

2013



FOCUS DISCIPLINE GROWTH

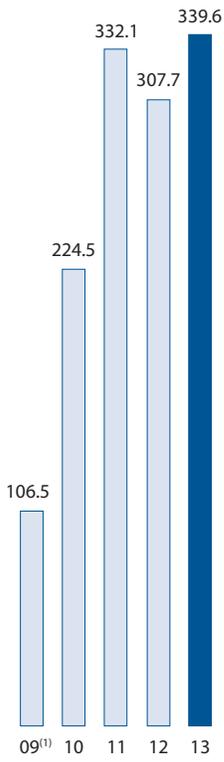
Annual Report 2013

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.

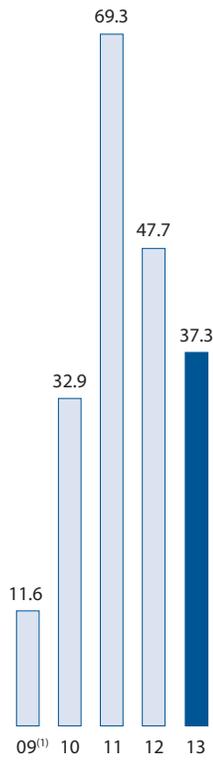
The shares of Total Energy are listed and trade on the Toronto Stock Exchange under the symbol TOT.

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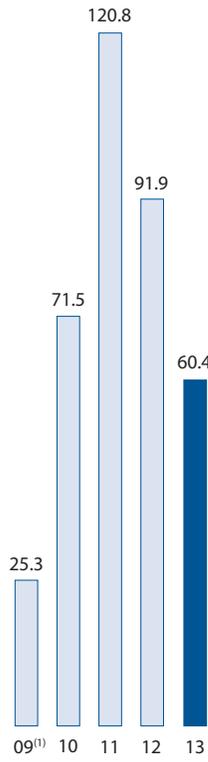
FINANCIAL HIGHLIGHTS



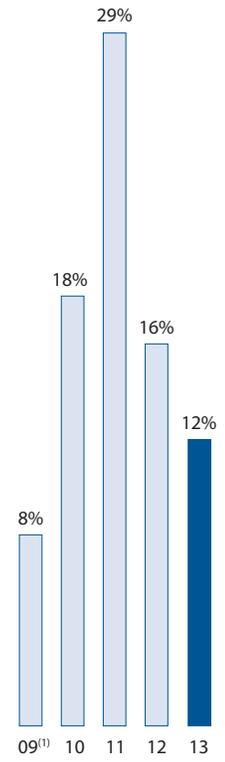
REVENUES
(in millions of dollars)



NET INCOME
(in millions of dollars)



CASHFLOW⁽²⁾
(in millions of dollars)



RETURN ON AVERAGE EQUITY⁽³⁾

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

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

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

REPORT TO SHAREHOLDERS

2013 unfolded in somewhat an opposite manner to 2012. In 2012, Total Energy generated record quarterly financial results during the first quarter but activity levels declined over the remainder of the year. Entering 2013, drilling activity levels in Western Canada were soft, but began to improve during the second half of the year, most notably in the fourth quarter.

Operationally, 2013 continued to present unique challenges. Decisions regarding appropriate operating capacity and overhead costs were difficult to make in an uncertain environment. Moderate well completion and work over activity in Western Canada combined with lower pricing and the inability to pass on increased operating costs due to competitive market conditions weighed upon the Rentals and Transportation Services division's performance during 2013. Offsetting this weakness was continued growth in the Compression and Process Services division and increased equipment utilization in the Contract Drilling Services division during the second half of the year.

From a capital investment perspective, during 2013 Total Energy invested approximately \$75 million into new capital equipment and infrastructure to support continued growth. In addition, \$5.4 million was invested in the purchase and cancellation of 364,900 common shares, or just over one percent of the issued shares at the beginning of 2013, pursuant to the Company's normal course issuer bid. These investments, together with \$6.2 million of dividends paid to Shareholders during 2013, were financed entirely by cash on hand.

All three of Total Energy's divisions continued to grow during 2013. Despite a difficult North American natural gas price environment, Total Energy's Gas Compression Services division, Bidell Gas Compression, continued the expansion of its parts and service business and its compression rental fleet grew steadily to exit 2013 at a record 43,900 horsepower on rent. Bidell continues to see opportunities to grow its fabrication business and in February of 2014 took occupancy of a new owned 41,000 square foot fabrication facility which is adjacent to its main 58,000 square foot facility located in southeast Calgary. With the addition of this new facility and the vacation of a leased 17,000 square foot facility during the second quarter of 2014, Bidell will have approximately 123,000 square feet of fabrication space of which 80% is owned. Going forward, Bidell's natural gas compression fabrication capacity is expected to increase by at least 20%.

During 2013, Total Energy's oil and natural gas process equipment fabrication business, Spectrum Process Systems, worked to enhance its presence in the Canadian and international marketplace. After enhancing its engineering and design capacities, Spectrum has recently bolstered its sales capacities and is well positioned to capitalize on future opportunities arising from the development of Canadian LNG projects as well as ongoing energy infrastructure construction opportunities in Canada and elsewhere.

Total Oilfield Rentals, the Company's Rental and Transportation division, continued to invest in the maintenance and growth of its rental equipment and heavy truck fleets during 2013. As a result of a significant replacement and upgrade program, the rental equipment and heavy truck fleet size contracted slightly during the fourth quarter of 2013 but has since increased as new equipment was received during the first quarter of 2014. With a high quality asset base and significant infrastructure throughout Western Canada that covers all major resource plays, this division is well positioned to capitalize on increased drilling, completion and production activity.

Total Energy's Contract Drilling Services division, Chinook Drilling, continues to grow its fleet. During the second quarter of 2014, construction of a 4,200 meter (vertical depth rating) AC electric telescopic double rig complete with top drive and the upgrade of an existing conventional single rig will be completed. The completion of this capital program will increase Chinook's rig fleet to 17 rigs, of which 15 are telescopic doubles with vertical depth ratings of 3,000 meters or greater and two rigs are extended reach singles with integrated top drives and vertical depth ratings of 1,800 meters. Chinook has an owned top drive fleet of 10 units.

LOOKING FORWARD

Western Canadian drilling activity level during the first quarter of 2014 started out reasonably strong. Continued strength of oil prices, recent near term strength in natural gas prices and a lower Canadian dollar relative to the United States dollar provide support for relatively strong activity levels. Current expectations are that well completion and work over activity will increase as winter drilling programs are completed.

In January 2014, Total Energy announced a preliminary 2014 capital budget of \$31.2 million. \$20.0 million is being allocated towards continued expansion of the natural gas compression rental fleet, \$6.9 million for maintenance capital expenditures and \$4.3 million for the purchase of equipment for the various divisions. These capital expenditures will be funded by cash on hand and operating cash flow.

Total Energy's financial position remains strong and provides the Company with significant capacity to finance future growth on reasonable terms and without unnecessary dilution to existing shareholders. In the context of this solid financial position, effective for the quarter ended March 31, 2014, Total Energy's Board of Directors has determined to increase the Company's quarterly dividend by \$0.01 per share to \$0.06 per common share. This equates to an annual dividend of \$0.24 per common share.

On behalf of the Board of Directors, Management and Staff of Total Energy, I thank our Shareholders for their continued support. All Shareholders and other interested persons are invited to attend the annual meeting of Shareholders which will commence at 10:00 a.m. (MST) on Thursday, May 22, 2014 at the Calgary Petroleum Club, 319 – 5th Avenue S.W., Calgary, Alberta.



DANIEL K. HALYK
President and Chief Executive Officer
March 2014

FIVE YEAR COMPARISON

RESULTS (thousands of dollars, except per share data)		2013	2012	2011	2010	2009 ⁽¹⁾
Revenue		\$ 339,579	\$ 307,702	\$ 332,082	\$ 224,524	\$ 106,509
EBITDA	(2)	82,952	91,076	122,034	67,596	24,058
Results from operating activities	(2)	54,780	65,221	96,233	47,903	10,371
Cash provided by operations		54,913	124,505	97,643	33,814	32,151
Cashflow	(2)	60,446	91,949	120,780	71,508	25,366
Net Income		37,308	47,692	69,266	32,926	11,640
Finance Costs	(3)	4,213	4,193	4,127	3,332	1,520
Depreciation		27,189	23,702	23,299	19,821	13,211
Capital expenditures, net	(4)	68,455	80,392	46,908	24,380	15,231
Earnings per share - diluted		1.20	1.49	2.08	1.05	0.40
EBITDA per share - diluted	(2)	2.43	2.62	3.49	2.15	0.83
Cashflow per share - diluted	(2)	1.77	2.65	3.46	2.27	0.87
FINANCIAL POSITION						
Working capital	(5)	\$ 73,512	\$ 90,708	\$ 120,786	\$ 64,446	\$ 29,493
Total assets		518,782	476,591	434,617	342,834	234,774
Long-term debt	(6)	69,598	67,937	66,466	78,717	35,713
Shareholder's equity		340,612	306,069	275,321	209,845	155,629

- (1) Calculated based on previously issued financial statements prepared in accordance with Canadian GAAP.
- (2) 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 minus finance income. EBITDA means earnings before interest, taxes, depreciation and amortization and is equal to net income before income taxes plus finance costs plus depreciation minus finance income. 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.
- (3) In 2013, 2012 and 2011 excludes accretion on convertible debentures of \$1.8 million, \$1.6 million and \$1.3 million respectively.
- (4) Excludes the acquisition of existing process equipment business in January 2013 and DC Energy Services LP in January 2010.
- (5) Working capital equals current assets minus current liabilities.
- (6) Includes both current and long-term portions of long-term debt, convertible debentures and finance leases.

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

The following MD&A, dated March 10, 2014, focuses on key statistics from the consolidated financial statements of Total Energy Services Inc. (the "Company" or "Total Energy") and pertains to known risks and uncertainties relating to the energy services industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion and analysis of the financial condition and results of operations for the year ended December 31, 2013, should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2013 and related notes and material contained in other parts of the 2013 Annual Report as well as the Company's Annual Information Form ("AIF"). Additional information relating to Total Energy, including the Company's AIF, may be found on SEDAR at www.sedar.com. Unless otherwise indicated, all dollar amounts presented herein are in Canadian dollars.

