ENSIGN®

2020 Q1

# FIRST QUARTER REPORT For the three months ended March 31, 2020

## FINANCIAL AND OPERATING HIGHLIGHTS

*(Unaudited in thousands of Canadian dollars, except per common share data and operating information)*

| Three months ended March 31 | **2020** | 2019 | % change |
|---|---|---|---|
| Revenue | **383,891** | 445,258 | (14) |
| Adjusted EBITDA [1] | **90,120** | 115,531 | (22) |
| Adjusted EBITDA per common share [1] | | | |
| Basic | **$0.55** | $0.74 | (26) |
| Diluted | **$0.55** | $0.74 | (26) |
| Net loss attributed to common shareholders | **(29,250)** | (22,347) | (31) |
| Net loss per common share | | | |
| Basic | **$(0.18)** | $(0.14) | (29) |
| Diluted | **$(0.18)** | $(0.14) | (29) |
| Cash provided by operating activities [2] | **62,732** | 85,979 | (27) |
| Funds flow from operations [2] | **84,495** | 120,420 | (30) |
| Funds flow from operations per common share [2] | | | |
| Basic | **$0.52** | $0.77 | (32) |
| Diluted | **$0.52** | $0.77 | (32) |
| Total long term debt | **1,643,595** | 1,810,890 | (9) |
| Weighted average common shares - basic *(000s)* | **162,843** | 156,951 | 4 |
| Weighted average common shares - diluted *(000s)* | **162,981** | 156,982 | 4 |

| Drilling | **2020** | 2019 | % change |
|---|---|---|---|
| Number of marketed rigs [3] | | | |
| Canada [4] | **101** | 119 | (15) |
| United States | **122** | 134 | (9) |
| International [5] | **43** | 42 | 2 |
| Total | **266** | 295 | (10) |
| Operating days [6] | | | |
| Canada [4] | **3,102** | 3,061 | 1 |
| United States | **5,141** | 6,657 | (23) |
| International [5] | **1,438** | 1,329 | 8 |
| Total | **9,681** | 11,047 | (12) |

| Well Servicing | **2020** | 2019 | % change |
|---|---|---|---|
| Number of rigs | | | |
| Canada | **52** | 55 | (5) |
| United States | **47** | 46 | 2 |
| Total | **99** | 101 | — |
| Operating hours | | | |
| Canada | **12,233** | 12,798 | (4) |
| United States | **31,207** | 28,365 | 10 |
| Total | **43,440** | 41,163 | — |

[1] *Adjusted EBITDA, Adjusted EBITDA per common share are not measures that have any standardized meaning prescribed by International Financial Reporting Standards "IFRS" and accordingly, may not be comparable to similar measures used by other companies. Non-GAAP measures are defined in the Non-GAAP Measures section.*

[2] *Comparative cash provided by operating activities, funds flow from operations and funds flow from operations per common share have been revised to conform with current year's presentation.*

[3] *Total owned rigs for the Company Canada - 118, United Sates - 138, International - 48 (2019 owned rigs - Canada - 136, United States - 152, International - 47)*

[4] *Excludes coring rigs.*

[5] *Includes workover rigs and excludes joint venture drilling rigs.*

[6] *Defined as contract drilling days, between spud to rig release.*

## FINANCIAL POSITION AND CAPITAL EXPENDITURES HIGHLIGHTS

| *As at ($ thousands)* | **March 31 2020** | March 31 2019 | December 31 2019 |
|---|---|---|---|
| Working capital[1] | **147,353** | 279,153 | 126,987 |
| Cash | **48,560** | 122,803 | 28,408 |
| Long-term debt | **1,643,595** | 1,810,890 | 1,581,529 |
| Total long-term financial liabilities | **1,651,477** | 1,825,733 | 1,591,047 |
| Total assets | **3,640,761** | 3,862,824 | 3,470,601 |
| Long-term debt to long-term debt plus equity ratio | **0.52** | 0.52 | 0.52 |

[1] *See Non-GAAP Measures section.*

| | Three months ended March 31 | | |
|---|---|---|---|
| *($ thousands)* | **2020** | 2019 | % change |
| Capital expenditures | | | |
| Upgrade/growth | **9,965** | 28,545 | (65) |
| Maintenance | **16,467** | 12,821 | 28 |
| Proceeds from disposals of property and equipment | **(4,165)** | (1,722) | nm |
| Net capital expenditures | **22,267** | 39,644 | (44) |

*nm - calculation not meaningful*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") for Ensign Energy Services Inc. and all of its subsidiaries and partnerships ("Ensign" or the "Company") should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended March 31, 2020, as well as the audited consolidated financial statements and notes thereto for the year ended December 31, 2019, which are available on SEDAR at www.sedar.com.

This MD&A and the interim consolidated financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All financial measures presented in this MD&A are expressed in Canadian dollars unless otherwise indicated and are stated in thousands, except for: per common share amounts, number of rigs and operating days/hours. This MD&A is dated May 8, 2020.

## ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this document constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements can be identified by the words "believe", "anticipate", "expect", "plan", "estimate", "target", "continue", "could", "intend", "may", "potential", "predict", "should", "will", "objective", "project", "forecast", "goal", "guidance", "outlook", "effort", "seeks", "schedule" or other expressions of a similar nature suggesting future outcome or statements regarding an outlook.

Disclosure related to expected future commodity pricing or trends, revenue rates, equipment utilization or operating activity levels, operating costs, capital expenditures and other prospective guidance provided throughout this MD&A, including, but not limited to, information provided in the "Funds Flow from Operations and Working Capital" section regarding the Company's expectation that funds generated by operations combined with current and future credit facilities will support current operating and capital requirements, information provided in the "New Builds and Major Retrofits" section regarding the new build program for 2020, information provided in the "Financial Instruments" section regarding Venezuela and information provided in the "Outlook" section regarding the general outlook for 2020, constitute forward-looking statements. These statements are not representations or guarantees of future performance and are subject to certain risks. The reader should not place undue reliance on forward-looking statements as there can be no assurance that the plans, initiatives, projections, anticipations or expectations upon which they are based will occur.

The forward-looking statements are based on current expectations, estimates and projections about the Company and the industries in which the Company operates, which speak only as of the date such statements were made or as of the date of the report or document in which they are contained. They are subject to known and unknown risks, uncertainties and other factors that could cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risk factors include, among others: general economic and business conditions which will, among other things, impact demand for and market prices of the Company's services and the ability of the Company's customers to pay accounts receivable balances; volatility of and assumptions regarding crude oil and natural gas commodity prices; fluctuations in currency and interest rates; economic conditions in the countries and regions in which the Company conducts business; political uncertainty and civil unrest; the Company's ability to implement its business strategy; impact of competition; the Company's defence of lawsuits; availability and cost of labour and other equipment, supplies and services; the Company's ability to complete its capital programs; operating hazards and other difficulties inherent in the operation of the Company's oilfield services equipment; availability and cost of financing and insurance; timing and success of integrating the business and operations of acquired companies; actions by governmental authorities; government regulations and the expenditures required to comply with them (including safety and environmental laws and regulations and the impact of climate change initiatives on capital and operating costs); the adequacy of the Company's provision for taxes; the Company's response to the global COVID-19 pandemic; and other circumstances affecting the Company's business, revenues and expenses.

The Company's operations and levels of demand for its services have been, and at times in the future may be, affected by political risks and developments, such as expropriation, nationalization, or regime change, and by national, regional and local laws and regulations such as changes in taxes, royalties and other amounts payable to governments or governmental agencies and environmental protection regulations. Should one or more of these risks or uncertainties materialize, or should any of the Company's assumptions prove incorrect, actual results may vary in material respects from those expressed or implied by the forward-looking statements. The impact of any one factor on a particular forward-looking statement is not determinable with certainty as such factors are interdependent upon other factors, and the Company's course of action would depend upon its assessment of the future considering all information then available.

For additional information refer to the “Risk and Uncertainties” section of this MD&A. Readers are cautioned that the lists of important factors contained herein are not exhaustive. Unpredictable or unknown factors not discussed in this MD&A could also have material adverse effects on forward-looking statements.

Although the Company believes the expectations conveyed by the forward-looking statements are reasonable based on information available to it on the date such forward-looking statements are made, no assurances can be given as to future results, levels of activity and achievements. Except as required by law, the Company assumes no obligation to update forward-looking statements should circumstances or its projections, anticipations, estimates or opinions change.

## NON-GAAP MEASURES

This MD&A contains references to Adjusted EBITDA, Adjusted EBITDA per common share and Consolidated EBITDA. These measures do not have any standardized meaning prescribed by IFRS and accordingly, may not be comparable to similar measures used by other companies. The non-GAAP measures included in this MD&A should not be considered as an alternative to, or more meaningful than, the IFRS measure from which they are derived or to which they are compared.

*Adjusted EBITDA*

Adjusted EBITDA is used by management and investors to analyze the Company’s profitability based on the Company’s principal business activities prior to how these activities are financed, how assets are depreciated and amortized and how the results are taxed in various jurisdictions. Additionally, in order to focus on the core business alone, amounts are removed related to foreign exchange, share-based payment expense, impairment expenses, the sale of assets, restructuring costs, gain on repurchase of unsecured Senior Notes and fair value adjustments on financial assets and liabilities, as the Company does not deem these to relate to its core drilling and well services business. Adjusted EBITDA also takes into account the Company’s portion of the principal activities of the joint venture arrangements by removing the loss (gain) from investments in joint ventures and including adjusted EBITDA from investments in joint ventures. Adjusted EBITDA is not intended to represent net loss as calculated in accordance with IFRS.

