and $0.7 million and $1.5 million, respectively, of proceeds from the sale of PP&E.

Financing Activities

	Three months ended June 30			Six months ended June 30		
	2023	2022	Change	**2023**	2022	Change
Net cash used in financing activities	**$ (20,111)**	$ (15,849)	27%	**$ (39,392)**	$ (42,837)	(8%)

During the second quarter of 2023 net cash used in financing activities was $4.3 million higher as compared to the same period in 2022. Contributing to the increase was a $3.2 million dividend payment following the reinstatement of a dividend in the second quarter of 2022 and a $0.9 million increase in repurchase of common shares. During the first half of 2023 cash used in financing activities decreased by $3.4 million which was due to primarily to a year over year reduction in long-term debt repayment, which was partially offset by $5.7 million of dividend payments and a $5.4 million increase in share repurchases.

During the second quarter and first half of 2023 the Company paid $1.6 million and $3.2 million, respectively, of interest and bank fees, repaid $10.5 million and $16.0 million, respectively, of long-term debt, made $1.5 million and $3.2 million, respectively, of lease liability payments, purchased $3.3 million and $11.3 million, respectively, of shares under the Company's normal course issuer bid and paid $3.2 million and $5.7 million, respectively, of dividends.

Liquidity and Capital Resources

The Company had a working capital surplus of $108.6 million as at June 30, 2023 compared to $112.2 million as at December 31, 2022. As at June 30, 2023 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"). Following several renewals and at the request of the Company, on April 12, 2023 the Credit Facility was reduced to $170 million and the maturity date extended to November 10, 2026. The Credit Facility includes a Canadian $18 million operating line, an Australian $2 million operating line and a Canadian $150 million revolving facility. 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 bears interest at the banks' Canadian prime rate plus 0.25% to 1.25%, bankers' acceptance, letter of credit, LIBOR or BBSY advances plus a 1.5% to 2.5% 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 0.5% per annum is paid quarterly on the unused portion of the facility depending on certain financial ratios of the Company. At June 30, 2023, the applicable interest rate on amounts drawn on the Credit Facility was 6.55% and the standby rate was 0.25%. Letters of credit ("LOC") of $0.3 million were outstanding at June 30, 2023 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"). LOCs issued pursuant to the LOC Facility do not reduce availability under the Credit Facility. In April of 2020 this facility was reduced at the request of the Company to U.S. $10 million. At June 30, 2023 $3.9 million Canadian dollars of LOCs were outstanding under the LOC Facility (December 31, 2022: $5.1 million).

In addition to the Credit Facility, a subsidiary of the Company has established a $5 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At June 30, 2023 this facility was undrawn and fully available.

At June 30, 2023 the Company's long-term debt consisted of the following:

	June 30, 2023	
	Interest rate	Principal Amount
Credit Facility	6.55%	$ 60,000
Mortgage loan (2025 maturity)	3.10%	43,995
Less current portion		2,019
	5.09%	$ 101,976

At June 30, 2023 amounts owing under the Credit Facility and the mortgage loan were denominated in 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:

	June 30, 2023	Threshold
Twelve-month trailing Bank EBITDA to interest expense	29.59	minimum 3.00
Total Senior Debt to twelve-month trailing Bank EBITDA	0.27	maximum 3.00

The Company was in compliance with all of its Credit Facility and other debt covenants at June 30, 2023. 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 and 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.

Dividends

The Company suspended payment of dividends on March 12, 2020 given the sudden and material deterioration in industry conditions. On May 11, 2022 the Board of Directors determined to reinstate a quarterly dividend to shareholders in the second quarter of 2022. On March 9, 2023 the Board of Directors increased the dividend by 33% and declared a dividend of $0.08 per share for the quarter ended March 31, 2023. On May 10, 2023 the Board of Directors declared a dividend of $0.08 per share for the quarter ended June 30, 2023.

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.