FORWARD-LOOKING STATEMENTS

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

The information and statements contained in this MD&A that are not historical facts are forward-looking statements. Forward-looking statements (often, but not always, identified by the use of words such as "seek", "plan", "continue", "estimate", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "expect", "may", "anticipate" or "will" and similar expressions) may include plans, expectations, opinions, or guidance that are not statements of fact. Forward-looking statements are based upon the opinions, expectations and estimates of management as at the date the statements are made and are subject to a variety of risks and uncertainties and other factors that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking statements. These factors include, but are not limited to, such things as changes in industry conditions (including the levels of capital expenditures made by oil and gas producers and explorers), the credit risk to which the Company is exposed in the conduct of its business, fluctuations in prevailing commodity prices or currency and interest rates, the competitive environment to which the various business divisions are, or may be, exposed in all aspects of their business, the ability of the Company's various business divisions to access equipment (including parts) and new technologies and to maintain relationships with key suppliers, the ability of the Company's various business divisions to attract and maintain key personnel and other qualified employees, various environmental risks to which the Company's business divisions are exposed in the conduct of their operations, inherent risks associated with the conduct of the businesses in which the Company's business divisions operate, timing and costs associated with the acquisition of capital equipment, the impact of weather and other seasonal factors that affect business operations, availability of financial resources or third-party financing and the impact of new laws and regulations or changes in existing laws, regulations or administrative practices on the part of regulatory authorities, including without limitation taxation and environmental laws and regulations and changes in how such laws and regulations are interpreted and enforced. Forward-looking information respecting the anticipated costs associated with the purchase of capital equipment are based upon historical prices for various classes of equipment, expectations relating to the impact of inflation on the future cost of such equipment and management's views concerning the negotiating position of the Company and its affiliates. Forward-looking information concerning the nature and timing of growth within the various business divisions is based on the current budget of the Company (which is subject to change), factors that affected the historical growth of such business divisions, sources of historic growth opportunities and expectations relating to future economic and operating conditions. Forward-looking information concerning the future competitive position of the Company's business divisions is based upon the current competitive environment in which those business divisions operate, expectations relating to future economic and operating conditions, current and announced build programs and other expansion plans of other organizations that operate in the energy service business. Forward-looking information concerning the financing of future business activities is based upon the financing sources on which the Company and its predecessors have historically relied and expectations relating to future economic and operating conditions. Forward-looking information concerning future economic and operating

conditions is based upon historical economic and operating conditions, opinions of third-party analysts respecting anticipated economic and operating conditions. Although management of the Company believes that the expectations reflected in such forward looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Accordingly, readers should not place undue reliance upon any of the forward-looking information set out in this MD&A. All of the forward looking statements of the Company contained in this MD&A are expressly qualified, in their entirety, by this cautionary statement. The various risks to which the Company is exposed are described in additional detail in this MD&A under the heading "Risk Factors" below and in the Company's AIF. Except as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking information or statements, whether as a result of new information, future events or otherwise.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Disclosure Controls and Procedures: The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is reported within the time periods specified under securities laws, and include controls and procedures that are designed to ensure that information is communicated to management of Total Energy, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. An evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) was conducted as at December 31, 2013. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer of Total Energy have concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2013.

Internal Control Over Financial Reporting: The Chief Executive Officer and Chief Financial Officer of Total Energy are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards ("IFRS"). The Chief Executive Officer and Chief Financial Officer of Total Energy directed the assessment of the design and operating effectiveness of the Company's internal control over financial reporting as at December 31, 2013 and based on that assessment determined that the Company's internal control over financial reporting was, in all material respects, appropriately designed and operating effectively.

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

NON-IFRS MEASURES

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

Results from operating activities (in thousands of Canadian dollars)	Three months ended Dec 31, 2013	Three months ended Dec 31, 2012	Year ended Dec 31, 2013	Year ended Dec 31, 2012
Net income and total comprehensive income	\$ 10,694	\$ 10,525	\$ 37,308	\$ 47,692
Add back (deduct):				
Finance income	(43)	(248)	(385)	(878)
Finance costs	1,514	1,489	5,965	5,797
Loss/(Gain) on sale of property, plant and equipment	168	(675)	(983)	(2,153)
Income tax expense	3,816	3,715	12,875	14,763
Results from operating activities	\$ 16,149	\$ 14,806	\$ 54,780	\$ 65,221
EBITDA (in thousands of Canadian dollars)	Three months ended Dec 31, 2013	Three months ended Dec 31, 2012	Year ended Dec 31, 2013	Year ended Dec 31, 2012
Net income and total comprehensive income	\$ 10,694	\$ 10,525	\$ 37,308	\$ 47,692
Add back:				
Depreciation	7,171	6,262	27,189	23,702
Finance income	(43)	(248)	(385)	(878)
Finance costs	1,514	1,489	5,965	5,797
Income tax expense	3,816	3,715	12,875	14,763
EBITDA	\$ 23,152	\$ 21,743	\$ 82,952	\$ 91,076
Cashflow (in thousands of Canadian dollars)	Three months ended Dec 31, 2013	Three months ended Dec 31, 2012	Year ended Dec 31, 2013	Year ended Dec 31, 2012
Cash provided by operations	\$ 22,830	\$ 25,658	\$ 54,913	\$ 124,505
Add back (deduct):				
Changes in non-cash working capital items	1,160	(3,548)	5,533	(32,556)
Cashflow	\$ 23,990	\$ 22,110	\$ 60,446	\$ 91,949

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 (“Bidell”) and process equipment (“Spectrum”). Substantially all of the operations of the Company are conducted within the Western Canadian Sedimentary Basin (“WCSB”), although Total Energy investigates opportunities from time to time to expand its operations outside of the WCSB. Bidell generates international sales from its Calgary based facility.

VISION, CORE BUSINESS AND STRATEGY

Total Energy is focused on building sustainable value for its shareholders through the disciplined management of its operations and a commitment to growing its business in a capital efficient manner. 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 historically targeted the sub-4000 meter vertical depth market in western Canada. Currently the Company operates a fleet of 16 rigs all constructed in 1997 or later. Of these rigs, 14 are telescopic doubles rated to vertical depths of up to 3,600 meters, one telescopic single rig with an integrated top drive rated to 1,800 meters and one conventional single rig rated to 1,200 meters. The Company has announced the construction of a new 4,200 meter AC electric telescopic double drilling rig complete with top drive and the upgrade of its remaining conventional single drilling rig, both to be completed by the second quarter of 2014. Construction of a 4,200 meter AC electric rig represents the Company’s entry into the deeper AC electric market, a market that the Company historically has not participated in and will evaluate going forward. The Company is focused on continuing to grow its drilling rig fleet to obtain the marketing and operational efficiencies enjoyed by a larger fleet and continuously monitors industry trends and developments to assess the type of equipment to add to its 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.

Rentals and Transportation Services: Historically northern Alberta and northeastern British Columbia were the primary markets for the Company’s rentals and transportation services. In 2007, this division expanded its operations into southeastern Saskatchewan and in 2012 into North Dakota. The Company now operates out of 21 locations throughout Western Canada and North Dakota and currently owns and operates approximately 9,900 pieces of rental equipment as well as a modern fleet of 109 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.

Compression and Process 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 12 locations throughout Alberta, British Columbia and Saskatchewan. During 2012, the Company began establishing a presence in the process equipment fabrication business and in January 2013 expanded its presence in this business through the acquisition of an existing process equipment business, which included a 65,000 square foot manufacturing facility. In addition, construction of a new 41,000 square foot compression fabrication facility was completed and put into service in the first quarter of 2014.

OVERALL PERFORMANCE

The results for the three months and the year ended December 31, 2013 reflect higher revenues than the prior year comparable periods, due primarily to higher revenues in the Compression and Process Services segment on account of increased demand from this division's customers and the acquisition of a process equipment fabrication business effective January 1, 2013, as well as the Contract Drilling segment on account of increased utilization. The higher revenues in these segments were offset by decreased activity levels in the Rentals and Transportation Services division. Because the Compression and Process Services division has a higher cost of services than the other two divisions, net income for the three months and the year ended December 31, 2013 is lower than the comparable periods in 2012, notwithstanding higher year over year revenues. Total revenue and net income increased 11% and 2%, respectively, in the fourth quarter of 2013 as compared to the prior year comparable quarter. For fiscal 2013, revenue increased 10% and net income decreased 22% as compared to 2012. For the three months and year ended December 31, 2013 the Company recorded net income of \$10.7 million and \$37.3 million, respectively, as compared to \$10.5 million and \$47.7 million during the comparable periods of 2012.

The Company's financial condition remains strong, with a positive working capital balance of \$73.5 million and no bank debt as at December 31, 2013. As at December 31, 2013 long-term debt (including the principal amount of the outstanding convertible debentures) to long-term debt plus equity was 0.17 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. 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. While natural gas prices have improved in recent months, they are still weak relative to historical prices. Significant oil price volatility also gives rise to industry uncertainty and price discounts for oil produced in the WCSB due to a lack of take-away capacity can also negatively impact WCSB activity levels. Activity levels in the WCSB during 2013 were slightly lower as compared to 2012. 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 global 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 or other take-away capacity such as rail. 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 76% of the wells drilled in the WCSB during 2013 as compared to 76% and 62% for the comparable periods in 2012 and 2011. 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. Current indications are that 2014 WCSB capital expenditure budgets will be relatively consistent with 2013 levels.

