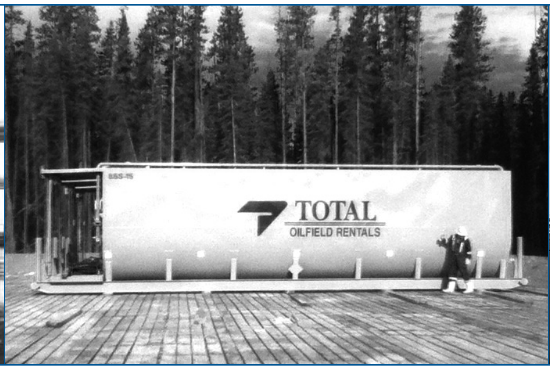
Q3



FOCUS DISCIPLINE GROWTH

Third Quarter Report 2012

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 and process equipment. Together these businesses provide a platform for building long-term shareholder value. Total Energy has achieved its growth by maintaining a disciplined acquisition strategy and undertaking strategic internal growth.

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

REPORT TO SHAREHOLDERS

Total Energy's results for the third quarter of 2012 reflect lower activity levels in Western Canada as compared to 2011. Expenses incurred with the establishment of Rental and Transportation Services branches in Minot, North Dakota and Slave Lake, Alberta and the startup of Spectrum Process Systems Inc. negatively impacted third quarter profitability as revenue from these start-up initiatives was nominal during the quarter.

Total Energy's balance sheet remains strong, highlighted by the Company remaining free of bank debt and having $55.4 million of cash on hand at September 30, 2012. At September 30, 2012 and at the date of this report, the Company's $35 million bank operating facility was fully available and undrawn.

LOOKING FORWARD

With continued weakness in natural gas prices, volatile oil prices and uncertainty regarding near term global economic conditions, Canadian oil and natural gas producers continue to take a more cautious approach to capital spending, with many capital programs being deferred to the first quarter of 2013. Following a record first quarter, Total Energy came out of the seasonally slow second quarter with an operating capacity higher than what proved to be required by the marketplace, particularly in the Rentals and Transportation division. The Company has taken steps to adjust its operating cost structure to reflect the current operating environment without compromising its capacity to service what is expected to be a relatively busy first quarter of 2013.

Total Energy's Contract Drilling Services division continues to see relatively strong demand for its fleet of heavy telescopic doubles although many drilling programs are being deferred until the first quarter of 2013, resulting in current rig utilization being somewhat sporadic. Construction of the Company's 16th drilling rig, a 3,600 meter telescopic double, and the upgrade of a conventional single are expected to be completed in December. Both rigs are scheduled to commence drilling programs upon their completion.

With the recent addition of branches in Minot and Slave Lake, Total Energy's Rentals and Transportation Services division continues to expand its geographic presence in oil prone areas. The addition of approximately 400 rental pieces during the fourth quarter pursuant to the Company's 2012 capital expenditure program, combined with operating efficiencies arising from recent cost cutting initiatives, are expected to improve the financial performance of this division over the upcoming busy winter season. The Rentals and Transportation Services division is entering the Canadian solids control market this winter with the introduction of centrifuges to its product offering.

The Company's Gas Compression Services division continues to perform reasonably well despite a challenging North American natural gas price environment. Total Energy's entry into the oil and natural gas process equipment fabrication business through the establishment of Spectrum Process Systems Inc. continues. Spectrum took possession of a new 20,000 square foot leased fabrication facility in mid-October 2012, albeit two months behind schedule due to construction delays, and is currently staffing and equipping the facility for production. Spectrum is expected to be fully operational by the first quarter of 2013.

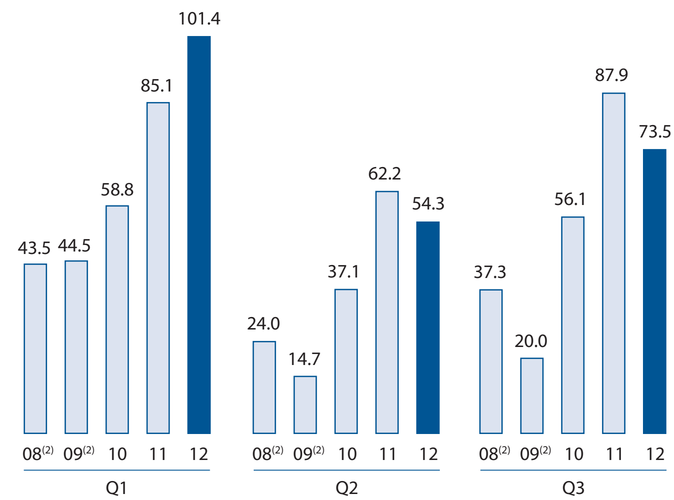
Overall, while the third quarter of 2012 proved more challenging than expected, Total Energy is well positioned to continue to execute on its growth strategy regardless of what challenges may face the North American energy services industry in the future.

DANIEL K. HALYK
President and Chief Executive Officer

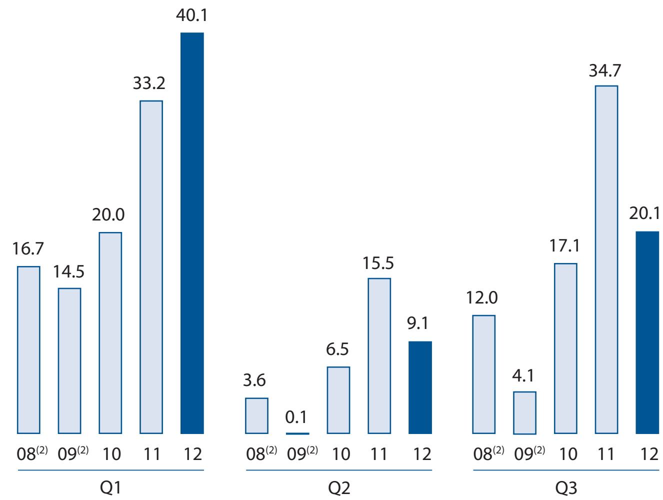
November 2012

THIRD QUARTER GROWTH

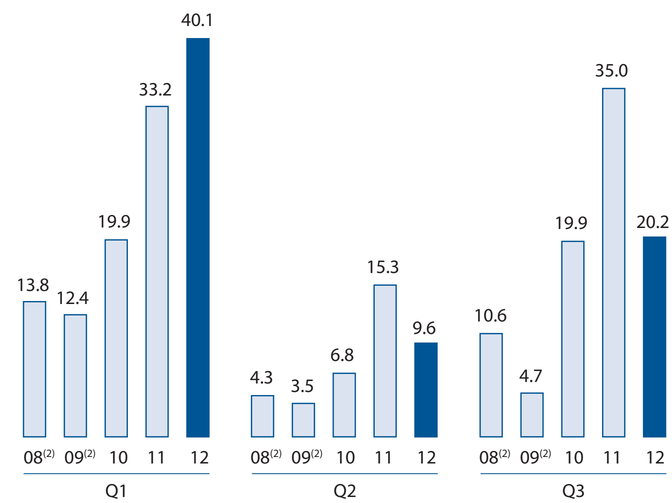
Unaudited (in millions of Canadian dollars)



