

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (in thousands of Canadian dollars)

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

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME

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

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EQUITY

As at and for the nine months ended September 30, 2019 and 2018, and year ended December 31, 2018
Unaudited (in thousands of Canadian dollars)

	Note	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Non- controlling Interest	Retained earnings	Total Equity
Balance at December 31, 2017		\$ 291,317	\$ 4,550	\$ (10,194)	\$ 1,196	\$ 259,705	\$ 546,574
Net income (loss)		-	-	-	(243)	24,458	24,215
Other comprehensive income		-	-	4,874	-	-	4,874
<i>Transactions with shareholders, recorded directly in equity:</i>							
Dividends to shareholders (\$0.24 per common share)		-	-	-	-	(10,985)	(10,985)
Repurchase of common shares	6	(2,415)	-	-	-	(1,776)	(4,191)
Share-based compensation	7	-	2,396	-	-	-	2,396
Stock options expired		-	(562)	-	-	562	-
Purchase of partners' share in limited partnership		-	-	-	10	(1,592)	(1,582)
Partnership distributions		-	-	-	(725)	-	(725)
		(2,415)	1,834	-	(715)	(13,791)	(15,087)
Balance at December 31, 2018		\$ 288,902	\$ 6,384	\$ (5,320)	\$ 238	\$ 270,372	\$ 560,576
Net income (loss)		-	-	-	(506)	2,004	1,498
Other comprehensive loss		-	-	(11,436)	-	-	(11,436)
<i>Transactions with shareholders, recorded directly in equity:</i>							
Dividends to shareholders (\$0.18 per common share)		-	-	-	-	(8,198)	(8,198)
Repurchase of common shares	6	(3,199)	-	-	-	(1,073)	(4,272)
Partnership distributions		-	-	-	(550)	-	(550)
Purchase of partners' share in limited partnership		-	-	-	(81)	(47)	(128)
Share-based compensation	7	-	1,300	-	-	-	1,300
Share options expired		-	(355)	-	-	355	-
		(3,199)	945	-	(631)	(8,963)	(11,848)
Balance at September 30, 2019		\$ 285,703	\$ 7,329	\$ (16,756)	\$ (899)	\$ 263,413	\$ 538,790

	Note	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Non- controlling Interest	Retained earnings	Total Equity
Balance at December 31, 2017		\$ 291,317	\$ 4,550	\$ (10,194)	\$ 1,196	\$ 259,705	\$ 546,574
Net income (loss)		-	-	-	(258)	15,903	15,645
Other comprehensive loss		-	-	(3,020)	-	-	(3,020)
<i>Transactions with shareholders, recorded directly in equity:</i>							
Dividends to shareholders (\$0.18 per common share)		-	-	-	-	(8,233)	(8,233)
Repurchase of common shares	6	(1,455)	-	-	-	(1,264)	(2,719)
Share-based compensation	7	-	1,798	-	-	-	1,798
Expiration of share options	7	-	(563)	-	-	563	-
Purchase of partners' share in limited partnership		-	-	-	(341)	9	(332)
Partnership distribution		-	-	-	(475)	-	(475)
		(1,455)	1,235	-	(816)	(8,925)	(9,961)
Balance at September 30, 2018		\$ 289,862	\$ 5,785	\$ (13,214)	\$ 122	\$ 266,683	\$ 549,238

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)

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

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

1. Reporting Entity

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

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

2. Basis of Presentation

Statement of Compliance

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

These condensed interim consolidated financial statements were approved by the Board of Directors on November 7, 2019.

