FOCUS DISCIPLINE GROWTH

Annual Report 2009

TOTAL ENERGY SERVICES INC.

Total Energy Services Inc. ("Total Energy" or the “Company”) is a growth oriented energy services company based in Calgary, Alberta. Through its wholly-owned subsidiaries, Total Energy is involved in two core business sectors. The first is DRILLING AND COMPLETION SERVICES comprised of contract drilling and the rental and transportation of equipment used in the drilling, completion and production of oil and natural gas wells. The second is PRODUCTION SERVICES consisting of the fabrication, sale, rental and servicing of new and used natural gas compression equipment. Together these businesses provide a platform for building long-term unitholder value. Total Energy has achieved its growth by maintaining a disciplined acquisition strategy and undertaking strategic internal growth.

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

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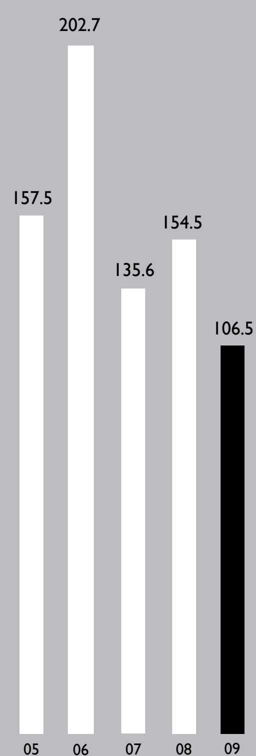
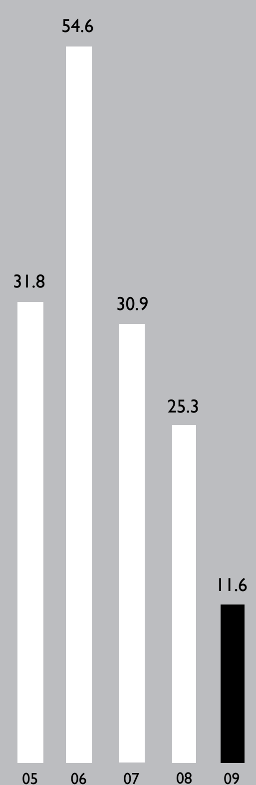
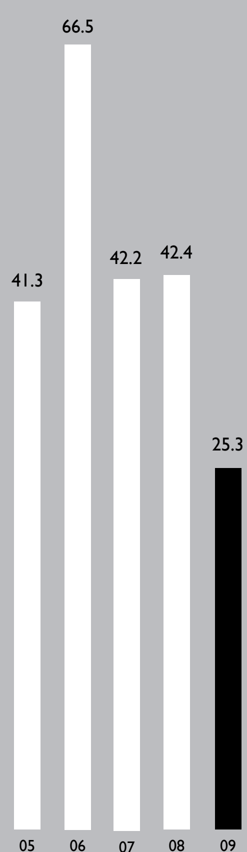
FINANCIAL HIGHLIGHTS



Revenues
(in millions of dollars)



Net Earnings
(in millions of dollars)



Cashflow (1)
(in millions of dollars)

(1) Cashflow means cash provided by operations before changes in non-cash working capital items.

REPORT TO SHAREHOLDERS

2009 was a challenging year for energy services firms operating in Western Canada. Global financial and economic challenges, continued uncertainty surrounding Alberta royalties and a substantial decline in commodity prices contributed to multi-year low activity levels in Western Canada. While this environment gave rise to operational challenges, opportunities to position Total Energy to benefit from an eventual recovery in industry activity levels also arose.

In May 2009, Total Energy completed its conversion from an income trust structure back to a corporate structure. The decision to convert back to a corporate structure was driven by several factors, including the federal government's change in policy towards the taxation of income trusts, eliminating restrictions on the growth of Total Energy and putting in place a corporate structure that would facilitate international expansion, particularly within Total Energy's Gas Compression Services division. Total Energy's owners strongly supported the conversion transaction. The corporate conversion combined with the conservative dividend policy adopted by the Board of Directors better positioned Total Energy to pursue growth opportunities that typically arise during prolonged periods of difficult industry conditions.

In September 2009, Russ Strilchuk joined Total Energy as Vice President of Sales and Marketing and Greg Melchin joined the Board of Directors. The addition of these experienced and qualified persons strengthened the leadership team at Total Energy.

Despite a difficult operating environment, Total Energy's balance sheet allowed the organization to move forward with sound investments that will benefit shareholders over the long term. During 2009, Total Energy invested \$20.7 million (\$16.8 million net of divestitures) into organic growth, including \$10.6 million invested in the Gas Compression Services division that was directed primarily towards adding the patented NOMAD™ line of mobile compression packages to the compression rental fleet. The NOMAD™ is rapidly gaining market acceptance due to its innovative design and the significant cost savings to end users.

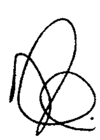
In addition to significant organic growth during 2009, management examined several acquisition opportunities during the year. In early December, Total Energy announced it had signed an agreement to acquire DC Energy Services LP for $44.5 million effective January 1, 2010. The acquisition of DC Energy Services LP represents a significant transaction for Total Energy, increasing Total Energy's rental equipment fleet by 80% and the heavy truck fleet by 27%. In addition to adding quality assets, the acquisition resulted in approximately 135 experienced employees joining the Total Energy team and the addition of two new rental branches in west central Alberta which is the heart of the emerging Cardium oil play. In connection with the acquisition of DC Energy Services LP, Total Energy established a $90 million revolving credit facility with a syndicate of Canadian chartered banks.

LOOKING FORWARD

Western Canadian drilling activity levels during the first quarter of 2010 have increased significantly from the fourth quarter of 2009. While there has been a continued focus on unconventional oil and natural gas resource plays in northeast British Columbia and Saskatchewan, drilling and completion activity has improved significantly in central and northwest Alberta where operators are applying horizontal drilling and multi-stage fracturing technologies to oil targets.

A majority of Total Energy's drilling rigs were concentrated in northwest and central Alberta during the first quarter of 2010. Increased drilling and completion activity is also positive for Total Energy's Drilling and Production Rental division as this division supplies the equipment and services used in conjunction with the drilling rig, frac pumper and service rig as oil and natural gas wells are drilled, completed and put onto production. The addition of DC Energy Services LP will increase Total Energy's leverage to increased activity levels.

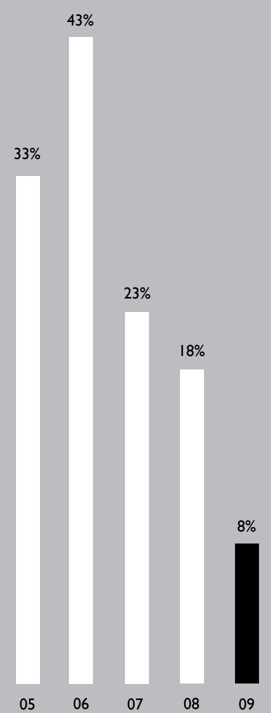
The Gas Compression Services division, Bidell Equipment LP, is focused on substantially increasing its share of the Canadian natural gas compression market following the recent merger of its two largest Canadian-based competitors. Opportunities to increase its international business will also be pursued. On March 1, 2010, Sean Ulmer joined Bidell as President to lead this division through its next phase of growth and development. Warren Craddock, the General Manager of Bidell since Total Energy acquired this business in 1998, will continue with Bidell in a more technical role and will assist Mr. Ulmer with the execution of Bidell's growth strategy. On behalf of shareholders, the Board of Directors and management of Total Energy, I extend our appreciation to Mr. Craddock for his many years of excellent leadership and service to Bidell.



DANIEL K. HALYK

President and Chief Executive Officer
March 2010

FINANCIAL HIGHLIGHTS



Return on Average Equity [1]

[1] Return on average equity is calculated as follows:
Net earnings divided by (opening Shareholders' equity plus ending Shareholders' equity divided by two).

FIVE YEAR COMPARISON

RESULTS (thousands of dollars, except per share data)	**2009**	2008	2007	2006	2005
Revenue	106,509	154,482	135,584	202,666	157,542
EBITDA (1)	24,058	47,097	39,682	72,273	50,502
Operating earnings (1)	9,741	30,806	25,437	59,020	39,913
Cash provided by operations	32,151	47,352	24,849	72,201	29,608
Cashflow (1)	25,366	42,412	42,160	66,544	41,336
Net earnings	11,640	25,333	30,858	54,577	31,770
Interest expense (2)	1,520	2,510	2,384	1,604	1,491
Depreciation	13,211	13,889	11,255	10,731	9,067
Capital expenditures, net	16,754	27,981	19,317	28,200	49,981
Earnings per unit - diluted	0.40	0.86	1.04	1.82	1.12
EBITDA per unit - diluted (1)	0.83	1.60	1.33	2.42	1.78
Cashflow per unit - diluted (1)	0.87	1.44	1.42	2.23	1.46
FINANCIAL POSITION					
Working capital (3)	29,493	7,254	13,438	15,907	16,438
Total assets	234,774	247,515	228,617	213,648	205,674
Long-term debt	34,950	13,521	21,383	13,545	16,654
Unitholder's equity	155,629	147,376	134,796	136,686	118,056

(1) Operating earnings are earnings before gain (loss) on sale of equipment and income taxes. EBITDA means earnings before interest, taxes, depreciation and amortization and is equal to earnings before income taxes plus interest on long-term debt plus other interest expense plus depreciation. Cashflow means cash provided by operations before changes in non-cash working capital items. Operating earnings, EBITDA and cashflow are not recognized measures under Canadian generally accepted accounting principles ("GAAP"). Management believes in addition to net earnings, operating earnings, EBITDA and cashflow are useful supplemental measures as they provide an indication of the results generated by the Company's primary business activities prior to consideration of how those activities are financed, amortized or how the results are taxed in various jurisdictions as well as the cash generated by the Company's primary business activities without consideration of the timing of the monetization of non-cash working capital items. Investors should be cautioned, however, that operating earnings, EBITDA and cashflow should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of Total Energy's performance. Total Energy's method of calculating operating earnings, EBITDA and cashflow may differ from other organizations and, accordingly, operating earnings, EBITDA and cash flow may not be comparable to measures used by other organizations.

(2) Interest expense is other interest expense plus interest on long term debt.

(3) Working capital equals current assets minus current liabilities.

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

The following MD&A, dated March 4, 2010, focuses on key statistics from the consolidated financial statements of Total Energy Services Inc. (the "Company" or "Total Energy") and pertains to known risks and uncertainties relating to the energy services industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion and analysis of the financial condition and results of operations for the year ended December 31, 2009, should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2009 and related notes and material contained in other parts of the 2009 Annual Report as well as the Company's Annual Information Form ("AIF"). Additional information relating to Total Energy, including the Company's AIF, may be found on SEDAR at www.sedar.com. Unless otherwise indicated, all dollar amounts presented herein are in Canadian dollars.

FORWARD-LOOKING STATEMENTS

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

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

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer, together with other members of management (collectively, the "Officers"), have designed the Company's disclosure controls and procedures in order to provide reasonable assurance that the information required to be disclosed by the Company and its consolidated divisions and subsidiaries in its filings or other reports submitted by it under securities legislation is in compliance with the time periods specified in the securities legislation. These disclosure controls and procedures include controls and procedures which have been designed to ensure that the information required to be disclosed by the Company and its consolidated divisions and subsidiaries in its filings or other reports submitted by it under securities legislation is accumulated and communicated to the Officers and others within those entities to allow timely decisions regarding required disclosure.

Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is reported within the time periods specified under securities laws, and include controls and procedures that are designed to ensure that information is communicated to management of Total Energy, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. An evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) was conducted as at December 31, 2009. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer of Total Energy have concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2009.

Internal Control Over Financial Reporting

The Chief Executive Officer and Chief Financial Officer of Total Energy are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles ("GAAP"). The Chief Executive Officer and Chief Financial Officer of Total Energy directed the assessment of the design and operating effectiveness of the Company's internal control over financial reporting as at December 31, 2009 and based on that assessment determined that the Company's internal control over financial reporting was, in all material respects, appropriately designed and operating effectively. Because of inherent limitations, systems of internal control over financial reporting may not prevent or detect misstatements and even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation.

Changes in Internal Control over Financial Reporting

During the quarter ended December 31, 2009 the Company's gas compression services division implemented a new Enterprise Resource Planning ("ERP") system. The change in ERP system and related processes has resulted in a change in internal control over financial reporting for this division.

Management has designed and implemented internal controls for the new ERP system. The design and operating effectiveness of these internal controls have been assessed and it has been determined that the internal controls are appropriately designed and operating effectively.

Other than as described previously, there have not been any other changes during the quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

NON-GAAP MEASURES

Operating earnings are earnings before reorganization costs, gain (loss) on disposal of equipment and income taxes. EBITDA means earnings before interest, taxes, depreciation and amortization and is equal to earnings before income taxes plus interest on long-term debt plus other interest expense plus depreciation. Cashflow means cash provided by operations before changes in non-cash working capital items. Operating earnings, EBITDA and cashflow are not recognized measures under GAAP. Management believes that in addition to net earnings, operating earnings, EBITDA and cashflow are useful supplemental measures as they provide an indication of the results generated by the Company's primary business activities prior to consideration of how those activities are financed, amortized or how the results are taxed in various jurisdictions as well as the cash generated by the Company's primary business activities without consideration of the timing of the monetization of non-cash working capital items. Readers should be cautioned, however, that operating earnings, EBITDA and cashflow should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of Total Energy's performance. Total Energy's method of calculating operating earnings, EBITDA and cashflow may differ from other organizations and, accordingly, operating earnings, EBITDA and cashflow may not be comparable to measures used by other organizations. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measure is outlined below.

