2014

FOCUS DISCIPLINE GROWTH

Annual Report 2014

TOTAL ENERGY SERVICES INC.

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

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

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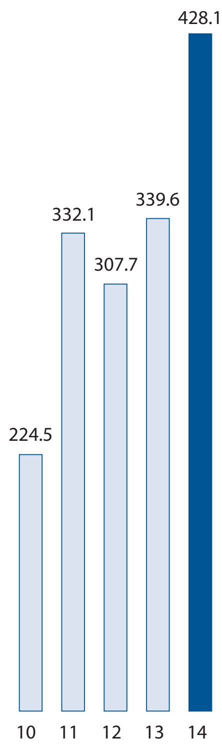
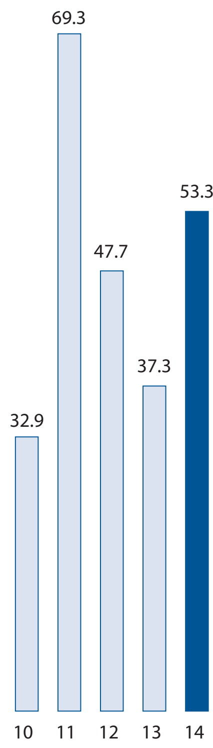
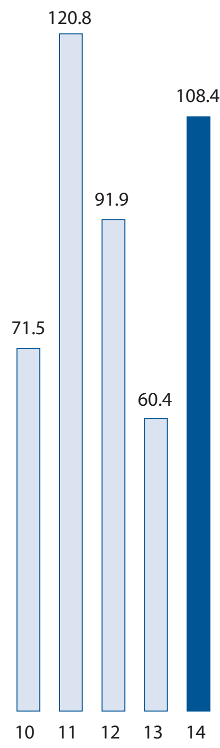
FINANCIAL HIGHLIGHTS



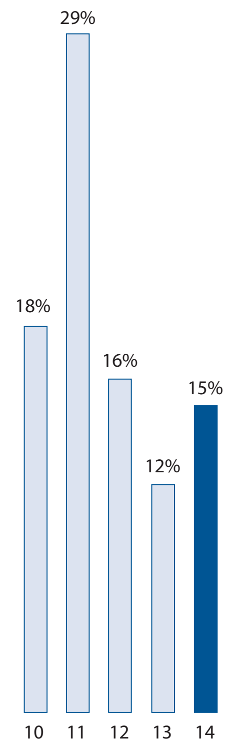
REVENUES
(in millions of dollars)



NET INCOME
(in millions of dollars)



CASHFLOW[(1)]
(in millions of dollars)



RETURN ON AVERAGE EQUITY[(2)]

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

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

REPORT TO SHAREHOLDERS

2014 began with optimism and ended with caution. Drilling and completion activity levels in Western Canada steadily improved during the year as compared to 2013. A substantial decline in global oil prices that began in the fall gave rise to uncertainty and caution that began to undermine activity levels during the fourth quarter. As the oil price decline continued and accelerated during the first part of 2015, it has translated into substantial reductions to planned capital expenditure levels by North American oil and natural gas producers.

While 2014 witnessed an increase in Western Canadian oil and natural gas industry activity levels, which in turn contributed to improved financial results for Total Energy, continued uncertainty over the global economic outlook continued to weigh somewhat on industry sentiment. In this environment, Total Energy attempted to strike a balance between growth and preservation of financial strength and capacity. During 2014 Total Energy invested approximately $91.2 million into new capital equipment and infrastructure to support continued growth. Offsetting this investment was $32.0 million of cash proceeds from the sale of capital assets, primarily gas compressors sold from the compression rental fleet.

In addition to investing in the future growth of the Company, during 2014 Total Energy returned approximately $19.4 million to shareholders in the form of dividends and share buybacks. $11.9 million was invested in share buy-backs (595,100 common shares, or just under two percent of the outstanding shares at the beginning of 2014, were repurchased) and $7.5 million of dividends were paid. Total Energy's capital investment program, share buybacks and dividends were all paid with cash on hand such that the Company remained bank debt free throughout the year.

All three of Total Energy's divisions continued to grow during 2014. Despite ongoing weakness in North American natural gas prices, Total Energy's Compression and Process Services division continued to achieve significant growth during the year. Divisional revenue for 2014 was a record $241 million, an increase of 38% from 2013, and this division exited 2014 with a record fabrication sales backlog of $108.0 million as compared to a $60.1 million backlog at the end of 2013. Despite only marginally higher equipment utilization, the Company's Rentals and Transportation Services division increased divisional pre-tax income for 2014 by over 13% as compared to 2013 due to a slightly larger equipment fleet and economies of scale. Competition in this business remained strong with limited pricing gains despite generally higher industry activity levels on a year over year basis. Within the Contract Drilling Services division, improved activity levels over the first nine months of 2014 contributed to improved year over year financial results as compared to 2013. A decrease in drilling rig utilization during the fourth quarter of 2014 compared to the prior year was due primarily to a sudden and unexpected decrease in a significant customer's drilling program.

LOOKING FORWARD

Western Canadian drilling activity during the first quarter of 2015 has declined as compared to both 2014 and historical winter drilling activity levels. While completion and production activity has held up better, drilling activity is generally seen as a leading indicator for such activity. As such, Total Energy expects that 2015 will be a challenging year for the energy services industry and has taken steps to right size its operations in response to reduced customer demand, particularly in the Contract Drilling Services and Rentals and Transportation Services divisions. While the challenging industry environment is expected to weigh upon the Compression and Process Services division, a record fabrication backlog at the end of 2014 provides some measure of support for 2015 activity levels.

In January 2015, Total Energy announced a preliminary 2015 capital budget of $13.6 million. The expenditure of this budget is discretionary and no substantial capital expenditure commitments have been made to date under such budget.

Entering 2015 with over $82 million of positive working capital (including $7.7 million of cash) and no bank debt, Total Energy will look to utilize its balance sheet strength to pursue investment opportunities that will add long term and sustainable shareholder value. Total Energy's sustainable dividend policy is based on a pragmatic view of the nature of the Canadian energy services industry, an industry that is both capital intensive and cyclical, and one that requires balance sheet strength at all times.

All Shareholders and other interested persons are invited to attend the annual meeting of Shareholders which will commence at 10:00 a.m. (MDT) on Thursday, May 21, 2015 at the Calgary Petroleum Club, 319 – 5th Avenue S.W., Calgary, Alberta.

On behalf of the Board of Directors, Management and Staff of Total Energy and its operating subsidiaries, I would like to thank our customers for their past business and remind all our stakeholders that our Company remains open for business. We are ready, willing and able to invest in our business and service our customers with quality equipment and high levels of service despite a challenging environment. Difficult times reinforce the need for focus and discipline and do not prevent stable organizations from continuing to improve and grow.

DANIEL K. HALYK
President and Chief Executive Officer

March 2015

FIVE YEAR COMPARISON

RESULTS (thousands of dollars, except per share data)		**2014**	2013	2012	2011	2010
Revenue		**$ 428,149**	$ 339,579	$ 307,702	$ 332,082	$ 224,524
EBITDA	(1)	**105,533**	82,952	91,076	122,034	67,596
Results from operating activities	(1)	**70,220**	54,780	65,221	96,233	47,903
Cash provided by operations		**81,941**	54,913	124,505	97,643	33,814
Cashflow	(1)	**108,357**	60,446	91,949	120,780	71,508
Net Income		**53,305**	37,308	47,692	69,266	32,926
Finance Costs	(2)	**4,216**	4,213	4,193	4,127	3,332
Depreciation		**29,557**	27,189	23,702	23,299	19,821
Capital expenditures, net	(3)	**59,245**	68,455	80,392	46,908	24,380
Earnings per share – diluted		**1.66**	1.20	1.49	2.08	1.05
EBITDA per share – diluted	(1)	**3.04**	2.43	2.62	3.49	2.15
Cashflow per share – diluted	(1)	**3.12**	1.77	2.65	3.46	2.27
FINANCIAL POSITION						
Working capital	(4)	**$ 82,332**	$ 73,512	$ 90,708	$ 120,786	$ 64,446
Total assets		**595,906**	518,782	476,591	434,617	342,834
Long-term debt	(5)	**71,844**	69,598	67,937	66,466	78,717
Shareholder's equity		**382,063**	340,612	306,069	275,321	209,845

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

(2) In 2014, 2013, 2012 and 2011 excludes accretion on convertible debentures of $1.9 million, $1.8 million, $1.6 million and $1.3 million respectively, and changes in fair value of other assets of $0.4 million.

