2015

FOCUS DISCIPLINE GROWTH

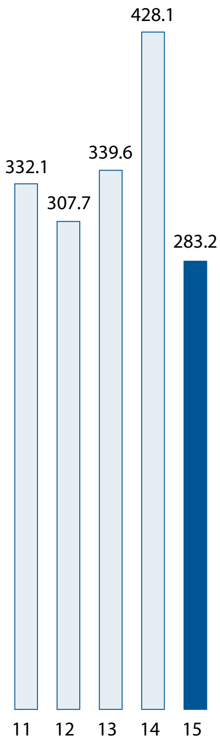
Annual Report 2015

TOTAL ENERGY SERVICES INC.

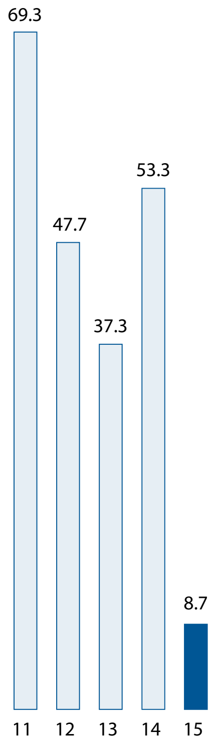
Total Energy Services Inc. ("Total Energy" or the "Company") is a growth oriented energy services company based in Calgary, Alberta. Through various operating divisions and wholly-owned subsidiaries and partnerships, Total Energy is involved in three businesses: contract drilling services, rentals and 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.

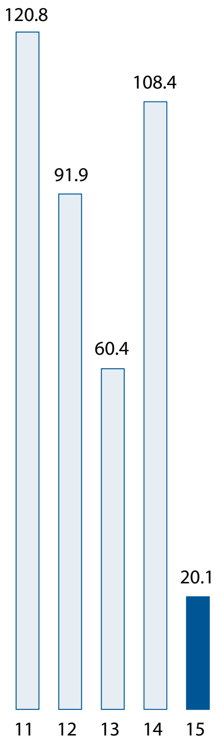
FINANCIAL HIGHLIGHTS



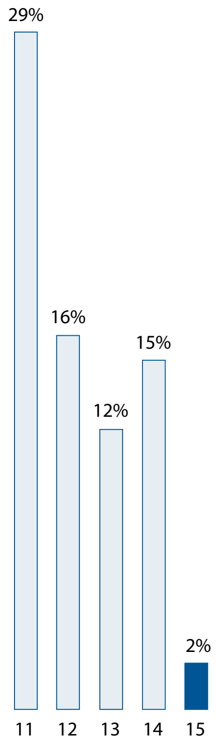
REVENUES
(in millions of dollars)



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

The decline in North American oil and gas drilling and completion activity that began in late 2014 continued through 2015 and has accelerated during the first part of 2016. Current industry activity levels are at historically low levels, with no relief in sight for the foreseeable future.

Since commencing operations in 1997, Total Energy has experienced several industry downturns. Having an appreciation of the cyclical nature of the oil and gas service industry, Total Energy has sought to strengthen its financial position during busier times so as to be able to utilize its balance sheet when other companies are repairing theirs. Coming out of the last significant industry downturn of 2008-2009, Total Energy completed its largest acquisition ever during the first quarter of 2010. Since then, the Company's growth has been financed primarily by cash flow such that its balance sheet has never been stronger.

Over the past 19 years Total Energy has completed close to 30 acquisitions but has never recorded an impairment of any of its capital assets, including intangible assets such as goodwill. Underpinning this fact is a disciplined investment approach that considers the full business cycle, not the prevailing industry conditions at the time an investment decision is made. As well, a commitment to pursuing investment returns that reflect the risks inherent in the energy services industry as well as the reasonable long term expectations of the Company's owners governs the investment decision making process.

Consistent with the underlying principals and discipline governing Total Energy's investment approach are the principals and discipline that guide the Company in the day to day conduct of its business. During these difficult times, Total Energy strives to operate its business as efficiently as possible without compromising safety or the quality of the products and services provided. This has required difficult decisions to be made, including difficult staffing decisions that have seen the Company's workforce decrease by approximately 40% over the course of 2015. In addition, Total Energy has recently consolidated its Compression and Process Services division's fabrication operations into Company owned facilities, thereby reducing fabrication capacity by approximately 20% until such time as additional capacity is required.

With its strong financial position and disciplined approach to doing business, Total Energy is able to pursue business opportunities that make sense, not ones intended to simply drive short term equipment utilization and cash flow. Total Energy has declined to pursue unprofitable business opportunities, choosing to preserve its asset base for an eventual industry recovery rather than wear it out for no return. Further, the Company remains diligent in the management of customer credit risk, which in turn has resulted in lost business.

While this approach undoubtedly leads to short term relative underperformance in regards to equipment utilization, such approach has minimized bad debt expense and ensures that the Company's equipment fleet will be in a good state of repair and ready to resume normal and profitable operations in short order with relatively minimal start up expense. History has repeatedly shown that organizations that fail to cover their costs simply to generate cash in the short term very often do not survive extended downturns. For those that do survive, gearing up for higher activity levels can be very challenging and costly.

Despite the Company's refusal to pursue unprofitable work and recklessly extend trade credit, the incurrence of significant costs associated with downsizing operations and $5.1 million of unrealized losses on holdings of marketable securities, Total Energy remained profitable in 2015.

LOOKING FORWARD

As Total Energy enters its 20th year of operations, the challenges facing the North American energy services industry are as great as any experienced by the Company. Management is focused both on efficient operations and protecting the financial strength and flexibility of the Company. In January 2016, Total Energy announced a preliminary 2016 capital budget of $12.1 million, which included $3.9 million for the purchase of the operating assets of a United States oilfield equipment rental company effective January 1, 2016.

Entering 2016 with over $90 million of positive working capital (including $14.6 million of cash and marketable securities) and an undrawn $65 million bank credit facility, Total Energy will look to utilize its balance sheet strength to pursue investment opportunities that will add long term and sustainable shareholder value. While the opportunities being presented are plentiful, Management will remain focused and disciplined in the pursuit of same.

Similar to the Company's investment approach, Total Energy's dividend policy remained grounded on a pragmatic view of the nature of the Canadian energy services industry during better times. As such, radical change is not expected or required.

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 19, 2016 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 continued support. I would also extend our gratitude to current and former employees for their hard work and perseverance during the past year. While difficult times call for difficult decisions, our industry is a dynamic one and we look forward to the opportunity to begin putting more people back to work.

DANIEL K. HALYK
President and Chief Executive Officer

March 2016

FIVE YEAR COMPARISON

RESULTS (thousands of dollars, except per share data)		**2015**	2014	2013	2012	2011
Revenue		**$ 283,193**	$ 428,149	$ 339,579	$ 307,702	$ 332,082
EBITDA	(1)	**52,869**	105,533	82,952	91,076	122,034
Results from operating activities	(1)	**19,805**	70,220	54,780	65,221	96,233
Cash provided by operations		**41,077**	81,941	54,913	124,505	97,643
Cashflow	(1)	**20,102**	108,357	60,446	91,949	120,780
Net Income		**8,655**	53,305	37,308	47,692	69,266
Finance Costs	(2)	**3,189**	4,216	4,213	4,193	4,127
Depreciation		**27,488**	29,557	27,189	23,702	23,299
Capital expenditures, net of dispositions	(3)	**(8,103)**	59,245	68,455	80,392	46,908
Earnings per share – diluted		**0.28**	1.66	1.20	1.49	2.08
EBITDA per share – diluted	(1)	**1.71**	3.04	2.43	2.62	3.49
Cashflow per share – diluted	(1)	**0.65**	3.12	1.77	2.65	3.46
FINANCIAL POSITION						
Working capital	(4)	**$ 90,314**	$ 82,332	$ 73,512	$ 90,708	$ 120,786
Total assets		**532,379**	595,906	518,782	476,591	434,617
Long–term debt	(5)	**53,087**	71,844	69,598	67,937	66,466
Shareholder’s equity		**383,335**	382,063	340,612	306,069	275,321

(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 2015, 2014, 2013, 2012 and 2011 excludes accretion on convertible debentures of $1.4, million, $1.9 million, $1.8 million, $1.6 million and $1.3 million respectively, and changes in fair value of other assets of $5.1 million and $0.4 million in 2015 and 2014, respectively.

(3) Excludes the acquisition of an 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 10, 2016, 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, 2015, should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2015 and related notes and material contained in other parts of the 2015 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, subsidiaries and partnerships 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, 2015. 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, 2015.

