FOCUS DISCIPLINE GROWTH

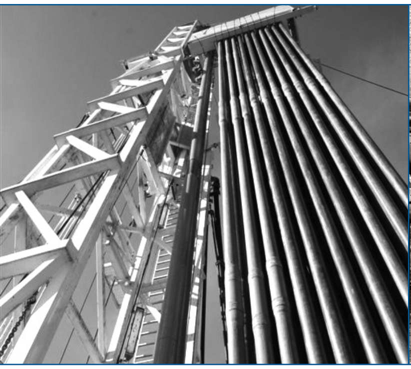
Annual Report 2011

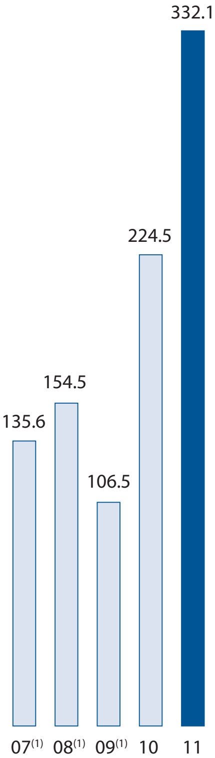
TOTAL ENERGY SERVICES INC.

Total Energy Services Inc. ("Total Energy" or the "Company") is a growth oriented energy services company based in Calgary, Alberta. Through 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.

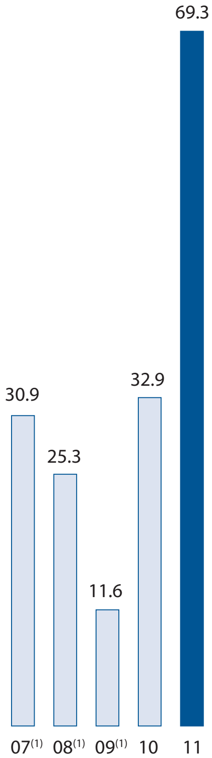
The shares of Total Energy are listed and trade on the Toronto Stock Exchange under the symbol TOT.

FINANCIAL HIGHLIGHTS

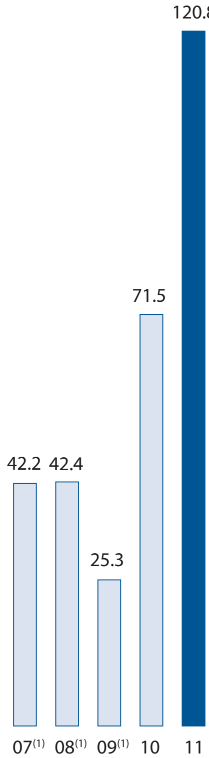




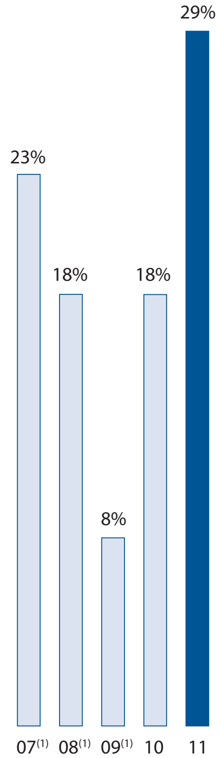
REVENUES
(in millions of dollars)



NET INCOME
(in millions of dollars)



CASHFLOW(2)
(in millions of dollars)



RETURN ON AVERAGE EQUITY(3)

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

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

(3) Return on average equity is calculated as follows: Net income divided by (opening Shareholders' equity plus ending Shareholders' equity divided by two).

REPORT TO SHAREHOLDERS

2011 was a record year for Total Energy from an operating and financial perspective. These results were driven by the collective focus, discipline and growth of the entire organization. After managing through difficult industry conditions that began in 2008 and continued through 2009, Total Energy utilized its balance sheet strength to grow its capital asset base by approximately 50% from the beginning of 2010 through to the end of 2011. This significant growth was achieved without unnecessary shareholder dilution, thereby contributing to record annual financial results for 2011 both on an absolute and a per-share diluted basis.

All three of Total Energy's divisions continued to grow during 2011. Despite a difficult natural gas price environment, Total Energy's Gas Compression Services division, Bidell, continued to grow its fabrication business with the addition of a third fabrication plant in Calgary in mid-year, which plant is focused exclusively on producing the patented NOMAD™ line of mobile compression. Bidell continued the expansion of its parts and service business and the compression rental fleet grew steadily to exit 2011 at a record 25,300 horsepower on rent. Bidell completed the engineering, design and construction of its Australian NOMAD™ package during 2011 and will introduce this technology to the Australian market during the second quarter of 2012.

Total Oilfield Rentals, Total Energy's Rental and Transportation division, continued its steady growth during 2011, having grown its rental equipment fleet by approximately 10% and its heavy truck fleet by 6%. The efficiencies of scale, both from an operating and a customer service perspective, became more apparent during the year.

Total Energy's Contract Drilling Services division, Chinook Drilling, continued to grow its fleet with the completion of the construction of Rig 15 during the fourth quarter of 2011. Chinook's ongoing investment in ancillary rig equipment has made its fleet of telescopic double rigs very competitive for extended reach horizontal drilling projects.

LOOKING FORWARD

Western Canadian activity levels during the first quarter of 2012 have been strong, driven by horizontal drilling and multi-stage fracturing completion activity targeting oil and liquids rich natural gas. Canadian oil and natural gas producers have generally indicated their 2012 capital spending plans will be similar to 2011.

With strong operating results and the issuance of unsecured convertible debentures in February 2011 that mature in 2016, Total Energy's balance sheet and liquidity position have never been stronger. At the end of 2011, and today, Total Energy has cash in the bank, no bank debt and its existing $35 million credit facility remains undrawn and fully available.

In November 2011, Total Energy announced a preliminary 2012 capital budget of $30.6 million, which budget was increased to $58.1 million in January. The current capital program will see continued investment and growth in all three business divisions, including funding to expand the Rentals and Transportation division into North Dakota.

On behalf of all Shareholders, the Board of Directors, Management and Staff of Total Energy and its business divisions, I would like to take this opportunity to recognize Gerry Crawford. Gerry will be retiring as General Manager of Total Oilfield Rentals in April after joining our Company in early 1998 with the acquisition of Elm Oilpatch Rentals. Clint Gaboury, who also joined us following the Elm acquisition, will be assuming the role of General Manager. We thank Gerry and his wife Fran for their many years of commitment and dedication to our Company and wish them the very best in their retirement years. I also would like to congratulate Clint on his new role.

DANIEL K. HALYK
President and Chief Executive Officer

March 2012

FIVE YEAR COMPARISON

RESULTS (thousands of dollars, except per share data)		2011	2010	2009 [1]	2008 [1]	2007 [1]
Revenue		**$ 332,082**	$ 224,524	$ 106,509	$ 154,482	$ 135,584
EBITDA	(2)	**122,034**	67,596	24,058	47,097	39,682
Results from operating activities	(2)	**96,233**	47,903	10,371	33,316	27,821
Cash provided by operations		**97,643**	33,814	32,151	47,352	24,849
Cashflow	(2)	**120,780**	71,508	25,366	42,412	42,160
Net Income		**69,266**	32,926	11,640	25,333	30,858
Finance Costs	(3)	**3,966**	3,332	1,520	2,510	2,384
Depreciation		**23,299**	19,821	13,211	13,889	11,255
Capital expenditures, net	(4)	**46,908**	24,380	15,231	27,981	19,317
Earnings per share - diluted		**2.08**	1.05	0.40	0.86	1.04
EBITDA per share - diluted	(2)	**3.49**	2.15	0.83	1.60	1.33
Cashflow per share - diluted	(2)	**3.46**	2.27	0.87	1.44	1.42

FINANCIAL POSITION						
Working capital	(5)	**$ 120,786**	$ 64,446	$ 29,493	$ 7,254	$ 13,438
Total assets		**434,617**	342,834	234,774	247,515	228,617
Long-term debt	(6)	**66,466**	78,717	35,713	13,521	21,383
Shareholder's equity		**275,321**	209,845	155,629	147,376	134,796

(1) Calculated based on previously issued financial statements prepared in accordance with Canadaian GAAP.

(2) 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.

(3) In 2011 excludes accretion on convertible debentures of $1.3 million.

(4) Excludes the aquistition of DC Energy Services LP in January 2010.

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

(6) Includes both current and long-term portions of long-term debt, convertible debentures and finance leases.

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

The following MD&A, dated March 14, 2012, focuses on key statistics from the consolidated financial statements of Total Energy Services Inc. (the "Company" or "Total Energy") and pertains to known risks and uncertainties relating to the energy services industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion and analysis of the financial condition and results of operations for the year ended December 31, 2011, should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2011 and related notes and material contained in other parts of the 2011 Annual Report as well as the Company's Annual Information Form ("AIF"). Additional information relating to Total Energy, including the Company's AIF, may be found on SEDAR at www.sedar.com. Unless otherwise indicated, all dollar amounts presented herein are in Canadian dollars.

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Disclosure Controls and Procedures: The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is reported within the time periods specified under securities laws, and include controls and procedures that are designed to ensure that information is communicated to management of Total Energy, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. An evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) was conducted as at December 31, 2011. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer of Total Energy have concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2011.

