

Q3



FOCUS DISCIPLINE GROWTH

Third Quarter Report 2017

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Total Energy Services Inc. (“Total Energy” or the “Company”) is a public energy services company based in Calgary, Alberta that provides a variety of products and services to the oil and natural gas industry through its subsidiaries and aboriginal partnerships. Total Energy is involved in five businesses: contract drilling services, the rental and transportation of equipment used in the drilling, completion and production of oil and natural gas wells, the fabrication, sale, rental and servicing of new and used natural gas compression and oil and natural gas process equipment and well servicing. Together these businesses provide a platform for building long-term shareholder value. Total Energy has achieved its growth by maintaining a disciplined acquisition strategy and undertaking strategic internal growth.

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

REPORT TO SHAREHOLDERS

Total Energy's financial results for the three and nine months ended September 30, 2017 include the financial results for Savanna Energy Services Corp. ("Savanna") from April 5, 2017 when the Company acquired control of Savanna. Of significance is the fact that for the first time in Total Energy's 21-year history, during the third quarter of 2017 a majority of revenues were derived from outside of Canada. Despite incurring approximately \$1.2 million of non-recurring costs related to the acquisition and integration of Savanna during the third quarter, the Company returned to quarterly profitability for the first time since the third quarter of 2015.

The acquisition of Savanna during the second quarter was a material and transformative transaction for Total Energy that makes year-over-year comparisons of consolidated financial results somewhat meaningless. That said, despite continued competitive and uncertain industry conditions, particularly in Canada, with the exception of the contract drilling services segment, all of the Company's business segments were profitable during the third quarter of 2017. In such environment, Total Energy remains focused on the integration of Savanna, which is expected to be substantially completed by the end of 2017. To that end, Total Energy has incurred approximately \$6.4 million of non-recurring acquisition and integration expenses during the first nine months of 2017 that are expected to give rise to at least \$10 million of annualized operating and selling, general and administrative cost savings beginning in 2018.

While wet weather conditions hampered field operations in Canada during the latter part of the third quarter and into the fourth quarter, current indications are that drilling and completion activity levels will experience the usual seasonal increase during the upcoming winter season as ground conditions permit the movement of heavy equipment. Drilling and completion activity within the United States is expected to remain relatively stable near term despite recent modest declines in certain regions. Activity levels in Australia are expected to remain stable with an upward bias.

Looking beyond the upcoming winter season, the outlook for the energy industry remains uncertain despite recent gains in oil prices. More specifically, industry conditions in Canada remain particularly challenging and uncertain as domestic commodity prices continue to suffer material discounts relative to international prices. This price discount is a direct result of Canadian energy producers' inability to get their oil and natural gas to tidewater due to a lack of energy infrastructure. Given the unique challenges of getting energy infrastructure built in Canada, a few years ago Total quietly shifted its focus to grow its international business. The fruits of this strategy were clearly evidenced during the third quarter when international revenues surpassed Canadian revenues for the first time. With no immediate relief in sight for Canadian energy producers, the Company will remain focused on growing its international business until such time as Canada resolves its oil and natural gas market access challenges.

Finally, on behalf of the shareholders, board of directors and employees of Total Energy, I thank Randy Kwasnicia for his excellent service as a director over the past 11 years and wish him and his family the very best in his retirement. I also welcome Glenn Dagenais to the board of directors of Total Energy. Glenn is well known in the global energy services industry, having spent most of his career in a senior executive role with Ensign Energy Services before retiring in 2015. Glenn possesses a wealth of industry experience and is a welcome addition to our board.



DANIEL K. HALYK
President and Chief Executive Officer

November 2017

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

The following MD&A for Total Energy Services Inc. ("Total Energy" or the "Company") was prepared as at November 8, 2017 and focuses on information and key statistics from the unaudited condensed interim consolidated financial statements of the Company for the three and nine months ended September 30, 2017 (the "Interim Financial Statements") and pertains to known risks and uncertainties relating to the energy services sector. This discussion should not be considered all-inclusive as it does not include all changes regarding general economic, political, governmental and environmental conditions.

This MD&A should be read in conjunction with the Company's Interim Financial Statements, the Company's 2016 Annual Report, the Annual Information Form ("AIF") for the year ended December 31, 2016 and the cautionary statement regarding forward-looking information and statements below. 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.

