

# Q3



## FOCUS DISCIPLINE GROWTH

Third Quarter Report 2011

corporate profile	1
report to shareholders	2
management's discussion and analysis	5
consolidated financial statements	26
notes to consolidated financial statements	30
corporate information	52

**Total Energy Services Inc.** (“Total Energy” or the “Company”) is a growth oriented energy services company based in Calgary, Alberta. Through various operating divisions and wholly-owned subsidiaries and partnerships, Total Energy is involved in three businesses: contract drilling services, rentals and transportation services and the fabrication, sale, rental and servicing of new and used natural gas compression equipment. Together these businesses provide a platform for building long-term shareholder value. Total Energy has achieved its growth by maintaining a disciplined acquisition strategy and undertaking strategic internal growth.

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

## REPORT TO SHAREHOLDERS

Total Energy's results for the third quarter of 2011 represent record third quarter financial results and exceeded not only the Company's financial results for the third quarter of 2010 but also the financial results for the first quarter of 2011. These results were driven by improved operating results in all three business divisions relative to the prior year comparable period.

Total Energy's financial position continued to strengthen during the third quarter and provides the Company with significant financial liquidity and flexibility during current volatile financial market conditions. At September 30, 2011, the Company had positive working capital of \$108.4 million, including \$24.7 million of cash, and its \$35 million bank operating facility was, and remains, undrawn and fully available.

## LOOKING FORWARD

Despite volatile financial market conditions, current indications are that the upcoming winter drilling season will be very active. Contributing to the strong demand for the equipment and services provided by Total Energy are relatively strong oil and natural gas liquids prices and pent-up demand arising from unusually wet weather conditions in Western Canada during the second quarter that delayed the commencement of summer drilling and completion activity.

Delivery of equipment being constructed pursuant to Total Energy's \$71.3 million 2011 capital expenditure budget is underway. Completion of Rig 15 is expected in the next few weeks and such rig has been contracted for the upcoming winter drilling season. With the addition of approximately 1,000 pieces of rental equipment and 12 heavy trucks (net of dispositions), the Rentals and Transportation Services division's equipment fleet will increase by approximately 13% going into 2012 as compared to the beginning of 2011. The addition of this equipment is necessary to satisfy existing customer demand. The Company's Gas Compression Services division, Bidell Gas Compression, continues to expand its product and service capabilities. In October, 2011, Bidell received an order for a 6,500 horsepower compression package, the largest horsepower package ever received. Bidell also recently established a full service parts and service branch in Medicine Hat, Alberta and currently operates out of 10 locations throughout Western Canada. Construction of an Australian NOMAD™ is underway with delivery to Australia expected during the first quarter of 2012. Bidell is optimistic that this patented mobile compression technology will be well received in the Australian market.

As we enter the busy winter drilling season, I encourage our employees, contractors and customers to continue to focus on conducting their activities in a safe and responsible manner. Experienced industry personnel are encouraged to have patience with new and inexperienced workers and to work with them to help ensure the health and safety of all.

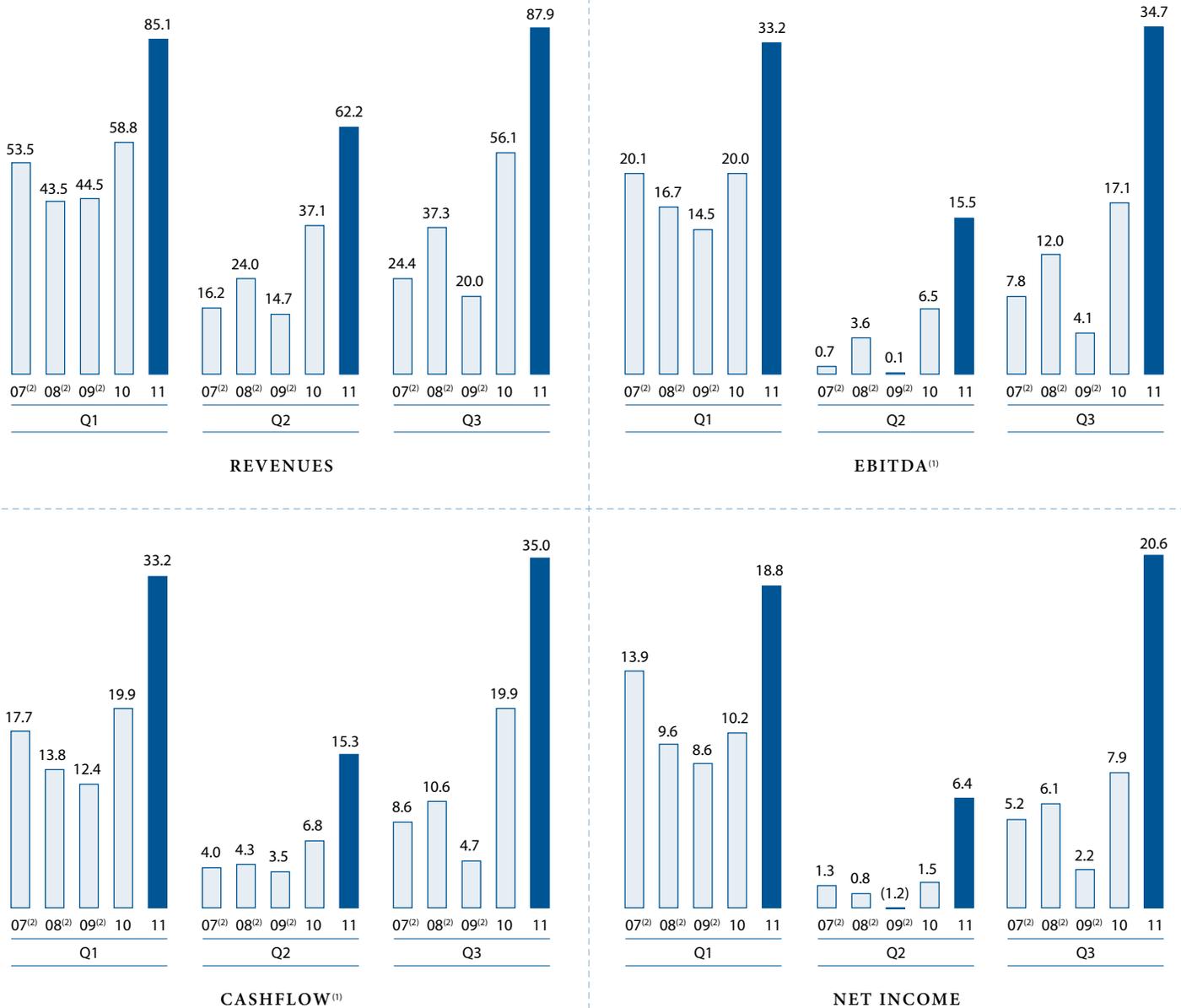


DANIEL K. HALYK  
President and Chief Executive Officer

November 2011

## THIRD QUARTER GROWTH

Unaudited (in millions of Canadian dollars)



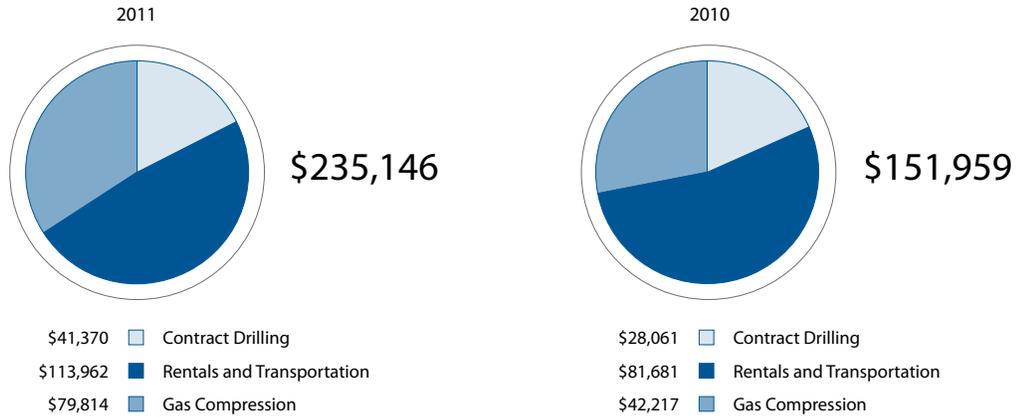
(1) EBITDA means earnings before interest, taxes, depreciation and amortization and is equal to net income before income taxes plus finance costs plus depreciation. Cashflow means cash provided by operations before changes in non-cash working capital items. EBITDA and cashflow are not recognized measures under IFRS. Management believes that in addition to net income, 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 EBITDA and cashflow should not be construed as an alternative to net income determined in accordance with IFRS as an indicator of Total Energy's performance. Total Energy's method of calculating EBITDA and cashflow may differ from other organizations and, accordingly, EBITDA and cashflow may not be comparable to measures used by other organizations.

(2) Calculated based on previously issued financial statements prepared in accordance with Canadian GAAP.

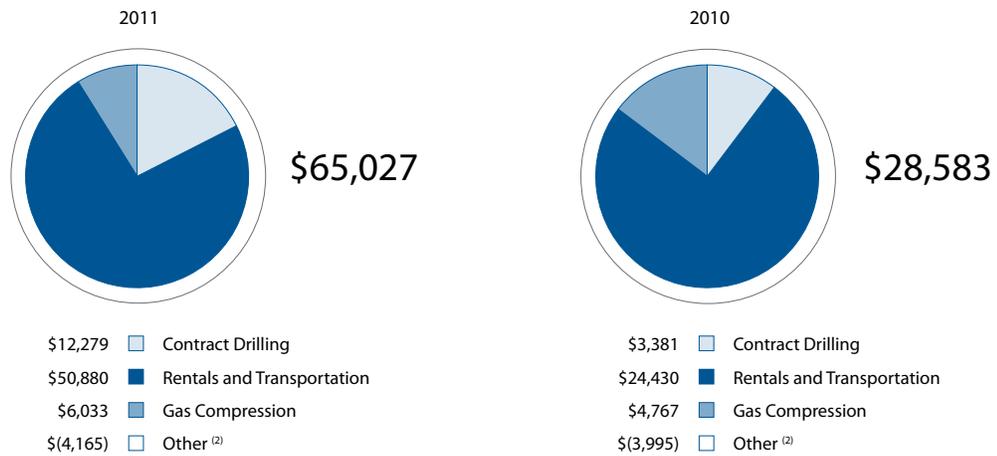
## SEGMENTED INFORMATION

For the nine months ended September 30, 2011 and 2010  
Unaudited (in thousands of Canadian dollars)

### REVENUE DIVERSIFICATION



### OPERATING EARNINGS <sup>(1)</sup>



(1) Operating earnings means results from operating activities and is equal to net income before income taxes minus gain on sale of property, plant and equipment plus finance costs.

(2) Other includes the Company's corporate activities.

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

*The following MD&A, dated November 9, 2011, 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 three and nine months ended September 30, 2011, should be read in conjunction with the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2011 and related notes and material contained in other parts of this report, the audited annual consolidated financial statements for the year ended December 31, 2010 and related notes and material contained in other parts of the 2010 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](http://www.sedar.com). Unless otherwise indicated, all dollar amounts presented herein are in Canadian dollars.*

### INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Company is reporting under IFRS. The impact of the Company's transition to IFRS is noted throughout this MD&A. A detailed discussion of the impact of IFRS on the Company's financial results is also included in this MD&A.

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

Additionally, the Officers have designed internal controls 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 IFRS. During the quarter ended September 30, 2011 there have been no changes in internal controls over financial reporting that would materially affect, or be reasonably likely to materially affect, the Company's internal controls over financial reporting.

While the Officers have designed the Company's disclosure controls and procedures and internal controls over financial reporting, they expect that these controls and procedures will not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

## NON-IFRS MEASURES

Operating earnings means results from operating activities and is equal to net income before income taxes minus gain on sale of property, plant and equipment plus finance costs. EBITDA means net income before finance costs, income taxes and 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 IFRS. Management believes that in addition to net income, 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 income determined in accordance with IFRS 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-IFRS measures to the most directly comparable IFRS measure is outlined below.