(3) Excludes the acquisition of existing process equipment business in January 2013 and DC Energy Services LP in January 2010.

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

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

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

The following MD&A, dated March 12, 2015, focuses on key statistics from the consolidated financial statements of Total Energy Services Inc. (the "Company" or "Total Energy") and pertains to known risks and uncertainties relating to the energy services industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion and analysis of the financial condition and results of operations for the year ended December 31, 2014, should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2014 and related notes and material contained in other parts of the 2014 Annual Report as well as the Company's Annual Information Form ("AIF"). Additional information relating to Total Energy, including the Company's AIF, may be found on SEDAR at www.sedar.com. Unless otherwise indicated, all dollar amounts presented herein are in Canadian dollars.

FORWARD-LOOKING STATEMENTS

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

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

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

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Disclosure Controls and Procedures: The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is reported within the time periods specified under securities laws, and include controls and procedures that are designed to ensure that information is communicated to management of Total Energy, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. An evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) was conducted as at December 31, 2014. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer of Total Energy have concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2014.

Internal Control Over Financial Reporting: The Chief Executive Officer and Chief Financial Officer of Total Energy are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards ("IFRS"). The Chief Executive Officer and Chief Financial Officer of Total Energy directed the assessment of the design and operating effectiveness of the Company's internal control

over financial reporting as at December 31, 2014 and based on that assessment determined that the Company's internal control over financial reporting was, in all material respects, appropriately designed and operating effectively.

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

NON-IFRS MEASURES

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

Results from operating activities (in thousands of Canadian dollars)	**Three months ended Dec 31, 2014**	Three months ended Dec 31, 2013	**Year ended Dec 31, 2014**	Year ended Dec 31, 2013
Net income and total comprehensive income	**$ 13,309**	$ 10,694	**$ 53,305**	$ 37,308
Add back (deduct):				
Finance income	**(409)**	(43)	**(914)**	(385)
Finance costs	**3,765**	1,514	**6,505**	5,965
Loss (Gain) on sale of property, plant and equipment	**363**	168	**(5,756)**	(983)
Income tax expense	**4,926**	3,816	**17,080**	12,875
Results from operating activities	**$ 21,954**	$ 16,149	**$ 70,220**	$ 54,780

EBITDA (in thousands of Canadian dollars)	**Three months ended Dec 31, 2014**	Three months ended Dec 31, 2013	**Year ended Dec 31, 2014**	Year ended Dec 31, 2013
Net income and total comprehensive income	**$ 13,309**	$ 10,694	**$ 53,305**	$ 37,308
Add back:				
Depreciation	**7,747**	7,171	**29,557**	27,189
Finance income	**(409)**	(43)	**(914)**	(385)
Finance costs	**3,765**	1,514	**6,505**	5,965
Income tax expense	**4,926**	3,816	**17,080**	12,875
EBITDA	**$ 29,338**	$ 23,152	**$ 105,533**	$ 82,952

Cashflow (in thousands of Canadian dollars)	**Three months ended Dec 31, 2014**	Three months ended Dec 31, 2013	**Year ended Dec 31, 2014**	Year ended Dec 31, 2013
Cash provided by operations	**$ 22,592**	$ 22,830	**$ 81,941**	$ 54,913
Add back (deduct):				
Changes in non-cash working capital items	**7,687**	1,160	**26,416**	5,533
Cashflow	**$ 30,279**	$ 23,990	**$ 108,357**	$ 60,446

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 United States corporate affiliates.

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 18 rigs in western Canada, with all such rigs constructed in 1997 or later. Of these rigs, 16 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 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. In early 2015, the Company established a presence in Wyoming through a corporate acquisition. The Company now operates out of 22 locations throughout Western Canada and the Northwestern United States 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 continuously evaluates opportunities to expand its product and service offering within existing areas of operation.

Compression and Process Services: The Company provides a full range of natural gas compression equipment and service as well as select oil and natural gas process equipment. While the Company historically has been focused on Western Canada, it has expanded its market to include international sales. The Company has and will continue to compete with its larger competitors by providing quality equipment and maintaining an efficient business model. The Company has 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™. 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. Construction of a new 41,000 square foot compression fabrication facility was completed and put into service in the first quarter of 2014.

OVERALL PERFORMANCE

The results for the three months and year ended December 31, 2014 reflect higher revenue and net income than the prior year comparable periods, due generally to higher revenues arising from increased customer demand and higher equipment utilization. Total revenue and net income increased 39% and 24%, respectively, in the fourth quarter of 2014 as compared to the prior year comparable quarter. For 2014, the Company`s revenue and net income increased 26% and 43%, respectively, as compared to prior year. For the three months and year ended December 31, 2014, the Company recorded net income of $13.3 million and $53.3 million, respectively, as compared to $10.7 million and $37.3 million, respectively, during the comparable periods of 2013.

The Company's financial condition remains strong, with a positive working capital balance of $82.3 million and no bank debt as at December 31, 2014. As at December 31, 2014, long-term debt (including the principal amount of the outstanding convertible debentures) to long-term debt plus equity was 0.15 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). Shareholders' equity grew by $41.5 million, or 12%, during 2015 due primarily to a 14% increase in retained earnings.

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 Cyclicality

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

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

and spring breakup affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Company's slowest period.

Trends and Outlook

Activity levels in the WCSB during the fourth quarter of 2014 were comparable to the same period of 2013. The precipitous decline in oil prices that began in late 2014 has resulted in substantial decreases in 2015 capital expenditure plans by North American oil and natural gas producers. As such, the Company expects that 2015 will be a challenging year for North American energy services providers. As such, steps have been taken to right-size the Company's operations in response to reduced customer demand, particularly in the Contract Drilling Services and Rental and Transportation Services divisions. Additional measures to rationalize the Company's operating cost structure will be taken as future industry conditions may warrant. Despite a challenging near term outlook, 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. 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 2015 WCSB capital expenditures will be substantially lower than 2014 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.

SELECTED FINANCIAL INFORMATION

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

(in thousands of dollars except per share amounts)	**Year Ended Dec 31, 2014**	Year Ended Dec 31, 2013	Year Ended Dec 31, 2012
Revenue	**$ 428,149**	$ 339,579	$ 307,702
Cash provided by operations	**81,941**	54,913	124,505
Cashflow (1)	**108,357**	60,446	91,949
Net income	**53,305**	37,308	47,692
Per share (basic)	**1.71**	1.21	1.54
Per share (diluted)	**1.66**	1.20	1.49
Dividends declared per share	**0.24**	0.20	0.20
Total assets	**595,906**	518,782	476,591
Long term liabilities (2) (excluding current obligations under finance leases and deferred income taxes)	**72,107**	71,775	71,723

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

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

In 2014, the Company experienced higher demand in all of its operating divisions. Consolidated revenue for the Company increased by 26% and 39%, respectively, in 2014 as compared to 2013 and 2012.

RESULTS OF OPERATIONS

Consolidated Revenue

Revenues increased 39% and 26% to $121.1 million and $428.1 million, respectively, for the three months and year ended December 31, 2014 versus $86.9 million and $339.6 million for the comparable periods in 2013.