FINANCIAL HIGHLIGHTS

	Three months ended September 30			Nine months ended September 30		
	2017	2016	Change	2017	2016	Change
Revenue	\$ 185,158	\$ 46,536	298%	\$ 424,432	\$ 140,385	202%
Operating income (loss)	6,871	(3,012)	328%	(6,475)	(10,814)	40%
EBITDA ⁽¹⁾	27,356	4,816	468%	41,875	10,487	299%
Cashflow	30,044	6,076	394%	48,768	12,890	278%
Net income (loss)	3,737	(1,912)	295%	(10,257)	(8,247)	(24)%
Attributable to shareholders	4,307	(1,912)	325%	(8,111)	(8,247)	2%
Per Share Data (Diluted)						
EBITDA ⁽¹⁾	0.59	0.16	269%	1.03	0.34	203%
Cashflow	0.65	0.20	225%	1.20	0.42	186%
Attributable to shareholders:						
Net income (loss)	0.09	(0.06)	250%	(0.20)	(0.27)	26%
Financial Position at				Sept. 30, 2017	Dec. 31, 2016	
Total Assets				\$ 1,056,358	\$ 522,599	102%
Long-Term Debt and Obligations Under Finance Leases (excluding current portion)				257,981	46,557	454%
Working Capital ⁽²⁾				37,053	71,770	(48)%
Net Debt ⁽¹⁾				220,928	-	nm
Shareholders' Equity				544,647	364,302	50%
Shares Outstanding (000's) ⁽³⁾						
Basic and Diluted	46,238	30,980	49%	40,523	30,978	31%

(1) Please see "Non-IFRS Measures" below for the definition of EBITDA and Net Debt.

(2) Working capital mean current assets minus current liabilities.

(3) Basic and diluted shares outstanding reflect the weighted average number of common shares outstanding for the period. See note 8 to the Company's Interim Consolidated Financial Statements for the three and nine months ended September 30, 2017.

"nm" – calculation is not meaningful

BUSINESS OF THE COMPANY

Total Energy is a public energy services company based in Calgary, Alberta that provides a variety of products and services to the oil and natural gas industry through its subsidiaries and aboriginal partnerships. Total Energy is involved in five businesses: contract drilling services ("CDS"), the rental and transportation of equipment used in the drilling, completion and production of oil and natural gas wells ("RTS"), the fabrication, sale, rental and servicing of new and used natural gas compression and oil and natural gas process equipment ("CPS"), well servicing, including completion, workover, maintenance and abandonment services ("WS") and Corporate. The Company's operations are conducted within Canada, the United States of America ("United States" or "U.S.") and Australia.

Acquisition

During the second quarter of 2017, the Company completed the acquisition of Savanna Energy Services Corp. ("Savanna") and thereby has diversified its exposure to global energy development. Results for the third quarter and first nine months of 2017 were materially impacted by such acquisition. For further information on the Savanna acquisition, please refer to the "Acquisition of Savanna" section of this MD&A and note 4 to the Interim Financial Statements.

Contract Drilling Services: At September 30, 2017, the Company operated a total fleet of 119 drilling rigs, with 101 rigs added on the acquisition of Savanna. The rig fleet is supported by an extensive fleet of owned top drives, walking systems, pumps and other ancillary equipment. Composition of the Company's drilling rig fleet is as follows:

By Type		By Geography	
Triples	5	Canada	86
AC doubles	15	United States	28
Mechanical doubles	53	Australia	5
Australian shallow	5		
TDS and singles	41		
	119		119

Rentals and Transportation Services: Total Energy's RTS business is presently conducted from 25 locations in western Canada and two locations in the northwestern United States. At September 30, 2017, this segment had approximately 11,700 pieces of major rental equipment (excluding access matting), a fleet of 125 heavy trucks and a significant inventory of small rental equipment. The Savanna acquisition added approximately 1,700 major rental pieces, four heavy trucks and a fleet of small rental equipment. Three full service branch locations in Canada were also added (Fort MacKay, Lloydminster and Swift Current).

Compression and Process Services: The Company fabricates a full range of natural gas compression equipment as well as select oil and natural gas process equipment. At September 30, 2017 the CPS segment occupied approximately 187,000 square feet of production facilities located in Calgary, Alberta and a 100,000 square foot facility in Weirton, West Virginia. The Weirton facility commenced production activity in June 2017 and will support North American and international equipment sales. As at September 30, 2017 the CPS segment also had a network of 12 branch locations throughout western Canada and the United States from which its natural gas compression parts and service business is conducted. This segment had 40,000 horsepower of compression in its rental fleet at September 30, 2017.