Change in accounting estimates

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

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

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

Seasonality

A significant portion of the Company’s field operations are conducted in Canada where the ability to move heavy equipment is dependent on ground conditions. As warm weather returns in the spring, the winter’s frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until such roads have thoroughly dried out. The duration of this “spring breakup” has a direct impact on the Company’s activity levels and operating results in Canada. In addition, many exploration and production areas in northern Canada are

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Unaudited (tabular amounts in thousands of Canadian dollars)

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

Standards Adopted in the Period

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

IFRS 16 - Leases

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Unaudited (tabular amounts in thousands of Canadian dollars)

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Unaudited (tabular amounts in thousands of Canadian dollars)

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Unaudited (tabular amounts in thousands of Canadian dollars)

3. Segmented Information

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Unaudited (tabular amounts in thousands of Canadian dollars)

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Unaudited (tabular amounts in thousands of Canadian dollars)

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

Three months ended Sept 30, 2019	Canada	United States	Australia	Other	Total
Revenue	\$ 71,593	\$ 58,976	\$ 34,313	\$ 6,331	\$ 171,213
Non-current assets ⁽¹⁾	505,707	170,893	71,021	–	747,621
Three months ended Sept 30, 2018	Canada	United States	Australia	Other	Total
Revenue	\$ 125,404	\$ 68,713	\$ 38,714	\$ 94	\$ 232,925
Non-current assets ⁽¹⁾	534,879	154,279	80,623	–	769,781
Nine months ended Sept 30, 2019	Canada	United States	Australia	Other	Total
Revenue	\$ 236,232	\$ 241,838	\$ 120,172	\$ 7,656	\$ 605,898
Non-current assets ⁽¹⁾	505,707	170,893	71,021	–	747,621
Nine months ended Sept 30, 2018	Canada	United States	Australia	Other	Total
Revenue	\$ 317,839	\$ 198,585	\$ 115,445	\$ 94	\$ 631,963
Non-current assets ⁽¹⁾	534,879	154,279	80,623	–	769,781

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

4. Long-term Debt

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5. Onerous Leases

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

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

Common shares of Total Energy Services Inc.

(i) Authorized:

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

Unlimited number of preferred shares.

(ii) Common shares issued:

	Number of shares (thousands)	Amount
Balance, December 31, 2017	46,238	\$ 291,317
Redeemed pursuant to acquisition sunset clause	(7)	-
Repurchased and cancelled	(371)	(2,337)
Repurchased not cancelled	-	(78)
Balance, December 31, 2018	45,860	\$ 288,902
Repurchased and cancelled	(510)	(3,132)
Repurchased not cancelled	-	(67)
Balance, September 30, 2019	45,350	\$ 285,703

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

(b) Per Share Amounts

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Unaudited (tabular amounts in thousands of Canadian dollars)

7. Share-Based Compensation Plan

Share option transactions during 2019 and 2018 were as follows:

	Weighted average exercise price	Number of Options
Balance, December 31, 2017	\$ 13.55	2,885,000
Granted	13.42	675,000
Forfeited	12.69	(260,000)
Expired	14.96	(130,000)
Balance, December 31, 2018	\$ 13.47	3,170,000
Granted	9.51	1,090,000
Forfeited	12.69	(26,666)
Expired	12.69	(123,334)
Balance, September 30, 2019	\$ 12.33	4,110,000

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

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

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

The share options issued during 2019 and 2018 vest 1/3 on the first, second and third anniversary from the grant date and expire five years from the date of grant.

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

8. Financial Instruments

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Unaudited (tabular amounts in thousands of Canadian dollars)

9. Contingencies

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

The Company has received both legal and tax advice relating to its conversion from an income trust to a corporation indicating that its income tax filing position is strong. As such, the Company has filed notices of objection in response to the Reassessment and intends to vigorously defend its filing position and seek reimbursement from the CRA for the costs arising from having to defend such Reassessment to the fullest extent possible. Management believes that it will be successful in defending its tax filing position, and as such, the Company has not recognized any provision for the Reassessment at September 30, 2019. The \$7.1 million paid on account of the Reassessment has been recorded as income tax receivable on the basis management believes it will be successful in defending the Company’s filing position. In the event the Company is not successful, an additional \$15.8 million of cash may be owing and \$22.9 million of income tax expense would be recognized.

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

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

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

10. Subsequent Events

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