Results from operating activities (in thousands of Canadian dollars)	Three months ended Sept 30, 2011	Three months ended Sept 30, 2010	Nine months ended Sept 30, 2011	Nine months ended Sept 30, 2010
<b>Net income and total comprehensive income</b>	<b>\$ 20,603</b>	\$ 7,910	<b>\$ 45,825</b>	\$ 19,594
Add back (deduct):				
Finance costs	1,351	882	3,922	2,458
Gain on disposal of equipment	(71)	–	(849)	(535)
Income tax expense	6,938	3,365	16,129	7,066
Results from operating activities	<b>\$ 28,821</b>	\$ 12,157	<b>\$ 65,027</b>	\$ 28,583
<b>EBITDA</b> (in thousands of Canadian dollars)	<b>Three months ended Sept 30, 2011</b>	Three months ended Sept 30, 2010	<b>Nine months ended Sept 30, 2011</b>	Nine months ended Sept 30, 2010
<b>Net income and total comprehensive income</b>	<b>\$ 20,603</b>	\$ 7,910	<b>\$ 45,825</b>	\$ 19,594
Add back:				
Depreciation	5,842	4,935	17,550	14,421
Finance costs	1,351	882	3,922	2,458
Income tax expense	6,938	3,365	16,129	7,066
EBITDA	<b>\$ 34,734</b>	\$ 17,092	<b>\$ 83,426</b>	\$ 43,539
<b>Cashflow</b> (in thousands of Canadian dollars)	<b>Three months ended Sept 30, 2011</b>	Three months ended Sept 30, 2010	<b>Nine months ended Sept 30, 2011</b>	Nine months ended Sept 30, 2010
Cash provided by (used in) operations	<b>\$ 23,189</b>	\$ (5,119)	<b>\$ 66,744</b>	\$ 23,273
Add back (deduct):				
Changes in non-cash working capital items	11,831	24,972	16,785	23,268
Cashflow	<b>\$ 35,020</b>	\$ 19,853	<b>\$ 83,529</b>	\$ 46,541

## 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 Total Oilfield Rentals Limited Partnership, Total Energy is involved in three businesses: contract drilling services ("Chinook Drilling" or "Chinook"), the rental and transportation of equipment used in the drilling, completion and production of oil and natural gas wells ("Total Oilfield Rentals") and 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.

## 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, development 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 was 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. With the recent application of horizontal drilling and multistage fracturing technologies to conventional oil areas of the WCSB, Total Energy's exposure to oil directed exploration, development and production activities has increased significantly. 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 vertical depth market in western Canada. Currently the Company operates a fleet of 14 rigs all constructed in 1997 or later. Of these rigs, 12 are telescopic doubles rated to vertical depths of up to 3,400 meters and two are conventional 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. The Company is currently constructing a fifteenth rig, a telescopic double rated to vertical depths of up to 3,500 meters, with completion scheduled for the fourth quarter of 2011 at an estimated cost of \$9.5 million.

**Rentals and Transportation Services:** Historically northern Alberta and northeastern British Columbia were the primary markets for the Company's rentals and transportation services. In the fourth quarter of 2007, this division expanded its operations into southeastern Saskatchewan. On January 15, 2010 the Company completed the acquisition of DC Energy Services LP ("DC Energy") which added two branch locations in Alberta (Drayton Valley and Red Deer) and increased its rental equipment fleet and heavy truck fleets by 80% and 27% respectively. The Company now operates out of 19 locations throughout Western Canada and currently owns and operates approximately 8,600 pieces of rental equipment as well as a modern fleet of 101 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 but recently has expanded its capabilities to supply larger horsepower compression. The Company has expanded its market to include international sales. 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™. In January 2010 Total Energy received a United States patent and in September 2011, a Canadian patent in respect of its 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. During 2010 the Company began an expansion of its parts and service business in the WCSB and currently operates out of 10 locations throughout Alberta, British Columbia and Saskatchewan.

### OVERALL PERFORMANCE

Despite prolonged spring wet weather conditions which extended into the third quarter of 2011, the third quarter of 2011 was much improved from the prior year comparable quarter. The Company achieved a 57% increase in revenue and a 160% increase in net income from the prior year comparable quarter, due primarily to increased business activity in all three divisions. The Company recorded net income of \$20.6 million in the third quarter of 2011 versus \$7.9 million for the prior year comparable period.

The Company's financial condition remains strong. The Company realized a \$43.9 million working capital increase during the first nine months of 2011, from \$64.5 million as at December 31, 2010 to \$108.4 million as at September 30, 2011. As at September 30, 2011 long-term debt (including the principal amount of the outstanding convertible debentures) to long-term debt plus equity was 0.21 to 1.0 and the Company had no net debt (net debt being long-term debt plus the convertible debentures outstanding plus obligations under finance 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 Company 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. In 2010 the Company upgraded its enterprise resource planning system in Bidell to better position Bidell for continued growth. During 2010 the Company integrated DC Energy into the Company's Rentals and Transportation division. As part of the integration this division's accounting system was also upgraded.

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

### Seasonality and Cyclicity

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 global economic environment. However, current industry activity levels in the WCSB continue to give rise to 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. A continued focus on the development of unconventional oil and natural gas resources in the WCSB is expected to continue to drive activity in the future. The application of horizontal drilling and multi-stage fracturing completion technologies to WCSB oil and liquids rich natural gas resources has significantly increased drilling and completion activity in the WCSB targeting oil. According to Canadian Association of Drilling Contractors ("CAODC") natural gas well completions accounted for approximately 43% of the wells drilled in the WCSB during 2010 as compared to 54% and 60% for the comparable periods in 2009 and 2008. As a result, the Company's revenue base has become more balanced between oil and natural gas related activities whereas historically natural gas drilling and production activity was the primary driver of the Company's revenues. 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. Industry activity levels steadily improved in 2010 as compared to 2009 and continued to improve during the first nine months of 2011 despite extended wet weather conditions in the WCSB during the spring and early summer. Exploration and development companies have generally increased their 2011 WCSB capital budgets compared to 2010 capital expenditure levels and, as such, current indications are that WCSB industry activity levels will be relatively strong during 2011 driven primarily by oil and liquids rich natural gas drilling and completion activities.

#### **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.

## **RESULTS OF OPERATIONS**

### **Consolidated Revenue**

Revenues increased 57% to \$87.9 million for the three months ended September 30, 2011 versus \$56.1 million for the same period in 2010 and increased 55% to \$235.1 million for the nine months ended September 30, 2011 versus \$152.0 million for the same period in 2010.

### **Divisional Revenue**

Divisional revenues for the three months ended September 30, 2011 were \$16.3 million for Contract Drilling Services, \$43.0 million for Rentals and Transportation Services and \$28.6 million for Gas Compression Services. Divisional revenues for the nine months ended September 30, 2011 were \$41.4 million for Contract Drilling Services, \$114.0 million for Rentals and Transportation Services and \$79.8 million for Gas Compression Services.

### **Contract Drilling Services**

The revenue reported from Total Energy's Contract Drilling Services division increased by 77% to \$16.3 million for the three months ended September 30, 2011 as compared to \$9.2 million for the same period in 2010, and increased by 47% to \$41.4 million for the nine month period ended September 30, 2011 as compared to \$28.1 million for the same period in 2010. Revenues increased from the prior year comparable periods due primarily to higher equipment utilization and improved pricing. For the third quarter of 2011 the Contract Drilling Services division achieved a utilization rate, on a spud to release basis, of 66% and a year to date utilization rate of 59%, as compared to 48% and 52% respectively for the same periods in 2010. Operating days (spud to release) for the three and nine months ended September 30, 2011 totaled 855 days and 2,242 days respectively, as compared to 623 days and 1,972 days respectively for the same periods in 2010. Revenue per operating day received for contract drilling services for the three and nine months ended September 30, 2011 increased by 29% and

30% respectively as compared to the same periods in 2010. The increases in revenue per operating day was due primarily to an increase in drilling day rates.

#### **Rentals and Transportation Services**

The revenue reported from Total Energy's Rentals and Transportation Services division increased by 49% to \$43.0 million for the three months ended September 30, 2011 as compared to \$28.9 million for the same period in 2010, and increased by 40% to \$114.0 million for the nine month period ended September 30, 2011 as compared to \$81.7 million for the same period in 2010. Revenues increased from the prior year comparable periods due primarily to increased equipment utilization. Average utilization of the rental assets was 74% and 67% respectively for the three and nine month periods ended September 30, 2011 as compared to 57% and 52% respectively for the prior year comparable periods. This division exited the third quarter of 2011 with approximately 8,600 pieces of rental equipment as compared to 8,300 pieces at the end of the third quarter of 2010. This division also exited the third quarter of 2011 with a fleet of 101 heavy trucks as compared to 100 heavy trucks at the end of the third quarter of 2010.

#### **Gas Compression Services**

The revenue reported from Total Energy's Gas Compression Services division increased by 59% to \$28.6 million for the three months ended September 30, 2011 as compared to \$18.0 million for the same period in 2010, and increased by 89% to \$79.8 million for the nine month period ended September 30, 2011 as compared to \$42.2 million for the same period in 2010. The revenue increases from the prior year comparable period were due primarily to increased demand from this division's customers and expansion of the parts and service business beginning the second half of 2010. This division exited the third quarter of 2011 with a backlog of fabrication sales orders of approximately \$40.3 million as compared to a backlog of \$22.2 million as at September 30, 2010. As at September 30, 2011 the total horsepower of compressors on lease was approximately 21,700 as compared to approximately 18,900 as at September 30, 2010. The compression rental fleet experienced an average utilization of 78% (based on fleet horsepower) for the first nine months of 2011 as compared to 74% for the same period in 2010.

#### **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.

#### **Cost of Services**

Cost of services increased 41% to \$45.7 million for the three months ended September 30, 2011 as compared to \$32.4 million for the same period in 2010, and increased by 46% to \$130.4 million for the nine month period ended September 30, 2011 as compared to \$89.3 million for the same period in 2010. The increases resulted primarily from increased costs associated with increased revenues. The gross margin percentage for the three and nine months ended September 30, 2011 was 48% and 45% respectively as a percentage of revenue as compared to 42% and 41% respectively for the comparable periods in 2010. A detailed margin analysis for each division is presented in the discussion of Results from Operating Activities. Cost of services consists 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 increased by 12% to \$7.1 million for the three months ended September 30, 2011 as compared to \$6.4 million for the same period in 2010, and increased by 13% to \$21.2 million for the nine month period ended September 30, 2011 as compared to \$18.8 million for the same period in 2010. The increases resulted primarily from increased costs associated with increased revenues.

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 \$0.4 million and \$1.0 million, respectively, for the three and nine months ended September 30, 2011 versus \$0.2 million and \$0.9 million, respectively, for the prior year comparable periods. The share based compensation expense arises from share options granted pursuant to a share option plan implemented during 2009. Additional information with respect to the plan is outlined in Note 10 to the Unaudited Interim Consolidated Financial Statements.

### Depreciation Expense

Depreciation expense increased 18% for the three month period ended September 30, 2011 to \$5.8 million as compared to \$4.9 million for the prior year comparable period, and increased by 22% to \$17.6 million for the nine month period ended September 30, 2011 as compared to \$14.4 million for the same period in 2010. The increase is due in part to an expanded equipment base and increased depreciation expense in the Rentals and Transportation Services divisions due to a change in useful life estimates which was implemented on a prospective basis effective January 1, 2011. Additional information with respect to the change in useful life estimates is outlined under the "Critical Accounting Estimates" section of this MD&A. All of the Company's property, plant and equipment is depreciated on a straight-line basis with the exception of contract drilling equipment which is depreciated on a utilization basis.

### Results from Operating Activities

Operating earnings increased 137% to \$28.8 million in the third quarter of 2011 as compared to \$12.2 million for the comparable period in 2010, and increased by 128% to \$65.0 million for the nine month period ended September 30, 2011 as compared to \$28.6 million for the same period in 2010. The increase in operating earnings was due primarily to increased operating earnings in all three business divisions.