Well Servicing: The Company entered the well servicing business through the acquisition of Savanna. At September 30, 2017, the Company operated a total fleet of 87 well servicing rigs across Western Canada, Northwest United States and Australia. Composition of the Company's service rig fleet is as follows:

By Type		By Geography	
Singles	38	Canada	57
Doubles	36	United States	18
Australian spec	9	Australia	12
Flush-by	4		
	87		87

OVERALL PERFORMANCE

Total Energy's results for the three and nine months ended September 30, 2017 reflect improving North American industry activity levels from the historic lows experienced during 2016 as well as initial cost synergies arising from the integration of Savanna. Despite higher activity, operating margins remained under pressure, particularly within the CDS and RTS segments where spot market pricing continued to suffer from competitive market conditions. The Company's results for the third quarter were materially impacted by the overall change in the scope and scale of the business arising from the acquisition of Savanna. Negatively impacting the Company's results for the third quarter and first nine months of 2017 was approximately \$1.2 million and \$6.4 million of non-recurring expenses, of which \$0.6 million and \$5.7 million, respectively, related to the Company's offer to acquire all of the common shares ("Savanna Shares") of Savanna for the respective periods.

The Company's financial condition remains strong, with a positive working capital balance of \$37.1 million as at September 30, 2017 as compared to \$71.8 million of working capital at December 31, 2016. Despite incurring a net loss and maintaining a dividend during the first nine months of 2017, shareholders' equity increased by \$180.3 million during the first nine months of 2017 due to the issuance of common shares by the Company in connection with the acquisition of Savanna Shares.

Revenue

The substantial increase in revenue for the three and nine months ended September 30, 2017 relative to the same periods in 2016 was the result of higher activity levels in all of the Company's segments and the acquisition of Savanna during the second quarter of 2017. Revenue during the three and nine months ended September 30, 2017 was \$185.2 million and \$424.4 million as compared to \$46.5 million and \$140.4 million during the same periods in 2016. During the three and nine months ended September 30, 2017 Savanna contributed \$94.1 million and \$169.0 million to the consolidated revenue of the Company.

Cost of Services

Cost of services increased by 296% and 206% to \$144.4 million and \$346.6 million for the three and nine months ended September 30, 2017, as compared to \$36.4 million and \$113.3 million for the same periods in 2016. The increase in costs of services during the third quarter and first nine months of 2017 was in line with higher activity levels in all business segments and the increased scale of operations arising from the second quarter acquisition of Savanna. During the three and nine months ended September 30, 2017 Savanna contributed \$74.7 million and \$140.7 million to the consolidated operating costs of the Company.

Gross margin, as a percentage of revenue, for the three and nine months ended September 30, 2017 was 22% and 18% as compared to 22% and 19% for the same periods in 2016. Gross margin percentages realized in the third quarter and first nine months of 2017 was consistent with the same periods in 2016. The positive contribution of the recently acquired WS segment and higher utilization in the RTS segment was offset by continued competitive market conditions not permitting the Company to increase pricing to the extent necessary to offset higher cost of services, particularly in the CDS segment.

Also impacting gross margin was an unrealized loss on foreign exchange of \$0.3 million and \$4.9 million, respectively, during the three and nine months ended September 30, 2017 that relates to intercompany working capital balances.

Cost of services includes salaries and benefits for operations personnel, equipment repairs and maintenance, fuel, inventory used to manufacture compression and process equipment and rent, utilities and property taxes related to manufacturing facilities and operations branches.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 140% to \$12.9 million and 113% to \$35.2 million for the three and nine months ended September 30, 2017, respectively, relative to the prior year comparable periods. Such increase includes \$0.6 million and \$5.7 million, respectively, of non-recurring acquisition and integration costs incurred during the three and nine months ended September 30, 2017 related to the acquisition of Savanna. Also included in 2017 third quarter selling, general and administrative expenses is \$0.6 million of non-recurring enterprise resource planning system remediation and related costs.

Included in selling, general and administrative expenses are salaries and benefits for sales, office and administrative staff, rent, utilities and property taxes related to the Company's various divisional offices and its corporate head office as well as professional fees and other costs incurred to maintain the Company's public listing and conduct investor relations activities. Also included is compensation for directors and officers pursuant to the Company's cash based compensation plans.

