

# Q3



## FOCUS DISCIPLINE GROWTH

Third Quarter Report 2014

**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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**REPORT TO SHAREHOLDERS**

Total Energy's results for the third quarter of 2014 reflect seasonal increases in field activity levels within the Contract Drilling Services and Rentals and Transportation Services divisions. The Compression and Process Services division continued to experience substantial growth that was tempered somewhat by the sale of 23,900 horsepower of rental compression upon the exercise of purchase options by customers during the first half of 2014.

Total Energy's financial position remains strong, highlighted by the Company remaining free of bank debt and having a positive working capital position of \$97.6 million at September 30, 2014, including \$19.8 million in cash. At September 30, 2014 and at the date of this report, the Company's \$35 million bank operating facility was undrawn and fully available.

**LOOKING FORWARD**

Drilling and completion activity in Western Canada during the third quarter of 2014 was generally higher than the third quarter of 2013 and activity levels are expected to remain reasonably strong through the upcoming winter drilling season. However, recent declines in global oil prices and significant market volatility have created uncertainty with respect to customers' capital budget plans for 2015. In this uncertain environment, Total Energy is focused on completing its 2014 capital expenditure program and efficiently managing its operations during the upcoming seasonally active winter.

Construction of the Company's 18th rig, a 4,200 meter (vertical depth rating) AC electric telescopic double with a top drive is expected to be completed and commence operations during the first quarter of 2015. Consistent with past practice, the Company will look to contract the rig near completion and discussions are underway with several operators in that regard. The deployment of Total Energy's 17th rig, which is similar in design to the rig under construction, occurred in late August of 2014 and has been operating successfully and continuously since then.

The Rentals and Transportation Services division is focused on completing its 2014 capital expenditure program and increasing equipment utilization in the upcoming winter season through strong sales efforts and a focus on providing quality equipment and a high level of customer service.

The Compression and Process Services division continues to see solid demand for its products and services. Total Energy continues to invest in the growth of this division, with the Board of Directors approving of an additional \$5.0 million for expansion of the compression rental fleet to accommodate existing rental demand.

Total Energy's 2014 capital expenditure budget is currently \$93.1 million, of which \$56.2 million had been expended to September 30, 2014 with the remainder to be expended by the first quarter of 2015. With no significant capital commitments beyond its 2014 capital budget, Total Energy enjoys significant financial flexibility to pursue attractive investment opportunities that may arise regardless of general market conditions.

As we look forward to the busy winter season, I encourage all of our employees to continue to conduct their activities in a safe and responsible manner while focusing on providing excellent customer service.

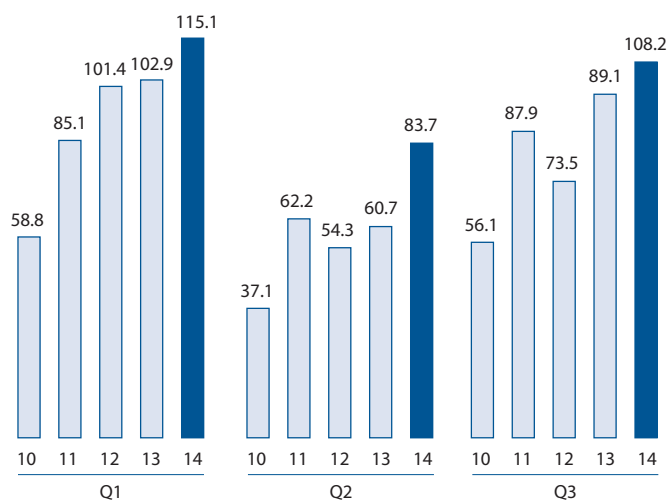


DANIEL K. HALYK  
President and Chief Executive Officer

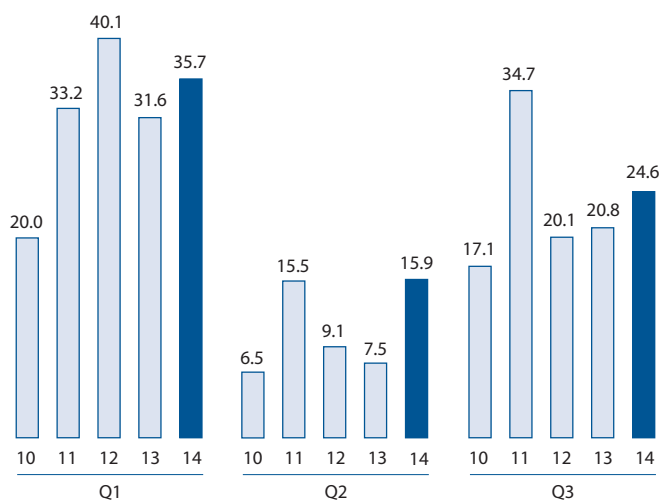
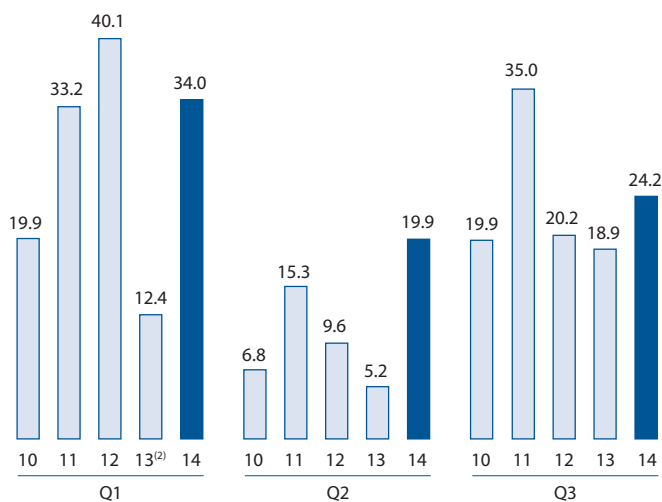
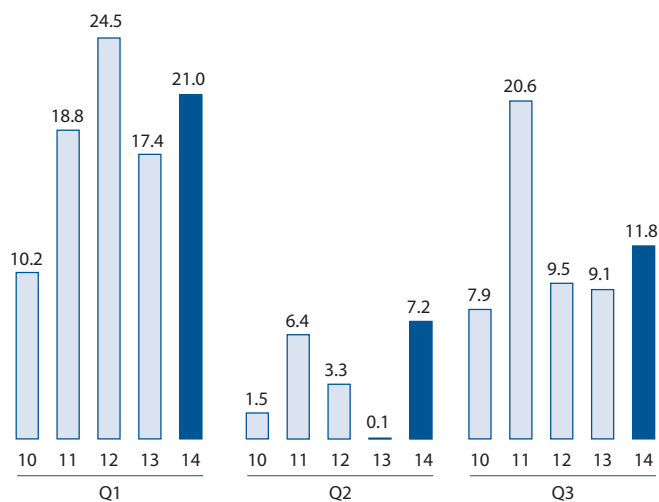
November 2014