The Contract Drilling Services division had operating earnings of \$6.0 million and \$12.3 million, respectively, for the three and nine month periods ended September 30, 2011 as compared to \$1.3 million and \$3.4 million, for the comparable periods in 2010. The operating earnings margin in this division was 37% and 30%, respectively, for the three and nine month periods ended September 30, 2011 as compared to 14% and 12%, respectively, for the comparable periods in 2010. The increases in operating earnings margin in 2011 relative to 2010 is due primarily to increased pricing.

The Rentals and Transportation Services division had operating earnings of \$21.7 million and \$50.9 million, respectively, for the three and nine month periods ended September 30, 2011 as compared to \$10.3 million and \$24.4 million for the comparable periods in 2010. The operating earnings margin in this division was 50% and 45%, respectively, for the three and nine month periods ended September 30, 2011 as compared to 36% and 30% for the comparable periods in 2010. The 2011 increases in operating earnings margin resulted primarily from higher equipment utilization, which resulted in higher revenues over a relatively fixed cost of services and the efficiencies of scale arising from the integration of DC Energy that was acquired in January 2010.

The Gas Compression Services division had operating earnings of \$2.5 million and \$6.0 million, respectively, for the three and nine month periods ended September 30, 2011 as compared to \$2.2 million and \$4.8 million for the comparable periods in 2010. The operating earnings margin in this division was 9% and 8%, respectively, for the three and nine month periods ended September 30, 2011 as compared to 12% and 11%, respectively, for the comparable periods in 2010. The decrease in operating earnings margins in 2011 resulted primarily from increased overhead costs associated with the expansion of the Parts and Services business beginning in the second half of 2010 and the addition of fabrication capacity in 2011 without an immediate corresponding increase in revenues.

The Other division had operating losses of \$1.4 million and \$4.2 million, respectively, for the three and nine month periods ended September 30, 2011 as compared to \$1.7 million and \$4.0 million for the comparable periods in 2010. The decrease in the operating loss for the three month period ended September 30, 2011 was due to a divisional management and compensation plan restructuring, which costs were incurred primarily in the third quarter of 2010. The Other division does not include any operational activities relating to Total Energy's business and therefore does not generate any revenue.

### Finance Costs

Finance costs were \$1.4 million and \$3.9 million, respectively, for the three and nine months ended September 30, 2011 versus \$0.9 million and \$2.5 million for the prior year comparable periods. The increases in finance costs were due primarily to the \$69 million principal amount of unsecured convertible debentures issued by the Company in February 2011, which have a higher coupon rate than the short term variable rate secured bank debt they replaced. Finance costs include interest paid on advances under the Company's revolving operating facility, long-term debt facility, finance leases and interest expense (including accretion) on the convertible debentures.

### Gain on Disposal of Equipment

Gain on disposal of equipment was \$0.1 million and \$0.8 million, respectively, for the three and nine months ended September 30, 2011 versus nil and \$0.5 million for the prior year comparable periods. 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 income

The Company recorded net income of \$20.6 million (\$0.65 per share basic and \$0.61 per share diluted) and \$45.8 million (\$1.46 per share basic and \$1.38 per share diluted), respectively, for the three and nine month periods ended September 30, 2011 as compared to \$7.9 million (\$0.25 per share basic and diluted) and \$19.6 million (\$0.64 per share basic and \$0.63 per share diluted) for the corresponding periods in 2010. The Company recorded nominal current income tax expense for the three and nine month periods ended September 30, 2010 and 2011. The Company recorded deferred income tax expense of \$6.9 million and \$16.0 million, respectively, for the three and nine month periods ended September 30, 2011 as compared to \$3.4 million and \$7.0 million for the corresponding periods in 2010. This resulted in an effective tax rate of 25% and 26%, respectively, for the three and nine month periods ended September 30, 2011 versus 30% and 27% for the prior year comparable periods.

Total Energy 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 \$7.6 million, \$8.5 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 had 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 was \$23.2 million and \$66.7 million, respectively, for the three and nine month periods ended September 30, 2011 as compared to cash used in operations of \$5.1 million and cash generated by operations of \$23.3 million for the comparable periods in 2010. Cashflow was \$35.0 million and \$83.5 million respectively for the three and nine month periods ended September 30, 2011 as compared to \$19.9 million and \$46.5 million for the comparable periods in 2010. The increases in cash provided by operations and cashflow were due primarily to increased 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 finance leases, or the repurchase of Company shares pursuant to the Company's normal course issuer bid.

#### **Investments**

Net cash used in investment activities was \$12.7 million and \$23.3 million respectively for the three and nine month periods ended September 30, 2011 as compared to \$10.8 million and \$47.0 million for the comparable periods in 2010. The decrease in net cash used in investment activities in 2011 versus 2010 was due primarily to the DC Energy acquisition which was completed in January 2010. The purchases of property, plant and equipment ("PP&E") during the first nine months of 2011 were allocated as follows: \$9.0 million in the Contract Drilling Services division relating primarily to the purchase of rig equipment, \$16.5 million in the Rentals and Transportation Services division relating primarily to new equipment additions and \$5.9 million in the Gas Compression Services division relating primarily to additions to the compression rental fleet. In addition to the DC Energy acquisition completed in January 2010, during the first nine months of 2010 the property, plant and equipment additions were as follows: \$2.9 million in the Contract Drilling Services division, \$11.8 million in the Rentals and Transportation Services division and \$6.9 million in the Gas Compression Services division. The purchase of property, plant and equipment during the first nine months of 2011 were offset by proceeds on disposal of property, plant and equipment of \$4.1 million, as compared to \$2.5 million for the comparable period in 2010. The 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.

#### **Financing**

Net cash used in financing activities was \$6.4 million and \$19.0 million, respectively, for the three and nine month periods ended September 30, 2011 as compared to net cash provided by financing activities of \$13.8 million and \$23.7 million for the comparable periods in 2010. The decrease in net cash provided by financing activities in 2011 as compared to 2010 was due primarily to long-term debt advances used to finance the DC Energy acquisition and capital expenditure purchases in 2010 with no corresponding long-term debt advances in 2011.

#### **Liquidity**

The Company had a working capital surplus of \$108.4 million as at September 30, 2011 as compared to \$64.4 million at the end of 2010. This increase in the Company's working capital position is due primarily to increased cash and cash equivalent and accounts receivable balances on account of increased activity levels in all divisions. As at September 30, 2011 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.

On February 9, 2011 the Company issued \$69 million of principal amount convertible unsecured subordinated debentures. The debentures bear interest at 5.75% per annum, with interest payable semi-annually in arrears on March 31 and September 30 and mature on March 31, 2016. Each \$1,000 principal amount of debenture is convertible at the option of the holder at any time prior to the close of business on the earlier of maturity date and the last business day immediately preceding the date fixed for redemption, into 44.6429 common shares of the Company, representing a conversion price of \$22.40, subject to antidilution provisions. Commission to the underwriters and other issuance costs amounted to \$3.1 million. The Company utilized the net proceeds from the offering to repay its existing revolving term bank debt and for general corporate purposes.

On February 17, 2011 the Company secured a \$35 million operating facility with a major Canadian financial institution. The facility is a 2 year committed facility with payments not required until June 2013, assuming non-extension by the lender, and bears interest at the lender's prime rate plus 0.50%. The operating facility is secured by the Company's cash and cash equivalents, accounts receivable and inventory. As at September 30, 2011 there were no amounts outstanding under this facility.

#### **Dividends and Distributions**

For the three and nine months ended September 30, 2011 the Company declared dividends of \$1.3 million and \$3.8 million, respectively, as compared to dividends of \$0.9 million and \$2.8 million declared for the prior year comparable periods.

For 2011 the Company expects cash provided by operations, cashflow and net income 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 income, 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)			
	Sept 30, 2011 IFRS	June 30, 2011 IFRS	March 31, 2011 IFRS	Dec 31, 2010 IFRS
Revenue	\$ 87,882	\$ 62,159	\$ 85,105	\$ 72,565
Cashflow <sup>(1)</sup>	35,020	15,308	33,201	24,967
Cash provided by operations	23,189	24,527	19,028	10,541
Net income	20,603	6,392	18,830	13,332
Per share (basic)	0.65	0.20	0.60	0.43
Per share (diluted)	0.61	0.20	0.57	0.42

	Financial Quarter Ended (Unaudited)			
	Sept 30, 2010 IFRS	June 30, 2010 IFRS	March 31, 2010 IFRS	Dec 31, 2009 Canadian GAAP
Revenue	\$ 56,060	\$ 37,061	\$ 58,838	\$ 27,298
Cashflow <sup>(1)</sup>	19,853	6,831	19,857	4,702
Cash provided by (used in) operations	(5,119)	17,024	11,367	3,920
Net income	7,910	1,475	10,209	2,131
Per share (basic and diluted)	0.25	0.05	0.34	0.07

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

As discussed in 'Seasonality and Cyclicity' 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 Contract Drilling Services and Rentals and Transportation Services divisions. 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. The increase in revenue, cash flow and net income for the three and nine month periods ended September 30, 2011 as compared to the comparable periods in 2010 is also due to increased activity levels in all divisions.

## CONTRACTUAL OBLIGATIONS

At September 30, 2011, the Company had the following contractual obligations:

(in thousands of dollars)	Total	Payments due by year				
		2011	2012	2013	2014	2015 and thereafter
Convertible debentures <sup>(1)</sup>	\$ 69,000	\$ –	\$ –	\$ –	\$ –	\$ 69,000
Commitments <sup>(2)</sup>	6,358	962	2,767	1,309	634	686
Finance leases	5,445	1,061	2,327	1,434	521	102
Purchase obligations <sup>(3)</sup>	34,975	31,920	3,055	–	–	–
<b>Total contractual obligations</b>	<b>\$ 115,778</b>	<b>\$ 33,943</b>	<b>\$ 8,149</b>	<b>\$ 2,743</b>	<b>\$ 1,155</b>	<b>\$ 69,788</b>

- (1) Long-term debt obligations are described in Note 7 to the Unaudited Interim Consolidated Financial Statements and Note 10 to the 2010 Audited Consolidated Financial Statements.
- (2) Commitments are described in Note 14 to the Unaudited Interim Consolidated Financial Statements and Note 16 to the 2010 Audited Consolidated Financial Statements.
- (3) Purchase obligations are described in Note 14 to the Unaudited Interim Consolidated Financial Statements and Note 16 to the 2010 Audited Consolidated Financial Statements and relate to Total Energy's commitment to purchase \$25.4 million of capital assets for the Rentals and Transportation Services division, \$5.7 million of inventory for the Gas Compression Services division and \$3.8 million of capital assets for the Contract Drilling Services division respectively.

## OFF-BALANCE SHEET ARRANGEMENTS

As at September 30, 2011 and 2010 the Company had no off-balance sheet arrangements.

## TRANSACTIONS WITH RELATED PARTIES

During the first nine months of 2011 and the comparable period in 2010 the Company had no material transactions with related parties.

## 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 IFRS, the following critical accounting estimates have been identified by management:

### Revenue Recognition

The Company recognizes revenue in its segments as follows; Contract Drilling and Rentals and Transportation Services revenue is recognized on accrual basis in the period when services are provided. Revenue in Gas Compression Services from the supply of equipment that involves the design, manufacture, installation and start-up are determined using the percentage of completion method, based on the labour hours incurred as a proportion of total expected labour hours. Revenues and costs begin to be recognized when progress reaches a stage of completion sufficient to reasonably determine the probable results. Any foreseeable losses on such projects are charged to operations when determined and work in progress is presented as part of accounts receivable. If payments received from a customer exceeds the revenue recognized, the difference reduces the deferred revenue balance. The Company's services and products are sold based upon orders or contracts with customers that include fixed or determinable prices based upon monthly, daily, hourly or job rates.

#### **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 residual 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.

During 2011 the Company conducted an operational efficiency review which resulted in changes in the expected useful life of certain items of property, plant and equipment. These changes and their effect on depreciation expense is described in Note 6 to the Unaudited Interim Consolidated Financial Statements.

#### **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.

#### **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.

### **INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Effective January 1, 2011 Canadian publicly listed entities are required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative information, the effective transition date is January 1, 2010. 2011 is the first year the Company's consolidated interim financial statements are prepared in accordance with IFRS.