Divisional Revenue

Divisional revenues for the three months ended December 31, 2014 were $16.2 million for Contract Drilling Services, $36.3 million for Rentals and Transportation Services and $68.6 million for Compression and Process Services. Divisional revenues for the year ended December 31, 2014 were $62.4 million for Contract Drilling Services, $124.8 million for Rentals and Transportation Services and $241.0 million for Compression and Process Services.

Contract Drilling Services

The revenue reported from Total Energy's Contract Drilling Services division decreased by 11% to $16.2 million for the three months ended December 31, 2014 as compared to $18.3 million for the same period in 2013, and increased by 11% to $62.4 million for the year ended December 31, 2014, as compared to $56.0 million for the same period in 2013. For the fourth quarter of 2014 the Contract Drilling Services division achieved a utilization rate, on a spud to release basis, of 49% and year to date utilization rate of 51%, as compared to 60% and 48%, respectively, for the same periods in 2013. The decrease in utilization during the fourth quarter was due to decreased customer drilling activity. Operating days (spud to release) for the three months and the year ended December 31, 2014 totaled 755 and 3,038 days, respectively, with a fleet of 17 rigs, as compared to 881 and 2,814 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 December 31, 2014 increased 4% as compared to revenue per operating day during the same period of 2013, and revenue per operating day for the year ended December 31, 2014 increased by 3% as compared to 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 22% to $36.3 million for the three months ended December 31, 2014, as compared to $29.7 million for the same period in 2013, and increased by 15% to $124.8 million for the year ended December, 2014, as compared to $108.9 million in 2013. The revenue increase was due primarily to the mix of equipment being utilized. Average utilization of the rental assets was 44% and 41%, respectfully, for the three months and the year ended December 31, 2014 as compared to 43% and 38% for the prior year comparable periods. This division exited 2014 with approximately 10,000 pieces of rental equipment as compared to 9,700 pieces at the end of 2013. This division also exited 2014 with a fleet of 109 heavy trucks as compared to 100 heavy trucks at the end of 2013.

Compression and Process Services

The revenue reported from Total Energy's Compression and Process Services division increased by 76% and 38% to $68.6 million and $241.0 million, respectively, for the three months and year ended December 31, 2014 as compared to $39.0 million and $174.7 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 2014 with a backlog of fabrication sales orders of approximately $108.0 million, as compared to a backlog of $60.1 million as at December 31, 2013. As at December 31, 2014, the total horsepower of compressors on rent was approximately 45,000 as compared to approximately 43,900 as at December 31, 2013. The compression rental fleet experienced an average utilization of 89% (based on fleet horsepower) during three months and year ended December 31, 2014, as compared to 87% and 86%, respectively, 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 49% to $83.0 million for the three months ended December 31, 2014, as compared to $55.9 million for the same period in 2013, and increased by 31% to $294.5 million in 2014, as compared to $225.0 million in 2013. The cost of services increases resulted primarily from higher activity levels in all divisions. The gross margin percentage for the three months and year ended December 31, 2014 was 31% as a percentage of revenue, as compared to 36% and 34% for the comparable periods in 2013. The lower gross margin realized in 2014 compared to 2013 is primarily a result of the Compression and Process Services division contributing a greater portion of overall revenue in 2014 as compared to 2013 as this division has a higher cost of services relative to revenue than the other two divisions. 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 14% to $8.1 million for the three months ended December 31, 2014, as compared to $7.1 million for the same period in 2013, and increased by 9% to $32.0 million for the year ended December 31, 2014 as compared to $29.4 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 $0.3 million and $1.9 million, respectively, for the three months and year ended December 31, 2014, as compared to $0.7 million and $3.2 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 and minimal new share option grants.

Depreciation Expense

Depreciation expense increased 8% and 9%, respectively, for the three months and year ended December 31, 2014 to $7.7 million and $29.6 million, as compared to $7.2 million and $27.2 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 36% and 28% to $22.0 million and $70.2 million, respectively, for the three months and year ended December 31, 2014 as compared to $16.1 million and $54.8 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 $4.3 million and $14.2 million, respectively, for the three months and year ended December 31, 2014, as compared to $5.5 million and $12.7 million for the prior year comparable periods. The operating earnings margin in this division was 27% and 23%, respectively, for the three months and year ended December 31, 2014 as compared to 30% and 23%, respectively, for the comparable periods in 2013. The decrease in operating earnings margin during the three months ended December 31, 2014 compared to the prior year comparable period was due primarily to lower rig utilization.

The Rentals and Transportation Services division had operating earnings of $8.6 million and $29.5 million, respectively, for the three months and year ended December 31, 2014, as compared to $6.7 million and $26.5 million for the comparable periods in 2013. The operating earnings margins in this division were 24% for the three months and year ended December 31, 2014, as compared to operating earnings margin of 22% and 24%, respectively, for the comparable periods in 2013. The increase in operating margins during fourth quarter of 2014 was due primarily to cost management.

The Compression and Process Services division had operating earnings of $10.2 million and $32.7 million, respectively, for the three months and year ended December 31, 2014 as compared to $5.4 million and $23.2 million for the comparable periods in 2013. The operating earnings margin in this division was 15% and 14%, respectively, for three months and year ended December 31, 2014, as compared to 14% and 13% operating margin for the corresponding periods in 2013. The improvement in operating earnings margin was due primarily to economies of scale.

The Other division had operating losses of $1.2 million and $6.3 million for the three months and year ended December 31, 2014, as compared to $1.4 million and $7.6 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 $0.4 million and $0.9 million, respectively, for the three months and year ended December 31, 2014, as compared to $43,000 and $0.4 million for the same periods in 2013. During the three months and year ended December 31, 2014, the Company recorded realized gain on sale of other assets of $0.2 million and $0.3 million, respectively, as part of finance income. Finance income also includes interest income on bank balances and other ancillary interest income.

Finance Costs

Finance costs were $3.8 million and $6.5 million, respectively, for the three months and year ended December 31, 2014 as compared to $1.5 million and $6.0 million for the same periods in 2013. The increase in finance costs in the fourth quarter of 2014 was due primarily to a decrease in the market value of other assets. Other assets include marketable securities of

publicly traded entities. During the three months and year ended December 31, 2014, the Company recorded unrealized loss of $2.1 million and $0.4 million, respectively, resulting from changes in the market value of other assets. Finance costs also include interest paid on finance leases and interest expense (including accretion) on the convertible debentures.

Gain/(Loss) on Disposal of Equipment

During the three months and year ended December 31, 2014, the Company realized a loss on disposal of $0.4 million, and a gain on disposal of equipment of $5.8 million, respectively, as compared to a loss on disposal of equipment of $0.2 million and a gain of $1.0 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 2014, 28,160 horsepower of equipment in the compression rental fleet was sold.

Income Taxes and Net income

The Company recorded net income of $13.3 million ($0.43 per share basic and $0.42 per share diluted) and $53.3 million ($1.71 per share basic and $1.66 per share diluted), respectively, for the three months and year ended December 31, 2014 as compared to $10.7 million ($0.34 per share basic and diluted) and $37.3 million ($1.21 per share basic and $1.20 per share diluted) for the corresponding periods in 2013. The Company recorded a current income tax expense of $5.0 million and $9.0 million, respectively, for the three months and year ended December 31, 2014, as compared to $2.0 million and $7.3 million for the corresponding periods in 2013. The increase in current income tax expense in 2014 was due primarily to the increased profitability as compared to prior year. The Company recorded deferred income tax recovery of $0.1 million and deferred income tax expense $8.0 million, respectively, for the three months and year ended December 31, 2014, as compared to $1.8 million and $5.6 million for the corresponding periods in 2013. The increase in deferred income taxes during 2014 was due primarily to the timing of taxation of the Company's limited partnerships. This resulted in effective tax rates of 27% and 24%, respectively, for the three months and year ended December 31, 2014 as compared to 26% 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 27 to the 2014 Audited Consolidated Financial Statements for further detail.