## THIRD QUARTER GROWTH

Unaudited (in millions of Canadian dollars)



REVENUES

EBITDA<sup>(1)</sup>CASHFLOW<sup>(1)</sup>

NET INCOME

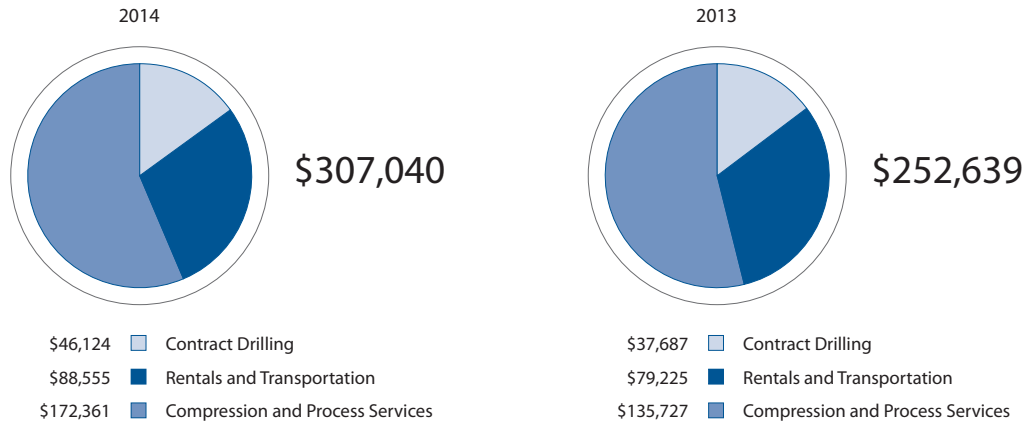
(1) EBITDA means earnings before interest, taxes, depreciation and amortization and is equal to net income before income taxes plus finance costs plus depreciation less finance income. Cashflow means cash provided by operations before changes in non-cash working capital items. EBITDA and cashflow are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

(2) Cashflow for the three months ended March 31, 2013 is net of \$15.3 million of income taxes paid during the period that relates to 2012 taxable income as a result of the Company not having been required to make income tax installment payments during 2012.

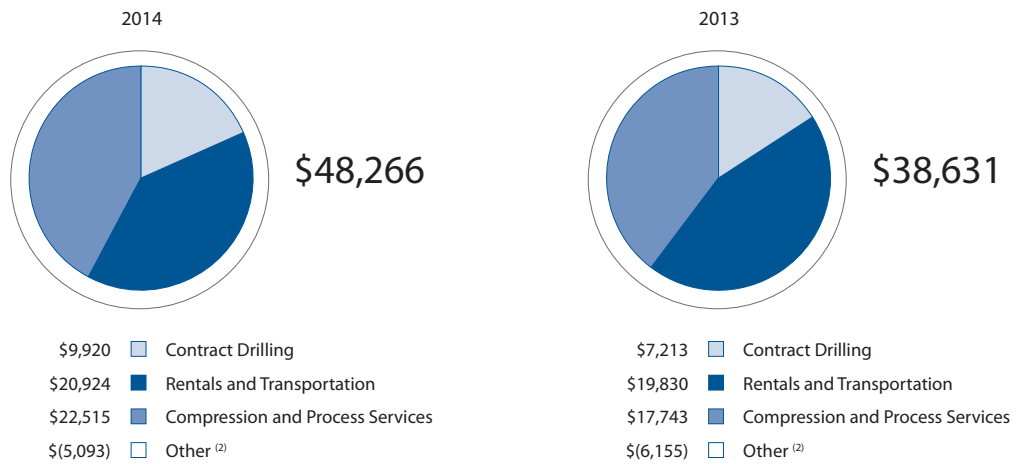
## SEGMENTED INFORMATION

For the nine months ended September 30, 2014 and 2013  
Unaudited (in thousands of Canadian dollars)

### REVENUE DIVERSIFICATION



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



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

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

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

*The following MD&A, dated November 12, 2014, focuses on key statistics from the unaudited condensed interim consolidated financial statements of Total Energy Services Inc. (the "Company" or "Total Energy") and pertains to known risks and uncertainties relating to the energy services industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion and analysis of the financial condition and results of operations for the three and nine months ended September 30, 2014, should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2014 and related notes and material contained in other parts of this report, 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](http://www.sedar.com). Unless otherwise indicated, all dollar amounts presented herein are in Canadian dollars.*

### FORWARD-LOOKING STATEMENTS

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

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

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

#### RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

#### DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Additionally, the Officers have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There were no changes to internal controls over financial reporting that would materially affect, or be reasonably likely to materially affect, the Company's internal controls over financial reporting during the first nine months of 2014.

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.

<b>Results from operating activities</b> (in thousands of Canadian dollars)	<b>Three months ended Sept 30, 2014</b>	Three months ended Sept 30, 2013	<b>Nine months ended Sept 30, 2014</b>	Nine months ended Sept 30, 2013
<b>Net income and total comprehensive income</b>	<b>\$ 11,752</b>	\$ 9,109	<b>\$ 39,996</b>	\$ 26,614
Add back (deduct):				
Finance income	(110)	(107)	(2,188)	(342)
Finance costs	1,379	1,501	4,423	4,451
Gain on sale of property, plant and equipment	(697)	(96)	(6,119)	(1,151)
Income tax expense	3,938	3,291	12,154	9,059
<b>Results from operating activities</b>	<b>\$ 16,262</b>	\$ 13,698	<b>\$ 48,266</b>	\$ 38,631

<b>EBITDA</b> (in thousands of Canadian dollars)	<b>Three months ended Sept 30, 2014</b>	Three months ended Sept 30, 2013	<b>Nine months ended Sept 30, 2014</b>	Nine months ended Sept 30, 2013
<b>Net income and total comprehensive income</b>	<b>\$ 11,752</b>	\$ 9,109	<b>\$ 39,996</b>	\$ 26,614
Add back:				
Depreciation	7,637	6,958	21,810	20,018
Finance income	(110)	(107)	(2,188)	(342)
Finance costs	1,379	1,501	4,423	4,451
Income tax expense	3,938	3,291	12,154	9,059
<b>EBITDA</b>	<b>\$ 24,596</b>	\$ 20,752	<b>\$ 76,195</b>	\$ 59,800

<b>Cashflow</b> (in thousands of Canadian dollars)	<b>Three months ended Sept 30, 2014</b>	Three months ended Sept 30, 2013	<b>Nine months ended Sept 30, 2014</b>	Nine months ended Sept 30, 2013
Cash provided by operations	\$ 2,456	\$ 3,880	\$ 59,349	\$ 32,083
Add back (deduct):				
Changes in non-cash working capital items	21,728	15,019	18,729	4,373
<b>Cashflow</b>	<b>\$ 24,184</b>	\$ 18,899	<b>\$ 78,078</b>	\$ 36,456



## BUSINESS OF THE COMPANY

Total Energy is a public energy services company based in Calgary, Alberta. Through its operating divisions, wholly owned subsidiaries and limited partnerships, 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 and Spectrum generate international sales from their Calgary based facilities and Total Oilfield Rentals conducts business in the United States through a United States corporate affiliate.