**ADJUSTED EBITDA**

| | Three months ended March 31 | |
|---|---|---|
| *($ thousands)* | **2020** | 2019 |
| Loss before income taxes | **(32,146)** | (33,460) |
| Add-back/(deduct): | | |
| Financing charges | **34,842** | 36,346 |
| Depreciation | **89,785** | 88,167 |
| Gain on repurchase of unsecured Senior Notes [1] | **(11,494)** | — |
| Restructuring | **877** | 8,482 |
| Share-based compensation | **(4,500)** | 1,627 |
| Loss from investment in joint ventures | **1,658** | 2,011 |
| Foreign exchange loss and other | **9,086** | 10,360 |
| Adjusted EBITDA from investment in joint ventures | **2,012** | 1,998 |
| Adjusted EBITDA | **90,120** | 115,531 |

[1] *See "Financing Charges" section for definition of Senior Notes*

Adjusted EBITDA from investments in joint ventures is used by management and investors to analyze the results generated by the Company’s joint venture operations prior to how these activities are financed, how assets are depreciated and amortized and how the results are taxed in various jurisdictions. Additionally, in order to focus on its core drilling and well services business, amounts related to foreign exchange, dividend expense, dividend re-class, impairment adjustments to property and equipment, as well as preferred share valuation and the sale of assets are removed. Lastly, amounts recorded for the revaluation on the investment of the TDI joint venture are removed as these are non-cash items and unrelated to the operations of the business. Adjusted EBITDA from investments in joint ventures is not intended to represent net loss as calculated in accordance with IFRS.

Adjusted EBITDA from investment in joint ventures is calculated below:

| | Three months ended March 31 | |
|---|---|---|
| *($ thousands)* | **2020** | 2019 |
| Loss from investment in joint ventures | **(1,658)** | (2,011) |
| Add-back/(deduct): | | |
| Depreciation | **3,430** | 3,429 |
| Foreign exchange loss (gain) | **102** | (5) |
| Financing charges | **10** | 314 |
| Income taxes | **128** | 124 |
| Preferred shares valuation | **—** | 147 |
| Adjusted EBITDA | **2,012** | 1,998 |

*Consolidated EBITDA*

Consolidated EBITDA, as defined in the Company's Credit Facility agreement, is used in determining the Company's compliance with its covenants. The Consolidated EBITDA is substantially similar to Adjusted EBITDA. Consolidated EBITDA is calculated on a rolling twelve-month basis.

Working Capital

Working capital defined as current assets less current liabilities as reported on the consolidated statement of financial position.

**OVERVIEW**

Revenue for the three months ended March 31, 2020 was $383.9 million, a decrease of 14 percent from revenue for the three months ended March 31, 2019 of $445.3 million. Adjusted EBITDA totaled $90.1 million ($0.55 per common share) in the first quarter of 2020, lower by $26.3 million than Adjusted EBITDA of $115.5 million ($0.74 per common share) in the first quarter of 2019.

Net loss attributed to common shareholders for the three months ended March 31, 2020 was $29.3 million ($0.18 per common share), compared to net loss attributed to common shareholders of $22.3 million ($0.14 per common share) for the three months ended March 31, 2019. Funds flow from operations decreased 30 percent to $84.5 million ($0.52 per common share) in the first quarter of 2020 compared to $120.4 million ($0.77 per common share) in the first quarter of the prior year.

On March 11, 2020, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic due to the sustained risk of worldwide spread of the disease. Governments and health authorities around the world implemented a wide variety of measures to combat the spread of the virus, including travel restrictions, business closures, social distancing, public gathering restrictions, stay-at-home orders and event cancellations. The impact of these measures has been a significant slow-down in global economic activity that has subsequently reduced the demand for crude oil and natural gas products. This significant reduction in demand has contributed to a steep and rapid decline in global crude oil and natural gas prices. Furthermore, the demand decline further challenged commodity prices already reeling from a market share and oil price war between select crude oil producing nations that led to further supply in the market. While crude oil supply has recently been somewhat curtailed by select crude oil producing nations, the oil and gas industry outlook remains significantly challenged. The precise duration and depth of the adverse impacts of the current macroeconomic environment and the COVID-19 pandemic on the Company's customers, operations, business and global economic activity remains highly uncertain at this time.

Early in March, in response to the COVID-19 pandemic, Ensign implemented rigorous measures across its global operations to ensure the safety of its operations, the health of its people and the continuity of its business. These measures include, but are not limited to, remote work where possible, fitness for work screening for employees, contractors and any third parties on site, restricted travel policies and aggressive hygiene practices and disinfecting protocols in accordance with WHO and local jurisdiction guidelines. Across the Company’s global operations, these proactive measures have allowed for the safe continuity and reliability of its operations in the field and a smooth transition to remote work for our office employees. Furthermore, Ensign has implemented regional Emergency Response Groups

to respond to any incidents, rapidly and effectively. These measures continue to be in place as Ensign monitors local government recommendations and public health guidelines, prioritizing the health and safety of its workforce.

The Company's operating days were lower in the first quarter of 2020 when compared to the first quarter of 2019 as customers quickly responded to the steep declines in commodity prices and an uncertain industry outlook by curtailing capital expenditures. The modest strengthening year-over-year of the United States dollar against the Canadian dollar partially offset the decrease in the United States and international financial results on translation to Canadian dollars. The average United States dollar exchange rate was 1.34 for the first three months of 2020 (first three months of 2019 - 1.33) versus the Canadian dollar, an increase of one percent, compared to the first three months of 2019.

Working capital at March 31, 2020 was a surplus of $147.4 million compared to a surplus of $127.0 million at December 31, 2019. At the end of the first quarter 2020, the Company's available liquidity, consisting of cash and available borrowings under its $900.0 million revolving credit facility (the "**Credit Facility**"), totaled $187.7 million compared to $178.4 million at December 31, 2019.

## REVENUE AND OILFIELD SERVICES

| | | | Three months ended March 31 | |
|---|---|---|---|---|
| *($ thousands)* | **2020** | 2019 | Change | % change |
| Revenue | | | | |
| Canada | **97,137** | 106,422 | (9,285) | (9) |
| United States | **214,577** | 273,596 | (59,019) | (22) |
| International | **72,177** | 65,240 | 6,937 | 11 |
| Total revenue | **383,891** | 445,258 | (61,367) | (14) |
| Oilfield services expense | **283,979** | 317,688 | (33,709) | (11) |

Revenue for the three months ended March 31, 2020 totaled $383.9 million, a decrease of 14 percent from the first quarter of 2019 of $445.3 million.

The decrease in total revenue, during the first quarter of 2020, was primarily due to the oil price and market share war between crude oil producing nations Saudi Arabia and Russia, followed by the significant impact of the COVID-19 pandemic on the oil and natural gas industry. The fallout from the pandemic has led to a drop in demand, further challenging an already over-supplied commodity market. The steep declines in demand and continued oversupply have resulted in an activity slowdown for oilfield services, particularly in the United States and Canadian operating regions. The decrease in revenue was partially offset by the increase in operating days internationally during the first quarter of 2020.

## CANADIAN OILFIELD SERVICES

The Company recorded revenue of $97.1 million in Canada for the three months ended March 31, 2020, a decrease of nine percent from $106.4 million recorded for the three months ended March 31, 2019. Canadian revenues accounted for 25 percent of the Company's total revenue in the first quarter of 2020, compared to 24 percent in the first quarter of 2019.

Although we had a modest seasonal increase in drilling operating activity, the financial results for the Company's Canadian operations decreased during the first quarter of 2020 primarily due the impact of the COVID-19 pandemic on the global oil and natural gas industry as described above.

For the three months ended March 31, 2020, the Company recorded 3,102 drilling days compared to 3,061 drilling days for the three months ended March 31, 2019, an increase of one percent. Well servicing hours decreased by four percent to 12,233 operating hours in the first quarter of 2020 compared to 12,798 operating hours in the corresponding period of 2019.

## UNITED STATES OILFIELD SERVICES

During the three months ended March 31, 2020, revenue of $214.6 million was recorded by the Company's United States operations, a decrease of 22 percent from the $273.6 million recorded in the corresponding period of the prior year. The

Company's United States operations accounted for 56 percent of the Company's revenue in the first quarter of 2020 (2019 - 61 percent).

Drilling days decreased by 23 percent to 5,141 drilling days in the first quarter of 2020 from 6,657 drilling days in the first quarter of 2019. Well servicing hours increased by 10 percent in the first quarter of 2020 to 31,207 operating hours from 28,365 operating hours in the first quarter of 2019.

Overall operating results for the Company's United States operations were also negatively impacted by the significant impact of the global COVID-19 pandemic, resulting in a decrease in global oil demand and oversupply of oil and natural gas.

**INTERNATIONAL OILFIELD SERVICES**

The Company's international operations recorded revenue of $72.2 million in the first quarter of 2020, an 11 percent increase from the $65.2 million recorded in the corresponding period of the prior year. The Company's international operations contributed 19 percent of the Company's total revenue in the first quarter of 2020 (2019 - 15 percent).

For the three months ended March 31, 2020, international operating days totaled 1,438 operating days compared to 1,329 drilling days for the three months ended March 31, 2019, an increase of eight percent.

Overall international operating days and revenue increased in the first quarter of 2020 when compared to the same period of 2019, primarily as a result of the long-term contracts signed and commenced in the latter half of 2019. The extent to which the Company's international operations may be negatively impacted by the impact of the global COVID-19 pandemic is uncertain

**DEPRECIATION**

| | Three months ended March 31 | | | |
|---|---|---|---|---|
| *($ thousands)* | **2020** | 2019 | Change | % change |
| Depreciation | **89,785** | 88,167 | 1,618 | 2 |

Depreciation expense totaled $89.8 million for the first quarter of 2020 compared with $88.2 million for the first quarter of 2019.

**GENERAL AND ADMINISTRATIVE**

| | Three months ended March 31 | | | |
|---|---|---|---|---|
| *($ thousands)* | **2020** | 2019 | Change | % change |
| General and administrative | **11,804** | 14,037 | (2,233) | (16) |
| % of revenue | **3.1** | 3.2 | | |

General and administrative expenses decreased 16 percent to $11.8 million (3.1 percent of revenue) for the first quarter of 2020 compared to $14.0 million (3.2 percent of revenue) for the first quarter of 2019. The overall decrease in expense was due to the Company's focus on managing and reducing costs.

In light of recent events, the Company has taken further steps to reduce overhead costs by reducing the salaries of the Company's named executive officers by 40 percent for the Chairman, 20 percent for the President and Chief Operating Officer and 12.5 percent for the other named executive officers, all effective April 1, 2020. In addition, the annual base cash and equity retainers for members of our Board of Directors have been reduced, also effective April 1, 2020, by 20 and 40 percent respectively. Such reductions reflect the Company's belief in the importance of continued cost control in light of the current oilfield services industry outlook and the Company will continue to consider additional means of reducing overhead and operating costs.