Governmental and Environmental Regulation and Risk Management

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

SELECTED FINANCIAL INFORMATION

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

(in thousands of dollars except per share amounts)	Year Ended Dec 31, 2013	Year Ended Dec 31, 2012	Year Ended Dec 31, 2011
Revenue	\$ 339,579	\$ 307,702	\$ 332,082
Cash provided by operations	54,913	124,505	97,643
Cashflow ⁽¹⁾	60,446	91,949	120,780
Net income	37,308	47,692	69,266
Per share (basic)	1.21	1.54	2.20
Per share (diluted)	1.20	1.49	2.08
Dividends declared per share	0.20	0.20	0.16
Total assets	518,782	476,591	434,617
Long term liabilities ⁽²⁾ (excluding current obligations under finance leases and deferred income taxes)	71,775	71,723	71,763

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

(2) Includes convertible debentures at face value of \$69 million

In 2013 the Company experienced higher demand in its Contract Drilling and Compression and Process Services divisions, that was partially offset by lower demand in its Rentals and Transportation Services division. Overall revenue for the Company increased by 10% and 2%, respectively, in 2013 as compared to 2012 and 2011.

Cash provided by operations in 2013 decreased by 59% and 48%, respectively, as compared to 2012 and 2011. The decrease in 2013 as compared to 2012 and 2011 was due primarily to lower operating earnings and increased working capital requirements. Cashflow in 2013 was 34% and 50% lower, respectively, than 2012 and 2011 due primarily to changes in net income due to varying levels of industry activity and income tax payments required in 2013. Net income in 2013 was 22% and 46% lower, respectively, than 2012 and 2011. The changes in net income were due primarily to changes in net income before income taxes due to varying demand for the Company's products and services in 2013, compared to such prior year periods.

The Company's total assets have increased by 19% since the end of 2011. This increase was due primarily to the acquisition of an existing fabrication business in 2013 and due to capital assets purchases in 2013 and 2012. Long-term liabilities remain comparable for the above presented years.

RESULTS OF OPERATIONS

Consolidated Revenue

Revenues increased 11% to \$86.9 million for the three months ended December 31, 2013 versus \$78.4 million for the same period in 2012 and increased 10% to \$339.6 million for the year ended December 31, 2013 versus \$307.7 million for the same period in 2012.

Divisional Revenue

Divisional revenues for the three months ended December 31, 2013 were \$18.3 million for Contract Drilling Services, \$29.7 million for Rentals and Transportation Services and \$39.0 million for Compression and Process Services. Divisional revenues for the year ended December 31, 2013 were \$56.0 million for Contract Drilling Services, \$108.9 million for Rentals and Transportation Services and \$174.7 million for Compression and Process Services.

Contract Drilling Services

The revenue reported from Total Energy's Contract Drilling Services division increased by 43% to \$18.3 million for the three months ended December 31, 2013 as compared to \$12.8 million for the same period in 2012, and increased by 6% to \$56.0 million for the year ended December 31, 2013, as compared to \$52.7 million for the same period in 2012. For the fourth quarter of 2013 the Contract Drilling Services division achieved a utilization rate, on a spud to release basis, of 60% and year to date utilization rate of 48%, as compared to 42% and 44%, respectively, for the same periods in 2012. The increase in utilization during the fourth quarter of 2013 was due to increased industry activity levels. Operating days (spud to release) for the three months and year ended December 31, 2013 totaled 881 and 2,814 days, respectively, with a fleet of 16 rigs as compared to 603 and 2,460 days for the same periods in 2012 with a fleet of 15 rigs. Revenue per operating day received for contract drilling services for the three months and year ended December, 2013 decreased by 2% and 7%, respectively, as compared to the same periods in 2012. The decreases in revenue per operating day were due primarily to decreased day rate pricing and the mix of equipment operating.

Rentals and Transportation Services

The revenue reported from Total Energy's Rentals and Transportation Services division decreased by 6% to \$29.7 million for the three months ended December 31, 2013, as compared to \$31.7 million for the same period in 2012, and decreased by 19% to \$108.9 million for the year ended December 31, 2013, as compared to \$133.7 million for the same period in 2012. The revenue decreases were due primarily to lower equipment utilization and lower average pricing. Average utilization of the rental assets was 43% and 38% for the three months and year ended December 31, 2013, respectively, as compared to 41% and 47% for the prior year comparable periods. This division exited the fourth quarter of 2013 with approximately 9,700 pieces of rental equipment as compared to 9,800 pieces at the end of 2012. This division also exited 2013 with 100 trucks as compared to 106 heavy trucks at the end of 2012.

Compression and Process Services

The revenue reported from Total Energy's Compression and Process Services division increased by 15% to \$39.0 million for the three months ended December 31, 2013 as compared to \$33.9 million for the same period in 2012, and increased by 44% to \$174.7 million for the year ended December 31, 2013, as compared to \$121.3 million for the same period in 2012. The revenue increase from the prior year comparable period was due primarily to the acquisition of an existing process equipment fabrication business effective January 1, 2013 and increased customer demand in the gas compression business. This division exited the fourth quarter of 2013 with a backlog of fabrication sales orders of approximately \$60.1 million, which consists of \$47.7 million of gas compression sales backlog and \$12.4 million of process equipment fabrication sales backlog, as compared to a backlog of \$34.5 million as at December 31, 2012. As at December 31, 2013 the total horsepower of compressors on lease was approximately 43,900 as compared to approximately 31,700 as at December 31, 2012. The compression rental fleet experienced an average utilization of 87% and 86% (based on fleet horsepower), respectively, during the three months and year ended December 31, 2013, as compared to 87% and 84% for the same periods in 2012.

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 13% to \$55.9 million for the three months ended December 31, 2013, as compared to \$49.5 million for the same period in 2012, and increased by 20% to \$225.0 million for the year ended December 31, 2013, as compared to \$187.3 million for the same period in 2012. The cost of services increases resulted primarily from increases in the relative revenue contribution from the Compression and Process Services division, which has a higher cost of services than the other two divisions. The Compression and Process Services division contributed 45% and 51%, respectively, of total revenues during the three months and year ended December 31, 2013, respectively, as compared to 43% and 39% for the same periods in 2012. The gross margin percentage for the three months and year ended December 31, 2013 was 36% and 34%, respectively, as a percentage of revenue as compared to 37% and 39% for the comparable periods in 2012. A detailed margin analysis for each division is presented in the discussion of Results from Operating Activities. Cost of services consists of salaries and benefits for operations personnel, repairs, maintenance, fuel, manufacturing costs and trucking costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 4% to \$7.1 million and \$29.4 million, respectively, for the three months and year ended December 31, 2013, as compared to \$6.8 million and \$28.4 million for the same periods in 2012. The increases resulted primarily from increased costs associated with increased revenues, due primarily to the acquisition of the process equipment fabrication business on January 1, 2013.

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 expense was \$0.7 million and \$3.2 million, respectively, for the three months and year ended December 31, 2013, as compared to \$1.0 million and \$3.1 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 15% for the three months and year ended December 31, 2013 to \$7.2 million and \$27.2 million, respectively, as compared to \$6.3 million and \$23.7 million for the prior year comparable periods. The increase in depreciation expense was due primarily to a larger equipment base in the Compression and Process Services divisions and higher equipment utilization in the Contract Drilling 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 increased 9% to \$16.1 million in the fourth quarter of 2013 as compared to \$14.8 million for the comparable period in 2012, and decreased 16% to \$54.8 million during 2013, as compared to \$65.2 million in 2012.

The Contract Drilling Services division had operating earnings of \$5.5 million and \$12.7 million, respectively, for the three months and year ended December 31, 2013, as compared to \$3.4 million and \$14.8 million for the comparable periods in 2012. The operating earnings margins in this division was 30% and 23%, respectively, for the three months and year ended December 31, 2013 as compared to 27% and 28% for the comparable periods in 2012. The increase in operating earnings during the fourth quarter of 2013 was due primarily to higher equipment utilization, while the decrease in operating earnings margin during 2013 was due primarily to decreased average pricing and higher operating costs.

The Rentals and Transportation Services division had operating earnings of \$6.7 million and \$26.5 million, respectively, for the three months and year ended December 31, 2013, as compared to operating earnings of \$9.1 million and \$46.3 million for the comparable periods in 2012. The operating earnings margins in this division were 22% and 24%, respectively, for the three months and year ended December 31, 2013, as compared to operating earnings margins of 29% and 35%, respectively, for the comparable periods in 2012. The decreases in operating earnings margin resulted primarily from lower equipment utilization and lower average pricing during 2013.

The Compression and Process Services division had operating earnings of \$5.4 million and \$23.2 million, respectively, for the three months and year ended December 31, 2013 as compared to \$4.1 million and \$11.5 million for the comparable periods in 2012. The operating earnings margins in this division were 14% and 13%, respectively, for the three months and year ended December 31, 2013, as compared to 12% and 9%, respectively, for the comparable periods in 2012. The increase in operating earnings margin was due primarily to an increase in higher margin compression rental revenues, efficiencies realized in the fabrication operations as well as economies of scale realized on account of higher activity levels.

The Other division had operating losses of \$1.4 million and \$7.6 million, respectively, for the three months and year ended December 31, 2013, as compared to \$1.8 million and \$7.4 million for the comparable period in 2012. The year over year changes in operating losses is due primarily to differences in share-based compensation expense. The Other division does not include any operational activities relating to Total Energy's business and therefore does not generate any revenue.

Finance income

Finance income was \$43,000 and \$0.4 million, respectively, for the three months and the year ended December 31, 2013, as compared to \$0.2 million and \$0.9 million, respectively, for the same periods in 2012. The decreases in finance income were due primarily to lower average cash balances in 2013 as compared to 2012. Finance income relates to interest earned on the Company's cash and cash equivalents balances.

Finance Costs

Finance costs were \$1.5 million and \$6.0 million, respectively, for the three months and year ended December 31, 2013, as compared to \$1.5 million and \$5.8 million for the same periods in 2012. The increase in finance costs was due primarily to higher convertible debenture accretion expense during 2013. Finance costs include interest paid on finance leases and interest expense (including accretion) on the convertible debentures.

Gain/(Loss) on Disposal of Equipment

During the three months ended December 31, 2013 the Company realized a loss on disposal of equipment of \$0.2 million, while during the year ended December 31, 2013 the Company realized gain on disposal of equipment of \$1.0 million, as compared to gains on disposal of equipment of \$0.7 million and \$2.2 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 Compression and Process Services division.