Share-based Compensation Expense

Share-based compensation expense arises from share options granted pursuant to the share option plans implemented in 2017 and 2015. The increase in share-based compensation expense for the three and nine months ended September 30, 2017 compared to the same periods in 2016 was due to the vesting of the first tranche of share options issued in 2015.

Depreciation Expense

The increase in depreciation expense during the three and nine months ended September 30, 2017 of 165% and 136%, respectively, as compared to the same periods in 2016 was primarily due to the increase in property plant and equipment following the second quarter acquisition of Savanna. Depreciation expense incurred for the quarter and first nine months relating to these acquired assets was \$12.3 million and \$24.5 million, respectively. The year over year increase in drilling rig utilization and a change in depreciation estimate in the CDS segment as described in Note 10 of the 2016 Audited Consolidated Financial Statements also contributed to the increase in current year depreciation expense compared to 2016. 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 subject to a minimum annual depreciation expense equal to an annual utilization of 96 days.

Operating Income (loss)

The operating income (loss) during the three and nine months ended September 30, 2017 improved to \$6.9 million of income and a \$6.5 million loss, respectively, from a \$3.0 million loss and a \$10.8 million loss during the comparable periods in 2016. The realization of operating income for the third quarter of 2017 was primarily a result of the contribution of the WS segment with the acquisition of Savanna and improved results from both the RTS and CPS segments as compared to 2016. The realization of a lower operating loss for the first nine months of 2017 compared to 2016 is primarily a result of operating income in the third quarter in all operating segments with the exception of the CDS segment where spot market pricing continued to suffer from competitive market conditions. Also negatively impacting operating income are losses on foreign exchange translation and non-recurring costs associated with the acquisition and integration of Savanna, as described above under the headings "Cost of Services" and "Selling, General and Administrative expenses".

Finance Costs

Finance costs for the three and nine months ended September 30, 2017 were substantially higher than the prior year comparable periods as a result of higher debt levels following the acquisition of Savanna and certain non-recurring finance costs arising from the change of control at Savanna and the establishment of replacement financing by the Company. For the first nine months of 2017, finance costs include \$1.6 million of penalty interest paid during the second quarter of 2017 following the change of control of Savanna and \$0.5 million of non-recurring fees associated with the establishment of replacement financing as further described under the headings "Liquidity and Capital Resources" and "Acquisition of Savanna". Offsetting these higher costs were a \$1.0 million and \$0.1 million unrealized gain, respectively, on Other Assets for the three and nine months ending September 30, 2017.

Gain on Sale of Property, Plant and Equipment

Disposals of equipment result from the replacement and upgrade of older equipment in the Company's equipment fleet and the disposition of compression rental equipment typically upon exercise of purchase options by customers in the ordinary course of business.

During the three and nine months ended September 30, 2017, proceeds from the sale of property, plant and equipment totaled \$1.8 million and \$2.8 million, respectively, and resulted in a gain on sale of \$0.2 million and \$0.4 million. During the three and nine months ending September 30, 2016, proceeds from the sale of property, plant and equipment totaled \$0.8 million and \$5.0 million and resulted in a gain on sale of \$0.2 million and \$0.9 million.

Income Taxes and Net income

During the three and nine months ended September 30, 2017 the Company had a current income tax expense of \$1.8 million and \$3.2 million of income tax recovery, respectively, as compared to current income tax expense of \$0.2 million and \$0.6 million during the same periods in 2016. Deferred income tax recovery was \$1.5 million and \$3.0 million, respectively, for the three and nine months ending September 30, 2017 as compared to \$1.2 million and \$3.6 million for the corresponding periods in 2016. The increase in current and deferred year to date income tax recoveries is due to increased year over year net losses before income taxes.

Acquisition of Savanna

During the second quarter of 2017, Total Energy completed the acquisition of all of the shares of Savanna through a series of transactions for total consideration of \$227.3 million. Such consideration was paid by the issuance of 15.15 million common shares of the Company and \$26.8 million cash.