## RESTRUCTURING

| | | Three months ended March 31 | | |
|---|---|---|---|---|
| *($ thousands)* | **2020** | 2019 | Change | % change |
| Restructuring | **877** | 8,482 | (7,605) | nm |

*nm - calculation not meaningful*

Restructuring expense totaled $0.9 million for the first quarter of 2020 (2019 - $8.5 million), which consists of costs relating to the restructuring of the Company due to the decline in activity. Additional costs are expected to be incurred in the subsequent quarters as the company continues to adjust the business.

## FOREIGN EXCHANGE LOSS AND OTHER

| | | Three months ended March 31 | | |
|---|---|---|---|---|
| *($ thousands)* | **2020** | 2019 | Change | % change |
| Foreign exchange loss and other | **9,086** | 10,360 | (1,274) | (12) |

Included in this amount is the impact of foreign currency fluctuations in the Company's subsidiaries that have functional currencies other than the Canadian dollar.

## JOINT VENTURE OILFIELD SERVICES

Amounts below are presented at 100 percent of the value included in the statement of operations and comprehensive (loss) income for Trinidad Drilling International ("**TDI**"). The Company owns 60 percent of the shares of TDI and each of the parties has equal voting rights. The Company considers the investment to be a financial asset and fair values the investment through profit or loss recognizing changes in fair value of the investment in the consolidated statement of loss (income) as a loss/(gain) from investments in joint venture.

| | | Three months ended March 31 | | |
|---|---|---|---|---|
| *($ thousands)* | **2020** | 2019 | Change | % change |
| Revenue | **16,855** | 10,204 | 6,651 | 65 |
| Net loss | **(2,764)** | (2,707) | (57) | 2 |
| Drilling operating days | **221** | 123 | 98 | 80 |

For the three months ended March 31, 2020, TDI recorded revenue of $16.9 million (2019 - $10.2 million). For three months ended March 31, 2020, TDI operating days totaled 221 (2019 - 123). The increase in revenue and operating days is the result of the commencement of drilling operations in Kuwait in the latter half of 2019, under long-term contracts.

## GAIN ON REPURCHASE OF UNSECURED SENIOR NOTES

| | | Three months ended March 31 | | |
|---|---|---|---|---|
| *($ thousands)* | **2020** | 2019 | Change | % change |
| Gain on repurchase of Senior Notes | **(11,494)** | — | (11,494) | nm |

*nm - calculation not meaningful*

For the three months ended March 31, 2020, the Company repurchased US $17.8 million (2019 - $nil) of face value Senior Notes, in the open market, for cancellation and recorded a gain on repurchase of $11.5 million (US $8.2 million) (2019 - $nil).

Subsequent to March 31, 2020, the Company repurchased US $41.0 million face value of Senior Notes, in the open market, for cancellation. A gain on repurchase of $38.9 million (US $27.7 million) will be recognized in the second quarter of 2020.

## FINANCING CHARGES

| | | Three months ended March 31 | | |
|---|---|---|---|---|
| *($ thousands)* | **2020** | 2019 | Change | % change |
| Interest expense | **31,743** | 34,115 | (2,372) | (7) |
| Accretion of deferred financing charges | **3,099** | 2,231 | 868 | 39 |
| Financing charges | **34,842** | 36,346 | (1,504) | (4) |

Financing charges was incurred on the Company's $900.0 million Credit Facility, US $700.0 million unsecured Senior Notes ("**Senior Notes**"), $37.0 million subordinate convertible debentures (the "**Convertible Debentures**") and capital lease obligations. Included in financing charges is the amortization of deferred financing costs associated with the refinancing the Company's debt, which totaled $3.1 million for the first quarter of 2020 (2019 - $2.2 million).

Financing charges decreased by $1.5 million for the first quarter of 2020 compared to the same period in 2019 as a result of a decrease in overall borrowing levels. The negative translational impact on United States dollar-denominated debt offset the impact of the lower financing charges for the quarter.

The Company's blended interest rate on its outstanding debt for the 2020 year will be approximately 7.0 percent. The current capital structure consisting of the Credit Facility and the Senior Notes allows the Company to utilize funds flow generated to reduce debt in the near term with greater flexibility than a more non-callable weighted capital structure.

## INCOME TAXES (RECOVERY)

| | | Three months ended March 31 | | |
|---|---|---|---|---|
| *($ thousands)* | **2020** | 2019 | Change | % change |
| Current tax | **460** | 441 | 19 | 4 |
| Deferred tax recovery | **(3,424)** | (11,693) | 8,269 | (71) |
| Total tax recovery | **(2,964)** | (11,252) | 8,288 | (74) |
| Effective tax rate (%) | **9.2** | 35.8 | | |

The effective income tax rate for the three months ended March 31, 2020 was 9.2 percent compared with 35.8 percent for the three months ended March 31, 2019. The effective tax rate in the first quarter of the current year was lower than the effective tax rate in the first quarter of 2019 due to the impact of earnings in foreign tax jurisdictions.

## FUNDS FLOW FROM OPERATIONS AND WORKING CAPITAL

| | | Three months ended March 31 | | |
|---|---|---|---|---|
| *($ thousands, except per common share data)* | **2020** | 2019 | Change | % change |
| Cash provided by operating activities [1] | **62,732** | 85,979 | (23,247) | (27) |
| Funds flow from operations [1] | **84,495** | 120,420 | (35,925) | (30) |
| Funds flow from operations per common share [1] | **$0.52** | $0.77 | (0.25) | (32) |
| Working capital [2] | **147,353** | 126,987 | 20,366 | 16 |

[1] *Comparative cash provided by operating activities, funds flow from operations and funds flow from operations per common share have been revised to conform with current year's presentation.*
[2] *Comparative figure as of December 31, 2019*

For the three months ended March 31, 2020, the Company generated Funds Flow from Operations of $84.5 million ($0.52 per common share) a decrease of 30 percent from $120.4 million ($0.77 per common share) for the three months ended March 31, 2019. The decrease in Funds Flow from Operations in 2020 compared to 2019 is largely due to the decrease in activity compared to the prior period as a result of the oil and natural gas industry's business current environment.

As at March 31, 2020, the Company's working capital was a surplus of $147.4 million, compared to a surplus of $127.0 million at December 31, 2019.The Company currently expects funds generated by operations, combined with current and future credit facilities, to fully support the Company's current operating and capital requirements. The existing bank facility provides for total borrowings of $900.0 million of which $139.1 million was undrawn and available at March 31, 2020 (December 31, 2019: $150.0 million).

**INVESTING ACTIVITIES**

| | Three months ended March 31 | | | |
|---|---|---|---|---|
| *($ thousands)* | **2020** | 2019 | Change | % change |
| Purchase of property and equipment | **(26,432)** | (41,366) | 14,934 | (36) |
| Proceeds from disposals of property and equipment | **4,165** | 1,722 | 2,443 | nm |
| Acquisition of minority interest | **—** | (49,214) | 49,214 | nm |
| Net change in non-cash working capital | **7,753** | 16,426 | (8,673) | (53) |
| Cash used in investing activities | **(14,514)** | (72,432) | 57,918 | (80) |

*nm - calculation not meaningful*

Net purchases of property and equipment for the first quarter of 2020 totaled $22.3 million (2019 - $39.6 million). The purchase of property and equipment consists of $16.4 million in maintenance capital and $10.0 million in upgrade capital.

**FINANCING ACTIVITIES**

| | Three months ended March 31 | | | |
|---|---|---|---|---|
| *($ thousands)* | **2020** | 2019 | Change | % change |
| Proceeds from long-term debt | **53,126** | 1,259,136 | (1,206,010) | (96) |
| Repayments of long-term debt | **(55,472)** | (1,185,713) | 1,130,241 | (95) |
| Lease obligation principle repayments | **(2,670)** | (1,259) | (1,411) | nm |
| Purchase of common shares held in trust | **(1,223)** | (1,076) | (147) | 14 |
| Interest paid | **(11,967)** | (47,069) | 35,102 | (75) |
| Cash dividends | **(9,787)** | (18,849) | 9,062 | (48) |
| Net change in non-cash working capital | **—** | 20,680 | (20,680) | nm |
| Cash (used in) provided by financing activities | **(27,993)** | 25,850 | (53,843) | nm |

*nm - calculation not meaningful*

The Company's available bank facilities consist of a $900.0 million Bank Facility, which matures November 26, 2021, of which $139.1 million was available and undrawn as of March 31, 2020. In addition, the Company has available US $50 million secured letter of credit facility, of which US $20.6 million was available as of March 31, 2020.

The Company's blended interest rate on its outstanding debt for the 2020 year will be approximately 7.0 percent. The current capital structure consisting of the Credit Facility and the Senior Notes allows the Company to utilize funds flow generated to reduce debt in the near term with greater flexibility than a more non-callable weighted capital structure.

The Company may at any time and from time to time acquire Senior Notes for cancellation by means of open market repurchases, negotiated transactions or otherwise. During the three months ended March 31, 2020, the Company repurchased US $17.8 million of face value Senior Notes, in the open market, for cancellation. The Company repurchased a further US $41.0 million face value of Senior Notes, in the open market, for cancellation subsequent to March 31, 2020.

*Covenants*

The following is a list of the Company's currently applicable covenants and the calculations as at March 31, 2020:

| | Covenant | March 31, 2020 |
|---|---|---|
| **The Credit Facility** | | |
| Consolidated Debt to Consolidated EBITDA[1] | ≤ 5.00 | 4.13 |
| Consolidated EBITDA to Consolidated Interest Expense[1,2] | ≥ 2.50 | 3.05 |
| Consolidated Senior Debt to Consolidated EBITDA[1,3] | ≤ 2.50 | 1.87 |

[1] *Please refer to Non-GAAP Measures for Consolidated EBITDA definition.*
[2] *Consolidated Interest Expense is defined as all interest expense calculated on twelve month rolling consolidated basis excluding amortized finance cost and interest on capital building lease.*
[3] *Consolidated Senior Debt is defined as Consolidated Total Debt minus Subordinated Debt.*

As at March 31, 2020 the Company was in compliance with all covenants related to the Credit Facility.

The Credit Facility

The Credit Facility agreement, available on SEDAR, requires that the Company comply with certain covenants including Consolidated Debt to Consolidated EBITDA, Consolidated Senior Debt to Consolidated EBITDA and Consolidated EBITDA to Consolidated Interest Expense as detailed above.