The Company's IFRS transition team identified four phases to the conversion: scoping and planning, detailed assessment, implementation and post implementation. The Company has completed the IFRS conversion project through implementation. Post implementation will continue in future periods, as presented below.

The following outlines the IFRS transitional impacts and the on-going impact of IFRS on Total Energy's financial results.

#### **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 will use when first adopting IFRS. The most significant exemptions to the Company were as follows:

- **Business Combinations**

For business combinations that occurred before the transition date, the Company had 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 elected not to restate business combinations 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 is recorded in retained earnings as a revaluation reserve. The Company elected to measure PP&E at cost as opposed to deemed cost.

**Financial Impact of Transition to IFRS**

As a result of policy choices and changes that the Company was required to make under IFRS, an increase in retained earnings of approximately \$9.4 million was recorded at January 1, 2010. The table below outlines the adjustments to retained earnings on adoption of IFRS on January 1, 2010, and at September 30, 2010 and December 31, 2010 for comparative purposes. Additional information with respect to the adjustments is outlined in the "IFRS Adjustment Notes" section.

Retained earning (\$000)	Note	Jan 1, 2010	Sept 30, 2010	Dec 31, 2010
Derecognition – deferred tax credit	1	\$ 11,575	\$ 7,267	\$ 4,147
Componentization – property, plant and equipment	2	(2,148)	(1,606)	(1,374)
Transaction costs – business combinations	3	–	(442)	(435)
Percentage of completion – revenue recognition	4	69	546	292
Overhaul costs – property, plant and equipment	2	(60)	(149)	(223)
		\$ 9,436	\$ 5,616	\$ 2,407

**Net income Impact**

As a result of the policy choices made and changes that the Company was required to make under IFRS, net income decreased by approximately \$1.7 million, \$3.8 million and \$7.0 million, respectively, for the three and nine months ended September 30, 2010 and the year ended December 31, 2010. The table below outlines the adjustments to net income and total comprehensive income on adoption of IFRS. Additional information with respect to the adjustments is outlined in the "IFRS Adjustment Notes" section.

Net income and total comprehensive income (\$000)	Note	Three months ended Sept 30, 2010	Nine months ended Sept 30, 2010	Year ended Dec 31, 2010
Derecognition – deferred tax credit	1	\$ (1,972)	\$ (4,308)	\$ (7,428)
Transaction costs – business combinations	3	8	(442)	(435)
Componentization – property, plant and equipment	2	158	542	774
Percentage of completion – revenue recognition	4	225	477	223
Overhaul costs – property, plant and equipment	2	(69)	(89)	(163)
		\$ (1,650)	\$ (3,820)	\$ (7,029)

**IFRS Adjustment Notes:**

1. As described in Note 13 to the 2010 Audited Consolidated Financial Statements, the Company recorded a deferred tax credit pursuant to a corporate reorganization undertaken in 2009. IAS 12, Income Taxes, does not recognize deferred tax credits. As a result the Company's deferred tax credit was eliminated.
2. IAS 16, Property Plant and Equipment 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. The assets have been analyzed and componentized based on significant identifiable components and amortized separately over their respective useful lives. IAS 16, Property Plant and Equipment also requires major overhaul costs to be capitalized and amortized over the respective overhaul period. Under Canadian GAAP the Company expensed overhaul costs.

3. IFRS 3, Business Combinations, requires acquisition related costs be expensed in the period in which the costs are incurred and the services received. As a result acquisition related costs associated with the DC Energy acquisition that occurred in January 2010 were derecognized and expensed for the three month period ended March 31, 2010.
4. The Gas Compression Services division is party to contracts to supply equipment that involves the design, manufacture, installation and start up. IAS 11, Construction Contracts, provides specific guidance for the recognition of revenues and expenses as it relates to these type of contracts. This standard requires that revenues and expenses from these contracts be recognized under the percentage of completion method. Under Canadian GAAP the Company followed the completed contracts method of revenue recognition whereby all revenue was recognized upon completion.

#### **Statement of Cash Flows Impact**

Under previous Canadian GAAP, cash interest paid was included as an operating activity. Under IFRS cash interest paid is presented as a financing activity. This presentation change will increase cash provided by operating activities and reduce cash provided by financing activities in future periods. There was no net impact on cash and cash equivalents as a result of this presentation change.

#### **Financial Statement Presentation Changes**

The transition to IFRS has resulted in changes to the Company's financial statements, including the renaming of certain account balances including:

- operating expenses to cost of services;
- capital leases to finance leases;
- interest expense to finance expense; and,
- future income taxes to deferred income taxes.

In addition, finance costs are presented after results from operating activities, versus being presented as part of operating activities under Canadian GAAP.

The Company's unaudited interim consolidated financial statements for the three and nine months ended September 30, 2011 provide additional information on the Company's Canadian GAAP to IFRS differences, accounting policy choices and IFRS 1, First-Time Adoption of International Financial Reporting Standards.

#### **Control Activities**

For all changes to policies and procedures that have been identified, the effectiveness of internal controls over financial reporting and disclosure controls and procedures has been assessed and any required changes have been implemented. The Company's management have identified and implemented the required accounting process changes that resulted from the application of IFRS accounting policies. The design, implementation and documentation of the internal controls over accounting process changes resulting from application of IFRS accounting policies have been completed. The Company applied existing control framework to the IFRS changeover process. All accounting policy changes and transitional financial position impacts were subject to review by the Audit Committee of the Board of Directors.

#### **Debt covenants and capital requirements**

The Company has assessed the impact of the IFRS transition on its debt covenants and capital requirements. The transition to IFRS did not have a significant impact on either.

#### **Information technologies and data systems**

The transition to IFRS did not have a significant impact on the Company's information systems for the convergence periods. The Company does not anticipate significant changes in post-convergence periods.

#### **Post-implementation**

The post-implementation phase involves continuous monitoring of changes in IFRS in future periods. The standard-setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that the Company selected. In particular, there may be additional new or revised standards or IFRICs (International Financial

Reporting Interpretation Committee Interpretations) in relation to consolidation, financial instruments, leases, employee benefits and revenue recognition. The Company has processes in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRSs and IFRICs Interpretations will be evaluated as they are drafted and issued.

#### NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are not yet effective, and have not been applied in preparing these consolidated interim financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Company, except for IFRS 9 Financial Instruments, which becomes mandatory for the Company's consolidated financial statements on January 1, 2013 and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

#### FINANCIAL INSTRUMENTS

##### **Risk management activities**

The Company does not have significant exposure to any individual customer or counter party. No customer accounted for more than 10% of the Company's consolidated revenues during the first nine months of 2011. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry.

##### **Fair values**

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and obligations under finance leases approximate their fair value due to the relatively short periods to maturity of the instruments. As at September 30, 2011 the Company did not have any long-term debt that was subject to variable interest rates. The Company's \$69 million convertible debentures are publicly traded on the Toronto Stock Exchange. On September 30, 2011 the closing price for these securities was \$95.01 for every \$100 of principal value of convertible debentures issued. This represents an aggregate market value of \$65.6 million.

##### **Interest rate risk**

As at September 30, 2011 the Company did not have any long-term debt that was subject to variable interest rates. The Company's convertible debentures bear interest at a fixed rate of 5.75%.

##### **Foreign currency risk**

Where foreign currency denominated purchases are made, it is the Company's practice to pay invoiced amounts within 15 days of receipt of invoice to reduce the Company's exposure to foreign exchange risk. In addition, from time to time the Company purchases funds in the foreign currency to which the order is denominated to mitigate against foreign exchange rate changes from the date of ordering to when payment is made. Pricing to customers is also customarily adjusted to reflect changes in the Canadian dollar landed cost of imported goods.

## OUTSTANDING COMPANY SHARE DATA

As at the date of this report the Company had 31,320,000 Common Shares outstanding.

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

Outstanding	Exercise Price	Remaining life (years)	Exercisable
990,000	\$ 4.66	2.7	990,000
200,000	4.97	2.9	100,000
150,000	7.30	3.4	50,000
40,000	8.54	3.9	20,000
300,000	16.18	4.5	–
75,000	14.21	4.8	–
1,755,000	\$ 7.39	3.2	1,160,000

On February 9, 2011 the Company issued \$69 million of principal amount unsecured subordinated debentures. The debentures are convertible into 3.1 million common shares at a conversion price of \$22.40 per share with up to an additional 1.8 million common shares reserved for issuance in connection with the “change of control make whole” provisions as set out in the trust indenture relating to the debentures.

## 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.

#### 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. A material increase in royalties or other regulatory burdens would reasonably be expected to result in a material decrease in industry drilling and production activity in the applicable jurisdiction, which in turn would lead to corresponding declines in the demand for the goods and services provided by the Company in such jurisdiction. Conversely, reductions in royalties and other government regulations 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. No customer accounted for more than 10% of the Company's consolidated revenues during the nine months ended September 30, 2011. 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 ongoing global economic and financial challenges and uncertainties 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 Rentals and Transportation Services 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, rental and transportation services 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. While a modest general economic outlook and slower industry environment alleviated labour challenges during 2010 relative to past years when activity levels were higher, a continued strengthening of industry activity levels in Western Canada during 2011 is expected to result in a more challenging and competitive labour market.

### **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 manager 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 managers. Each health and safety manager is required to report incidents directly to the Vice President of Operations of Total Energy.

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.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (tabular amounts in thousands of Canadian dollars)

	Note	September 30, 2011	December 31, 2010
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents		\$ 24,730	\$ 228
Accounts receivable		87,493	70,983
Inventory		39,998	33,488
Income taxes receivable		118	118
Prepaid expenses and deposits		3,109	1,818
		155,448	106,635
Property, plant and equipment	6	244,653	232,146
Goodwill		4,053	4,053
		<b>\$ 404,154</b>	<b>\$ 342,834</b>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 32,044	\$ 28,353
Deferred revenue		11,000	3,334
Dividends payable		1,254	1,257
Current portion of long-term debt	7	-	6,042
Current portion of obligations under finance leases		2,775	3,203
		47,073	42,189
Long-term debt	7	-	66,458
Obligations under finance leases		2,670	3,014
Convertible debentures	7	60,707	-
Deferred tax liability	8	38,913	21,328
Shareholders' equity:			
Share capital	9	76,803	76,268
Contributed surplus	9	2,543	1,769
Equity portion of convertible debenture	7	4,601	-
Retained earnings		170,844	131,808
		254,791	209,845
Contingencies and commitments	14	\$ 404,154	\$ 342,834

The notes on pages 30 to 51 are an integral part of these interim consolidated financial statements.

Approved by the Board of Total Energy Services Inc.