## 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 currently operates a fleet of 17 rigs in western Canada, with all such rigs constructed in 1997 or later. Of these rigs, 15 are telescopic doubles rated to vertical depths of up to 4,200 meters and two telescopic single rigs with integrated top drives and rated to 1,800 meters. The Company has announced the construction of its 18th rig, a 4,200 meter AC electric telescopic double drilling rig complete with top drive, which rig is expected to be completed by the first quarter of 2015. 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 10,000 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 historically targeted the sub-3000 horsepower gas compression market in western Canada but has expanded its capabilities to supply larger horsepower compression and process equipment. 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 a patent in India 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 9 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 and nine months ended September 30, 2014 reflect higher revenue and net income 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 higher revenues in the Contract Drilling segment and Rental and Transportation Services division on account of increased equipment utilization. Total revenue and net income increased 22% and 29%, respectively, in the third quarter of 2014 as compared to the prior year comparable quarter. For the first nine months of 2014 Company's revenue and net income increased 22% and 50%, respectively, as compared to prior year comparable period. For the three and nine months ended September 30, 2014 the Company recorded net income of \$11.8 million and \$40.0 million, respectively, as compared to \$9.1 million and \$26.6 million, respectively, during the comparable periods of 2013.

The Company's financial condition remains strong, with a positive working capital balance of \$97.6 million and no bank debt as at September 30, 2014. As at September 30, 2014 long-term debt (including the principal amount of the outstanding convertible debentures) to long-term debt plus equity was 0.16 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

Qualified 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 Cyclicity

The Company's business is cyclical due to the nature of its customers' cash flows and capital expenditures. Customers' cash flows and capital expenditures are in turn affected by, among other things, oil and gas prices, access to capital, the prospects for oil and gas exploration and development in the 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

Activity levels in the WCSB during the third quarter of 2014 were generally higher than the activity levels during the same period of 2013. However, the Company remains cautious due to continued uncertainty surrounding the near to medium term global economic environment and a recent significant decline in global oil prices. Despite near term uncertainties, 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 and natural gas liquids. As a result, the Company's revenue base has become more weighted toward oil and natural gas liquids 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, natural gas liquids 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 expenditures will be greater than 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. Corporate management reports to the Board of Directors quarterly on health, safety and environmental matters as well as on risk management generally.

## RESULTS OF OPERATIONS

### Consolidated Revenue

Revenues increased 22% to \$108.2 million and \$307.0 million, respectively, for the three and nine months ended September 30, 2014 versus \$89.1 million and \$252.6 million for the comparable periods in 2013.

### Divisional Revenue

Divisional revenues for the three months ended September 30, 2014 were \$16.8 million for Contract Drilling Services, \$30.1 million for Rentals and Transportation Services and \$61.4 million for Compression and Process Services. Divisional revenues for the nine months ended September 30, 2014 were \$46.1 million for Contract Drilling Services, \$88.6 million for Rentals and Transportation Services and \$172.4 million for Compression and Process Services.

### Contract Drilling Services

The revenue reported from Total Energy's Contract Drilling Services division increased by 13% to \$16.8 million for the three months ended September 30, 2014 as compared to \$14.8 million for the same period in 2013, and increased by 22% to \$46.1 million for the nine month period ended September 30, 2014, as compared to \$37.7 million for the same period in 2013. For the third quarter of 2014 the Contract Drilling Services division achieved a utilization rate, on a spud to release basis, of 55% and year to date utilization rate of 51%, as compared to 54% and 44%, respectively, for the same periods in 2013. The increase in utilization during the third quarter and first nine months of 2014 was due to increased industry activity levels. Operating days (spud to release) for the three and nine months ended September 30, 2014 totaled 863 and 2,282 days, respectively, with a fleet of 17 rigs, as compared to 798 and 1,933 days for the comparable periods in 2013, with a fleet of 16 rigs. Revenue

per operating day received for contract drilling services for the three months ended September 30, 2014 increased 5% as compared to revenue per operating day during the same period of 2013, and revenue per operating day for the nine months ended September 30, 2014 increased by 4% as compared to the same period in 2013. The increase in revenue per operating day was due primarily to increased day rate pricing and the mix of operating equipment.

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

The revenue reported from Total Energy's Rentals and Transportation Services division increased by 18% to \$30.1 million for the three months ended September 30, 2014, as compared to \$25.5 million for the same period in 2013, and increased by 12% to \$88.6 million for the nine month period ended September 30, 2014, as compared to \$79.2 million for the same period in 2013. The revenue increase was due primarily to the mix of equipment being utilized. Average utilization of the rental assets was 40% for the three and nine months ended September 30, 2014 as compared to 40% and 36% for the prior year comparable periods. This division exited the third quarter of 2014 with approximately 10,000 pieces of rental equipment as compared to 9,900 pieces at the end of the third quarter of 2013. This division also exited the third quarter of 2014 with a fleet of 109 heavy trucks as compared to 106 heavy trucks at the end of the third quarter of 2013.

#### **Compression and Process Services**

The revenue reported from Total Energy's Compression and Process Services division increased by 26% and 27% to \$61.4 million and \$172.4 million, respectively, for the three and nine months ended September 30, 2014 as compared to \$48.8 million and \$135.7 million for the comparable periods in 2013. The revenue increase from the prior year comparable periods was due primarily to increased customer demand and expanded manufacturing capacity. This division exited the third quarter of 2014 with a backlog of fabrication sales orders of approximately \$78.6 million, as compared to a backlog of \$57.6 million as at September 30, 2013. Excluded from the September 30, 2014 fabrication sales backlog is approximately 10,900 horsepower of compression equipment that was sold during the third quarter of 2014 but converted to rentals subsequent to September 30, 2014. As at September 30, 2014 the total horsepower of compressors on lease was approximately 35,500 as compared to approximately 35,700 as at September 30, 2013. The compression rental fleet experienced an average utilization of 86% and 89% (based on fleet horsepower), respectively, during the three and nine months ended September 30, 2014, as compared to 85% for the same periods in 2013.

#### **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 by 26% to \$76.2 million for the three months ended September 30, 2014, as compared to \$60.6 million for the same period in 2013, and increased by 25% to \$211.5 million for the nine month period ended September 30, 2014, as compared to \$169.1 million for the same period in 2013. The cost of services increases resulted primarily from higher revenue in the Compression and Process Services division, which has a higher cost of services relative to revenue than the other two divisions as well as higher activity levels in the Contract Drilling and Rental and Transportation Services divisions. The gross margin percentage for the three and nine months ended September 30, 2014 was, respectively, 30% and 31% as a percentage of revenue, as compared to 32% and 33% for the comparable period in 2013. 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 11% to \$8.0 million for the three months ended September 30, 2014, as compared to \$7.2 million for the same period in 2013, and increased by 7% to \$24.0 million for the nine month period ended September 30, 2014 as compared to \$22.4 million for the same period in 2013. The increase was due primarily to increased volume of operations in all three operating segments.

