

SUMMARY OF QUARTERLY RESULTS

(in thousands of dollars except per share amounts)

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

TOTAL ENERGY SERVICES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

(3) Basic and diluted shares outstanding reflect the weighted average number of common shares outstanding for the period. See note 17 to the 2017 Financial Statements.

Aboriginal Partnerships

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

SEGMENTED RESULTS

Contract Drilling Services

(in thousands of dollars, unless otherwise indicated)

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

"nm" - calculation not meaningful

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

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

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

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

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

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

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

overall revenue increased significantly due to the acquisition of Savanna and the operating days generated by the drilling rigs acquired.

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

Rentals and Transportation Services

(in thousands of dollars, unless otherwise indicated)

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

"nm" - calculation not meaningful

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

The increase in operating loss in both the third quarter and first nine months of 2018 as compared to 2017 resulted primarily from this segment's relatively high fixed cost structure as compared to the Company's other business segments combined with limited pricing increases in Canada. Such fixed cost structure includes costs associated with its significant operating branch infrastructure, including maintenance and repairs, utilities, insurance, property taxes and rent. In addition, depreciation expense on this segment's equipment fleet is recorded on a straight-line basis and is not correlated to levels of activity. Given continued low activity levels in Canada, five RTS branch locations have been or will be closed by the end of 2018 in an effort to reduce fixed costs.

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

(in thousands of dollars, unless otherwise indicated)

Q3 2018	RTS Canada	RTS U.S.	Total
Revenue	\$ 15,554	\$ 3,908	\$ 19,462
Operating income (loss)	\$ (884)	\$ 443	\$ (441)
Pieces of rental equipment	10,400	600	11,000
Rental equipment utilization	23%	37%	24%

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

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

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

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

Compression and Process Services

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

The revenue reported from the CPS segment increased for the three and nine months ended September 30, 2018 as compared to the same periods in 2017. This was due primarily to higher international activity levels and increasing contribution from the Weirton, West Virginia facility. Demand from international customers has continued to increase and contributes to the substantial increase in the fabrication sales backlog at September 30, 2018 compared to 2017. The timeline for conversion of the sales backlog into revenue varies from order to order and often changes due to factors outside of the Company's control.

The increase in operating income in the CPS segment during the three and nine months ended September 30, 2018, as compared to the same periods in 2017 was due primarily to increased business activity in international markets, the continued ramp up of operations in Weirton and increased utilization of the compression rental fleet (which generates a higher operating income margin than other sources of CPS revenue). In response to increasing demand, subsequent to September 30, 2018 the CPS segment leased a fabrication facility that will result in an additional net 59,600 square feet of fabrication space in Canada. This facility will be put into service over the next few quarters and will increase Canadian fabrication space in this segment by approximately 30%.

Well Servicing

(in thousands of dollars, except revenue per hour)

September 30	Three Months Ended			Nine Months Ended		
	2018	2017	Change	2018	2017	Change
Revenue	\$ 40,965	\$ 39,282	4%	\$ 113,295	\$ 74,167	53%
Operating income	\$ 6,106	\$ 5,963	2%	\$ 13,969	\$ 8,849	58%
Operating income, % of revenue	15%	15%		12%	12%	
Service hours	44,447	41,256	8%	122,032	76,191	60%
Revenue per service hour ⁽¹⁾	\$ 922	\$ 952	(3%)	\$ 928	\$ 973	(5%)
Utilization ⁽²⁾	44%	37%	19%	39%	37%	5%

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

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

Overall revenue for the third quarter and first nine months of 2018 increased relative to the same comparable periods in 2017. The increase in revenue and operating income from the third quarter of 2017 was primarily due to the types of contracts and change in equipment utilized in Canada, improved discipline in declining unprofitable work and cost control measures implemented in 2017 across all geographic regions. Results for the first nine months of the year compared to 2017 reflect the acquisition of the WS segment in the second quarter of 2017.

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

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

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

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

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

"nm" - calculation not meaningful

- (1) Service hours is defined as well servicing hours of service provided to customers and includes paid rig move and standby.
- (2) The Company reports its service rig utilization for its operational service rigs in North America based on service hours of 3,650 per rig per year to reflect standard 10 hour operations per day. Utilization for the Company's service rigs in Australia is calculated based on service hours of 8,760 per rig per year to reflect standard 24 hour operations.

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

Corporate

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

Total Energy's Corporate segment includes activities related to the Company's corporate and public issuer affairs. This segment does not generate any revenue but provides sales, operating, financial, treasury, analytical and other management and support services to Total Energy's business segments and manages the corporate affairs of the Company, including matters related to its public listing.