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, 2015 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. There were no changes to internal controls over financial reporting that would materially affect, or be reasonably likely to materially affect, the Company's internal controls over financial reporting during the quarter ended December 31, 2015.

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, the gain on sale of property, plant and equipment, finance costs and finance income. EBITDA means earnings before interest, taxes, depreciation and amortization and is equal to net income before income taxes, finance costs, depreciation and 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, 2015**	Three months ended Dec 31, 2014	**Year ended Dec 31, 2015**	Year ended Dec 31, 2014
Net income (loss) and total comprehensive income	**$ (3,019)**	$ 13,309	**$ 8,655**	$ 53,305
Add back (deduct):				
Finance income	**(260)**	(409)	**(897)**	(914)
Finance costs	**3,547**	3,765	**9,728**	6,505
(Gain) loss on sale of property, plant and equipment	**(230)**	363	**(5,576)**	(5,756)
Income tax (recovery) expense	**(419)**	4,926	**7,895**	17,080
Results from (used in) operating activities	**$ (381)**	$ 21,954	**$ 19,805**	$ 70,220

EBITDA (in thousands of Canadian dollars)	**Three months ended Dec 31, 2015**	Three months ended Dec 31, 2014	**Year ended Dec 31, 2015**	Year ended Dec 31, 2014
Net income (loss) and total comprehensive income	**$ (3,019)**	$ 13,309	**$ 8,655**	$ 53,305
Add back (deduct):				
Depreciation	**6,732**	7,747	**27,488**	29,557
Finance income	**(260)**	(409)	**(897)**	(914)
Finance costs	**3,547**	3,765	**9,728**	6,505
Income tax (recovery) expense	**(419)**	4,926	**7,895**	17,080
EBITDA	**$ 6,581**	$ 29,338	**$ 52,869**	$ 105,533

Cashflow (in thousands of Canadian dollars)	**Three months ended Dec 31, 2015**	Three months ended Dec 31, 2014	**Year ended Dec 31, 2015**	Year ended Dec 31, 2014
Cash provided by operations	**$ 6,545**	$ 22,592	**$ 41,077**	$ 81,941
Add back (deduct):				
Changes in non-cash working capital items	**(680)**	7,687	**(20,975)**	26,416
Cashflow	**$ 5,865**	$ 30,279	**$ 20,102**	$ 108,357

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 and Bidell conduct 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 and two are telescopic singles with integrated top drives. The Company also maintains an extensive inventory of top drives, drill pipe and spare components to support its operations. The Company's rig fleet has a strong operating history in the horizontal well market, having drilled wells up to 6,000 meters measured depth in Western Canada. 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 fleet of 115 heavy trucks. The Company seeks to invest in a modern and high quality equipment base supported by an extensive branch network in order to establish and maintain a significant presence in its target markets. 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 and currently operates out of 10 locations throughout Alberta, British Columbia, Saskatchewan and Wyoming. 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 established process equipment business. The Compression and Process Services division currently occupies approximately 208,000 square feet of fabrication space.

OVERALL PERFORMANCE

The results for the three months and year ended December 31, 2015 reflect increasingly challenging North American energy industry conditions due to continued low oil and natural gas prices which, in turn, resulted in substantially lower industry activity levels. The change of government in Alberta on May 5, 2015, with a resultant increase to corporate tax rates and carbon emission levies as well as the commencement of a royalty review process also contributed to the challenges and uncertainty facing the Canadian energy industry. In this challenging environment, price competition has been fierce and the Company has taken significant steps to lower its operating cost structure so as to remain competitive without compromising the safety and quality of its service and equipment. Further, the Company has declined to pursue business opportunities where variable operating costs are not covered (including depreciation in the case of drilling rigs) or customer credit risk is determined to be unacceptable. While this strategy has resulted in lower equipment utilization, it is expected to benefit the Company in two ways. First, bad debt expense will be minimized. Second, when industry conditions improve, the Company's equipment fleet will be in a good state of repair and ready to resume normal operations in short order with relatively minimal expense. Consolidated revenue decreased 57% in the fourth quarter of 2015 relative to the prior year comparable period. The Company generated a net loss of $3.0 million during the fourth quarter of 2015 compared to net income of $13.3 million in 2014. For 2015, the Company's revenue and net income decreased 34% and 84%, respectively, relative to the prior year comparable period. Exacerbating the decrease to net income is a one time charge of $3.8 million ($0.12 per share on a diluted basis) to income tax expense during 2015 arising from the 20% increase to the corporate income tax rate enacted by the Alberta government on June 29, 2015 and a $5.1 million ($0.16 per share on a diluted basis) unrealized loss on change in fair value of other assets. For the three months and year ended December 31, 2015, the Company recorded a net loss of $3.0 million and net income of $8.7 million, respectively, as compared to net income of $13.3 million and $53.3 million during the same periods in 2014.

The Company's financial condition remains strong, with a positive working capital balance of $90.3 million as at December 31, 2015 as compared to $82.3 million of working capital at December 31, 2014. Shareholders' equity increased by $1.3 million during 2015 due primarily to an 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

North American oil and natural gas drilling and completion activity levels during the fourth quarter of 2015 were substantially lower than activity levels during the fourth quarter of 2014. The precipitous decline in oil prices that began in late 2014 resulted in substantial decreases in 2015 capital expenditure plans by North American oil and natural gas producers. The recent change of federal government in Canada as well as the provincial change of government in Alberta in May 2015 has increased the challenges and uncertainty facing the Canadian energy industry. Oil and natural gas prices remain low compared to historical levels. As such, the Company expects that industry conditions for North American energy services providers will remain very challenging for the foreseeable future. Steps have been taken to right-size the Company's operations in all business segments in response to reduced customer demand. Steps have also been taken to refocus sales efforts and relocate assets to jurisdictions based on future expected activity levels. 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. Current indications are that 2016 WCSB capital expenditures will be substantially lower than 2015 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, 2015**	Year Ended Dec 31, 2014	Year Ended Dec 31, 2013
Revenue	**$ 283,193**	$ 428,149	$ 339,579
Cash provided by operations	**41,077**	81,941	54,913
Cashflow (1)	**20,102**	108,357	60,446
Net income	**8,655**	53,305	37,308
Per share (basic)	**0.28**	1.71	1.21
Per share (diluted)	**0.28**	1.66	1.20
Dividends declared per share	**0.24**	0.24	0.20
Total assets	**532,379**	595,906	518,782
Long term liabilities (2) (excluding current obligations under finance leases, current portion of long-term debt and deferred income taxes)	**49,185**	72,107	71,775

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

(2) In 2014 and 2013, includes convertible debentures at face value of $69 million

In 2015, the Company experienced lower demand in all of its operating divisions. Consolidated revenue for the Company decreased by 34% and 17%, respectively, in 2015 as compared to 2014 and 2013.

RESULTS OF OPERATIONS

Consolidated Revenue

Revenue decreased 57% to $52.1 million for the three months ended December 31, 2015 versus $121.1 million for the comparable period in 2014, and decreased 34% to $283.2 million for year ended December 31, 2015 versus $428.1 million in 2014.

Divisional Revenue

Divisional revenue for the three months ended December 31, 2015 was $4.0 million for Contract Drilling Services, $11.7 million for Rentals and Transportation Services and $36.5 million for Compression and Process Services. Divisional revenue for the year ended December 31, 2015 was $15.9 million for Contract Drilling Services, $71.0 million for Rentals and Transportation Services and $196.3 million for Compression and Process Services.

Contract Drilling Services

The revenue reported from Total Energy's Contract Drilling Services division decreased by 76% to $4.0 million for the three months ended December 31, 2015, as compared to $16.2 million for the same period in 2014 and decreased by 74% to $15.9 million for year ended December 31, 2015, as compared to $62.4 million for the same period in 2014. For the fourth quarter of 2015 the Contract Drilling Services division achieved a utilization rate, on a spud to release basis, of 15% and year to date utilization rate of 14%, as compared to 49% and 51%, respectively, for the same periods in 2014. The decrease in utilization during 2015 relative to 2014 was due to substantially decreased oil and natural gas drilling activity in Western Canada. Operating days (spud to release) for the three months and year ended December 31, 2015 totaled 241 and 920 days, respectively, with a fleet of 18 rigs, as compared to 755 and 3,038 days for the same periods in 2014, with a fleet of 17 rigs. Revenue per operating day received for contract drilling services for the three months and year ended December 31, 2015 decreased 24% and 16%, respectively, as compared to revenue per operating day during the same periods of 2014. The decrease in revenue per operating day was due primarily to decreased day rate pricing.