The Credit Facility contains certain covenants that place restrictions on the Company's ability to create, incur or assume additional indebtedness; to change the Company's primary business; to enter into mergers or amalgamations; to dispose of property; and that the aggregate amount of cash on a consolidated basis or available borrowings be at least $50 million.

As at March 31, 2020 the Company was in compliance with all covenants related to the Credit Facility.

The Senior Notes

The indenture governing the Senior Notes, available on SEDAR, contains certain restrictions and exemptions on the Company’s ability to pay dividends, purchase and redeem shares and subordinated debt of the Company, and make certain restricted investments. Limitations on these restrictions are tempered by the existence of a number of exceptions to the general prohibition, including baskets allowing for restricted payments.

The indenture also restricts the ability to incur additional indebtedness if the Fixed Charge Coverage Ratio determined on a pro forma basis for the most recently ended four fiscal quarter period for which internal financial statements are available is not at least 2.0 to 1.0. As at March 31, 2020, the Company has not incurred additional indebtedness that would require the Fixed Charge Coverage Ratio to be calculated. As is the case with restricted payments, there are a number of exceptions to this prohibition on the incurrence of indebtedness, including the incurrence of debt under credit facilities up to the greater of $900.0 million or 22.5 percent of the Company’s consolidated tangible assets and of additional secured debt subordinated to the credit facilities up to the greater of US $125.0 million or 4.0% of the Company's consolidated tangible assets.

**FINANCIAL INSTRUMENTS**

*Credit Risk*

The Company is subject to credit risk on accounts receivable balances, which at March 31, 2020 totaled $312.3 million, an increase of $40.0 million from $272.3 million as at December 31, 2019. The varying levels of oil and natural gas commodity prices negatively impacted the cash flow of the Company's customers and, consequently, increases the collection risk of accounts receivable balances.

As part of the Company's international operations, it provides oilfield services in Venezuela pursuant to contractual arrangements. As at March 31, 2020, the Company had a net accounts receivable balance of approximately $9.6 million for work performed in Venezuela and has received several payments in recent months. The Company has a history of collecting accounts receivable in Venezuela; however, due to the recent decline in the price of oil, continuing political unrest in the country and expansion of sanctions by the US government, there can be no assurance that the Company will be successful in collecting all of such accounts receivable outstanding.

## NEW BUILDS AND MAJOR RETROFITS

As at March 31, 2020, the Company did not have changes to its fleet. The Company is currently directing capital expenditures to primarily maintenance capital items.

## SUMMARY QUARTERLY RESULTS

| *($ thousands, except per common share data)* | **Q1-2020** | Q4-2019 | Q3-2019 | Q2-2019 | Q1-2019 | Q4-2018 | Q3-2018 | Q2-2018 |
|---|---|---|---|---|---|---|---|---|
| Revenue | **383,891** | 375,767 | 393,530 | 377,692 | 445,258 | 346,136 | 288,700 | 263,061 |
| Adjusted EBITDA [1] | **90,120** | 93,864 | 97,012 | 100,359 | 115,531 | 81,678 | 68,641 | 53,064 |
| Adjusted EBITDA per common share [1] | | | | | | | | |
| Basic | **$0.55** | $0.58 | $0.60 | $0.63 | $0.74 | $0.52 | $0.44 | $0.34 |
| Diluted | **$0.55** | $0.58 | $0.60 | $0.63 | $0.74 | $0.52 | $0.44 | $0.34 |
| Net (loss) income attributable to common shareholders | **(29,250)** | (71,615) | (37,770) | (31,173) | (22,347) | 154,472 | (32,791) | (36,697) |
| Net (loss) income per common share | | | | | | | | |
| Basic | **$(0.18)** | $(0.44) | $(0.24) | $(0.20) | $(0.14) | $0.98 | $(0.21) | $(0.23) |
| Diluted | **$(0.18)** | $(0.44) | $(0.24) | $(0.20) | $(0.14) | $0.98 | $(0.21) | $(0.23) |
| Cash provided by operating activities [2] | **62,732** | 127,796 | 109,421 | 81,620 | 85,979 | 61,037 | 51,792 | 19,306 |
| Funds flow from operations [2] | **84,495** | 89,512 | 85,523 | 76,779 | 120,420 | 63,834 | 60,390 | 47,808 |
| Funds flow from operations per common share [2] | | | | | | | | |
| Basic | **$0.52** | $0.54 | $0.54 | $0.49 | $0.77 | $0.41 | $0.38 | $0.31 |
| Diluted | **$0.52** | $0.54 | $0.54 | $0.49 | $0.77 | $0.41 | $0.38 | $0.31 |
| Total debt, net of cash | **1,596,727** | 1,553,121 | 1,597,196 | 1,622,923 | 1,688,087 | 1,641,830 | 730,520 | 748,609 |

[1] *See definition of "Non-GAAP Measures" section of this MD&A.*
[2] *Comparative cash provided by operating activities, funds flow from operations and funds flow from operations per common share have been revised to conform with current year's presentation.*

Variability in the Company's quarterly results is driven primarily by the seasonal operating environment in Canada and fluctuations in oil and natural gas commodity prices. Financial and operating results for the Company's Canadian oilfield services division are generally strongest during the first and fourth quarters when the Company's customers conduct the majority of their drilling programs. Utilization rates typically decline during the second quarter as spring break-up weather conditions hinder mobility of the Company's equipment in Canada. Oil and natural gas commodity prices ultimately drive the level of exploration and development activities carried out by the Company's global customers and the resultant demand for the oilfield services provided by the Company.

In addition to the seasonality noted above, the variability noted in the Company's quarterly results reflect continued volatile levels of demand for oilfield services and the acquisition of Trinidad Drilling Ltd., in late 2018.

## OUTSTANDING SHARE DATA

The following common shares and stock options were outstanding as of May 8, 2020:

| | Number | Amount ($) |
|---|---|---|
| Common shares | 162,473,970 | 230,854 |

| | Outstanding | Exercisable |
|---|---|---|
| Stock options | 6,264,715 | 2,657,690 |

## OUTLOOK

### Industry Overview

The outlook for the oil service industry is uncertain. The macroeconomic environment for its oil and natural gas producer customers has shifted rapidly as a result of the global COVID-19 pandemic and geopolitical events. Global COVID-19 mitigation strategies have dramatically and adversely impacted demand for oil and natural gas in the short term, exacerbating a supply surplus that has driven crude oil commodity prices to historic lows. While supply has recently been curtailed somewhat by select global oil producing nations, the outlook for crude oil prices remains challenged as a result of this current supply and demand imbalance. Oil and natural gas energy producers have adjusted to the current commodity price environment by curtailing capital expenditures and selectively curtailing production, leading to downward pressure on demand for the Company's equipment, resulting in lower utilization and revenue rates across the Company's North American fleet.

The Company has responded by further reducing its 2020 budgeted net capital expenditures to $50.0 million now down 50 percent from an original budget of $100.0 million, which was initially reduced to $60.0 million on March 23, 2020. Furthermore, the Company has and will continue to reduce general and administrative expenses, largely as a result of compensation reductions, effective April 1, 2020, across the organization and plans to implement ongoing cost control efforts in response to ongoing developments.

In the short term, we expect continued uncertainty with macroeconomic conditions including crude oil commodity prices and demand for oil and natural gas and the services we provide. In the long term, while acknowledging the timing of an oil market recovery remains uncertain, the Company believes the oil price environment is likely to gradually stabilize and improve. The Company's high variable cost, low fixed cost business model enables it to be resilient and flexible during this time of uncertainty. Although future uncertainties may impact the current outlook, the Company believes it is relatively well positioned to survive the current downturn and take advantage of the new operating environment when the market rebounds.

The Company remains committed to debt retirement, balance sheet and liquidity preservation and capital efficiency. In addition, the Company continues to monitor the current macroeconomic environment and will continue to take additional steps to mitigate the negative impacts of these events and to be positioned to take advantage of positive events that may occur.

### Canadian Activity

While Canadian activity has predictably slowed as operations entered the seasonal spring break-up, Canadian operations delivered a strong first quarter in 2020. Notably, the Company increased Canadian market share nearing the end of the quarter. We expect Canadian activity to remain muted through break-up, into the year's third quarter and down year-over-year. As a result, we remain focused on opportunities in diversified projects such as natural gas and gas liquids.

As of May 8, 2020, of our 101 marketed Canadian drilling rigs, approximately 20 percent are engaged under contracts of various terms. Approximately 60 percent of those contracted rigs have a remaining term of six months or longer, notwithstanding they may be subject to early terminations.

### United States Activity

United States activity remained steady early in the quarter. Exiting the quarter activity decreased as a result of the current depressed industry conditions. We expect activity to remain muted under current conditions and down year-over-year. As a result, the Company is focused on working with our customers to deliver on select and important projects.

As of May 8, 2020, of our 122 marketed United States drilling rigs, approximately 30 percent are engaged under contracts of various terms. Approximately 50 percent of those contracted rigs have a remaining term of six months or longer, notwithstanding they may be subject to early terminations.

**International Activity**

International activity delivered a stable first quarter. In light of the current environment, we expect international activity to be flat to slightly down year-over-year. Although we believe market conditions in many of our international operating jurisdictions are superior to North America, they are and will be affected by the current unfavourable global macroeconomic and industry environment.

As of May 8, 2020, of our 48 marketed international drilling rigs including the five joint venture drilling rigs, approximately 30 percent are engaged under contracts of various terms. Approximately 70 percent of those contracted rigs have a remaining term of six months or longer, notwithstanding they may be subject to early terminations.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company is required to comply with National Instrument 52-109 *"Certification of Disclosure in Issuer's Annual and Interim Filings"*. This instrument requires that the Company disclose in the interim MD&A any changes in the Company's internal control over financial reporting that occurred during the most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. The Company confirms that no such changes occurred during the three months ended March 31, 2020.