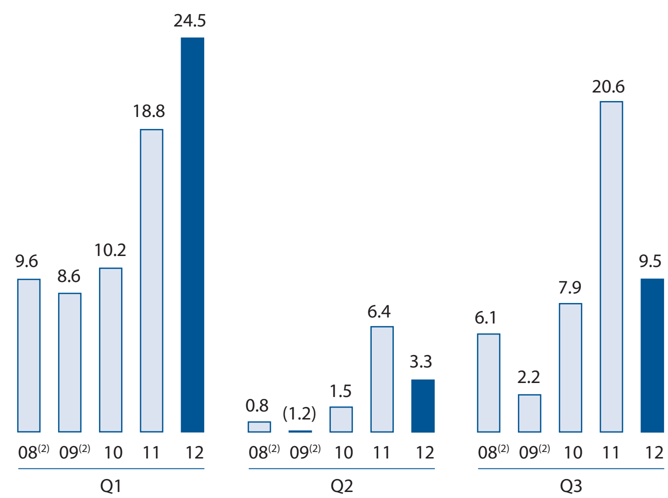
REVENUES



EBITDA[1]



CASHFLOW[1]



NET INCOME

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

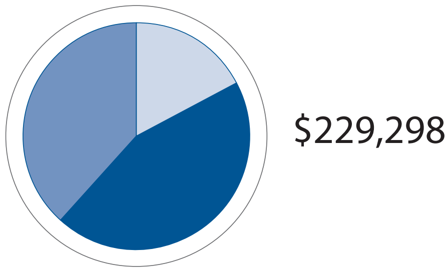
(2) Calculated based on previously issued financial statements prepared in accordance with Canadian GAAP.

SEGMENTED INFORMATION

For the nine months ended September 30, 2012 and 2011
Unaudited (in thousands of Canadian dollars)

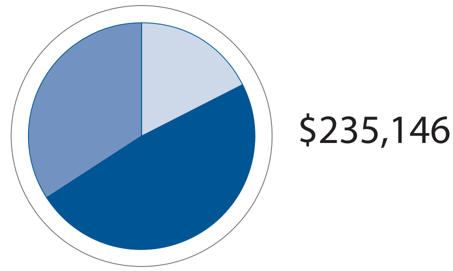
REVENUE DIVERSIFICATION

2012



$39,896	Contract Drilling
$102,004	Rentals and Transportation
$87,398	Gas Compression

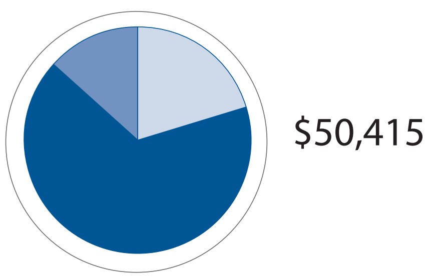
2011



$41,370	Contract Drilling
$113,962	Rentals and Transportation
$79,814	Gas Compression

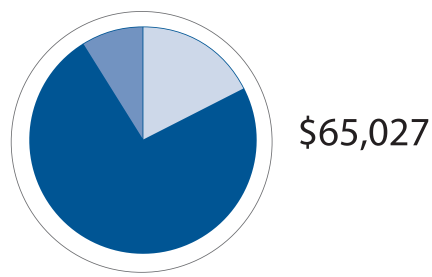
OPERATING EARNINGS (1)

2012



$11,413	Contract Drilling
$37,207	Rentals and Transportation
$7,421	Gas Compression
$(5,626)	Other (2)

2011



$12,279	Contract Drilling
$50,880	Rentals and Transportation
$6,033	Gas Compression
$(4,165)	Other (2)

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

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

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

The following MD&A, dated November 9, 2012, focuses on key statistics from the unaudited condensed interim consolidated financial statements of Total Energy Services Inc. (the "Company" or "Total Energy") and pertains to known risks and uncertainties relating to the energy services industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion and analysis of the financial condition and results of operations for the three and nine months ended September 30, 2012, should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2012 and related notes and material contained in other parts of this report, 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.

FORWARD-LOOKING STATEMENTS

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

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

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Additionally, the Officers have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. During the quarter ended September 30, 2012 there have been no changes in internal controls over financial reporting that would materially affect, or be reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

NON-IFRS MEASURES

Operating earnings means results from operating activities and is equal to net income before income taxes minus gain on sale of property, plant and equipment plus finance costs. EBITDA means 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. 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 September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Net income and total comprehensive income	**$ 9,456**	$ 20,603	**$ 37,167**	$ 45,825
Add back (deduct):				
Finance costs	**1,149**	1,351	**3,678**	3,922
Gain on disposal of equipment	**(986)**	(71)	**(1,478)**	(849)
Income tax expense	**3,360**	6,938	**11,048**	16,129
Results from operating activities	**$ 12,979**	$ 28,821	**$ 50,415**	$ 65,027

EBITDA (in thousands of Canadian dollars)	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Net income and total comprehensive income	**$ 9,456**	$ 20,603	**$ 37,167**	$ 45,825
Add back:				
Depreciation	**6,113**	5,842	**17,440**	17,550
Finance costs	**1,149**	1,351	**3,678**	3,922
Income tax expense	**3,360**	6,938	**11,048**	16,129
EBITDA	**$ 20,078**	$ 34,734	**$ 69,333**	$ 83,426