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operating Activities and Cashflow

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

"nm" - calculation not meaningful

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

Investing Activities

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

Proceeds from the sale of property, plant and equipment ("PP&E") are derived primarily from the disposal of equipment in the ordinary course of business and the replacement and upgrade of older equipment in the Company's fleet. During the third quarter of 2018 equipment disposed consisted of older light duty vehicles and rental equipment, a decommissioned well servicing rig in the United States and older spare drilling equipment in Canada and the United States. During the first nine months of 2018 equipment disposed consisted of three decommissioned drilling rigs and three service rigs located in the United States, light duty vehicles, rental equipment and excess drilling equipment in Canada and the United States.

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

Financing Activities

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

During the three months ended September 30, 2018 \$1.2 million principal in partnership long-term debt was repaid with cash on hand and regular principal repayments were made on the Company's mortgage loans. The increase in cash used in financing activities for the nine months ended September 30, 2018 compared to the same period in 2017 was primarily due

to a voluntary \$10.0 million principal repayment of long-term debt during the first quarter of 2018 and the repayment of \$67.5 million of senior unsecured notes that were previously issued by Savanna during the second quarter of 2018.

Liquidity and Capital Resources

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

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

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

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

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

At September 30, 2018 amounts owing under the Credit Facility and other debt were denominated in Canadian dollars. The weighted average interest rate on the Company's debt at September 30, 2018 was 4.11%.

In August of 2018 a U.S. \$20 million letter of credit facility was established. Letters of credit ("LOC") issued pursuant to this facility do not reduce availability under the Credit Facility. At September 30, 2018 \$1.1 million U.S. dollars (\$1.4 million Canadian dollars) of LOCs were outstanding under this facility.

In addition to the Credit Facility, a subsidiary of the Company has established a \$5.0 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At September 30, 2018 this facility was fully available.

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

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

The Company was in compliance with all of its Credit Facility and other debt covenants at September 30, 2018. For further information regarding Credit Facility compliance requirements and further details on the Company's borrowings, please refer to note 4 to the Interim Financial Statements.

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

Dividends

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

For the first nine months of 2018 cash provided by operating activities, cashflow and net income exceeded dividends to shareholders. Management and the Board of Directors of the Company continue to monitor the Company's dividend policy in the context of industry conditions and forecasted net income, cashflow, cash provided by operating activities, debt levels, capital expenditures and other investment opportunities and will aim to finance future dividends through cash provided by operating activities.

Capital Spending

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

CONTRACTUAL OBLIGATIONS

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

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

During the first nine months of 2018 and 2017 the Company had no material transactions with related parties.

FINANCIAL INSTRUMENTS

Fair values

The discounted future cash repayments of the Company's mortgage loan due in 2020 are calculated using prevailing market rates of a similar debt instrument as at the reporting date. The net present value of future cash repayments of such mortgage and related interest at the prevailing market rate of 4.49% for a similar debt instrument at September 30, 2018 was \$42.7 million (December 31, 2017: market rate of 4.04%, \$44.0 million). The carrying value and Company's liability with respect to this mortgage is \$43.5 million.

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

OUTSTANDING COMPANY SHARE DATA

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

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

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

OUTLOOK

Industry Conditions

Canadian producers continue to suffer significant price discounts for oil and natural gas due to insufficient transportation infrastructure. Political and regulatory uncertainty in Canada has also contributed to uncertain energy market conditions and reduced industry capital spending. Realized oil and natural gas prices in the United States and Australia have improved over the past several quarters. As such, current expectations are that oil and natural gas industry activity for 2018 will increase in the United States and Australia but remain relatively flat in Canada as compared to 2017. Increased international drilling and completion activity has contributed to increased demand for compression and process equipment and related services, including increased demand for compression rental equipment. While pricing for the Company's products and services has improved modestly, it remains low by historical standards, particularly in Canada within the CDS, RTS and WS segments. Higher activity levels will need to be sustained for some time before meaningful price recovery is achieved. Continued volatility in global oil and natural gas prices and energy equity markets gives rise to caution regarding future activity levels.

Total Energy's strategy of preserving its asset base, operating capacity and financial strength through the downturn has enabled it to continue to recover lost market share while avoiding significant start-up costs and undue operational and human resource challenges. The Company's strategy to geographically diversify its revenue base has also mitigated the risks associated with historically having generated almost all of its revenue in Canada. The Company's acquisition of Savanna in the second quarter of 2017 has given rise to significant economies and efficiencies of scale.