Director: Greg Melchin



Director: Bruce L. Pachkowski

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Note	Three months ended September 30		Nine months ended September 30	
		2011	2010	2011	2010
			(Note 15)		(Note 15)
<b>REVENUE</b>		<b>\$ 87,882</b>	\$ 56,060	<b>\$ 235,146</b>	\$ 151,959
Cost of services	11	<b>45,725</b>	32,354	<b>130,356</b>	89,347
Selling, general and administration		<b>7,126</b>	6,373	<b>21,167</b>	18,753
Share-based compensation	10	<b>368</b>	241	<b>1,046</b>	855
Depreciation	6	<b>5,842</b>	4,935	<b>17,550</b>	14,421
Results from operating activities		<b>28,821</b>	12,157	<b>65,027</b>	28,583
Gain on sale of property, plant and equipment		<b>71</b>	–	<b>849</b>	535
Finance costs	12	<b>(1,351)</b>	(882)	<b>(3,922)</b>	(2,458)
Net income before income taxes		<b>27,541</b>	11,275	<b>61,954</b>	26,660
Current income tax expense		<b>11</b>	–	<b>94</b>	48
Deferred income tax expense	8	<b>6,927</b>	3,365	<b>16,035</b>	7,018
Total income tax expense		<b>6,938</b>	3,365	<b>16,129</b>	7,066
Net income and total comprehensive income for the period		<b>\$ 20,603</b>	\$ 7,910	<b>\$ 45,825</b>	\$ 19,594
Earnings per share	9				
Basic earnings per share		<b>\$ 0.65</b>	\$ 0.25	<b>\$ 1.46</b>	\$ 0.64
Diluted earnings per share		<b>\$ 0.61</b>	\$ 0.25	<b>\$ 1.38</b>	\$ 0.63

*The notes on pages 30 to 51 are an integral part of these interim consolidated financial statements.*



## CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (tabular amounts in thousands of Canadian dollars)

	Note	Three months ended September 30		Nine months ended September 30	
		2011	2010	2011	2010
			(Note 15)		(Note 15)
<b>CASH PROVIDED BY (USED IN):</b>					
Operations:					
Net income for the period		\$ 20,603	\$ 7,910	\$ 45,825	\$ 19,594
Add (deduct) items not affecting cash:					
Depreciation		5,842	4,935	17,550	14,421
Share-based compensation	10	368	241	1,046	855
Gain on sale of property, plant and equipment		(71)	–	(849)	(535)
Finance costs		1,351	882	3,922	2,458
Current income tax expense		11	–	94	48
Deferred income tax expense		6,927	3,365	16,035	7,018
Income taxes paid		(11)	2,520	(94)	2,682
		<b>35,020</b>	<b>19,853</b>	<b>83,529</b>	<b>46,541</b>
Changes in non-cash working capital items:					
Accounts receivable		(15,923)	(20,134)	(16,510)	(30,360)
Inventory		(2,795)	3,117	(6,510)	1,176
Prepaid expenses and deposits		(1,397)	(1,060)	(1,362)	(373)
Accounts payable and accrued liabilities		5,454	(7,450)	(69)	7,971
Deferred revenue		2,830	555	7,666	(1,682)
		<b>23,189</b>	<b>(5,119)</b>	<b>66,744</b>	<b>23,273</b>
Investments:					
Purchase of property, plant and equipment	6	(15,557)	(12,591)	(31,347)	(21,628)
DC Energy Services LP acquisition	5	–	–	–	(31,093)
Proceeds on disposal of property, plant and equipment		571	362	4,109	2,526
Changes in non-cash working capital items		2,318	1,404	3,984	3,188
		<b>(12,668)</b>	<b>(10,825)</b>	<b>(23,254)</b>	<b>(47,007)</b>
Financing:					
Advances under long-term debt	7	–	16,225	–	67,407
Issuance of convertible debenture, net of issue costs	7	–	–	65,927	–
Repayment of long-term debt	7	–	–	(72,500)	(17,500)
Repayment of obligations under finance leases		(933)	(677)	(2,742)	(1,745)
Dividends to shareholders		(1,254)	(931)	(3,776)	(2,793)
Dividends payable		(7)	1	(3)	57
Issuance of common shares	9	–	280	948	583
Repurchase of common shares		(2,215)	(239)	(3,627)	(239)
Interest paid		(1,977)	(816)	(3,215)	(2,167)
Decrease in bank indebtedness		–	–	–	(19,869)
		<b>(6,386)</b>	<b>13,843</b>	<b>(18,988)</b>	<b>23,734</b>
Change in cash and cash equivalents		<b>4,135</b>	<b>(2,101)</b>	<b>24,502</b>	<b>–</b>
Cash and cash equivalents, beginning of period		<b>20,595</b>	<b>2,101</b>	<b>228</b>	<b>–</b>
Cash and cash equivalents, end of period		<b>\$ 24,730</b>	<b>\$ –</b>	<b>\$ 24,730</b>	<b>\$ –</b>

The notes on pages 30 to 51 are an integral part of these interim consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
Unaudited (tabular amounts in thousands of Canadian dollars)

### 1. Reporting entity

Total Energy Services Inc. (the “Company”) is incorporated under the Business Corporations Act (Alberta) (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 partnerships, including Bidell Equipment Limited Partnership and Total Oilfield Limited Partnership, all established in Canada. For financial reporting purposes, the Company is considered a continuing entity of the Trust.

The Company’s business is the provision of contract drilling services, the rental and transportation of equipment used in oil and natural gas drilling, completion and production processes and the fabrication, sale, rental and servicing of natural gas compression equipment to oil and gas exploration and production companies located primarily in western Canada.

The Company’s operations are seasonal in nature and are carried out primarily in the West Canadian Sedimentary Basin. 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.

### 2. Basis of preparation

#### (a) Statement of compliance:

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). 2011 is the first year the Company’s consolidated interim financial statements are prepared in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards and with International Accounting Standard 34 Interim Financial Reporting. These interim consolidated financial statements do not include all the necessary annual disclosures. Previously, the Company prepared its annual and interim consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company as at and for the three and nine months ended September 30, 2010 is provided in note 15.

The consolidated interim financial statements were authorized for issue by the Board of Directors on November 9, 2011.

#### (b) Basis of measurement

The consolidated interim financial statements have been prepared on the historical cost basis.

#### (c) Functional and presentation currency

These consolidated interim financial statements are presented in Canadian dollars, which is the Company’s, its subsidiaries’ and partnerships’ functional currency. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
Unaudited (tabular amounts in thousands of Canadian dollars)

**(d) Use of estimates and judgments**

The preparation of the consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and assumptions used in the preparation of the consolidated interim financial statements include, but are not limited to: estimated useful life, residual values and carrying value of property, plant and equipment; allowance for doubtful accounts; estimated fair value of share-based compensation; valuation of the initial debt and equity split of convertible debenture; and, the estimated timing of temporary difference reversals in the calculation of deferred income taxes and the realization of deferred income tax assets.

**3. Significant accounting policies**

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These condensed interim consolidated financial statements should be read in conjunction with the Company's 2010 annual financial statements prepared in accordance with previous Canadian generally accepted accounting principles (GAAP) as well as the Company's March 31, 2011 condensed interim consolidated financial statements prepared in accordance with IFRS. The Company's March 31, 2011 condensed interim consolidated financial statements include certain disclosures not repeated in the September 30, 2011 condensed interim consolidated financial statements, including disclosure of IFRS 1 elections made by the Company, the Company's significant accounting policies in accordance with IFRS, the Company's use of judgments and estimates, reconciliations of equity and total comprehensive income reported under previous Canadian GAAP to those reported under IFRS as at January 1, 2010, as at and for the three months ended March 31, 2010, and as at and for the year ended December 31, 2010, and certain other supplementary annual disclosures for the year ended December 31, 2010.

**4. Operating segments**

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The Company has three reportable segments which are substantially in one geographic segment, as described below, which are the Company's strategic business units. The strategic business units offer different services. For each of the strategic business units, the Company's Board of Directors and senior corporate management reviews internal management reports on at least a monthly basis.

The segments are: Contract Drilling Services, which includes the contracting of drilling equipment and the provision of labour required to operate the equipment, Rentals and Transportation Services, which includes the rental and transportation of equipment used in oil and natural gas drilling, completion and production operations and Gas Compression Services, which includes the fabrication, sale, rental and servicing of natural gas compression equipment.

Information regarding the results of each reportable segment is included below. Performance is measured based on net income before income taxes, as included in the internal management reports that are reviewed by the Company's Board of Directors and senior corporate management. Segment net income before income taxes is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis. Interest is allocated based on capital employed in each segment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
Unaudited (tabular amounts in thousands of Canadian dollars)

The segmented amounts are as follows:

As at and for the three months ended September 30, 2011	Contract Drilling Services	Rentals and Transportation Services	Gas Compression Services	Other <sup>(1)</sup>	Total
Revenue	\$ 16,274	\$ 43,020	\$ 28,588	\$ –	\$ 87,882
Cost of services	7,959	13,893	23,873	–	45,725
Selling, general and administration	835	3,911	1,364	1,016	7,126
Share-based compensation	–	–	–	368	368
Depreciation	1,468	3,531	830	13	5,842
Results from operating activities	6,012	21,685	2,521	(1,397)	28,821
Gain (loss) on sale of property, plant and equipment	–	81	(10)	–	71
Finance costs	(254)	(597)	(153)	(347)	(1,351)
Net income before income taxes	5,758	21,169	2,358	(1,744)	27,541
Goodwill	–	2,514	1,539	–	4,053
Total assets	81,418	205,773	87,612	29,351	404,154
Total liabilities	17,290	39,367	27,687	65,019	149,363
Capital expenditures	\$ 3,689	\$ 9,603	\$ 2,216	\$ 49	\$ 15,557

As at and for the three months ended September 30, 2010	Contract Drilling Services	Rentals and Transportation Services	Gas Compression Services	Other <sup>(1)</sup>	Total
Revenue	\$ 9,171	\$ 28,862	\$ 18,027	\$ –	\$ 56,060
Cost of services	6,227	11,913	14,214	–	32,354
Selling, general and administration	526	3,402	1,028	1,417	6,373
Share-based compensation	–	–	–	241	241
Depreciation	1,092	3,254	581	8	4,935
Results from operating activities	1,326	10,293	2,204	(1,666)	12,157
Gain (loss) on sale of property, plant and equipment	–	–	–	–	–
Finance costs	(149)	(604)	(98)	(31)	(882)
Net income before income taxes	1,177	9,689	2,106	(1,697)	11,275
Goodwill	–	2,514	1,539	–	4,053
Total assets	73,119	178,483	66,050	1,037	318,689
Total liabilities	13,827	34,975	13,680	60,665	123,147
Capital expenditures	\$ 978	\$ 7,734	\$ 3,879	\$ –	\$ 12,591

(1) Other includes the Company's corporate activities, accretion of convertible debentures and obligations pursuant to long-term credit facilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
Unaudited (tabular amounts in thousands of Canadian dollars)

As at and for the nine months ended September 30, 2011	Contract Drilling Services	Rentals and Transportation Services	Gas Compression Services	Other <sup>(1)</sup>	Total
Revenue	\$ 41,370	\$ 113,962	\$ 79,814	\$ –	\$ 235,146
Cost of services	22,752	40,193	67,411	–	130,356
Selling, general and administration	2,294	11,794	3,998	3,081	21,167
Share-based compensation	–	–	–	1,046	1,046
Depreciation	4,045	11,095	2,372	38	17,550
Results from operating activities	12,279	50,880	6,033	(4,165)	65,027
Gain on sale of property, plant and equipment	7	271	571	–	849
Finance costs	(720)	(1,776)	(432)	(994)	(3,922)
Net income before income taxes	11,566	49,375	6,172	(5,159)	61,954
Goodwill	–	2,514	1,539	–	4,053
Total assets	81,418	205,773	87,612	29,351	404,154
Total liabilities	17,290	39,367	27,687	65,019	149,363
Capital expenditures	\$ 8,968	\$ 16,460	\$ 5,867	\$ 52	\$ 31,347

As at and for the nine months ended September 30, 2010	Contract Drilling Services	Rentals and Transportation Services	Gas Compression Services	Other <sup>(1)</sup>	Total
Revenue	\$ 28,061	\$ 81,681	\$ 42,217	\$ –	\$ 151,959
Cost of services	19,780	36,402	33,050	115	89,347
Selling, general and administration	1,519	11,445	2,786	3,003	18,753
Share-based compensation	–	–	–	855	855
Depreciation	3,381	9,404	1,614	22	14,421
Results from operating activities	3,381	24,430	4,767	(3,995)	28,583
Gain on sale of property, plant and equipment	–	224	311	–	535
Finance costs	(414)	(1,695)	(268)	(81)	(2,458)
Net income before income taxes	2,967	22,959	4,810	(4,076)	26,660
Goodwill	–	2,514	1,539	–	4,053
Total assets	73,119	178,483	66,050	1,037	318,689
Total liabilities	13,827	34,975	13,680	60,665	123,147
Capital expenditures <sup>(2)</sup>	\$ 2,890	\$ 11,847	\$ 6,864	\$ 27	\$ 21,628

(1) Other includes the Company's corporate activities, accretion of convertible debentures and obligations pursuant to long-term credit facilities.

(2) Excludes the acquisition of DC Energy (see note 5).