Cashflow (in thousands of Canadian dollars)	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Cash provided by operations	**$ 13,522**	$ 23,189	**$ 98,847**	$ 66,744
Add back (deduct):				
Changes in non-cash working capital items	**6,662**	11,831	**(29,008)**	16,785
Cashflow	**$ 20,184**	$ 35,020	**$ 69,839**	$ 83,529

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 and process equipment ("Bidell Equipment" or "Bidell"). Total Energy is entering the Western Canadian Sedimentary Basin ("WCSB") process equipment fabrication business, which business will be operated through a wholly-owned subsidiary, Spectrum Process Systems. The financial results for Spectrum are included in the Gas Compression Services segment. Substantially all of the operations of the Company are conducted within the WCSB, although Total Energy investigates opportunities from time to time to expand its operations outside of the WCSB, and has recently expanded the operations of Total Oilfield Rentals into North Dakota. Bidell generates international sales from its Calgary based facility, and has recently delivered one of its proprietary trailer-mounted compression packages (branded the NOMAD™) to Australia.

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. The expansion of Total Oilfield Rentals into North Dakota that is currently underway will further increase Total Energy's exposure to oil related activities. 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 3,600 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 3,600 meters, with completion scheduled for the fourth quarter of 2012 at an estimated cost of $10.5 million. In addition, the Company is currently upgrading one of its conventional singles to increase the capabilities of such rig, with completion scheduled for the fourth quarter of 2012 at an estimated cost of $2.2 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 and during the second quarter of 2012 began its expansion into North Dakota. The Company now operates out of 20 locations throughout Western Canada and North Dakota and currently owns and operates approximately 9,300 pieces of rental equipment as well as a modern fleet of 106 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 and the United States. The Company is also examining opportunities to expand its product and service offering within existing areas of operation.

Gas Compression Services: The Company has historically targeted the sub-3000 horsepower gas compression market in western Canada but has expanded its capabilities to supply larger horsepower compression. The Company has also 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 increased its in-house engineering capabilities in order to focus on developing proprietary equipment designs that provide solutions to its customers. Total Energy has received patent protection in Canada, the United States, Europe, Australia and Mexico and is awaiting the receipt of patents in certain other international jurisdictions for its proprietary trailer-mounted compression package which is branded the NOMAD™. 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

The results for the three and nine months ended September 30, 2012 reflect a decrease in industry activity levels compared to the same periods in 2011, offset somewhat by an increase in the Company's capacity due to the capital expenditures in each of the Company's divisions during 2011 and the first nine months of 2012.

Total revenues decreased 16% and net income decreased 54% in the third quarter of 2012 versus the prior year comparable quarter. For the first nine months of 2012, revenue and net income decreased 2% and 19%, respectively, from the prior year comparable period. For the three and nine months ended September 30, 2012 the Company recorded net income of $9.5 million and $37.2 million, respectively, as compared to $20.6 million and $45.8 million during the comparable periods of 2011.

The Company's financial condition remains strong, with a positive working capital balance of $105.0 million and no bank debt as at September 30, 2012. As at September 30, 2012 long-term debt (including the principal amount of the outstanding convertible debentures) to long-term debt plus equity was 0.19 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 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 geographical areas where the Company operates and the economics of oil and gas exploration and production in such areas compared to the economics of competing 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. Most of 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 the impact of significant volatility in oil prices and continued weakness of natural gas prices on industry activity levels. Notwithstanding an extended spring break-up and relatively strong oil prices, activity levels in the WCSB during the third quarter of 2012 were substantially lower as compared to the prior year comparable period. 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, particularly should export opportunities for WCSB producers increase through the construction of new liquefied natural gas ("LNG") export terminals and additional pipeline capacity. The application of horizontal drilling and multi-stage fracturing completion technologies to oil and liquids rich natural gas resources has significantly increased drilling and completion activity in the WCSB targeting oil. According to the 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. In the context of volatile oil prices and unfavourable equity markets, some exploration and development companies have reduced their 2012 WCSB capital budgets and, as such, WCSB industry activity levels continue to be lower in 2012 as compared to 2011.

Governmental and Environmental Regulation and Risk Management

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

RESULTS OF OPERATIONS

Consolidated Revenue

Revenues decreased 16% to $73.5 million for the three months ended September 30, 2012 versus $87.9 million for the same period in 2011 and decreased 2% to $229.3 million for the nine months ended September 30, 2012 versus $235.1 million for the same period in 2011.

Divisional Revenue

Divisional revenues for the three months ended September 30, 2012 were $12.8 million for Contract Drilling Services, $30.6 million for Rentals and Transportation Services and $30.2 million for Gas Compression Services. Divisional revenues for the nine months ended September 30, 2012 were $39.9 million for Contract Drilling Services, $102.0 million for Rentals and Transportation Services and $87.4 million for Gas Compression Services.

Contract Drilling Services

The revenue reported from Total Energy's Contract Drilling Services division decreased by 21% to $12.8 million for the three months ended September 30, 2012 as compared to $16.3 million for the same period in 2011, and decreased by 4% to $39.9 million for the nine months period ended September 30, 2012 as compared to $41.4 million for the same period in 2011. The revenue decreases were due primarily to decreased drilling activity. For the third quarter of 2012 the Contract Drilling Services division achieved a utilization rate, on a spud to release basis, of 49% and year to date utilization rate of 45%, as compared to 66% and 59%, respectively, for the same periods in 2011. Operating days (spud to release) for the three and nine months ended September 30, 2012 totaled 677 and 1,857 days, respectively, with a fleet of 15 rigs as compared to 855 and 2,242 days for the same periods in 2011 with a fleet of 14 rigs. Revenue per operating day received for contract drilling services decreased 1% for the three months ended September 30, 2012, and increased 16% for the nine months ended September 30, 2012, as compared to the same periods in 2011. The changes in revenue per operating day was due primarily to changes in drilling day rates.

Rentals and Transportation Services

The revenue reported from Total Energy's Rentals and Transportation Services division decreased by 29% to $30.6 million for the three months ended September 30, 2012 as compared to $43.0 million for the same period in 2011, and decreased by 10% to $102.0 million for the nine months period ended September 30, 2012 as compared to $114.0 million for the same period in 2011. The revenue decreases were due primarily to reduced industry activity levels. Average utilization of the rental assets was 44% and 49%, respectively, for the three and nine months ended September 30, 2012 as compared to 74% and 67% for the prior year comparable periods. This division exited the third quarter of 2012 with approximately 9,300 pieces of rental equipment as compared to 8,600 pieces at the end of the third quarter of 2011. This division also exited the third quarter of 2012 with a fleet of 106 heavy trucks compared to 101 heavy trucks at the end of the third quarter of 2011.