Following the acquisition of 51.6% of the outstanding shares of Savanna on March 24, 2017 pursuant to an offer to Savanna shareholders made by the Company on December 9, 2016 and amended on March 1, 2017 (the "Offer"), the board of directors of Savanna was reconstituted on April 5, 2017 at which time the Company obtained control of Savanna (the "Effective Acquisition Date"). The remaining shares of Savanna were acquired pursuant to the Offer, through open market purchases and pursuant to an amalgamation transaction that was completed on June 20, 2017 as detailed below:

Date	Number of Savanna shares taken up '000	Number of Company shares issued '000	5-day VWAP of Company shares \$	Value of Company's shares issued \$000	Cash paid \$000	Total consideration \$000
April 7, 2017	35,642	4,633	13.28	\$ 61,519	\$ 7,128	\$ 68,647
April 27, 2017	3,178	413	13.57	5,607	636	6,243
June 20, 2017	16,779	2,182	12.88	28,094	3,356	31,450
Open market purchases	975	-	-	-	1,910	1,910
	56,574	7,228	-	\$ 95,220	\$ 13,030	\$ 108,250

Please see note 4 to the Interim Financial Statements for further details regarding the acquisition of Savanna by the Company.

Purchase Price Consideration

The purchase price consideration as at the Effective Acquisition Date is as follows:

Share consideration	\$ 105,209
Cash Consideration	\$ 13,800
Total consideration	\$ 119,009

Purchase Price Allocation

Cash	\$ 16,167
Accounts receivable	92,062
Inventory	5,227
Prepaid expenses and deposits	1,351
Property, plant and equipment	464,197
Accounts payable and other liabilities	(67,271)
Long-term debt	(281,341)
Net assets acquired	230,392
Non-controlling interest	(111,383)
	\$ 119,009

The acquisition has been accounted for as a business combination using the acquisition method whereby the net assets acquired and liabilities assumed are recorded at fair value. The preliminary purchase price allocation is based on management's best estimates of fair values of Savanna's assets and liabilities as at the Effective Acquisition Date although future adjustments to estimates may be required. Please see note 4 to the Interim Financial Statements for a detailed allocation of the purchase price consideration to the acquired assets of Savanna.

The following table summarizes the fair value of Savanna debt assumed by the Company:

	April 5, 2017	
	Interest rate	Amount
Revolving credit facilities	7.47%	\$ 48,727
Senior unsecured notes	7.00%	107,085
Second lien notes	7.15%	104,500
Mortgage loan	4.95%	16,828
Limited partnership facilities	5.44%	4,201
		\$ 281,341

The non-controlling interest ("NCI") was initially measured at the NCI's proportionate share of the net identifiable assets acquired. The subsequent transactions on April 7, 2017, April 27, 2017, June 20, 2017 and purchases of Savanna shares in the open market, were accounted for as equity transactions within shareholders' capital and reduced the NCI balance to the fair value of non-controlling interests of Limited Partnerships partially owned by the Company. During the period from April 5, 2017 to September 30, 2017, when the Company did not own 100% of the Savanna equity, a net loss of \$1.2 million was incurred that is attributable to the NCI owners.

Savanna contributed \$169.0 million to consolidated revenues and \$10.0 million to consolidated net loss from the Effective Acquisition Date to September 30, 2017.

Had the acquisition occurred on January 1, 2017, Savanna would have contributed \$276.6 million to consolidated revenues and \$30.2 million to consolidated net losses.

SEASONALITY

A significant portion of the Company's field operations are conducted in Canada where the ability to move heavy equipment is dependent on ground 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 and operating results in Canada. 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 heavy 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 in Canada. Additionally, wet weather in Australia, normally in the first quarter, can restrict the Company's Australian operations. Consequently, quarterly operating results may not be indicative of full year operating results.

SUMMARY OF QUARTERLY RESULTS

(in thousands of dollars except per share amounts)	Financial Quarter Ended (unaudited)			
	Sept 30, 2017	June 30, 2017	March 31, 2017	Dec 31, 2016
Revenue	\$ 185,158	\$ 154,922	\$ 84,352	\$ 57,415
Operating income (loss)	6,871	(13,105)	(241)	(4,296)
EBITDA ⁽¹⁾	27,356	6,577	7,942	3,554
Cashflow	30,044	10,860	7,821	2,827
Cash provided by (used in) operating activities	(2,329)	45,287	(5,301)	17,100
Net income (loss)	3,737	(13,141)	(853)	(3,667)
Attributable to shareholders	4,307	(11,565)	(853)	(3,667)
Per share data				
EBITDA ⁽¹⁾	\$ 0.59	\$ 0.15	\$ 0.25	\$ 0.11
Cashflow	0.65	0.25	0.25	0.09
Attributable to shareholders				
Net income (loss)	0.09	(0.26)	(0.03)	(0.12)
Financial Position				
Total Assets	\$ 1,056,538	\$ 1,053,302	\$ 635,240	\$ 522,599
Long-Term Debt and Obligations Under Finance Leases (excluding current portion)	257,981	256,266	58,053	46,557
Working Capital ⁽²⁾	37,053	21,309	77,158	71,770
Net Debt ⁽¹⁾	220,928	234,957	nil	nil
Shareholders' Equity	544,647	547,405	466,149	364,302
Shares Outstanding (000's) ⁽³⁾				
Basic	46,238	43,718	31,448	30,920
Diluted	46,238	43,718	31,489	30,920