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operations

Cash provided by operations was $22.6 million and $81.9 million for the three months and year ended December 31, 2014, as compared to $22.8 million and $54.9 million for the comparable periods in 2013. Cashflow was $30.3 million and $108.4 million, respectively, for the three months and year ended December 31, 2014, as compared to $24.0 million and $60.4 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's shares pursuant to the Company's normal course issuer bid.

Investments

Net cash used in investing activities was $29.0 million and $56.7 million, respectively, for the three months and year ended December 31, 2014, as compared to $40.4 million and $88.6 million for the comparable periods in 2013. The difference in net cash used in investment activities during 2014 compared to 2013 was due primarily to increased proceeds on disposals of equipment. The purchases of property, plant and equipment ("PP&E") during 2014 were allocated as follows: $27.7 million in the Contract Drilling Services division relating primarily to the purchase of rig equipment, $22.8 million in the Rentals and Transportation Services division relating primarily to new rental equipment and $40.6 million in the Compression and Process Services division due primarily to additions to the compression rental fleet. During 2013, the property, plant and equipment additions were as follows: $9.4 million in the Contract Drilling Services division, $27.3 million in the Rentals and Transportation Services division and $47.9 million in the Compression and Process Services division. The purchase of property, plant and equipment during 2014 was offset by proceeds on disposal of property, plant and equipment of $32.0 million as compared to $6.6 million during 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 $5.6 million and $20.7 million, respectively, for the three months and year ended December 31, 2014, as compared to $1.4 million and $13.2 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 $82.3 million as at December 31, 2014 as compared to $69.7 million as at December 31, 2013. As at December 31, 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 was 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 December 31, 2014, there were no amounts outstanding under this facility. On February 5, 2015, the Company renewed its $35 million operating facility on substantially the same terms and conditions. The facility remains a two year committed facility with payments not required until June 2017, assuming non-extension by the lender.

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

Dividends

For the three months and year ended December 31, 2014, the Company declared dividends of $1.9 million ($0.06 per share) and $7.5 million ($0.24 per share), respectively, as compared to $1.6 million ($0.05 per share) and $6.2 million ($0.20 per share) declared for the prior year comparable periods.

For 2015, the Company expects cash provided by operations, cashflow and net income to exceed dividends to shareholders. Management and the Board of Directors of the Company will monitor the Company's dividend policy with respect to forecasted net income, cashflow, cash provided by operations, debt levels, capital expenditures and other investment opportunities and will aim to finance future dividends through cash provided by operations.

SUMMARY OF QUARTERLY RESULTS

	Financial Quarter Ended (Unaudited)			
(in thousands of dollars except per share amounts)	**Dec 31, 2014**	Sept 30, 2014	June 30, 2014	March 31, 2014
Revenue	**$ 121,109**	$ 108,223	$ 83,694	$ 115,113
Cashflow [(1)]	**30,279**	24,184	19,871	34,023
Cash provided by operations	**22,592**	2,456	42,542	14,351
Net income	**13,309**	11,752	7,216	21,028
Per share (basic)	**0.43**	0.38	0.23	0.67
Per share (diluted)	**0.42**	0.37	0.23	0.63

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

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

As discussed in 'Seasonality and Cyclicality' above, variations over the quarters are due in part to the cyclical nature of the energy service industry in the WCSB due to the occurrence of a "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 a "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 a "breakup" are no longer affecting access to areas of operations. The fourth quarter has usually been the second busiest quarter of the year as customers are generally able to start accessing northern areas with the onset of winter and the ground freezing.

CONTRACTUAL OBLIGATIONS

At December 31, 2014, the Company had the following contractual obligations:

	Payments due by year					
(in thousands of dollars)	Total	2015	2016	2017	2018	2019 and after
Convertible debentures, face value [(1)]	$ 69,000	$ –	$ 69,000	$ –	$ –	$ –
Commitments [(2)]	7,265	2,297	1,937	1,640	895	496
Finance leases	5,483	2,376	1,855	886	269	97
Purchase obligations [(3)]	27,562	27,562	–	–	–	
Total contractual obligations	$ 109,310	$ 32,235	$ 72,792	$ 2,526	$ 1,164	$ 593

(1) Convertible debentures are described in Note 14 to the 2014 Audited Consolidated Financial Statements.

(2) Commitments are described in Note 26 to the 2014 Audited Consolidated Financial Statements.

(3) Purchase obligations are described in Note 26 to the 2014 Audited Consolidated Financial Statements. As at December 31, 2014, purchase obligations relate to Total Energy's commitment to purchase $2.3 million of capital assets for the Rentals and Transportation Services division, $24.8 million of inventory and capital assets for the Compression and Process Services division and $0.4 million for new rig construction and rig upgrade for the Contract Drilling Services division.

OFF-BALANCE SHEET ARRANGEMENTS

During 2014 and 2013, the Company had no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During 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 if a reliable estimate can 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 it 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. Such market prices are volatile and subject to change.

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 both during the year ended December 31, 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 December 31, 2014, the fair value of other assets was approximately $5.3 million. As at December 31, 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 December 31, 2014, the closing price for these securities was $99.99 for every $100 of principal value of convertible debentures issued. This represents an aggregate market value of $69.0 million.

Interest rate risk

As at December 31, 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 31,005,000 Common Shares outstanding.

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

Outstanding at December 31, 2014	Exercise Price	Remaining life (years)	Exercisable at December 31, 2014
165,000	$ 16.18	1.20	165,000
75,000	$ 14.21	1.50	75,000
1,140,000	$ 13.74	2.40	725,000
76,666	$ 14.96	3.10	–
53,334	$ 14.72	3.40	9,999
150,000	$ 17.61	3.80	50,000
60,000	$ 22.81	4.50	–
1,720,000	$ 14.73	2.50	1,024,999

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 $22.19 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 North America could have a significant impact on the oilfield service industry in North America. The recent substantial decline in oil prices is expected to have a material adverse impact on the North American energy services industry for the foreseeable future.

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 both of them during the year ended December 31, 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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

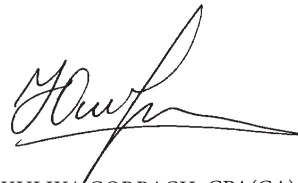
Management has prepared Management's Discussion and Analysis (MD&A). The MD&A is based upon Total Energy's financial results prepared in accordance with IFRS. The MD&A compares the audited financial results for the twelve months ended December 31, 2013 to December 31, 2014.

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

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

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

DANIEL K. HALYK
President and Chief Executive Officer



YULIYA GORBACH, CPA(CA), ACCA
V.P. Finance and Chief Financial Officer

March 12, 2015

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Total Energy Services Inc.

We have audited the accompanying consolidated financial statements of Total Energy Services Inc. which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Total Energy Services Inc. as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

CHARTERED ACCOUNTANTS

March 12, 2015
Calgary, Canada

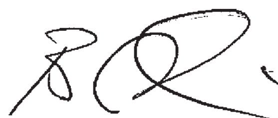
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	Note	December 31, 2014	December 31, 2013
ASSETS			
Current assets:			
Cash and cash equivalents	7	**$ 7,745**	$ 3,210
Accounts receivable	8	**98,920**	78,130
Inventory	9	**54,348**	38,858
Income taxes receivable	16	**–**	2,402
Prepaid expenses and deposits		**5,576**	5,921
		166,589	128,521
Property, plant and equipment	10	**419,991**	382,347
Other assets	11	**5,273**	3,861
Goodwill	12	**4,053**	4,053
		$ 595,906	$ 518,782
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	13	**$ 59,837**	$ 46,224
Deferred revenue		**7,430**	8,710
Dividends payable		**1,860**	1,559
Income taxes payable	16	**12,754**	–
Current portion of obligations under finance leases	15	**2,376**	2,377
		84,257	58,870
Obligations under finance leases	15	**3,107**	2,775
Convertible debentures	14	**66,361**	64,446
Deferred tax liability	16	**60,118**	52,079
Shareholders' equity:			
Share capital	17	**88,899**	83,243
Contributed surplus		**6,880**	6,677
Equity portion of convertible debenture	14	**4,601**	4,601
Retained earnings		**281,683**	246,091
		382,063	340,612
Commitments and contingencies	26,27		
		$ 595,906	$ 518,782

The notes on pages 30 to 56 are an integral part of these consolidated financial statements.