Income Taxes and Net income

The Company recorded net income of \$10.7 million (\$0.34 per share basic and diluted) and \$37.3 million (\$1.21 per share basic and \$1.20 per share diluted), respectively, for the three months and year ended December 31, 2013 as compared to \$10.5 million (\$0.34 per share basic and diluted) and \$47.7 million (\$1.54 per share basic and \$1.49 per share diluted) for the corresponding periods in 2012. The Company recorded \$2.0 million and \$7.3 million, respectively, of current income tax expense for the three months and year ended December 31, 2013, as compared to \$5.7 million and \$15.3 million of current income tax expense for the corresponding periods in 2012. The decreases in current income tax expense were due primarily to decreased profitability during 2013 as compared to 2012. The Company recorded deferred income tax expense of \$1.8 million and \$5.6 million, respectively, for the three months and year ended December 31, 2013, as compared to deferred income tax recoveries of \$2.0 million and \$0.5 million for the corresponding periods in 2012. The increases in deferred income taxes were due primarily to changes in the taxation of limited partnerships and lower net income before income taxes. This resulted in effective tax rates of 26% for the three months and year ended December 31, 2013 versus 26% and 24% for the prior year comparable periods. The higher effective income tax rate in 2013 as compared to 2012 is due primarily to the application of available income tax credits in 2012.

A predecessor of the Company and one of its non-operating subsidiaries were re-assessed by the Ontario Ministry of Finance ("Ontario Finance"), Alberta Finance and Enterprise ("Alberta Finance") and the Canada Revenue Agency ("CRA") on account of a corporate re-organization undertaken prior to the Company's conversion to a trust in 2005. On April 4, 2013 the Company was notified that the Alberta Finance re-assessments had been vacated. See Note 26 to the 2013 Audited Consolidated Financial Statements for further detail.

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operations

Cash provided by operations was \$22.8 million and \$54.9 million, respectively, for the three months and year ended December 31, 2013, as compared to \$25.7 million and \$124.5 million for the comparable periods in 2012. Cashflow was \$24.0 million and \$60.4 million, respectively, for the three months and year ended December 31, 2013, as compared to \$22.1 million and \$91.9 million for the comparable periods in 2012. The changes in cash provided by operations and cashflow were due primarily to changes in operating earnings and working capital balances, including income taxes of \$15.3 million paid in 2013 that related to income taxes for the 2012 taxation year and income tax installment payments of approximately \$9.5 million made for 2013. 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 \$40.4 million and \$88.6 million, respectively, for the three months and year ended December 31, 2013, as compared to \$27.0 million and \$83.0 million for the comparable periods in 2012. The differences in net cash used in investment activities in 2013 versus 2012 were due primarily to varying levels of capital expenditures in all three business divisions, including the acquisition of a process equipment fabrication business in January 2013. The purchases of property, plant and equipment ("PP&E") during 2013 were allocated as follows: \$9.4 million in the Contract Drilling Services division relating primarily to the purchase of rig equipment, \$27.3 million in the Rentals and Transportation Services division relating primarily to new rental equipment and heavy truck replacements and upgrades,

\$47.9 million in the Compression and Process Services division due primarily to the acquisition of a process equipment fabrication business effective January 1, 2013 and additions to the gas compression rental fleet, and \$4.5 million in Other relating primarily to land and building purchases for the operating divisions. During 2012 the property, plant and equipment additions were as follows: \$17.9 million in the Contract Drilling Services division, \$42.9 million in the Rentals and Transportation Services division, \$16.0 million in the Compression and Process Services division and \$12.5 million in Other. The purchases of property, plant and equipment during 2013 were partially offset by proceeds on disposal of property, plant and equipment of \$6.6 million, as compared to \$9.0 million during 2012. 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 Compression and Process Services division.

Financing

Net cash used in financing activities was \$1.4 million and \$13.2 million, respectively, for the three months and year ended December 31, 2013, as compared to \$4.0 million and \$27.1 million for the comparable periods in 2012. The decrease in net cash used in financing activities in 2013 was due primarily to a decrease in common share repurchases by the Company pursuant to its normal course issuer bid.

Liquidity

The Company had a working capital surplus of \$73.5 million as at December 31, 2013 as compared to \$90.7 million as at December 31, 2012. As at December 31, 2013 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 January 18, 2013 the Company renewed its \$35 million operating facility with a major Canadian financial institution. The facility is a two year committed facility with payments not required until June 2015, assuming non-extension by the lender, bearing interest at the lender's prime rate plus 0.40% and secured against the Company's cash and cash equivalents, accounts receivable and inventory.

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 months and year ended December 31, 2013 the Company declared dividends of \$1.6 and \$6.2 million (\$0.05 per and \$0.20 per share) as compared to \$1.5 million and \$6.2 million (\$0.05 and \$0.20 per share) declared for the prior year comparable periods.

For 2014 the Company expects cash provided by operations, cashflow and net income to exceed dividends to shareholders. Management and the board of directors of the Company will monitor the Company's dividend policy with respect to forecasted net income, cashflow, cash provided by operations, debt levels, capital expenditures and other investment opportunities and will aim to finance future dividends through cash provided by operations.

SUMMARY OF QUARTERLY RESULTS

(in thousands of dollars except per share amounts)	Financial Quarter Ended (Unaudited)			
	Dec 31, 2013	Sept 30, 2013	June 30, 2013	March 31, 2013
Revenue	\$ 86,940	\$ 89,060	\$ 60,668	\$ 102,911
Cashflow ⁽¹⁾	23,990	18,899	5,203	12,354
Cash (used in) provided by operations	22,830	3,880	41,760	(13,557)
Net income	10,694	9,109	114	17,391
Per share (basic)	0.34	0.30	–	0.57
Per share (diluted)	0.34	0.29	–	0.54

	Financial Quarter Ended (Unaudited)			
	Dec 31, 2012	Sept 30, 2012	June 30, 2012	March 31, 2012
Revenue	\$ 78,404	\$ 73,517	\$ 54,332	\$ 101,449
Cashflow ⁽¹⁾	22,110	20,184	9,550	40,105
Cash provided by operations	25,658	13,522	45,421	39,904
Net income	10,525	9,456	3,250	24,461
Per share (basic)	0.34	0.31	0.10	0.78
Per share (diluted)	0.34	0.30	0.10	0.72

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

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

CONTRACTUAL OBLIGATIONS

At December 31, 2013, the Company had the following contractual obligations:

(in thousands of dollars)	Total	Payments due by year				
		2014	2015	2016	2017	2018
Convertible debentures, face value ⁽¹⁾	\$ 69,000	\$ –	\$ –	\$ 69,000	\$ –	\$ –
Commitments ⁽²⁾	6,118	2,315	1,350	1,191	924	338
Finance leases	5,152	2,377	1,651	854	211	59
Purchase obligations ⁽³⁾	21,043	21,043	–	–	–	–
Total contractual obligations	\$ 101,313	\$ 25,735	\$ 3,001	\$ 71,045	\$ 1,135	\$ 397

(1) Convertible debentures are described in Note 13 to the 2013 Audited Consolidated Financial Statements.

(2) Commitments are described in Note 25 to the 2013 Audited Consolidated Financial Statements.

(3) Purchase obligations are described in Note 25 to the 2013 Audited Consolidated Financial Statements. As at December 31, 2013 purchase obligations relate to Total Energy's commitment to purchase \$1.1 million of capital assets for the Rentals and Transportation Services division, \$8.9 million of inventory for the Compression and Process Services division, \$9.7 million for new rig construction and rig upgrade for the Contract Drilling Services division and \$1.4 million of capital commitments related to buildings and infrastructure.

OFF-BALANCE SHEET ARRANGEMENTS

During 2013 and 2012 the Company had no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During 2013 and 2012 the Company had no material transactions with related parties.

CORPORATE ACQUISITION

On January 1, 2013 the Company concluded the acquisition of substantially all of the assets related to a process equipment fabrication business for \$14.0 million plus \$3.0 million for the value of inventory on hand. The Company financed the acquisition with cash on hand.

The acquisition significantly increased the Company's presence in the process equipment fabrication business. The purchased business increased the Company's fabrication capacity and provided the Company with experienced personnel and an established market presence both domestically and internationally. Because the purchased business was integrated into the Company's existing process fabrication business in January 2013, it is impracticable to provide separate financial results for the acquired business.

The assets acquired by the Company included a 65,000 square foot manufacturing facility, shop and office equipment and inventory. No obligations were assumed by the Company in the transaction.

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.

Critical Judgments in Applying Accounting Policies

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

The Company's assets are aggregated into cash-generating units for the purpose of calculating impairment. Cash generating units ("CGU" or "CGUs") are based on management's judgments and assessment of the CGU's ability to generate independent cash inflows. Judgments are also required to assess when impairment indicators exist and impairment testing is required.

The Company is required to exercise judgment in assessing whether the criteria for recognition of a provision or a contingency has been met. The Company considers whether a present obligation exists, probability of loss and can a reliable estimate be formulated.

The Company's functional currency is based on the primary economic environment in which it operates and is based on an analysis of several factors including which currency principally affects sales prices of products sold by the Company, which currency influences the main expenses of providing services, in which currency the Company keeps its receipts from operating activities and in which currency the Company has received financing.

The Company makes judgments regarding the determination of its reportable segments, including aggregation criteria (as appropriate), for segmented reporting.

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

Key Sources of Estimation Uncertainty

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in these consolidated financial statements.