Operating earnings (in thousands of Canadian dollars)	Three months ended Dec. 31, 2009	Three months ended Dec. 31, 2008	Twelve months ended Dec. 31, 2009	Twelve months ended Dec. 31, 2008
Net earnings	$ 2,131	$ 8,862	$ 11,640	$ 25,333
Add back (deduct):				
Reorganization costs	–	–	890	–
Loss (gain) on disposal of equipment	(167)	341	(476)	108
Income tax expense (recovery)	(842)	1,705	(2,313)	5,365
Operating earnings	$ 1,122	$ 10,908	$ 9,741	$ 30,806

EBITDA (in thousands of Canadian dollars)	Three months ended Dec. 31, 2009	Three months ended Dec. 31, 2008	Twelve months ended Dec. 31, 2009	Twelve months ended Dec. 31, 2008
Net earnings	$ 2,131	$ 8,862	$ 11,640	$ 25,333
Add back (deduct):				
Depreciation	3,659	3,735	13,211	13,889
Other interest	165	292	599	1,257
Interest on long-term debt	250	222	921	1,253
Income tax expense (recovery)	(842)	1,705	(2,313)	5,365
EBITDA	$ 5,363	$ 14,816	$ 24,058	$ 47,097

Cashflow (in thousands of Canadian dollars)	Three months ended Dec. 31, 2009	Three months ended Dec. 31, 2008	Twelve months ended Dec. 31, 2009	Twelve months ended Dec. 31, 2008
Cash provided by operations	$ 3,920	$ 11,721	$ 32,151	$ 47,352
Add back (deduct):				
Changes in non-cash working capital items	782	1,954	(6,785)	(4,940)
Cashflow	$ $4,702	$ 13,675	$ 25,366	$ 42,412

BUSINESS OF THE COMPANY

Total Energy is a public energy services company based in Calgary, Alberta. Through its operating divisions and its wholly owned limited partnerships, Bidell Equipment Limited Partnership and DC Energy Services Limited Partnership, Total Energy is involved in two core energy service business sectors. The first is Drilling Services, which is comprised of contract drilling services ("Chinook Drilling" or "Chinook") and the rental and transportation of equipment to the oil and gas industry ("Total Oilfield Rentals"). The second is Production Services, which consists of the fabrication, sale, rental and servicing of new and used natural gas compression equipment ("Bidell Equipment" or "Bidell"). Substantially all of the operations of the Company are conducted within the Western Canadian Sedimentary Basin ("WCSB"), although Total Energy investigates opportunities from time to time to expand its operations outside of the WCSB. Bidell generates international sales from its Calgary based facility and in November 2008 announced the appointment of an Australian distributor.

VISION, CORE BUSINESS AND STRATEGY

Total Energy is focused on building sustainable value for its shareholders through the disciplined management of its operations and a commitment to growing its business in a capital efficient manner. Historically, Total Energy focused on the WCSB and intentionally levered its business more towards the exploration and production of natural gas than conventional oil. The Company has done this by its focus on establishing significant operations in northwestern Alberta and northeastern British Columbia (which is considered to be a relatively undeveloped natural gas prone area) and its involvement in the natural gas compression business. In 2007, Total Energy began to expand its geographical presence in the WCSB to include areas prone to oil exploration and development and to increase its exposure to unconventional resource development. In particular, emphasis was placed on expanding Total Energy's presence in British Columbia and Saskatchewan. Management believes that Total Energy's existing business divisions provide a platform for building long-term shareholder value. Total Energy has achieved its growth by maintaining a disciplined acquisition strategy and undertaking measured and strategic organic growth. The Company intends to achieve ongoing expansion through organic growth and selective acquisitions.

Generally, the Company's business strategy and marketing plans and strategy are as follows:

Contract Drilling Services: The Company has targeted the sub-4000 meter market in western Canada. Currently the Company operates a fleet of 14 rigs all constructed in 1997 or later. Of these rigs, 12 are Rigmaster telescopic doubles rated to depths of up to 3,400 meters and two are Failing 3500 singles rated to 1,200 meters. The Company is focused on establishing a rig fleet size of 15-20 rigs to obtain the marketing and operational efficiencies enjoyed by a larger fleet. The Company expects to pursue the growth of its fleet through organic growth and the acquisition of modern and efficient equipment that is complementary to its existing fleet in an effort to distinguish its equipment from the competition and attract quality operations personnel.

Drilling and Production Rentals: Historically northern Alberta and northeastern British Columbia were the primary markets for the Company's drilling and production rentals and oilfield transportation services. In the fourth quarter of 2007, this division expanded its operations into southeastern Saskatchewan. Effective January 1, 2010 the Company completed the acquisition of DC Energy Services Limited Partnership which adds two branch locations (Drayton Valley and Red Deer) and increases its rental equipment fleet and heavy truck fleets by 80% and 27% respectively. The Company now operates out of 19 locations throughout Western Canada. The Company currently owns and operates approximately 8,100 pieces of rental equipment as well as a modern fleet of 94 heavy trucks. The Company intends to maintain a modern and high quality equipment base supported by an extensive branch network to maintain a significant presence in its target market. The Company intends to pursue opportunities, both internal and acquisition, to increase its market share in its existing areas of operation and to further expand its geographic presence within the WCSB. The Company is also examining opportunities to expand its product and service offering within the WCSB and to expand its operations outside of the WCSB.

Gas Compression Services: The Company has historically targeted the sub-3000 horsepower gas compression market in western Canada. The Company has expanded its market to include international sales and in November 2008 announced the appointment of Champion Compressors Pty Ltd. as exclusive distributor of Bidell's natural gas compression equipment in Australia. The Company has and will continue to compete with its larger competitors by providing quality equipment and maintaining an efficient business model. The Company has also increased its in-house engineering capabilities in order to focus on developing proprietary equipment designs that provide solutions to its customers. Total Energy has applied for patent protection in Canada, the United States and certain other international jurisdictions for its proprietary trailer-mounted compression package which is branded the NOMAD™ and in January 2010 received a United States patent in respect of this technology. The Company intends to grow its natural gas compression rental business and, as such, expects to increase the amount of total horsepower in its rental fleet. The Company is also focused on expanding its parts and service business in the WCSB.

OVERALL PERFORMANCE

The fourth quarter of 2009 continued to be challenging for the Company. In what is typically the Company's second busiest quarter due to the seasonality of its operations, overall industry activity levels remained at multi year lows due to continued global economic and financial market challenges and low commodity prices, specifically with respect to natural gas. As a result, Company revenues decreased by 45% from the prior year comparable quarter. Notwithstanding challenging market conditions, the Company recorded net earnings of $2.1 million for the fourth quarter of 2009 compared to net earnings of $8.9 million in the fourth quarter of 2008. Net earnings were positively impacted by an income tax recovery of $0.8 million in the fourth quarter of 2009 versus income tax expense of $1.7 million recorded in the fourth quarter of 2008.

The Company's financial condition remains strong. The Company's bank indebtedness and long-term debt decreased by $2.7 million and shareholders' equity increased by $8.3 million during 2009. As at December 31, 2009 long-term debt (including current portion) to long-term debt plus equity was 0.22 to 1.0 (December 31, 2008 – 0.13 to 1.0). The increase in the ratio for 2009 as compared to 2008 is due to the replacement of the Company's existing $65 million in credit facilities with $90 million of credit facilities in January 2010. This resulted in what had previously been recorded as bank indebtedness being recorded as long-term debt (see Note 10 to the 2009 Audited Consolidated Financial Statements). As at December 31, 2009 the Company had $6.2 million (December 31, 2008 - $6.3 million) of net debt (net debt being long-term debt plus obligations under capital leases plus current liabilities minus current assets).

KEY PERFORMANCE DRIVERS

Total Energy believes the following key performance drivers are critical to the success of its business.

- Oil and natural gas prices and the resulting cash flows, access to debt and equity financing and capital expenditures of its customers, the exploration and development companies that operate in the WCSB and, to a lesser extent, in other markets in which the Company's Gas Compression Services division competes.
- The expectations of its customers as to future oil and natural gas prices.
- The expectations of its customers as to oil and natural gas exploration and development prospects in the WCSB.
- The prevailing competitive conditions in each of the business segments in which Total Energy competes.
- The general state of global and national financial markets which impact the Company's access to debt and equity, which in turn affects the Company's cost of capital and economic rate of return on the Company's assets.
- Weather, which impacts both the ability to operate in the WCSB, as well as the overall demand for natural gas and heating oil.
- Effect of non-market forces such as government royalty and taxation policy, government incentives for renewable energy and regulatory changes, which create market uncertainty and affect industry activity levels.
- Access to, and retention of, qualified personnel.
- Ongoing technological developments that influence resource development.

There are several key performance measures the Company uses to monitor and assess its performance relative to the key performance drivers, the implementation of its strategy, and the achievement of its goals and vision. Such measures include:

- Return on invested capital and return on equity.
- Safety and environmental stewardship. The Trust has a health, safety and environmental management policy in place within each of its operating divisions. Targets and objectives are set within those policies.

CAPABILITY TO DELIVER RESULTS

Non-Capital Resources

People are the most critical non-capital resource required in order for the Company to achieve its goals set out in its strategic plan, particularly during periods of robust industry conditions when competition for skilled labour is greatest. The Company is continually evaluating its human resources levels to ensure that it has adequate human resources to meet its business requirements, including during extended periods of industry weakness when staffing levels need to be adjusted lower in the face of lower demand for the Company's products and services. In addition, succession planning is ongoing in order to mitigate the impact of planned or unplanned departures of key personnel. The Company believes that it presently has sufficient human resources to successfully operate its business and to execute its strategic plan.

Capital Resources

The Company has the necessary working capital to meet its current obligations and commitments and has no off-balance sheet financing arrangements. In order to finance future growth, Total Energy anticipates utilizing a combination of working capital, cashflow, existing and new debt facilities and new equity issuances.

Systems and Processes

The Company's operational systems and processes are continually reviewed by management. The Company periodically evaluates existing systems and develops new ones as required. Total Energy believes that it presently has sufficient systems and processes in place to successfully operate its business and to execute its strategic plan. In 2009 the Company upgraded its enterprise resource planning system in Bidell to better position Bidell for continued growth.

In addition to certain risks, which are explained under the heading "Risk Factors" below and in the Trust's AIF, the following factors impact Total Energy's business:

Seasonality and Cyclicality

The Company's business is cyclical due to the nature of its customers' cash flows and capital expenditures.

Customers' cash flows and capital expenditures are in turn affected by, among other things, oil and gas prices, access to capital, the prospects for oil and gas exploration and development in the WCSB and economics of oil and gas exploration and production in the WCSB compared to the economics of international opportunities. The Company currently has no material long-term contracts in place for the provision of its equipment and services.

Seasonality impacts the Company's operations. The Company's operations are carried on in the WCSB. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until such roads have thoroughly dried out. The duration of this "spring breakup" has a direct impact on the Company's activity levels. In addition, many exploration and production areas in northern Canada are accessible only in winter months when the ground is frozen hard enough to support equipment. The timing of freeze up and spring breakup affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Company's slowest period.

Trends and Outlook

The Company remains cautious regarding the near to medium term impact of the global financial crisis and ensuing economic challenges. However, recent improvements in general economic conditions and energy prices give rise to some optimism. The Company believes that long-term fundamentals require continued exploration and development in the WCSB and elsewhere, particularly in respect of unconventional oil and natural gas reserves, to meet North American and world-wide demand for oil and natural gas. Historically, the Company has levered its operations towards the exploration and production of natural gas as the Company anticipated this commodity to be a strong driver of exploration and production activity in the WCSB. This is due to the fact that natural gas reserves in the basin are generally less developed than conventional oil reserves, natural gas is the North American heating fuel of choice, natural gas is increasingly used in the generation of electricity, and the Company believes that demand will continue to increase for natural gas in the United States and in Alberta as oil production levels at the Alberta oilsands continue to increase. Natural gas well completions accounted for approximately 54% of the wells drilled in the WCSB during 2009 as compared to 60% for the comparable period in 2008. Increased focus on the development of unconventional oil and natural gas resources in the WCSB is expected to drive activity in the future. The recent application of horizontal drilling and multi-stage fracturing completion technologies to WCSB oil resources has significantly increased drilling and completion activity in the WCSB targeting oil. As a result, the Company's revenue base has recently become more balanced between oil and natural gas related activities. The oil and gas service industry is highly reliant on the levels of capital expenditures made by oil and gas producers and explorers to find and produce oil and natural gas. These companies base their capital expenditures on several factors, including but not limited to current and expected hydrocarbon prices, exploration and development prospects and access to capital. Activity levels are ultimately dependent on these above and other factors. Exploration and development companies have generally indicated their 2010 WCSB capital budgets will increase compared to 2009 capital expenditure levels and, as such, Total Energy expects 2010 industry activity levels to be an improvement over 2009.