Approved by the Board of Total Energy Services Inc.



Director: Greg Melchin

Director: Bruce L. Pachkowski

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars except per share amounts)

Years ended December 31	Note	**2014**	2013
REVENUE	19	**$ 428,149**	$ 339,579
Cost of services	20	**294,479**	224,958
Selling, general and administration	21	**32,036**	29,416
Share-based compensation	18	**1,857**	3,236
Depreciation	10	**29,557**	27,189
Results from operating activities		**70,220**	54,780
Gain on sale of property, plant and equipment	10	**5,756**	983
Finance income	23	**914**	385
Finance costs	24	**(6,505)**	(5,965)
Net income before income taxes		**70,385**	50,183
Current income tax expense	16	**9,041**	7,259
Deferred income tax expense	16	**8,039**	5,616
Total income tax expense	16	**17,080**	12,875
Net income and total comprehensive income for the year		**$ 53,305**	$ 37,308
Earnings per share	17		
Basic earnings per share		**$ 1.71**	$ 1.21
Diluted earnings per share		**$ 1.66**	$ 1.20

The notes on pages 30 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS CHANGES IN EQUITY

Years ended December 31, 2014 and 2013
(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	17	–	–	–	(6,181)	(6,181)
Repurchase of common shares	17	(965)	–	–	(4,454)	(5,419)
Share-based compensation	18	–	3,236	–	–	3,236
Share options exercised	18	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 year		–	–	–	53,305	53,305
Transactions with shareholders, recorded directly in equity:						
Dividends to shareholders	17	–	–	–	(7,486)	(7,486)
Repurchase of common shares	17	(1,789)	–	–	(10,227)	(12,016)
Share-based compensation	18	–	1,857	–	–	1,857
Share options exercised	18	7,445	(1,654)	–	–	5,791
		5,656	203	–	(17,713)	(11,854)
Balance at December 31, 2014		**$ 88,899**	**$ 6,880**	**$ 4,601**	**$ 281,683**	**$ 382,063**

The notes on pages 30 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

Years ended December 31	Note	2014	2013
Cash provided by (used in):			
Operations:			
Net income for the year		**$ 53,305**	$ 37,308
Add (deduct) items not affecting cash:			
Depreciation	10	**29,557**	27,189
Share-based compensation	18	**1,857**	3,236
Gain on disposal of property, plant and equipment	10	**(5,756)**	(983)
Finance income	23	**(306)**	(385)
Finance costs	24	**6,505**	5,965
Current income tax expense	16	**9,041**	7,259
Deferred income tax expense	16	**8,039**	5,616
Income taxes recovered (paid)		**6,115**	(24,759)
		108,357	60,446
Changes in non-cash working capital items:			
Accounts receivable	8	**(20,790)**	(14,619)
Inventory	9	**(15,490)**	(2,664)
Prepaid expenses and deposits		**270**	(3,374)
Accounts payable and accrued liabilities	13	**10,874**	13,385
Deferred revenue		**(1,280)**	1,739
		81,941	54,913
Investments:			
Purchase of property, plant and equipment	10	**(91,239)**	(75,029)
Acquisition of business	5	**–**	(16,954)
Proceeds on sale of other assets		**1,399**	–
Purchase of other assets		**(2,879)**	–
Proceeds on disposal of property, plant and equipment		**31,994**	6,574
Changes in non-cash working capital items		**4,004**	(3,160)
		(56,721)	(88,569)
Financing:			
Repayment of obligations under finance leases	15	**(3,135)**	(3,001)
Payment of dividends	17	**(7,185)**	(6,152)
Issuance of common shares	17	**5,791**	5,599
Repurchase of common shares	17	**(11,941)**	(5,419)
Interest paid		**(4,215)**	(4,213)
		(20,685)	(13,186)
Change in cash and cash equivalents		**4,535**	(46,842)
Cash and cash equivalents, beginning of year		**3,210**	50,052
Cash and cash equivalents, end of year		**$ 7,745**	$ 3,210

The notes on pages 30 to 56 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2014 and 2013
(Tabular amounts in thousands of Canadian dollars)

1. Reporting entity

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

The consolidated financial statements include the accounts of the Company, its subsidiaries and its partnerships, including Bidell Equipment Limited Partnership and Total Oilfield Limited Partnership.

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

2. Basis of preparation

(a) Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 12, 2015.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for other assets which are measured at fair value.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

(e) Critical Judgments in Applying Accounting Policies

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

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

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

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

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

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

(f) Key Sources of Estimation Uncertainty

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

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

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

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

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

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

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

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

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

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

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Business combinations and goodwill

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

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

Goodwill is measured at cost less accumulated impairment losses.

(ii) Subsidiaries and partnerships

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

(iii) Transactions eliminated on consolidation

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

(b) Foreign currency

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

(c) Financial instruments

(i) Non-derivative financial assets

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

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

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

The Company has the following non-derivative financial assets:

Financial Instrument	Category	Measurement method
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Other assets	Fair value through profit or loss	Fair value

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

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

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

Other assets are measured at fair value. Gains and losses relating to change in fair value are recognized entirely through profit or loss (see note 11).

(ii) Non-derivative financial liabilities

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

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

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

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

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

The Company has the following non-derivative financial liabilities:

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

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

(iii) Derivative financial instruments

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

(iv) Share capital

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

The estimated useful lives are as follows:

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

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

(e) Leased assets

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

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

(f) Inventory

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

(g) Impairment

(i) Financial assets (including receivables)

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

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

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

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

(ii) Non-financial assets

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

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

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

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

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

(h) Employee benefits

(i) Short-term employee benefits

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

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

(ii) Share-based payment transactions

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

(i) Revenue recognition

The Company recognizes revenue in its segments as follows; Contract Drilling and Rentals and Transportation Services revenue is recognized on an accrual basis in the period when services are provided, the amount of the revenue can be measured reliably and the stage of completion can be determined, and only when collectability is reasonably assured. Revenue in Compression and Process Services from the supply of equipment that involves the design, manufacture, installation and start-up is recorded based on the stage of completion, where the stage of completion is measured by reference to labour hours incurred to date as a proportion of total expected labour hours. Revenues and costs begin to be recognized when progress reaches a stage of completion sufficient to reasonably determine the probable outcome. The outcome can be measured reliably when total contract revenue can be measured reliably, collectability is reasonably assured, both contract costs to complete and stage of completion can be determined and costs can be clearly identified. Any foreseeable losses on such projects are charged to operations when determined and work in progress is presented as part of accounts receivable. If payments received from a customer exceed the revenue recognized, the difference increases the deferred revenue balance. Parts and service revenue is recognized on an accrual basis in the period in which the risks and rewards of ownership of the product are transferred and/or service is provided, the associated costs can be estimated reliably, there is no continuing managerial involvement with the product and only when the amount of revenue can be measured reliably and collectability is reasonably assured. The Company's services and products are sold based upon orders or contracts with customers that include fixed or determinable prices based upon monthly, daily, hourly or job rates.

(j) Provisions

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

market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(k) Onerous contracts

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

(l) Lease payments

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

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

(m) Finance income and finance costs

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

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

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

(n) Income tax

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

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

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

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

(o) Earnings per share

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

(p) Segment reporting

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

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

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

Accounting pronouncements not yet adopted

IFRS 9 Financial Instruments

IFRS 9 was issued in November 2009 and contains requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, Financial Instruments - Recognition and Measurement, for debt instruments with a new mixed measurement model having only two categories; amortized cost and fair value through profit and loss. This standard originally required to be applied for accounting periods beginning on or after January 1, 2015, however in November 2013, the mandatory effective date was removed, with early adoption being permitted.