- Where impairment indicators exist or annually for goodwill, the recoverable amount of the asset or CGU is determined using the greater of fair value less costs to sell or value-in-use. Value-in-use calculations require assumptions for discount rates and estimations of the timing for events or circumstances that will affect future cash flows. Fair value less costs to sell requires management to make estimates of fair value using market conditions for similar assets as well as estimations for costs to sell taking into account dismantle and transportation costs.
- The Company is required to estimate the amount of provisions and contingencies based on the estimated future outcome of the event.
- The Company uses the percentage-of-completion method in accounting for its equipment manufacturing contract revenue. Use of the percentage-of-completion method requires estimates of the stage of completion of the contract to date as a proportion of the total work to be performed.
- As pertains to property, plant and equipment the Company is required to estimate the residual value and useful lives of assets for purposes of depreciation.
- As pertains to accounts receivable the Company is required to estimate allowances for doubtful accounts based on historic collection trends and experiences with customers.
- In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of property, plant and equipment and intangible assets being acquired.
- The Company's estimate of stock-based compensation is dependent upon estimates of historic volatility and forfeiture rates.
- The Company's estimate of the fair value of derivative financial instruments is dependent on estimated forward prices / rates and volatility in those prices / rates.
- The deferred tax liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

On January 1, 2013, the Company adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instruments disclosures (IFRS 9). The adoption of these standards had no impact on the amounts included in the condensed interim consolidated statements as at and for the year ended December 31, 2013 or on comparable periods.

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 2013. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry.

Fair values

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and obligations under finance leases approximate their fair value due to the relatively short periods to maturity of the instruments. As at December 31, 2013 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 December 31, 2013 the closing price for these securities was \$107.02 for every \$100 of principal value of convertible debentures issued. This represents an aggregate market value of \$73.8 million.

Interest rate risk

As at December 31, 2013 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

The Company's sales are predominantly denominated in Canadian dollars, which is the Company's functional currency, and as such the Company does not have significant exposure to foreign currency exchange rate 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 31,296,100 Common Shares outstanding.

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

Outstanding at December 31, 2013	Exercise Price	Remaining life (years)	Exercisable at December 31, 2013
65,000	\$ 4.66	0.4	65,000
280,000	\$ 16.18	2.2	180,000
75,000	\$ 14.21	2.5	50,000
1,410,000	\$ 13.74	3.4	460,000
100,000	\$ 14.96	4.1	–
80,000	\$ 14.72	4.4	–
150,000	\$ 17.61	4.8	–
2,160,000	\$ 14.16	3.29	755,000

On February 9, 2011 the Company issued \$69 million of principal amount unsecured subordinated debentures. The debentures are convertible into 3.1 million common shares at a conversion price of \$22.29 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 realized 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. No customer accounted for more than 10% of the Company's consolidated revenues during 2013. 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 Compression and Process Services division, and in particular 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 compression and process 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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

Management has prepared Management's Discussion and Analysis (MD&A). The MD&A is based upon Total Energy's financial results prepared in accordance with IFRS. The MD&A compares the audited financial results for the twelve months ended December 31, 2012 to December 31, 2013.

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

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

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



DANIEL K. HALYK
President and Chief Executive Officer

March 10, 2014



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

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Total Energy Services Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Total Energy Services Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Total Energy Services Inc. as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.



CHARTERED ACCOUNTANTS

Calgary, Canada

March 10, 2014

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	Note	December 31, 2013	December 31, 2012
ASSETS			
Current assets:			
Cash and cash equivalents	7	\$ 3,210	\$ 50,052
Accounts receivable	8	78,130	63,511
Inventory	9	38,858	33,240
Income taxes receivable	15	2,402	–
Prepaid expenses and deposits		9,782	2,547
		132,382	149,350
Property, plant and equipment	10	382,347	323,188
Goodwill	11	4,053	4,053
		\$ 518,782	\$ 476,591
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	12	\$ 46,224	\$ 32,523
Deferred revenue		8,710	6,971
Dividends payable		1,559	1,530
Income taxes payable	15	–	15,098
Current portion of obligations under finance leases	14	2,377	2,520
		58,870	58,642
Obligations under finance leases	14	2,775	2,723
Convertible debentures	13	64,446	62,694
Deferred tax liability	15	52,079	46,463
Shareholders' equity:			
Share capital	16	83,243	76,890
Contributed surplus		6,677	5,160
Equity portion of convertible debenture	13	4,601	4,601
Retained earnings		246,091	219,418
		340,612	306,069
Commitments and contingencies	25,26		
		\$ 518,782	\$ 476,591

The notes on pages 31 to 56 are an integral part of these consolidated financial statements.

Approved by the Board of Total Energy Services Inc.



Director: Greg Melchin



Director: Bruce L. Pachkowski

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars except per share amounts)

Years ended December 31	Note	2013	2012
REVENUE	18	\$ 339,579	\$ 307,702
Cost of services	19	224,958	187,311
Selling, general and administration	20	29,416	28,403
Share-based compensation	17	3,236	3,065
Depreciation	10	27,189	23,702
Results from operating activities		54,780	65,221
Gain on sale of property, plant and equipment		983	2,153
Finance income	22	385	878
Finance costs	23	(5,965)	(5,797)
Net income before income taxes		50,183	62,455
Current income tax expense	15	7,259	15,255
Deferred income tax expense (recovery)	15	5,616	(492)
Total income tax expense	15	12,875	14,763
Net income and total comprehensive income for the year		\$ 37,308	\$ 47,692
Earnings per share	16		
Basic earnings per share		\$ 1.21	\$ 1.54
Diluted earnings per share		\$ 1.20	\$ 1.49

The notes on pages 31 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS CHANGES IN EQUITY

Years ended December 31, 2013 and 2012
(in thousands of Canadian dollars)

	Note	Share Capital	Contributed Surplus	Equity portion of convertible debenture	Retained earnings	Total Equity
Balance at December 31, 2011		\$ 77,917	\$ 2,472	\$ 4,601	\$ 190,331	\$ 275,321
Net income and total comprehensive income for the year		–	–	–	47,692	47,692
<i>Transactions with shareholders, recorded directly in equity:</i>						
Dividends to shareholders	16	–	–	–	(6,180)	(6,180)
Repurchase of common shares	16	(2,602)	–	–	(12,425)	(15,027)
Share-based compensation	17	–	3,065	–	–	3,065
Share options exercised	17	1,575	(377)	–	–	1,198
		(1,027)	2,688	–	(18,605)	(16,944)
Balance at December 31, 2012		\$ 76,890	\$ 5,160	\$ 4,601	\$ 219,418	\$ 306,069
Net income and total comprehensive income for the year		–	–	–	37,308	37,308
<i>Transactions with shareholders, recorded directly in equity:</i>						
Dividends to shareholders	16	–	–	–	(6,181)	(6,181)
Repurchase of common shares	16	(965)	–	–	(4,454)	(5,419)
Share-based compensation	17	–	3,236	–	–	3,236
Share options exercised	17	7,318	(1,719)	–	–	5,599
		6,353	1,517	–	(10,635)	(2,765)
Balance at December 31, 2013		\$ 83,243	\$ 6,677	\$ 4,601	\$ 246,091	\$ 340,612

The notes on pages 31 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

Years ended December 31	Note	2013	2012
Cash provided by (used in):			
Operations:			
Net income for the year		\$ 37,308	\$ 47,692
Add (deduct) items not affecting cash:			
Depreciation		27,189	23,702
Share-based compensation	17	3,236	3,065
Gain on disposal of property, plant and equipment	10	(983)	(2,153)
Finance income	22	(385)	(878)
Finance costs	23	5,965	5,797
Current income tax expense	15	7,259	15,255
Deferred income tax expense (recovery)	15	5,616	(492)
Income taxes paid		(24,759)	(39)
		60,446	91,949
Changes in non-cash working capital items:			
Accounts receivable	8	(14,619)	31,045
Inventory	9	(2,664)	3,907
Prepaid expenses and deposits		(3,374)	(752)
Accounts payable and accrued liabilities	12	13,385	(5,551)
Deferred revenue		1,739	3,907
		54,913	124,505
Investments:			
Purchase of property, plant and equipment	10	(75,029)	(89,365)
Acquisition of business	5	(16,954)	–
Proceeds on disposal of property, plant and equipment		6,574	8,973
Changes in non-cash working capital items		(3,160)	(2,603)
		(88,569)	(82,995)
Financing:			
Repayment of obligations under finance leases	14	(3,001)	(3,188)
Payment of dividends	16	(6,152)	(5,905)
Issuance of common shares	16	5,599	1,198
Repurchase of common shares	16	(5,419)	(15,027)
Interest paid		(4,213)	(4,194)
		(13,186)	(27,116)
Change in cash and cash equivalents		(46,842)	14,394
Cash and cash equivalents, beginning of year		50,052	35,658
Cash and cash equivalents, end of year		\$ 3,210	\$ 50,052

The notes on pages 31 to 56 are an integral part of these consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2013 and 2012
(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.

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.

2. Basis of preparation

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements were authorized for issue by the Board of Directors on March 10, 2014.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and for any future years affected.

(e) Critical Judgments in Applying Accounting Policies

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

The Company’s assets are aggregated into cash-generating units for the purpose of calculating impairment. Cash generating units (“CGU” or “CGUs”) are based on management’s judgments and assessment of the CGU’s ability to generate independent cash inflows. Judgments are also required to assess when impairment indicators exist and impairment testing is required.

The Company is required to exercise judgment in assessing whether the criteria for recognition of a provision or a contingency has been met. The Company considers whether a present obligation exists, probability of loss and can a reliable estimate be formulated.

The Company’s functional currency is based on the primary economic environment in which it operates and is based on an analysis of several factors including which currency principally affects sales prices of products sold

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2013 and 2012
(Tabular amounts in thousands of Canadian dollars)

by the Company, which currency influences the main expenses of providing services, in which currency the Company keeps its receipts from operating activities and in which currency the Company has received financing. The Company makes judgments regarding the determination of its reportable segments, including aggregation criteria (as appropriate), for segmented reporting.

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

(f) Key Sources of Estimation Uncertainty

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in these consolidated financial statements.

Where impairment indicators exist or annually for goodwill, the recoverable amount of the asset or CGU is determined using the greater of fair value less costs to sell or value-in-use. Value-in-use calculations require assumptions for discount rates and estimations of the timing for events or circumstances that will affect future cash flows. Fair value less costs to sell requires management to make estimates of fair value using market conditions for similar assets as well as estimations for costs to sell taking into account dismantle and transportation costs.

The Company is required to estimate the amount of provisions and contingencies based on the estimated future outcome of the event.

The Company uses the percentage-of-completion method in accounting for its equipment manufacturing contract revenue. Use of the percentage-of-completion method requires estimates of the stage of completion of the contract to date as a proportion of the total work to be performed.