	Financial Quarter Ended (unaudited)			
	Sept 30, 2016	June 30, 2016	March 31, 2016	Dec 31, 2015
Revenue	\$ 46,536	\$ 43,893	\$ 49,956	\$ 52,082
Operating income (loss)	(3,012)	(5,289)	(2,513)	(381)
EBITDA ⁽¹⁾	4,816	1,368	4,303	6,581
Cashflow	6,076	1,775	5,039	5,662
Cash provided by (used in) operating activities	1,962	6,741	12,686	6,410
Net income (loss)	(1,912)	(4,203)	(2,132)	(3,019)
Per share data (basic and diluted)				
EBITDA ⁽¹⁾	\$ 0.16	\$ 0.04	\$ 0.14	\$ 0.21
Cashflow	0.20	0.06	0.16	0.19
Net Earnings (Loss)	(0.06)	(0.14)	(0.07)	(0.10)
Financial Position				
Total Assets	\$ 507,711	\$ 509,349	\$ 522,225	\$ 532,379
Long-Term Debt and Obligations Under Finance Leases (excluding current portion)	46,719	47,483	48,235	49,185
Working Capital ⁽²⁾	80,094	79,386	87,702	90,314
Net Debt ⁽¹⁾	nil	nil	nil	nil
Shareholders' Equity	369,857	374,004	379,696	383,335
Shares Outstanding (000's) ⁽³⁾				
Basic and diluted	30,940	30,985	30,985	30,997

(1) Please see "Non-IFRS Measures" below for the definition of EBITDA and Net Debt.

(2) Working capital means current assets minus current liabilities.

(3) Basic and diluted shares outstanding reflect the weighted average number of common shares outstanding for the period. See note 8 to the Interim Financial Statements.

Aboriginal Partnerships

Savanna conducts a portion of its operations through limited partnerships in which each of Savanna and an Aboriginal partner hold approximately one half of the partnership interest. Savanna fully consolidates all of these partnerships, with its Aboriginal partners' share in the equity and net earnings of the partnerships reported as non-controlling interests.

SEGMENTED RESULTS

Contract Drilling Services

(in thousands of dollars, unless otherwise indicated)

September 30	Three Months Ended			Nine Months Ended		
	2017	2016	Change	2017	2016	Change
Revenue	\$ 58,634	\$ 3,151	1,761%	\$ 106,634	\$ 7,013	1,421%
EBITDA	\$ 7,594	\$ 552	1,276%	\$ 5,848	\$ 960	509%
EBITDA %	13%	18%		5%	14%	
Operating loss	\$ (3,265)	\$ (1,176)	(178)%	\$ (14,535)	\$ (1,511)	(862)%
Operating loss %	nm	nm		nm	nm	
Operating spud to release days	3,153	230	1,271%	5,616	478	1,075%
Revenue per spud to release day, dollars	\$ 18,596	\$ 13,700	36%	\$ 18,988	\$ 14,672	29%

"nm" - calculation not meaningful

The scope and scale of the contract drilling segment increased significantly through the acquisition of Savanna during the second quarter of 2017. The Company added 68 drilling rigs in Canada, to complement its existing Canadian fleet of 18 drilling rigs, as well as 28 drilling rigs in the United States and five drilling rigs in Australia. The following summarizes the quarterly and year-to-date operating results for the CDS segment by geographic area. Results for the Savanna drilling rigs acquired are from the Effective Acquisition Date. In 2016 all CDS segment results related to drilling rigs in Canada.