Internal Control Over Financial Reporting: The Chief Executive Officer and Chief Financial Officer of Total Energy are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards ("IFRS"). The Chief Executive Officer and Chief Financial Officer of Total Energy directed the assessment of the design and operating effectiveness of the Company's internal control over financial reporting as at December 31, 2011 and based on that assessment determined that the Company's internal control over financial reporting was, in all material respects, appropriately designed and operating effectively.

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 are outlined below.

Results from operating activities (in thousands of Canadian dollars)	**Three months ended Dec 31, 2011**	Three months ended Dec 31, 2010	Twelve months ended Dec 31, 2011	Twelve months ended Dec 31, 2010
Net income and total comprehensive income	**$ 23,441**	$ 13,332	$ 69,266	$ 32,926
Add back (deduct):				
Finance costs	**1,358**	874	5,280	3,332
(Gain) loss on disposal of equipment	**(1,653)**	663	(2,502)	128
Income tax expense	**8,060**	4,451	24,189	11,517
Results from operating activities	**$ 31,206**	$ 19,320	$ 96,233	$ 47,903

EBITDA (in thousands of Canadian dollars)	**Three months ended Dec 31, 2011**	Three months ended Dec 31, 2010	Twelve months ended Dec 31, 2011	Twelve months ended Dec 31, 2010
Net income and total comprehensive income	**$ 23,441**	$ 13,332	$ 69,266	$ 32,926
Add back:				
Depreciation	**5,749**	5,400	23,299	19,821
Finance costs	**1,358**	874	5,280	3,332
Income tax expense	**8,060**	4,451	24,189	11,517
EBITDA	**$ 38,608**	$ 24,057	$ 122,034	$ 67,596

Cashflow (in thousands of Canadian dollars)	**Three months ended Dec 31, 2011**	Three months ended Dec 31, 2010	Twelve months ended Dec 31, 2011	Twelve months ended Dec 31, 2010
Cash provided by operations	**$ 30,899**	$ 10,541	$ 97,643	$ 33,814
Add back (deduct):				
Changes in non-cash working capital items	**6,352**	14,426	23,137	37,694
Cashflow	**$ 37,251**	$ 24,967	$ 120,780	$ 71,508

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. 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 15 rigs all constructed in 1997 or later. Of these rigs, 13 are telescopic doubles rated to vertical depths of up to 3,500 meters and two are conventional singles rated to 1,200 meters. The Company is focused on continuing to grow its drilling rig fleet 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 sixteenth rig, a telescopic double rated to vertical depths of up to 3,500 meters, with completion scheduled for the third quarter of 2012 at an estimated cost of $10.5 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 9,100 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, and is currently in the process of entering the North Dakota market.

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 is introducing the NOMAD™ to the Australian market in the second quarter of 2012. 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. The Company is currently establishing a presence in the WCSB process equipment fabrication business.

OVERALL PERFORMANCE

As a result of continuing high industry activity levels in the WCSB, the fourth quarter of 2011 was much improved from the prior year comparable quarter. The Company achieved a 34% increase in revenue and a 76% 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 $23.4 million and $69.3 million in the fourth quarter and the year ended December 31, 2011 versus $13.3 million and 32.9 million during the comparable periods of 2010.

The Company's financial condition remains strong. The Company's working capital position increased by $56.4 million during 2011, from $64.4 million as at December 31, 2010 to $120.8 million as at December 31, 2011. As at December 31, 2011 long-term debt (including the principal amount of the outstanding convertible debentures) to long-term debt plus equity was 0.20 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. 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 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 Cyclicality

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

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

Trends and Outlook

The Company remains cautious regarding the near to medium term global economic environment and in regards to natural gas prices. However, current industry activity levels in the WCSB continue to be robust, driven primarily by activity targeting oil and liquids rich natural gas. 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``) oil well completions accounted for approximately 62% of the wells drilled in the WCSB during 2011 as compared to 48% and 34% for the comparable periods in 2010 and 2009. As a result, the Company's revenue base has become more weighted toward oil versus 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 2011 despite extended wet weather conditions in the WCSB during the spring and early summer. Exploration and development companies have generally maintained their 2012 WCSB capital budgets compared to 2011 capital expenditure levels and, as such, current indications are that WCSB industry activity levels will remain relatively strong during 2012 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.

SELECTED FINANCIAL INFORMATION

Selected annual financial information derived from the audited consolidated financial statements of the Company for the three most recently completed financial years is set forth below and is prepared in accordance with IFRS or Canadian generally accepted accounting principles ("GAAP") as indicated below.

(in thousands of dollars except per share amounts)	**Year Ended Dec 31, 2011 IFRS**	Year Ended Dec 31, 2010 IFRS	Year Ended Dec 31, 2009 GAAP
Revenue	**$ 332,082**	$ 224,524	$ 106,509
Cash provided by operations	**97,643**	33,814	32,151
Cashflow (1)	**120,780**	71,508	25,366
Net income	**69,266**	32,926	11,640
Per share (basic)	**2.20**	1.07	0.40
Per share (diluted)	**2.08**	1.05	0.40
Dividends declared per share	**0.16**	0.13	0.06
Total assets	**434,617**	342,834	234,774
Long term liabilities (2) (excluding current portions of long-term debt, current obligations under finance leases and deferred income taxes and deferred tax credit)	**71,763**	69,472	35,713

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

(2) In 2011 includes convertible debentures at face value of $69 million

In 2011 the Company experienced higher demand for its products and services in all of its divisions. Overall revenue for the Company increased by 48% in 2011 versus 2010 and was 212% higher than in 2009. The revenue increases were also due to the expansion of the Company's equipment base in 2011 and 2010.

Cash provided by operations in 2011 was 189% and 204% higher than 2010 and 2009, respectively, due primarily to a higher volume of business activity in 2011, a larger equipment base and working capital efficiencies arising from higher levels of business activity. Cashflow in 2011 was 69% and 376% higher than 2010 and 2009, respectively, due primarily to higher net earnings. Net earnings in 2011 were 110% and 495% higher than 2010 and 2009, respectively. The increase in net earnings was due primarily to increased earnings before income taxes due to increased demand for the Company`s services and products in 2011, compared to the prior year periods.

The Company's total assets have increased by 85% since the end of 2009. This increase was due primarily to the acquisition of DC Energy in 2010 and organic growth throughout the Company. Long-term liabilities have increased by 101% since 2009. This is due primarily to the DC Energy acquisition in 2010. The Company had cash and cash equivalent balances of $35.7 million as at December 31, 2011 to offset the increase in long-term liabilities.

RESULTS OF OPERATIONS

Consolidated Revenue

Revenues increased 34% to $96.9 million for the three months ended December 31, 2011 versus $72.6 million for the same period in 2010 and increased 48% to $332.1 million for the year ended December 31, 2011 versus $224.5 million for the same period in 2010.

Divisional Revenue

Divisional revenues for the three months ended December 31, 2011 were $18.1 million for Contract Drilling Services, $45.9 million for Rentals and Transportation Services and $33.0 million for Gas Compression Services. Divisional revenues for the year ended December 31, 2011 were $59.4 million for Contract Drilling Services, $159.8 million for Rentals and Transportation Services and $112.8 million for Gas Compression Services.

Contract Drilling Services

The revenue reported from Total Energy's Contract Drilling Services division increased by 38% to $18.1 million for the three months ended December 31, 2011 as compared to $13.1 million for the same period in 2010, and increased by 45% to $59.4 million for 2011 as compared to $41.1 million for 2010. Revenues increased from the prior year comparable periods due primarily to higher equipment utilization and improved pricing. For the fourth quarter of 2011 the Contract Drilling Services division achieved a utilization rate, on a spud to release basis, of 62% and a year to date utilization rate of 60%, as compared to 58% and 53%, respectively, for the same periods in 2010. Operating days (spud to release) for the three months and year ended December 31, 2011 totaled 801 days and 3,042 days, respectively, as compared to 743 days and 2,714 days, respectively, for the same periods in 2010. Revenue per operating day received for contract drilling services for the three months and year ended December 31, 2011 increased by 28% and 29%, respectively, as compared to the same periods in 2010. The increase 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 25% to $45.9 million for the three months ended December 31, 2011 as compared to $36.6 million for the same period in 2010, and increased by 35% to $159.8 million for 2011 as compared to $118.3 million for 2010. Revenues increased from the prior year comparable periods due primarily to increased equipment utilization. Average utilization of the rental assets was 72% for the three months and 68% for the year ended December 31, 2011 as compared to 69% and 56%, respectively, for the prior year comparable periods. This division exited the fourth quarter of 2011 with approximately 8,800 pieces of rental equipment as compared to 8,000 pieces at the end of 2010. This division also exited the fourth quarter of 2011 with a fleet of 101 heavy trucks as compared to 95 heavy trucks at the end of 2010.