Rentals and Transportation Services

The revenue reported from Total Energy's Rentals and Transportation Services division decreased by 68% and 43% to $11.7 million and $71.0 million, respectively, for the three months and year ended December 31, 2015, as compared to $36.3 million and $124.8 million for the same periods in 2014. The revenue decrease was due to reduced equipment utilization and lower pricing. Average utilization of the rental assets was 17% and 24%, respectively, for the three months and year ended December 31, 2015, as compared to 44% and 41%, respectively, for the prior year comparable periods. This division exited 2015 with approximately 10,000 pieces of rental equipment and a fleet of 119 heavy trucks as compared to 10,000 pieces of rental equipment and 109 heavy trucks at the end of 2014.

Compression and Process Services

The revenue reported from Total Energy's Compression and Process Services division decreased by 47% and 19% to $36.5 million and $196.3 million for the three months and year ended December 31, 2015, as compared to $68.6 million and $241.0 million for the same periods in 2014. The revenue decrease was due primarily to lower demand for new equipment and to the reduced size and utilization of the compression rental fleet. This division exited the fourth quarter of 2015 with a backlog of fabrication sales orders of approximately $48.9 million, as compared to a backlog of $108.0 million as at December 31, 2014 and $51.1 million at September 30, 2015. As at December 31, 2015, the total horsepower of compressors on rent was approximately 15,800 as compared to approximately 45,000 as at December 31, 2014. The compression rental fleet experienced an average utilization of 42% and 61% (based on fleet horsepower), respectively, during three months and year ended December 31, 2015, as compared to 89% for the same periods in 2014.

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 decreased by 53% and 30% to $39.3 million and $206.6 million, respectively, for the three months and year ended December 31, 2015, as compared to $83.0 million and $294.5 million for the same periods in 2014. The decrease in cost of services resulted primarily from lower activity levels in all three operating segments. Gross margin, as a percentage of revenue, for the three months and year ended December 31, 2015 was 24% and 27%, respectively, as compared to 31% for the same periods in 2014. The lower gross margin realized in 2015 compared to 2014 is a result of the Contract Drilling Services and Rentals and Transportation Services divisions contributing a lower portion of consolidated revenue in 2015 as compared to 2014 as both divisions historically generate a higher gross margin than the Compression and Process Services division. Lower pricing, primarily in the Contract Drilling Services and Rentals and Transportation Services divisions during 2015 as compared to 2014 also contributed to the lower realized gross margin. 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 and trucking costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by 27% and 13% to $5.9 million and $28.0 million, respectively, for the three months and year ended December 31, 2015, as compared to $8.1 million and $32.0 million for the same periods in 2014. The decrease was due to decreased activity levels and as a result of cost reduction initiatives taken throughout the year.

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 $0.5 million and $1.4 million, respectively, for the three months and year ended December 31, 2015, as compared to $0.3 million and $1.9 million for the prior year comparable periods. Share-based compensation expense arises from share options granted pursuant to the share option plans implemented in 2015 and 2012. The increase in share-based compensation expense during the three month period ended December 31, 2015 was due to share options being granted in 2015. The decrease in share-based compensation expense during the year ended December 31, 2015 was due primarily to the vesting of the second tranche of share options issued in 2012 and forfeiture of certain unvested options in 2015.

Depreciation Expense

Depreciation expense decreased by 13% to $6.7 million for the three months ended December 31, 2015, as compared to $7.7 million for the prior year comparable period, and decreased by 7% to $27.5 million for the year ended December 31, 2015, as compared to $29.6 million for the prior year comparable period. The decrease in depreciation expense was primarily due to lower 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 decreased to an operating loss of $0.4 million for the three months ended December 31, 2015 compared to operating earnings of $22.0 million for the same period in 2014. Operating earnings were $19.8 million for the year ended December 31, 2015, a 69% decrease from $70.2 million of operating earnings in 2014. The decrease in operating earnings was due to decreased activity levels in all three divisions.

The Contract Drilling Services division had operating earnings of $0.3 million and $1.7 million, respectively, for the three months and year ended December 31, 2015, as compared to $4.3 million and $14.2 million for the prior year comparable periods. The operating earnings margins in this division was 7% and 10%, respectively, for the three months and year ended December 31, 2015, as compared to 27% and 23% for the comparable periods in 2014. The decrease in operating earnings margin during 2015 compared to the prior year comparable periods was due primarily to lower rig utilization and decreased day rate pricing.

The Rentals and Transportation Services division had an operating loss of $3.1 million and operating earnings of $1.7 million, respectively, for the three months and year ended December 31, 2015, as compared to operating earnings of $8.6 million and $29.5 million for the comparable periods in 2014. The operating earnings margins in this division was negative 26% and positive 2% for the three months and year ended December 31, 2015, as compared to 24% for the comparable periods in 2014. The decrease in operating earnings margin in 2015 resulted due primarily to lower equipment utilization and pricing as compared to 2014 and the relatively high fixed cost structure of this division.

The Compression and Process Services division had operating earnings of $3.4 million and $21.7 million, respectively, for the three months and year ended December 31, 2015, as compared to $10.2 million and $32.7 million for the comparable periods in 2014. The operating earnings margins in this division were 9% and 11% for the three months and year ended

December 31, 2015, as compared to 15% and 14% for the comparable periods in 2014. The decrease in operating earnings margin during 2015 compared to 2014 was due to lower production levels arising from lower customer demand and a lower amount of compression horsepower on rent.

The Other division had operating losses of $1.0 million and $5.3 million, respectively, for the three months and year ended December 31, 2015, as compared to operating losses of $1.2 million and $6.3 million for the comparable periods in 2014. The decrease in the operating loss was primarily due to a decrease in share based compensation expense and other cost savings achieved through cost reduction initiatives. 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 $0.3 million and $0.9 million, respectively, for the three months and year ended December 31, 2015, as compared to $0.4 million and $0.9 million for the same periods in 2014. Finance income includes dividends, interest income on bank balances and other ancillary interest income.

Finance Costs

Finance costs were $3.5 million and $9.7 million, respectively, for the three months and year ended December 31, 2015, as compared to $3.8 million and $6.5 million for the same periods in 2014. The year to date increase in finance costs was due primarily to accelerated accretion of convertible debentures upon the redemption of such debentures in May of 2015 as well as a $5.1 million unrealized loss due to the decrease in the market value of other assets during 2015. Other assets include marketable securities of publicly traded entities. Finance costs also include interest paid on finance leases, interest expense on the Term Loan (as defined under the heading "Liquidity and Capital Resources") and interest expense (including accretion) on the convertible debentures.

Gain on Sale of Property, Plant and Equipment

During the three months and year ended December 31, 2015, the Company realized a gain on disposal of equipment of $0.2 million and $5.6 million, respectively, as compared to a loss on disposal of equipment of $0.4 million and a gain on disposal of $5.8 million for the prior year comparable periods. Disposals of equipment result from the exercise of purchase options on compression equipment previously on lease in the Compression and Process Services division as well as the replacement and upgrade of older equipment in the Company's fleet.

Income Taxes and Net income

The Company recorded a net loss of $3.0 million ($0.10 loss per share basic and diluted) and net income of $8.7 million ($0.28 per share basic and diluted), respectively, for the three months and year ended December 31, 2015 as compared to 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) for the corresponding periods in 2014. The Company recorded a current income tax recovery of $2.4 million and a current income tax expense of $6.9 million, respectively, for the three months and year ended December 31, 2015, as compared to a current income tax expense of $5.0 million and $9.0 million for the corresponding periods in 2014. The Company recorded a deferred income tax expense of $2.0 million and $1.0 million, respectively, for the three months and year ended December 31, 2015, as compared to a deferred tax recovery of $0.1 million and a deferred income tax expense of $8.0 million for the corresponding periods in 2014. The decrease in current income taxes in 2015 was due primarily to decreased profitability as compared to the prior year. The decrease in deferred income taxes in 2015 was due primarily to the timing of taxation of the Company's limited partnerships and lower net income before income tax as compared to 2014. The increase to the Alberta corporate income tax rate, enacted on June 29, 2015, resulted in a one-time $3.8 million increase to total income tax expense for the year ended December 31, 2015 or $0.12 per share on a diluted basis. $3.6 million of this increase was allocated to deferred income tax expense and resulted from the higher income tax rate being used in the calculation of deferred income tax balances. This resulted in a negative effective income tax rate for the three months ended December 31, 2015 and an effective tax rate of 48% for the year ended December 31, 2015 as compared to effective income tax rates of 27% and 24% for the prior year comparable periods. The lower effective income tax rate for the three months ended December 31, 2015 compared to the fourth quarter of 2015 was due primarily to a recorded net loss before taxes. The higher effective income tax rate in 2015 as compared to 2014 was due primarily to the enactment of a higher Alberta income tax rate that resulted in a one-time increase to deferred income tax expense.