CONTRACTUAL OBLIGATIONS

At June 30, 2023 the Company had the following contractual obligations:

	Payments due by year					
	Total	2023	2024	2025	2026	2027 and after
Long-term debt and bank indebtedness	$ 103,995	$ 998	$ 2,050	$ 40,947	$ 60,000	$ –
Commitments [(1)]	699	347	248	104	–	–
Lease liabilities, net of lease assets	14,205	2,244	4,456	3,388	1,829	2,288
Purchase obligations [(2)]	58,196	58,196	–	–	–	–
Total contractual obligations	$ 177,095	$ 61,785	$ 6,754	$ 44,439	$ 61,829	$ 2,288

(1) Commitments are described in Note 24 to the 2022 Financial Statements.

(2) Purchase obligations are described in Note 24 to the 2022 Financial Statements. As at June 30, 2023 purchase obligations primarily relate to commitments to purchase inventory in the CPS segment.

OFF-BALANCE SHEET ARRANGEMENTS

During 2023 and 2022, the Company had no off-balance sheet arrangements other than short-term leases.

TRANSACTIONS WITH RELATED PARTIES

During 2023 and 2022 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 2025 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 6.30% for a similar debt instrument at June 30, 2023 was $41.7 million (December 31, 2022: market rate of 6.05%, $42.2 million). The carrying value and Company's liability with respect to this mortgage is $44.0 million.

OUTSTANDING COMPANY SHARE DATA

As at the date of this MD&A, the Company had 40,066,000 common shares outstanding.

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

Outstanding at June 30, 2023	Exercise Price	Remaining life (years)	Exercisable at June 30, 2023
740,000	$ 9.51	0.90	740,000
409,998	2.31	2.10	220,002
55,000	3.50	2.50	36,667
676,666	3.72	3.10	200,005
46,666	4.49	3.20	–
840,000	7.46	4.10	–
90,000	6.42	4.30	–
2,858,330	$ 6.21	2.71	1,196,674

OUTLOOK

Industry Conditions

The COVID-19 pandemic and resultant historic decline in global economic activity and oil prices contributed to unprecedented challenges and uncertainty for the global energy industry during 2020 and the first half of 2021. The recovery in oil and natural gas prices that began in the second half of 2021 has resulted in steadily improving industry conditions, particularly in North America, although producers generally remained disciplined in regard to their capital expenditure programs. While current indications are that global energy industry activity levels will remain stable on a seasonally adjusted basis, global economic and political uncertainty causes the Company to remain cautious and manage its business and affairs in a manner to protect its balance sheet and financial liquidity.

The severity of the recent downturn resulted in substantial consolidation and rationalization in the North American energy service industry that has contributed to more favorable market conditions as activity levels recovered.

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 2023 other than as described below.

Industry Conditions

The dual shocks of the COVID-19 pandemic and collapse in oil prices contributed to extremely negative industry conditions for the global energy industry that began to ease in the second half of 2021. The Company's North American customers modestly increased capital spending plans for 2023 although current capital spending levels remain below levels experienced during previous periods of similar oil and natural gas prices. Activity levels in Australia moderated in the third quarter of 2020 and began to recover in the fourth quarter of 2021. Current indications are that Australian activity will remain relatively stable in 2023.

Credit Risk

A sustained increase in oil and gas prices has mitigated counterparty credit risk as a substantial portion of the Company's dealings are with entities involved in the oil and gas industry. Notwithstanding such an improvement in the industry environment, 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 that accounted for over 10% of the consolidated revenue in the second quarter and first half of 2023. In 2022 the Company did not have significant exposure to any individual customer or counter party other than with one major oil and gas company that accounted for over 10% of the consolidated revenue in the second quarter and first half of 2022.

The Company's allowance for doubtful accounts receivable at June 30, 2023 decreased by $0.5 million to $1.1 million from the December 31, 2022 allowance of $1.6 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 were no material changes to the Company's Critical Accounting Estimates during 2023.