Gas Compression Services

The revenue reported from Total Energy's Gas Compression Services division increased by 44% to $33.0 million for the three months ended December 31, 2011 as compared to $22.9 million for the same period in 2010, and increased by 73% to $112.8 million for 2011 as compared to $65.1 million for 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 that continued into 2011. This division exited the fourth quarter of 2011 with a backlog of fabrication sales orders of approximately $33.6 million as compared to a backlog of $31.9 million as at December 31, 2010. As at December 31, 2011 the total horsepower of compressors on lease was approximately 25,300 as compared to approximately 21,200 as at December 31, 2010. The compression rental fleet experienced an average utilization of 78% (based on fleet horsepower) during 2011 as compared to 73% 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 28% to $51.9 million for the three months ended December 31, 2011 as compared to $40.5 million for the same period in 2010, and increased by 40% to $182.2 million for 2011 as compared to $129.8 million for 2010. The increases resulted primarily from increased costs associated with increased revenues. The gross margin percentage for the three months and year ended December 31, 2011 was 46% and 45%, respectively, as a percentage of revenue as compared to 44% and 42%, 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 $7.8 million for the three months ended December 31, 2011 as compared to $6.9 million for the same period in 2010, and increased by 13% to $29.0 million for 2011 as compared to $25.7 million for 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 $0.3 million and $1.4 million, respectively, for the three months and year ended December 31, 2011 versus $0.4 million and $1.3 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 17 to the Consolidated Financial Statements.

Depreciation Expense

Depreciation expense increased 6% for the three month period ended December 31, 2011 to $5.7 million as compared to $5.4 million for the prior year comparable period, and increased by 18% to $23.3 million for the year ended December 31, 2011 as compared to $19.8 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 62% to $31.2 million in the fourth quarter of 2011 as compared to $19.3 million for the comparable period in 2010, and increased by 101% to $96.2 million for 2011 as compared to $47.9 million for 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 $7.1 million and $19.4 million, respectively, for the three months and year ended December 31, 2011 as compared to $3.4 million and $6.8 million, for the comparable periods in 2010. The operating earnings margin in this division was 39% and 33%, respectively, for the three months and year ended December 31, 2011 as compared to 26% and 17%, respectively, for the comparable periods in 2010. The increases in operating earnings margin in 2011 relative to 2010 is due primarily to improved pricing.

The Rentals and Transportation Services division had operating earnings of $21.9 million and $72.8 million, respectively, for the three months and year ended December 31, 2011 as compared to $15.3 million and $39.8 million for the comparable periods in 2010. The operating earnings margin in this division was 48% and 46%, respectively, for the three months and year ended December 31, 2011 as compared to 42% and 34% 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 $3.5 million and $9.5 million, respectively, for the three months and year ended December 31, 2011 as compared to $1.9 million and $6.7 million for the comparable periods in 2010. The operating earnings margin in this division was 11% and 8%, respectively, for the three months and year ended December 31, 2011 as compared to 8% and 10%, 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 expansion of fabrication capacity in 2011. This increase in costs was realized without an immediate corresponding increase in revenues although operating margins improved over the course of 2011 as revenues increased following such expansions.

The Other division had operating losses of $1.3 million and $5.5 million, respectively, for the three months and year ended December 31, 2011 as compared to $1.4 million and $5.4 million for the comparable periods in 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 $5.3 million, respectively, for the three months and year ended December 31, 2011 versus $0.9 million and $3.3 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 $1.7 million and $2.5 million, respectively, for the three months and year ended December 31, 2011 versus $0.7 and a $0.1 million loss on disposal of equipment 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 $23.4 million ($0.75 per share basic and $0.69 per share diluted) and $69.3 million ($2.20 per share basic and $2.08 per share diluted), respectively, for the three months and year ended December 31, 2011 as compared to $13.3 million ($0.43 per share basic and $0.42 per share diluted) and $32.9 million ($1.07 per share basic and $1.05 per share diluted) for the corresponding periods in 2010. The Company recorded nominal current income tax expense for the three months and years ended December 31, 2010 and 2011. The Company recorded deferred income tax expense of $8.0 million and $24.1 million, respectively, for the three months and year ended December 31, 2011 as compared to $4.3 million and $11.3 million for the corresponding periods in 2010. This resulted in an effective tax rate of 26% for the three months and year ended December 31, 2011 versus 25% and 26% 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. See note 25 to the Audited Consolidated Financial Statements for further detail.

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operations

Cash provided by operations was $30.9 million and $97.6 million, respectively, for the three months and year ended December 31, 2011 as compared to $10.5 million and $33.8 million for the comparable periods in 2010. Cashflow was $37.3 million and $120.8 million, respectively, for the three months and year ended December 31, 2011 as compared to $25.0 million and $71.5 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 $15.6 million and $38.9 million, respectively, for the three months and year ended December 31, 2011 as compared to $8.2 million and $55.2 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 2011 were allocated as follows: $14.1 million in the Contract Drilling Services division relating primarily to the purchase of rig equipment, $32.9 million in the Rentals and Transportation Services division relating primarily to new rental equipment and heavy truck additions and $8.4 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 2010 the property, plant and equipment additions were as follows: $3.8 million in the Contract Drilling Services division, $15.4 million in the Rentals and Transportation Services division and $8.7 million in the Gas Compression Services division. The purchase of property, plant and equipment during 2011 were offset by proceeds on disposal of property, plant and equipment of $8.7 million, as compared to $3.6 million for 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 $4.3 million and $23.3 million, respectively, for the three months and year ended December 31, 2011 as compared to net cash used in financing activities of $2.1 million and net cash provided by financing activities of $21.6 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 $120.8 million as at December 31, 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 December 31, 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 December 31, 2011 there were no amounts outstanding under this facility.

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, dividend payments and the Company's share repurchases.

Dividends

For the three months and year ended December 31, 2011 the Company declared dividends of $1.3 million and $5.0 million, respectively, as compared to dividends of $1.3 million and $4.1 million declared for the prior year comparable periods.

For 2012 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

	Financial Quarter Ended (Unaudited)			
(in thousands of dollars except per share amounts)	**Dec 31, 2011**	Sept 30, 2011	June 30, 2011	March 31, 2011
Revenue	**$ 96,936**	$ 87,882	$ 62,159	$ 85,105
Cashflow [(1)]	**37,251**	35,020	15,308	33,201
Cash provided by operations	**30,899**	23,189	24,527	19,028
Net income	**23,441**	20,603	6,392	18,830
Per share (basic)	**0.75**	0.65	0.20	0.60
Per share (diluted)	**0.69**	0.61	0.20	0.57

	Financial Quarter Ended (Unaudited)			
	Dec 31, 2010	Sept 30, 2010	June 30, 2010	March 31, 2010
Revenue	$ 72,565	$ 56,060	$ 37,061	$ 58,838
Cashflow [(1)]	24,967	19,853	6,831	19,857
Cash provided by (used in) operations	10,541	(5,119)	17,024	11,367
Net income	13,332	7,910	1,475	10,209
Per share (basic)	0.43	0.25	0.05	0.34
Per share (diluted)	0.42	0.25	0.05	0.34

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

As discussed in 'Seasonality and Cyclicality' above, variations over the quarters are due in part to the cyclical nature of the energy service industry in the WCSB due to the occurrence of "breakup". The first quarter has generally been the strongest quarter for the Company. This strength is due to the northern exposure that the Company has in its 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 months and year ended December 31, 2011 as compared to the comparable periods in 2010 is also due to increased activity levels in all divisions.

CONTRACTUAL OBLIGATIONS

At December 31, 2011, the Company had the following contractual obligations:

		Payments due by year				
(in thousands of dollars)	Total	2012	2013	2014	2015	2016 and thereafter
Convertible debentures, face value [1]	$ 69,000	$ –	$ –	$ –	$ –	$ 69,000
Commitments [2]	5,494	2,836	1,320	653	302	383
Finance leases	5,376	2,613	1,768	762	193	40
Purchase obligations [3]	27,682	27,682	–	–	–	–
Total contractual obligations	$ 107,552	$ 33,131	$ 3,088	$ 1,415	$ 495	$ 69,423

(1) Convertible debentures are described in Note 13 to the 2011 Audited Consolidated Financial Statements.

(2) Commitments are described in Note 24 to the 2011 Audited Consolidated Financial Statements.

(3) Purchase obligations are described in Note 24 to the 2011 Audited Consolidated Financial Statements and relate to Total Energy's commitment to purchase $21.2 million of capital assets for the Rentals and Transportation Services division, $5.9 million of inventory for the Gas Compression Services division and $0.6 million of capital assets for the Contract Drilling Services division respectively.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2011 and 2010 the Company had no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During 2011 and 2010 the Company had no material transactions with related parties. See Note 26 to the 2011 Audited Consolidated Financial Statements for further information regarding 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 useful life of the asset and the residual value of the asset at the end of its useful 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 10 to the 2011 Audited Consolidated Financial Statements.

Current and Deferred Taxes

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 different in the future. Total Energy has also estimated the timing of temporary difference reversals in the calculation of deferred income taxes and the realization of deferred income tax assets. The actual timing of temporary difference reversals and the realization of deferred income tax assets could be 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.

Asset impairment

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated and compared to its carrying value, and if lower an impairment charge is recorded. For goodwill the recoverable amount is estimated annually.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Beginning January 1, 2011 Canadian publicly listed entities were required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative information, the effective transition date was January 1, 2010.