On August 30, 2015 Company was notified by the Canada Revenue Agency (the "CRA") that certain of the Company's income tax filings related to its conversion from an income trust to a corporation in 2009 were being re-assessed. Specifically, the CRA increased the Company's taxable income by $56.1 million and denied $1.7 million of investment tax credits claimed (the "Reassessment"). The Reassessment is based entirely on the CRA's proposed application of the general anti-avoidance rule ("GAAR") and gives rise to approximately $14.1 million of federal income tax payable. In September 2015 the Company paid 50% of the Reassessment amount, or $7.1 million, to the CRA as required pending appeal. On November 4, 2015, related provincial income tax reassessments totaling $5.6 million (including interest and penalties) were received.

The Company has received both legal and tax advice relating to its conversion from an income trust to a corporation indicating that its income tax filing position is strong. As such, the Company has filed notices of objection in response to the Reassessment and intends to vigorously defend its filing position and seek reimbursement from the CRA for the costs arising from having to defend such Reassessment to the fullest extent possible. Management believes that it will be successful in defending its tax filing position, and as such, the Company has not recognized any provision for the Reassessment at December 31, 2015. The $7.1 million paid on account of the Reassessment has been recorded as income tax receivable on the basis management believes it will be successful in its defending the Company's filing position. In the event the Company is not successful an additional $12.7 million of cash may be owing and $19.8 million of income tax expense would be recognized.

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operations

Cash provided by operations was $6.5 million and $41.1 million, respectively, for the three months and year ended December 31, 2015, as compared to $22.6 million and $81.9 million for the comparable periods in 2014. Cashflow was $5.9 million and $20.1 million, respectively, for the three months and year ended December 31, 2015, as compared to $30.3 million and $108.4 million for the comparable periods in 2014. The changes in cash provided by operations and cashflow were due primarily to changes in operating earnings and working capital balances. During 2015 the Company paid a total of $29.5 million of income tax, of which $12.7 million related to 2014 taxable income due to the Company not being required to make income tax installments in 2014 and $7.1 million of income taxes on account of Reassessment (as defined under the heading "Income Taxes and Net Income"). 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 $3.2 million and $4.9 million, respectively, for the three months and year ended December 31, 2015, as compared to $29.0 million and $56.7 million for the comparable periods in 2014. The decrease in net cash used in investment activities during 2015 compared to 2014 was primarily due to a $67.9 million reduction in purchases of property, plant and equipment. $22.1 million of property, plant and equipment ("PP&E") purchases and a $1.2 million acquisition of a business during 2015 were allocated as follows: $1.6 million in the Contract Drilling Services division relating primarily to the purchase of rig equipment, $15.5 million in the Rentals and Transportation Services division relating primarily to purchases of new rental equipment and real estate utilized in its operations; and $6.1 million in the Compression and Process Services division relating primarily to additions to the compression rental fleet. During 2014, the property, plant and equipment additions were as follows: $27.7 million in the Contract Drilling Services division, $22.8 million in the Rentals and Transportation Services division and $40.6 million in the Compression and Process Services. The purchase of property, plant and equipment and the acquisition of a business during 2015 was offset by proceeds on disposal of property, plant and equipment of $31.4 million as compared to $32.0 million during 2014. The disposal of equipment resulted primarily from the exercise of purchase options on compression equipment previously on lease in the Compression and Process Services division as well as from the replacement and upgrade of older equipment in the Company's fleet.

The $1.2 million acquisition of a business relates to the acquisition of all of the shares of a private oilfield transportation company based in Casper, Wyoming. $6.1 million was invested in other assets during 2015.

Financing

Net cash used in financing activities was $3.9 million and $35.0 million, respectively, for the three months and year ended December 31, 2015, as compared to $5.6 million and $20.7 million for the comparable periods in 2014. The increase in net cash used in financing activities in 2015 was due primarily to the redemption of the Debentures (as defined below) in May of 2015 which resulted in a payment of $69.0 million that was funded by the $50.0 million Term Loan (as defined below under the heading "Liquidity") and cash on hand.

Liquidity

The Company had a working capital surplus of $90.3 million as at December 31, 2015 as compared to $82.3 million as at December 31, 2014. As at December 31, 2015, and the date of this MD&A, the Company is in material compliance with all debt covenants.

On February 5, 2015, the Company renewed its revolving credit facility (the "Operating Facility") with a major Canadian financial institution. The Operating Facility is a $65 million committed revolving facility with payments not required until February 2017 in the event such facility is not renewed. The Operating Facility bears interest at the lender's prime rate plus 0.40% and is secured by the Company's cash and cash equivalents, accounts receivable and inventory. As at December 31, 2015, this facility was undrawn and available to the extent of $57.4 million based on margin requirements.

On May 19, 2015, the Company completed the redemption of all outstanding 5.75% convertible unsecured subordinated debentures (the "Debentures") that were due to mature on March 31, 2016 in accordance with the terms of the trust indenture dated February 9, 2011 governing the Debentures. Upon redemption, the Company paid to the holders of the Debentures $1,007.72 per $1,000 principal amount of Debentures held less any taxes required to be deducted or withheld, which was equal to the outstanding principal amount of the Debentures plus accrued and unpaid interest up to, but excluding, the redemption date. In connection with the redemption of the Debentures, the Company secured a $50 million bank loan (the "Term Loan") with the Company's primary bank.

The Term Loan is a five year term loan amortized over 20 years with blended monthly principal and interest payments of approximately $278,800. At the end of the five year term, approximately $40.2 million of principal will become due and payable assuming only regular monthly payments are made. The Term Loan bears a fixed interest rate of 3.06% and is secured by certain of the Company`s real estate assets. In April 2015, the Company received an independent third party report indicating the current market value of its real estate holdings at the time to be approximately $110 million, of which properties having an ascribed value of approximately $72 million have been mortgaged to secure the Term Loan.

The Term Loan and the Operating Facility require that the Company's total debt to equity ratio not exceed 2.5 to 1.0 and the Company maintain a current ratio of at least 1.3 to 1.0. As at December 31, 2015, the Company's total debt to equity ratio was 0.12 to 1.0 and the current ratio was 3.74 to 1.0. For purposes of determining compliance with such financial covenants, total debt includes bank debt and capital lease obligations, including the current portion, minus cash and cash equivalents and the current ratio is equal to current assets minus current liabilities (excluding the current portion of long-term debt and obligation under capital leases).

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 and capital assets as well as dividend payments and common share repurchases and debt repayments.

Dividends

For the three months and year ended December 31, 2015, the Company declared dividends of $1.9 million ($0.06 per share) and $7.4 million ($0.24 per share), respectively, as compared to $1.9 million ($0.06 per share) and $7.5 million ($0.24 per share) declared for the prior year comparable periods.

For 2016, the Company currently expects cash provided by operations, cashflow and net income to exceed dividends to shareholders. Management and the Board of Directors of the Company will monitor the Company's dividend policy with respect to forecasted net income, cashflow, cash provided by operations, debt levels, capital expenditures and other investment opportunities and will aim to finance future dividends through cash provided by operations.

SUMMARY OF QUARTERLY RESULTS

(in thousands of dollars except per share amounts)

	Financial Quarter Ended (Unaudited)			
	Dec 31, 2015	Sept 30, 2015	June 30, 2015	March 31, 2015
Revenue	**$ 52,082**	$ 66,713	$ 71,908	$ 92,490
Cashflow (1)	**5,865**	(92)	6,341	7,988
Cash provided by operations	**6,545**	(1,846)	12,528	23,850
Net income (loss)	**(3,019)**	1,570	921	9,183
Per share (basic)	**(0.10)**	0.05	0.03	0.30
Per share (diluted)	**(0.10)**	0.05	0.03	0.30

	Financial Quarter Ended (Unaudited)			
	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 (used in) 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

(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 usually 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. However, the severe downturn currently being experienced in WCSB drilling and completion activity has distorted the normal seasonality activity pattern.

CONTRACTUAL OBLIGATIONS

At December 31, 2015, the Company had the following contractual obligations:

		Payments due by year				
(in thousands of dollars)	Total	2016	2017	2018	2019	2020 and after
Long-term debt (1)	$ 48,779	$ 1,879	$ 1,938	$ 1,998	$ 2,060	$ 40,904
Commitments (2)	5,498	2,219	1,776	974	529	–
Finance leases	4,308	2,023	1,303	583	309	90
Purchase obligations (3)	8,580	8,580	–	–	–	–
Total contractual obligations	$ 67,165	$ 14,701	$ 5,017	$ 3,555	$ 2,898	$ 40,994

(1) During the second quarter of 2015 the Company secured the Term Loan to fund, in part, the redemption of $69 million of convertible debentures. The amounts presented exclude interest payable.