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 \$0.2 million and \$1.5 million, respectively, for the three and nine months ended September 30, 2014, as compared to \$0.6 million and \$2.6 million for the prior year comparable period. The share-based compensation expense arises from share options granted pursuant to the share option plan implemented in 2012. The decrease in share-based compensation was due primarily to the vesting of the second tranche of share options issued in 2012.

#### **Depreciation Expense**

Depreciation expense increased 10% and 9%, respectively, for the three and nine months ended September 30, 2014 to \$7.6 million and \$21.8 million, as compared to \$7.0 million and \$20.0 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 division 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 19% and 25% to \$16.3 million and \$48.3 million, respectively, for the three and nine months ended September 30, 2014 as compared to \$13.7 million and \$38.6 million for the comparable periods in 2013. The increase in operating earnings was due primarily to increased activity levels in all operating divisions.

The Contract Drilling Services division had operating earnings of \$2.7 million and \$9.9 million, respectively, for the three and nine months ended September 30, 2014, as compared to \$2.9 million and \$7.2 million for the prior year comparable periods. The operating earnings margin in this division was 16% and 22%, respectively, for the three and nine months ended September 30, 2014 as compared to 19% for the comparable periods in 2013. The decrease in operating earnings margin during the three month ended September 30, 2014 was due primarily to higher operating expenses, notably rig repairs. The increase in operating earnings during nine months ended September 30, 2014 was due primarily to higher equipment utilization and higher average year to date pricing.

The Rentals and Transportation Services division had operating earnings of \$7.9 million and \$20.9 million, respectively, for the three and nine months ended September 30, 2014, as compared to \$6.3 million and \$19.8 million for the comparable periods in 2013. The operating earnings margins in this division were 26% and 24% for the three and nine months ended September 30, 2014, as compared to operating earnings margin of 25% for the comparable periods in 2013. The increase in operating margins during third quarter of 2014 was due primarily to cost management. The decrease in operating earnings margin during the first nine months of 2014 resulted primarily from lower average pricing and higher cost of services during 2014 as compared to 2013.

The Compression and Process Services division had operating earnings of \$7.1 million and \$22.5 million, respectively, for the three and nine months ended September 30, 2014 as compared to \$6.2 million and \$17.7 million for the comparable periods in 2013. The operating earnings margin in this division was 12% and 13%, respectively, for three and nine months ended September 30, 2014, as compared to 13% operating margin for the corresponding periods in 2013. The sale of approximately 23,900 horsepower of compression rental equipment pursuant to customer purchase options being exercised during the first six months of 2014 negatively impacted operating earnings margins in the third quarter of 2014.

The Other division had operating losses of \$1.4 million and \$ 5.1 million for the three and nine months ended September 30, 2014, as compared to \$1.7 million and \$6.2 million, respectively, for the comparable periods in 2013. The decrease in the

operating loss was due primarily to a decrease in share-based compensation expense. The Other division does not include any direct sales activities relating to Total Energy's business and therefore does not generate any revenue.

#### **Finance income**

Finance income was \$0.1 million and \$2.2 million, respectively, for the three and nine months ended September 30, 2014, as compared to \$0.1 million and \$0.3 million for the same periods in 2013. The increase in finance income for the nine month ended September 30, 2014 was due primarily to an increase in the market value of other assets during the first nine months of 2014. Other assets include marketable securities of publicly traded entities. During the three and nine months periods ended September 30, 2014 the Company recorded unrealized loss of \$0.2 million and unrealized gain of \$1.7 million, respectively, resulting from changes in the market value of other assets. During the nine month period ended September 30, 2014, the Company recorded \$0.2 million of realized gain on sale of other assets. These amounts were included in finance income.

#### **Finance Costs**

Finance costs were \$1.4 million and \$4.4 million, respectively, for the three and nine months ended September 30, 2014 as compared to \$1.5 million and \$4.5 million for the same periods in 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 and nine months ended September 30, 2014 the Company realized a gain on disposal of equipment, respectively, of \$0.7 million and \$6.1 million, as compared to \$0.1 million and \$1.2 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. During the first nine months of 2014, approximately 28,160 horsepower of equipment in the compression rental fleet was sold.

#### **Income Taxes and Net income**

The Company recorded net income of \$11.8 million (\$0.38 per share basic and \$0.37 per share diluted) and \$40.0 million (\$1.28 per share basic and \$1.24 per share diluted), respectively, for the three and nine months ended September 30, 2014 as compared to \$9.1 million (\$0.30 per share basic and \$0.29 per share diluted) and \$26.6 million (\$0.87 per share basic and \$0.86 per share diluted) for the corresponding periods in 2013. The Company recorded a current income tax expense of \$2.8 million and \$4.1 million, respectively, for the three and nine months ended September 30, 2014, as compared to \$2.0 million and \$5.2 million for the corresponding periods in 2013. The decrease in current income tax expense for the nine months ended September 30, 2014 was due primarily to the timing of taxation of the Company's limited partnerships. The Company recorded deferred income tax expense of \$1.2 million and \$8.1 million, respectively, for the three and nine months ended September 30, 2014, as compared to \$1.3 million and \$3.8 million for the corresponding periods in 2013. The increase in deferred income taxes during the first nine months of 2014 was due primarily to the timing of taxation of the Company's limited partnerships. This resulted in effective tax rates of 25% and 23%, respectively, for the three and nine months ended September 30, 2014 as compared to 27% and 25% for the prior year comparable periods. The lower effective income tax rate in 2014 as compared to 2013 is due primarily to the application of available income tax credits in 2014 and a lower effective tax rate on the gain on sale of property, plant and equipment.

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 and in May 2014 CRA confirmed that its re-assessments had been vacated. The remaining Ontario Finance re-assessments relate to approximately \$2.6 million of alleged underlying income taxes owing for the period from 2002 to the trust conversion in April 2005. 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 \$2.5 million and \$59.3 million for the three and nine months ended September 30, 2014, as compared to \$3.9 million and \$32.1 million for the comparable periods in 2013. Cashflow was \$24.2 million and \$78.1 million, respectively, for the three and nine months ended September 30, 2014, as compared to \$18.9 million and \$36.5 million for the comparable periods in 2013. The changes in cash provided by operations and cashflow were due primarily to changes in operating earnings and working capital balances, including an income tax refund of \$6.2 million received during the second quarter of 2014 that related to the 2013 taxation year and \$15.3 million of income taxes paid in 2013 that related to income taxes for the 2012 taxation year. 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 investing activities was \$20.5 million and \$27.7 million, respectively, for the three and nine months ended September 30, 2014, as compared to \$13.5 million and \$48.2 million for the comparable periods in 2013. The difference in net cash used in investment activities during the first nine months of 2014 compared to the same period of 2013 was due primarily to increased proceeds on disposals of equipment. The purchases of property, plant and equipment ("PP&E") during the first nine months of 2014 were allocated as follows: \$18.3 million in the Contract Drilling Services division relating primarily to the purchase of rig equipment, \$16.0 million in the Rentals and Transportation Services division relating primarily to new rental equipment and heavy truck replacements and upgrades and \$21.9 million in the Compression and Process Services division due primarily to additions to the compression rental fleet. During the first nine months of 2013 the property, plant and equipment additions were as follows: \$4.5 million in the Contract Drilling Services division, \$12.7 million in the Rentals and Transportation Services division and \$31.2 million in the Compression and Process Services division. The purchase of property, plant and equipment during the first nine months of 2014 was offset by proceeds on disposal of property, plant and equipment of \$31.5 million as compared to \$4.4 million during the first half of 2013. The disposal of equipment resulted 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 \$8.3 million and \$15.1 million, respectively, for the three and nine months ended September 30, 2014, as compared to \$2.5 million and \$11.7 million for the comparable period in 2013. The increase in net cash used in financing activities in 2014 was due primarily to an increase in repurchase of common shares.