The Company`s IFRS transition team identified four phases to the conversion: scoping and planning, detailed assessment, implementation and post implementation. The Company 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 required the application of First-Time Adoption of International Financial Reporting Standards ("IFRS 1") which provides guidance for an entity's initial adoption of IFRS. IFRS 1 lists specific exemptions the Company may use when first adopting IFRS. The most significant exemptions to the Company 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 derecognized. 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 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	January 1, 2010	December 31, 2010
Derecognition – deferred tax credit	1	$ 11,575	$ 4,147
Componentization – property, plant and equipment	2	(2,148)	(1,374)
Transaction costs – business combinations	3	–	(435)
Percentage of completion – revenue recognition	4	69	292
Overhaul costs – property, plant and equipment	2	(60)	(223)
		$ 9,436	$ 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 $7.0 million for 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	Year ended December 31, 2010
Derecognition – deferred tax credit	1	$ (7,428)
Transaction costs – business combinations	3	(435)
Componentization – property, plant and equipment	2	774
Percentage of completion – revenue recognition	4	223
Overhaul costs – property, plant and equipment	2	(163)
		$ (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 require 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.

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 the Company has elected to present cash interest paid 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 costs; and,
- future income taxes to deferred income taxes.

The Company's Audited Consolidated Financial Statements for the year ended December 31, 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 and tested. 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 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 December 31, 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 December 31, 2011 the closing price for these securities was $101.01 for every $100 of principal value of convertible debentures issued. This represents an aggregate market value of $69.7 million.

Interest rate risk

As at December 31, 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 31,437,500 Common Shares outstanding.

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

Outstanding at December 31, 2011	Exercise Price	Remaining life (years)	Exercisable at December 31, 2011
815,000	$ 4.66	2.4	815,000
200,000	4.97	2.7	100,000
100,000	7.30	3.1	–
30,000	8.54	3.6	10,000
300,000	16.18	4.2	–
75,000	14.21	4.5	–
1,520,000	$ 7.70	3.0	925,000

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 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 and into 2012 may 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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

Management has prepared Management's Discussion and Analysis (MD&A). The MD&A is based upon Total Energy's financial results prepared in accordance with IFRS. The MD&A compares the audited financial results for the twelve months ended December 31, 2010 to December 31, 2011.

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

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

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

DANIEL K. HALYK
President and Chief Executive Officer

MARK A. KEARL, CA
Vice President and Chief Financial Officer

March 14, 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Total Energy Services Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Total Energy Services Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Total Energy Services Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

CHARTERED ACCOUNTANTS
Calgary, Canada

March 14, 2012

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Tabular amounts in thousands of Canadian dollars)

	Note	December 31, 2011	December 31, 2010	January 1, 2010
			(note 27)	(note 27)
ASSETS				
Current assets:				
Cash and cash equivalents	7	**$ 35,658**	$ 228	$ –
Accounts receivable	8	**94,556**	70,983	22,540
Inventory	9	**37,147**	33,488	28,029
Income taxes receivable		**118**	118	2,848
Prepaid expenses and deposits		**1,795**	1,818	2,013
		169,274	106,635	55,430
Property, plant and equipment	10	**261,290**	232,146	172,504
Goodwill	11	**4,053**	4,053	4,053
		$ 434,617	$ 342,834	$ 231,987
LIABILITIES & SHAREHOLDERS' EQUITY				
Current liabilities:				
Bank indebtedness		**$ –**	$ –	$ 19,869
Accounts payable and accrued liabilities	12	**41,556**	28,353	12,975
Deferred revenue		**3,064**	3,334	2,966
Dividends payable		**1,255**	1,257	875
Current portion of long-term debt	13	**–**	6,042	9,851
Current portion of obligations under finance leases	14	**2,613**	3,203	588
		48,488	42,189	47,124
Long-term debt	13	**–**	66,458	13,967
Obligations under finance leases	14	**2,763**	3,014	763
Convertible debentures	13	**61,090**	–	–
Deferred tax liability	15	**46,955**	21,328	5,068
Shareholders' equity:				
Share capital	16	**77,917**	76,268	60,777
Contributed surplus		**2,472**	1,769	1,174
Equity portion of convertible debenture	13	**4,601**	–	–
Retained earnings		**190,331**	131,808	103,114
		275,321	209,845	165,065
Contingencies and commitments	24, 25			
		$ 434,617	$ 342,834	$ 231,987

The notes on pages 31 to 60 are an integral part of these consolidated financial statements.

Approved by the Board of Total Energy Services Inc.

Director: Greg Melchin

Director: Bruce L. Pachkowski

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

Years ended December 31,	Note	**2011**	2010
			(note 27)
REVENUE	18	**$ 332,082**	$ 224,524
Cost of services	19	**182,231**	129,813
Selling, general and administration	20	**28,959**	25,698
Share-based compensation	17	**1,360**	1,289
Depreciation	10	**23,299**	19,821
Results from operating activities		**96,233**	47,903
Gain (loss) on sale of property, plant and equipment	10	**2,502**	(128)
Finance costs	22	**(5,280)**	(3,332)
Net income before income taxes		**93,455**	44,443
Current income tax expense		**112**	235
Deferred income tax expense	15	**24,077**	11,282
Total income tax expense	15	**24,189**	11,517
Net income and total comprehensive income for the period		**$ 69,266**	$ 32,926
Earnings per share	16		
Basic earnings per share		**$ 2.20**	$ 1.07
Diluted earnings per share		**$ 2.08**	$ 1.05

The notes on pages 31 to 60 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended December 31, 2011 and 2010
(Tabular amounts in thousands of Canadian dollars)

	Note	Share Capital	Contributed Surplus	Equity portion of convertible debenture	Retained earnings	Total Equity
Balance at January 1, 2010		$ 60,777	$ 1,174	$ –	$ 103,114	$ 165,065
Net income and total comprehensive income for the period		–	–	–	32,926	32,926
Transactions with shareholders, recorded directly in equity:						
Issue of common shares	16	12,500	–	–	–	12,500
Dividends to shareholders	16	–	–	–	(4,050)	(4,050)
Repurchase of common shares	16	(80)	–	–	(182)	(262)
Share-based compensation	17	–	1,289	–	–	1,289
Share options exercised	17	3,071	(694)	–	–	2,377
Total transactions with shareholders recorded directly in equity		15,491	595	–	(4,232)	11,854
Balance at December 31, 2010		76,268	1,769	–	131,808	209,845
Net income and total comprehensive income for the period		–	–		69,266	69,266
Transactions with shareholders, recorded directly in equity:						
Dividends to shareholders	16	–	–	–	(5,032)	(5,032)
Issuance of convertible debenture net of transaction costs	13	–	–	6,151	–	6,151
Deferred tax effect on equity portion of convertible debenture	15	–	–	(1,550)	–	(1,550)
Repurchase of common shares	16	(1,221)			(5,711)	(6,932)
Share-based compensation	17	–	1,360	–	–	1,360
Share options exercised	17	2,870	(657)	–	–	2,213
Total transactions with shareholders recorded directly in equity		1,649	703	4,601	(10,743)	(3,790)
Balance at December 31, 2011		**$ 77,917**	**$ 2,472**	**$ 4,601**	**$ 190,331**	**$ 275,321**

The notes on pages 31 to 60 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Tabular amounts in thousands of Canadian dollars)

Years ended December 31,	Note	2011	2010
			(note 27)
Cash provided by (used in):			
Operations:			
Net income for the period		**$ 69,266**	$ 32,926
Add (deduct) items not affecting cash:			
Depreciation		**23,299**	19,821
Share-based compensation	17	**1,360**	1,289
(Gain) loss on disposal of property, plant and equipment	10	**(2,502)**	128
Finance costs	22	**5,280**	3,332
Current income tax expense	15	**112**	235
Deferred income tax expense	15	**24,077**	11,282
Income taxes (paid) received		**(112)**	2,495
		120,780	71,508
Changes in non-cash working capital items:			
Accounts receivable	8	**(23,573)**	(48,443)
Inventory	9	**(3,659)**	(4,693)
Prepaid expenses and deposits		**(48)**	172
Accounts payable and accrued liabilities	12	**4,413**	14,902
Deferred revenue		**(270)**	368
		97,643	33,814
Investments:			
Purchase of property, plant and equipment	10	**(55,647)**	(28,001)
DC Energy Services LP acquisition	6	**–**	(31,093)
Proceeds on disposal of property, plant and equipment		**8,739**	3,621
Changes in non-cash working capital items		**8,021**	253
		(38,887)	(55,220)
Financing:			
Issuance of convertible debenture, net of issue costs	13	**65,927**	–
Advances under long-term debt	13	**–**	66,182
Repayments of long-term debt	13	**(72,500)**	(17,500)
Repayment of obligations under finance leases	14	**(3,874)**	(2,540)
Payment of dividends	16	**(5,034)**	(3,668)
Issuance of common shares	16	**2,213**	2,377
Repurchase of common shares	16	**(6,861)**	(239)
Interest paid		**(3,197)**	(3,109)
Decrease in bank indebtedness		**–**	(19,869)
		(23,326)	21,634
Change in cash and cash equivalents		**35,430**	228
Cash and cash equivalents, beginning of period		**228**	–
Cash and cash equivalents, end of period		**$ 35,658**	$ 228

The notes on pages 31 to 60 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2011 and 2010
(Tabular amounts in thousands of Canadian dollars)

1. Reporting entity

Total Energy Services Inc. (the "Company") is domiciled in Canada and is incorporated under the Business Corporations Act (Alberta) (the "Act").