Gas Compression Services

The revenue reported from Total Energy's Gas Compression Services division increased by 6% to $30.2 million for the three months ended September 30, 2012 as compared to $28.6 million for the same period in 2011, and increased by 10% to $87.4 million for the nine months period ended September 30, 2012 as compared to $79.8 million for the same period in 2011. The revenue changed from the prior year comparable periods were due primarily to varying demand from this division's customers and ongoing expansion of the parts and service business that began in the second half of 2010. This division exited the third quarter of 2012 with a backlog of fabrication sales orders of approximately $35.2 million as compared to a backlog of $40.3 million as at September 30, 2011. As at September 30, 2012 the total horsepower of compressors on lease was approximately 28,300 as compared to approximately 21,700 as at September 30, 2011. The compression rental fleet experienced an average utilization of 84% and 83% respectively (based on fleet horsepower) during the three and nine months ended September 30, 2012, as compared to 77% and 78% for the same periods in 2011.

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 2% to $46.6 million for the three months ended September 30, 2012 as compared to $45.7 million for the same period in 2011, and increased by 6% to $137.8 million for the nine month period ended September 30, 2012 as compared to $130.4 million for the same period in 2011. The cost of services increases, which occurred notwithstanding overall revenue decrease, resulted primarily from an increase in the overall revenue contribution from the Gas Compression Services division, which has higher service costs than the other two divisions. The Gas Compression Services division contributed 41% and 38% of total revenues during the three and nine month periods ended September 30, 2012, respectively, compared to 33% and 34% for the same periods in 2011. The gross margin percentage for the three and nine months ended September 30, 2012 was 37% and 40%,respectively, as a percentage of revenue, as compared to 48% and 45%, respectively, for the comparable periods in 2011. 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 decreased 5% during the three months ended September 30, 2012 to $6.8 million as compared to $7.1 million for the comparable period in 2011, and increased by 2% to $21.6 million for the nine months period ended September 30, 2012 as compared to $21.2 million for the same period in 2011.

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 $1.1 million and $2.0 million, respectively, for the three and nine months ended September 30, 2012 as compared to $0.4 and $1.0 million for the prior year comparable periods. The share based compensation expense arises from share options granted pursuant to share options plans implemented in 2009 and 2012.

Depreciation Expense

Depreciation expense increased 5% for the three month period ended September 30, 2012 to $6.1 million as compared to $5.8 million for the prior year comparable period, and decreased by 1% to $17.4 million for the nine months period ended September 30, 2012 as compared to $17.6 million for the same period in 2011. The increase in depreciation expense during the third quarter of 2012 was due primarily to a larger equipment base in both the Rentals and Transportation Services division and the Gas Compression Services division, which was partially offset by a decrease in depreciation in the Contract Drilling Services division due to lower equipment utilization. The decrease in depreciation expense for the nine month period ended September 30, 2012 was due primarily to lower depreciation in the Contract Drilling Services division due to lower equipment utilization, which was only partially offset by higher depreciation in the Rentals and Transportation Services division and the Gas Compression Services division. 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 decreased 55% to $13.0 million in the third quarter of 2012 as compared to $28.8 million for the comparable period in 2011, and decreased 22% to $50.4 million during the nine months ended September 30, 2012 as compared to $65.0 million in the same period in 2011. The changes in operating earnings were due primarily to decreased activity levels in the Contract Drilling Services and Rentals and Transportation Services divisions.

The Contract Drilling Services division had operating earnings of $3.2 and $11.4 million, respectively, for the three and nine months ended September 30, 2012 as compared to operating earnings of $6.0 million and $12.3 million for the comparable periods in 2011. The operating earnings margin in this division was 25% and 29% for the three and nine months ended September 30, 2012 as compared to 37% and 30% for the comparable periods in 2011. The decreases in operating earnings margin during 2012 were due primarily to decreased equipment utilization and higher operating costs.

The Rentals and Transportation Services division had operating earnings of $9.4 million and $37.2 million, respectively, for the three and nine months ended September 30, 2012 as compared to $21.7 million and $50.9 million for the comparable periods in 2011. The operating earnings margin in this division was 31% and 36%, respectively for the three and nine months ended September 30, 2012 as compared to 50% and 45% for the comparable periods in 2011. The decreases in operating earnings margin resulted primarily from lower equipment utilization given the relatively high fixed cost structure of this division.

The Gas Compression Services division had operating earnings of $2.5 million and $7.4 million, respectively, for the three and nine months ended September 30, 2012 as compared to $2.5 million and $6.0 million for the comparable periods in 2011. The operating earnings margin in this division was 8% for the three and nine months ended September 30, 2012 as compared to 9% and 8% for the comparable periods in 2011.

The Other division had an operating loss of $2.2 million and $5.6 million, respectively, for the three and nine months ended September 30, 2012 as compared to $1.4 million and $4.2 million for the comparable periods in 2011. The operating loss increases were due primarily to increased share-based compensation expense due to the issuance of share options in 2012. 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 $1.1 million and $3.7 million, respectively, for the three and nine months ended September 30, 2012 as compared to $1.4 million and $3.9 million for the prior year comparable periods. The decreases in finance costs were due primarily to interest earned on the Company's cash and cash equivalents balances, which grew significantly during 2012, and which reduced the Company's overall finance costs during 2012. 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, offset by interest income earned on cash and cash equivalent balances.

Gain on Disposal of Equipment

Gain on disposal of equipment was $1.0 million and $1.5 million, respectively, for the three and nine months ended September 30, 2012 versus $0.1 million and $0.8 million for the prior year comparable periods. Disposals of equipment result from the replacement and upgrade of older equipment in the Company's fleet as well as the exercise of purchase options on compression equipment previously on lease in the Gas Compression Services division.