IFRS 9 will be adopted in the Company's consolidated financial statements when mandatory adoption is required and management anticipates that the application of IFRS 9 will not have a significant effect on the Company's consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15, Revenues from Contracts with customers, was introduced to clarify the principles for recognizing revenue from contracts with customers. The main objective is to remove inconsistencies and weaknesses in existing revenue recognition standards by providing clear principles for revenue recognition in a robust framework, provide a single revenue recognition model which will improve comparability, and simplify the preparation of the financial statements. IFRS 15 is effective for annual periods beginning on or after January 2017. Management is still assessing the impact of the adoption of IFRS 15 on the Company's consolidated financial statements.

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes

based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

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

(b) Inventories

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

(c) Accounts receivable

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

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

(d) Other assets

The fair value of other assets is determined based on prices quoted in an open market. The changes in fair value is recorded in profit or loss for the period.

(e) Non-derivative financial liabilities

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

(f) Share-based payment transactions

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

5. Acquisition of process equipment fabrication business

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

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

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

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

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

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

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

6. Operating segments

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

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

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

The segmented amounts are as follows:

As at and for the year ended December 31, 2014	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Other [1]	Total
Revenue	$ 62,358	$ 124,840	$ 240,951	$ –	$ 428,149
Cost of services	38,766	65,449	190,264	–	294,479
Selling, general and administration	3,502	14,178	9,969	4,387	32,036
Share-based compensation	–	–	–	1,857	1,857
Depreciation	5,863	15,672	7,998	24	29,557
Results from operating activities	14,227	29,541	32,720	(6,268)	70,220
Gain on sale of property, plant and equipment	(319)	173	5,827	75	5,756
Finance income	–	–	–	914	914
Finance costs	(819)	(2,119)	(1,039)	(2,528)	(6,505)
Net income before income taxes	13,089	27,595	37,508	(7,807)	70,385
Goodwill	–	2,514	1,539	–	4,053
Total assets	125,992	261,089	199,903	8,922	595,906
Total liabilities	22,936	57,823	49,135	83,949	213,843
Capital expenditures	$ 27,691	$ 22,772	$ 40,636	$ 140	$ 91,239

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

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

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

7. Cash and cash equivalents

Cash and cash equivalents represent cash in bank.

8. Accounts receivable

	December 31, 2014	December 31, 2013
Trade receivables, net of allowance for doubtful accounts	$ 75,440	$ 53,654
Accrued and other receivables	23,480	24,476
	$ 98,920	$ 78,130

The Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 25. Included in accrued and other receivables is $10.5 million (2013: $10.5 million) of amounts pertaining to contracts in progress as at December 31, 2014.

9. Inventory

	December 31, 2014	December 31, 2013
Finished goods	$ 2,492	$ 3,125
Work-in-progress	11,705	6,635
Parts and raw materials	40,151	29,098
	$ 54,348	$ 38,858

For the year ended December 31, 2014, finished goods, work-in-progress and parts and raw materials of $169.9 million (December 31, 2013: $119.3 million) are included in cost of services (note 20), of which $2.2 million (2013: $2.6 million) relate to contracts in progress at December 31, 2014.

10. Property, plant and equipment

	Land and Buildings	Rental equipment	Automotive equipment	Leased assets	Shop Machinery and equipment	Drilling rigs and related equipment	Furniture, fixtures and other	Total
Cost								
As at December 31, 2012	$ 29,366	$ 231,307	$ 52,684	$ 9,375	$ 6,763	$ 115,480	$ 4,755	$ 449,730
Acquisition	10,566	–	65	–	3,059	–	310	14,000
Transfers	–	(1,497)	18	–	1,479	–	–	–
Additions	13,254	44,471	6,955	2,910	603	9,368	378	77,939
Disposals	–	(6,190)	(2,983)	(1,948)	(15)	(567)	–	(11,703)
As at December 31, 2013	53,186	268,091	56,739	10,337	11,889	124,281	5,443	529,966
Transfers	20	(20)	357	(357)	–	–	–	–
Additions	8,694	49,713	2,781	3,466	1,881	27,668	502	94,705
Disposals	(3,097)	(24,966)	(144)	(2,258)	(76)	(407)	–	(30,948)
As at December 31, 2014	**58,803**	**292,818**	**59,733**	**11,188**	**13,694**	**151,542**	**5,945**	**593,723**
Accumulated Depreciation								
As at December 31, 2012	4,982	56,654	21,525	4,191	3,354	31,730	4,106	126,542
Transfers	–	(711)	–	–	711	–	–	–
Depreciation expense	1,670	10,338	5,314	2,495	1,589	5,287	496	27,189
Disposals	–	(2,025)	(1,964)	(1,607)	(2)	(514)	–	(6,112)
As at December 31, 2013	6,652	64,256	24,875	5,079	5,652	36,503	4,602	147,619
Transfers	–	–	160	(160)	–	–	–	–
Depreciation expense	2,224	11,988	4,881	2,403	1,956	5,601	504	29,557
Disposals	–	(1,575)	(111)	(1,658)	(36)	(64)	–	(3,444)
As at December 31, 2014	**8,876**	**74,669**	**29,805**	**5,664**	**7,572**	**42,040**	**5,106**	**173,732**
Net Book Value								
As at December 31, 2012	24,384	174,653	31,159	5,184	3,409	83,750	649	323,188
As at December 31, 2013	46,534	203,835	31,864	5,258	6,237	87,778	841	382,347
As at December 31, 2014	**$ 49,927**	**$ 218,149**	**$ 29,928**	**$ 5,524**	**$ 6,122**	**$ 109,502**	**$ 839**	**$ 419,991**

As at December 31, 2014, $24.3 million (December 31, 2013: $34.5 million) of property plant and equipment was under construction. The Company has not capitalized any borrowing costs as there were no borrowing costs directly attributable to the acquisition and construction of property, plant and equipment.

11. 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 year ended December 31, 2014, the Company recorded an unrealized loss of $0.4 million resulting from changes in the market value of other assets and $0.3 million of realized gain on the sale of other assets. These amounts were included, respectively, in finance costs and in finance income. If the market value of securities on hand at December 31, 2014 would have decreased by 1%, with all other variables held constant, after tax net earnings for the period would have been approximately $40,000 lower.

12. Goodwill

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

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

	December 31, 2014	December 31, 2013
Rental and Transportation Services	$ 2,514	$ 2,514
Compression and Process Services	1,539	1,539
	$ 4,053	$ 4,053

The recoverable amount of the cash-generating units was based on its value in use. As the carrying amount of the unit was determined to be lower than its recoverable amount no impairment was recorded (2013: nil).

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit. Unless indicated otherwise, value in use in 2014 was determined similarly as in 2013. The calculation of the value in use was based on the following key assumptions.

- Cash flows were projected based on past experience, actual operating results and a 15-year horizon in both 2014 and 2013.
- A pre-tax discount rate of 9% (2013: 9%) was applied in determining the recoverable amount of the unit.

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

13. Accounts payable and accrued liabilities

	December 31, 2014	December 31, 2013
Trade payables	$ 21,043	$ 23,500
Wages and salaries payables	7,376	6,194
Accrued costs and other payables	31,418	16,530
	$ 59,837	$ 46,224

Included in accrued costs and other payables are customer advances of $1.5 million (2013: $6.5 million) held pursuant to contracts in progress as at December 31, 2014.

14. Long-term debt

Operating facility

On February 17, 2011, the Company secured a $35 million operating facility with a major Canadian financial institution. The facility was a 2 year committed facility with payments not required until June 2013, assuming non-extension by the lender, bearing interest at prime rate plus 0.50% secured against the Company`s cash and cash equivalents, accounts receivable and inventory. On January 18, 2013, the facility was extended for a 2 year period, with payments not required until June 2015, assuming non-extension by the lender, bearing interest at prime rate plus 0.40%. All other terms of the facility remained unchanged. This facility remained undrawn at December 31, 2014 and 2013.