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.

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.

2. Basis of preparation

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These are the Company's first annual consolidated financial statements prepared in accordance with IFRS and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. Previously, the Company prepared its annual 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 is provided in note 27.

The consolidated financial statements were authorized for issue by the Board of Directors on March 14, 2012.

(b) Basis of measurement

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

(c) Functional and presentation currency

These consolidated 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.

(d) Use of estimates and judgements

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 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; percentage of completion method for revenue recognition for production-type contracts; 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

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated. The accounting policies have been applied consistently by the Company, its subsidiaries and partnerships.

(a) Basis of consolidation

(i) Business combinations and goodwill

Acquisitions on or after January 1, 2010

For acquisitions on or after January 1, 2010, the Company measures goodwill as the fair value of the consideration transferred, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in net income or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

Acquisitions prior to January 1, 2010

As part of its transition to IFRS, the Company elected to restate only those business combinations that occurred on or after January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under Canadian generally accepted accounting principles (the Company's previous accounting framework).

Goodwill is measured at cost less accumulated impairment losses.

(ii) Subsidiaries and partnerships

Subsidiaries and partnerships are entities owned and controlled by the Company. The financial statements of subsidiaries and partnerships are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies have been changed when necessary to align them with the policies adopted by the Company.

(iii) Transactions eliminated on consolidation:

Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in net income or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(c) Financial instruments:

(i) Non-derivative financial assets:

The Company initially recognizes accounts receivable and deposits on the date that they originate. All other financial assets (including assets designated at fair value through net income or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets:

Financial Instrument	Category	Measurement method
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost

Cash and cash equivalents comprise cash balances and cash deposits with original maturities of three months or less.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise accounts receivable (see note 8).

(ii) Non-derivative financial liabilities:

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The convertible debentures can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of the convertible debentures is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the convertible debenture as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of the convertible debentures is measured at amortized cost using the effective interest method. The equity component is not re-measured subsequent to initial recognition.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities:

Financial Instrument	Category	Measurement method
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Dividends payable	Other liabilities	Amortized cost
Finance leases	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost
Convertible debentures	Other liabilities	Amortized cost

(Tabular amounts in thousands of Canadian dollars)

Such financial liabilities, excluding the convertible debentures, are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net in net income or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment (repair and maintenance) are recognized in net income or loss as incurred.

(iii) Depreciation:

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in net income or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment for all assets except contract drilling equipment, which is depreciated using the utilization method. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives are as follows:

	Useful life	Residual value	Basis of depreciation
Buildings	20 years	-	straight-line
Shop machinery and equipment	5 years	-	straight-line
Rental equipment	5 to 15 years	25% - 33%	straight-line
Light duty vehicles	3 years	-	straight-line
Heavy duty vehicles	7 years	25%	straight-line
Drilling rigs and related equipment	1,500 - 8,000 operating days	15%	utilization
Other	3-5 years	-	straight-line

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. Estimates in respect of certain items of plant and equipment were revised in 2011 (see note 10).

(e) Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in the Company's statement of financial position.

(f) Inventory and work-in-progress

Parts and raw materials inventory, work-in-progress and finished goods are valued at the lower of cost and net realizable value; the cost for raw materials is determined on a specific item basis, with overhead and labour being determined on a weighted average basis; the cost of work-in-progress and finished goods includes the cost of direct materials, labour and an allocation of manufacturing overhead, all on a specific item basis. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completing and selling.

(g) Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through net income or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy or the disappearance of an active market for a security.

In assessing collective impairment the Company uses historical experience as to the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions and other relevant circumstances are such that the actual losses are likely to be greater or less than suggested by historical experience.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net income or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net income or loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill the recoverable amount is estimated annually.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the group of CGUs that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(h) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Share-based payment transactions:

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards (vesting period). The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

(i) Revenue recognition

The Company recognizes revenue in its segments as follows; Contract Drilling and Rentals and Transportation Services revenue is recognized on an 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 is recorded based on the stage of completion, where stage of completion measured by reference to labour hours incurred to date 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.

(j) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(k) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

(l) Lease payments

Payments made under operating leases are recognized in net income or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(m) Finance costs

Finance costs comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in net income or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(n) Income tax:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable net income nor loss. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(o) Earnings per share

Basic earnings per share is calculated based on the weighted average number of shares outstanding. Diluted earnings per share includes the weighted average number of shares outstanding plus additional shares from the assumed conversion of the Company`s outstanding convertible debentures and the assumed exercise of in-the-money stock options. The number of additional shares related to the convertible debentures is calculated assuming the debentures are converted into common shares by dividing the face value of the convertible debentures by the conversion price. The number of additional shares related to stock options is calculated by assuming proceeds from the exercise of the stock options are used to buy back common shares at the average market price. The additional shares is the difference between the exercised options and the assumed number acquired.

(p) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's Board of Directors and senior corporate management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors and senior corporate management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, including share-based compensation, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

(q) New 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 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.

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of property, plant and equipment is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

(b) Inventories

The fair value of inventories is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(c) Accounts receivable

The fair value of accounts receivable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value is determined for disclosure purposes.

Allowance accounts are used as long as the Company is satisfied that the recovery of the amount due is possible. Once this is no longer the case, the amounts are considered irrecoverable and are written off against the account receivable.

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, other than the original bifurcation of the convertible debentures, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible debentures, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(Tabular amounts in thousands of Canadian dollars)

(e) Share-based payment transactions

The fair value of the employee share options is measured using the Black-Scholes option pricing model. Measurement inputs include the share price on measurement date, the exercise price of the instrument, the expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), the weighted average expected life of the instruments (based on historical experience and general option holder behavior), the expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions are not taken into account in determining fair value.

5. Operating segments

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 tax 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.

The segmented amounts are as follows:

As at and for the year ended December 31, 2011	Contract Drilling Services	Rentals and Transportation Services	Gas Compression Services	Other [2]	Total
Revenue	$ 59,436	$ 159,820	$ 112,826	$ –	$ 332,082
Cost of services	31,311	56,525	94,395	–	182,231
Selling, general and administration	3,324	15,923	5,642	4,070	28,959
Share-based compensation	–	–	–	1,360	1,360
Depreciation	5,424	14,570	3,253	52	23,299
Results from operating activities	19,377	72,802	9,536	(5,482)	96,233
Gain (loss) on sale of property, plant and equipment	28	1,900	574	–	2,502
Finance costs	(973)	(2,367)	(584)	(1,356)	(5,280)
Net income before income taxes	18,432	72,335	9,526	(6,838)	93,455
Goodwill	–	2,514	1,539	–	4,053
Total assets	91,122	227,728	82,160	33,607	434,617
Total liabilities	19,370	54,318	19,383	66,225	159,296
Capital expenditures	$ 14,075	$ 32,933	$ 8,409	$ 230	$ 55,647

(Tabular amounts in thousands of Canadian dollars)

As at and for the year ended December 31, 2010	Contract Drilling Services	Rentals and Transportation Services	Gas Compression Services	Other [2]	Total
Revenue	$ 41,127	$ 118,259	$ 65,138	$ –	$ 224,524
Cost of services	27,432	50,309	51,960	112	129,813
Selling, general and administration	2,159	15,419	4,180	3,940	25,698
Share-based compensation	–	–	–	1,289	1,289
Depreciation	4,712	12,779	2,300	30	19,821
Results from operating activities	6,824	39,752	6,698	(5,371)	47,903
Gain (loss) on sale of property, plant and equipment	–	(440)	312	–	(128)
Finance costs	(574)	(2,267)	(366)	(125)	(3,332)
Net income before income taxes	6,250	37,045	6,644	(5,496)	44,443
Goodwill	–	2,514	1,539	–	4,053
Total assets	78,267	188,380	72,965	3,222	342,834
Total liabilities	11,177	19,626	17,439	84,747	132,989
Capital expenditures [1]	$ 3,840	$ 15,412	$ 8,719	$ 30	$ 28,001

(1) Excludes the acquisition of DC Energy (see note 6).

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

Segmented information as at the IFRS transition date is outlined below:

As at January 1, 2010 (note 27)	Contract Drilling Services	Rentals and Transportation Services	Gas Compression Services	Other [1]	Total
Goodwill	$ –	$ 2,514	$ 1,539	$ –	$ 4,053
Total assets	70,181	101,060	56,654	4,092	231,987
Total liabilities	$ 7,862	$ 8,341	$ 9,377	$ 41,342	$ 66,922

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

6. DC Energy Services Limited Partnership acquisition

The Company completed the acquisition of all 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 13) 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.

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.

(Tabular amounts in thousands of Canadian dollars)

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 (note 10)	$ 51,481
Inventory	766
Obligations under finance leases	(3,676)
Deferred income tax liability (note 15)	(4,978)
Total	$ 43,593

Consideration paid:	
Cash	$ 31,888
Convertible debenture (note 16)	12,500
Net earnings from effective date of sale to closing date of sale	(795)
Total	$ 43,593

With the exception of certain leases in respect of real estate, the obligations under finance leases and deferred income tax liability referenced above and up to $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 (note 19).