### Liquidity

The Company had a working capital surplus of \$97.6 million as at September 30, 2014 as compared to \$69.7 million as at December 31, 2013. As at September 30, 2014 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. As at September 30, 2014, there were no amounts outstanding under this facility.

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



## Dividends

For the three and nine months ended September 30, 2014 the Company declared dividends of \$1.9 million (\$0.06 per share) and \$5.6 million (\$0.18 per share), respectively, as compared to \$1.5 million (\$0.05 per share) and \$4.6 million (\$0.15 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)			
	Sept 30, 2014	June 30, 2014	March 31, 2014	Dec 31, 2013
Revenue	\$ 108,223	\$ 83,694	\$ 115,113	\$ 86,940
Cashflow <sup>(1)</sup>	24,184	19,871	34,023	23,990
Cash provided by operations	2,456	42,542	14,351	22,830
Net income	11,752	7,216	21,028	10,694
Per share (basic)	0.38	0.23	0.67	0.34
Per share (diluted)	0.37	0.23	0.63	0.34

	Financial Quarter Ended (Unaudited)			
	Sept 30, 2013	June 30, 2013	March 31, 2013	Dec 31, 2012
Revenue	\$ 89,060	\$ 60,668	\$ 102,911	\$ 78,404
Cashflow <sup>(1)</sup>	18,899	5,203	12,354	22,110
Cash provided by (used in) operations	3,880	41,760	(13,557)	25,658
Net income	9,109	114	17,391	10,525
Per share (basic)	0.30	–	0.57	0.34
Per share (diluted)	0.29	–	0.54	0.34

(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 September 30, 2014, the Company had the following contractual obligations:

(in thousands of dollars)	Total	Payments due by year					2018 and after
		2014	2015	2016	2017		
Convertible debentures, face value <sup>(1)</sup>	\$ 69,000	\$ –	\$ –	\$ 69,000	\$ –	\$ –	\$ –
Commitments <sup>(2)</sup>	7,759	559	2,286	1,909	1,614	1,391	
Finance leases	5,142	594	2,448	1,378	502	220	
Purchase obligations <sup>(3)</sup>	46,102	46,102	–	–	–	–	
<b>Total contractual obligations</b>	<b>\$ 128,003</b>	<b>\$ 47,255</b>	<b>\$ 4,734</b>	<b>\$ 72,287</b>	<b>\$ 2,116</b>	<b>\$ 1,611</b>	

(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 September 30, 2014 purchase obligations relate to Total Energy's commitment to purchase \$8.8 million of capital assets for the Rentals and Transportation Services division, \$28.2 million of inventory and capital assets for the Compression and Process Services division and \$9.1 million for new rig construction and rig upgrade for the Contract Drilling Services division.

## OFF-BALANCE SHEET ARRANGEMENTS

During the first nine months of 2014 and 2013 the Company had no off-balance sheet arrangements.

## TRANSACTIONS WITH RELATED PARTIES

During the first nine months of 2014 and 2013 the Company had no material transactions with related parties.

## CRITICAL ACCOUNTING ESTIMATES

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

### 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 have 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 Company's estimate of the fair value of other assets is based on the market prices quoted on the relevant stock exchanges. The market prices are subject to change and volatility.

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.

## FINANCIAL INSTRUMENTS

### Risk management activities

The Company does not have significant exposure to any individual customer or counter party other than two intermediate oil and gas companies, which accounted for over 10% of revenue, one during the three month period and another during the nine month period ended September 30, 2014. No other customer accounted for more than 10% of revenue during this period. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry.

### Fair values

The carrying values of 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. Other assets include marketable securities and are designated as financial assets measured at fair value. Changes in fair value are recorded in profit or loss. As at September 30, 2014 the fair value of other assets was approximately \$7.6 million. As at September 30, 2014 the Company did not have any long-term debt that was subject to variable interest rates. Derivative financial instruments are accounted for at their fair value. The Company's \$69 million convertible debentures are publicly traded on the Toronto Stock Exchange. On September 30, 2014 the closing price for these securities was \$106.00 for every \$100 of principal value of convertible debentures issued. This represents an aggregate market value of \$73.1 million.

### Interest rate risk

As at September 30, 2014 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 31,107,500 Common Shares outstanding.

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

Outstanding at Sept 30, 2014	Exercise Price	Remaining life (years)	Exercisable at Sept 30, 2014
165,000	\$ 16.18	1.4	165,000
75,000	\$ 14.21	1.7	75,000
1,140,000	\$ 13.74	2.6	845,000
76,666	\$ 14.96	3.4	9,999
53,334	\$ 14.72	3.6	–
150,000	\$ 17.61	4.0	–
60,000	\$ 22.81	4.8	–
1,720,000	\$ 14.73	2.71	1,094,999

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 \$22.22 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. The Company does not have significant exposure to any individual customer or counter party other than two intermediate oil and gas companies, which accounted for over 10% of revenue, one during the three month period and another during the nine month period ended September 30, 2014. No other customer accounted for more than 10% of revenue during this period. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry. 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. While attracting and retaining skilled personnel requires continuous effort and attention, the ability to obtain the services of qualified and skilled personnel is particularly challenging in times of strong industry activity. The Company's financial performance may be negatively impacted by the additional costs to retain and secure qualified personnel to fully conduct its various business affairs.

#### **Environmental Liability Risks**

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

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

#### **Potential Operating Risks and Insurance**

Total Energy has an insurance and risk management program in place which has been implemented in an effort to protect its assets, operations and employees. Total Energy also has programs in place to address compliance with current safety and regulatory standards. Total Energy has a health and safety manager in each division who is responsible for maintaining and developing policies and monitoring operations vis-à-vis those policies. Third party consultants are also retained as required to assist the divisional health and safety managers. Each health and safety manager is required to report incidents directly to the Vice President of Operations of Total Energy.