As pertains to property, plant and equipment the Company is required to estimate the residual value and useful lives of assets for purposes of depreciation.

As pertains to accounts receivable the Company is required to estimate allowances for doubtful accounts based on historic collection trends and experiences with customers.

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of property, plant and equipment and intangible assets being acquired.

The Company's estimate of stock-based compensation is dependent upon estimates of historic volatility and forfeiture rates.

The Company's estimate of the fair value of derivative financial instruments is dependent on estimated forward prices, rates and volatility in those prices and discount rates.

The deferred tax liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The accounting policies have been applied consistently by the Company, its subsidiaries and partnerships.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2013 and 2012
(Tabular amounts in thousands of Canadian dollars)

(a) Basis of consolidation**(i) Business combinations and goodwill**

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

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

Goodwill is measured at cost less accumulated impairment losses.

(ii) Subsidiaries and partnerships

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

(iii) Transactions eliminated on consolidation:

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

(b) Foreign currency

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

(c) Financial instruments:**(i) Non-derivative financial assets:**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2013 and 2012
(Tabular amounts in thousands of Canadian dollars)

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

The Company has the following non-derivative financial assets:

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

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

Loans and receivables

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

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

(ii) Non-derivative financial liabilities:

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2013 and 2012
(Tabular amounts in thousands of Canadian dollars)

The Company has the following non-derivative financial liabilities:

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

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

(iii) 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.

(iv) Share capital:

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is

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derecognized. The costs of the day-to-day servicing of property, plant and equipment (repair and maintenance) are recognized in net income or loss as incurred.

(iii) Depreciation:

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

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

The estimated useful lives are as follows:

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

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(e) Leased assets

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

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

(f) Inventory

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

(g) Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through net income or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective

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evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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

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

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

(ii) Non-financial assets:

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

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

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates

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used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(h) Employee benefits**(i) Short-term employee benefits**

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

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

(ii) Share-based payment transactions:

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

(i) Revenue recognition

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

(j) Provisions

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

(k) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net

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cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

(l) Lease payments

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

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

(m) Finance income and finance costs

Finance income is comprised of interest income on outstanding cash balances and other interest income. Interest income is recognized as it accrues in profit or loss.

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

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

(n) Income tax:

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

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

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

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

(o) Earnings per share

Basic earnings per share is calculated based on the weighted average number of shares outstanding. Diluted earnings per share includes the weighted average number of shares outstanding plus additional shares from the assumed conversion of the Company's outstanding convertible debentures and the assumed exercise of

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in-the-money stock options. The number of additional shares related to the convertible debentures is calculated assuming the debentures are converted into common shares by dividing the face value of the convertible debentures by the conversion price. The number of additional shares related to stock options is calculated by assuming proceeds from the exercise of the stock options are used to buy back common shares at the average market price. The additional shares is the difference between the exercised options and the assumed number acquired.

(p) Segment reporting

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

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

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

- (q)** On January 1, 2013, the Company adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instruments disclosures (IFRS 9). The adoption of these standards had no impact on the amounts included in the condensed interim consolidated statements as at and for the year ended December 31, 2013 or on comparable periods.

4. Determination of fair values

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

(a) Property, plant and equipment

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

(b) Inventories

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

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(c) Accounts receivable

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

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

(d) Non-derivative financial liabilities

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

(e) Share-based payment transactions

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

5. Acquisition of process equipment fabrication business

On January 1, 2013 the Company concluded the acquisition of substantially all of the assets of a process equipment fabrication business for \$14.0 million plus \$3.0 million for the value of inventory on hand. The Company financed the acquisition with cash on hand.

The acquisition increased the Company's presence in the process equipment fabrication business. The purchased business increased the Company's fabrication capacity and provided the Company with experienced personnel and an established market presence both domestically and internationally.

The acquisition was accounted for as a business combination using the purchase method of accounting and was included in the Company's accounts effective January 1, 2013 in the Compression and Process Services segment.

The following table details the purchase price allocation for the business combination:

Assets acquired:

Property, plant and equipment:	
Building	\$ 9,406
Land	1,160
Shop equipment and other	3,434
	14,000
Inventory	2,954
Total	\$ 16,954
Consideration paid:	
Cash	\$ 16,954

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The fair value of the assets acquired was determined using market quotes. No obligations were assumed by the Company in the transaction and the business was integrated into the Company's existing process equipment fabrication business in January 2013. As a result it is impracticable to provide separate financial results for the acquired business.

The Company incurred acquisition-related costs of \$0.2 million. These costs have been included in general and administrative expenses.

6. Operating segments

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

The segments are: Contract Drilling Services, which includes the contracting of drilling equipment and the provision of labour required to operate the equipment, Rentals and Transportation Services, which includes the rental and transportation of equipment used in oil and natural gas drilling, completion and production operations and Compression and Process 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 tax is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis. Interest is allocated based on capital employed in each segment.

The segmented amounts are as follows:

As at and for the year ended December 31, 2013	Contract Drilling Services	Rentals and Transportation Services	Compression And Process Services ⁽²⁾	Other ⁽¹⁾	Total
Revenue	\$ 55,953	\$ 108,908	\$ 174,718	\$ –	\$ 339,579
Cost of services	34,362	53,719	136,877	–	224,958
Selling, general and administration	3,331	13,530	8,235	4,320	29,416
Share-based compensation	–	–	–	3,236	3,236
Depreciation	5,551	15,156	6,445	37	27,189
Results from operating activities	12,709	26,503	23,161	(7,593)	54,780
Gain on sale of property, plant and equipment	(12)	31	957	7	983
Finance income	–	–	53	332	385
Finance costs	(812)	(2,202)	(952)	(1,999)	(5,965)
Net income before income taxes	11,885	24,332	23,219	(9,253)	50,183
Goodwill	–	2,514	1,539	–	4,053
Total assets	107,206	234,343	161,342	15,891	518,782
Total liabilities	20,057	49,700	37,974	70,439	178,170
Capital expenditures	\$ 9,401	\$ 27,281	\$ 47,866	\$ 4,481	\$ 89,029

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As at and for the year ended December 31, 2012	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Other ⁽¹⁾	Total
Revenue	\$ 52,669	\$ 133,729	\$ 121,304	\$ –	\$ 307,702
Cost of services	29,685	58,005	99,621	–	187,311
Selling, general and administration	3,326	14,579	6,310	4,188	28,403
Share-based compensation	–	–	–	3,065	3,065
Depreciation	4,845	14,814	3,900	143	23,702
Results from operating activities	14,813	46,331	11,473	(7,396)	65,221
Gain on sale of property, plant and equipment	80	734	1,339	–	2,153
Finance income	–	–	272	606	878
Finance costs	(1,013)	(2,319)	(632)	(1,833)	(5,797)
Net income before income taxes	13,880	44,746	12,452	(8,623)	62,455
Goodwill	–	2,514	1,539	–	4,053
Total assets	100,758	225,655	102,565	47,613	476,591
Total liabilities	20,220	44,170	23,020	83,112	170,522
Capital expenditures	\$ 17,928	\$ 42,907	\$ 16,046	\$ 12,484	\$ 89,365

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

(2) Includes January 1, 2013 acquisition of a process equipment fabrication business included in Compression and Process Services segment.

7. Cash and cash equivalents

Cash and cash equivalents represent cash in bank.

8. Accounts receivable

	December 31, 2013	December 31, 2012
Trade receivables, net of allowance for doubtful accounts	\$ 53,654	\$ 47,667
Accrued and other receivables	24,476	15,844
	\$ 78,130	\$ 63,511

The Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 24. Included in accrued and other receivables is \$10.5 million (2012: \$4.8 million) of amounts pertaining to contracts in progress as at December 31, 2013.

9. Inventory

	December 31, 2013	December 31, 2012
Finished goods	\$ 3,125	\$ 5,882
Work-in-progress	6,635	2,952
Parts and raw materials	29,098	24,406
	\$ 38,858	\$ 33,240

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For the year ended December 31, 2013 finished goods, work-in-progress and parts and raw materials of \$119.3 million (December 31, 2012: \$85.4 million) are included in cost of services (note 19), of which \$2.6 million (2012: \$1.2 million) relate to contracts in progress at December 31, 2013.

10. Property, plant and equipment

	Land and Buildings	Rental equipment	Automotive equipment	Leased assets	Shop Machinery and equipment	Drilling rigs and related equipment	Furniture, fixtures and other	Total
<i>Cost</i>								
As at December 31, 2011	\$ 16,639	\$ 189,021	\$ 46,261	\$ 8,998	\$ 5,275	\$ 97,693	\$ 4,347	\$ 368,234
Transfers	–	–	595	(636)	41	–	–	–
Additions	12,728	48,945	7,850	3,055	1,512	17,920	410	92,420
Disposals	(1)	(6,659)	(2,022)	(2,042)	(65)	(133)	(2)	(10,924)
As at December 31, 2012	29,366	231,307	52,684	9,375	6,763	115,480	4,755	449,730
Acquisition	10,566	–	65	–	3,059	–	310	14,000
Transfers	–	(1,497)	18	–	1,479	–	–	–
Additions	13,254	44,471	6,955	2,910	603	9,368	378	77,939
Disposals	–	(6,190)	(2,983)	(1,948)	(15)	(567)	–	(11,703)
As at December 31, 2013	53,186	268,091	56,739	10,337	11,889	124,281	5,443	529,966
<i>Accumulated Depreciation</i>								
As at December 31, 2011	4,123	48,325	17,432	3,499	2,602	27,255	3,708	106,944
Transfers	–	–	192	(213)	21	–	–	–
Depreciation expense	859	9,150	5,414	2,539	752	4,587	401	23,702
Disposals	–	(821)	(1,513)	(1,634)	(21)	(112)	(3)	(4,104)
As at December 31, 2012	4,982	56,654	21,525	4,191	3,354	31,730	4,106	126,542
Transfers	–	(711)	–	–	711	–	–	–
Depreciation expense	1,670	10,338	5,314	2,495	1,589	5,287	496	27,189
Disposals	–	(2,025)	(1,964)	(1,607)	(2)	(514)	–	(6,112)
As at December 31, 2013	6,652	64,256	24,875	5,079	5,652	36,503	4,602	147,619
<i>Net Book Value</i>								
As at December 31, 2011	12,516	140,696	28,829	5,499	2,673	70,438	639	261,290
As at December 31, 2012	24,384	174,653	31,159	5,184	3,409	83,750	649	323,188
As at December 31, 2013	\$ 46,534	\$ 203,835	\$ 31,864	\$ 5,258	\$ 6,237	\$ 87,778	\$ 841	\$ 382,347

As at December 31, 2013 \$34.5 million (December 31, 2012: \$3.5 million) of property plant and equipment was under construction. The Company has not capitalized any borrowing costs as there were no borrowing costs directly attributable to the acquisition and construction of property, plant and equipment.