## 5. DC Energy Services Limited Partnership acquisition

The Company completed the acquisition of the oilfield service, rental and transportation business of DC Energy Services Limited Partnership ("DC Energy") on January 15, 2010. The cash portion of the purchase price was financed using the Company's credit facilities (see note 7) and the balance of the purchase price 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 convertible debenture was converted into 1,785,715 common shares of the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
Unaudited (tabular amounts in thousands of Canadian dollars)

The acquisition of DC Energy enabled the Company to increase its volume of business in its rentals and transportation segment. The acquisition provided the Company with increased market share through access to DC Energy's customer and equipment base and new geographical locations. The Company was also able to realize cost synergies through efficiencies of scale.

DC Energy was integrated into Total Oilfield Rentals Partnership during 2010. As a result it is not practicable to quantify the impact of the acquisition on the consolidated revenue and net income for the period.

The acquisition was accounted for as a business combination using the purchase method of accounting and the operations of DC Energy were included in the Company's accounts effective January 15, 2010. The following table details the purchase price allocation for the business combination:

**Net assets acquired:**

Property, plant and equipment	\$ 51,381
Inventory	766
Other assets	100
Obligations under capital leases	(3,676)
Future income tax liability (note 8)	(4,978)
Total	<u>\$ 43,593</u>

**Consideration paid:**

Cash	\$ 31,888
Convertible debenture (note 9)	12,500
Net earnings from effective date of sale to closing date of sale	(795)
Total	<u>\$ 43,593</u>

With the exception of certain leases in respect of real estate, the obligations under capital leases and future income tax liability referenced above and \$0.9 million of employee retention costs, no additional material obligations were acquired by the Company in the transaction.

The Company incurred acquisition-related costs of \$0.6 million. These costs have been included in Cost of services.

**6. Property, plant and equipment**

During 2011 the Company conducted an operational efficiency review which resulted in changes in the expected useful life of items of property, plant and equipment. Certain drilling and production rental equipment and heavy trucks are now expected to remain in operation for 15 and 7 years, respectively from the date of purchase as opposed to 10 years. The effect of these changes on depreciation expense is as follows:

	2011	2012	2013	2014	2015	Later
Increase (decrease) in depreciation expense	\$ 594	\$ (972)	\$ (1,862)	\$ (2,643)	\$ (2,227)	\$ 7,110

**7. Long-term debt**

	September 30, 2011	December 31, 2010
Long-term debt	\$ -	\$ 72,500
Less current portion	-	6,042
Balance, end of period	<u>\$ -</u>	<u>\$ 66,458</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
Unaudited (tabular amounts in thousands of Canadian dollars)

### Revolving term loan

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 were 364 day plus 2 year facilities. In the event of non-renewal of the revolving operating facility, all amounts owing under that facility were due and payable on the two year anniversary following non-renewal. The revolving term loan facility required monthly principal payments in the case of non-renewal, where the outstanding loan balance was amortized over 60 months with 23 equal payments required followed by a final lump sum payment due after 24 months. The Company's obligation under the facilities was secured by a first fixed and floating charge on all assets of the Company, its wholly owned subsidiaries and partnerships and certain other collateral security. The rate at which the facilities bore interest was based on a financial ratio with the interest rate ranging from prime plus 1.25% to 2.00%. The renewal date for the facilities was July 12, 2011. In February 2011 these facilities were replaced by the \$69 million of convertible unsecured subordinated debentures and the \$35 million operating facility as outlined below.

### Operating facility

On February 17, 2011 the Company secured a \$35 million operating facility with a major Canadian financial institution. The facility is a 2 year committed facility with payments not required until June 2013, assuming non-extension by the lender, bearing interest at prime rate plus 0.50% secured against the Company's cash and cash equivalents, accounts receivable and inventory.

### Convertible debentures

On February 9, 2011 the Company issued \$69 million of principal amount convertible unsecured subordinated debentures. The debentures bear interest from the date of issue at 5.75% per annum, with interest payable semi-annually in arrears on March 31 and September 30. Commission to the underwriters and other issuance costs amounted to approximately \$3.1 million.

The debentures mature on March 31, 2016. The debentures are not redeemable at the option of the Company on or before March 31, 2014. After March 31, 2014, and on or before March 31, 2015, the debentures may be redeemed in whole or in part from time to time at the option of the Company at their principal amount plus accrued and unpaid interest, provided that the weighted average trading price of the Company's common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending five days preceding the date on which the notice of redemption is given is at least 125 per cent of the conversion price. After March 31, 2015 the debentures may be redeemed in whole or in part at the option of the Company at a price equal to their principal amount plus accrued and unpaid interest.

Each \$1,000 principal amount of debentures is convertible at the option of the holder at any time prior to the close of business on the earlier of (i) the maturity date and (ii) the last business day immediately preceding the date fixed for redemption, into 44.6429 common shares of the Company, representing a conversion price of \$22.40, subject to anti-dilution provisions. Holders who convert their debentures will receive accrued and unpaid interest for the period from the date of the latest interest payment date to the date of the conversion.

Upon issuance of the debentures, the liability component of the convertible debentures was recognized initially at the fair value of the similar liability that does not have an equity conversion option. The difference between these two amounts of \$6.2 million has been recorded as equity with the remaining \$59.8 million allocated to long-term debt, net of \$3.1 million of transaction costs. The discount on the debentures is being accreted such that the liability at maturity will equal the face value of \$69.0 million.

The directly attributable transaction costs of \$3.1 million were proportionally allocated to the liability and equity components.

	February 9, 2011
Long-term liability, net of transaction costs	\$ 59,776
Equity component, net of transaction costs and deferred tax (note 8)	4,601
Deferred tax on equity component of convertible debentures (note 8)	1,550
Transaction costs	3,073
Face value	<u>\$ 69,000</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
Unaudited (tabular amounts in thousands of Canadian dollars)

During the nine months ended September 30, 2011 changes in the balance of the liability component of the convertible debentures were as follows:

	2011
Convertible debentures, opening balance	\$ 59,776
Accretion of discount	931
<b>Convertible debentures, end of period</b>	<b>\$ 60,707</b>

## 8. Deferred income tax assets and liabilities

The components of the net future income tax liability at September 30, 2011 and December 31, 2010 are as follows:

	September 30, 2011	December 31, 2010
Deferred income tax assets:		
Non capital loss and SR&ED carry-forward	\$ –	\$ 10,163
Deferred income tax liabilities:		
Convertible debenture	1,432	–
Property, plant and equipment	32,824	31,279
Partnership income deferral	4,451	–
Other	206	212
	<b>38,913</b>	<b>31,491</b>
	<b>\$ 38,913</b>	<b>\$ 21,328</b>

The deferred income tax asset is comprised of approximately nil non-capital losses (December 31, 2010 - \$20 million) and nil research and development expenditures (December 31, 2010 - \$19.2 million).

The business and operations of the Company are 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 IFRS 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.

Movement in temporary differences during the period:

	January 1, 2010	Recognized in net income or loss	Acquired in business combination (note 5)	Dec 31, 2010	Recognized in net income or loss	Charged to equity (note 7)	Sept 30, 2011
Deferred income tax assets:							
Non capital loss and SR&ED carryforward	\$ 18,706	\$ (8,543)	\$ –	\$ 10,163	\$ (10,163)	\$ –	\$ –
Deferred income tax liabilities:							
Convertible debenture	–	–	–	–	118	(1,550)	(1,432)
Property, plant and equipment	(23,689)	(2,612)	(4,978)	(31,279)	(1,545)	–	(32,824)
Partnership income deferral	–	–	–	–	(4,451)	–	(4,451)
Other	(85)	(127)	–	(212)	6	–	(206)
	<b>(23,774)</b>	<b>(2,739)</b>	<b>(4,978)</b>	<b>(31,491)</b>	<b>(5,872)</b>	<b>(1,550)</b>	<b>(38,913)</b>
	<b>\$ (5,068)</b>	<b>\$ (11,282)</b>	<b>\$ (4,978)</b>	<b>\$ (21,328)</b>	<b>\$ (16,035)</b>	<b>\$ (1,550)</b>	<b>\$ (38,913)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
Unaudited (tabular amounts in thousands of Canadian dollars)

The Company also has investment tax credits and capital losses totalling 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:

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Net income before income taxes	\$ 61,954	\$ 26,660
Income tax rate	26.7%	28.0%
Expected income tax expense	\$ 16,542	\$ 7,465
Change in taxes resulting from:		
Non-deductible share-based compensation	279	239
Deferred income tax rate adjustment	(787)	(329)
Other	95	(309)
Provision for income taxes	\$ 16,129	\$ 7,066

## 9. Share Capital

### (a) Common share capital

Common shares of Total Energy Services Inc.

#### (i) Authorized:

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

Unlimited number of preferred shares.

#### (ii) Common shares issued:

	Number of shares (thousands)	Amount
Balance, January 1, 2010	29,176	\$ 60,777
Issued on conversion of convertible debenture (see note 5)	1,786	12,500
Issued on exercise of share options	495	3,071
Repurchased and cancelled	(27)	(68)
Cancelled	(5)	(12)
Balance, December 31, 2010	31,425	\$ 76,268
Issued on exercise of share options	195	1,220
Repurchased and cancelled	(219)	(556)
Cancelled	(51)	(129)
<b>Balance, September 30, 2011</b>	<b>31,350</b>	<b>\$ 76,803</b>

During nine months ended September 30, 2011 219,068 common shares (2010: 27,115) were repurchased under the Company's normal course issuer bid at an average price of \$14.24 (2010: \$8.80), including commissions. Any common shares repurchased under the Company's normal course issuer bid are cancelled. The excess of price paid over the average price per common share has been charged to retained earnings. In addition, 50,932 common shares were purchased in 2009 pursuant to an employee retention plan. These shares were cancelled in 2011 as such shares either did not vest pursuant to such retention plan or the shares were re-purchased by the Company pursuant to such retention plan.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
Unaudited (tabular amounts in thousands of Canadian dollars)

## (b) Per share amounts

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net income for the period	\$ 20,603	\$ 7,910	\$ 45,825	\$ 19,594
Weighted average number of shares outstanding – Basic	31,476	31,053	31,471	30,623
Earnings per share - basic	\$ 0.65	\$ 0.25	\$ 1.46	\$ 0.64
Net income for the period	\$ 20,603	\$ 7,910	\$ 45,825	\$ 19,594
Add back: debenture interest net of tax	996	–	2,535	–
	\$ 21,599	\$ 7,910	\$ 48,360	\$ 19,594
Weighted average number of shares outstanding – Basic	31,476	31,053	31,471	30,623
Convertible debenture dilution	3,080	–	2,629	–
Share option dilution	875	704	899	704
Weighted average number of shares outstanding – Diluted	35,431	31,757	34,999	31,327
Earnings per share - diluted	\$ 0.61	\$ 0.25	\$ 1.38	\$ 0.63

For the three and nine months ended September 30, 2011, 375,000 share options (September 30, 2010: 210,000) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

## (c) Contributed surplus

Balance, January 1, 2010	\$ 1,174
Non-cash compensation expense related to share based compensation plan	1,289
Less: Contributed surplus on share options exercised	(694)
Balance, December 31, 2010	\$ 1,769
Non-cash compensation expense related to share based compensation plan	1,046
Less: Contributed surplus on share options exercised	(272)
<b>Balance, September 30, 2011</b>	<b>\$ 2,543</b>

## 10. 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 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
Unaudited (tabular amounts in thousands of Canadian dollars)

Share option transactions during 2011 and 2010 were as follows:

	Weighted average exercise price	Number of Options
Balance, January 1, 2010	\$ 4.71	1,860,000
Granted	7.65	210,000
Exercised	4.80	(495,000)
Balance, December 31, 2010	\$ 5.07	1,575,000
Granted	15.79	375,000
Exercised	4.86	(195,000)
<b>Balance, September 30, 2011</b>	<b>\$ 7.39</b>	<b>1,755,000</b>

The options issued under the TSX Plan vest either 1/3 on the date of grant, 1/3 after one year and 1/3 after two years or 1/3 on the first anniversary from the date of grant, 1/3 after two years and 1/3 after three years. The options expire on various dates ranging from May 31, 2014 to June 30, 2016.