The Company's operations are subject to risks inherent in the oil and gas drilling and production services industry, such as equipment defects, malfunction and failures and natural disasters with resultant uncontrollable flows of oil, gas or well fluids, fires, spills and explosions.

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

**Access to Additional Financing**

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

**Seasonality**

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



## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (tabular amounts in thousands of Canadian dollars)

	Note	Sept 30, 2014	Dec 31, 2013
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents		\$ 19,750	\$ 3,210
Accounts receivable		97,800	78,130
Inventory		44,920	38,858
Income taxes receivable		–	2,402
Prepaid expenses and deposits		7,454	5,921
		169,924	128,521
Property, plant and equipment		392,508	382,347
Other assets	4	7,634	3,861
Goodwill		4,053	4,053
		\$ 574,119	\$ 518,782
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 50,658	\$ 46,224
Deferred revenue		9,638	8,710
Income taxes payable		7,863	–
Dividends payable		1,870	1,559
Current portion of obligations under finance leases		2,271	2,377
		72,300	58,870
Obligations under finance leases		2,871	2,775
Convertible debentures		65,861	64,446
Deferred tax liability		60,174	52,079
Shareholders' equity:			
Share capital	5	89,100	83,243
Contributed surplus		6,547	6,677
Equity portion of convertible debenture		4,601	4,601
Retained earnings		272,665	246,091
		372,913	340,612
Commitments and contingencies	8		
		\$ 574,119	\$ 518,782

The notes on pages 27 to 32 are an integral part of these condensed interim consolidated financial statements.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Note	Three months ended Sept 30		Nine months ended Sept 30	
		2014	2013	2014	2013
<b>REVENUE</b>		<b>\$ 108,233</b>	\$ 89,060	<b>\$ 307,040</b>	\$ 252,639
Cost of services		76,167	60,573	211,473	169,076
Selling, general and administration		7,991	7,188	23,967	22,358
Share-based compensation	6	176	643	1,524	2,556
Depreciation		7,637	6,958	21,810	20,018
Results from operating activities		16,262	13,698	48,266	38,631
Gain on sale of property, plant and equipment		697	96	6,119	1,151
Finance income	4	110	107	2,188	342
Finance costs		(1,379)	(1,501)	(4,423)	(4,451)
Net income before income taxes		15,690	12,400	52,150	35,673
Current income tax expense		2,766	1,954	4,059	5,241
Deferred income tax expense		1,172	1,337	8,095	3,818
Total income tax expense		3,938	3,291	12,154	9,059
Net income and total comprehensive income for the period		\$ 11,752	\$ 9,109	\$ 39,996	\$ 26,614
Earnings per share					
Basic earnings per share		\$ 0.38	\$ 0.30	\$ 1.28	\$ 0.87
Diluted earnings per share		\$ 0.37	\$ 0.29	\$ 1.24	\$ 0.86

The notes on pages 27 to 32 are an integral part of these condensed interim consolidated financial statements.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EQUITY

As at and for the nine months ended September 30, 2014 and 2013, and year ended December 31, 2013  
Unaudited (Tabular amounts in thousands of Canadian dollars)

	Note	Share Capital	Contributed Surplus	Equity portion of convertible debenture	Retained earnings	Total Equity
Balance at December 31, 2012		\$ 76,890	\$ 5,160	\$ 4,601	\$ 219,418	\$ 306,069
Net income and total comprehensive income for the year		-	-	-	37,308	37,308
Transactions with shareholders, recorded directly in equity:						
Dividends to shareholders (\$0.20 per common share)		-	-	-	(6,181)	(6,181)
Repurchase of common shares	5	(965)	-	-	(4,454)	(5,419)
Share-based compensation	6	-	3,236	-	-	3,236
Share options exercised	6	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
Net income and total comprehensive income for the period		-	-	-	39,996	39,996
Transactions with shareholders, recorded directly in equity:						
Dividends to shareholders (\$0.18 per common share)		-	-	-	(5,625)	(5,625)
Repurchase of common shares	5	(1,588)	-	-	(7,797)	(9,385)
Share-based compensation	6	-	1,524	-	-	1,524
Share options exercised	6	7,445	(1,654)	-	-	5,791
		5,857	(130)	-	(13,422)	(7,695)
<b>Balance at September 30, 2014</b>		<b>\$ 89,100</b>	<b>\$ 6,547</b>	<b>\$ 4,601</b>	<b>\$ 272,665</b>	<b>\$ 372,913</b>

	Note	Share Capital	Contributed Surplus	Equity portion of convertible debenture	Retained earnings	Total Equity
Balance at December 31, 2012		\$ 76,890	\$ 5,160	\$ 4,601	\$ 219,418	\$ 306,069
Net income and total comprehensive income for the period		-	-	-	26,614	26,614
Transactions with shareholders, recorded directly in equity:						
Dividends to shareholders (\$0.15 per common share)		-	-	-	(4,623)	(4,623)
Repurchase of common shares	5	(966)	-	-	(4,454)	(5,420)
Share-based compensation	6	-	2,556	-	-	2,556
Share options exercised	6	6,127	(1,422)	-	-	4,705
		5,161	1,134	-	(9,077)	(2,782)
Balance at September 30, 2013		\$ 82,051	\$ 6,294	\$ 4,601	\$ 236,955	\$ 329,901

The notes on pages 27 to 32 are an integral part of these condensed interim consolidated financial statements.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (Tabular amounts in thousands of Canadian dollars)

	Note	Three months ended Sept 30		Nine months ended Sept 30	
		2014	2013	2014	2013
<b>Cash provided by (used in):</b>					
Operations:					
Net income for the period		\$ 11,752	\$ 9,109	\$ 39,996	\$ 26,614
Add (deduct) items not affecting cash:					
Depreciation		7,637	6,958	21,810	20,018
Share-based compensation		176	643	1,524	2,556
Gain on sale of property, plant and equipment		(697)	(96)	(6,119)	(1,151)
Finance income	4	9	(107)	(1,916)	(342)
Finance costs		1,379	1,501	4,423	4,451
Current income tax expense		2,766	1,954	4,059	5,241
Deferred income tax expense		1,172	1,337	8,095	3,818
Income taxes recovered (paid)		(10)	(2,400)	6,206	(24,749)
		<b>24,184</b>	<b>18,899</b>	<b>78,078</b>	<b>36,456</b>
Changes in non-cash working capital items:					
Accounts receivable		(28,473)	(17,353)	(19,670)	(7,712)
Inventory		(3,616)	(1,553)	(6,062)	1,517
Prepaid expenses and deposits		1,466	(1,385)	(1,608)	(3,336)
Accounts payable and accrued liabilities		7,721	6,674	7,683	6,435
Deferred revenue		1,174	(1,402)	928	(1,277)
		<b>2,456</b>	<b>3,880</b>	<b>59,349</b>	<b>32,083</b>
Investments:					
Purchase of property, plant and equipment		(21,772)	(19,400)	(56,200)	(36,472)
Acquisition of business		–	–	–	(16,954)
Proceeds on sale of other assets		733	–	1,022	–
Purchase of other assets		–	–	(2,879)	–
Proceeds on disposal of property, plant and equipment		4,042	841	31,509	4,351
Changes in non-cash working capital items		(3,464)	5,103	(1,188)	880
		<b>(20,461)</b>	<b>(13,456)</b>	<b>(27,736)</b>	<b>(48,195)</b>
Financing:					
Repayment of obligations under finance leases		(707)	(795)	(2,437)	(2,279)
Dividends to shareholders		(1,879)	(1,530)	(5,314)	(4,598)
Issuance of common shares		1,649	3,277	5,791	4,705
Repurchase of common shares		(5,483)	(1,427)	(9,106)	(5,420)
Interest paid		(1,884)	(1,994)	(4,007)	(4,157)
		<b>(8,304)</b>	<b>(2,469)</b>	<b>(15,073)</b>	<b>(11,749)</b>
Change in cash and cash equivalents		<b>(26,309)</b>	<b>(12,045)</b>	<b>16,540</b>	<b>(27,861)</b>
Cash and cash equivalents, beginning of period		<b>46,059</b>	<b>34,236</b>	<b>3,210</b>	<b>50,052</b>
Cash and cash equivalents, end of period		<b>\$ 19,750</b>	<b>\$ 22,191</b>	<b>\$ 19,750</b>	<b>\$ 22,191</b>