Income Taxes and Net income

The Company recorded net income of $9.5 million ($0.31 per share basic and $0.30 per share diluted) and $37.2 million ($1.19 per share basic and $1.16 per share diluted), respectively, for the three and nine months ended September 30, 2012 as compared to $20.6 million ($0.65 per share basic and $0.61 per share diluted) and $45.8 million ($1.46 per share basic and $1.38 per share diluted) for the corresponding periods in 2011. The Company recorded $5.4 million and $9.5 million, respectively, of current income tax expense for the three and nine months ended September 30, 2012 as compared to nominal current income tax expense for the corresponding periods 2011. The increase in current income tax expense was due primarily to the utilization of the Company's deferred income tax assets in 2011. The Company recorded a deferred income tax recovery of $2.0 million and deferred income tax expense of $1.5 million, respectively, for the three and nine months ended September 30, 2012 as compared to deferred income tax expense of $6.9 million and $16.0 million for the corresponding periods in 2011. This resulted in effective tax rates of 26% and 23%, respectively, for the three and nine months ended September 30, 2012 versus 25% and 26% for the prior year comparable periods. The reduced effective income tax rate in 2012 versus 2011 is due primarily to the application of available income tax credits.

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 2011 Audited Consolidated Financial Statements for further detail.

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operations

Cash provided by operations was $13.5 million and $98.8 million, respectively, for the three and nine months ended September 30, 2012 as compared to $23.2 million and $66.7 million for the comparable periods in 2011. Cashflow was $20.2 million and $69.8 million, respectively, for the three and nine months ended September 30, 2012 as compared to $35.0 million and $83.5 million for the comparable periods in 2011. The changes in cash provided by operations and cashflow were due primarily to changes in operating earnings and working capital balances. The Company reinvests the remaining cash provided by operations after dividend payments to shareholders into the internal growth of existing businesses, acquisitions, the repayment of long-term debt and obligations under finance leases, or the repurchase of Company shares pursuant to the Company's normal course issuer bid.

Investments

Net cash used in investment activities was $12.1 million and $56.0 million, respectively, for the three and nine months ended September 30, 2012 as compared to $12.7 million and $23.3 million for the comparable period in 2011. The increase in net cash used in investment activities in 2012 versus 2011 was due primarily to increased capital expenditures in all three business divisions. The purchases of property, plant and equipment ("PP&E") during the first nine months of 2012 were allocated as follows: $12.4 million in the Contract Drilling Services division relating primarily to the purchase of rig equipment, $31.5 million in the Rentals and Transportation Services division relating primarily to new rental equipment and heavy truck replacements and upgrades and $14.5 million in the Gas Compression Services division relating primarily to additions to the compression rental fleet. During the first nine months of 2011 the property, plant and equipment additions were as follows: $9.0 million in the Contract Drilling Services division, $16.5 million in the Rentals and Transportation Services division and $5.9 million in the Gas Compression Services division. The purchases of property, plant and equipment during the first nine months of 2012 were offset by proceeds on disposal of property, plant and equipment of $6.2 million, as compared to $4.1 million for comparable period of 2011. 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 $7.9 million and $23.1 million, respectively, for the three and nine months ended September 30, 2012 as compared to $6.4 and $19.0 million, respectively, for the comparable periods in 2011. The increase in net cash used in financing activities in 2012 as compared to 2011 was due primarily to increased common share repurchases by the Company pursuant to its normal course issuer bid.

Liquidity

The Company had a working capital surplus of $105.0 million as at September 30, 2012 as compared to $120.8 million as at December 31, 2011. This decrease in the Company's working capital position is due primarily to a decrease in accounts receivable balances. As at September 30, 2012 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 which mature on March 31, 2016. 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. As at September 30, 2012 there were no amounts outstanding under this facility.

The Company expects that cash and cash equivalents, 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 and nine months ended September 30, 2012 the Company declared dividends of $1.5 million ($0.05 per share) and $4.7 million ($0.15 per share), respectively, as compared to $1.3 million ($0.04 per share) and $3.8 million ($0.12 per share) 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 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 aim to finance future dividends through cash provided by operations.

SUMMARY OF QUARTERLY RESULTS

(in thousands of dollars except per share amounts)	Financial Quarter Ended (Unaudited)			
	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011
Revenue	**$ 73,517**	$ 54,332	$ 101,449	$ 96,936
Cashflow [(1)]	**20,184**	9,550	40,105	37,251
Cash provided by operations	**13,522**	45,421	39,904	30,899
Net income	**9,456**	3,250	24,461	23,441
Per share (basic)	**0.31**	0.10	0.78	0.75
Per share (diluted)	**0.30**	0.10	0.72	0.69

	Financial Quarter Ended (Unaudited)			
	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
Revenue	$ 87,882	$ 62,159	$ 85,105	$ 72,565
Cashflow [(1)]	35,020	15,308	33,201	24,967
Cash provided by (used in) operations	23,189	24,527	19,028	10,541
Net income	20,603	6,392	18,830	13,332
Per share (basic and diluted)	0.65	0.20	0.60	0.43
Per share (diluted)	0.61	0.20	0.57	0.42

(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.

CONTRACTUAL OBLIGATIONS

At September 30, 2012, 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)]	5,964	671	2,067	1,342	754	1,130
Finance leases	5,365	735	2,414	1,430	562	224
Purchase obligations [(3)]	15,494	15,494	–	–	–	–
Total contractual obligations	$ 95,823	$ 16,900	$ 4,481	$ 2,772	$ 1,316	$ 70,354

(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. As at September 30, 2012 purchase obligations relate to Total Energy's commitment to purchase $7.2 million of capital assets for the Rentals and Transportation Services division, $5.2 million of inventory for the Gas Compression Services division and $3.0 million of capital assets for the Contract Drilling Services division respectively.

OFF-BALANCE SHEET ARRANGEMENTS

As at September 30, 2012 and 2011 the Company had no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During first nine months of 2012 and 2011 the Company had no material transactions with related parties.

SUBSEQUENT EVENT

On October 1, 2012, the Company acquired a manufacturing facility that was previously rented by the Gas Compression Services division for $10.6 million using available cash on hand.

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.

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.

Derivative financial instruments

The Company may enter into certain financial derivative contracts in order to manage the exposure to market risk from fluctuations in exchange rates. The instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus not applied hedge accounting, even though it considers certain financial contracts to be economic hedges. As a result, financial derivative contracts are classified as fair value through net income and are recorded on the statement of financial position at estimated value. Transaction costs are recognized in net income when incurred.