## RISKS AND UNCERTAINTIES

*Pandemic Risk*

The outbreak of epidemics, pandemics and other public health crises in geographic areas in which we have operations, suppliers, customers or employees, including the recent global outbreak of the novel coronavirus ("COVID-19") pandemic, may increase our exposure to, and magnitude of, each of the risks identified in the Risk Management and Risk Factors section of our 2019 annual MD&A that result from a reduction in demand for crude oil and natural gas consumption and/or lower commodity prices. Our business, financial condition, results of operations, cash flows, reputation, access to capital, cost of borrowing, access to liquidity, ability to fund dividend payments and/or business plans may, in particular, without limitation, be adversely impacted as a result of the pandemic and/or decline in commodity prices as a result of:

- The delay or suspension of work due to workforce disruption or labour shortages caused by workers becoming infected with COVID-19, or government or health authority, shelter in place orders, quarantine orders, mandated restrictions on travel by workers or closure of facilities, workforce camps or worksites;
- Suppliers and third-party vendors experiencing similar workforce disruption or being ordered to cease operations;
- Reduced cash flows resulting in less funds from operations being available to fund our capital expenditure budget;
- Counterparties being unable to fulfill their contractual obligations to us on a timely basis or at all;
- The capabilities of our information technology systems and the potential heightened threat of a cyber-security breach arising from the increased number of employees working remotely;
- Our ability to obtain additional capital including, but not limited to, debt and equity financing being adversely impacted as a result of unpredictable financial markets, foreign currency exchange rates, commodity prices and/or a change in market fundamentals; and
- An overall slowdown in the global economy, political and economic instability, and civil unrest.

Given the dynamic nature of the events related to the COVID-19 pandemic, we cannot reasonably estimate the period of time that the pandemic and related market conditions will persist, the full extent of the impact they will have on our business, financial condition, results of operations or cash flows or the pace or extent of any subsequent recovery. We anticipate that 2020 will be a challenging year for us, as our customers continue to reduce their capital budgets. Therefore, we expect a substantial decline in activity from levels we experienced in the first quarter of 2020, coupled with downward

pressure on the price of the oilfield services provided by the Company, and corresponding reductions in revenue and operating margins.

*Oil and Natural Gas Prices*

The most significant factors affecting the overall business of the Company are oil and natural gas commodity prices. The COVID-19 pandemic, in particular, has led to an unprecedented loss of demand for oil and natural gas. Recent market events and conditions, including global excess crude oil, natural gas and petroleum product supply as a result of actions taken by the Organization of Petroleum Exporting Countries ("**OPEC**") and non-OPEC oil and gas exporting countries to set and maintain increased production levels and influence crude oil prices and decreased global demand due to the COVID-19 pandemic, have caused significant weakness and volatility in commodity and petroleum product prices and corresponding reductions in industry capital and operating budgets. With the rapid spread of the COVID-19 pandemic and additional crude oil supply expected to come on-stream over the near term, the price of crude oil and other petroleum products has deteriorated significantly and is expected to remain under pressure and be volatile. The overall result of these recent events and conditions could lead to a prolonged period of depressed prices for crude oil and other petroleum products. Commodity price levels affect the capital programs of energy exploration and production companies, as the price they receive for the oil and natural gas they produce has a direct impact on the cash flow available to them and the subsequent demand for oilfield services provided by the Company. The COVID-19 pandemic has resulted in, and may continue to result in, a reduction in the demand for, and prices of, oil and natural gas, and also increases the risk that storage for crude oil and refined petroleum products could reach capacity in certain geographic locations in which we operate. A prolonged period of decreased demand for, and prices of, oil and natural, and any applicable storage constraints, could also result in a decrease the demand for oilfield services provided by the Company, which could adversely impact our business, financial condition and results of operations. Further, oil and natural gas prices have been volatile in recent years and may continue to be so, as supply/demand fundamentals, weather conditions, government regulations, political and economic environments, pipeline capacity, storage levels and other factors outside of the Company's control continue to influence commodity prices. Demand for the Company's services in the future will continue to be influenced by oil and natural gas commodity prices and the resultant impact on the cash flow of its customers and may not be reflective of historical activity levels.

*Competition and Industry Conditions*

The oilfield services industry is, and will continue to be, highly competitive. Contract drilling companies compete primarily on a regional basis and competition may vary significantly from region to region at any particular time. Most drilling and workover contracts are awarded on the basis of competitive bids, which results in price competition. Many drilling, workover and well servicing rigs can be moved from one region to another in response to changes in levels of activity, which can result in an oversupply of rigs in an area. In many markets in which the Company operates, the supply of rigs exceeds the demand for rigs, resulting in further price competition. Certain competitors are present in more than one of the regions in which the Company operates, although no one competitor operates in all of these areas. In Canada, the Company competes with several firms of varying size. In the United States there are many competitors with national, regional or local rig operations. Internationally, there are several competitors in each country where the Company operates and some of those international competitors may be better positioned in certain markets, allowing them to compete more effectively. There is no assurance that the Company will be able to continue to compete successfully or that the level of competition and pressure on pricing will not affect the Company's margins.

*Access to Credit Facilities and Debt Capital Markets*

The Company and its customers require reasonable access to credit facilities and debt capital markets as an important source of liquidity. The disruption and volatility in global capital markets that has resulted, and may continue to result, from the COVID-19 pandemic, as well as other global economic events, outside the control of the Company or its customers, may restrict or reduce the access to credit facilities and debt capital markets. Tightening credit markets may reduce the funds available to the Company's customers for paying accounts receivable balances and may also result in reduced levels of demand for the Company's services. Additionally, the Company relies on access to credit facilities, along with its reserves of cash and cash flow from operating activities, to meet its obligations and finance operating activities. The Company believes it has adequate bank credit facilities to provide liquidity.

*Changes in Laws and Regulations*

The Company and its customers are subject to numerous laws and regulations governing its operations and the exploration and development of oil and natural gas, including environmental regulations. The events and conditions outlined above under "*Oil and Natural Gas Prices*" have also caused a significant decrease in the valuation of oil and

natural gas companies and a decrease in confidence in the oil and natural gas industry. These difficulties have been exacerbated in Canada by political and other actions resulting in uncertainty surrounding regulatory, tax, royalty changes and environmental regulation. Existing and expected environmental legislation and regulations may increase the costs associated with providing oilfield services, as the Company may be required to incur additional operating costs or capital expenditures in order to comply with any new regulations. The costs of complying with increased environmental and other regulatory changes in the future, such as royalty regime changes, changes to taxation regimes and changes to international trade agreements, may also have an adverse effect on the cash flows of the Company's customers and may dampen demand for oilfield services provided by the Company. In addition, the difficulties encountered by midstream proponents to obtain the necessary approvals on a timely basis to build pipelines, liquefied natural gas plants and other facilities to provide better access to markets for the oil and natural gas industry in western Canada has led to additional downward price pressure on oil and natural gas produced in western Canada. The overall impact of these current market conditions and the lack of confidence in the Canadian oil and natural gas industry could materially and adversely affect the Company's business, prospects, financial condition, results of operations and cash flows.

*Foreign Operations*

The Company provides oilfield services throughout much of North America and internationally in a number of onshore drilling areas. .While COVID-19 had minimal impact on our foreign operations in the first quarter, certain international customers are also reducing capital spending, deferring exploration and appraisal activity and looking to reduce costs on major ongoing projects, which we expect will have a substantial negative impact on the demand for our products and services. Furthermore, significant operational disruptions are expected at least through the second quarter due to the pandemic. We are experiencing restricted movements within countries, quarantining requirements for rotational staff, logistics delays due to third-party personnel reductions, and some country closures. We expect international activity to slow down and continue to decline, at a minimum, through the end of 2020. The Canadian, United States, and Australian regulatory regimes are generally stable and, typically, supportive of energy industry activity. Internationally, the Company's operations are subject to regulations in various jurisdictions and support for the oil and natural gas industry can vary in these jurisdictions. There are risks inherent in foreign operations such as unstable government regimes, risks of pandemics or other outbreaks of illness, disease or virus, such as COVID-19, civil and/or labor unrest, strikes, terrorist threats, regulatory uncertainty and complex commercial arrangements. Risks to the Company's operations include, but are not limited to, loss of revenue, expropriation and nationalization, restrictions on repatriation of income or capital, currency exchange restrictions, contract deprivation, force majeure events and the potential for trade and economic sanctions or other restrictions to be imposed by the Canadian government or other governments or organizations. To mitigate these risks, the Company seeks to negotiate long-term service contracts for drilling services that ideally include early termination provisions and other clauses for the Company's protection. However, there is, and there can be, no assurance that the Company will be fully effective in mitigating foreign operation risks. Such risks could have material adverse impacts on the Company's financial condition and operating results.

*Foreign Exchange Exposure*

The recent COVID-19 pandemic, and actions that may be taken by governmental authorities in response thereto, has resulted, and may continue to result in, increased volatility in financial markets and foreign currency exchange rates. The Company's consolidated financial statements are presented in Canadian dollars. Operations in countries outside of Canada result in foreign exchange risk to the Company. The principal foreign exchange risk relates to the conversion of United States dollar-denominated activity to Canadian dollars. The United States/Canadian dollar exchange rate at March 31, 2020 was approximately 1.41 compared with 1.30 at December 31, 2019. Fluctuations in the future period's exchange rates will impact the Canadian dollar equivalent of the results reported by foreign subsidiaries.

*Workforce*

The Company's operations are dependent on attracting, developing and maintaining a skilled workforce. During periods of peak activity levels, the Company may be faced with a lack of personnel to operate its equipment. The Company is also faced with the challenge of retaining its most experienced employees during periods of low utilization, while maintaining a cost structure that varies with activity levels. To mitigate these risks, the Company has developed an employee recruitment and training program and continues to focus on creating a work environment that is safe for its employees.

*Litigation and Legal Proceedings*

From time to time, the Company is subject to litigation and legal proceedings that may include employment, tort, commercial and class action suits. Amounts claimed in such suits or actions may be material and accordingly decisions

against the Company could have an adverse effect on the Company's financial condition or results of operations. In addition to the impacts described above related to COVID-19, other current and potential impacts include, but are not limited to, litigation risk and possible loss contingencies related to COVID-19 and its impact, including with respect to commercial contracts, employee matters and insurance arrangements.

*Operating Risks and Insurance*

The Company's operations are subject to risks inherent in the oilfield services industry. Where available and cost-effective, the Company carries insurance to cover the risk to its equipment and people, and each year the Company reviews the level of insurance for adequacy. Although the Company believes its level of insurance coverage to be adequate, there can be no assurance that the level of insurance carried by the Company will be sufficient to cover all potential liabilities.