The notes on pages 27 to 32 are an integral part of these condensed interim consolidated financial statements.

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2014 and 2013  
Unaudited (tabular amounts in thousands of Canadian dollars)

### 1. Reporting entity

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

The consolidated financial statements include the accounts of the Company, its subsidiaries and its partnerships, including Bidell Equipment Limited Partnership and Total Oilfield Limited Partnership, established in Canada, the United States of America and Australia.

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

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

### 2. Basis of preparation

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#### Statement of compliance:

The condensed interim consolidated financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting” of International Financial Reporting Standards (IFRS) and using the accounting policies outlined in the Company’s consolidated financial statements for the year ending December 31, 2013, except as outlined below. These condensed interim consolidated financial statements do not include all the necessary annual disclosures and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2013.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 12, 2014.

### 3. Operating segments

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

The segments are: Contract Drilling Services, which includes the contracting of drilling equipment and the provision of labour required to operate the equipment, Rentals and Transportation Services, which includes the rental and transportation of equipment used in oil and natural gas drilling, completion and production processes 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 taxes is used to measure performance

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2014 and 2013  
Unaudited (tabular amounts in thousands of Canadian dollars)

as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Inter-segment pricing is determined on an arm's length basis. Interest is allocated based on capital employed in each segment.

The segmented amounts are as follows:

As at and for the three months ended September 30, 2014	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Other <sup>(1)</sup>	Total
Revenue	\$ 16,758	\$ 30,088	\$ 61,387	\$ –	\$ 108,233
Cost of services	11,456	14,892	49,819	–	76,167
Selling, general and administration	872	3,401	2,469	1,249	7,991
Share-based compensation	–	–	–	176	176
Depreciation	1,690	3,945	1,993	9	7,637
Results from operating activities	2,740	7,850	7,106	(1,434)	16,262
Gain on sale of property, plant and equipment	–	105	592	–	697
Finance income	–	–	–	110	110
Finance costs	(206)	(531)	(260)	(382)	(1,379)
Net income (loss) before income taxes	2,534	7,424	7,438	(1,706)	15,690
Goodwill	–	2,514	1,539	–	4,053
Total assets	121,325	245,996	184,426	22,372	574,119
Total liabilities	24,198	51,386	48,000	77,622	201,206
Capital expenditures	\$ 4,791	\$ 7,162	\$ 9,801	\$ 18	\$ 21,772

As at and for the three months ended September 30, 2013	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Other <sup>(1)</sup>	Total
Revenue	\$ 14,772	\$ 25,508	\$ 48,780	\$ –	\$ 89,060
Cost of services	9,460	12,248	38,865	–	60,573
Selling, general and administration	841	3,250	2,048	1,049	7,188
Share-based compensation	–	–	–	643	643
Depreciation	1,597	3,722	1,630	9	6,958
Results from operating activities	2,874	6,288	6,237	(1,701)	13,698
Gain on sale of property, plant and equipment	–	(19)	115	–	96
Finance income	–	–	–	107	107
Finance costs	(204)	(552)	(241)	(504)	(1,501)
Net income (loss) before income taxes	2,670	5,717	6,111	(2,098)	12,400
Goodwill	–	2,514	1,539	–	4,053
Total assets	102,233	224,203	153,071	14,855	494,362
Total liabilities	19,583	43,570	32,388	68,920	164,461
Capital expenditures	\$ 2,816	\$ 5,255	\$ 9,855	\$ 1,474	\$ 19,400

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2014 and 2013  
Unaudited (tabular amounts in thousands of Canadian dollars)

As at and for the nine months ended September 30, 2014	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Other <sup>(1)</sup>	Total
Revenue	\$ 46,124	\$ 88,555	\$ 172,361	\$ –	\$ 307,040
Cost of services	29,290	45,647	136,536	–	211,473
Selling, general and administration	2,631	10,360	7,421	3,555	23,967
Share-based compensation	–	–	–	1,524	1,524
Depreciation	4,283	11,624	5,889	14	21,810
Results from operating activities	9,920	20,924	22,515	(5,093)	48,266
Gain on sale of property, plant and equipment	22	197	5,827	73	6,119
Finance income	–	–	–	2,188	2,188
Finance costs	(613)	(1,578)	(778)	(1,454)	(4,423)
Net income (loss) before income taxes	9,329	19,543	27,564	(4,286)	52,150
Goodwill	–	2,514	1,539	–	4,053
Total assets	121,325	245,996	184,426	22,372	574,119
Total liabilities	24,198	51,386	48,000	77,622	201,206
Capital expenditures	\$ 18,283	\$ 16,016	\$ 21,876	\$ 25	\$ 56,200

As at and for the nine months ended September 30, 2013	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Other <sup>(1)</sup>	Total
Revenue	\$ 37,687	\$ 79,225	\$ 135,727	\$ –	\$ 252,639
Cost of services	24,158	37,933	106,985	–	169,076
Selling, general and administration	2,409	10,048	6,331	3,570	22,358
Share-based compensation	–	–	–	2,556	2,556
Depreciation	3,907	11,414	4,668	29	20,018
Results from operating activities	7,213	19,830	17,743	(6,155)	38,631
Gain (loss) on sale of property, plant and equipment	(22)	216	957	–	1,151
Finance income	–	–	53	289	342
Finance costs	(608)	(1,648)	(711)	(1,484)	(4,451)
Net income before income taxes	6,583	18,398	18,042	(7,350)	35,673
Goodwill	–	2,514	1,539	–	4,053
Total assets	102,233	224,203	153,071	14,855	494,362
Total liabilities	19,583	43,570	32,388	68,920	164,461
Capital expenditures <sup>(2)</sup>	\$ 4,547	\$ 12,657	\$ 31,248	\$ 2,020	\$ 50,472

(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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2014 and 2013  
 Unaudited (tabular amounts in thousands of Canadian dollars)

#### 4. Other assets

Other assets include marketable securities of publicly traded entities. Other assets are designated as financial assets measured at fair value, with changes in fair value recorded in the statement of comprehensive income as finance income or finance cost. During the three and nine month periods ended September 30, 2014 the Company recorded an unrealized loss of \$0.2 million and an unrealized gain of \$1.7 million, respectively, resulting from changes in the market value of other assets. During the nine month period ended September 30, 2014, the Company recorded \$0.2 million of realized gain on the sale of other assets. These amounts were included in finance income. If the market value of securities on hand at September 30, 2014 would have decreased by 1%, with all other variables held constant, after tax net earnings for the period would have been approximately \$57,000 lower. As at December 31, 2013 these amounts were included in prepaid expenses and deposits.