Governmental and Environmental Regulation and Risk Management

The Company has a comprehensive insurance and risk management program in place to protect its assets, operations and employees. The Company also has programs in place to ensure it meets or exceeds current safety and environmental standards. The Company has safety and environmental personnel responsible for maintaining and developing the Company's policies and monitoring the Company's operations in each division to ensure they are in compliance with such policies and applicable legislation. The safety and environmental personnel report to the divisional General Managers and directly to the Vice President of Operations of the Company.

SELECTED FINANCIAL INFORMATION

Selected annual financial information derived from the audited consolidated financial statements of the Company for the three most recently completed financial years is set forth below and is prepared in accordance with GAAP.

(in thousands of dollars except per share amounts)	**Year Ended Dec. 31, 2009**	Year Ended Dec. 31, 2008	Year Ended Dec. 31, 2007
Revenue	**$ 106,509**	$ 154,482	$ 135,584
Cash provided by operations	**32,151**	47,352	24,849
Cashflow	**25,366**	42,412	42,160
Net earnings	**11,640**	25,333	30,858
Per share (basic)	**0.40**	0.86	1.04
Per share (diluted)	**0.40**	0.86	1.04
Total assets	**234,774**	247,515	228,617
Long term liabilities (excluding current portions of long-term debt, current obligations under capital leases and future income taxes and deferred tax credit)	**35,713**	13,521	21,383

In 2009 the Company experienced lower demand for its products and services in all of its divisions. Overall revenue for the Company decreased by 31% in 2009 versus 2008 and was 21% lower than in 2007.

Cash provided by operations was 32% lower than 2008 but 29% higher than 2007 due primarily to lower earnings before income taxes which was offset by changes in non-cash working capital items. Cashflow was 40% lower than 2008 and 2007 due primarily to lower net earnings. Net earnings in 2009 were 54% and 62% lower than 2008 and 2007 respectively. The decrease in net earnings was due primarily to lower earnings before income taxes due to decreased demand for the Company's products and services.

The Company's total assets have increased by 3% since 2007. This increase reflects growth in property, plant and equipment which was partially offset by lower working capital balances due to reduced industry activity levels.

RESULTS OF OPERATIONS

Consolidated Revenue

Revenues decreased 45% to $27.3 million for the three months ended December 31, 2009 versus $49.7 million for the same period in 2008 and decreased 31% to $106.5 million for the year ended December 31, 2009 versus $154.5 million for the same period in 2008.

DIVISIONAL REVENUE

Divisional revenues for the three months ended December 31, 2009 were $7.1 million for Contract Drilling Services, $11.8 million for Drilling and Production Rentals and $8.4 million for Gas Compression Services. Divisional revenues for the year ended December 31, 2009 were $18.3 million for Contract Drilling Services, $49.6 million for Drilling and Production Rentals and $38.6 million for Gas Compression Services.

Contract Drilling Services

The revenue reported from Total Energy's Contract Drilling Services division decreased by 28% to $7.1 million for the three months ended December 31, 2009 as compared to $9.9 million for the same period in 2008, and decreased by 51% to $18.3 million for the year ended December 31, 2009 as compared to $37.1 million for the same period in 2008. Revenues decreased from the prior year comparable periods due to lower utilization and pricing. For the fourth quarter of 2009 the Contract Drilling Services division achieved a utilization rate, on a spud to release basis, of 41% and a year to date utilization rate of 24%, as compared to 49% respectively for both periods in 2008. Operating days (spud to release) for the three months and year ended December 31, 2009 totaled 532 days and 1,169 days respectively, as compared to 590 days and 2,328 days respectively for the same periods in 2008. Revenue per operating day received for contract drilling services for the three months and year ended December 31, 2009 decreased by 19% and 2% respectively as compared to the same periods in 2008. The decrease in fourth quarter revenue per operating day was due primarily to lower pricing. The revenue per operating day for the year ended December 31, 2009 versus 2008 decreased by only 2% due to a $0.9 million payment received in the third quarter of 2009 in consideration of the termination of a one year contract on a newly constructed fourteenth drilling rig.

Drilling and Production Rentals

The revenue reported from Total Energy's Drilling and Production Rentals division decreased by 43% to $11.8 million for the three months ended December 31, 2009 as compared to $20.7 million for the same period in 2008, and decreased by 29% to $49.6 million for the year ended December 31, 2009 as compared to $70.2 million for the same period in 2008. Revenue decreased from the prior year comparable periods due to lower fleet utilization and lower pricing. Average utilization of the rental assets was 33% and 34% respectively for the three and twelve month periods ended December 31, 2009 as compared to 58% and 53% respectively for the comparable periods in 2008. This division exited the fourth quarter of 2009 and 2008 with approximately 4,500 pieces of rental equipment. This division also exited the fourth quarter of 2009 with a fleet of 74 heavy trucks compared to 72 heavy trucks at the end of the fourth quarter of 2008.

Gas Compression Services

The revenue reported from Total Energy's Gas Compression Services division decreased by 56% to $8.4 million for the three months ended December 31, 2009 as compared to $19.1 million for the same period in 2008, and decreased by 18% to $38.6 million for the twelve month period ended December 31, 2009 as compared to $47.1 million for the same period in 2008. The revenue variances from the prior year comparable periods were due primarily to varying levels of demand from this division's customers and customer preference to purchase or lease equipment. This division exited the fourth quarter of 2009 with a backlog of fabrication orders of approximately $11.3 million, as compared to a backlog of $19.3 million as at December 31, 2008. As at December 31, 2009 the total horsepower of compressors on lease was approximately 17,600 as compared to approximately 14,600 as at December 31, 2008. The compression rental fleet experienced an average utilization of 82% (based on fleet horsepower) in 2009 as compared to 75% for the same period in 2008.

Other

Total Energy's Other division consists of the Company's corporate activities. The Other division does not generate any revenue but provides sales, operating and other support services to Total Energy's operating divisions and wholly owned subsidiaries and partnerships and manages the corporate affairs of the Company.

Operating Expenses

Operating expenses decreased 41% to $17.8 million for the three months ended December 31, 2009 as compared to $30.0 million for the same period in 2008, and decreased by 27% to $65.5 million for the year ended December 31, 2009 as compared to $89.8 million for the same period in 2008. The decreases resulted primarily from decreased costs associated with decreased activity levels. The gross margin percentage for the three and twelve month periods ended December 31, 2009 was 35% and 39% respectively as a percentage of revenue as compared to 40% and 42% for the comparable periods in 2008. The gross margin percentage decreases are due primarily to lower activity levels and the high relative fixed operating cost structure in the Drilling and Production Rentals division and the under absorption of manufacturing overhead as a result of lower production levels in the Gas Compression Services Division. A more detailed margin analysis for each division is presented in the discussion of Operating Earnings. Operating expenses consist of salaries and benefits for operations personnel, repairs, maintenance, fuel, manufacturing costs and trucking costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by 13% to $4.0 million for the three months ended December 31, 2009 as compared to $4.6 million for the same period in 2008, and decreased by 13% to $15.3 million for the twelve month period ended December 31, 2009 as compared to $17.5 million for the same period in 2008. The decreases resulted primarily from decreased costs associated with decreased revenues and efforts to reduce costs during these difficult industry conditions. Included in these costs are compensation for directors and officers pursuant to the Company's cash based compensation plans. Selling, general and administrative expenses also include salaries and benefits for office staff, rent, utilities, and communications in the Company's various divisional offices and its corporate head office as well as professional fees and other costs to maintain the Company's public listing.

Share Based Compensation Expense

Share based compensation was $0.3 million and $1.3 million respectively for the three and twelve month periods ended December 31, 2009 versus nil for the prior year comparable periods. The share based compensation expense arises from share options granted pursuant to a share option plan implemented during the second quarter of 2009. Additional information with respect to the plan is outlined in note 14 to the Audited Consolidated Financial Statements.

Depreciation Expense

Depreciation expense decreased 2% and 5% respectively for the three and twelve month periods ended December 31, 2009 to $3.7 million and $13.2 million respectively, as compared to $3.7 million and $13.9 million respectively for the prior year comparable periods. The decreases are due primarily to lower equipment utilization in Contract Drilling Services. All of the Company's property, plant and equipment are depreciated on a straight-line basis with the exception of contract drilling equipment which is depreciated on a utilization basis.

Other Interest Expense

Other interest expense was $0.2 million and $0.6 million respectively for the three and twelve month periods ended December 31, 2009 as compared to $0.3 million and $1.3 million respectively for the comparable periods in 2008. Other interest expense is interest paid on advances under the Company's operating line of credit. The decreases in other interest expense were due primarily to lower loan balances and lower applicable interest rates.

Interest on Long-term Debt

Interest on long-term debt was $0.3 million and $0.9 million respectively for the three and twelve month periods ended December 31, 2009 as compared to $0.2 million and $1.3 million respectively for the comparable periods in 2008. The decrease in interest on long-term debt for the year ended December 31, 2009 was due primarily to lower average loan balances and lower applicable interest rates. Included in interest on long-term debt is interest on capital leases.

Operating Earnings

Operating earnings decreased 90% to $1.1 million in the fourth quarter of 2009 as compared to $10.9 million for the comparable period in 2008. For the twelve month period ended December 31, 2009 operating earnings decreased 68% to $9.7 million from $30.8 million for the comparable period in 2008. The decrease in operating earnings was due to decreased activity levels.

The Contract Drilling Services division contributed operating earnings of $0.5 and $1.8 million respectively for the three months and year ended December 31, 2009, as compared to operating earnings of $2.0 million and $6.6 million respectively for the comparable periods in 2008. The operating earnings margin in this division was 6% and 10% respectively for the three months and year ended December 31, 2009 as compared to 20% and 18% for the comparable periods in 2008. The decreases in operating earnings margin resulted primarily from decreased activity levels and lower pricing in this division.

The Drilling and Production Rentals division contributed operating earnings of $1.2 million and $9.2 million respectively for the three months and year ended December 31, 2009, as compared to $7.9 million and $22.8 million for the comparable periods in 2008. The operating earnings margin in this division was 10% and 18% respectively for the three and twelve month periods ended December 31, 2009 as compared to 38% and 33% for the comparable periods in 2008. The decreases in operating earnings margin resulted primarily from decreased activity levels and lower pricing in this division.

The Gas Compression Services division contributed operating earnings of $0.6 million and $3.1 million respectively for the three and twelve month periods ended December 31, 2009 as compared to $1.5 million and $4.6 million for the comparable periods in 2008. The operating earnings margin in this division was 7% and 8% respectively for the three and twelve month periods ended December 31, 2009 as compared to 8% and 10% respectively for the corresponding periods in 2008. The decreases in operating earnings margin resulted primarily from decreased activity levels in this division, under absorption of manufacturing overhead as a result of lower production levels in 2009 and increased overhead costs associated with the expansion of its parts and service business that began during the second quarter of 2008.

The Other division had operating losses of $1.1 million and $4.3 million respectively for the three and twelve month periods ended December 31, 2009 as compared to $0.6 million and $3.2 million for the corresponding periods in 2008. The increase in the operating loss for the three and twelve month periods ended December 31, 2009 is due primarily to share based compensation expense of $0.3 million and $1.3 million respectively that was incurred in 2009 with no corresponding expense in 2008. The Other division does not include any operational activities relating to Total Energy's business and therefore does not generate any revenue.

Gain (Loss) on Disposal of Equipment

Gain on disposal of equipment was $167,000 and $476,000 respectively for the three and twelve month periods ended December 31, 2009 as compared to losses of $341,000 and $108,000 for the comparable periods in 2008. Disposals of equipment result from the replacement and upgrade of older equipment in the Company's fleet as well as the exercise of purchase options on compression equipment previously on lease in the Gas Compression Services division.

Income Taxes and Net Earnings (Loss)

The Company recorded net earnings of $2.1 million ($0.07 per share on a diluted basis) and net earnings of $11.6 million ($0.40 per share on a diluted basis) respectively for the three months and year ended December 31, 2009 as compared to net earnings of $8.9 million ($0.30 per share on a diluted basis) and $25.3 million ($0.86 per share on a diluted basis) for the corresponding periods in 2008. The Company recorded current income tax expense of $0.4 million and current income tax recovery of $2.0 million for the three months and year ended December 31, 2009 as compared to current income tax expense of $1.0 million and $2.3 million for the corresponding periods in 2008. The Company recorded a future income tax recovery of $1.2 million and $0.3 million respectively for the three months and year ended December 31, 2009 as compared to future income tax expense of $0.7 million and $3.1 million for the corresponding periods in 2008. This resulted in an effective tax rate that was negative for the three months and year ended December 31, 2009, as compared to an effective tax rate of 16% and 17% respectively for the comparable periods in 2008. The decrease in the effective tax rate for the three months and year ended December 31, 2009 versus the prior year comparable periods resulted primarily from decreased earnings before income taxes in 2009 and the utilization of income tax pools.