*Technology*

As a result of growing technical demands of resource plays, the Company's ability to meet customer demands is dependent on continuous improvement to the performance and efficiency of existing oilfield services equipment. There can be no assurance that competitors will not achieve technological advantages over the Company.

*Reliance on Key Management Personnel*

The success and growth of the Company is dependent upon its key management personnel. The loss of services of such persons could have a material adverse effect on the business and operations of the Company. No assurance can be provided that the Company will be able to retain or attract key management members. The Company is also subject to risks relating to the health and safety of our personnel (including key management personnel), as well as the potential for a slowdown or temporary suspension of our operations in locations impacted by an outbreak of COVID-19

*Seasonality and Weather*

The Company's Canadian oilfield services operations are impacted by weather conditions that hinder the Company's ability to move heavy equipment. The timing and duration of "spring break-up", during which time the Company is prohibited from moving heavy equipment on secondary roads, restricts movement of equipment in and out of certain areas, thereby negatively impacting equipment utilization levels. Further, the Company's activities in certain areas in northern Canada are restricted to winter months when the ground is frozen solid enough to support the Company's equipment. This seasonality is reflected in the Company's operating results, as rig utilization is normally at its lowest during the second and third quarters of the year. The Company continues to mitigate the impact of Canadian weather conditions through expansion into markets not subject to the same seasonality and by working with customers in planning the timing of their drilling programs. In addition, volatility and unpredictability in the weather across all areas of the Company's operations can create additional risk and unpredictability in equipment utilization rates and operating results.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| As at | March 31 2020 | December 31 2019 |
|---|---|---|
| *(Unaudited, in thousands of Canadian dollars)* | | |
| **Assets** | | |
| **Current Assets** | | |
| Cash | **$ 48,560** | $ 28,408 |
| Accounts receivable | **312,263** | 272,254 |
| Inventories, prepaid and other | **50,973** | 47,292 |
| Asset held for sale *(Note 8)* | **18,806** | 18,806 |
| Income taxes receivable | **1,644** | 1,515 |
| Total current assets | **432,246** | 368,275 |
| Property and equipment | **2,940,509** | 2,855,223 |
| Investment in joint ventures *(Note 9)* | **133,434** | 125,355 |
| Deferred income taxes | **134,572** | 121,748 |
| Total assets | **$ 3,640,761** | $ 3,470,601 |
| **Liabilities** | | |
| **Current Liabilities** | | |
| Accounts payable and accruals | **$ 260,150** | $ 216,719 |
| Cash dividends payable | **9,787** | 9,787 |
| Share-based compensation *(Note 10)* | **—** | 297 |
| Income taxes payable | **4,716** | 4,489 |
| Current portion of lease obligations | **10,240** | 9,996 |
| Total current liabilities | **284,893** | 241,288 |
| Share-based compensation *(Note 10)* | **1,610** | 6,325 |
| Long-term debt *(Note 11)* | **1,643,595** | 1,581,529 |
| Lease obligations | **7,882** | 9,518 |
| Deferred income taxes | **188,269** | 163,781 |
| Non-controlling interest | **5,601** | 5,138 |
| Total liabilities | **2,131,850** | 2,007,579 |
| **Shareholders' Equity** | | |
| Shareholders' capital *(Note 12)* | **230,981** | 230,100 |
| Contributed surplus | **23,237** | 23,966 |
| Equity component of convertible debenture | **3,193** | 3,193 |
| Accumulated other comprehensive income | **328,545** | 243,771 |
| Retained earnings | **922,955** | 961,992 |
| Total shareholders' equity | **1,508,911** | 1,463,022 |
| Total liabilities and shareholders' equity | **$ 3,640,761** | $ 3,470,601 |

*See accompanying notes to the interim consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF LOSS

| For the three months ended | | March 31 2020 | | March 31 2019 |
|---|---|---|---|---|
| *(Unaudited, in thousands of Canadian dollars, except per common share data)* | | | | |
| **Revenue** | **$** | **383,891** | $ | 445,258 |
| **Expenses** | | | | |
| Oilfield services | | **283,979** | | 317,688 |
| Depreciation | | **89,785** | | 88,167 |
| General and administrative | | **11,804** | | 14,037 |
| Restructuring | | **877** | | 8,482 |
| Share-based compensation | | **(4,500)** | | 1,627 |
| Foreign exchange loss and other | | **9,086** | | 10,360 |
| Total expenses | | **391,031** | | 440,361 |
| **(Loss) income before financing charges and other (gains) losses and income taxes** | | **(7,140)** | | 4,897 |
| Loss from investment in joint ventures *(Note 9)* | | **1,658** | | 2,011 |
| Gain on repurchase of unsecured Senior Notes *(Note 11)* | | **(11,494)** | | — |
| Financing charges | | **34,842** | | 36,346 |
| **Loss before income taxes** | | **(32,146)** | | (33,460) |
| **Income tax (recovery)** | | | | |
| Current tax | | **460** | | 441 |
| Deferred tax recovery | | **(3,424)** | | (11,693) |
| Total income tax recovery | | **(2,964)** | | (11,252) |
| **Net loss** | **$** | **(29,182)** | $ | (22,208) |
| **Net (loss) income attributable to:** | | | | |
| Common shareholders | | **(29,250)** | | (22,347) |
| Non-controlling interests | | **68** | | 139 |
| | | **(29,182)** | | (22,208) |
| Net loss per common share *(Note 13)* | | | | |
| Basic | **$** | **(0.18)** | $ | (0.14) |
| Diluted | **$** | **(0.18)** | $ | (0.14) |

*See accompanying notes to the interim consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| For the three months ended | | **March 31 2020** | | March 31 2019 |
|---|---|---|---|---|
| *(Unaudited, in thousands of Canadian dollars)* | | | | |
| **Net loss** | **$** | **(29,182)** | $ | (22,208) |
| **Other comprehensive income (loss)** | | | | |
| **Item that may be subsequently reclassified to profit or loss** | | | | |
| Foreign currency translation adjustment | | **84,774** | | (22,846) |
| **Comprehensive income (loss)** | **$** | **55,592** | $ | (45,054) |
| **Other Comprehensive income (loss) attributable to:** | | | | |
| Common shareholders | **$** | **84,774** | $ | (22,846) |
| | **$** | **84,774** | $ | (22,846) |

*See accompanying notes to the interim consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Shareholders' Capital | Contributed Surplus | Equity Component of Convertible Debenture | Accumulated Other Comprehensive Income | Minority Interest | Retained Earnings | Total Equity |
|---|---|---|---|---|---|---|---|
| *(Unaudited, in thousands of Canadian dollars)* | | | | | | | |
| Balance, January 1, 2020 | $ 230,100 | $ 23,966 | $ 3,193 | $ 243,771 | $ — | $ 961,992 | $ 1,463,022 |
| Net loss attributable to common shareholders | — | — | — | — | — | (29,250) | (29,250) |
| Other comprehensive income | — | — | — | 84,774 | — | — | 84,774 |
| Total comprehensive income (loss) | — | — | — | 84,774 | — | (29,250) | 55,524 |
| Dividends | — | — | — | — | — | (9,787) | (9,787) |
| Share-based compensation | — | 494 | — | — | — | — | 494 |
| Common shares vested previously held in trust | 1,223 | (1,223) | — | — | — | — | — |
| Purchase of common shares held in trust | (342) | — | — | — | — | — | (342) |
| **Balance, March 31, 2020** | **$ 230,981** | **$ 23,237** | **$ 3,193** | **$ 328,545** | **$ —** | **$ 922,955** | **$ 1,508,911** |
| Balance, January 1, 2019 | $ 206,328 | $ 1,013 | $ 3,193 | $ 315,095 | $ 72,078 | $ 1,192,976 | $ 1,790,683 |
| Net loss attributable to common shareholders | — | — | — | — | — | (22,347) | (22,347) |
| Other comprehensive loss | — | — | — | (22,846) | — | — | (22,846) |
| Total comprehensive loss | — | — | — | (22,846) | — | (22,347) | (45,193) |
| Dividends | — | — | — | — | — | (19,231) | (19,231) |
| Acquisition of minority interest | — | — | — | — | (49,214) | — | (49,214) |
| Derecognition of net assets attributable to minority interest | — | 22,864 | — | — | (22,864) | — | — |
| Share-based compensation | — | 404 | — | — | — | — | 404 |
| Common shares vested previously held in trust | 1,076 | (1,076) | — | — | — | — | — |
| Purchase of common shares held in trust | (269) | — | — | — | — | — | (269) |
| Balance, March 31, 2019 | $ 207,135 | $ 23,205 | $ 3,193 | $ 292,249 | $ — | $ 1,151,398 | $ 1,677,180 |

*See accompanying notes to the interim consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| For the three months ended | **March 31 2020** | March 31 2019 |
|---|---|---|
| *(Unaudited, in thousands of Canadian dollars)* | | |
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net loss | **$ (29,182)** | $ (22,208) |
| Items not affecting cash | | |
| Depreciation | **89,785** | 88,167 |
| Loss from investment in joint ventures *(Note 9)* | **1,658** | 2,011 |
| Gain on repurchase of unsecured Senior Notes *(Note 11)* | **(11,494)** | — |
| Share-based compensation | **(4,500)** | 1,627 |
| Unrealized foreign exchange and other | **6,810** | 26,170 |
| Accretion of deferred financing charges *(Note 3)* | **2,972** | 2,238 |
| Interest expense *(Note 3)* | **31,870** | 34,108 |
| Deferred income tax | **(3,424)** | (11,693) |
| Funds flow from operations | **84,495** | 120,420 |
| Net change in non-cash working capital *(Note 7)* | **(21,763)** | (34,441) |
| Cash provided by operating activities | **62,732** | 85,979 |
| **Investing activities** | | |
| Purchase of property and equipment | **(26,432)** | (41,366) |
| Proceeds from disposals of property and equipment | **4,165** | 1,722 |
| Acquisition of minority interest | **—** | (49,214) |
| Net change in non-cash working capital *(Note 7)* | **7,753** | 16,426 |
| Cash used in investing activities | **(14,514)** | (72,432) |
| **Financing activities** | | |
| Proceeds from long-term debt *(Note 11)* | **53,126** | 1,259,136 |
| Repayments of long-term debt *(Note 11)* | **(55,472)** | (1,185,713) |
| Lease obligations principle repayments | **(2,670)** | (1,259) |
| Purchase of common shares held in trust *(Note 12)* | **(1,223)** | (1,076) |
| Interest paid *(Note 3)* | **(11,967)** | (47,069) |
| Cash dividends *(Note 12)* | **(9,787)** | (18,849) |
| Net change in non-cash working capital *(Note 3, 7)* | **—** | 20,680 |
| Cash (used in) provided by financing activities | **(27,993)** | 25,850 |
| **Net increase in cash** | **20,225** | 39,397 |
| **Effects of foreign exchange on cash** | **(73)** | (1,417) |
| **Cash** | | |
| **Beginning of period** | **28,408** | 84,823 |
| **End of period** | **$ 48,560** | $ 122,803 |

*See accompanying notes to the interim consolidated financial statements.*

## 1. NATURE OF BUSINESS

Ensign Energy Services Inc. is incorporated under the laws of the Province of Alberta, Canada. The address of its registered office is 1000, 400 – 5th Avenue S.W., Calgary, Alberta, Canada, T2P 0L6. Ensign Energy Services Inc. and its subsidiaries and partnerships (the "Company") provide oilfield services to the oil and natural gas industry in Canada, the United States and internationally.