(2) Commitments are described in Note 26 to the 2015 Audited Consolidated Financial Statements.

(3) Purchase obligations are described in Note 26 to the 2015 Audited Consolidated Financial Statements. As at December 31, 2015, purchase obligations relate to Total Energy's commitment to purchase $8.6 million of inventory for the Compression and Process Services division.

OFF-BALANCE SHEET ARRANGEMENTS

During 2015 and 2014, the Company had no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During 2015 and 2014, 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 one major and two intermediate oil and gas companies which accounted for over 10% of revenue during the three month period ended December 31, 2015 and two intermediate oil and gas companies during the year ended December 31, 2015. No other customer accounted for more than 10% of revenue during these periods. 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, 2015, the fair value of other assets was approximately $5.8 million. The discounted future cash repayments of the Term Loan is calculated using prevailing market rates for a similar debt instrument as at the reporting date. The net present value of future cash repayments of the Term Loan is $49.1 million utilizing an interest rate for a similar debt instrument at December 31, 2015 of 2.90%. The carrying value and Company`s liability with respect to the Term Loan is $48.8 million.

Interest rate risk

As at December 31, 2015, the Company did not have any long-term debt that was subject to variable interest rates. The Term Loan bears interest at a fixed rate of 3.06%.

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 30,985,000 Common Shares outstanding.

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

Outstanding at December 31, 2015	Exercise Price	Remaining life (years)	Exercisable at December 31, 2015
165,000	$ 16.18	0.20	165,000
75,000	$ 14.21	0.50	75,000
1,140,000	$ 13.74	1.40	1,140,000
76,666	$ 14.96	2.10	43,332
53,334	$ 14.72	2.40	26,667
150,000	$ 17.61	2.80	100,000
1,400,000	$ 14.13	4.60	–
3,060,000	$ 14.30	2.88	1,549,999

There has been no material change in the Common Share data from December 31, 2015 to the date of this report.

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 substantial decline in oil prices over the past year and continued low natural gas prices are 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 explorers and producers. 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 one major and two intermediate oil and gas companies which accounted for over 10% of revenue during the three month period ended December 31, 2015 and two intermediate oil and gas companies during the year ended December 31, 2015. No other customer accounted for more than 10% of revenue during these periods. 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, the Compression and Process Services division 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, 2014 to December 31, 2015.

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 10, 2016

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, 2015 and December 31, 2014, 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, 2015 and December 31, 2014, 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 10, 2016
Calgary, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	Note	December 31, 2015	December 31, 2014
ASSETS			
Current assets:			
Cash and cash equivalents	7	**$ 8,875**	$ 7,745
Accounts receivable	8	**48,091**	98,920
Inventory	9	**59,066**	54,348
Income taxes receivable	16	**2,733**	–
Other assets	11	**5,768**	–
Prepaid expenses and deposits		**4,101**	5,576
		128,634	166,589
Property, plant and equipment	10	**392,622**	419,991
Income taxes receivable	27	**7,070**	–
Other assets	11	**–**	5,273
Goodwill	12	**4,053**	4,053
		$ 532,379	$ 595,906
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	13	**$ 22,002**	$ 59,837
Deferred revenue		**10,556**	7,430
Dividends payable		**1,860**	1,860
Income taxes payable	16	**–**	12,754
Current portion of obligations under finance leases	15	**2,023**	2,376
Current portion of long-term debt	14	**1,879**	–
		38,320	84,257
Long-term debt	14	**46,900**	–
Obligations under finance leases	15	**2,285**	3,107
Convertible debentures	14	**–**	66,361
Deferred tax liability	16	**61,539**	60,118
Shareholders' equity:			
Share capital	17	**88,875**	88,899
Contributed surplus		**8,255**	6,880
Equity portion of convertible debenture	14	**–**	4,601
Retained earnings		**286,205**	281,683
		383,335	382,063
		$ 532,379	$ 595,906

The notes on pages 32 to 60 are an integral part of these consolidated financial statements.

Approved by the Board of Total Energy Services Inc.

Director: Greg Melchin

Director: Bruce L. Pachkowski

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars except per share amounts)

Years ended December 31,	Note	2015	2014
REVENUE	19	$ 283,193	$ 428,149
Cost of services	20	206,550	294,479
Selling, general and administration	21	27,975	32,036
Share-based compensation	18	1,375	1,857
Depreciation	10	27,488	29,557
Results from operating activities		19,805	70,220
Gain on sale of property, plant and equipment	10	5,576	5,756
Finance income	23	897	914
Finance costs	24	(9,728)	(6,505)
Net income before income taxes		16,550	70,385
Current income tax expense	16	6,906	9,041
Deferred income tax expense	16	989	8,039
Total income tax expense	16	7,895	17,080
Net income and total comprehensive income for the year		$ 8,655	$ 53,305
Earnings per share	17		
Basic earnings per share		$ 0.28	$ 1.71
Diluted earnings per share		$ 0.28	$ 1.66

The notes on pages 32 to 60 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS CHANGES IN EQUITY

Years ended December 31, 2015 and 2014
(in thousands of Canadian dollars)

	Note	Share Capital	Contributed Surplus	Equity portion of convertible debenture	Retained earnings	Total Equity
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
Net income and total comprehensive income for the year		–	–	–	8,655	8,655
Transactions with shareholders, recorded directly in equity:						
Dividends to shareholders	17	–	–	–	(7,440)	(7,440)
Repurchase of common shares	17	(24)	–	–	(84)	(108)
Redemption of convertible debentures	14	–	–	(4,601)	3,391	(1,210)
Share-based compensation	18	–	1,375	–	–	1,375
		(24)	1,375	(4,601)	(4,133)	(7,383)
Balance at December 31, 2015		**$ 88,875**	**$ 8,255**	**$ –**	**$ 286,205**	**$ 383,335**

The notes on pages 32 to 60 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

Years ended December 31,	Note	**2015**	2014
Cash provided by (used in):			
Operations:			
Net income for the year		**$ 8,655**	$ 53,305
Add (deduct) items not affecting cash:			
Depreciation	10	**27,488**	29,557
Share-based compensation	18	**1,375**	1,857
Gain on disposal of property, plant and equipment	10	**(5,576)**	(5,756)
Finance income	23	**–**	(306)
Finance costs	24	**9,728**	6,505
Current income tax expense	16	**6,906**	9,041
Deferred income tax expense	16	**989**	8,039
Income taxes recovered (paid)		**(29,463)**	6,115
		20,102	108,357
Changes in non-cash working capital items:			
Accounts receivable	8	**50,829**	(20,790)
Inventory	9	**(4,718)**	(15,490)
Prepaid expenses and deposits		**1,475**	270
Accounts payable and accrued liabilities	13	**(29,737)**	10,874
Deferred revenue		**3,126**	(1,280)
		41,077	81,941
Investments:			
Purchase of property, plant and equipment	10	**(22,079)**	(91,239)
Acquisition of business	5	**(1,231)**	–
Proceeds on sale of other assets		**411**	1,399
Purchase of other assets		**(6,127)**	(2,879)
Proceeds on disposal of property, plant and equipment		**31,413**	31,994
Changes in non-cash working capital items		**(7,327)**	4,004
		(4,940)	(56,721)
Financing:			
Advances under long-term debt	14	**50,000**	–
Repayment of long-term debt	14	**(1,221)**	–
Repayment of convertible debentures	14	**(69,000)**	–
Repayment of obligations under finance leases	15	**(3,056)**	(3,135)
Payment of dividends	17	**(7,440)**	(7,185)
Issuance of common shares	17	**–**	5,791
Repurchase of common shares	17	**(108)**	(11,941)
Interest paid		**(4,182)**	(4,215)
		(35,007)	(20,685)
Change in cash and cash equivalents		**1,130**	4,535
Cash and cash equivalents, beginning of year		**7,745**	3,210
Cash and cash equivalents, end of year		**$ 8,875**	$ 7,745

The notes on pages 32 to 60 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014
(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 Rentals Limited Partnership.

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

2. Basis of preparation

(a) Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 10, 2016.

(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.

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

(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 recognised 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.

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 convertible debentures were convertible to share capital at the option of the holder and the number of shares to be issued did not vary with changes in their fair value. The liability component of the convertible debentures was recognized initially at the fair value of a similar liability that did not have an equity conversion option. The equity component was 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 were 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 was measured at amortized cost using the effective interest method. The equity component was not re-measured subsequent to initial recognition.