Total Energy Services Ltd. and one of its non-operating subsidiaries have been re-assessed by the Ontario Ministry of Finance ("Ontario Finance"), Alberta Finance and Enterprise ("Alberta Finance") and the Canada Revenue Agency ("CRA") on account of a corporate re-organization undertaken prior to Total Energy's conversion to a trust in 2005. The Company has received both legal and tax advice indicating that the technical merits of the filings positions taken are strong and, as such, no provisions have been taken with respect to the reassessments. The total amount of the reassessments, including interest, is approximately $6.9 million, $7.8 million and $0.2 million respectively. The Ontario Finance and CRA reassessments represent competing claims on the same underlying taxable income as the Alberta Finance reassessments, such that the Ontario Finance and CRA reassessments cannot be successfully applied with the Alberta Finance reassessments. In addition, the Alberta Finance reassessments include duplicate reassessments on the same underlying taxable income, which duplicate reassessments cannot both be successfully applied. Further, it is the Company's position that the applicable limitation period has expired with respect to a significant portion of the Alberta reassessments making such reassessments invalid. The Company is vigorously defending the filing position taken and has filed notices of objection to the reassessments with the provincial taxation authorities and CRA. These various reassessments relate to approximately $2.6 million of alleged underlying income taxes owing for the period from 2002 to the conversion of Total Energy to a trust in April 2005.

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operations

Cash provided by operations decreased by 67% and 32% respectively for the three months and year ended December 31, 2009 to $3.9 million and $32.2 million respectively as compared to $11.7 million and $47.4 million for the comparable periods in 2008. Cashflow decreased by 66% and 40% respectively for the three months and year ended December 31, 2009 to $4.7 million and $25.4 million respectively as compared to $13.7 million and $42.4 million for the comparable periods in 2008. These decreases are due primarily to decreased operating earnings. The Company reinvests the remaining cash provided by operations after dividend payments to shareholders into the internal growth of existing businesses, acquisitions, the repayment of long-term debt and obligations under capital leases, or the repurchase of Company shares pursuant to the Company's normal course issuer bid.

Investments

Net cash used in investment activities for the three months and year ended December 31, 2009 was $4.9 million and $25.9 million respectively, as compared to $7.3 million and $22.8 million for the comparable periods in 2008. The majority of cash used in 2009 and 2008 for investment activities related to the purchase of property, plant and equipment. Purchases of property, plant and equipment during 2009 were allocated as follows: $6.1 million in the Contract Drilling Services division relating primarily to the construction of Rig 14, $4.1 million in the Drilling and Production Rentals division relating primarily to the purchase of two heavy trucks and rental equipment and $10.6 million in the Gas Compression Services division relating primarily to additions to the compression rental fleet. During 2008, the property, plant and equipment additions were as follows: $6.9 million in the Contract Drilling Services division, $17.0 million in the Drilling and Production Rentals division and $6.3 million in the Gas Compression Services division. Also included in net cash used in investment activities for 2009 is the amount paid pursuant to the Company's conversion from the trust structure to the corporate structure. The purchase of property, plant and equipment during the three months and year ended December 31, 2009 were offset by proceeds on disposal of property, plant and equipment of $1.8 million and $4.0 million respectively, as compared to $0.8 million and $2.3 million for the comparable periods in 2008. The disposal of equipment during 2009 resulted primarily from the sale of compression equipment from the Gas Compression Services division's compression rental fleet with the remainder arising from the replacement and upgrade of older equipment in the Company's Drilling and Production Rentals division.

Financing

For the three month period ended December 31, 2009 net cash generated in financing activities was $1.0 million. For the twelve month period ended December 31, 2009 net cash used in financing activities was $6.2 million. For the three and twelve month periods ended December 31, 2008 net cash used in financing activities was $4.4 million and $24.6 million respectively. The decrease in net cash used in financing activities during 2009 as compared to 2008 was due primarily to long-term debt advances made during 2009 and reduced distributions to shareholders. During the twelve month period ended December 31, 2009 the Company had advances of long-term debt of $12.0 million as compared to $3.0 million during the corresponding period in 2008. The increase in advances of long-term debt was due primarily to reductions made to the Company's outstanding bank indebtedness. The Company had a net decrease in bank indebtedness of $5.0 million for the twelve month period ended December 31, 2009 as compared to $3.5 million for the corresponding period in 2008.

Liquidity

The Company had a working capital surplus of $29.5 million as at December 31, 2009 as compared to $7.3 million at the end of 2008. The increase in the Company's working capital position is primarily due to the refinancing of the Company's credit facilities in January 2010 which resulted in a $25 million increase in the Company's available credit facilities to $90 million and the reclassification of bank indebtedness to long-term debt. As at December 31, 2009 and the date of this MD&A, the Company is in material compliance with all debt covenants and is able to fully utilize all existing credit facilities subject to normal margining requirements.

In January 2010 the Company replaced its credit facilities with a $10 million revolving operating facility and an $80 million revolving term loan facility. The facilities are secured by a first fixed and floating charge on all assets of the Company and certain other collateral security. The rate at which the facilities bear interest is based on a financial ratio with the interest rate ranging from prime plus 1.25% to 2.00%. The facilities are 364 day plus 2 year facility such that in the event of non-renewal all amounts owing under the facilities are due and payable on the two year anniversary following non-renewal. Advances made under the revolving term loan facility are repayable over sixty months. The Company believes that it has sufficient liquidity to operate its business and execute its strategic plan for the foreseeable future.

Dividends and Distributions

During the three and twelve month periods ended December 31, 2009 dividends of $0.9 million and $1.7 million respectively were declared to shareholders. Prior to the Company's conversion from a trust to a corporation in May 2009 distributions of $3.5 million were declared to unitholders in respect of earnings for the first four months of 2009. For the three and twelve month periods ended December 31, 2008 distributions to unitholders were $2.6 million and $10.6 million respectively.

For the three and twelve month periods ended December 31, 2008, cashflow exceeded distributions by $11.0 million and $31.8 million respectively. For the three and twelve month periods ended December 31, 2008 cash provided by operations exceeded distributions by $9.1 million and $36.8 million respectively. For the three and twelve month periods ended December 31, 2008 net earnings exceeded distributions by $6.2 million and $14.7 million respectively.

Over the entire fiscal year the Company expects cash flow, cash provided by operations and net earnings to exceed dividends to shareholders. Management and the board of directors of the Company will monitor the Company's dividend policy with respect to forecasted net earnings, cashflow, cash provided by operations, debt levels, capital expenditures and other investment opportunities and will aim to finance future dividends through cash provided by operations.

SUMMARY OF QUARTERLY RESULTS

(in thousands of dollars except per share amounts)

	Financial Quarter Ended (Unaudited)			
	Dec. 31, 2009	Sept. 30, 2009	Jun 30, 2009	Mar 31, 2009
Revenue	**$ 27,298**	$ 20,004	$ 14,722	$ 44,485
Cashflow (1)	**4,702**	4,692	3,534	12,438
Cash provided by operations	**3,920**	808	19,007	8,416
Net earnings (loss)	**2,131**	2,185	(1,236)	8,560
Per share (basic diluted)	**0.07**	0.08	(0.04)	0.29

	Financial Quarter Ended (Unaudited)			
	Dec 31, 2008	Sept 30, 2008	Jun 30, 2008	Mar 31, 2008
Revenue	**$ 49,712**	$ 37,266	$ 23,978	$ 43,526
Cashflow (1)	**13,675**	10,567	4,343	13,827
Cash provided by operations	**11,721**	12,236	16,038	7,357
Net earnings (loss)	**8,862**	6,080	797	9,594
Per share (basic diluted)	**0.30**	0.21	0.02	0.33

(1) Refer to "Non-GAAP Measures" for further information.

As discussed in 'Seasonality and Cyclicality' above, variations over the quarters are due in part to the cyclical nature of the energy service industry in the WCSB due to the occurrence of "breakup". The first quarter has generally been the strongest quarter for the Company. This strength is due to the northern exposure that the Company has in its Drilling Services operations. The northern areas are busiest in the winter as these areas are frozen and allow better access to operations locations. The second quarter has generally been the slowest quarter due to "breakup" as described above. Many of the areas that the Company operates in are not accessible during this period when ground conditions do not permit the movement of heavy equipment. The third quarter has generally been the third busiest quarter, as some of the issues associated with "breakup" are no longer affecting access to areas of operations. The fourth quarter has usually been the second busiest quarter of the year as customers are generally able to start accessing northern areas with the onset of winter and the ground freezing.

CONTRACTUAL OBLIGATIONS

At December 31, 2009, the Company had the following contractual obligations:

	Payments due by year					
(in thousands of dollars)	Total	2010	2011	2012	2013	2014 and thereafter
Long-term debt (1)	43,687	8,737	8,737	8,737	8,737	8,739
Commitments (2)	4,766	2,053	1,351	1,023	293	46
Capital leases	1,351	588	496	245	22	–
Purchase obligations (3)	892	892	–	–	–	–
Total contractual obligations	$ 50,696	$ 12,270	$ 10,584	$ 10,005	$ 9,052	$ 8,785

(1) Long-term debt obligations are described in Note 10 to the 2009 Audited Consolidated Financial Statements.

(2) Commitments are described in Note 15 to the 2009 Audited Consolidated Financial Statements.

(3) Purchase obligations are described in Note 15 to the 2009 Audited Consolidated Financial Statements and relate primarily to Total Energy's commitment to purchase inventory for the Gas Compression Services division.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2009 and 2008 the Company had no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During 2009 and 2008 the Company had no material transactions with related parties.

SUBSEQUENT EVENT

On January 15, 2010 the Company completed the previously announced acquisition of the oilfield service, rental and transportation business conducted by DC Energy Services LP ("DC Energy") for $44.4 million. The purchase was effective January 1, 2010. The cash portion of the purchase price of $31.9 million was financed using the Company's credit facilities and the balance of the purchase price of $12.5 million was financed through the issuance of an unsecured convertible debenture bearing interest at 5% per annum, maturing on June 30, 2012 and convertible into common shares of the Company at a conversion price of $7.00 per share. On March 1, 2010 the $12.5 million convertible debenture was converted into 1,785,715 common shares of the Company.

The assets acquired by the Company include approximately 3,600 pieces of rental equipment, 20 heavy trucks and 59 trailers, together with all inventories and other assets (excluding only land and buildings) used in connection with DC Energy's business. The Company has assumed certain leases in respect of real estate, and certain vehicles and trailers utilized by DC Energy in the ordinary course of business. The Company is also responsible for up to $0.9 million of employee retention costs payable over the next 18 months. With the exception of the leases and employee retention costs referenced above no additional material obligations were acquired by the Company in the transaction.

PROPOSED TRANSACTIONS

The Company has not publically announced any asset or business acquisition or disposition transactions other than the DC Energy acquisition referenced above, the purchase obligations disclosed under the above section Contractual Obligations and $9.0 million budgeted for expansion of the Gas Compression Services division's compression rental fleet pursuant to the Company's preliminary 2010 capital expenditure budget. The Company continues to identify and evaluate additional investment opportunities and appropriate public announcements will be made in the event the Company is successful in securing or completing any of such opportunities.

CRITICAL ACCOUNTING ESTIMATES

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

While there are several estimates and assumptions made by management in the preparation of financial statements in accordance with GAAP, the following critical accounting estimates have been identified by management:

Revenue Recognition

The Company recognizes revenue in its divisions as follows; Contract Drilling Services revenue is recognized when services are provided; Drilling and Production Rentals revenue is recognized when services are provided; and Gas Compression Services revenue is recognized as services are provided or products are sold. The Company's services and products are sold based upon orders or contracts with customers that include fixed or determinable prices based upon daily, hourly, or job rates. Revenue is recognized when services and equipment rentals are provided and when collectibility is reasonably assured.

Estimates of Collectibility of Accounts Receivable

The Company has to make an estimate for the collectibility of its accounts receivable. The Company continually reviews its accounts receivable balances and makes an allowance once it considers an accounts receivable balance uncollectible. The actual collectibility of accounts receivable could differ materially from the estimate although management does not consider the risk of a significant loss to be material at this time.

Estimates of Depreciation

Total Energy has significant estimates relating to the depreciation policies for property, plant and equipment. Factors that are included in the estimation include but are not limited to the economic life of the asset and the salvage value of the asset at the end of its economic life. The Company makes an estimate based on the best information on these factors that it has at that the time these estimates are performed. Actual results could differ materially if any of these factors are different in the future than the current estimates. See Note 3(b) in the notes to the 2009 Audited Consolidated Financial Statements of the Company for Total Energy's depreciation policy.

Estimates of Tax Pools and Their Recoverability

Total Energy has estimated its tax pools for the income tax provision. The actual tax pools that the Company may be able to use could be materially different in the future. See Note 12 in the 2009 Audited Consolidated Financial Statements of the Company for further information.

Share Based Compensation

Share based compensation is calculated using the fair value method based upon the Black-Scholes model. In order to establish fair value, estimates and assumptions are used to determine risk-free interest rate, expected term, anticipated volatility, anticipated dividend yield and forfeiture rate. The use of different assumptions could result in different book values for share based compensation. See Note 14 in the 2009 Audited Consolidated Financial Statements of the Company for further information on the share-based compensation plan.

CHANGE IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

Effective January 1, 2009, the Company prospectively adopted the new accounting recommendation from the Canadian Institute of Chartered Accountants ("CICA"), Handbook Section 3064, Goodwill and intangible assets, replacing previous guidance. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. Implementation of this standard did not have a material impact on the Company's financial statements.

RECENT CANADIAN ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of these new standards.