Regulatory changes in Alberta have resulted in increased labour, fuel and utility costs, which have particularly impacted the RTS segment where competitive market conditions have prevented recovery of such increased costs through price increases. As such, given the prospects of continued relatively low drilling and completions activity levels in Canada for the

foreseeable future, five RTS branch locations have been or will be closed by the end of 2018 in an effort to reduce the fixed cost structure within the RTS segment.

Despite near term challenges and uncertainties, the Company believes that medium to long-term fundamentals require continued exploration and development in the markets in which it competes, particularly in respect of unconventional reserves, to meet global demand for oil and natural gas. A continued focus on the development of unconventional oil and natural gas resources in Canada and elsewhere is expected to continue to drive activity in the future, particularly in light of the recent determination of a consortium led by Shell to proceed with the construction of a new liquefied natural gas ("LNG") export terminal at Kitimat, British Columbia.

RISK FACTORS AND RISK MANAGEMENT

In the normal course of business, Total Energy is exposed to financial and operating risks that may potentially and materially impact its operating results. The Company employs risk management strategies with a view to mitigating these risks on a cost-effective basis. There have been no significant changes in risk and risk management in 2018 other than as described below.

Industry Conditions

While oil prices have increased from the lows of 2016, they remain somewhat volatile and North American natural gas prices remain low by historical standards. As a result, there continues to be significant uncertainty and volatility in the oil and gas industry, particularly in Canada where oil and natural gas drilling and completion activity remains relatively low. These stagnant activity levels have resulted in continued price competition for the products and services provided by the Company, particularly in Canada within the CDS, RTS and WS segments. While the Company has been proactive in managing its operating cost structure to adapt to the current environment, continued stagnant industry activity levels may require additional substantive measures be taken to preserve the Company's financial strength and flexibility.

Credit Risk

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

The Company did not have significant exposure to any individual customer or counter party, except for one major oil and gas company which accounted for over 10% of revenue for the three and nine months ended September 30, 2018. No other customer accounted for more than 10% of revenue during these periods. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry.

Government Regulation

Total Energy's business and the business of its customers are subject to significant and evolving laws and government regulations, including in the areas of environment, labor and health and safety. For example, the implementation of a "carbon tax" and changes to employment standards in Alberta have increased the Company's cost of services in that jurisdiction. Political intervention in the regulation of energy infrastructure construction has also created additional risk and uncertainty which in turn has resulted in reduced capital expenditures and industry activity in Canada.

CRITICAL ACCOUNTING ESTIMATES

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

There have been no material changes to the Company's Critical Accounting Estimates during 2018.

Critical Judgments in Applying Accounting Policies

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

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

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

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

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

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

Key Sources of Estimation Uncertainty

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

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

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

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

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

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

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

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

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

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

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

STANDARDS ADOPTED IN THE PERIOD

As at January 1, 2018 the Company adopted the following International Financial Reporting Standards ("IFRS"):

IFRS 15 – Revenue from Contracts with Customers

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

IFRS 9 – Financial Instruments

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

FUTURE ACCOUNTING POLICIES CHANGES

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

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

NON-IFRS MEASURES

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

EBITDA

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

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

NET DEBT

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

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

INTERNAL CONTROL OVER FINANCIAL REPORTING ("ICFR")

There have been no significant changes in the design of the Company's ICFR during the quarter ended September 30, 2018 that would materially affect, or is reasonably likely to materially affect the Company's ICFR.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (in thousands of Canadian dollars)

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

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS)

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

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EQUITY

As at and for the nine months ended September 30, 2018 and 2017, and year ended December 31, 2017
Unaudited (in thousands of Canadian dollars)