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 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 recognised 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, dividends received, realized and unrealized gains on other assets and other interest income. Finance income is recognized as it accrues in net income or loss.

Finance costs are comprised of interest expense on borrowings and realized and unrealized loss on other assets. 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.

(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

The following table outlines the new accounting pronouncements issued by the IASB that are applicable to, or may have a future impact on, the Company.

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 2018. Management is assessing the impact of the adoption of IFRS 15 on the Company's consolidated financial statements.

IFRS 16 Leases

IFRS 16, published on January 13, 2016, supersedes IAS 17 - Leases. The standard provides a single lessee accounting model, requiring lessee`s to recognize assets and liabilities for all leases unless a lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

IFRS 16 applies to reporting periods beginning on or after January 1, 2019. Management is assessing the impact of the adoption of IFRS 16 on the Company's consolidated financial statements.

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.

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.

(Tabular amounts in thousands of Canadian dollars)

(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 business

Effective January 1, 2015, the Company, through a wholly-owned United States subsidiary, acquired all of the issued and outstanding shares of a private oilfield transportation company based in Casper, Wyoming. This acquisition not only provided the Company with an established market presence in Wyoming, but also provided the Company's United States operations with Federal Department of Transportation and other required operating licenses in a number of jurisdictions throughout the United States.

The acquisition was accounted for as a business combination using the purchase method of accounting and the operations of the acquired company were included in the Company's accounts effective January 1, 2015. The following table details the purchase price allocation for the business combination:

Net assets acquired:		
Property, plant and equipment and licenses	$	1,663
Working capital adjustments		189
Loans		(554)
Deferred tax liability		(432)
Total	$	866
Consideration paid:		
Cash	$	1,231
Working capital adjustments		189
Loans repaid		(554)
Total	$	866

The fair value of the assets acquired was determined using market quotes. The business was integrated into the Company's existing Rentals and Transportation Services segment in January 2015. As a result it is impracticable to provide separate financial results for the acquired business.

The acquisition related 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.

(Tabular amounts in thousands of Canadian dollars)

The segmented amounts are as follows:

As at and for the year ended December 31, 2015	Contract Drilling Services	Rentals and Transportation Services	Compression And Process Services	Other [1]	Total
Revenue	$ 15,907	$ 70,958	$ 196,328	$ –	$ 283,193
Cost of services	9,480	39,518	157,552	–	206,550
Selling, general and administration	2,108	13,206	8,804	3,857	27,975
Share-based compensation	–	–	–	1,375	1,375
Depreciation	2,669	16,490	8,263	66	27,488
Results from operating activities	1,650	1,744	21,709	(5,298)	19,805
Gain on sale of property, plant and equipment	39	556	4,967	14	5,576
Finance income	–	–	–	897	897
Finance costs	(566)	(1,197)	(762)	(7,203)	(9,728)
Net income before income taxes	1,123	1,103	25,914	(11,590)	16,550
Goodwill	–	2,514	1,539	–	4,053
Total assets	115,300	230,662	170,860	15,557	532,379
Total liabilities	20,058	43,877	33,845	51,264	149,044
Capital expenditures [2]	$ 1,625	$ 15,483	$ 6,077	$ 125	$ 23,310

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

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

(2) Includes January 1, 2015 acquisition of a business described in note 5.

(Tabular amounts in thousands of Canadian dollars)

7. Cash and cash equivalents

Cash and cash equivalents represent cash in bank.

8. Accounts receivable

	December 31, 2015	December 31, 2014
Trade receivables, net of allowance for doubtful accounts	$ 38,480	$ 75,440
Accrued and other receivables	9,611	23,480
	$ 48,091	$ 98,920

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 $7.9 million (2014: $10.5 million) of amounts pertaining to contracts in progress as at December 31, 2015.

9. Inventory

	December 31, 2015	December 31, 2014
Finished goods	$ 3,672	$ 2,492
Work-in-progress	18,145	11,705
Parts and raw materials	37,249	40,151
	$ 59,066	$ 54,348

For the year ended December 31, 2015, finished goods, work-in-progress and parts and raw materials of $136.8 million (December 31, 2014: $169.9 million) are included in cost of services (note 20).

(Tabular amounts in thousands of Canadian dollars)

10. Property, plant and equipment

	Land and Buildings	Rental equipment	Automotive equipment	Leased assets	Shop Machinery and equipment	Drilling rigs and related equipment	Furniture, fixtures and other	Total
Cost								
As at 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
Acquisition	–	18	1,095	–	103	–	447	1,663
Transfers and other	(19)	26	513	(276)	29	–	98	371
Additions	8,358	10,332	956	1,881	301	1,618	514	23,960
Disposals	(8)	(26,989)	(402)	(2,467)	(28)	(895)	–	(30,789)
As at December 31, 2015	**67,134**	**276,205**	**61,895**	**10,326**	**14,099**	**152,265**	**7,004**	**588,928**
Accumulated Depreciation								
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
Transfers and other	–	2	22	–	3	–	11	38
Depreciation expense	2,548	12,491	4,878	2,608	2,026	2,416	521	27,488
Disposals	(4)	(1,656)	(338)	(2,049)	(10)	(895)	–	(4,952)
As at December 31, 2015	**11,420**	**85,506**	**34,367**	**6,223**	**9,591**	**43,561**	**5,638**	**196,306**
Net Book Value								
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, 2015	**$ 55,714**	**$ 190,699**	**$ 27,528**	**$ 4,103**	**$ 4,508**	**$ 108,704**	**$ 1,366**	**$ 392,622**

As at December 31, 2015, there was no (December 31, 2014: $24.3 million) property plant and equipment 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, 2015, the Company recorded an unrealized loss of $5.1 million (2014: $0.4 million) resulting from changes in the market value of other assets and $0.1 million of realized loss on the sale of other assets (2014: $0.3 million of realized gain). These amounts were included in finance costs. If the market value of securities on hand at December 31, 2015 would have decreased by 1%, with all other variables held constant, after tax net earnings for the period would have been approximately $42,000 lower (2014: $40,000).

(Tabular amounts in thousands of Canadian dollars)

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.

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

	December 31, 2015	December 31, 2014
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 (2014: 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 2015 was determined similarly as in 2014. 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, current market conditions and a 15-year horizon in both 2015 and 2014.
- An after-tax discount rate of 9.7% (2014: 9%) was applied in determining the recoverable amount of the unit.
- The expectation is that activity levels will trough in 2016 and then gradually recover from 2017 through 2019 in line with historical industry experience.

The values assigned to the key assumptions represent management's assessment of future trends in the energy service industry and are based on both external sources and internal sources (historical data). A 10% change in any or all of the key assumptions would not change the outcome of management's assessment of impairment.

13. Accounts payable and accrued liabilities

	December 31, 2015	December 31, 2014
Trade payables	$ 9,252	$ 21,043
Wages and salaries payables	2,406	7,376
Accrued costs and other payables	10,344	31,418
	$ 22,002	$ 59,837

Included in accrued costs and other payables is $0.7 million (2014: $1.5 million) relating to contracts in progress as at December 31, 2015.

14. Long-term debt

Revolving credit facility

On February 5, 2015, the Company renewed its $35 million revolving credit facility with a major Canadian financial institution. The facility is a two year committed facility with payments not required until June 2017, assuming non-extension by the lender, bears interest at the bank's prime rate plus 0.40% and is secured by the Company`s cash and cash equivalents, accounts receivable and inventory. On April 17, 2015 this facility was increased to $65 million. This facility was undrawn at December 31, 2015 and 2014 and available to the extent of $57.4 million based on margin requirements at December 31, 2015 (December 31, 2014: $35 million).

(Tabular amounts in thousands of Canadian dollars)

Convertible debentures

On May 19, 2015, the Company completed the redemption of all outstanding 5.75% convertible unsecured subordinated debentures (the "Debentures") that were due to mature on March 31, 2016. Upon redemption, the Company paid to the holders of Debentures $1,007.72 per $1,000 principal amount of Debentures which was equal to the outstanding principal amount of the Debentures plus accrued and unpaid interest up to, but excluding, the redemption date. This transaction resulted in additional accelerated accretion expense of $0.7 million that was recorded as part of finance costs and a reduction of $1.2 million to the equity portion of the Debentures. The remaining $3.4 million equity portion of the Debentures was credited to retained earnings.