Section 1582 replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3 – Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is the equivalent to the corresponding provisions of IFRS IAS 27 – Consolidated and Separate Financial Statements and applies to the interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In 2008 the CICA Accounting Standards Board confirmed its decision requiring all publically accountable entities to report under IFRS with the aim of consistency in the global marketplace. The standards are effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company expects the transition will impact accounting, financial reporting, internal controls over financial reporting, taxes, and IT systems and processes. The Company has established an internal IFRS implementation team and has developed an implementation plan as outlined below.

The key elements of Company's changeover plan include:

- determine appropriate changes to accounting policies and required amendments to financial disclosures;
- identify and implement changes in associated processes and information systems;
- comply with internal control requirements; and
- educate and train internal and external stakeholders.

While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosures. The Company has completed an initial impact assessment which involves performing a high level review to identify key areas that may be impacted by the transition to IFRS and the major areas where there are significant complexities or key decision required by management prior to the conversion. Although the Company has not yet determined the full effects of adopting IFRS, the Company has determined that a key area where the change to IFRS may be significant is with respect to property, plant and equipment.

Consistent with Canadian GAAP, under IFRS, property, plant and equipment ("PP&E") are recognized initially at cost. Under International Accounting Standard ("IAS") 16, *Property, Plant and Equipment*, an entity is required to choose, for each class of PP&E, to use either the cost model (consistent with Canadian GAAP) or the revaluation model. Under the revaluation model, an item of PP&E is carried at its revalued amount, being its fair value at the date of the revaluation less any accumulated amortization and accumulated impairment losses. Increases in fair value are recorded in a revaluation surplus account in equity while decreases in fair value serve to reduce the revaluation surplus account, related to the asset, with any excess recognized in income.

IAS 16, *Property Plant and Equipment* also requires maintaining the book value of property, plant and equipment separately for each significant item even if the combination of those separate items represents one asset for business purposes. These assets will be analyzed and, if needed, componentized based on the significance of its identifiable components, including their respective useful lives, and amortized separately.

IFRS disclosure and presentation requirements are much more extensive than requirements of Canadian GAAP. Currently the Company is assessing additional requirements.

The Company's high level review did not include differences that are expected to be eliminated by January 1, 2010 via a Canadian GAAP/IFRS harmonization project the CICA has undertaken. Also, the International Accounting Standards Board is working on an improvements project under which a number of International Reporting Standards are expected to change between now and the transition date. Although the potential impact of any changes is not expected to be significant, the Company will assess potential further differences when any revised Standards are published.

First Time Adoption of IFRS

Adoption of IFRS requires the application of First-Time Adoption of International Financial Reporting Standards ("IFRS 1") which provides guidance for an entity's initial adoption of IFRS. IFRS 1 lists specific exemptions the Company may use when first adopting IFRS. The most significant exemptions to the Company are as follows:

- Business Combinations

  For business combinations that occurred before the transition date, the Company has the choice to restate all of these business combinations to IFRS standards, restate all business combinations after a particular date, or not to restate any of these business combinations. Assets and liabilities acquired in an un-restated business combination that were recognized under Canadian GAAP and do not qualify for recognition under IFRS are then de-recognized. The Company does not anticipate restating any business combination that occurred before the transition date.

- Fair-value or revaluation as deemed cost

  IFRS required PP&E to be measured at a cost in accordance with IFRS (breaking down material items into components and amortizing each one separately). However, upon transition, IFRS permits an asset to be recognized at deemed cost which is the fair value at the date of transition or an event-driven valuation. The exemption noted above may be applied to individual items of PP&E. Any write-up of the asset to a fair value above cost will be recorded in retained earnings as a revaluation reserve. The Company anticipates that its PP&E will be measured primary at cost as opposed to deemed cost.

The Company continues to be engaged in the detailed assessment phase. An internal working group is focused on identifying accounting differences between Canadian GAAP and IFRS on a detailed basis and quantification of those. The detailed assessment and the design phase, which includes designing business process changes and providing training to employees, is scheduled to be completed during the second and third quarters of 2010. The testing and implementation phase and a parallel run of Canadian GAAP and IFRS is scheduled to commence during the fourth quarter of 2010 and be completed early in 2011.

Assessment of the Impact of the IFRS Transition on Other Areas of the Company's Activities

- Information technologies ("IT") and data systems

  Changes in reporting and certain accounting requirements as discussed above will potentially require changes to IT systems or may require the implementation of new ones. The Company is currently engaged in identifying areas that will require change.

- Internal Controls Over Financial Reporting

  In accordance with Total's approach to the certification of internal controls required under National Instrument 52-109, all entity level, information technology, disclosure and business process controls will need to be updated and tested to reflect changes which arise as a result of Total's convergence to IFRS. Where material changes identified, these changes will be mapped and tested to ensure that no material deficiencies exist as a result of Company's transition to these new accounting standards.

- Disclosure controls and procedures, including investor relations and external communication plans

  A qualitative assessment of the impact of the IFRS transition is being communicated in the Company's MD&A for the year ended December 31, 2009. The Company will continue to provide updates as to its IFRS changeover plan, including any changes in its plan, in its interim MD&A's for the year ended December 31, 2010.

The final quantitative assessment of the impact of the IFRS transition will be communicated in the Company's MD&A for the year ended December 31, 2010. As at this date the Company will present a detailed reconciliation between IFRS and GAAP of balance sheet and income statement figures as at and for the year ended December 31, 2010, and selected accounting policies in its Financial Statements and MD&A. The interim and year end periods of the financial year ending December 31, 2011 will also include comparative information for the interim and year end periods of 2010 prepared under IFRS.

- Financial reporting expertise, including training requirements

  The Company believes that it has the necessary IFRS expertise as its IFRS team members have received the training necessary for current and future stages of implementation of IFRS. As part of the next stage of the IFRS transition during the second quarter of 2010 divisional controllers will receive formal IFRS training to ensure the necessary expertise is present in all levels of financial reporting within the Company.

  During the second quarter of 2010 an IFRS information session will be held with members of the Board of Directors (including Audit Committee members). During this session management and the Company's external auditors will provide the Board with a review of the timeline for implementation, the implications of IFRS standards to the business and an overview of the impact to the financial statements (as experienced in Europe by comparable companies). As a result of the information session, the Audit Committee members will review the Audit Committee Charter and make the necessary changes to reflect the requirements for IFRS financial expertise. The Audit Committee will continue to receive and review quarterly IFRS project status updates from management.

- Impact on debt covenants and capital requirements

  As described above, it is expected that several transitional adjustments and changes in accounting policies will be made on the transition to IFRS. At this point the Company has not made a final decision on the selection of accounting policies and has not quantified the impact of changes in accounting requirements under IFRS on the selected items described above. However, the transitional adjustments and subsequent accounting for the items described above may result in changes to covenant calculations and will change capital requirements disclosure. The Company's existing credit facility agreement includes margining requirements for PP&E, which margining calculation will likely be impacted by the transition to IFRS. However, the credit facility agreement includes a provision whereby the Company and its lenders shall in good faith attempt to agree on a revised covenant if the transition to IFRS results in a material change to the calculation of an existing covenant. The Company is currently determining the direction of changes and quantifying the adjustments.

FINANCIAL INSTRUMENTS

Risk Management Activities

The Company does not have significant exposure to any individual customer or counter party other than one major independent oil and gas company which accounted for 13% of revenue during the year ended December 31, 2009. No other customer accounted for more than 10% of revenue during this period. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry.

Fair Values

The carrying values of accounts receivable, bank indebtedness, accounts payable and accrued liabilities, dividends payable, distributions payable and obligations under capital leases approximate their fair value due to the relatively short periods to maturity of the instruments. Long-term debt utilizes a combination of short term fixed rates through the use of 30 to 90 day Banker's Acceptance and floating rates and accordingly its fair market value approximates its carrying value.

Interest Rate Risk

The Company manages its interest rate risk on borrowings by utilizing a combination of short-term fixed rates through the use of 30 to 90 day Banker's Acceptance rates and floating rates on debt. As at December 31, 2009 virtually all debt was at floating rates.

Foreign Currency Risk

The Company mitigates its foreign currency risk by purchasing foreign currencies to the extent it deems necessary to offset foreign currency obligations at any given time. The Company also includes an exchange rate fluctuation provision in purchase order contracts where a significant portion of the inputs from such orders are sourced through international suppliers.

OUTSTANDING COMPANY SHARE DATA

	As at December 31, 2009 (in thousand of shares)
Company Shares	29,176
Additional Company Shares to be issued	–
Fully diluted Company Shares	29,176

From December 31, 2009 to the date of this report a $12.5 million unsecured convertible debenture was issued by the Company in conjunction with the DC Energy acquisition. On March 1, 2010 the unsecured convertible debenture was converted into 1,785,715 common shares of the Company. There were no other material changes to the Company share data during this period.

RISK FACTORS

The following is a summary of certain risk factors relating to the activities of the Company and its subsidiaries.

Risks Relating to the Energy Services Business

General

Certain activities of the Company are affected by factors that are beyond its control or influence. The business and activities of the Company are directly affected by fluctuations in the levels of oil and natural gas exploration, development and production activity carried on by its customers, which, in turn, is dictated by numerous factors, including world energy prices and government policies. Any addition to or elimination or curtailment of government incentives or other material changes to government regulation of the energy industry in Canada could have a significant impact on the oilfield service industry in Canada. While the impact of the global financial crisis and challenging economic conditions may continue to present a challenging business environment for the Company during 2010, management believes that the Company is reasonably well positioned to operate in such environment.

Industry Conditions

The oil and gas service industry is highly reliant on the levels of capital expenditures made by oil and gas producers and explorers. Exploration and production companies base their capital expenditures on various factors, including but not limited to hydrocarbon prices, exploration and development prospects in various jurisdictions, production levels of their reserves and access to capital. Oil and gas producers and explorers tend to examine long-term fundamentals affecting the foregoing factors before they adjust their capital expenditure plans. Risk factors associated with the Company's operations include business factors and changes in government regulation. Should one or more of these risks materialize, actual results may vary materially from those currently anticipated. In recent years, commodity prices, and therefore, the levels of drilling, production and exploration activity have been volatile. Any prolonged, substantial reduction in commodity prices will likely affect the activity levels of the exploration and production companies and the demand for the Company's products and services. A significant prolonged decline in commodity prices would have a material adverse effect on the Company's business, results of operations and financial condition, including the Company's ability to pay dividends to its Shareholders.

Government Regulation

Total Energy's business and the business of its customers are subject to significant and evolving laws and government regulations, including in the areas of environment, health and safety. Changes to such laws and regulations may impose additional costs on Total Energy and may affect its business in other ways, including the requirement to comply with various operating procedures and guidelines that may impact Total Energy's operations. Total Energy has in place, in each of its divisions, programs for monitoring compliance to ensure that it meets or exceeds applicable laws and regulatory requirements. Ensuring a healthy and safe workplace minimizes injuries and other risks employees may face in carrying out their duties, improves productivity and avoids penalties or other costs and liabilities.

Material changes to the regulations and taxation of the energy industry may reasonably be expected to have an impact on the energy services industry. In late 2007, the Alberta government announced certain changes to the royalty regime in Alberta which became effective January 1, 2009 although subsequent transitional programs and modifications have been announced and further changes and modifications are expected. While the precise impact of such changes has not yet been determined, a significant increase in royalties or continued uncertainty regarding this issue is expected to result in a material decrease in industry drilling and production activity in Alberta, which in turn would lead to corresponding declines in the demand for the goods and services provided by the Company. To date it would appear that amendments to and uncertainty regarding the royalty regime in Alberta have had a negative impact on the amount of business that Total Energy conducts in Alberta. Conversely, reductions in royalties and other government incentives to increase drilling and production activities, including modifications and temporary drilling incentives adopted by Alberta since the original amendment to the royalty regime was announced, may reasonably be expected to have a positive impact on Total Energy's business.

Any initiatives by Canada or the provinces in which the Company operates to set legally binding targets to reduce emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases" could have direct or indirect compliance costs. Such initiatives and costs may adversely affect the oil and gas business in Canada, which in turn may adversely affect the oil and gas services industry in which the Company participates. The impact of such effects and/or costs is not yet certain.

Credit Risk

A substantial portion of the Company's accounts receivable are with customers involved in the oil and gas industry, whose cash flow may be significantly impacted by many factors including commodity prices, the success of drilling programs, well reservoir decline rates and access to capital. The Company does not have significant exposure to any individual customer or counter-party other than one major independent oil and gas company, which accounted for 13% of revenue during the twelve month period ended December 31, 2009. No other customer accounted for more than 10% of the Company's consolidated revenues during this period. Although collection of these receivables could be influenced by economic factors affecting this industry, management considers the risk of a significant loss to be remote at this time. Management is sensitive to and is continuously monitoring the impact of the global economic and financial crisis on credit risk to the Company.

Currency Fluctuations

The Gas Compression Services division, Bidell, obtains critical components and parts from U.S. suppliers and is therefore subject to foreign exchange rate fluctuations in the procurement of those materials. Where Bidell is contracted to undertake custom work, an exchange rate fluctuation provision is included in the relevant purchase order to reduce Bidell's exposure to such fluctuations. The Company's Contract Drilling Services division and the Drilling and Production Rentals division purchase certain capital equipment from U.S. suppliers and are also subject to foreign exchange rate fluctuations in the procurement of those items. Total Energy has taken measures that it considers reasonable to mitigate its exposure to exchange rate fluctuations, including the purchase of foreign currencies in an amount approximately equal to such foreign currency obligations at any given time. However, there can be no assurance that such measures will reduce Total Energy's exposure to currency fluctuations to a level that is not material.