	Note	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Non- controlling Interest	Retained earnings	Total Equity
Balance at December 31, 2016		\$ 88,654	\$ 7,683	\$ –	\$ –	\$ 267,965	\$ 364,302
Net loss for the year		–	–	–	(1,787)	(1,916)	(3,703)
Other comprehensive loss		–	–	(10,194)	–	–	(10,194)
<i>Transactions with shareholders, recorded directly in equity:</i>							
Dividends to shareholders (\$0.24 per common share)		–	–	–	–	(10,654)	(10,654)
Issuance of common shares		104,544	–	–	–	–	104,544
Stock options exercised	7	2,899	(610)	–	–	–	2,289
Stock options expired	7	–	(4,310)	–	–	4,310	–
Share-based compensation	7	–	1,787	–	–	–	1,787
Partnership distributions		–	–	–	(150)	–	(150)
Non-controlling interest assumed on acquisition		–	–	–	111,383	–	111,383
Subsequent acquisition transactions – shares issued		95,220	–	–	(95,220)	–	–
Subsequent acquisition transactions – cash payment		–	–	–	(13,030)	–	(13,030)
		202,663	(3,133)	–	2,983	(6,344)	196,169
Balance at December 31, 2017		\$ 291,317	\$ 4,550	\$ (10,194)	\$ 1,196	\$ 259,705	\$ 546,574
Net income		–	–	–	(258)	15,903	15,645
Other comprehensive loss		–	–	(3,020)	–	–	(3,020)
<i>Transactions with shareholders, recorded directly in equity:</i>							
Dividends to shareholders (\$0.18 per common share)		–	–	–	–	(8,233)	(8,233)
Repurchase of common shares	6	(1,455)	–	–	–	(1,264)	(2,719)
Share-based compensation	7	–	1,798	–	–	–	1,798
Expiration of share options	7	–	(563)	–	–	563	–
Purchase of partners' share in limited partnership		–	–	–	(341)	9	(332)
Partnership distributions		–	–	–	(475)	–	(475)
		(1,455)	1,235	–	(816)	(8,925)	(9,961)
Balance at September 30, 2018		\$ 289,862	\$ 5,785	\$ (13,214)	\$ 122	\$ 266,683	\$ 549,238
	Note	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Non- controlling Interest	Retained earnings	Total Equity
Balance at December 31, 2016		\$ 88,654	\$ 7,683	\$ –	\$ –	\$ 267,965	\$ 364,302
Net loss for the period		–	–	–	(2,146)	(8,111)	(10,257)
Other comprehensive loss for the period		–	–	(7,898)	–	–	(7,898)
<i>Transactions with shareholders, recorded directly in equity:</i>							
Dividends to shareholders (\$0.18 per common share)		–	–	–	–	(7,879)	(7,879)
Issuance of common shares		104,544	–	–	–	–	104,544
Stock options exercised	7	2,899	(610)	–	–	–	2,289
Stock options expired	7	–	(4,310)	–	–	4,310	–
Share-based compensation		–	1,193	–	–	–	1,193
Non-controlling interest assumed on acquisition		–	–	–	111,383	–	111,383
Subsequent acquisition transactions – shares issued	6	95,220	–	–	(95,220)	–	–
Subsequent acquisition transactions – cash payment		–	–	–	(13,030)	–	(13,030)
		202,663	(3,727)	–	3,133	(3,569)	198,500
Balance at September 30, 2017		\$ 291,317	\$ 3,956	\$ (7,898)	\$ 987	\$ 256,285	\$ 544,647

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)

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

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the nine months ended September 30, 2018 and 2017
Unaudited (tabular amounts in thousands of Canadian dollars)

1. Reporting Entity

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

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

2. Basis of Presentation

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” of International Financial Reporting Standards (“IFRS”) and using the accounting policies outlined in the Company’s audited consolidated financial statements for the year ended December 31, 2017, except for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers which were adopted on January 1, 2018. These condensed interim consolidated financial statements do not include all the necessary annual disclosures and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2017.

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

Seasonality

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

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Standards Adopted in the Period

As at January 1, 2018 the Company adopted the following standards which had no material impact on the amounts recorded in these financial statements:

IFRS 15 – Revenue from Contracts with Customers

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

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

Contract Drilling

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

Well Servicing

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

Rentals and Transportation

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

Compression and Process Services

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

IFRS 9 Financial Instruments

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

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

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

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Accounting Pronouncements Not Yet Adopted*IFRS 16 Leases*

IFRS 16, published on January 13, 2016, supersedes IAS 17 – Leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless a lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

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

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

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

IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do so without using hindsight. Management is assessing the impact of the adoption of IFRIC 23 on the Company's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. Segmented Information

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Unaudited (tabular amounts in thousands of Canadian dollars)

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Unaudited (tabular amounts in thousands of Canadian dollars)

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

Three months ended Sept 30, 2018	Canada	United States	Australia	Other	Total
Revenue	\$ 125,404	\$ 68,713	\$ 38,714	\$ 94	\$ 232,925
Non-current assets ⁽¹⁾	534,879	154,279	80,623	–	769,781
Three months ended Sept 30, 2017	Canada	United States	Australia	Other	Total
Revenue	\$ 91,739	\$ 58,405	\$ 34,981	\$ 33	\$ 185,158
Non-current assets ⁽¹⁾	578,765	138,208	94,150	–	811,123
Nine months ended Sept 30, 2018	Canada	United States	Australia	Other	Total
Revenue	\$ 317,839	\$ 198,585	\$ 115,445	\$ 94	\$ 631,963
Non-current assets ⁽¹⁾	534,879	154,279	80,623	–	769,781
Nine months ended Sept 30, 2017	Canada	United States	Australia	Other	Total
Revenue	\$ 251,421	\$ 102,458	\$ 70,509	\$ 44	\$ 424,432
Non-current assets ⁽¹⁾	578,765	138,208	94,150	–	811,123

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

4. Long-term Debt

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

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

At September 30, 2018 amounts owing under the Credit Facility were denominated in Canadian dollars.