During the years ended December 31, 2015 and 2014 changes in the balance of the liability component of the convertible debentures were as follows:

	2015	2014
Convertible debentures, opening balance	**$ 66,361**	$ 64,446
Accretion of discount	**1,429**	1,915
Equity portion of convertible debenture	**1,210**	–
Redemption of convertible debentures	**(69,000)**	–
Convertible debentures, end of year	**$ –**	**$ 66,361**

Term loan

In connection with the redemption of the Debentures, the Company secured a $50 million bank loan with a major Canadian financial institution.

The bank loan is a five year term loan amortized over 20 years with blended monthly principal and interest payments of approximately $278,800. At the end of the five year term, approximately $40.2 million of principal will become due and payable assuming only regular monthly payments are made. The bank loan bears a fixed interest rate of 3.06% and is secured by certain of the Company`s real estate assets. Future payments of principal and interest with respect to the bank loan are as follows:

	December 31, 2015	
	Principal	**Interest**
Not later than one year	**$ 1,879**	**$ 1,466**
Later than one year and not later than five years	**46,900**	**4,457**
Later than 5 years	**–**	**–**
	$ 48,779	**$ 5,923**

Both the bank term loan and revolving credit facility requires that the Company maintain a debt to equity ratio not exceeding 2.5 to 1 and a current ratio of at least of 1.3 to 1. The debt to equity ratio is calculated as long-term debt and finance lease liabilities of the Company less cash and cash equivalents, divided by total equity. The current ratio is calculated as current assets divided by current liabilities (excluding current portion of long-term term debt and finance leases). At December 31, 2015 the Company was in compliance with all bank covenants.

(Tabular amounts in thousands of Canadian dollars)

15. Finance lease liabilities

	December 31, 2015	December 31, 2014
Finance lease liability	$ 4,308	$ 5,483
Less current portion	2,023	2,376
Long-term finance lease liability, end of year	$ 2,285	$ 3,107

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 2.12% - 3.13% (December 31, 2014: 2.94% - 3.13%) and mature on various dates up to 2020 (see note 25).

In 2015, interest of $0.2 million (December 31, 2014 – $0.2 million) relating to finance lease obligations has been included in finance costs.

	Minimum lease payments		Present value of minimum lease payments	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Not later than one year	$ 2,166	$ 2,550	$ 2,023	$ 2,376
Later than one year and not later than five years	2,425	3,322	2,285	3,107
Later than 5 years	–	–	–	–
	4,591	5,872	4,308	5,483
Less: future finance charges	(283)	(389)	–	–
Present value of minimum lease payments	$ 4,308	$ 5,483	$ 4,308	$ 5,483

16. Deferred income tax assets and liabilities

The components of the net deferred income tax liability at December 31, 2015 and 2014 are as follows:

	December 31, 2015	December 31, 2014
Deferred income tax assets:		
Other assets	$ 737	$ –
Deferred income tax liabilities:		
Convertible debentures	$ –	$ (510)
Property, plant and equipment	(58,840)	(50,597)
Partnership income deferral	(3,133)	(8,724)
Other	(303)	(287)
	$ (61,539)	$ (60,118)

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

(Tabular amounts in thousands of Canadian dollars)

Movement in temporary differences during the period:

	Dec 31, 2013	Recognised in net income or loss	Dec 31, 2014	Recognised in net income or loss	Deferred taxes on acquisition	**Dec 31, 2015**
Deferred income tax assets:						
Other assets	$ –	$ –	$ –	$ 737	$ –	**$ 737**
Deferred income tax liabilities:						
Convertible debentures	$ (838)	$ 328	$ (510)	510	–	**–**
Property, plant and equipment	(46,151)	(4,446)	(50,597)	(7,811)	(432)	**(58,840)**
Partnership income deferral	(4,822)	(3,902)	(8,724)	5,591	–	**(3,133)**
Other	(268)	(19)	(287)	(16)	–	**(303)**
	$ (52,079)	$ (8,039)	$ (60,118)	$ (989)	$ (432)	**$ (61,539)**

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:

	2015	2014
Net income before income taxes	**$ 16,550**	$ 70,385
Income tax rate	**26.03%**	25.20%
Expected income tax expense	**$ 4,308**	$ 17,737
Changes in taxes resulting from:		
Change in tax rates	**3,580**	23
Non-deductible share-based compensation	**358**	468
Other	**(351)**	(1,148)
Provision for income taxes	**$ 7,895**	$ 17,080

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, 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
Repurchased and cancelled	(8)	(24)
Balance, December 31, 2015	**30,997**	**$ 88,875**

(Tabular amounts in thousands of Canadian dollars)

During year ended December 31, 2015, 7,900 common shares (December 31, 2014: 595,100) were repurchased under the Company's normal course issuer bid at an average price of $13.64 (December 31, 2014: $20.07), 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, 2015	Year ended December 31, 2014
Net income for the year	$ 8,655	$ 53,305
Weighted average number of shares outstanding – Basic	31,000	31,216
Earnings per share – basic	$ 0.28	$ 1.71
Net income for the year	$ 8,655	$ 53,305
Add back: debenture interest net of tax	–	4,400
	$ 8,655	$ 57,705
Weighted average number of shares outstanding – Basic	31,000	31,216
Convertible debenture dilution	–	3,109
Share option dilution	22	370
Weighted average number of shares outstanding – Diluted	31,022	34,695
Earnings per share – diluted	$ 0.28	$ 1.66

For the year ended December 31, 2015, 1,920,000 options (December 31, 2014: 210,000) and 1,177,226 shares (December 31, 2014: nil) potentially issuable upon conversion of the convertible debentures weighted for the time period prior to redemption 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 2015, the Company declared dividends of $7.4 million (2014: $7.5 million) or $0.24 (2014: $0.24) 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 and May 21, 2015, the Company implemented new share option plans, 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.

(Tabular amounts in thousands of Canadian dollars)

Share option transactions during 2015 and 2014 were as follows:

	Weighted average exercise price	Number of Options
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
Granted	14.13	1,400,000
Forfeited	22.81	(60,000)
Balance, December 31, 2015	**$ 14.30**	**3,060,000**

The share options issued during 2015 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, 2020.

During 2014, the weighted average market price at the time of exercise of options was $21.07 per share. There were no options exercised during 2015.

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

Outstanding at December 31, 2015	**Exercise Price**	**Remaining life (years)**	**Exercisable at December 31, 2015**
165,000	**$ 16.18**	**0.20**	**165,000**
75,000	**14.21**	**0.50**	**75,000**
1,140,000	**13.74**	**1.40**	**1,140,000**
76,666	**14.96**	**2.10**	**43,332**
53,334	**14.72**	**2.40**	**26,667**
150,000	**17.61**	**2.80**	**100,000**
1,400,000	**14.13**	**4.60**	**–**
3,060,000	**$ 14.30**	**2.88**	**1,549,999**

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

(Tabular amounts in thousands of Canadian dollars)

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value of the share options granted. The average per share fair value of the options granted during 2015 is $2.36 per option (2014 - $4.17) using the following assumptions:

	December 31, 2015	December 31, 2014
Expected volatility	24.05% - 28.94%	27.98%
Annual dividend yield	1.70%	1.04%
Risk free interest rate	0.45% - 0.83%	1.21%
Forfeitures	9%	7%
Expected life (years)	3 to 5 years	3 to 5 years

For the year ended December 31, 2015 the Company recognized share-based compensation expense of $1.4 million (2014 – $1.9 million).

19. Revenue

	2015	2014
Rendering of services	$ 152,110	$ 247,358
Sale of goods	131,083	180,791
	$ 283,193	$ 428,149

20. Cost of services

	2015	2014
Inventory	$ 136,832	$ 169,869
Wages and salaries	46,349	74,435
Repair and maintenance	9,306	25,662
Fuel and travel	8,888	17,343
Rent and services	3,045	2,990
Parts and supplies	783	1,686
Other	1,347	2,494
	$ 206,550	$ 294,479

21. Selling, general and administration

	2015	2014
Wages and salaries	$ 19,469	$ 23,008
Office and marketing	2,585	3,401
Professional and legal	1,932	1,403
Rent	1,284	1,162
Travel	1,268	1,804
Other	1,437	1,258
	$ 27,975	$ 32,036

(Tabular amounts in thousands of Canadian dollars)

22. Employee benefits

	2015	2014
Cost of services	**$ 46,349**	$ 74,435
Selling, general and administration	**19,469**	23,008
Share-based compensation	**1,375**	1,857
	$ 67,193	$ 99,300

23. Finance income

	2015	2014
Dividends	**$ 831**	$ 382
Interest on outstanding cash balances	**66**	219
Gain on sale of investments	**–**	313
	$ 897	$ 914