Competition

The various business segments in which the Company participates are highly competitive. The Company competes with several large national and multinational organizations in the contract drilling services, drilling and production equipment rentals and gas compression services businesses. Many of those national and multinational organizations have greater financial and other resources than the Company. There can be no assurance that such competitors will not substantially increase the resources devoted to the development and marketing of products and services that compete with those of the Company or that new competitors will not enter the various markets in which the Company is active. In certain aspects of its business, the Company also competes with a number of small and medium-sized companies, which, like the Company, have certain competitive advantages such as low overhead costs and specialized regional strengths.

Access to Parts, Development of New Technology and Relationships with Key Suppliers

The ability of Bidell to compete and expand is dependent on Bidell having access, at a reasonable cost, to equipment, parts and components, which are at least technologically equivalent to those utilized by competitors and to the development and acquisition of new and competitive technologies. Although Bidell has secured individual distribution agreements with various key suppliers, there can be no assurance that those sources of equipment, parts, components or relationships with key suppliers will be maintained. If these sources and relationships are not maintained, Bidell's ability to compete may be impaired. Bidell is able to access certain distributors and secure discounts on parts and components that would not be available if it were not for its relationship with certain key suppliers. Should the relationships with key suppliers come to an end, the availability and cost of securing certain equipment and parts may be adversely affected. The ability of Chinook to compete and expand is dependent upon Chinook having access, at a reasonable cost, to drilling equipment and supplies that are at least technologically equivalent to those utilized by competitors and to the development and acquisition of new and competitive technologies as industry conditions require. There can be no assurance that existing sources for equipment will be maintained or that new technologically advanced equipment will be acquired. If such equipment is not available, Chinook's ability to compete may be impaired.

Employees

The success of the Company is dependent upon its key personnel. Any loss of the services of such persons could have a material adverse effect on the business and operations of the Company. The ability of the Company to expand its services will be dependent upon its ability to attract additional qualified employees in all of its divisions. The ability to secure the services of additional personnel is constrained in times of strong industry activity. Total Energy expects that a modest general economic outlook and slower industry environment will alleviate labour challenges during 2010 relative to past years when activity levels were higher.

Environmental Liability Risks

Total Energy routinely deals with natural gas, oil and other petroleum products. The Company has established programs to address compliance with current environmental standards and monitors its practices concerning the handling of environmentally hazardous materials. The Company also generally performs "phase 1" environmental studies on all of its properties prior to acquisition to minimize the risk of acquisition of a contaminated property. However, there can be no assurance that the Company's procedures will prevent environmental damage occurring from spills of materials handled by the Company or that such damage has not already occurred. As a result of its fabrication and refurbishing operations, Bidell also generates or manages hazardous wastes, such as solvents, thinners, waste paint, waste oil, washdown wastes and sandblast material.

Although the Company attempts to identify and address contamination issues before acquiring properties, and attempts to utilize generally accepted operating and disposal practices, hydrocarbons or other wastes may have been disposed of or released on or under properties owned, leased, operated or worked on by the Company or on or under other locations where such wastes have been taken for disposal. These properties and the wastes disposed thereon may be subject to environmental laws that could require the Company to remove the wastes or remediate sites where they have been released.

Potential Operating Risks and Insurance

Total Energy has an insurance and risk management program in place which has been implemented in an effort to protect its assets, operations and employees. Total Energy also has programs in place to address compliance with current safety and regulatory standards. Total Energy has a health and safety coordinator in each division who is responsible for maintaining and developing policies and monitoring operations vis-à-vis those policies. Third party consultants are also retained as required to assist the divisional health and safety coordinators. Each health and safety coordinator is required to report incidents directly to the Vice President of Operations of Total Energy. However, the Company's operations are subject to risks inherent in the oil and gas drilling and production services industry, such as equipment defects, malfunction and failures and natural disasters with resultant uncontrollable flows of oil, gas or well fluids, fires, spills and explosions.

These risks could expose the Company to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages. Although the Company has obtained insurance against certain of the risks to which it is exposed, such insurance is subject to coverage limits and no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

Access to Additional Financing

Total Energy may find it necessary in the future to obtain additional debt or equity to support ongoing operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to Total Energy when needed or on terms acceptable to Total Energy, particularly during the current global financial crisis. Total Energy's inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit the Company's growth and may have a material adverse effect upon the Company.

Seasonality

In general, the level of activity in the Canadian oilfield service industry is influenced by seasonal weather patterns. Wet weather and the spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Additionally, certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months, because the ground surrounding the drilling sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in the activity levels of exploration and production companies and corresponding declines in the demand for the goods and services of the Company.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies in the notes to financial statements. When necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality, and are in accordance with Canadian generally accepted accounting principles (GAAP) appropriate in the circumstances. The financial information elsewhere in the Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management has prepared Management's Discussion and Analysis (MD&A). The MD&A is based upon Total Energy's financial results prepared in accordance with Canadian GAAP. The MD&A compares the audited financial results for the twelve months ended December 31, 2008 to December 31, 2009.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

KPMG LLP, an independent firm of Chartered Accountants, was engaged, as approved by a vote of unitholders at Total Energy's most recent annual general meeting, to audit the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion.

The Audit Committee of the Board of Directors of Total Energy Services Inc., which is comprised of three independent directors, has discussed the consolidated financial statements, including the notes thereto, with management and external auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendations of the Audit Committee.

DANIEL K. HALYK President and Chief Executive Officer	MARK A. KEARL, CA Vice President and Chief Financial Officer

March 4, 2010

AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Total Energy Services Inc. ("Total Energy" or the "Company") as at December 31, 2009 and 2008 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

CHARTERED ACCOUNTANTS

Calgary, Canada

March 4, 2010

TOTAL ENERGY SERVICES INC.

Consolidated Balance Sheets

December 31, 2009 and 2008
(in thousands of Canadian dollars)

	2009	2008
ASSETS		
Current assets:		
Accounts receivable	$ 22,104	$ 37,274
Inventory (note 8)	28,408	33,836
Income taxes receivable	2,848	–
Prepaid expenses and deposits	2,309	1,319
	55,669	72,429
Property, plant and equipment (note 9)	175,052	171,033
Goodwill	4,053	4,053
	$ 234,774	$ 247,515
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness (note 10)	$ –	$ 24,830
Accounts payable and accrued liabilities	15,976	29,137
Dividends payable	875	–
Distributions payable	–	872
Income taxes payable	–	2,336
Current portion of long-term debt (note 10)	8,737	8,000
Obligations under capital leases	588	–
	26,176	65,175
Long-term debt (note 10)	34,950	13,521
Obligations under capital leases	763	–
Future income taxes (note 12)	5,681	21,443
Deferred tax credit (note 12)	11,575	–
Shareholders' equity:		
Share capital (note 13)	60,777	–
Trust Unit capital (note 13)	–	60,027
Contributed surplus (note 13)	1,174	–
Retained earnings	93,678	87,349
	155,629	147,376
Commitments and contingencies (notes 15 & 16)		
Subsequent events (notes 10 & 19)		
	$ 234,774	$ 247,515

See accompanying notes to consolidated financial statements.

Approved by the Board:

Director: Andrew Wiswell

Director: Bruce L. Pachkowski

TOTAL ENERGY SERVICES INC.

Consolidated Statements of Earnings

Years ended December 31, 2009 and 2008
(in thousands of Canadian dollars except per share amounts)

	2009	2008
REVENUE	$ 106,509	$ 154,482
Expenses:		
Operating (note 11)	65,492	89,786
Selling, general and administrative	15,262	17,491
Share-based compensation (note 14)	1,283	–
Depreciation	13,211	13,889
Other interest	599	1,257
Interest on long-term debt	921	1,253
	96,768	123,676
Operating earnings:	9,741	30,806
Reorganization costs (note 2)	(890)	–
Gain (loss) on disposal of equipment	476	(108)
Earnings before income taxes	9,327	30,698
Income tax expense (recovery) (note 12):		
Current	(2,021)	2,283
Future	(292)	3,082
	(2,313)	5,365
Net earnings	$ 11,640	$ 25,333
Net Earnings per share (note 13):		
Basic and Diluted	$ 0.40	$ 0.86

See accompanying notes to consolidated financial statements.

TOTAL ENERGY SERVICES INC.

Consolidated Statements of Retained Earnings

Years ended December 31, 2009 and 2008
(in thousands of Canadian dollars)

	2009	2008
Retained earnings, beginning of year	$ 87,349	$ 73,812
Net earnings	11,640	25,333
Dividends	(1,748)	–
Trust distributions	(3,486)	(10,591)
Repurchase and cancellation of common shares and trust units in excess of stated capital (note 13)	(77)	(1,205)
Retained earnings, end of year	$ 93,678	$ 87,349

See accompanying notes to consolidated financial statements.

TOTAL ENERGY SERVICES INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2008
(in thousands of Canadian dollars)

	2009	2008
Cash provided by (used in):		
Operations:		
Net earnings	$ 11,640	$ 25,333
Add (deduct) items not affecting cash:		
Depreciation	13,211	13,889
Share-based compensation	1,283	–
Future income taxes	(292)	3,082
Loss (gain) on disposal of equipment	(476)	108
	25,366	42,412
Changes in non-cash working capital items (note 17)	6,785	4,940
	32,151	47,352
Investing:		
Purchase of property, plant and equipment	(20,735)	(30,240)
Proceeds on disposal of equipment	3,981	2,259
Transaction with Biomerge Industries Ltd. (note 12)	(3,639)	–
Changes in non-cash working capital items	(5,522)	5,214
	(25,915)	(22,767)
Financing:		
Advances under long-term debt	31,869	3,000
Repayment of long-term debt	(9,703)	(10,862)
Advances of obligations under capital leases	1,523	–
Repayment of obligations under capital leases	(172)	(408)
Issuance of common shares	466	–
Repurchase of common shares	(131)	–
Repurchase of trust units	(27)	(2,162)
Dividends to Shareholders	(1,748)	–
Dividends payable	875	–
Distributions to Unitholders	(3,486)	(10,591)
Distributions payable	(872)	(13)
Increase (decrease) in bank indebtedness	(24,830)	(3,549)
	(6,236)	(24,585)
Change in cash	–	–
Cash, beginning of year	–	–
Cash, end of year	$ –	$ –
Supplemental cash flow information:		
Interest paid	$ 1,596	$ 2,595
Income taxes paid (received)	$ 3,163	$ (5,795)

See accompanying notes to consolidated financial statements.

(Tabular amounts in thousands of Canadian dollars)

1. Basis of presentation

Total Energy Services Inc. (the "Company") is incorporated under the Business Corporations Act (Alberta) (the "Act"). The Company was created out of the conversion of Total Energy Services Trust (the "Trust") to a corporation pursuant to a Plan of Arrangement under the Act, entered into by the Trust, Total Energy Services Ltd. ("TESL") and Biomerge Industries Ltd. ("Biomerge") (the "Reorganization").

Effective upon the closing of the Reorganization on May 20, 2009, the Company became the operator of the business of the Trust and its subsidiaries, and the existing board and management of TESL became the Company's board and management. The Company did not, as a consequence of the Reorganization, acquire any additional business carried on by Biomerge.

Prior to the Plan of Arrangement effective date of May 20, 2009, the consolidated financial statements include the accounts of the Trust, its subsidiaries and partnership, all of which are wholly owned. After giving effect to the Plan of Arrangement, the consolidated financial statements include the accounts of the Company, its subsidiaries and its partnership all of which are wholly owned. For financial reporting purposes, the Company is considered a continuing entity of the Trust.

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements have been prepared following the same accounting policies and methods of application as the audited consolidated financial statements of the Trust as at and for the year ended December 31, 2008, except as noted in note 4 below.

The Company's business is the provision of contract drilling services, the rental and transportation of equipment in drilling and production processes and the manufacturing, sale, rental and servicing of natural gas compression equipment to oil and gas exploration and production companies located primarily in western Canada. The business of the Company is conducted through TESL and Bidell Equipment LP ("Bidell LP").

2. Reorganization costs

To effect the conversion to a corporation, the Company incurred $0.9 million of reorganization costs. These costs include fees paid to financial, tax, legal advisors, regulatory fees and other costs which have been recognized in the consolidated statement of earnings.

3. Significant accounting policies

(a) Basis of presentation

These consolidated financial statements include the accounts of the Company, its subsidiaries and its partnership.

(b) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets for all assets except contract drilling equipment, which is depreciated using the utilization method. Depreciation rates are as follows:

	Expected life	Residual value	Basis of depreciation
Buildings	20 years	–	straight-line
Furniture and fixtures	5 years	–	straight-line
Shop machinery and equipment	5 years	–	straight-line
Rental equipment	5 to 15 years	25% - 33%	straight-line
Light duty vehicles	3 years	–	straight-line
Heavy duty vehicles	10 years	25%	straight-line
Computer equipment	3 years	–	straight-line
Contract drilling equipment	3,000 operating days	10%	utilization

(c) Inventory and work-in-progress

Parts and raw materials inventory, work-in-progress and finished goods are valued at the lower of cost and net realizable value. Cost for raw materials is determined on a specific item basis, with overhead and labour being determined on a weighted average basis.