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

Outstanding at December 31, 2010	Exercise Price	Remaining life (years)	Exercisable at December 31, 2010
1,175,000	\$ 4.66	3.4	655,000
200,000	4.97	3.8	–
150,000	7.30	4.1	–
50,000	8.54	4.7	10,000
<b>1,575,000</b>	<b>\$ 5.07</b>	<b>3.6</b>	<b>665,000</b>

Outstanding at September 30, 2011	Exercise Price	Remaining life (years)	Exercisable at September 30, 2011
<b>990,000</b>	<b>\$ 4.66</b>	<b>2.7</b>	<b>990,000</b>
<b>200,000</b>	<b>4.97</b>	<b>2.9</b>	<b>100,000</b>
<b>150,000</b>	<b>7.30</b>	<b>3.4</b>	<b>50,000</b>
<b>40,000</b>	<b>8.54</b>	<b>3.9</b>	<b>20,000</b>
<b>300,000</b>	<b>16.18</b>	<b>4.5</b>	<b>–</b>
<b>75,000</b>	<b>14.21</b>	<b>4.8</b>	<b>–</b>
<b>1,755,000</b>	<b>\$ 7.39</b>	<b>3.2</b>	<b>1,160,000</b>

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value of the share options granted. The average per share fair value of the options granted during 2011 is \$4.84 per option (2010 - \$2.61) using the following assumptions:

	September 30, 2011	December 31, 2010
Expected volatility	45% to 50%	47% to 54%
Annual dividend yield	0.76% to 0.84%	1.4% to 1.6%
Risk free interest rate	1.59% to 2.6%	1.4% to 2.4%
Forfeitures	15%	15%
Expected life (years)	3 to 5 years	2 to 5 years

For the three and nine months ended September 30, 2011 the Company recognized share-based compensation expense of \$0.4 million and \$1.0 million respectively (2010 - \$0.2 million and \$0.9 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
Unaudited (tabular amounts in thousands of Canadian dollars)

### 11. Cost of services

For the nine months ended September 30, 2011 finished goods, work-in-progress and parts and raw materials inventory of \$60.5 million (September 30, 2010: \$22.9 million) are included in cost of services.

### 12. Finance costs

Total finance costs for the nine month periods ending September 30, 2011 and 2010 is comprised of:

	2011	2010
Other interest	\$ -	\$ 122
Convertible debenture interest	2,527	-
Accretion of convertible debenture	931	-
Interest on long-term debt	464	2,336
	<b>\$ 3,922</b>	<b>\$ 2,458</b>

### 13. Financial Risk Management and Financial Instruments Overview

#### 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 September 30, 2011 and December 31, 2010 these ratios were as follows:

	September 30, 2011	December 31, 2010
Long-term debt (including current portion and convertible debentures at face value)	\$ 69,000	\$ 72,500
Shareholders' equity	254,791	209,845
Total capitalization	\$ 323,791	\$ 282,345
Long-term debt to long-term debt plus equity ratio	0.21	0.26

As at September 30, 2011 the Company was subject to externally imposed minimum capital requirements relating to its operating facility. These minimum capital requirements included meeting certain minimum pre-determined ratios with respect to current assets to current liabilities and debt to equity as well as certain current asset margining requirements. The Company monitored these requirements to ensure compliance with them. As at September 30, 2011 and December 31, 2010 the Company was in compliance with all external minimum capital requirements.

#### Financial instruments

The Company's financial instruments as at September 30, 2011 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable, obligations under finance leases, long-term debt and convertible debentures. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and obligations under finance leases approximate their carrying amounts due to their short-terms to maturity. 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 Company's \$69 million convertible debentures are listed and trade on the Toronto Stock Exchange. On September 30, 2011 the closing market price for these securities was \$95.01 per \$100 principal amount. This represents an aggregate market value of \$65.6 million.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
Unaudited (tabular amounts in thousands of Canadian dollars)

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.

#### 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 primarily from the Company's trade accounts receivable. The carrying amount of cash and cash equivalents and accounts receivable included on the statement of financial position represent the maximum credit exposure.

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 affect collection include commodity prices and access to capital. Customer specific factors that may affect collection include realized commodity prices, the success of drilling programs, well reservoir decline rates and access to capital. As at September 30, 2011, \$3.0 million, or 3% of accounts receivable (September 30, 2010 - \$3.5 million or 6%) 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 was as follows:

	Allowance for doubtful accounts
Balance at January 1, 2010	\$ 1,198
Provisions and revisions	88
Balance at December 31, 2010	\$ 1,286
Provisions and revisions	(19)
<b>Balance at September 30, 2011</b>	<b>\$ 1,267</b>

The Company does not have significant exposure to any individual customer or counter party. No customer accounted for more than 10% of the Company's consolidated revenues during the nine months ended September 30, 2011 and September 30, 2010. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry as a whole.

#### 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. As at September 30, 2011 the Company maintained an operating line of credit which was available to a maximum of \$35 million and had convertible debentures of \$69 million outstanding due March 31, 2016 (December 31, 2010: \$10 million operating line of credit and \$80 million long-term debt facility) to ensure the Company has sufficient working capital to operate its business. As at September 30, 2011 \$35 million (December 31, 2010: \$20.0 million) of available credit facilities remained unutilized.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
Unaudited (tabular amounts in thousands of Canadian dollars)

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

As at December 31, 2010	Less than 1 year	2-4 years	Over 4 years	Total
Accounts payable and accrued liabilities	\$ 28,353	\$ -	\$ -	\$ 28,353
Dividends payable	1,257	-	-	1,257
Long-term debt, in case of non-renewal	6,042	66,458	-	72,500
Finance leases	3,203	2,924	90	6,217
<b>Total</b>	<b>\$ 38,855</b>	<b>\$ 69,382</b>	<b>\$ 90</b>	<b>\$ 108,327</b>

As at September 30, 2011	Less than 1 year	2-4 years	Over 4 years	Total
Accounts payable and accrued liabilities	\$ 32,044	\$ -	\$ -	\$ 32,044
Dividends payable	1,254	-	-	1,254
Convertible debenture	-	-	69,000	69,000
Finance leases	2,775	2,670	-	5,445
<b>Total</b>	<b>\$ 36,073</b>	<b>\$ 2,670</b>	<b>\$ 69,000</b>	<b>\$ 107,743</b>

#### 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 approximately 20% of its operating expenses in the first nine months of 2011 were purchased using a foreign currency. Where foreign currency denominated purchases are made, it is the Company's practice to pay invoiced amounts within 15 days of receipt of invoice to reduce the Company's exposure to foreign exchange risk. In addition, from time to time the Company purchases funds in the foreign currency to which the order is denominated to mitigate against foreign exchange rate changes from the date of ordering to when payment is made. Pricing to customers is also customarily adjusted to reflect changes in the Canadian dollar landed cost of imported goods.

The Company had no foreign exchange derivative contracts in place as at or during the nine month period ended September 30, 2011.

- 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 borrowings under existing and available credit facilities 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 nine months ending September 30, 2011, if interest rates had been 1% lower with all other variables held constant, after tax net earnings for the period would have been approximately \$71,000 higher (September 30, 2010 - \$332,000), due to lower interest expense. An equal and opposite impact would have occurred to net earnings had interest rates been 1% higher. The sensitivity is lower in 2011 as compared to 2010 due primarily to the fixed interest rate on the Company's \$69 million convertible debentures.

The Company had no interest rate swap or financial contracts in place as at or during the nine month period ended September 30, 2011.

Convertible debentures bear a fixed interest rate and thus are not exposed to interest rate risk.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
Unaudited (tabular amounts in thousands of Canadian dollars)

#### 14. Contingencies and Commitments

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The Company 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 the Company’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 \$7.6 million, \$8.5 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.

These 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 currently filed against the Company will not be material to the Company.

The Company has operating lease commitments for vehicles and buildings over the next five years of \$6.4 million. The Company also has purchase obligations of \$35.0 million as at September 30, 2011 relating to commitments to acquire capital assets and inventory.

#### 15. Explanation of transition to IFRS

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As stated in note 2, 2011 is the first year that the Company’s consolidated interim financial statements are prepared in accordance with IFRS. The accounting policies as set out in note 3 have been applied in preparing comparative financial statements for the three and nine months ended September 30, 2010.

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company’s financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
 Unaudited (tabular amounts in thousands of Canadian dollars)

## Reconciliation of equity

	Note 15	September 30, 2010		
		Previous Canadian GAAP	Effects of transition to IFRS	IFRS
<b>ASSETS</b>				
Current assets:				
Accounts receivable	(d)	\$ 52,179	\$ 721	\$ 52,900
Inventory	(d)	30,366	(2,747)	27,619
Income taxes receivable		118	-	118
Prepaid expenses and deposits	(a)	2,692	(329)	2,363
		85,355	(2,355)	83,000
Property, plant and equipment	(a),(b),(c)	234,133	(2,497)	231,636
Goodwill		4,053	-	4,053
		<u>\$ 323,541</u>	<u>\$ (4,852)</u>	<u>\$ 318,689</u>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>				
Current liabilities:				
Accounts payable and accrued liabilities	(d)	\$ 24,396	\$ 29	\$ 24,425
Deferred revenue	(d)	4,069	(2,785)	1,284
Dividends payable		932	-	932
Current portion of long-term debt		9,667	-	9,667
Current portion of obligations under finance leases		2,715	-	2,715
		41,779	(2,756)	39,023
Long-term debt		64,058	-	64,058
Obligations under finance leases		3,002	-	3,002
Deferred tax liability	(f)	17,509	(445)	17,064
Deferred tax credit	(e)	7,267	(7,267)	-
Shareholders' equity:				
Share capital		73,917	-	73,917
Contributed surplus		1,892	-	1,892
Retained earnings	(k)	114,117	5,616	119,733
		<u>189,926</u>	<u>5,616</u>	<u>195,542</u>
		<u>\$ 323,541</u>	<u>\$ (4,852)</u>	<u>\$ 318,689</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
Unaudited (tabular amounts in thousands of Canadian dollars)

## Reconciliation of comprehensive income

	Note 15	Three months ended September 30, 2010			Nine months ended September 30, 2010		
		Previous Canadian GAAP	Effects of transition to IFRS	IFRS	Previous Canadian GAAP	Effects of transition to IFRS	IFRS
<b>REVENUE</b>	(d)	\$ 55,237	\$ 823	\$ 56,060	\$ 148,924	\$ 3,035	\$ 151,959
Cost of services	(a)(b)(c)(d)	31,872	482	32,354	86,584	2,763	89,347
Selling, general and administrative		6,373	–	6,373	18,753	–	18,753
Share-based compensation		241	–	241	855	–	855
Depreciation	(a)(b)(c)	5,035	(100)	4,935	14,805	(384)	14,421
Other interest	(h)	68	(68)	–	122	(122)	–
Interest on long-term debt	(h)	814	(814)	–	2,336	(2,336)	–
Results from operating activities		10,834	1,323	12,157	25,469	3,114	28,583
Gain on disposal of property, plant and equipment		–	–	–	535	–	535
Finance costs	(h)	–	(882)	(882)	–	(2,458)	(2,458)
Net income before income taxes		10,834	441	11,275	26,004	656	26,660
Current income tax expense		–	–	–	48	–	48
Deferred income tax expense	(i)	1,274	2,091	3,365	2,542	4,476	7,018
Total income tax expense		1,274	2,091	3,365	2,590	4,476	7,066
Net income and total comprehensive income for the period	(j)	\$ 9,560	\$ (1,650)	\$ 7,910	\$ 23,414	\$ (3,820)	\$ 19,594
Earnings per share							
Basic earnings per share		\$ 0.31	\$ (0.06)	\$ 0.25	\$ 0.76	\$ (0.12)	\$ 0.64
Diluted earnings per share		\$ 0.30	\$ (0.05)	\$ 0.25	\$ 0.75	\$ (0.12)	\$ 0.63

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
 Unaudited (tabular amounts in thousands of Canadian dollars)