24. Finance costs

	2015	2014
Convertible debenture interest	**$ 1,524**	$ 3,967
Accretion of convertible debenture	**1,429**	1,915
Interest on long-term debt	**1,009**	–
Change in fair value of other assets	**5,110**	374
Interest on finance lease obligations	**177**	190
Other interest	**479**	59
	$ 9,728	$ 6,505

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 energy services industry. Historically the Company has maintained a conservative ratio of long-term debt to long-term debt plus equity. As at December 31, 2015 and 2014 these ratios were as follows:

	December 31, 2015	December 31, 2014
Long-term debt (including current portion and convertible debentures)	**$ 48,779**	$ 69,000
Shareholders' equity	**383,335**	382,063
Total capitalization	**$ 432,114**	$ 451,063
Long-term debt to long-term debt plus equity ratio	**0.11**	0.15

As at December 31, 2015, the Company was subject to externally imposed minimum capital requirements relating to its revolving credit facility and term loan. Both the bank term loan and revolving credit facility require that the Company maintain a debt to equity ratio not exceeding 2.5 to 1 and a current ratio of at least of 1.3 to 1. The debt to equity ratio is calculated as long-term debt and finance lease liabilities of the Company less cash and cash equivalents, divided by total equity. The current ratio is calculated as current assets divided by current liabilities (excluding current portion of long-term term debt and finance leases). The Company monitored these requirements to ensure compliance with them. As at December 31, 2015 and 2014 the Company was in compliance with all external minimum capital requirements.

Financial instruments

The Company's financial instruments as at December 31, 2015 include cash and cash equivalents, accounts receivable, other assets, accounts payable and accrued liabilities, dividends payable, derivative instruments obligations under finance leases and long-term debt. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and obligations under finance leases approximate their carrying amounts due to their short-terms to maturity. The fair value of other assets was determined based on market prices quoted on the relevant stock exchanges on which the marketable securities trade. Changes in fair value of other assets are recorded in the statement of comprehensive income in the period the changes in fair value occur. The discounted future cash repayments of the Company`s bank loan are calculated using prevailing market rates of a similar debt instrument as at the reporting date. The net present value of future cash repayments of the bank loan and related interest at the prevailing market rate of 2.90% for a similar debt instrument at December 31, 2015 was $49.1 million. The carrying value and Company`s liability with respect to the bank loan is $48.8 million.

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, 2015, $6.6 million, or 13% of accounts receivable (2014 - $6.4 million or 6%) were more than 90 days overdue, which includes $2.0 million of doubtful accounts for which a provision has been recognised. The ageing of accounts receivable is in the range of expectations given the challenging economic environment.

(Tabular amounts in thousands of Canadian dollars)

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

	Allowance for doubtful accounts
Balance at December 31, 2013	$ 1,561
Provisions and revisions	30
Balance at December 31, 2014	$ 1,591
Provisions and revisions	389
Balance at December 31, 2015	**$ 1,980**

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% of revenue during the years ended December 31, 2015 and 2014. 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, 2015, the Company maintained a revolving credit facility which was available to a maximum of $65 million (2014: $35 million) and had long-term debt of $48.8 million outstanding that comes up for renewal on April 30, 2020 (December 31, 2014: $35 million and $69 million of convertible debentures) to ensure the Company has sufficient working capital to operate its business. As at December 31 of each of 2015 and 2014 the revolving credit facility was undrawn.

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, 2015	**No later than 1 year**	**Later than 1 year and not later than 5 years**	**Later than 5 years**	**Total**
Accounts payable and accrued liabilities	**$ 22,002**	**$ –**	**$ –**	**$ 22,002**
Dividends payable	**1,860**	**–**	**–**	**1,860**
Long-term debt	**3,345**	**51,357**	**–**	**54,702**
Finance leases	**2,166**	**2,425**	**–**	**4,591**
Total	**$ 29,373**	**$ 53,782**	**$ –**	**$ 83,155**

As at December 31, 2014	No later than 1 year	Later than 1 year and not 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

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 35% of its operating expenses in 2015 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, 2015 was US$1.0 million (December 31, 2014: nil). These contracts are short term in nature. The forward market exchange rate used to fair value these outstanding contracts as at December 31, 2015 was $1.41 Canadian dollar per United States 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, 2015, if interest rates had been 1% lower with all other variables held constant, after tax net earnings for the period would have been approximately $36,000 higher (December 31, 2014 - $40,000), due to lower interest expense on existing finance lease obligations. An equal and opposite impact would have occurred to net earnings had interest rates been 1% higher. The sensitivity in 2015 is consistent with 2014 due primarily to the fixed interest rate on the Company's on long-term debt.

The Company had no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2015.

Long-term debt bears a fixed interest rate and thus is not exposed to interest rate risk.

(Tabular amounts in thousands of Canadian dollars)

26. Commitments

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

	December 31, 2015	December 31, 2014
Less than one year	$ 2,219	$ 2,297
Between one and five years	3,279	4,968
More than five years	–	–
	$ 5,498	$ 7,265

The Company also has purchase obligations of $8.6 million as at December 31, 2015 (December 31, 2014: $27.6 million) relating to commitments to purchase inventory.

27. Contingencies

On August 30, 2015 the Company was notified by the Canada Revenue Agency (the "CRA") that certain of the Company's income tax filings related to its conversion from an income trust to a corporation in 2009 were being re-assessed. Specifically, the CRA increased the Company's taxable income by $56.1 million and denied $1.7 million of investment tax credits claimed (the "Reassessment"). The Reassessment is based entirely on the CRA's proposed application of the general anti-avoidance rule ("GAAR") and gives rise to approximately $14.1 million of federal income tax payable. In September 2015 the Company paid one half of the Reassessed amount, or $7.1 million, on account of the Reassessment as required pending appeal. On November 4, 2015, related provincial income tax reassessments totaling $5.6 million (including interest and penalties) were received.

The Company has received both legal and tax advice relating to its conversion from an income trust to a corporation indicating that its income tax filing position is strong. As such, the Company has filed notices of objection in response to the Reassessment and intends to vigorously defend its filing position and seek reimbursement from the CRA for the costs arising from having to defend such Reassessment to the fullest extent possible. Management believes that it will be successful in defending its tax filing position, and as such, the Company has not recognized any provision for the Reassessment at December 31, 2015. The $7.1 million paid on account of the Reassessment has been recorded as income tax receivable on the basis management believes it will be successful in defending the Company`s filing position. In the event the Company is not successful, an additional $12.7 million of cash may be owing and $19.8 million of income tax expense would be recognized.

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.

(Tabular amounts in thousands of Canadian dollars)

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, 2015	December 31, 2014
Short-term employee benefits	$ 4,099	$ 4,268
Share-based compensation (1)	1,116	1,400
	$ 5,215	$ 5,668

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

At December 31, 2015 directors of the Company own or control 8 percent of the voting shares of the Company (2014: 7 percent).

There have been no transactions over the reporting period with key management personnel (2014: nil), and no outstanding balances exist as at period end (2014: nil).

29. Subsequent event

Effective January 1, 2016 the Company, through a wholly-owned United States subsidiary, acquired substantially all of the assets related to an oilfield rental business for US$2.75 million. The Company financed the acquisition with cash on hand.

The purchased business will increase Company`s oilfield rental business presence in the United States and provide the Company with experienced personnel and an enhanced market presence.

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

Gerry Crawford
Vice President, Field Services

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

Yuliya Gorbach
Vice President, Finance and Chief Financial Officer

William Kosich
Vice President, Drilling Services

Brad Macson
Vice President, Operations

CHINOOK DRILLING, A DIVISION OF TOTAL ENERGY SERVICES INC.

Rod Rundell
General Manager

TOTAL OILFIELD RENTALS LIMITED PARTNERSHIP

Clint Gaboury
General Manager

BIDELL EQUIPMENT LIMITED PARTNERSHIP

Sean Ulmer
President

SPECTRUM PROCESS SYSTEMS INC.

Kelly Mantei
General Manager

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Calgary, Alberta

TRUSTEE, REGISTRAR AND TRANSFER AGENT

Computershare

Calgary, Alberta

LEGAL COUNSEL

Bennett Jones, LLP

Calgary, Alberta

BANKER

HSBC

Calgary, Alberta

STOCK EXCHANGE LISTING

Toronto Stock Exchange

Common Shares: TOT

CANADIAN LOCATIONS

Calgary • Carlyle • Dawson Creek • Drayton Valley • Drumheller • 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

CHINOOK Drilling
A Division of Total Energy Services Inc.

TOTAL OILFIELD RENTALS LP

BIDELL™ GAS COMPRESSION

SPECTRUM Process Systems