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, 2015 and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

FINANCIAL INSTRUMENTS

Risk management activities

The Company does not have significant exposure to any individual customer or counter party. No customer accounted for more than 10% of the Company's consolidated revenues during the first nine months of 2012. 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, in and obligations under finance leases approximate their fair value due to the relatively short periods to maturity of the instruments. As at September 30, 2012 the Company did not have any long-term debt that was subject to variable interest rates. Derivative financial instruments are accounted for at their fair value. The Company's $69 million convertible debentures are publicly traded on the Toronto Stock Exchange. On September 30, 2012 the closing price for these securities was $106.88 for every $100 of principal value of convertible debentures issued. This represents an aggregate market value of $73.7 million.

Interest rate risk

As at September 30, 2012 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 sales are denominated in a currency other than Canadian dollars, the Company may enter into forward currency contracts to mitigate its exposure to exchange rate fluctuations from the date of sale until the date of receipt of funds. 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 30,700,000 Common Shares outstanding.

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

Outstanding at September 30, 2012	Exercise Price	Remaining life (years)	Exercisable at September 30, 2012
655,000	$ 4.66	1.7	655,000
182,500	$ 4.97	2.0	182,500
50,000	$ 7.30	2.3	–
30,000	$ 8.54	2.9	30,000
300,000	$ 16.18	3.4	100,000
75,000	$ 14.21	3.7	25,000
1,605,000	$ 13.74	4.6	–
2,897,500	$ 11.23	3.6	992,500

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 $22.357 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 first nine months of 2012. 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. When Bidell has sales denominated in a currency other than Canadian dollars, it may enter into forward currency contracts to mitigate its exposure to exchange rate fluctuations from the date of sale until the date of receipt of funds. 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. Improved industry activity levels in Western Canada during 2011 and the first quarter of 2012 resulted in a more challenging and competitive labour market. However, continued global economic uncertainty and reduced industry activity levels since the first quarter of 2012 have alleviated somewhat labour challenges facing the oil and gas service industry in Western Canada.

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.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (tabular amounts in thousands of Canadian dollars)

	Note	September 30, 2012	December 31, 2011
ASSETS			
Current assets:			
Cash and cash equivalents		**$ 55,394**	$ 35,658
Accounts receivable		**59,821**	94,556
Inventory		**34,854**	37,147
Income taxes receivable		**–**	118
Prepaid expenses and deposits		**2,753**	1,795
		152,822	169,274
Property, plant and equipment		**301,901**	261,290
Goodwill		**4,053**	4,053
		$ 458,776	$ 434,617
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		**$ 30,723**	$ 41,556
Deferred revenue		**3,608**	3,064
Income taxes payable		**9,368**	–
Dividends payable		**1,535**	1,255
Current portion of obligations under finance leases		**2,544**	2,613
		47,778	48,488
Obligations under finance leases		**2,821**	2,763
Convertible debentures		**62,275**	61,090
Deferred tax liability		**48,478**	46,955
Shareholders' equity:			
Share capital	5	**77,147**	77,917
Contributed surplus		**4,118**	2,472
Equity portion of convertible debenture		**4,601**	4,601
Retained earnings		**211,558**	190,331
		297,424	275,321
		$ 458,776	$ 434,617

The notes on pages 28 to 32 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

		Three months ended September 30		Nine months ended September 30	
	Note	**2012**	2011	**2012**	2011
REVENUE		**$ 73,517**	$ 87,882	**$ 229,298**	$ 235,146
Cost of services		**46,569**	45,725	**137,826**	130,356
Selling, general and administration		**6,764**	7,126	**21,594**	21,167
Share-based compensation	5	**1,092**	368	**2,023**	1,046
Depreciation		**6,113**	5,842	**17,440**	17,550
Results from operating activities		**12,979**	28,821	**50,415**	65,027
Gain on sale of property, plant and equipment		**986**	71	**1,478**	849
Finance costs		**(1,149)**	(1,351)	**(3,678)**	(3,922)
Net income before income taxes		**12,816**	27,541	**48,215**	61,954
Current income tax expense		**5,355**	11	**9,525**	94
Deferred income tax (recovery) expense		**(1,995)**	6,927	**1,523**	16,035
Total income tax expense		**3,360**	6,938	**11,048**	16,129
Net income and total comprehensive income for the period		**$ 9,456**	$ 20,603	**$ 37,167**	$ 45,825
Earnings per share	5				
Basic earnings per share		**$ 0.31**	$ 0.65	**$ 1.19**	$ 1.46
Diluted earnings per share		**$ 0.30**	$ 0.61	**$ 1.16**	$ 1.38

The notes on pages 28 to 32 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EQUITY

As at and for the three and nine months ended September 30, 2012 and 2011, and year ended December 31, 2011
Unaudited (Tabular amounts in thousands of Canadian dollars)

	Note	Share Capital	Contributed Surplus	Equity portion of convertible debenture	Retained earnings	Total Equity
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 ($0.16 per common share)		–	–	–	(5,032)	(5,032)
Issuance of convertible debenture net of transaction costs		–	–	6,151	–	6,151
Deferred tax effect on equity portion of convertible debenture		–	–	(1,550)	–	(1,550)
Repurchase of common shares	5	(1,221)	–	–	(5,711)	(6,932)
Share-based compensation		–	1,360	–	–	1,360
Share options exercised	5	2,870	(657)	–	–	2,213
		1,649	703	4,601	(10,743)	(3,790)
Balance at December 31, 2011		$ 77,917	$ 2,472	$ 4,601	$ 190,331	$ 275,321
Net income and total comprehensive income for the period		–	–	–	37,167	37,167
Transactions with shareholders, recorded directly in equity:						
Dividends to shareholders ($0.15 per common share)		–	–	–	(4,650)	(4,650)
Repurchase of common shares	5	(2,344)	–	–	(11,290)	(13,634)
Share-based compensation		–	2,023	–	–	2,023
Share options exercised	5	1,574	(377)	–	–	1,197
		(770)	1,646	–	(15,940)	(15,064)
Balance at September 30, 2012		**$ 77,147**	**$ 4,118**	**$ 4,601**	**$ 211,558**	**$ 297,424**