#### 5. Share Capital

##### (a) Common share capital

Common shares of Total Energy Services Inc.

- (i) Authorized:  
 Unlimited number of common voting shares, without nominal or par value.  
 Unlimited number of preferred shares.
- (ii) Common shares issued:

	Number of shares (thousands)	Amount
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
Repurchased and cancelled	(442)	(1,293)
Repurchased and not cancelled	-	(295)
Issued on exercise of share options	440	7,445
<b>Balance, September 30, 2014</b>	<b>31,174</b>	<b>\$ 89,100</b>

During the nine months ended September 30, 2014, 440,400 common shares (year ended December 31, 2013: 364,900) were repurchased under the Company's normal course issuer bid at an average price of \$21.14 (year ended December 31, 2013: \$14.85), including commissions. 425,900 common shares repurchased under the Company's normal course issuer bid were cancelled during nine month period ended September 30, 2014. Remaining shares were cancelled in October 2014. The excess of the price paid over the average price per common share cancelled during the quarter has been charged to retained earnings. In addition, 16,000 common shares were purchased in 2011 pursuant to an employee retention plan. These shares were cancelled in 2014 as such shares did not vest pursuant to the employee retention plan.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2014 and 2013  
Unaudited (tabular amounts in thousands of Canadian dollars)

## (b) Per share amounts

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2014	2013	2014	2013
Net income for the period	\$ 11,752	\$ 9,109	\$ 39,996	\$ 26,614
Weighted average number of shares outstanding – Basic	31,254	30,856	31,259	30,743
Earnings per share - basic	\$ 0.38	\$ 0.30	\$ 1.28	\$ 0.87
Net income for the period	\$ 11,752	\$ 9,109	\$ 39,996	\$ 26,614
Add back: debenture interest net of tax	1,100	–	3,284	–
	\$ 12,852	\$ 9,109	\$ 43,280	\$ 26,614
Weighted average number of shares outstanding – Basic	31,254	30,856	31,259	30,743
Convertible debenture dilution	3,105	–	3,105	–
Share option dilution	509	203	480	75
Weighted average number of shares outstanding – Diluted	34,868	31,059	34,844	30,818
Earnings per share - diluted	\$ 0.37	\$ 0.29	\$ 1.24	\$ 0.86

For the three and nine months ended September 30, 2014, 60,000 share options (2013: 480,000 for the three months and 1,965,000 for the nine months; as well as 3,094,593 shares potentially issuable upon conversion of the convertible debentures for the three and nine months ended September 30, 2013) 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.

## 6. Share-Based Compensation Plan

Share option transactions during 2014 and 2013 were as follows:

	Weighted average exercise price	Number of Options
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
Granted	22.81	60,000
Exercised	13.16	(440,000)
Forfeited	13.74	(60,000)
<b>Balance, September 30, 2014</b>	<b>\$ 14.73</b>	<b>1,720,000</b>

The share options issued during 2013 vest 1/3 on the first, second and third anniversary from the grant date and expire five years from the date of grant. The share options issued in 2014 vest on the first anniversary from the grant date and expire five years from the date of grant.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2014 and 2013  
Unaudited (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 2014 is \$4.24 per option (2013 - \$4.02) using the following assumptions:

	September 30, 2014	December 31, 2013
Expected volatility	27.98%	30% to 41%
Annual dividend yield	1.04%	1.11% to 1.33%
Risk free interest rate	1.21%	1.15% to 1.87%
Forfeitures	7%	7%
Expected life (years)	3 to 5 years	3 to 5 years

## 7. Financial instruments

The Company's financial instruments as at September 30, 2014 include cash and cash equivalents, accounts receivable, other assets, accounts payable and accrued liabilities, dividends payable, obligations under finance leases, long-term debt and convertible debentures. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and obligations under finance leases approximate their carrying amounts due to their short-terms to maturity. The fair value of other assets was determined based on market prices quoted on the relevant stock exchanges on which the marketable securities trade. Changes in fair value of other assets are recorded in the statement of comprehensive income in the period the changes in fair value occur. The Company's \$69 million convertible debentures are listed and trade on the Toronto Stock Exchange. On September 30, 2014 the closing market price for these securities was \$106.00 per \$100 principal amount. This represents an aggregate market value of \$73.1 million.

## 8. Contingencies

A predecessor 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 filing positions taken are strong and, as such, no provision was taken with respect to the re-assessments. The total amount of each of the re-assessments, including interest, was approximately \$8.8 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 and in May 2014 CRA confirmed that its re-assessments had been vacated. The remaining Ontario Finance re-assessments 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 it. Management and the Company's legal counsel evaluate all claims on their apparent merits and accrue management's best estimate of the 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.

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

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

Daniel Halyk  
*President and Chief Executive Officer*

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

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

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

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

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

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

<sup>3</sup>Member of the Corporate Governance and Nominating Committee

### MANAGEMENT TEAM

#### TOTAL ENERGY SERVICES INC.

Daniel Halyk  
*President and Chief Executive Officer*

Brad Macson  
*Vice President, Operations*

Dennis Hassel  
*Vice President, Finance and Chief Financial Officer*

Gerry Crawford  
*Vice President, Field Services*

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

Yulia Gorbach  
*Corporate Controller*

#### 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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Website: [www.totalenergy.ca](http://www.totalenergy.ca)

Email: [investorrelations@totalenergy.ca](mailto:investorrelations@totalenergy.ca)

### AUDITOR

KPMG LLP

Calgary, Alberta

### TRUSTEE, REGISTRAR AND TRANSFER AGENT

Computershare

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

### CANADIAN LOCATIONS

Calgary • Carlyle • Dawson Creek • Drayton Valley • Edmonton • Edson • Fort Nelson • Fort St. John  
Fox Creek • Grande Prairie • High Level • Lac La Biche • Lloydminster • Manning • Medicine Hat • Peace River  
Red Deer • Red Earth • Rocky Mountain House • Slave Lake • Valleyview • Weyburn/Midale • Whitecourt

### U.S. LOCATIONS

Denver, CO • Minot, ND



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