Critical Judgments in Applying Accounting Policies

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

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

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

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

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

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

Key Sources of Estimation Uncertainty

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

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

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

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

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

As pertains to accounts receivable the Company is required to estimate allowances for doubtful accounts based on 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 International Accounting Standards Board ("IASB") of the International Financial Reporting Standards ("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

As described throughout this MD&A, the Company references the following financial measures that are not recognized under IFRS: EBITDA, operating income, cashflow, working capital and net debt. Management believes that, in addition to the amounts reported in the Consolidated Financial Statements, these measures are useful in assessing the Company's performance and liquidity. These measures are unlikely to be comparable to similar measures presented by other companies. The non-IFRS measures referenced in this MD&A reconcile to the IFRS measures reported in the Consolidated Financial Statements as follows, unless reconciled elsewhere:

EBITDA

	Three months ended June 30		Six months ended June 30	
	2023	2022	**2023**	2022
Net income	**$ 6,180**	$ 6,105	**$ 30,218**	$ 8,572
Add back:				
Depreciation	**20,342**	19,979	**40,297**	39,127
Finance costs, net	**1,796**	1,563	**3,499**	3,369
Income tax expense	**1,937**	1,152	**4,716**	2,045
EBITDA	**$ 30,255**	$ 28,799	**$ 78,730**	$ 53,113

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

Net Debt

	As at June 30, 2023
Long-term debt	**$ 101,976**
Lease liabilities	**9,268**
Add back (deduct):	
Current liabilities	**201,433**
Current assets	**(310,010)**
Net Debt	**$ 2,667**

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

Internal Control Over Financial Reporting ("ICFR")

There have been no significant changes in the design of the Company's ICFR during the quarter ended June 30, 2023 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), pandemics (including COVID-19 pandemic), 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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

George Chow[1]
Chairman of the Board

Daniel Halyk
President and Chief Executive Officer

Glenn Dagenais[2, 3]

Greg Melchin[1, 2]

Jessica Kirstine[1,3]

Ken Mullen[2, 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

Jeremy Busch-Howell
Vice President, Legal, General Counsel and Corporate Secretary

Yuliya Gorbach
Vice President, Finance and Chief Financial Officer

William Kosich
Vice President, Drilling Services

Brad Macson
Vice President, Operations

Ashley Ting
Corporate Controller

HEAD OFFICE

Suite 1000, 734 – 7 Avenue SW T2P 3P8

Calgary, Alberta T2P 3H2

Telephone: (403) 216-3939

Toll Free: (877) 818-6825

Fax: (403) 234-8731

Website: www.totalenergy.ca

Email: investorrelations@totalenergy.ca

AUDITOR

MNP LLP

Calgary, Alberta

TRUSTEE, REGISTRAR AND TRANSFER AGENT

Computershare

Calgary, Alberta

LEGAL COUNSEL

Bennett Jones, LLP

Calgary, Alberta

BANKERS

HSBC

The Toronto Dominion Bank

Alberta Treasury Branches

STOCK EXCHANGE LISTING

Toronto Stock Exchange

Common Shares: TOT

CANADIAN LOCATIONS

Brooks, AB • Calgary, AB • Clairmont, AB • Drumheller, AB • Edson, AB • Fort McMurray, AB • Fox Creek, AB • Grande Prairie, AB
Lac La Biche, AB • Leduc, AB • Lloydminster, AB • Medicine Hat, AB • Red Deer, AB • Red Earth, AB • Rocky Mountain House, AB
Slave Lake, AB • Swan Hills, AB • Dawson Creek, BC • Fort St. John, BC • Swift Current, SK • Weyburn/Midale, SK

U.S. LOCATIONS

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

AUSTRALIAN LOCATIONS

Toowoomba, QLD

TOTAL ENERGY SERVICES INC.

BIDELL™ GAS COMPRESSION

opsco process solutions

Savanna Drilling

Savanna Well Servicing

TOTAL OILFIELD RENTALS