	Note	Share Capital	Contributed Surplus	Equity portion of convertible debenture	Retained earnings	Total Equity
Balance at December 31, 2010		$ 76,268	$ 1,769	$ –	$ 131,808	$ 209,845
Net income and total comprehensive income for the period		–	–	–	45,825	45,825
Transactions with shareholders, recorded directly in equity:						
Dividends to shareholders ($0.12 per common share)		–	–	–	(3,776)	(3,776)
Repurchase of common shares		(685)	–	–	(3,013)	(3,698)
Issuance of convertible debenture net of transaction costs		–	–	6,151	–	6,151
Deferred tax effect on equity portion of convertible debenture		–	–	(1,550)	–	(1,550)
Share-based compensation		–	1,046	–	–	1,046
Share options exercised		1,220	(272)	–	–	948
		535	774	4,601	(6,789)	(879)
Balance at September 30, 2011		$ 76,803	$ 2,543	$ 4,601	$ 170,844	$ 254,791

The notes on pages 28 to 32 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (Tabular amounts in thousands of Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Cash provided by (used in):				
Operations:				
Net income for the period	**$ 9,456**	$ 20,603	**$ 37,167**	$ 45,825
Add (deduct) items not affecting cash:				
Depreciation	**6,113**	5,842	**17,440**	17,550
Share-based compensation	**1,092**	368	**2,023**	1,046
Gain on sale of property, plant and equipment	**(986)**	(71)	**(1,478)**	(849)
Finance costs	**1,149**	1,351	**3,678**	3,922
Current income tax expense	**5,355**	11	**9,525**	94
Deferred income tax (recovery) expense	**(1,995)**	6,927	**1,523**	16,035
Income taxes paid	**–**	(11)	**(39)**	(94)
	20,184	35,020	**69,839**	83,529
Changes in non-cash working capital items:				
Accounts receivable	**(4,745)**	(15,923)	**34,735**	(16,510)
Inventory	**1,399**	(2,795)	**2,293**	(6,510)
Prepaid expenses and deposits	**(726)**	(1,397)	**(958)**	(1,362)
Accounts payable and accrued liabilities	**(484)**	5,454	**(7,606)**	(69)
Deferred revenue	**(2,106)**	2,830	**544**	7,666
	13,522	23,189	**98,847**	66,744
Investments:				
Purchase of property, plant and equipment	**(18,870)**	(15,557)	**(60,291)**	(31,347)
Proceeds on disposal of property, plant and equipment	**4,460**	571	**6,207**	4,109
Changes in non-cash working capital items	**2,286**	2,318	**(1,900)**	3,984
	(12,124)	(12,668)	**(55,984)**	(23,254)
Financing:				
Issuance of convertible debenture, net of issue costs	**–**	–	**–**	65,927
Repayment of long-term debt	**–**	–	**–**	(72,500)
Repayment of obligations under finance leases	**(757)**	(933)	**(2,500)**	(2,742)
Dividends to shareholders	**(1,550)**	(1,261)	**(4,370)**	(3,779)
Issuance of common shares	**–**	–	**1,197**	948
Repurchase of common shares	**(3,837)**	(2,215)	**(13,634)**	(3,627)
Interest paid	**(1,740)**	(1,977)	**(3,820)**	(3,215)
	(7,884)	(6,386)	**(23,127)**	(18,988)
Change in cash and cash equivalents	**(6,486)**	4,135	**19,736**	24,502
Cash and cash equivalents, beginning of period	**61,880**	20,595	**35,658**	228
Cash and cash equivalents, end of period	**$ 55,394**	$ 24,730	**$ 55,394**	$ 24,730

The notes on pages 28 to 32 are an integral part of these condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2012 and 2011
Unaudited (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, established in Canada, the United States of America and Australia.

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 and process equipment to oil and gas exploration and production companies located primarily in western Canada.

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

2. Basis of preparation

Statement of compliance:

The condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting" of International Financial Reporting Standards (IFRS) and using the accounting policies outlined in the Company's consolidated financial statements for the year ending December 31, 2011 with additional new policies presented in Note 3. These condensed interim consolidated financial statements do not include all the necessary annual disclosures and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2011.

The interim consolidated financial statements were authorized for issue by the Board of Directors on November 9, 2012.

3. Selected accounting policies

Derivative financial instruments

The Company may enter into certain financial derivative contracts in order to manage the exposure to market risk from fluctuations in exchange rates. The instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus not applied hedge accounting, even though it considers certain financial contracts to be economic hedges. As a result, financial derivative contracts are classified as fair value through net income and are recorded on the statement of financial position at estimated value. Transaction costs are recognized in net income when incurred.

4. 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.

Unaudited (tabular amounts in thousands of Canadian dollars)

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 and process equipment.

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

The segmented amounts are as follows:

As at and for the three months ended September 30, 2012	Contract Drilling Services	Rentals and Transportation Services	Gas Compression Services	Other [1]	Total
Revenue	$ 12,782	$ 30,563	$ 30,172	$ –	$ 73,517
Cost of services	7,516	14,030	25,022	1	46,569
Selling, general and administration	760	3,306	1,628	1,070	6,764
Share-based compensation	–	–	–	1,092	1,092
Depreciation	1,320	3,787	997	9	6,113
Results from operating activities	3,186	9,440	2,525	(2,172)	12,979
Gain on sale of property, plant and equipment	21	140	825	–	986
Finance costs	(254)	(583)	(69)	(243)	(1,149)
Net income before income taxes	2,953	8,997	3,281	(2,415)	12,816
Goodwill	–	2,514	1,539	–	4,053
Total assets	95,887	223,830	92,644	46,415	458,776
Total liabilities	18,460	47,573	19,369	75,950	161,352
Capital expenditures	$ 5,144	$ 11,409	$ 2,291	$ 26	$ 18,870

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

Unaudited (tabular amounts in thousands of Canadian dollars)