On February 5, 2015, the Company renewed its $35 million operating facility with a major Canadian financial institution. The facility is a 2 year committed facility with payments not required until June 2017, assuming non-extension by the lender, bearing interest at prime rate plus 0.40% secured against the Company`s cash and cash equivalents, accounts receivable and inventory.

Convertible debentures

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

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

Each $1,000 principal amount of debentures is convertible at the option of the holder at any time prior to the close of business on the earlier of (i) the maturity date and (ii) the last business day immediately preceding the date fixed for redemption, into 45.0653 common shares of the Company, representing a conversion price of $22.19, subject to anti-dilution provisions. Holders who convert their debentures will receive accrued and unpaid interest for the period from the date of the latest interest payment date to the date of the conversion.

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

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

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

During the years ended December 31, 2014 and 2013 changes in the balance of the liability component of the convertible debentures were as follows:

	2014	2013
Convertible debentures, opening balance	**$ 64,446**	$ 62,694
Accretion of discount	**1,915**	1,752
Convertible debentures, end of year	**$ 66,361**	**$ 64,446**

15. Finance lease liabilities

	December 31, 2014	December 31, 2013
Finance lease liability	$ 5,483	$ 5,152
Less current portion	2,376	2,377
Balance, end of year	$ 3,107	$ 2,775

The Company has entered into various agreements with third parties for the purpose of financing certain automotive equipment. The leases bear interest at rates ranging from 2.94% - 3.13% (December 31, 2013: 2.75% - 3.30%) and mature on various dates up to 2019 (see note 25).

In 2014, interest of $0.2 million (December 31, 2013 - $0.2 million) relating to finance lease obligations has been included in finance costs.

	Minimum lease payments		Present value of minimum lease payment	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Not later than one year	$ 2,550	$ 2,537	$ 2,376	$ 2,377
Later that one year and not later than five years	3,322	2,944	3,107	2,775
Later than 5 years	–	–	–	–
	5,872	5,481	5,483	5,152
Less: future finance charges	(389)	(329)	–	–
Present value of minimum lease payments	$ 5,483	$ 5,152	$ 5,483	$ 5,152

16. Deferred income tax assets and liabilities

The components of the net deferred income tax liability at December 31, 2014 and 2013 are as follows:

	December 31, 2014	December 31, 2013
Deferred income tax liabilities:		
Convertible debentures	$ 510	$ 838
Property, plant and equipment	50,597	46,151
Partnership income deferral	8,724	4,822
Other	287	268
	$ 60,118	$ 52,079

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

Movement in temporary differences during the period:

	Dec 31, 2012	Recognised in net income or loss	Dec 31, 2013	Recognised in net income or loss	**Dec 31, 2014**
Deferred income tax liabilities:					
Convertible debentures	$ (1,124)	$ 286	$ (838)	$ 328	**$ (510)**
Property, plant and equipment	(38,979)	(7,172)	(46,151)	(4,446)	**(50,597)**
Partnership income deferral	(5,846)	1,024	(4,822)	(3,902)	**(8,724)**
Other	(514)	246	(268)	(19)	**(287)**
	$ (46,463)	$ (5,616)	$ (52,079)	$ (8,039)	**$ (60,118)**

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

	2014	2013
Net income before income taxes	**$ 70,385**	$ 50,183
Income tax rate	**25.2%**	25.2%
Expected income tax expense	**$ 17,737**	$ 12,646
Changes in taxes resulting from:		
Non-deductible share-based compensation	**468**	814
Deferred income tax rate differences	**23**	42
Other	**(1,148)**	(627)
Provision for income taxes	**$ 17,080**	$ 12,875

17. 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
Issued on exercise of share options	440	7,445
Repurchased and cancelled	(611)	(1,789)
Balance, December 31, 2014	**31,005**	**$ 88,899**

During year ended December 31, 2014, 595,100 common shares (December 31, 2013: 364,900) were repurchased under the Company's normal course issuer bid at an average price of $20.07 (December 31, 2013: $14.85), including commissions, and these shares were cancelled. The excess of price paid over the average price per common share has been charged to retained earnings. In addition, 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.

(b) Per Share amounts

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

	Year ended December 31, 2014	Year ended December 31, 2013
Net income for the year	**$ 53,305**	$ 37,308
Weighted average number of shares outstanding – Basic	**31,216**	30,834
Earnings per share - basic	**$ 1.71**	$ 1.21
Net income for the year	**$ 53,305**	$ 37,308
Add back: debenture interest net of tax	**4,400**	–
	$ 57,705	$ 37,308
Weighted average number of shares outstanding – Basic	**31,216**	30,834
Convertible debenture dilution	**3,109**	–
Share option dilution	**370**	162
Weighted average number of shares outstanding – Diluted	**34,695**	30,996
Earnings per share - diluted	**$ 1.66**	$ 1.20

At December 31, 2014, 210,000 options (December 31, 2013: 610,000) and nil shares (December 31, 2013: 3,096,239) potentially issuable upon conversion of the convertible debentures were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

During 2014, the Company declared dividends of $7.5 million (2013: $6.2 million) or $0.24 (2013: $0.20) per common share.

18. Share-based compensation plan

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

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

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)
Balance, December 31, 2014	**$ 14.73**	**1,720,000**

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. The options expire on various dates ranging from March 31, 2016 to June 30, 2019.

During 2014, the weighted average market price at the time of exercise of options was $21.07 per share (2013: $15.85).

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

Outstanding at December 31, 2014	**Exercise Price**	**Remaining life (years)**	**Exercisable at December 31, 2014**
165,000	**$ 16.18**	**1.20**	**165,000**
75,000	**14.21**	**1.50**	**75,000**
1,140,000	**13.74**	**2.40**	**725,000**
76,666	**14.96**	**3.10**	**–**
53,334	**14.72**	**3.40**	**9,999**
150,000	**17.61**	**3.80**	**50,000**
60,000	**22.81**	**4.50**	**–**
1,720,000	**$ 14.73**	**2.50**	**1,024,999**

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

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 $4.17 per option (2013 - $4.02) using the following assumptions:

	December 31, 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

For the year ended December 31, 2014 the Company recognized share-based compensation expense of $1.9 million (2013 – $3.2 million).

19. Revenue

	2014	2013
Rendering of services	**$ 247,358**	$ 207,728
Sale of goods	**180,791**	131,851
	$ 428,149	$ 339,579

Included in sale of goods is $1.3 million (2013: $9.2 million) of revenue relating to contracts in progress as at December 31, 2014.