On June 19, 2017 the Company entered into a three year \$225 million revolving syndicated credit facility ("Credit Facility"). On April 25, 2018 the Credit Facility was increased by \$65 million to \$290 million and the maturity date extended to June 19, 2021. The Company has the option to increase such facility by \$75 million subject to certain terms and conditions, including the agreement of the lenders to increase their commitments. The Credit Facility includes a Canadian \$18.0 million operating line, an Australian \$2.0 million operating line and a Canadian \$270.0 million revolving facility. The Credit Facility bears interest at the banks' Canadian prime rate plus 0.25% to 2.75%, bankers' acceptance, letter of credit, LIBOR or BBSY advances plus a 1.5% to 4.0% stamping fee. The applicable interest rate within such ranges is dependent on certain financial ratios of the Company. A standby fee ranging from 0.25% to 0.8% per annum is paid quarterly on the unused portion of the facility depending on certain financial ratios of the Company. At September 30, 2018, the applicable interest rate on amounts drawn on the Credit Facility was 4.11% and the standby rate was 0.44%. \$3.2 million of letters of credit ("LOC") were outstanding at September 30, 2018 which reduces the amount of credit available under the Credit Facility by an equivalent amount.

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In August of 2018 a U.S. \$20 million letter of credit facility was established. Letters of credit issued pursuant to this facility do not reduce availability under the Credit Facility. At September 30, 2018 \$1.1 million U.S. dollars (\$1.4 million Canadian dollars) of LOCs were outstanding under this facility.

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

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

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

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

The Credit Facility is secured by a general security agreement over all the present and future property of the Company and its subsidiaries. The Company was in compliance with all of its Credit Facility covenants at September 30, 2018.

In addition to the Credit Facility, a subsidiary of the Company has established a \$5.0 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At September 30, 2018 this facility was fully available.

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

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

Mortgage Loan (2041 maturity) is a loan maturing on December 31, 2041 and bears interest at a floating rate that was 4.30% at September 30, 2018. This loan is secured by certain of the Company's real estate.

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

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

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5. Onerous Leases

Onerous lease liabilities relate to provisions for office and shop lease contracts that are no longer in use but for which the Company is still obligated to make payments. The aggregate liability was measured at the present value of the lower of the expected cost of terminating the contracts and the expected net cost of continuing with the contracts.

6. Share Capital**(a) Common share capital**

Common shares of Total Energy Services Inc.

(i) Authorized:

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

Unlimited number of preferred shares.

(ii) Common shares issued:

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

(b) Per share amounts

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

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

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

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7. Share-Based Compensation Plan

Share option transactions during 2018 and 2017 were as follows:

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

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

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value of the share options granted. The average per share fair value of the options granted during 2018 was \$2.46 per option (2017: \$2.36 per option) using the following assumptions:

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

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

8. Financial Instruments

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

Changes in fair value of other assets are recorded in the statement of comprehensive income in the period the changes in fair value occur. The discounted future cash repayments of the Company's mortgage loan (maturity 2020) are calculated using prevailing market rates of a similar debt instrument as at the reporting date. The net present value of future cash repayments of this mortgage loan and related interest at the prevailing market rate of 4.49% for a similar debt instrument at September 30, 2018 was \$42.7 million (December 31, 2017: market rate of 4.04%, \$44.0 million). The carrying value and Company's liability with respect to the mortgage loan is \$43.5 million.

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9. Contingencies

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

The Company has received both legal and tax advice relating to its conversion from an income trust to a corporation indicating that its income tax filing position is strong. As such, the Company has filed notices of objection in response to the Reassessment and intends to vigorously defend its filing position and seek reimbursement from the CRA for the costs arising from having to defend such Reassessment to the fullest extent possible. Management believes that it will be successful in defending its tax filing position, and as such, the Company has not recognized any provision for the Reassessment at September 30, 2018. The \$7.1 million paid on account of the Reassessment has been recorded as income tax receivable on the basis management believes it will be successful in defending the Company’s filing position. In the event the Company is not successful, an additional \$14.9 million of cash may be owing and \$22.0 million of income tax expense would be recognized.

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

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

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