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11. Goodwill

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

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

	December 31, 2013	December 31, 2012
Rental and Transportation Services	\$ 2,514	\$ 2,514
Compression and Process Services	1,539	1,539
	\$ 4,053	\$ 4,053

The recoverable amount of the cash-generating units was based on its value in use. As the carrying amount of the unit was determined to be lower than its recoverable amount no impairment was recorded (2012: nil).

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit. Unless indicated otherwise, value in use in 2013 was determined similarly as in 2012. The calculation of the value in use was based on the following key assumptions.

- Cash flows were projected based on past experience, actual operating results and a 15-year horizon in both 2013 and 2012. For 2013 and 2012 a growth rate of 5% was used for the first five years and no growth rate was assumed thereafter for the terminal value representing the remaining useful life of the assets.
- A pre-tax discount rate of 9% (2012: 8%) was applied in determining the recoverable amount of the unit.

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

12. Accounts payable and accrued liabilities

	December 31, 2013	December 31, 2012
Trade payables	\$ 23,500	\$ 15,226
Wages and salaries payables	6,194	6,328
Accrued costs and other payables	16,530	10,969
	\$ 46,224	\$ 32,523

Included in accrued expenses and other payables are customer advances of \$6.5 million (2012: \$5.7 million) held pursuant to contracts in progress as at December 31, 2013.

13. Long-term debt

Operating facility

On February 17, 2011 the Company secured a \$35 million operating facility with a major Canadian financial institution. The facility was a 2 year committed facility with payments not required until June 2013, assuming non-extension by the lender, bearing interest at prime rate plus 0.50% secured against the Company's cash and cash equivalents, accounts receivable and inventory. This facility remained undrawn at December 31, 2013 and 2012.

On January 18, 2013 the facility was extended for a 2 year period, with payments not required until June 2015, assuming non-extension by the lender, bearing interest at prime rate plus 0.40%. All other terms of the facility remained unchanged.

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Convertible debentures

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

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

Each \$1,000 principal amount of debentures is convertible at the option of the holder at any time prior to the close of business on the earlier of (i) the maturity date and (ii) the last business day immediately preceding the date fixed for redemption, into 44.8730 common shares of the Company, representing a conversion price of \$22.29, subject to anti-dilution provisions. Holders who convert their debentures will receive accrued and unpaid interest for the period from the date of the latest interest payment date to the date of the conversion.

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

The directly attributable transaction costs of \$3.1 million were proportionally allocated to the liability and equity components in the amounts of \$2.8 million and \$0.3 million, respectively.

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

During the years ended December 31, 2013 and 2012 changes in the balance of the liability component of the convertible debentures were as follows:

	2013	2012
Convertible debentures, opening balance	\$ 62,694	\$ 61,090
Accretion of discount	1,752	1,604
Convertible debentures, end of year	<u>\$ 64,446</u>	<u>\$ 62,694</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14. Finance lease liabilities

	December 31, 2013	December 31, 2012
Finance lease liability	\$ 5,152	\$ 5,243
Less current portion	2,377	2,520
Balance, end of year	<u>\$ 2,775</u>	<u>\$ 2,723</u>

The Company has entered into various agreements with third parties for the purpose of financing certain automotive equipment. The leases bear interest at rates ranging from 2.75% - 3.30% (December 31, 2012: 2.75% - 6.25%) and mature on various dates up to 2016 (see note 24).

In 2013, interest of \$0.2 million (December 31, 2012 - \$0.2 million) relating to finance lease obligations have been included in finance costs.

	Minimum lease payments		Present value of minimum lease payment	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Not later than one year	\$ 2,537	\$ 2,665	\$ 2,377	\$ 2,520
Later than one year and not later than five years	2,944	2,835	2,775	2,723
Later than 5 years	-	-	-	-
	<u>5,481</u>	<u>5,500</u>	<u>5,152</u>	<u>5,243</u>
Less: future finance charges	(329)	(257)	-	-
Present value of minimum lease payments	<u>\$ 5,152</u>	<u>\$ 5,243</u>	<u>\$ 5,152</u>	<u>\$ 5,243</u>

15. Deferred income tax assets and liabilities

The components of the net deferred income tax liability at December 31, 2013 and 2012 are as follows:

	December 31, 2013	December 31, 2012
Deferred income tax liabilities:		
Convertible debentures	\$ 838	\$ 1,124
Property, plant and equipment	46,151	38,979
Partnership income deferral	4,822	5,846
Other	268	514
	<u>\$ 52,079</u>	<u>\$ 46,463</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Movement in temporary differences during the period:

	Dec 31, 2011	Recognized in net income or loss	Dec 31, 2012	Recognized in net income or loss	Dec 31, 2013
Deferred income tax liabilities:					
Convertible debentures	\$ (1,374)	\$ 250	\$ (1,124)	\$ 286	\$ (838)
Property, plant and equipment	(34,268)	(4,711)	(38,979)	(7,172)	(46,151)
Partnership income deferral	(11,104)	5,258	(5,846)	1,024	(4,822)
Other	(209)	(305)	(514)	246	(268)
	<u>\$ (46,955)</u>	<u>\$ 492</u>	<u>\$ (46,463)</u>	<u>\$ (5,616)</u>	<u>\$ (52,079)</u>

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

	2013	2012
Net income before income taxes	\$ 50,183	\$ 62,455
Income tax rate	25.2%	25.2%
Expected income tax expense	\$ 12,646	\$ 15,739
Changes in taxes resulting from:		
Non-deductible share-based compensation	814	773
Deferred income tax rate differences	42	(3)
Investment tax credits claimed	-	(1,452)
Other	(627)	(294)
Provision for income taxes	<u>\$ 12,875</u>	<u>\$ 14,763</u>

16. Share Capital

(a) Common share capital

Common shares of Total Energy Services Inc.

(i) Authorized:

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

Unlimited number of preferred shares.

(ii) Common shares issued:

	Number of shares (thousands)	Amount
Balance, December 31, 2011	31,375	\$ 77,917
Issued on exercise of share options	228	1,575
Repurchased and cancelled	(1,003)	(2,602)
Balance, December 31, 2012	30,600	\$ 76,890
Issued on exercise of share options	941	7,318
Repurchased and cancelled	(365)	(965)
Balance, December 31, 2013	31,176	\$ 83,243

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Tabular amounts in thousands of Canadian dollars)

During year ended December 31, 2013 364,900 common shares (December 31, 2012: 1,002,500) were repurchased under the Company's normal course issuer bid at an average price of \$14.85 (December 31, 2012: \$14.99), including commissions, and these shares were cancelled. The excess of price paid over the average price per common share has been charged to retained earnings.

(b) Per Share amounts

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

	Year ended December 31, 2013	Year ended December 31, 2012
Net income for the year	\$ 37,308	\$ 47,692
Weighted average number of shares outstanding – Basic	30,834	30,994
Earnings per share - basic	\$ 1.21	\$ 1.54
Net income for the year	\$ 37,308	\$ 47,692
Add back: debenture interest net of tax	–	4,167
	\$ 37,308	\$ 51,859
Weighted average number of shares outstanding – Basic	30,834	30,994
Convertible debenture dilution	–	3,088
Share option dilution	162	622
Weighted average number of shares outstanding – Diluted	30,996	34,704
Earnings per share - diluted	\$ 1.20	\$ 1.49

At December 31, 2013, 610,000 options (December 31, 2012: 1,905,000) and 3,096,239 shares (December 31, 2012: nil) potentially issuable upon conversion of the convertible debentures were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

During 2013 the Company declared dividends of \$6.2 million (2012: \$6.2 million) or \$0.20 (2012: \$0.20) per common share.

17. Share-Based Compensation Plan

On June 1, 2009 the Company implemented a share option plan which was drafted to comply with the policies of the Toronto Stock Exchange. Under the plan, options to acquire common shares of the Company may be granted to officers and employees of the Company and to consultants retained by the Company. On May 24, 2012 the Company implemented a new share option plan, which terms are consistent with the previous share option plan. The terms of the plans (collectively the "TSX Plans") are outlined below.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Share option transactions during 2013 and 2012 were as follows:

	Weighted average exercise price	Number of Options
Balance, December 31, 2011	\$ 7.70	1,520,000
Granted	13.74	1,605,000
Exercised	5.26	(227,500)
Balance, December 31, 2012	\$ 11.23	2,897,500
Granted	16.11	330,000
Exercised	5.95	(941,000)
Forfeited	13.29	(126,500)
Balance, December 31, 2013	\$ 14.16	2,160,000

The options issued under the TSX Plans vest either 1/3 on the date of grant, 1/3 after one year and 1/3 after two years or 1/3 on the first anniversary from the date of grant, 1/3 after two years and 1/3 after three years. The options expire on various dates ranging from May 31, 2014 to October 1, 2018.

During 2013 the weighted average market price at the time of exercise of options was \$15.85 per share (2012: \$16.82).