As at and for the nine months ended September 30, 2012	Contract Drilling Services	Rentals and Transportation Services	Gas Compression Services	Other [1]	Total
Revenue	$ 39,896	$ 102,004	$ 87,398	$ –	$ 229,298
Cost of services	22,323	42,884	72,622	(3)	137,826
Selling, general and administration	2,556	10,960	4,501	3,577	21,594
Share-based compensation	–	–	–	2,023	2,023
Depreciation	3,604	10,953	2,854	29	17,440
Results from operating activities	11,413	37,207	7,421	(5,626)	50,415
Gain on sale of property, plant and equipment	65	409	1,004	–	1,478
Finance costs	(760)	(1,740)	(262)	(916)	(3,678)
Net income before income taxes	10,718	35,876	8,163	(6,542)	48,215
Goodwill	–	2,514	1,539	–	4,053
Total assets	95,887	223,830	92,644	46,415	458,776
Total liabilities	18,460	47,573	19,369	75,950	161,352
Capital expenditures	$ 12,433	$ 31,546	$ 14,472	$ 1,840	$ 60,291

As at and for the nine months ended September 30, 2012	Contract Drilling Services	Rentals and Transportation Services	Gas Compression Services	Other [1]	Total
Revenue	$ 41,370	$ 113,962	$ 79,814	$ –	$ 235,146
Cost of services	22,752	40,193	67,411	–	130,356
Selling, general and administration	2,294	11,794	3,998	3,081	21,167
Share-based compensation	–	–	–	1,046	1,046
Depreciation	4,045	11,095	2,372	38	17,550
Results from operating activities	12,279	50,880	6,033	(4,165)	65,027
Gain on sale of property, plant and equipment	7	271	571	–	849
Finance costs	(720)	(1,776)	(432)	(994)	(3,922)
Net income before income taxes	11,566	49,375	6,172	(5,159)	61,954
Goodwill	–	2,514	1,539	–	4,053
Total assets	81,418	205,773	87,612	29,351	404,154
Total liabilities	17,290	39,367	27,687	65,019	149,363
Capital expenditures	$ 8,968	$ 16,460	$ 5,867	$ 52	$ 31,347

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

5. 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.

Unaudited (tabular amounts in thousands of Canadian dollars)

(ii) Common shares issued:

	Number of shares (thousands)	Amount
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
Repurchased and cancelled	(903)	(2,339)
Repurchased and not cancelled	–	(5)
Issued on exercise of share options	228	1,574
Balance, September 30, 2012	**30,700**	**$ 77,147**

During the nine months ended September 30, 2012 902,500 common shares (year ended December 31, 2011: 429,068) were repurchased under the Company's normal course issuer bid at an average price of $15.11 (year ended December 31, 2011: $14.81), including commissions. 902,200 of the common shares repurchased under the Company`s normal course issuer bid were cancelled before September 30, 2012 and the remaining 300 common shares were cancelled in October 2012. The excess of the price paid over the average price per common share cancelled during the quarter has been charged to retained earnings.

(b) Per share amounts

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	**2012**	2011
Net income for the period	**$ 9,456**	$ 20,603	**$ 37,167**	$ 45,825
Weighted average number of shares outstanding – basic	**30,840**	31,476	**31,105**	31,471
Earnings per share – basic	**$ 0.31**	$ 0.65	**$ 1.19**	$ 1.46
Net income for the period	**$ 9,456**	$ 20,603	**$ 37,167**	$ 45,825
Add back: debenture interest net of tax	**1,042**	996	**3,112**	2,535
	$ 10,498	$ 21,599	**$ 40,279**	$ 48,360
Weighted average number of shares outstanding – basic	**30,840**	31,476	**31,105**	31,471
Convertible debenture dilution	**3,086**	3,080	**3,086**	2,629
Share option dilution	**597**	875	**626**	899
Weighted average number of shares outstanding – diluted	**34,523**	35,431	**34,817**	34,999
Earnings per share – diluted	**$ 0.30**	$ 0.61	**$ 1.16**	$ 1.38

For the three months ended September 30, 2012, 1,980,000 share options (September 30, 2011: 375,000) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

For the nine months ended September 30, 2012, 1,905,000 share options (September 30, 2011: 375,000) 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.

Unaudited (tabular amounts in thousands of Canadian dollars)

6. Share-Based Compensation Plan

Share option transactions during 2012 and 2011 were as follows:

	Weighted average exercise price	Number of Options
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
Granted	$ 13.74	1,605,000
Exercised	$ 5.26	(227,500)
Balance, September 30, 2012	**$ 11.23**	**2,897,500**

The share options issued during 2012 vest 1/3 on the first anniversary from the grant date (May 24, 2012), and 1/3 after two and three years from grant date respectively. The share options expire May 25, 2017.

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 2012 is $3.92 per option (2011 - $4.84) using the following assumptions:

	September 30, 2012	December 31, 2011
Expected volatility	**36% to 44%**	45% to 50%
Annual dividend yield	**1.43%**	0.76% to 0.84%
Risk free interest rate	**1.13% to 1.31%**	1.59% to 2.6%
Forfeitures	**7%**	15%
Expected life (years)	**3 to 5 years**	3 to 5 years

7. Financial instruments

The Company's financial instruments as at September 30, 2012 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable, derivative assets and liabilities, 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. The Company's $69 million convertible debentures are listed and trade on the Toronto Stock Exchange. On September 30, 2012 the closing market price for these securities was $106.88 per $100 principal amount. This represents an aggregate market value of $73.7 million.

Forward foreign exchange contracts

The notional principal amount of forward foreign exchange contracts as at September 30, 2012 was $0.4 million. These contracts are short term in nature. The forward market exchange rate used to fair value these outstanding contracts as at September 30, 2012 was $0.98 Canadian dollars per United States dollar.

8. Subsequent events

On October 1, 2012, the Company acquired a manufacturing facility that was previously rented by the Gas Compression Services division for $10.6 million using available cash on hand.

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

Clint Gaboury
General Manager

BIDELL EQUIPMENT LIMITED PARTNERSHIP

Sean Ulmer
President

SPECTRUM PROCESS SYSTEMS INC.

Kelly Mantei
General Manager

HEAD OFFICE

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AUDITOR

KPMG LLP
Calgary, Alberta

TRUSTEE, REGISTRAR AND TRANSFER AGENT

Olympia Trust Company
Calgary, Alberta

LEGAL COUNSEL

Bennett Jones, LLP
Calgary, Alberta

BANKER

HSBC
Calgary, Alberta

STOCK EXCHANGE LISTING

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

LOCATIONS

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 • Minot • Peace River
Red Deer • Red Earth • Rocky Mountain House • Slave Lake • Valleyview • Weyburn/Midale • Whitecourt