7. Cash and cash equivalents

Cash and cash equivalents represent cash in bank.

8. Accounts receivable

	December 31, 2011	December 31, 2010
Trade receivables	**$ 68,792**	$ 51,210
Accrued and other receivables	**25,764**	19,773
	$ 94,556	$ 70,983

The Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 23.

9. Inventory

	December 31, 2011	December 31, 2010
Finished goods	**$ 3,631**	$ 6,185
Work-in-progress	**5,636**	5,740
Parts and raw materials	**27,880**	21,563
	$ 37,147	$ 33,488

For the year ended December 31, 2011 finished goods, work-in-progress and parts and raw materials of $82.5 million (December 31, 2010: $44.4 million) are included in cost of services (note 19), of which $7.8 million (2010: $3.0 million) relate to contracts in progress at December 31, 2011.

(Tabular amounts in thousands of Canadian dollars)

10. Property, plant and equipment

	Land and Buildings	Rental equipment	Automotive equipment	Leased assets	Shop Machinery and equipment	Drilling rigs and related equipment	Furniture, fixtures and other	Total
Cost								
As at January 1, 2010	$ 10,158	$ 111,746	$ 35,171	$ 1,777	$ 2,186	$ 80,045	$ 3,543	$ 244,626
Acquisitions (note 6)	106	45,630	1,755	3,676	158	–	156	51,481
Additions	5,490	11,474	5,524	3,731	1,244	3,832	437	31,732
Disposals	–	(3,520)	(2,114)	(59)	–	(175)	–	(5,868)
As at December 31, 2010	15,754	165,330	40,336	9,125	3,588	83,702	4,136	321,971
Transfers	71	–	2,150	(2,221)	–	–	–	–
Additions	838	28,851	9,883	3,033	1,717	14,070	288	58,680
Disposals	(24)	(5,160)	(6,108)	(939)	(30)	(79)	(77)	(12,417)
As at December 31, 2011	**16,639**	**189,021**	**46,261**	**8,998**	**5,275**	**97,693**	**4,347**	**368,234**
Accumulated Depreciation								
As at January 1, 2010	2,777	33,807	12,683	462	1,789	17,778	2,826	72,122
Additions	547	9,514	2,941	1,621	260	4,505	433	19,821
Disposals	–	(1,016)	(918)	(9)	–	(175)	–	(2,118)
As at December 31, 2010	3,324	42,305	14,706	2,074	2,049	22,108	3,259	89,825
Transfers	23	–	240	(263)	–	–	–	–
Depreciation expense	781	7,499	6,447	2,314	555	5,176	527	23,299
Disposals	(5)	(1,479)	(3,961)	(626)	(2)	(29)	(78)	(6,180)
As at December 31, 2011	**4,123**	**48,325**	**17,432**	**3,499**	**2,602**	**27,255**	**3,708**	**106,944**
Net Book Value								
As at January 1, 2010	7,381	77,939	22,488	1,315	397	62,267	717	172,504
As at December 31, 2010	12,430	123,025	25,630	7,051	1,539	61,594	877	232,146
As at December 31, 2011	**$ 12,516**	**$ 140,696**	**$ 28,829**	**$ 5,499**	**$ 2,673**	**$ 70,438**	**$ 639**	**$ 261,290**

As at December 31, 2011 $5.3 million (December 31, 2010: $0.8 million) of property plant and equipment was under construction. The Company has not capitalized any borrowing costs as there were no borrowing costs directly attributable to the acquisition and construction of property, plant and equipment.

Change in estimates

During the year ended December 31, 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

(Tabular amounts in thousands of Canadian dollars)

11. Goodwill

For the purpose of impairment testing, goodwill is allocated to the Company's business units which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes, which is consistent with the Company's operating segments.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

	December 31, 2011	December 31, 2010
Rental and Transportation Services	$ 2,514	$ 2,514
Gas Compression Services	1,539	1,539
	$ 4,053	$ 4,053

The recoverable amount of the cash-generating units was based on its value in use. As the carrying amount of the unit was determined to be lower than its recoverable amount no impairment was recorded (2010: nil; January 1, 2010: nil).

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit. Unless indicated otherwise, value in use in 2011 was determined similarly as in 2010. The calculation of the value in use was based on the following key assumptions.

- Cash flows were projected based on past experience, actual operating results and a 15-year horizon in both 2010 and 2011.
- A pre-tax discount rate of 8% (2010: 8%) was applied in determining the recoverable amount of the unit.

The values assigned to the key assumptions represent management's assessment of future trends in the service industry and are based on both external sources and internal sources (historical data).

12. Accounts payable and accrued liabilities

	December 31, 2011	December 31, 2010
Trade payables	$ 17,594	$ 11,268
Wages and salaries payables	6,729	4,222
Accrued expenses and other payables	17,233	12,863
	$ 41,556	$ 28,353

Included in accrued expenses and other payables are customer advances of $2.2 million (2010: $2.7 million) held pursuant to contracts in progress as at December 31, 2011.

13. Long-term debt

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. 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.

(Tabular amounts in thousands of Canadian dollars)

	December 31, 2011	December 31, 2010
Long-term debt	$ –	$ 72,500
Less current portion	–	6,042
Balance, end of period	$ –	$ 66,458

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 in the amounts of $2.8 million and $0.3 million, respectively.

	February 9, 2011
Long-term liability, net of transaction costs	$ 59,776
Equity component, net of transaction costs and deferred tax	4,601
Deferred tax on equity component of convertible debentures (note 15)	1,550
Transaction costs	3,073
Face value	$ 69,000

During the year ended December 31, 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	**1,314**
Convertible debentures, end of period	**$ 61,090**

(Tabular amounts in thousands of Canadian dollars)

14. Finance lease liabilities

	December 31, 2011	December 31, 2010
Finance lease liability	$ 5,376	$ 6,217
Less current portion	2,613	3,203
Balance, end of period	$ 2,763	$ 3,014

The Company has entered into various agreements with third parties for the purpose of financing certain automotive equipment. The leases bear interest at rates ranging from 2.5% - 5.5% (December 31, 2010: 2.75% - 5.25%) and mature on various dates up to 2015 (see note 23).

In 2011, interest of $0.2 million (December 31, 2010 - $0.3 million) relating to finance lease obligations have been included in finance costs.

	Minimum lease payments		Present value of minimum lease payment	
	Dec 31, 2011	Dec 31, 2010	Dec 31, 2011	Dec 31, 2010
Not later than one year	$ 2,754	$ 3,366	$ 2,613	$ 3,203
Later that one year and not later than five years	2,853	3,045	2,763	2,924
Later than five years	–	99	–	90
	5,607	6,510	5,376	6,217
Less: future finance charges	(231)	(293)	–	–
Present value of minimum lease payments	$ 5,376	$ 6,217	$ 5,376	$ 6,217

15. Deferred income tax assets and liabilities

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

	December 31, 2011	December 31, 2010
Deferred income tax assets:		
Non capital loss and SR&ED carry-forward	$ –	$ 10,163
Deferred income tax liabilities:		
Convertible debenture	1,374	–
Property, plant and equipment	34,268	31,279
Partnership income deferral	11,104	–
Other	209	212
	46,955	31,491
	$ 46,955	$ 21,328

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.

(Tabular amounts in thousands of Canadian dollars)

Movement in temporary differences during the period:

	Jan 1, 2010	Recognised in net income or loss	Acquired in business combination (note 6)	Dec 31, 2010	Recognised in net income or loss	Charged to equity (note 13)	**Dec 31, 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	–	–	–	–	176	(1,550)	**(1,374)**
Property, plant and equipment	(23,689)	(2,612)	(4,978)	(31,279)	(2,989)	–	**(34,268)**
Partnership income deferral	–	–	–	–	(11,104)	–	**(11,104)**
Other	(85)	(127)	–	(212)	3	–	**(209)**
	(23,774)	(2,739)	(4,978)	(31,491)	(13,914)	–	**(46,955)**
	$ (5,068)	$ (11,282)	$ (4,978)	$ (21,328)	$ (24,077)	$ (1,550)	**$ (46,955)**

The Company also has investment tax credits and capital losses totalling approximately $3.8 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:

	2011	2010
Net income before income taxes	**$ 93,455**	$ 44,443
Income tax rate	**26.7%**	28.00%
Expected income tax expense	**$ 24,952**	$ 12,444
Decrease in taxes resulting from:		
Non-deductible share-based compensation	**363**	361
Deferred income tax rate adjustment	**(1,177)**	(1,192)
Other	**51**	(96)
Provision for income taxes	**$ 24,189**	$ 11,517

The statutory rate consists of the combined statutory rate for the Company and its subsidiaries. The Company`s effective combined Federal and Provincial tax rate lowered to 26.7% in 2011 from 28% in 2010. This was due primarily to the federal tax rate dropping from 18% in 2010 to 16.5% in 2011.

16. 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.

(Tabular amounts in thousands of Canadian dollars)

(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 6)	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	430	2,870
Repurchased and cancelled	(429)	(1,092)
Cancelled	(51)	(129)
Balance, December 31, 2011	**31,375**	**$ 77,917**

During year ended December 31, 2011 429,068 common shares (December 31, 2010: 27,115) were repurchased under the Company's normal course issuer bid at an average price of $14.81 (December 31, 2010: $8.80), including commissions, and these shares were 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.