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

Outstanding at December 31, 2013	Exercise Price	Remaining life (years)	Exercisable at December 31, 2013
65,000	\$ 4.66	0.4	65,000
280,000	16.18	2.2	180,000
75,000	14.21	2.5	50,000
1,410,000	13.74	3.4	460,000
100,000	14.96	4.1	-
80,000	14.72	4.4	-
150,000	17.61	4.8	-
2,160,000	\$ 14.16	3.3	755,000

Outstanding at December 31, 2012	Exercise Price	Remaining life (years)	Exercisable at December 31, 2012
655,000	\$ 4.66	1.4	655,000
182,500	4.97	1.7	182,500
50,000	7.30	2.1	-
30,000	8.54	2.6	30,000
300,000	16.18	3.2	100,000
75,000	14.21	3.5	25,000
1,605,000	13.74	4.4	-
2,897,500	\$ 11.23	3.4	992,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Tabular amounts in thousands of Canadian dollars)

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value of the share options granted. The average per share fair value of the options granted during 2013 is \$4.02 per option (2012 - \$3.92) using the following assumptions:

	December 31, 2013	December 31, 2012
Expected volatility	30% to 41%	36% to 44%
Annual dividend yield	1.11% to 1.33%	1.43%
Risk free interest rate	1.15% to 1.87%	1.13% to 1.31%
Forfeitures	7%	15%
Expected life (years)	3 to 5 years	3 to 5 years

For the year ended December 31, 2013 the Company recognized share-based compensation expense of \$3.2 million (2012 - \$3.1 million).

18. Revenue

	2013	2012
Rendering of services	\$ 207,728	\$ 225,310
Sale of goods	131,851	82,392
	\$ 339,579	\$ 307,702

Included in sale of goods is \$9.2 million (2012: \$1.6 million) of revenue relating to contracts in progress as at December 31, 2013.

19. Cost of services

	2013	2012
Inventory	\$ 119,319	\$ 85,364
Wages and salaries	64,846	60,298
Repair and maintenance	18,836	19,072
Fuel and travel	12,387	12,739
Rent and services	4,019	4,311
Parts and supplies	3,345	3,356
Other	2,206	2,171
	\$ 224,958	\$ 187,311

20. Selling, general and administration

	2013	2012
Wages and salaries	\$ 20,559	\$ 19,708
Office	4,001	4,017
Travel	1,889	1,672
Rent	1,062	1,118
Professional and legal	1,070	989
Other	835	899
	\$ 29,416	\$ 28,403

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Years ended December 31, 2013 and 2012
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21. Employee benefits

	2013	2012
Cost of services	\$ 64,846	\$ 60,298
Selling, general and administration	20,559	19,708
Share-based compensation	3,236	3,065
	\$ 88,641	\$ 83,071

22. Finance income

	2013	2012
Interest on outstanding cash balances	\$ 332	\$ 606
Other	53	272
	\$ 385	\$ 878

23. Finance costs

	2013	2012
Convertible debenture interest	\$ 3,967	\$ 3,967
Accretion of convertible debenture	1,752	1,604
Interest on long-term debt and finance lease obligations	171	203
Other interest	75	23
	\$ 5,965	\$ 5,797

24. Financial Risk Management and Financial Instruments Overview

Capital management

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying businesses. The Company seeks to maintain an appropriate balance between the level of long-term debt and shareholders' equity to ensure access to the capital markets to fund growth and working capital having regard to the cyclical nature of the oilfield services industry. Historically the Company has maintained a conservative ratio of long-term debt to long-term debt plus equity. As at December 31, 2013 and 2012 these ratios were as follows:

	December 31, 2013	December 31, 2012
Long-term debt (including convertible debentures)	\$ 69,000	\$ 69,000
Shareholders' equity	340,612	306,069
Total capitalization	\$ 409,612	\$ 375,069
Long-term debt to long-term debt plus equity ratio	0.17	0.18

As at December 31, 2013 the Company was subject to externally imposed minimum capital requirements relating to its operating facility. These minimum capital requirements included meeting certain minimum pre-determined ratios with respect to current assets to current liabilities and debt to equity as well as certain current asset margining

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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requirements. The Company monitored these requirements to ensure compliance with them. As at December 31, 2013 and 2012 the Company was in compliance with all external minimum capital requirements.

Financial instruments

The Company's financial instruments as at December 31, 2013 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable, obligations under finance leases, derivative instruments 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 December 31, 2013 the closing market price for these securities was \$107.02 per \$100 principal amount. This represents an aggregate market value of \$73.8 million. For further details on derivative instruments see forward foreign exchange contracts below.

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

- Credit risk
- Liquidity risk
- Market risk

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Company's trade accounts receivable. The carrying amount of cash and cash equivalents and accounts receivable included on the statement of financial position represent the maximum credit exposure.

The vast majority of the Company's trade accounts receivable are customers involved in the oil and gas industry, and the ultimate collection of the accounts receivable is dependent on both industry related factors and customer specific factors. Industry related factors that may affect collection include commodity prices and access to capital. Customer specific factors that may affect collection include realized commodity prices, the success of drilling programs, well reservoir decline rates and access to capital. As at December 31, 2013, \$4.7 million, or 6% of accounts receivable (2012 - \$3.4 million or 5%) were more than 90 days overdue, which is in the range of historical aging profiles.

The movement in the Company's allowance for doubtful accounts was as follows:

	Allowance for doubtful accounts
Balance at December 31, 2011	\$ 1,252
Provisions and revisions	175
Balance at December 31, 2012	<u>\$ 1,427</u>
Provisions and revisions	134
Balance at December 31, 2013	<u>\$ 1,561</u>

The Company does not have significant exposure to any individual customer or counter party. No customer accounted for more than 10% of the Company's consolidated revenues during the years ended December 31, 2013 and 2012. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry as a whole.

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Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, to the extent reasonably possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable costs or losses or risking harm to the Company's reputation. As at December 31, 2013 the Company maintained an operating line of credit which was available to a maximum of \$35 million and had convertible debentures of \$69 million outstanding due March 31, 2016 (December 31, 2012: \$35 and \$69 million respectively) to ensure the Company has sufficient working capital to operate its business. As at December 31, 2013 \$35 million (December 31, 2012: \$35 million) of available credit facilities remained unutilized.

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

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

As at December 31, 2013	No later than 1 year	Later than 1 year and no later than 5 years	Later than 5 years	Total
Accounts payable and accrued liabilities	\$ 46,224	\$ –	\$ –	\$ 46,224
Dividends payable	1,559	–	–	1,559
Convertible debentures	3,967	73,954	–	77,921
Finance leases	2,537	2,944	–	5,481
Total	\$ 54,287	\$ 76,898	\$ –	\$ 131,185

As at December 31, 2012	No later than 1 year	Later than 1 year and no later than 5 years	Later than 5 years	Total
Accounts payable and accrued liabilities	\$ 32,523	\$ –	\$ –	\$ 32,523
Dividends payable	1,530	–	–	1,530
Convertible debentures	3,967	77,927	–	81,894
Finance leases	2,665	2,835	–	5,500
Total	\$ 40,685	\$ 80,762	\$ –	\$ 121,447

Market risk

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

- Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company's sales are predominantly denominated in Canadian dollars, which is the Company's functional currency, and as such the Company does not have significant exposure to foreign currency exchange rate 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. The Company estimates that approximately 20% of its operating expenses in 2013 were purchased using a foreign currency. Where foreign currency denominated purchases are made, it is the Company's practice to pay invoiced amounts within 15 days of receipt of invoice to reduce the Company's exposure to foreign exchange risk. In addition, from time to time the Company purchases

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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.

- Forward foreign exchange contracts

The notional principal amount of forward foreign exchange contracts outstanding as at December 31, 2013 was \$5.3 million (December 31, 2012: nil). These contracts are short term in nature. The forward market exchange rate used to fair value these outstanding contracts as at December 31, 2013 was \$1.06 Canadian dollar per United States dollar and \$0.95 Canadian dollar per Australian dollar.

- Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on borrowings under existing and available credit facilities which utilize a combination of short term fixed rates through the use of 30 to 90 day Banker's Acceptance and floating rates. For 2013, if interest rates had been 1% lower with all other variables held constant, after tax net earnings for the period would have been approximately \$39,000 higher (December 31, 2012 - \$40,000), due to lower interest expense. An equal and opposite impact would have occurred to net earnings had interest rates been 1% higher. The sensitivity in 2013 is consistent with 2012 due primarily to the fixed interest rate on the Company's \$69 million convertible debentures.

The Company had no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2013.

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

25. Commitments

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

	December 31, 2013	December 31, 2012
Less than one year	\$ 2,315	\$ 2,101
Between one and five years	3,803	2,971
More than five years	-	85
	\$ 6,118	\$ 5,157

The Company also has purchase obligations of \$21.0 million as at December 31, 2013 (\$10.7 million as at December 31, 2012) relating to commitments to purchase property, plant and equipment and inventory.

26. Contingencies

A predecessor of the Company and one of its non-operating subsidiaries were re-assessed by the Ontario Ministry of Finance ("Ontario Finance"), Alberta Finance and Enterprise ("Alberta Finance") and the Canada Revenue Agency ("CRA") on account of a corporate re-organization undertaken prior to the Company's conversion to a trust in 2005. The Company has received both legal and tax advice indicating that the technical merits of the filings positions taken are strong and, as such, no provisions were taken with respect to the reassessments. The total amount of each of the reassessments, including interest, was approximately \$8.7 million, \$9.2 million and \$0.2 million respectively.

On April 4, 2013 the Company was notified that the Alberta Finance re-assessments had been vacated.

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The remaining Ontario Finance and CRA reassessments relate to approximately \$2.6 million of alleged underlying income taxes owing for the period from 2002 to the trust conversion in April 2005.

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

27. Related parties

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

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

Key management personnel compensation is comprised of:

	December 31, 2013	December 31, 2012
Short-term employee benefits	\$ 4,243	\$ 4,219
Share-based compensation ⁽¹⁾	3,129	2,978
	\$ 7,372	\$ 7,197

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

At December 31, 2013 directors of the Company own or control 7 percent of the voting shares of the Company (2012: 7 percent).

There have been no transactions over the reporting period with key management personnel (2012: nil), and no outstanding balances exist as at period end (2012: nil).

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}

¹Member of the Compensation Committee

²Member of the Audit Committee

³Member 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

Gerry Crawford
Vice President, Field Services

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

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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 • Denver • 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



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