Recent developments and impact on estimation uncertainty

In early March 2020, the World Health Organization declared coronavirus outbreak ("COVID-19") to be a pandemic. Responses to the spread of COVID-19 have resulted in significant disruption to business operations and a significant increase in economic uncertainty, with more volatile commodity prices, currency exchange rates, and a marked decline in long-term interest rates. These events are resulting in a challenging economic climate in which it is difficult to reliably estimate the length or severity of these developments and their financial impact. A significant adverse impact to the Company includes, but is not limited to, substantial reductions in revenues and cash flows, increased risk of non-payment from customers and future impairments of property and equipment. Estimates and judgments made in the preparation of these financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

## 2. BASIS OF PRESENTATION

These consolidated financial statements are presented in Canadian dollars which is the Company's functional currency.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34 - Interim Financial Reporting ("IAS 34"). The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2019. The calculation of depreciation includes assumptions related to useful lives and residual values that are regularly reviewed by management. The disclosures provided below do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements and the notes thereto for the year ended December 31, 2019, which have been prepared in accordance with IFRS as issued by the IASB. The Company has consistently applied the same accounting policies throughout all periods presented.

These consolidated financial statements were approved by the Company's Board of Directors on May 8, 2020, after review by the Company's Audit Committee.

## 3. CHANGES IN ACCOUNTING POLICIES

*Consolidated Statements of Cash Flows*

During the first quarter of 2020, the Company began presenting the interest paid as a financing activity (previously considered to be an operating activity) on the consolidated statement of cash flow. The change in presentation better aligns with the fact that the long-term debt is principally the result of financing past acquisitions and capital expenditures.

The impact to the comparative consolidated statement of cash flows is as follows:

| | 2019 |
|---|---|
| Operating activity as previously presented | 51,871 |
| Add: interest expense | 34,108 |
| **Operating activity (as currently presented)** | **85,979** |
| Financing activities as previously presented | 59,958 |
| Interest paid | (47,069) |
| Net change in non-cash working capital | 12,961 |
| **Financing activity (as currently presented)** | **25,850** |

## 4. SEASONALITY OF OPERATIONS

The Company's Canadian oilfield services operations are seasonal in nature and are impacted by weather conditions that may hinder the Company's ability to access locations or move heavy equipment. The lowest activity levels are experienced during the second quarter of the year when road weight restrictions are in place and access to wellsites in Canada is reduced. In addition, operations in certain international jurisdictions may be subject to seasonal weather conditions.

## 5. FOREIGN OPERATIONS

The Company provides oilfield services throughout much of North America and internationally in a number of onshore drilling areas. The Company's foreign operations, with the general exception of operations in the United States and Australia, are subject to a number of risks and uncertainties such as unstable government regimes, civil and/or labor unrest, strikes, terrorist threats, regulatory uncertainty and complex commercial arrangements.

The Company's operations in Venezuela and Argentina are subject to certain restrictions with respect to the transfer of funds into or out of such countries; however, such restrictions are not considered significant to the Company at this time due to the relatively small size of the operations and certain contractual provisions that have been put in place designed to protect the Company. As such the Company is exposed to insignificant foreign exchange risks.

## 6. IMPAIRMENT OF PROPERTY AND EQUIPMENT

At each reporting period, the Company reviews the carrying value of its property and equipment for indicators of impairment. Due to the global economic slowdown and significant commodity price reductions in the first quarter of 2020, the Corporation identified indications of impairment in each of its cash-generating units ("**CGU**") at March 31, 2020 and completed impairment test in each of its CGU's. The impairment tests included a five year cash flow projection with a terminal value and concluded that no impairment charges were required for any CGU as at March 31, 2020.The primary source of the cash flow information was the Company's budget and strategic plan, developed based on benchmark commodity prices and industry supply-demand fundamentals. There is a risk that impairment charges may be required in future periods due to the volatility and uncertainty of the economy and commodity price environment.

## 7. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| | | March 31 2020 | | March 31 2019 |
|---|---|---|---|---|
| Net change in non-cash working capital | | | | |
| Accounts receivable | **$** | **(28,177)** | $ | (27,071) |
| Inventories, investments, prepaid and other | | **(1,386)** | | 3,497 |
| Accounts payable and accruals | | **15,671** | | 26,063 |
| Income taxes payable (receivable) | | **(118)** | | 178 |
| | **$** | **(14,010)** | $ | 2,667 |
| Relating to: | | | | |
| Operating activities | **$** | **(21,763)** | $ | (34,441) |
| Investing activities | | **7,753** | | 16,426 |
| Financing activities | | **—** | | 20,682 |
| | **$** | **(14,010)** | $ | 2,667 |

## 8. ASSET HELD FOR SALE

As at March 31, 2020 building and land classified as held for sale had not been sold. As such, they were still classified as assets held for sale as at March 31, 2020. It is expected that these assets will be sold in 2020.

## 9. INVESTMENT IN JOINT VENTURES

### Joint venture loss reconciliation

| | | March 31 2020 | | March 31 2019 |
|---|---|---|---|---|
| Trinidad Drilling International loss from investment | **$** | **1,658** | $ | 1,624 |
| Other joint arrangements net loss from investments | | **—** | | 387 |
| Loss from investment in joint ventures | **$** | **1,658** | $ | 2,011 |

### Joint venture investment reconciliation

| | | March 31 2020 | | December 31 2019 |
|---|---|---|---|---|
| Trinidad Drilling International investment balance | **$** | **133,649** | $ | 125,376 |
| Other joint arrangements net loss from investments | | **(215)** | | (21) |
| Investment in joint ventures | **$** | **133,434** | $ | 125,355 |

The Company owns an interest in a joint venture arrangement with a wholly-owned subsidiary of Halliburton company, that operates rigs in Bahrain and Kuwait. The joint venture conducts business under the name Trinidad Drilling International ("**TDI**") through separately incorporated companies. The Company owns 60% of the shares of TDI and each of the joint parties have equal voting rights. The investment is held through common shares and mandatory redeemable preferred shares ("**MRPS**") classified as liabilities. The investment is treated as a financial asset and is fair valued through profit or loss and recognizes changes in fair value of the investment in the consolidated statements of income (loss) and comprehensive income (loss) as gain from investment in joint venture.

**Continuity of investment in TDI**

| | March 31 2020 | December 31 2019 |
|---|---|---|
| Opening Balance | **$ 125,376** | $ 177,223 |
| Loss from investment in joint venture | **(1,658)** | (40,008) |
| Change in loan in joint venture | **—** | (4,592) |
| Elimination of downstream transactions | **235** | (136) |
| Fair value adjustment | **—** | (625) |
| Effect of foreign exchange | **9,696** | (6,486) |
| Closing balance | **$ 133,649** | $ 125,376 |

## 10. SHARE-BASED COMPENSATION

A summary of the Company's share option plan as of March 31, 2020 and the changes during the three month period ended, is presented below:

| | Number of Share Options | Weighted Average Exercise Price |
|---|---|---|
| Outstanding – January 1, 2020 | 5,408,900 | $ 6.53 |
| Granted | 1,362,525 | 0.54 |
| Forfeited | (96,650) | 6.15 |
| **Outstanding - March 31, 2020** | **6,674,775** | **$ 5.31** |
| **Exercisable - March 31, 2020** | **2,657,690** | **$ 6.87** |

The following table lists the options outstanding at March 31, 2020:

| Exercise Price | Outstanding Options | Average Vesting Remaining (in years) | Weighted Average Exercise Price | Options Exercisable | Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $0.54 to $5.65 | 2,520,025 | 3.83 | $ 2.86 | 466,780 | $ 5.60 |
| $5.66 to $6.66 | 1,815,100 | 3.40 | 5.80 | 495,960 | 5.86 |
| $6.67 to $7.98 | 2,339,650 | 1.13 | 7.56 | 1,694,950 | 7.52 |
| | 6,674,775 | 2.76 | $ 5.31 | 2,657,690 | $ 6.87 |

The assumptions used to estimate the fair value of employee share options were:

| | March 31, 2020 |
|---|---|
| Remaining expected life (years) | 2.5 |
| Volatility (percent) | 40.0 |
| Forfeiture rate (percent) | 6.9 |
| Risk-free interest rate (percent) | 0.5 |
| Expected dividend (percent) | 46.2 |

**Share Appreciation Rights (SARs)**

A summary of the Company's SARs plan as of March 31, 2020 and the changes during the three month period ended, is presented below:

| | Number of SARs | Weighted Average Exercise Price |
|---|---|---|
| Outstanding – January 1, 2020 | 631,955 | $ 6.42 |
| Granted | 161,690 | 0.54 |
| Expired | (7,825) | 6.03 |
| **Outstanding - March 31, 2020** | **785,820** | **$ 5.21** |
| **Exercisable - March 31, 2020** | **294,558** | **$ 6.76** |

The following table lists the SARs outstanding at March 31, 2020:

| Exercise Price | SARs Outstanding | Average Vesting Remaining (in years) | Weighted Average Exercise Price | SARs Exercisable | Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $0.54 to $5.65 | 291,590 | 3.86 | $ 2.79 | 52,320 | $ 5.60 |
| $5.66 to $6.66 | 263,580 | 3.34 | 5.83 | 75,588 | 5.88 |
| $6.67 to $7.98 | 230,650 | 1.15 | 7.57 | 166,650 | 7.53 |
| | 785,820 | 2.89 | $ 5.21 | 294,558 | $ 6.76 |

**Performance Share Units (PSUs)**

The Company grants Performance Share Units (PSUs) to certain officers and employees of the Company to participate in the growth and development of the Company and to promote further alignment of interests between employees and the common shareholders. PSUs are subject to the Company's performance metrics assessed by management with a three year performance period. Each PSU granted permits the holder to receive a cash payment equal to the fair market value of a common share as of the maturity date, adjusted for a performance multiplier.