## Reconciliation of cash flow for the three months ended September 30, 2010

	Note 15	Previous Canadian GAAP	Effects of transition to IFRS	IFRS
<b>CASH PROVIDED BY (USED IN):</b>				
Operations:				
Net income for the period	(j)	\$ 9,560	\$ (1,650)	\$ 7,910
Add (deduct) items not affecting cash:				
Depreciation	(a)(b)(c)	5,035	(100)	4,935
Share-based compensation		241	-	241
Finance costs		-	882	882
Deferred income tax expense	(i)	1,274	2,091	3,365
Income taxes received		-	2,520	2,520
		16,110	3,743	19,853
Changes in non-cash working capital items:				
Accounts receivable	(d)	(20,375)	241	(20,134)
Inventory	(d)	2,508	609	3,117
Income taxes receivable		2,557	(2,557)	-
Prepaid expenses and deposits	(a)	(1,088)	28	(1,060)
Accounts payable and accrued liabilities	(d)	(7,335)	(115)	(7,450)
Deferred revenue	(d)	1,619	(1,064)	555
		(6,004)	885	(5,119)
Investments:				
Purchase of property, plant and equipment	(a)(b)	(12,522)	(69)	(12,591)
Proceeds on disposal of property, plant and equipment		362	-	362
Changes in non-cash working capital items		1,404	-	1,404
		(10,756)	(69)	(10,825)
Financing:				
Advances under long-term debt		16,225	-	16,225
Repayment of obligations under finance leases		(677)	-	(677)
Dividends to shareholders		(931)	-	(931)
Dividends payable		1	-	1
Issuance of common shares		280	-	280
Repurchase of common shares		(239)	-	(239)
Interest paid		-	(816)	(816)
		14,659	(816)	13,843
Change in cash and cash equivalents		(2,101)	-	(2,101)
Cash and cash equivalents, beginning of period		2,101	-	2,101
Cash and cash equivalents, end of period		\$ -	\$ -	\$ -

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
Unaudited (tabular amounts in thousands of Canadian dollars)

## Reconciliation of cash flow for the nine months ended September 30, 2010

	Note 15	Previous Canadian GAAP	Effects of transition to IFRS	IFRS
<b>CASH PROVIDED BY (USED IN):</b>				
Operations:				
Net income for the period	(j)	\$ 23,414	\$ (3,820)	\$ 19,594
Add (deduct) items not affecting cash:				
Depreciation	(a)(b)(c)	14,805	(384)	14,421
Share-based compensation		855	–	855
Gain on disposal of property, plant and equipment		(535)	–	(535)
Finance costs		–	2,458	2,458
Income tax expense		–	48	48
Deferred income tax expense	(i)	2,542	4,476	7,018
Income taxes paid		–	2,682	2,682
		41,081	5,460	46,541
Changes in non-cash working capital items:				
Accounts receivable	(d)	(30,075)	(285)	(30,360)
Inventory	(d)	(1,192)	2,368	1,176
Income taxes receivable		2,730	(2,730)	–
Prepaid expenses and deposits	(a)	(406)	33	(373)
Accounts payable and accrued liabilities	(d)	8,233	(262)	7,971
Deferred revenue	(d)	1,068	(2,750)	(1,682)
		21,439	1,834	23,273
Investments:				
Purchase of property, plant and equipment	(a)(b)	(21,340)	(288)	(21,628)
DC Energy Services LP acquisition	(c)	(31,714)	621	(31,093)
Proceeds on disposal of property, plant and equipment		2,526	–	2,526
Changes in non-cash working capital items		3,188	–	3,188
		(47,340)	333	(47,007)
Financing:				
Advances under long-term debt	(g)	47,538	19,869	67,407
Repayments of long-term debt	(g)	(17,500)	–	(17,500)
Repayment of obligations under finance leases		(1,745)	–	(1,745)
Dividends to shareholders		(2,793)	–	(2,793)
Dividends payable		57	–	57
Issuance of common shares		583	–	583
Repurchase of common shares		(239)	–	(239)
Interest paid		–	(2,167)	(2,167)
Decrease in bank indebtedness	(g)	–	(19,869)	(19,869)
		25,901	(2,167)	23,734
Change in cash and cash equivalents		–	–	–
Cash and cash equivalents, beginning of period		–	–	–
Cash and cash equivalents, end of period		\$ –	\$ –	\$ –

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
Unaudited (tabular amounts in thousands of Canadian dollars)

**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 will 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 has elected not to restate business combinations 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 has elected to measure PP&E at historic cost as opposed to deemed cost, as would be allowed under this exemption.

**Notes to the reconciliations****(a) Componentization**

IAS 16, Property Plant and Equipment requires a Company to maintain property, plant and equipment separately for each significant item even if the combination of those separate items represents one asset for business purposes. The assets have been analyzed and componentized based on significant identifiable components and depreciated separately over their respective useful lives. Under Canadian GAAP depreciation was calculated for the total asset.

**(b) Overhaul costs**

IAS 16, Property Plant and Equipment also requires major overhaul costs to be capitalized and amortized over the respective overhaul period. Under Canadian GAAP the Company expensed overhaul costs.

**(c) Transaction costs**

IFRS 3, Business Combinations, requires business acquisition related costs be expensed in the period in which the costs are incurred and the services received. Under Canadian GAAP they were capitalized as a direct cost of the business acquisition to property, plant and equipment.

The differences from items (a) to (c) above resulted in following IFRS transition adjustments to balances in the Statement of Financial Position:

<b>Prepaid expenses and deposits</b>	September 30, 2010
Componentization	\$ (329)
<b>Property, plant and equipment</b>	September 30, 2010
Componentization	\$ (1,708)
Overhaul costs	(198)
Transaction costs	(591)
	<u>\$ (2,497)</u>

**(d) Percentage of completion**

The Gas Compression Services division is party to contracts to supply equipment that involves the design, manufacture, installation and start up. IAS 11, Construction Contracts, provides specific guidance for the recognition of revenues and expenses as it relates to these type of contracts. This standard requires that revenues and expenses from these contracts be recognized under the percentage of completion method. Under Canadian GAAP the Company had a choice of the percentage of completion method or completed contracts method of revenue recognition. The

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
Unaudited (tabular amounts in thousands of Canadian dollars)

Company followed the completed contracts method of revenue recognition whereby all revenue was recognized upon completion.

The differences in (d) resulted in the following IFRS transition adjustments to balances in the Statement of Financial Position:

<b>Accounts receivable</b>	September 30, 2010
Percentage of completion	\$ 721
<b>Inventory</b>	September 30, 2010
Percentage of completion	\$ (2,747)
<b>Accounts payable and accrued liabilities</b>	September 30, 2010
Percentage of completion	\$ 29
<b>Deferred revenue</b>	September 30, 2010
Percentage of completion	\$ (2,785)

**(e) Deferred tax credit**

Under previous Canadian GAAP the Company recorded a deferred tax credit pursuant to a corporate reorganization undertaken in 2009. IAS 12, Income Taxes, does not recognize deferred tax credits. Outlined below is the impact of the elimination of the deferred tax credit on the Statement of Financial Position:

<b>Deferred tax credit</b>	September 30, 2010
Derecognizing of deferred tax credit	\$ (7,267)

**(f) Deferred tax liability**

The tax effect of the IFRS transition adjustments presented in (a) to (e) above resulted in a change in the deferred tax liability balance in the Statement of Financial Position based on a 25.6% tax rate (January 1, 2010: 25%) as outlined below:

<b>Deferred tax liability</b>	September 30, 2010
Componentization	\$ (431)
Overhaul costs	(49)
Percentage of completion	184
Transaction costs	(149)
	<u>\$ (445)</u>

**(g) Bank indebtedness and long-term debt**

In February, 2011 the Company executed new long-term credit facilities (note 7) that under previous Canadian GAAP resulted in \$6.0 million of long-term debt being reclassified from short-term to long-term as at December 31, 2010.

In January, 2010 the Company's executed new long-term credit facilities (note 7) that under previous Canadian GAAP resulted in \$19.9 million of bank indebtedness being reclassified from short-term to long-term as at December 31, 2009.

IAS 1, Presentation of Financial Statements, requires accounting for liabilities, including borrowings, according to contractual arrangements existing at the reporting date, versus the date when financial statements are authorized for issue according to Canadian GAAP. The adjustment was made to reflect the requirement of the IFRS.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
Unaudited (tabular amounts in thousands of Canadian dollars)

**(h) Income statement reclassifications**

The Company elected to present its comprehensive income by nature of expense. This resulted in number of reclassifications in the Statement of comprehensive income based on the requirement of IAS 1, Presentation of Financial Statements. Under this IFRS:

- Interest expense is presented as a separate category “Finance Costs” below the line “Results from operating activities”. Under previous Canadian GAAP interest expense was presented as a separate line item and included as part of operating activities.
- (i) The IFRS transition adjustment presented in items (a) to (f) together with reclassifications resulted in following changes in the line items in the Statements of comprehensive income:

Revenue	Three months ended September 30, 2010	Nine months ended September 30, 2010
Percentage of completion	\$ 823	\$ 3,035

Cost of services	Three months ended September 30, 2010	Nine months ended September 30, 2010
Percentage of completion	\$ 522	\$ 2,397
Componentization	(40)	(128)
Overhaul costs – capitalization	–	(127)
Transaction costs	–	621
	\$ 482	\$ 2,763

Depreciation	Three months ended September 30, 2010	Nine months ended September 30, 2010
Componentization – decrease in depreciation	\$ (180)	\$ (600)
Overhaul costs – increase in depreciation	91	246
Transaction costs – decrease in depreciation	(11)	(30)
	\$ (100)	\$ (384)

Deferred income tax expense	Three months ended September 30, 2010	Nine months ended September 30, 2010
Componentization	\$ 62	\$ 186
Derecognition of deferred tax credit	1,972	4,308
Overhaul costs and related depreciation	(22)	(30)
Percentage of completion	76	161
Transaction costs and related depreciation	3	(149)
	\$ 2,091	\$ 4,476

**(j) Net income and total comprehensive income**

The IFRS transition adjustment presented in (a) to (i) resulted in changes to net income and total comprehensive income as follows:

Net income and total comprehensive income	Note	Three months ended September 30, 2010	Nine months ended September 30, 2010
Componentization	(a)	\$ 158	\$ 542
Derecognition of deferred tax credit	(e)	(1,972)	(4,308)
Overhaul costs	(b)	(69)	(89)
Percentage of completion	(d)	225	477
Transaction costs	(c)	8	(442)
		\$ (1,650)	\$ (3,820)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011 and 2010  
 Unaudited (tabular amounts in thousands of Canadian dollars)

**(k) Retained earnings**

The above changes increased (decreased) retained earnings (each net of related tax) as follows:

Retained earnings	Note	September 30, 2010
Componentization	(a)	\$ (1,606)
Derecognition of deferred tax credit	(e)	7,267
Overhaul costs	(b)	(149)
Percentage of completion	(d)	546
Transaction costs	(c)	(442)
		\$ 5,616

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

Bruce Pachkowski<sup>3</sup>  
*Chairman of the Board*

Daniel Halyk  
*President and Chief Executive Officer*

Gregory Fletcher<sup>1,2</sup>

Randy Kwasnicia<sup>1,3</sup>

Greg Melchin<sup>1,2</sup>

Andrew Wiswell<sup>2,3</sup>

<sup>1</sup> Member of the Compensation Committee

<sup>2</sup> Member of the Audit Committee

<sup>3</sup> 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*

Cam Danyluk  
*Vice President Legal, General Counsel and Corporate Secretary*

#### CHINOOK DRILLING, A DIVISION OF TOTAL ENERGY SERVICES INC.

Rod Rundell  
*General Manager*

#### TOTAL OILFIELD RENTALS LIMITED PARTNERSHIP

Gerry Crawford  
*General Manager*

#### BIDELL EQUIPMENT LIMITED PARTNERSHIP

Sean Ulmer  
*President*

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### AUDITOR

KPMG LLP  
Calgary, Alberta

### TRUSTEE, REGISTRAR AND TRANSFER AGENT

Olympia Trust Company  
Calgary, Alberta

### LEGAL COUNSEL

Bennett Jones, LLP  
Calgary, Alberta

### BANKER

HSBC  
Calgary, Alberta

### STOCK EXCHANGE LISTING

Toronto Stock Exchange  
Common Shares: TOT  
Convertible Debentures: TOT.DB

## LOCATIONS

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



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