(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:

	Year ended December 31, 2011	Year ended December 31, 2010
Net income for the period	**$ 69,266**	$ 32,926
Weighted average number of shares outstanding – Basic	**31,441**	30,771
Earnings per share - basic	**$ 2.20**	$ 1.07
Net income for the period	**$ 69,266**	$ 32,926
Add back: debenture interest net of tax	**3,544**	–
	$ 72,810	$ 32,926
Weighted average number of shares outstanding – Basic	**31,441**	30,771
Convertible debenture dilution	**2,743**	–
Share option dilution	**758**	671
Weighted average number of shares outstanding – Diluted	**34,942**	31,442
Earnings per share - diluted	**$ 2.08**	$ 1.05

At December 31, 2011, 375,000 options (December 31, 2010: 50,000) 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.

During 2011 the Company declared and paid dividends of $5.0 million (2010: $3.7 million) or $0.16 (2010: $0.13) per common share.

(Tabular amounts in thousands of Canadian dollars)

17. 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.

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	$ 5.15	(430,000)
Balance, December 31, 2011	**$ 7.70**	**1,520,000**

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.

During 2011 the weighted average market price at the time of exercise of options was $15.94 per share (2010: $11.03).

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

Outstanding at December 31, 2011	**Exercise Price**	**Remaining life (years)**	**Exercisable at December 31, 2011**
815,000	**$ 4.66**	**2.4**	**815,000**
200,000	**$ 4.97**	**2.7**	**100,000**
100,000	**$ 7.30**	**3.1**	**–**
30,000	**$ 8.54**	**3.6**	**10,000**
300,000	**$ 16.18**	**4.2**	**–**
75,000	**$ 14.21**	**4.5**	**–**
1,520,000	**$ 7.70**	**3.0**	**925,000**

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
1,575,000	$ 5.07	3.6	665,000

(Tabular amounts in thousands of Canadian dollars)

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:

	December 31, 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 year ended December 31, 2011 the Company recognized share-based compensation expense of $1.4 million (2010 - $1.3 million).

18. Revenues

	December 31, 2011	December 31, 2010
Rendering of services	**$ 235,502**	$ 170,232
Sale of goods	**96,580**	54,292
	$ 332,082	$ 224,524

Included in sale of goods is $9.3 million (2010: $3.4 million) of revenue relating to contracts in progress as at December 31, 2011.

19. Cost of services

	December 31, 2011	December 31, 2010
Inventory	**$ 82,515**	$ 44,365
Wages and salaries	**59,130**	48,998
Repair and maintenance	**18,140**	14,422
Fuel and travel	**12,817**	13,027
Parts and supplies	**3,138**	3,885
Rent and services	**2,692**	2,522
Other	**3,799**	2,594
	$ 182,231	$ 129,813

20. Selling, general and administration

	December 31, 2011	December 31, 2010
Wages and salaries	**$ 20,526**	$ 17,281
Office	**2,352**	3,474
Travel	**1,606**	1,621
Rent	**1,040**	1,323
Professional and legal	**1,028**	1,018
Other	**2,407**	981
	$ 28,959	$ 25,698

(Tabular amounts in thousands of Canadian dollars)

21. Employee benefits

	December 31, 2011	December 31, 2010
Cost of services	$ 59,130	$ 48,998
Selling, general and administration	20,526	17,281
Share-based compensation	1,360	1,289
	$ 81,016	$ 67,568

22. Finance costs

	2011	2010
Other interest	$ 49	$ 190
Convertible debenture interest	3,519	–
Accretion of convertible debenture	1,314	–
Interest on long-term debt	398	3,142
	$ 5,280	$ 3,332

23. 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 December 31, 2011 and 2010 these ratios were as follows:

	December 31, 2011	December 31, 2010
Long-term debt (including current portion and convertible debentures)	$ 69,000	$ 72,500
Shareholders' equity	275,321	209,845
Total capitalization	$ 344,321	$ 282,345
Long-term debt to long-term debt plus equity ratio	0.20	0.26

As at December 31, 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 December 31, 2011 and 2010 the Company was in compliance with all external minimum capital requirements.

Financial instruments

The Company's financial instruments as at December 31, 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 December 31, 2011 the closing market price for these securities was $101.01 per $100 principal amount. This represents an aggregate market value of $69.7 million.

(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 effect 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 December 31, 2011, $4.4 million, or 5% of accounts receivable (2010 - $4.1 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	85
Write offs	(119)
Balance at December 31, 2011	**$ 1,252**

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 years ended December 31, 2011 and 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 December 31, 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 21, 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 December 31, 2011 approximately $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, dividend payments and the Company's share repurchases.

(Tabular amounts in thousands of Canadian dollars)

The following maturity analysis shows the remaining contractual maturities for the Company's financial liabilities, including future interest payments:

As at December 31, 2011	**No later than 1 year**	**Later than 1 year and no later than 5 years**	**Later than 5 years**	**Total**
Accounts payable and accrued liabilities	**$ 41,556**	**$ –**	**$ –**	**$ 41,556**
Dividends payable	**1,255**	**–**	**–**	**1,255**
Convertible debenture	**3,967**	**81,895**	**–**	**85,862**
Finance leases	**2,754**	**2,853**	**–**	**5,607**
Total	**$ 49,532**	**$ 84,748**	**$ –**	**$ 134,280**

As at December 31, 2010	No later than 1 year	Later than 1 year and no later than 5 years	Later than 5 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	6,369	74,465	–	80,834
Finance leases	3,366	3,045	99	6,510
Total	$ 39,345	$ 77,510	$ 99	$ 116,954

Market risk

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

- Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Currently all of the Company's sales are denominated in Canadian dollars, which is the Company's functional currency, and as such the Company does not have any foreign currency exchange rate risk with respect to revenues. The Company estimates that less than 25% of its operating expenses in 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 year ended December 31, 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 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 $101,000 higher (December 31, 2010 - $445,000), 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 year ended December 31, 2011.

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

(Tabular amounts in thousands of Canadian dollars)

24. Commitments

The Company has operating lease commitments for vehicles and buildings payable as follows:

	December 31, 2011	December 31, 2010
Less than one year	$ 2,836	$ 3,373
Between one and five years	2,471	3,777
More than five years	187	477
	$ 5,494	$ 7,627

The Company also has purchase obligations of $27.7 million as at December 31, 2011 ($3.9 million as at December 31, 2010) relating to commitments to acquire rental equipment, rig equipment and inventory.

25. Contingencies

TESL and one of its non-operating subsidiaries have been re-assessed by the Ontario Ministry of Finance ("Ontario Finance"), Alberta Finance and Enterprise ("Alberta Finance") and the Canada Revenue Agency ("CRA") on account of a corporate re-organization undertaken prior to 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 $7.7 million, $8.6 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.

26. Related parties

Key management of the Company includes directors, executive officers, general managers and the president of its operating divisions.

In addition to their salaries, the Company also provides non-cash benefits to key management, except directors (see note 17).

Key management personnel compensation is comprised of:

	December 31, 2011	December 31, 2010
Short-term employee benefits	$ 3,960	$ 2,603
Share-based compensation (1)	1,202	1,210
	$ 5,162	$ 3,813

(1) Represents the amortization of share-based compensation associated with key management as recorded in the consolidated financial statements.

At December 31, 2011 directors of the Company own or control 6 percent of the voting shares of the Company.

There have been no transactions over the reporting period with key management personnel (2010: nil), and no outstanding balances exist as at period end (2010: nil).

(Tabular amounts in thousands of Canadian dollars)

27. Explanation of transition to IFRS

As stated in note 2, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies as set out in note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information for the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position as at January 1, 2010 (the Company's transition date).

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 IFRSs 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.