(d) Earnings per share

Basic and diluted earnings per share calculations were based on the weighted average number of shares outstanding.

(e) Revenue recognition

The Company recognizes revenue in its segments as follows; Contract Drilling Services revenue is recognized when services are provided; Drilling and Production Rentals revenue is recognized when services are provided; and Gas Compression Services revenue is recognized as services are provided or products are sold. The Company's services and products are sold based upon orders or contracts with customers that include fixed or determinable prices based upon daily, hourly or job rates. Revenue is recognized when services and equipment rentals are provided and when collectibility is assured.

(f) Measurement of uncertainty

Preparation of the Company's consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements, as well as the reported amounts for revenue and expenses during the year. Significant estimates and assumptions used in the preparation of the consolidated financial statements include, but are not limited to: estimated useful life and carrying value of property, plant and equipment; allowance for doubtful accounts; estimated fair value of share based compensation; and, the estimated timing of temporary difference reversals in the calculation of future income taxes and the realization of future income tax assets. Actual results could differ from these estimates.

(g) Income taxes

The Company follows the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. Income tax expense is the sum of the Company's provision for current income taxes and the difference between the opening and ending balances of the future income tax assets and liabilities.

(h) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on the fair values. Goodwill is not amortized and is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting segment is compared to its fair value. When the fair value of the reporting segment exceeds its carrying amount, goodwill of the reporting segment is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of the reporting segment's goodwill exceeds its fair value, in which case the implied fair value of the reporting segment's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of the goodwill in a business combination described above, using the fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

(i) Long lived assets

On a periodic basis, management assesses the carrying value of long lived assets for indications of impairment. Indications of impairment include items such as an ongoing lack of profitability and significant changes in technology. When an indication of impairment is present, the Company tests for impairment by comparing the carrying value of the asset to its net recoverable amount. If the carrying amount is greater than the net recoverable amount, the asset is written down to its estimated fair value.

(j) Share-Based Compensation

The Company has a share option plan as described in note 14. The related share based compensation expense is recorded for share options issued to employees and non-employees using the fair value method. The fair value of employee share options is valued on the date of grant and the resulting fair value is recorded as an expense over the vesting period of the option. The fair value of non-employee share options are revalued each reporting date with the change in fair value on the vested options recorded in the income statement, and the change in fair value on unvested options expensed over the remaining vesting period. When share based compensation is recorded in the income statement a corresponding credit is recorded in Contributed surplus in Shareholders' equity. When share options are exercised the proceeds received net of any directly attributable transactions costs are credited to share capital and the share premium transferred from Contributed surplus. To date, share options have only been issued to employees of the Company.

In determining the fair value of the share options granted, the Black-Scholes model is used and assumptions regarding interest rates, underlying volatility of the Company's shares, dividend yields, forfeitures and expected life of the options are made.

4. Accounting policy change

Effective January 1, 2009, the Company prospectively adopted the new accounting recommendation from the Canadian Institute of Chartered Accountants ("CICA"), Handbook Section 3064, Goodwill and intangible assets, replacing previous guidance. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. Implementation of this standard did not have a material impact on the Company's consolidated financial statements.

5. Recent Canadian Accounting Pronouncements not yet adopted

In 2008 the CICA Accounting Standards Board ("AcSB") confirmed its decision requiring all publicly accountable entities to report under International Financial Reporting Standards ("IFRS") with the aim of consistency in the global marketplace. These standards are effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company has completed an initial impact assessment which involved performing a high-level review to identify key areas that may be impacted by the transition to IFRS and the major areas where significant complexities or key decisions are required by management prior to the conversion. Although the Company has not yet determined the full effects of adopting IFRS, the Company has determined that a key area where the change to IFRS may be significant is with respect to property, plant and equipment.

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of these new standards.

(Tabular amounts in thousands of Canadian dollars)

Section 1582 replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3 – Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is the equivalent to the corresponding provisions of IFRS IAS 27 – Consolidated and Separate Financial Statements and applies to the interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

6. Capital management

The Company's capital management strategy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain the future development of the Company's business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying businesses. The Company seeks to maintain an appropriate balance between the level of long-term debt and shareholders' equity to ensure access to the capital markets to fund growth and working capital having regard to the cyclical nature of the oilfield services industry. Historically the Company has maintained a conservative ratio of long-term debt to long-term debt plus equity. As at December 31, 2009 and December 31, 2008 these ratios were as follows:

	2009	2008
Long-term debt (including current portion)	$ 43,687	$ 21,521
Shareholders' equity	155,629	147,376
Total capitalization	$ 199,316	$ 168,897
Long-term debt to long-term debt plus equity ratio	0.22	0.13

The increase in the ratio for 2009 as compared to 2008 is due to the replacement of the Company's existing $65 million in credit facilities with $90 million of credit facilities in January 2010. This resulted in what had previously been recorded as bank indebtedness being recorded as long-term debt (see note 10). The Company is subject to externally imposed minimum capital requirements relating to its credit facilities. These minimum capital requirements include meeting certain minimum pre-determined ratios with respect to debt/equity, working capital, interest coverage, and margin requirements with respect to both current assets and capital assets. The Company monitors these requirements to ensure compliance with them. As at December 31, 2009, the Company was in compliance with all external minimum capital requirements.

During the second quarter of 2009, the Company reorganized from an income trust structure to a corporate structure in response to legal and regulatory changes affecting income trusts generally. In connection with such reorganization, the Company reviewed its prior distribution practice and implemented a quarterly dividend policy having regard to current industry and financial market conditions and the Company's new corporate structure. There were no other material changes to the Company's approach to capital management during the year.

7. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition all financial instruments, including derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other liabilities. The Company has designated its financial instruments into the following categories applying the indicated measurement methods:

(Tabular amounts in thousands of Canadian dollars)

Financial Instrument	Category	Measurement Method
Accounts receivable	Loans and receivables	Amortized cost
Bank indebtedness	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Dividends payable	Other liabilities	Amortized cost
Distributions payable	Other liabilities	Amortized cost
Capital leases	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

The Company's financial instruments as at December 31, 2009 and 2008 include accounts receivable, bank indebtedness, accounts payable and accrued liabilities, dividends payable, distributions payable, capital leases and long-term debt. The fair value of accounts receivable, bank indebtedness, accounts payable and accrued liabilities, distributions payable, dividends payable and capital leases approximate their carrying amounts due to their short-terms to maturity. Long-term debt utilizes a combination of short term fixed rates through the use of 30 to 90 day Banker's Acceptance and floating rates and accordingly its fair market value approximates the carrying value.

The following maturity analysis shows the remaining contractual maturities for the Company's financial liabilities:

	2010	2011	2012	2013	2014	Thereafter	Total
Bank indebtedness	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Accounts payable	15,976	–	–	–	–	–	15,976
Dividends payable	875	–	–	–	–	–	875
Long-term debt	8,737	8,737	8,737	8,737	8,739	–	43,687
Capital leases	588	496	245	22	–	–	1,351
Total	$ 26,176	$ 9,233	$ 8,982	$ 8,759	$ 8,739	$ –	$ 61,889

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

(Tabular amounts in thousands of Canadian dollars)

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade accounts receivable.

The vast majority of the Company's trade accounts receivable are customers involved in the oil and gas industry, and the ultimate collection of the accounts receivable is dependent on both industry related factors and customer specific factors. Industry related factors that may effect collection include commodity prices and access to capital. Customer specific factors that may effect collection include commodity prices, the success of drilling programs, well reservoir decline rates and access to capital. As at December 31, 2009, $1.7 million, or 7% of accounts receivable were more than 90 days overdue, which is in the range of historical aging profiles. The movement in the Company's allowance for doubtful accounts for 2009 was as follows:

	Allowance for doubtful accounts
Balance at January 1, 2009	$ 945
Provisions and revisions	253
Balance at December 31, 2009	$ 1,198

The Company does not have a significant exposure to any individual customer or counter party other than one major independent oil and gas company which accounted for 13% of revenue during the year ended December 31, 2009. No other customer accounted for more than 10% of revenue during this period. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, to the extent reasonably possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable costs or losses or risking harm to the Company's reputation. The Company maintains an operating line of credit and long-term debt facility to ensure the Company has sufficient working capital to operate its business. As at December 31, 2009 approximately $21.3 million of these facilities remained unutilized subject to normal margining requirements.

The Company expects that cash flow from operations, together with existing and available credit facilities, will be sufficient to fund its requirements for investments in working capital, capital assets, dividend payments, and Company share repurchases.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's net earnings or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

- Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Currently all of the Company's sales are denominated in Canadian dollars, which is the Company's functional currency, and as such the Company does not have any foreign currency exchange rate risk with respect to revenues. The Company estimates that less than 20% of its operating expenses in 2009 and 2008 were denominated in a foreign currency. Where foreign currency denominated purchases are made, it is the Company's practice to purchase sufficient funds in the foreign currency to which the order is denominated to protect against foreign exchange rate changes from the date of invoicing to when payment is made. In addition, pricing to customers is customarily adjusted to reflect changes in the Canadian dollar landed cost of imported goods.

(Tabular amounts in thousands of Canadian dollars)

The Company had no foreign exchange derivative contracts in place as at or during the year ended December 31, 2009.

- Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its borrowings which utilize a combination of short term fixed rates through the use of 30 to 90 day Banker's Acceptance and floating rates. For the year ended December 31, 2009, if interest rates had been 1% lower with all other variables held constant, after tax net earnings for the year would have been approximately $327,000 higher (2008 - $367,000). An equal and opposite impact would have occurred to net earnings had interest rates been 1% higher. The sensitivity is lower in 2009 versus 2008 due to lower average loan balances.

The Company had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2009.

8. Inventory

	2009	2008
Finished goods	$ 7,121	$ 7,484
Work-in-progress	2,835	5,136
Parts and raw materials	18,452	21,216
	$ 28,408	$ 33,836

9. Property, plant and equipment

December 31, 2009	Cost	Accumulated depreciation	Net book value
Land and buildings	$ 10,158	$ 2,777	$ 7,381
Office and computer equipment	3,143	2,529	614
Shop machinery and equipment	2,186	1,789	397
Rental equipment	111,282	33,264	78,018
Automotive equipment	36,948	13,145	23,803
Contract drilling equipment	85,029	20,293	64,736
Other	400	297	103
	$ 249,146	$ 74,094	$ 175,052

December 31, 2008	Cost	Accumulated depreciation	Net book value
Land and buildings	$ 9,164	$ 2,338	$ 6,826
Office and computer equipment	2,713	2,290	423
Shop machinery and equipment	2,131	1,557	574
Rental equipment	104,349	27,668	76,681
Automotive equipment	34,310	9,699	24,611
Contract drilling equipment	79,750	18,015	61,735
Other	400	217	183
	$ 232,817	$ 61,784	$ 171,033

(Tabular amounts in thousands of Canadian dollars)

10. Bank indebtedness and Long-term debt

Bank indebtedness was an operating line of credit and was payable on demand. The maximum available under the facility was $30 million. The facility was secured by a first fixed and floating charge on all assets of the Company, Bidell LP and certain other collateral security and bore interest at the bank's prime rate plus 1.25%.

Long-term debt consisted of a revolving evergreen facility with each drawdown repaid over sixty months and was available to a maximum of $35 million. The facility was secured by a first fixed and floating charge on all assets of the Company, Bidell LP and certain other collateral security and bore interest at the bank's prime rate plus 1.50%.

In January 2010 the Company replaced its credit facilities with a $10 million revolving operating facility and an $80 million revolving term loan facility. Both facilities are 364 day plus 2 year term facilities such that in the event of non-renewal, all amounts owing under the facilities are due and payable on the two year anniversary following non-renewal. Advances made under the revolving term loan facility are repayable over sixty months. The facilities are secured by a first fixed and floating charge on all assets of the Company, Bidell LP and certain other collateral security. The rate at which the facilities bear interest is based on a financial ratio with the interest rate ranging from prime plus 1.25% to 2.00%. The replacing of the Company's credit facilities in January 2010 resulted in $19.9 million of bank indebtedness being reclassified as long-term debt as at December 31, 2009.

Long-term debt:		**2009**		2008
Loan payable, requiring monthly payments of $728,117 (2008 - $666,667)	$	43,687	$	21,521
Less current portion		8,737		8,000
	$	34,950	$	13,521

Principal payments due over the next five years are as follows:		
2010	$	8,737
2011		8,737
2012		8,737
2013		8,737
2014		8,739
Total	$	43,687

11. Operating expenses

The amount of inventory recognized as an expense and included in operating expenses during the year ended December 31, 2009 was $25.2 million (2008 - $ 32.0 million) in respect of the Gas Compression Services Division.

12. Income taxes

On May 20, 2009 the Company converted from a trust to a corporation by way of a Plan of Arrangement with TESL and Biomerge. Biomerge had non-capital losses which are available to reduce the future taxable income of the Company in the amount of approximately $52 million. Biomerge also had research and development expenditures which are available to reduce the future taxable income of the Company in the amount of approximately $23 million which have an unlimited carry-forward period.