A summary of the activity under this share based incentive plan is presented below:

| | Outstanding |
|---|---|
| Outstanding – January 1, 2020 | 2,564,170 |
| Granted through dividend payment | 54,557 |
| Redeemed | (249,716) |
| Forfeited | (72,013) |
| **Outstanding - March 31, 2020** | **2,296,998** |

Included in net earnings for the three months ended March 31, 2020 is a recovery of $3,870 (2019 - an expense of $709). This was calculated using the trailing ten day volume weighted average common share price of the Company's underlying common shares, as the PSUs have no exercise price, adjusted for performance factors and subject to a two percent cap based on certain financial performance metrics.

## 11. LONG-TERM DEBT

| | March 31 2020 | December 31 2019 |
|---|---|---|
| Drawings on the Credit Facility | **$ 760,885** | $ 750,000 |
| Unsecured Senior Notes, due April 2024, 9.25% | **878,248** | 832,108 |
| Subordinated Convertible Debenture, January 22, 2022, 7.00% | **35,788** | 33,846 |
| Unamortized deferred financing costs | **(31,326)** | (34,425) |
| Total long-term debt | **$ 1,643,595** | $ 1,581,529 |

The Credit Facility has the following covenant requirements:

- The Consolidated Total Debt to Consolidated EBITDA Ratio at the end of the Fiscal Quarter shall not exceed 5.00:1.00;
- The Consolidated EBITDA to Consolidated Interest Expense as at the end of any Fiscal Quarter shall not be less than 2.50:1.00; and
- The Consolidated Senior Debt to Consolidated EBITDA Ratio at the end of the Fiscal Quarter shall not exceed 2.50:1.00.

As at March 31, 2020 the Company was in compliance with all covenants related to the Credit Facility.

During the second quarter of 2019 the Company issued US $700,000 of Senior Notes (the "Senior Notes") due 2024 bearing interest of 9.25%. Interest is payable semi-annually in arrears on April 15 and October 15 and the Senior Notes mature April 15, 2024. During the first quarter of 2020, the Company repurchased US $17,800 of face value Senior Notes and recorded gain on repurchase of $11,494.

In addition, the Company has a US $50,000 secured Letter of Credit Facility. As of March 31, 2020, the available amount was US $20,635.

The following table sets out an analysis of long-term debts and the movements in the long term debt for the periods presented:

| | 2020 |
|---|---|
| Opening balance - January 1 | **$ 1,581,529** |
| Proceeds from long-term debt, net of debt issuance costs | **53,126** |
| Long-term debt repayments | **(55,472)** |
| Gain on repurchase of Senior Notes | **(11,494)** |
| Convertible Debentures fair value adjustment | **1,941** |
| Amortization of debt issuance costs | **3,099** |
| Foreign exchange adjustments | **70,866** |
| Closing balance - March 31 | **$ 1,643,595** |

## 12. SHAREHOLDERS' CAPITAL

### (a) Authorized

Unlimited common shares, no par value
Unlimited preferred shares, no par value, issuable in series

### (b) Issued, fully paid and outstanding

| | Number of Common Shares | | Amount |
|---|---|---|---|
| Opening balance – January 1 2020 | 162,665,576 | $ | 230,100 |
| Changes in unvested common shares held in trust | 63,321 | | 881 |
| **Closing balance - March 31 2020** | **162,728,897** | **$** | **230,981** |

The total number of unvested common shares held in trust for share-based compensation plans as at March 31, 2020 was 389,726 (December 31, 2019 – 453,047).

### (c) Dividends

During the three months ended March 31, 2020, the Company declared dividends of $9,787 (2019 - $19,231), being $0.06 per common share (2019 - $0.12 per common share).

## 13. NET LOSS PER COMMON SHARE

Basic net loss per common share is calculated by dividing net loss attributed to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted net loss per common share is calculated by dividing net loss attributed to common shareholders by the weighted average number of common shares outstanding during the period adjusted for conversion of all potentially dilutive common shares. Diluted net loss attributed to common shareholders is calculated using the treasury share method, which assumes that all outstanding share options are exercised, if dilutive, and the assumed proceeds are used to purchase the Company's common shares at the average market price during the period.

| | Three months ended | |
|---|---|---|
| | **March 31 2020** | March 31 2019 |
| Net loss attributable to common shareholders: | | |
| Basic and diluted | **(29,250)** | $ (22,347) |
| Weighted average number of common shares outstanding: | | |
| Basic | **162,842,603** | 156,950,787 |
| Potentially dilutive share-based compensation plans | **138,132** | 30,908 |
| Diluted | **162,980,735** | 156,981,695 |

Share options of 5,295,150 (2019 – 5,910,450) were excluded from the calculation of diluted weighted average number of common shares outstanding as they were anti-dilutive.

## 14. SEGMENTED INFORMATION

The Company determines its operating segments based on internal information regularly reviewed by management to allocate resources and assess performance. Oilfield services are provided in Canada, the United States and internationally. The amounts related to each geographic area are as follows:

| | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| As at and for the three month period ended March 31 | Canada | United States | International | Total | Canada | United States | International | Total |
| Revenue | $ 97,137 | $ 214,577 | $ 72,177 | $ 383,891 | $ 106,422 | $ 273,596 | $ 65,240 | $ 445,258 |
| Income (loss) before financing charges and other (gains) losses and income taxes | (10,278) | 9,324 | (6,186) | (7,140) | (22,488) | 18,073 | 9,312 | 4,897 |
| Property and equipment, net | $ 681,926 | $1,805,907 | $ 452,676 | $2,940,509 | $ 806,952 | $1,858,980 | $ 458,591 | $3,124,523 |

| | **March 31 2020** | March 31 2019 |
|---|---|---|
| Rig rental revenue | **$ 266,873** | $ 313,496 |
| Service revenue | **117,018** | 131,762 |
| Total revenue | **$ 383,891** | $ 445,258 |

There are no material differences in the basis of accounting or the measurement of loss, assets and liabilities between the Corporation and reported segment information, except that certain inter-company liabilities and equity are offset with the assets of the appropriate related segment. Revenues and expenses are attributed to geographical areas based on the location in which the services are rendered. The segment presentation of assets and liabilities is based on the geographical location of the assets.

## 15. FAIR VALUE MEASUREMENTS

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accruals and dividends payable approximates their carrying value due to the short-term maturity of these financial instruments. The fair value of the drawings on the bank credit facilities approximates its carrying value.

The estimated fair value of the senior unsecured notes has been determined based on available market information and appropriate valuation methods, including the use of discounted future cash flows using current rates for similar instruments with similar risks and maturities. The estimated fair value of the senior unsecured notes approximates its carrying value.

Financial assets and liabilities recorded or disclosed at fair value in the consolidated statement of financial position are categorized using a three-level hierarchy that reflects the level of judgment associated with the inputs used to measure their fair value. The fair values of financial assets and liabilities included in Level 1 are determined by reference to unadjusted quoted prices in active markets for identical assets and liabilities. Fair values of financial assets and liabilities in Level 2 are based on inputs other than Level 1 quoted prices that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). The fair values in Level 3 financial assets and liabilities are not based on observable market data.

The estimated fair value of senior unsecured notes was based on Level 2 inputs and was estimated using the risk free interest rates on government debt instruments of similar maturities, adjusted for estimated credit risk and market risk premiums.

The estimated fair value of the liability portion of the convertible debt was based on Level 3 inputs and was estimated using the relative market interest rate.

The estimated fair value of the investment in joint ventures is a Level 3 in the value of hierarchy and is not based on observable market.

The fair value of non-controlling interest is based on Level 3 inputs and is not based on observable market.

## 16. SUBSEQUENT EVENTS

Subsequent to March 31, 2020, the Company repurchased US $40,994 face value of Senior Notes, in the open market, for cancellation. A gain on repurchase of $38,905 (US $27,682) will be recognized in the second quarter of 2020.

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

N. MURRAY EDWARDS
Corporate Director and Investor

ROBERT H. GEDDES
President and COO,
Ensign Energy Services Inc.

GARY CASSWELL [2,4]
Independent Businessman

JAMES B. HOWE [1,3]
President, Bragg Creek Financial Consultants Ltd.

LEN KANGAS [2,4]
Independent Businessman

CARY A. MOOMJIAN, JR [2,3]
President,
CAM OilServ Advisors LLC

JOHN SCHROEDER [1,3]
Independent Businessman

GAIL SURKAN [2,3]
Independent Businesswoman

BARTH WHITHAM [1,4]
President and CEO,
Enduring Resources LLC

### CORPORATE MANAGEMENT

N. MURRAY EDWARDS
Chairman

ROBERT H. GEDDES
President and Chief Operating Officer

MICHAEL GRAY
Chief Financial Officer

TOM CONNORS
Executive Vice President - Canada

MICHAEL NUSS
Executive Vice President - US

BRENT CONWAY
Executive Vice President International

TREVOR RUSSELL
Vice President, Finance

AHMED IQBAL
Vice President, Corporate Controller

JONATHAN BASKEYFIELD
Vice President,Tax

ROBERT RAIMONDO
Vice President, Health, Safety and Environment

CATHY ROBINSON
Vice President, Global Human

SUZANNE DAVIES
Vice President Legal and Corporate Secretary

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### BANKERS

HSBC Bank Canada
Bank of Montreal

### STOCK EXCHANGE LISTING

Toronto Stock Exchange
Symbol: ESI

### AUDITORS

PricewaterhouseCoopers LLP

### TRANSFER AGENT

Computershare Trust Company of Canada

### COMMITTEE MEMBERS

[1] Audit
[2] Corporate Governance, Nominations and Risk
[3] Compensation
[4] Health, Safety and Environment