20. Cost of services

	2014	2013
Inventory	**$ 169,869**	$ 119,319
Wages and salaries	**74,435**	64,846
Repair and maintenance	**25,662**	18,836
Fuel and travel	**17,343**	12,387
Rent and services	**2,990**	4,019
Parts and supplies	**1,686**	3,345
Other	**2,494**	2,206
	$ 294,479	$ 224,958

21. Selling, general and administration

	2014	2013
Wages and salaries	**$ 23,008**	$ 20,559
Office	**3,401**	4,001
Travel	**1,804**	1,889
Professional and legal	**1,403**	1,070
Rent	**1,162**	1,062
Other	**1,258**	835
	$ 32,036	$ 29,416

22. Employee benefits

	2014	2013
Cost of services	$ 74,435	$ 64,846
Selling, general and administration	23,008	20,559
Share-based compensation	1,857	3,236
	$ 99,300	$ 88,641

23. Finance income

	2014	2013
Interest on outstanding cash balances	$ 219	$ 332
Gain on sale of investments	313	–
Other	382	53
	$ 914	$ 385

24. Finance costs

	2014	2013
Convertible debenture interest	$ 3,967	$ 3,967
Accretion of convertible debenture	1,915	1,752
Interest on finance lease obligations	190	171
Other interest	433	75
	$ 6,505	$ 5,965

25. Financial risk management and financial instruments overview

Capital management

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying businesses. The Company seeks to maintain an appropriate balance between the level of long-term debt and shareholders' equity to ensure access to the capital markets to fund growth and working capital having regard to the cyclical nature of the oilfield services industry. Historically the Company has maintained a conservative ratio of long-term debt to long-term debt plus equity. As at December 31, 2014 and 2013 these ratios were as follows:

	December 31, 2014	December 31, 2013
Long-term debt (including convertible debentures)	$ 69,000	$ 69,000
Shareholders' equity	382,063	340,612
Total capitalization	$ 451,063	$ 409,612
Long-term debt to long-term debt plus equity ratio	0.15	0.17

As at December 31, 2014, the Company was subject to externally imposed minimum capital requirements relating to its operating facility. These minimum capital requirements included meeting certain minimum pre-determined ratios with respect to current assets to current liabilities and debt to equity as well as certain current asset margining requirements. The Company monitored these requirements to ensure compliance with them. As at December 31, 2014 and 2013 the Company was in compliance with all external minimum capital requirements.

Financial instruments

The Company's financial instruments as at December 31, 2014 include cash and cash equivalents, accounts receivable, other assets, accounts payable and accrued liabilities, dividends payable, obligations under finance leases, derivative instruments and convertible debentures. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and obligations under finance leases approximate their carrying amounts due to their short-terms to maturity. Other assets are measured at fair value (note 11). The Company's $69 million convertible debentures are listed and trade on the Toronto Stock Exchange. On December 31, 2014, the closing market price for these securities was $99.99 per $100 principal amount. This represents an aggregate market value of $69.0 million. For further details on derivative instruments see forward foreign exchange contracts below.

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

- Credit risk
- Liquidity risk
- Market risk

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

Credit risk

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

The vast majority of the Company's trade accounts receivable are customers involved in the oil and gas industry, and the ultimate collection of the accounts receivable is dependent on both industry related factors and customer specific factors. Industry related factors that may affect collection include commodity prices and access to capital. Customer specific factors that may affect collection include realized commodity prices, the success of drilling programs, well reservoir decline rates and access to capital. As at December 31, 2014, $6.4 million, or 6% of accounts receivable (2013 - $4.7 million or 6%) were more than 90 days overdue, which is in the range of historical aging profiles.

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

	Allowance for doubtful accounts
Balance at December 31, 2012	$ 1,427
Provisions and revisions	134
Balance at December 31, 2013	$ 1,561
Provisions and revisions	30
Balance at December 31, 2014	**$ 1,591**

The Company does not have significant exposure to any individual customer or counter party, other than two intermediate oil and gas companies, each of which accounted for over 10% revenue during the year ended December 31, 2014. No

individual customer accounted for over 10% of revenue in 2013. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry as a whole.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, to the extent reasonably possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable costs or losses or risking harm to the Company's reputation. As at December 31, 2014, the Company maintained an operating line of credit which was available to a maximum of $35 million and had convertible debentures of $69 million outstanding due March 31, 2016 (December 31, 2013: $35 and $69 million respectively) to ensure the Company has sufficient working capital to operate its business. As at December 31, 2014, $35 million (December 31, 2013: $35 million) of available credit facilities remained unutilized.

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

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

As at December 31, 2014	No later than 1 year	Later than 1 year and no later than 5 years	Later than 5 years	Total
Accounts payable and accrued liabilities	**$ 59,837**	**$ –**	**$ –**	**$ 59,837**
Dividends payable	**1,860**	**–**	**–**	**1,860**
Convertible debentures	**3,967**	**69,986**	**–**	**73,953**
Finance leases	**2,550**	**3,322**	**–**	**5,872**
Total	**$ 68,214**	**$ 73,308**	**$ –**	**$ 141,522**

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

Market risk

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

- Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company's sales are predominantly denominated in Canadian dollars, which is the Company's functional currency, and as such the Company does not have significant exposure to foreign currency exchange rate risk. Where sales are denominated in a currency other than Canadian dollars, the Company may enter into forward currency contracts to mitigate its exposure to exchange rate fluctuations from the date of sale until the date of receipt of funds. The Company estimates that approximately 28% of its operating expenses in 2014 were

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

- Forward foreign exchange contracts

The notional principal amount of forward foreign exchange contracts outstanding as at December 31, 2014 was nil (December 31, 2013: $5.3 million). These contracts are short term in nature. The forward market exchange rate used to fair value these outstanding contracts as at December 31, 2013 was $1.06 Canadian dollar per United States dollar and $0.95 Canadian dollar per Australian dollar.

- Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on borrowings under existing and available credit facilities which utilize a combination of short term fixed rates through the use of 30 to 90 day Banker's Acceptance and floating rates. For the year ended December 31, 2014, if interest rates had been 1% lower with all other variables held constant, after tax net earnings for the period would have been approximately $40,000 higher (December 31, 2013 - $39,000), due to lower interest expense. An equal and opposite impact would have occurred to net earnings had interest rates been 1% higher. The sensitivity in 2014 is consistent with 2013 due primarily to the fixed interest rate on the Company's $69 million convertible debentures.

The Company had no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2014.

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

26. Commitments

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

	December 31, 2014	December 31, 2013
Less than one year	**$ 2,297**	$ 2,315
Between one and five years	**4,968**	3,803
More than five years	**–**	–
	$ 7,265	$ 6,118

The Company also has purchase obligations of $27.6 million as at December 31, 2014 (December 31, 2013: $21.0 million) relating to commitments to purchase property, plant and equipment and inventory.

27. Contingencies

A predecessor of the Company and one of its non-operating subsidiaries were re-assessed by the Ontario Ministry of Finance ("Ontario Finance"), Alberta Finance and Enterprise ("Alberta Finance") and the Canada Revenue Agency ("CRA") on account of a corporate re-organization undertaken prior to the Company's conversion to a trust in 2005. 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.

28. Related parties

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

In addition to their salaries, the Company also provides non-cash benefits to key management, except directors (see note 18).

Key management personnel compensation is comprised of:

	December 31, 2014	December 31, 2013
Short-term employee benefits	**$ 4,268**	$ 4,243
Share-based compensation [1]	**1,400**	3,129
	$ 5,668	$ 7,372

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

At December 31, 2014 directors of the Company own or control 7 percent of the voting shares of the Company (2013: 7 percent).

There have been no transactions over the reporting period with key management personnel (2013: nil), and no outstanding balances exist as at period end (2013: nil).

CORPORATE INFORMATION

BOARD OF DIRECTORS

Bruce Pachkowski [3]
Chairman of the Board

Daniel Halyk
President and Chief Executive Officer

Gregory Fletcher [1, 2]

Randy Kwasnicia [1, 3]

Greg Melchin [1, 2]

Andrew Wiswell [2, 3]

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

MANAGEMENT TEAM

TOTAL ENERGY SERVICES INC.

Daniel Halyk
President and Chief Executive Officer

Brad Macson
Vice President, Operations

Yuliya Gorbach
Vice President, Finance and Chief Financial Officer

Gerry Crawford
Vice President, Field Services

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

CHINOOK DRILLING, A DIVISION OF TOTAL ENERGY SERVICES INC.

Rod Rundell
General Manager

TOTAL OILFIELD RENTALS LIMITED PARTNERSHIP

Clint Gaboury
General Manager

BIDELL EQUIPMENT LIMITED PARTNERSHIP

Sean Ulmer
President

SPECTRUM PROCESS SYSTEMS INC.

Kelly Mantei
General Manager

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AUDITOR

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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

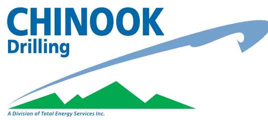
Convertible Debentures: TOT. DB

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 • Casper, WY



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