(Tabular amounts in thousands of Canadian dollars)

The Biomerge non-capital losses on the date of the conversion, along with their expiry dates if not utilized, are outlined below:

2009	$	5,267
2010		8,674
2014		8,586
2015		7,384
2026		10,028
2027		10,888
2028		844
	$	51,671

A future income tax asset of $20.4 million has been recognized with respect to these amounts and has been recorded as a reduction to the Company's future income tax liability. The fair value paid for Biomerge was $3.9 million of which $3.6 million was paid in cash and the balance was paid through the issuance of 56,730 common shares of the Company. The difference between the future income tax asset recognized and the fair value of the tax pools has been recorded as a deferred tax credit in the amount of $16.5 million. This balance was subsequently reduced by $4.9 million on the application of tax pools utilized during 2009.

Biomerge had investment tax credits and capital losses totaling approximately $3 million. Due to their limited use the benefits of these non-refundable investment tax credits and capital losses have not been recognized in these financial statements.

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates. The reasons for the differences are as follows:

		2009		2008
Income tax rate		29.00%		29.50%
Expected tax expense	$	2,705	$	9,056
Decrease in taxes resulting from:				
Drawdown of deferred tax credit		(4,932)		–
Amounts included in trust income		(1,052)		(3,199)
Foreign income taxes withheld at source		380		–
Non-deductible share-based compensation		372		–
Future income tax rate adjustment		236		(541)
Other		(22)		49
Provision for income taxes	$	(2,313)	$	5,365

The components of the net future income tax liability at December 31 are as follows:

	2009	2008
Future income tax assets:		
Non capital loss and SR&ED carryforward	$ 18,706	$ –
Other	–	11
	18,706	11
Future income tax liabilities:		
Property, plant and equipment	24,325	21,384
Other	62	70
	24,387	21,454
Net future income tax liabilities	$ 5,681	$ 21,443

The business and operations of the Company is complex and the Company has executed a number of significant financings, reorganizations, acquisitions and other material transactions over the course of its history. The computation of income taxes payable as a result of these transactions involves many complex factors as well as the Company's interpretation of relevant tax legislation and regulations. The Company's management believes that the provision for income tax is adequate and in accordance with generally accepted accounting principles and applicable legislation and regulations. However, tax filing positions are subject to review by taxation authorities who may successfully challenge the Company's interpretation of the applicable tax legislation and regulations.

13. Share Capital

Pursuant to the terms of the Plan of Arrangement, the Company acquired and cancelled all of the issued and outstanding trust units on May 20, 2009. Each Trust unit holder, in exchange for one trust unit, received one common share of the Company. Securityholders of Biomerge received a combination of cash and common shares of the Company in exchange for their securities of Biomerge. Prior to the exchange, the Trust had 29,050,000 trust units outstanding, and immediately subsequent to the exchange, there were 29,106,730 common shares outstanding.

(a) Trust unit capital:

Trust Units of Total Energy Services Trust	Number of Units (in thousands)	Amount
Balance, December 31, 2007	29,500	$ 60,984
Repurchased and cancelled	(443)	(957)
Balance, December 31, 2008	29,057	60,027
Repurchased and cancelled	(7)	(15)
Balance, March 31, 2009	29,050	60,012
Decrease resulting from implementation of Plan Arrangement	(29,050)	(60,012)
Balance, December 31, 2009	–	$ –

During 2009 and prior to the Company's conversion from a trust to a corporation 6,900 Trust Units (2008 – 443,100) were purchased under the Trust's normal course issuer bid at an average of $3.97 per Unit (2008 - $4.88), including commissions, and these Units were cancelled. The excess of the price paid over the average price per Trust Unit has been charged to retained earnings.

(b) Common share capital:

Common shares of Total Energy Services Inc.

(i) Authorized:

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

Unlimited number of preferred shares.

(ii) Common shares issued:

	Number of Shares (in thousands)		Amount
Balance, May 19, 2009	–	$	–
Issued to Trust unitholders pursuant to Plan of Arrangement	29,050		60,012
Issued to Biomerge securityholders pursuant to Plan of Arrangement	57		256
Repurchased and cancelled	(31)		(66)
Issued on exercise of share options	100		575
Balance, December 31, 2009	29,176	$	60,777

(c) Per Share amounts:

Earnings per share is calculated using earnings and the weighted average number of common shares outstanding. Diluted earnings per share are calculated using earnings and the weighted average number of diluted shares outstanding Earnings per share for 2009 has been calculated assuming shares had been outstanding throughout 2009.

	Year ended December 31, 2009	Year ended December 31, 2008
Weighted average number of Common Shares and diluted Common Shares outstanding	29,099	29,409

(d) Common shares purchased:

During 2009 and after the Company's conversion from a trust to a corporation 30,330 Common Shares were purchased under the Company's normal course issuer bid at an average price of $4.30, including commissions, and these Common Shares were cancelled. The excess of the price paid over the average price per Common Share has been charged to retained earnings.

(Tabular amounts in thousands of Canadian dollars)

(e) Contributed surplus:

Balance, January 1, 2009	$	–
Non-cash compensation expense related to share based compensation plan		1,283
Less: Contributed surplus on share options exercised		(109)
Balance, December 31, 2009	$	1,174

14. Share-Based compensation plan

On June 1, 2009 the Company implemented a share option plan (the "TSX Plan") which was drafted to comply with the policies of the Toronto Stock Exchange. Under the TSX Plan, options to acquire common shares of the Company may be granted to officers and employees of the Company and to consultants retained by the Company.

The aggregate number of common shares issuable upon the exercise of options outstanding under the TSX Plan at any time may not exceed 10% of the issued and outstanding common shares and the aggregate number of common shares issuable to any one officer, director or full time employee of the Company may not exceed 5% of the total number of issued and outstanding common shares. The period to which an option granted under the TSX Plan is exercisable may not exceed ten years from the date such option is granted. The options issued under the TSX Plan vest either 1/3 on grant, 1/3 after one year and 1/3 after two years or 1/3 after one year, 1/3 after two years and 1/3 after three years. The price at which common shares may be acquired upon the exercise of an option is determined with reference to the weighted average closing price of the common shares the five business days immediately prior to the date of grant on which a board lot of common shares trades on the Toronto Stock Exchange.

During the second quarter of 2009 1,875,000 share options were granted to certain officers and employees of the Company. The share options expire on May 31, 2014 if unexercised and have an exercise price of $4.66. During the third quarter of 2009 300,000 share options were granted to certain officers and employees of the Company. The share options expire on September 21, 2014 if unexercised and have an exercise price of $4.97. 215,000 share options issued during the second quarter of 2009 have been forfeited and 100,000 share options were exercised just prior to the end of the third quarter of 2009 with the underlying shares issued during the fourth quarter of 2009, leaving 1,860,000 share options outstanding as at December 31, 2009. Of the 1,860,000 share options outstanding 520,000 were exercisable as at December 31, 2009.

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value of the share options granted. The per share weighted-average fair value of the options granted during 2009 ranges from $1.37-1.66 per option. For the year ended December 31, 2009 the Company recognized share based compensation expense of $1.3 million using the following weighted-average assumptions:

Expected volatility:	45% to 54%
Annual dividend yield:	2.4% to 2.6%
Risk free interest rate	1.25% to 2.6%
Forfeitures	15%
Expected life (years)	2 to 5 years

(Tabular amounts in thousands of Canadian dollars)

15. Commitments

The Company has operating lease commitments for vehicles and buildings over the next five years as follows:

2010	$ 2,053
2011	1,351
2012	1,023
2013	293
2014	46

The Company also has purchase obligations of $0.9 million as at December 31, 2009 relating to commitments to acquire inventory.

16. Contingencies

TESL and one of its non-operating subsidiaries have been re-assessed by the Ontario Ministry of Finance ("Ontario Finance"), Alberta Finance and Enterprise ("Alberta Finance") and the Canada Revenue Agency ("CRA") on account of a corporate re-organization undertaken prior to TESL's conversion to a trust in 2005. The Company has received both legal and tax advice indicating that the technical merits of the filings positions taken are strong and, as such, no provisions have been taken with respect to the reassessments. The total amount of each of the three reassessments, including interest, is approximately $6.9 million, $7.8 million and $0.2 million respectively. The Ontario Finance and CRA reassessments represent competing claims on the same underlying taxable income as the Alberta Finance reassessments, such that the Ontario Finance and CRA reassessments cannot be successfully applied with the Alberta Finance reassessments. In addition, the Alberta Finance reassessments include duplicate reassessments on the same underlying taxable income, which duplicate reassessments cannot both be successfully applied. Further, it is the Company's position that the applicable limitation period has expired with respect to a significant portion of the Alberta reassessments making such reassessments invalid. The Company is vigorously defending the filing position taken and has filed notices of objection to the reassessments with the appropriate taxation authorities. The various reassessments relate to approximately $2.6 million of alleged underlying income taxes owing for the period from 2002 to the trust conversion in April 2005.

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

17. Changes in non-cash working capital items

	2009	2008
Accounts receivable	$ 15,170	$ (8,990)
Inventory	5,428	(1,927)
Income taxes receivable	(2,848)	5,742
Prepaid expenses and deposits	(990)	261
Accounts payable and accrued liabilities	(7,639)	7,518
Income taxes payable	(2,336)	2,336
	$ 6,785	$ 4,940

(Tabular amounts in thousands of Canadian dollars)

18. Segmented information

The Company operates in three main industry segments which are substantially in one geographic segment. These segments are Contract Drilling Services, which includes the contracting of drilling equipment and the provision of labour required to operate the equipment, Drilling and Production Rentals, which includes the rental and transportation of surface equipment used in drilling and production processes and Gas Compression Services, which includes the manufacturing, sale, rental and servicing of natural gas compression equipment.

The segmented amounts are as follows:

December 31, 2009	Contract drilling services	Drilling and production rentals	Gas compression services	Other[2]	Total
Revenue	$ 18,304	$ 49,624	$ 38,581	$ –	$ 106,509
Operating earnings (loss)[1]	1,809	9,159	3,077	(4,304)	9,741
Depreciation	2,547	9,122	1,515	27	13,211
Assets	72,946	101,060	56,676	4,092	234,774
Goodwill	–	2,514	1,539	–	4,053
Capital expenditures	6,074	4,072	10,589	–	20,735

December 31, 2008	Contract drilling services	Drilling and production rentals	Gas compression services	Other[2]	Total
Revenue	$ 37,148	$ 70,208	$ 47,126	$ –	$ 154,482
Operating earnings (loss)[1]	6,636	22,845	4,556	(3,231)	30,806
Depreciation	4,059	8,533	1,266	31	13,889
Assets	70,243	116,218	59,812	1,242	247,515
Goodwill	–	2,514	1,539	–	4,053
Capital expenditures	6,936	17,017	6,287	–	30,240

(1) Operating earnings (loss) are earnings before reorganization costs, gain (loss) on disposal of equipment and income taxes.
(2) Other includes the Company's corporate activities and in 2009 "Assets" includes income taxes receivable of $2.8 million.

19. Subsequent event

On January 15, 2010 the Company completed the acquisition of the oilfield service, rental and transportation business of DC Energy Services LP ("DC Energy") for $44.4 million. The cash portion of the purchase price of $31.9 million was financed using the Company's credit facilities (see note 10) and the balance of the purchase price of $12.5 million was financed through the issuance of an unsecured convertible debenture bearing interest at 5% per annum, maturing on June 30, 2012 and convertible into common shares of the Company at a conversion price of $7.00 per share. On March 1, 2010 the $12.5 million convertible debenture was converted into 1,785,715 common shares of the Company.

The assets acquired by the Company include approximately 3,600 pieces of rental equipment, 20 heavy trucks and 59 trailers, together with all inventories and other assets (excluding only land and buildings) used in connection with DC Energy's business. The Company has assumed certain leases in respect of real estate, and certain vehicles and trailers utilized by DC Energy in the ordinary course of business. The Company is also responsible for up to $0.9 million of employee retention costs payable over the next 18 months. With the exception of the leases and the employee retention costs no additional material obligations were acquired by the Company in the transaction.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Bruce Pachkowski [2 3]
Chairman of the Board

Daniel Halyk
President and Chief Executive Officer

Gregory Fletcher [1 2]

Randy Kwasnicia [1 3]

Greg Melchin [1 3]

Andrew Wiswell [2]

1 Member of the Compensation Committee
2 Member of the Audit Committee
3 Member of the Corporate Governance and Nominating Committee

MANAGEMENT TEAM

TOTAL ENERGY SERVICES INC.

Daniel Halyk
President and Chief Executive Officer

Brad Macson
Vice President Operations

Mark Kearl
Vice President Finance and Chief Financial Officer

Russ Strilchuk
Vice President Sales and Marketing

Terence Bell
General Counsel and Corporate Secretary

CHINOOK DRILLING, a division of
Total Energy Services Inc.

Rod Rundell - General Manager

TOTAL OILFIELD RENTALS, a division of
Total Energy Services Inc.

Gerry Crawford - General Manager

BIDELL EQUIPMENT LIMITED PARTNERSHIP

Sean Ulmer - President

CORPORATE INFORMATION

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LEGAL COUNSEL
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Calgary, Alberta

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HSBC
Calgary, Alberta

STOCK EXCHANGE LISTING
Toronto Stock Exchange
Symbol: TOT

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Grande Prairie • High Level • Lac La Biche • Manning • Medicine Hat • Peace River • Red Deer • Red Earth • Rocky Mountain House
Valleyview • Weyburn/Midale • Whitecourt