Reconciliation of equity

		December 31, 2010			January 1, 2010		
	Note 27	Previous Canadian GAAP	Effects of transition to IFRS	IFRS	Previous Canadian GAAP	Effects of transition to IFRS	IFRS
ASSETS							
Current assets:							
Cash and cash equivalents		$ 228	$ –	$ 228	$ –	$ –	$ –
Accounts receivable	(d)	69,236	1,747	70,983	22,104	436	22,540
Inventory	(d)	36,385	(2,897)	33,488	28,408	(379)	28,029
Income taxes receivable		118	–	118	2,848	–	2,848
Prepaid expenses and deposits	(a)	2,129	(311)	1,818	2,309	(296)	2,013
		108,096	(1,461)	106,635	55,669	(239)	55,430
Property, plant and equipment	(a),(b),(c)	234,448	(2,302)	232,146	175,052	(2,548)	172,504
Goodwill		4,053	–	4,053	4,053	–	4,053
		$ 346,597	$ (3,763)	$ 342,834	$ 234,774	$ (2,787)	$ 231,987
LIABILITIES & SHAREHOLDERS' EQUITY							
Current liabilities:							
Bank indebtedness	(g)	$ –	$ –	$ –	$ –	$ 19,869	$ 19,869
Accounts payable and accrued liabilities	(d)	28,285	68	28,353	12,975	–	12,975
Deferred revenue	(d)	4,942	(1,608)	3,334	3,001	(35)	2,966
Dividends payable		1,257	–	1,257	875	–	875
Current portion of long-term debt	(g)	–	6,042	6,042	8,737	1,114	9,851
Current portion of obligations under finance leases		3,203	–	3,203	588	–	588
		37,687	4,502	42,189	26,176	20,948	47,124
Long-term debt	(g)	72,500	(6,042)	66,458	34,950	(20,983)	13,967
Obligations under finance leases		3,014	–	3,014	763	–	763
Deferred income tax liabilities	(f)	21,811	(483)	21,328	5,681	(613)	5,068
Deferred tax credit	(e)	4,147	(4,147)	–	11,575	(11,575)	–
Shareholders' equity:							
Share capital		76,268	–	76,268	60,777	–	60,777
Contributed surplus		1,769	–	1,769	1,174	–	1,174
Retained earnings	(k)	129,401	2,407	131,808	93,678	9,436	103,114
		207,438	2,407	209,845	155,629	9,436	165,065
		$ 346,597	$ (3,763)	$ 342,834	$ 234,774	$ (2,787)	$ 231,987

(Tabular amounts in thousands of Canadian dollars)

Reconciliation of comprehensive income

		Year ended December 31, 2010		
	Note 27	Previous Canadian GAAP	Effects of transition to IFRS	IFRS
REVENUE	(i)	$ 221,640	$ 2,884	$ 224,524
Cost of services	(i)	126,902	2,911	129,813
Selling, general and administrative		25,698	–	25,698
Share-based compensation		1,289	–	1,289
Depreciation	(i)	20,377	(556)	19,821
Other interest	(h)	190	(190)	–
Interest on long-term debt	(h)	3,142	(3,142)	–
Results from operating activities		44,042	3,861	47,903
Gain (loss) on disposal of property, plant and equipment		(128)	–	(128)
Finance costs	(h)	–	(3,332)	(3,332)
Net income before income tax		43,914	529	44,443
Current income tax expense		235	–	235
Deferred income tax expense	(i)	3,724	7,558	11,282
Total income tax expense		3,959	7,558	11,517
Net income and total comprehensive income for the period	(j)	$ 39,955	$ (7,029)	$ 32,926
Earnings per share				
Basic earnings per share		$ 1.30	$ (0.23)	$ 1.07
Diluted earnings per share		$ 1.27	$ (0.22)	$ 1.05

(Tabular amounts in thousands of Canadian dollars)

Reconciliation of cash flow for the year ended December 31, 2010

	Note 27	Previous Canadian GAAP	Effects of transition to IFRS	IFRS
CASH PROVIDED BY (USED IN):				
Operations:				
Net income for the period	(j)	$ 39,955	$ (7,029)	$ 32,926
Add (deduct) items not affecting cash:				
Depreciation	(i)	20,377	(556)	19,821
Share-based compensation		1,289	–	1,289
Loss on disposal of property, plant and equipment		128	–	128
Current income tax expense		–	235	235
Interest expense		–	3,332	3,332
Deferred income tax expense	(i)	3,724	7,558	11,282
Income taxes paid		–	2,495	2,495
		65,473	6,035	71,508
Changes in non-cash working capital items:				
Accounts receivable	(d)	(47,132)	(1,311)	(48,443)
Inventory	(d)	(7,211)	2,518	(4,693)
Income taxes receivable		2,730	(2,730)	–
Prepaid expenses and deposits	(a)	157	15	172
Accounts payable and accrued liabilities		15,057	(155)	14,902
Deferred revenue	(d)	1,941	(1,573)	368
		31,015	2,799	33,814
Investments:				
Purchase of property, plant and equipment	(a)(b)	(27,690)	(311)	(28,001)
DC Energy Services LP acquisition	(c)	(31,714)	621	(31,093)
Proceeds on disposal of property, plant and equipment		3,621	–	3,621
Changes in non-cash working capital items		253	–	253
		(55,530)	310	(55,220)
Financing:				
Advances under long-term debt	(g)	47,538	18,644	66,182
Repayments of long-term debt	(g)	(18,725)	1,225	(17,500)
Repayment of obligations under finance leases		(2,540)	–	(2,540)
Payment of dividends		(4,050)	382	(3,668)
Dividends payable		382	(382)	–
Issuance of common shares		2,377	–	2,377
Repurchase of common shares		(239)	–	(239)
Interest paid		–	(3,109)	(3,109)
Decrease in bank indebtedness	(g)	–	(19,869)	(19,869)
		24,743	(3,109)	21,634
Change in cash and cash equivalents		228	–	228
Cash and cash equivalents, beginning of period		–	–	–
Cash and cash equivalents, end of period		$ 228	$ –	$ 228

(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:

Prepaid expenses and deposits	December 31, 2010	January 1, 2010
Componentization	$ (311)	$ (296)

Property, plant and equipment	December 31, 2010	January 1, 2010
Componentization	$ (1,423)	$ (2,469)
Overhaul costs	(298)	(79)
Transaction costs	(581)	–
	$ (2,302)	$ (2,548)

(d) Percentage of completion

The Gas Compression Services division is party to contracts to supply equipment that involves 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 Company followed the completed contracts method of revenue recognition whereby all revenue was recognized upon completion.

(Tabular amounts in thousands of Canadian dollars)

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

Accounts receivable	December 31, 2010	January 1, 2010
Percentage of completion	$ 1,747	$ 436

Inventory	December 31, 2010	January 1, 2010
Percentage of completion	$ (2,897)	$ (379)

Accounts payable and accrued liabilities	December 31, 2010	January 1, 2010
Percentage of completion	$ 68	$ –

Deferred revenue	December 31, 2010	January 1, 2010
Percentage of completion	$ (1,608)	$ (35)

(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 Statements of Financial Position:

Deferred tax credit	December 31, 2010	January 1, 2010
Derecognizing of deferred tax credit	$ (4,147)	$ (11,575)

(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:

Deferred tax liability	December 31, 2010	January 1, 2010
Componentization	$ (360)	$ (617)
Overhaul costs	(75)	(19)
Percentage of completion	98	23
Transaction costs	(146)	–
	$ (483)	$ (613)

(g) Bank indebtedness and long-term debt

In February, 2011 the Company executed new long-term credit facilities (note 13) 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 13) that under previous Canadian GAAP resulted in $19.9 million of bank indebtedness and $1.1 million of long-term debt 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.

(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	Year ended December 31, 2010
Percentage of completion	$ 2,884

Cost of services	Year ended December 31, 2010
Percentage of completion	$ 2,586
Componentization	(169)
Overhaul costs – capitalization	(127)
Transaction costs	621
	$ 2,911

Depreciation	Year ended December 31, 2010
Componentization – decrease in depreciation	$ (862)
Overhaul costs – increase in depreciation	346
Transaction costs – decrease in depreciation	(40)
	$ (556)

Deferred income tax expense	Year ended December 31, 2010
Componentization	$ 257
Derecognition of deferred tax credit	7,428
Overhaul costs and related depreciation	(56)
Percentage of completion	75
Transaction costs and related depreciation	(146)
	$ 7,558

(j) Net profit and total comprehensive income

The IFRS transition adjustment presented in (a) to (e) resulted in following changes net profit and total comprehensive income for the year ended December 31, 2010:

Net income and total comprehensive income	Note	Year ended December 31, 2010
Componentization	(a)	$ 774
Derecognition of deferred tax credit	(e)	(7,428)
Overhaul costs	(b)	(163)
Percentage of completion	(d)	223
Transaction costs	(c)	(435)
		$ (7,029)

(Tabular amounts in thousands of Canadian dollars)

(k) Retained earning

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

Retained earnings	Note	December 31, 2010	January 1, 2010
Componentization	(a)	$ (1,374)	$ (2,148)
Derecognition of deferred tax credit	(e)	4,147	11,575
Overhaul costs	(b)	(223)	(60)
Percentage of completion	(d)	292	69
Transaction costs	(c)	(435)	–
		$ 2,407	$ 9,436

CORPORATE INFORMATION

BOARD OF DIRECTORS

Bruce Pachkowski [3]
Chairman of the Board

Daniel Halyk
President and Chief Executive Officer

Gregory Fletcher [1, 2]

Randy Kwasnicia [1, 3]

Greg Melchin [1, 2]

Andrew Wiswell [2, 3]

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

MANAGEMENT TEAM

TOTAL ENERGY SERVICES INC.

Daniel Halyk
President and Chief Executive Officer

Brad Macson
Vice President Operations

Mark Kearl
Vice President Finance and Chief Financial Officer

Russ Strilchuk
Vice President Sales and Marketing

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

HEAD OFFICE

Suite 2550, 300 - 5th Avenue S.W.,

Calgary, Alberta T2P 3C4

Telephone: (403) 216-3939

Toll Free: (877) 818-6825

Telefax: (403) 234-8731

website: www.totalenergy.ca

email: investorrelations@totalenergy.ca

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

Calgary • Carlyle • Dawson Creek • Drayton Valley • Edmonton • Edson • Fort Nelson • Fort St. John
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

CHINOOK Drilling

TOTAL OILFIELD RENTALS LP

BIDELL™ GAS COMPRESSION