(in thousands of dollars, unless otherwise indicated)	Drilling Canada	Drilling U.S.	Drilling Australia	Total
Q3 2017				
Revenue	\$ 25,908	\$ 22,412	\$ 10,314	\$ 58,634
Operating (loss) income	\$ (718)	\$ (4,273)	\$ 1,726	\$ (3,265)
Operating (loss) income, %	nm	nm	17%	nm
Spud to release days	1,913	1,009	231	3,153
Revenue per spud to release day, dollars	\$ 13,543	\$ 22,212	\$ 44,649	\$ 18,596
Utilization % (spud to release)	24%	39%	50%	29%

"nm" - calculation not meaningful

(in thousands of dollars, unless otherwise indicated)	Drilling Canada	Drilling U.S.	Drilling Australia	Total
YTD 2017				
Revenue	\$ 45,722	\$ 44,190	\$ 16,722	\$ 106,634
Operating (loss) income	\$ (8,229)	\$ (8,650)	\$ 2,344	\$ (14,535)
Operating (loss) income, %	nm	nm	14%	nm
Spud to release days	3,327	1,899	390	5,616
Revenue per spud to release, dollars	\$ 13,743	\$ 23,270	\$ 42,877	\$ 18,988
Utilization % (spud to release)	19%	37%	42%	24%

"nm" - calculation not meaningful

(in thousands of dollars, unless otherwise indicated)	Drilling Canada	Total
Q3 2016		
Revenue	\$ 3,151	\$ 3,151
Operating loss	\$ (1,176)	\$ (1,176)
Operating loss, %	nm	nm
Spud to release days	230	230
Revenue per spud to release day, dollars	\$ 13,700	\$ 13,700
Utilization % (spud to release)	14%	14%

"nm" - calculation not meaningful

(in thousands of dollars, unless otherwise indicated)	Drilling Canada	Total
YTD 2016		
Revenue	\$ 7,013	\$ 7,013
Operating loss	\$ (1,511)	\$ (1,511)
Operating loss, %	nm	nm
Spud to release days	478	478
Revenue per spud to release days, dollars	\$ 14,672	\$ 14,672
Utilization % (spud to release)	10%	10%

"nm" - calculation not meaningful

The overall increase in CDS segment revenue relative to the three and nine months ended September 30, 2016 is primarily a result of the acquisition of Savanna and the operating days generated by the drilling rigs acquired. Excluding the Savanna acquisition, operating days (spud to rig-release) in the CDS segment increased by 6% and 75% respectively compared to the three and nine months ended September 30, 2016. Operating loss for Q3 2017 was lower compared to the same period in 2016 due to higher EBITDA, however, operating loss for the first nine months was higher than 2016 due to continued price competition during the first nine months of the year and increased operating costs due to higher activity levels.

For the Savanna drilling rigs acquired, comparisons to their historical results are as follows.

In Canada, for the three and nine months ended September 30, 2017 revenue was higher than the comparable periods in 2016 due to higher operating days. Despite a year-over-year decrease in day rates due to competitive market conditions, per day margins for the three months ended September 30, 2017 were higher compared to Q3 2016 as a result of increased focus on cost control during the period. Per day margins for the nine months ended September 30, 2017 relative to the comparable period in 2016 were lower due to continued price competition in the face of increased operating costs resulting from higher activity levels.

In the United States, for the three and nine months ended September 30, 2017 revenue and operating days were higher than the comparable periods in 2016 based on seven more rigs operating in the Permian basin and two more rigs operating in the Marcellus. Higher activity levels, improved cost control and lower rig activation costs resulted in per day margins for the three months ended September 30, 2017 being higher compared to Q3 2016 despite lower day rates. Per day margins for the nine months ended September 30, 2017 relative to the comparable period in 2016 were lower. The decrease was due to lower day rates and significant rig re-activation costs being incurred early in 2017.

In Australia, revenue and operating days increased for the three and nine months ended September 30, 2017 relative to the comparative periods in 2016. The decrease in day rates was a result of one of the three drilling rigs operating in the quarter under a new contract with rates approximately 10% lower than a year earlier. Per day margins were lower for the three and nine months ended September relative to the comparable periods in 2016, primarily due to lower day rates.

Rentals and Transportation Services

(Stated in thousands of dollars)	Three Months Ended			Nine Months Ended		
September 30	2017	2016	Change	2017	2016	Change
Revenue	\$ 19,535	\$ 10,611	84%	\$ 50,468	\$ 27,846	81%
EBITDA	\$ 5,700	\$ 1,255	354%	\$ 11,238	\$ 1,572	615%
EBITDA %	29%	12%		22%	6%	
Operating (loss) income	\$ 1,097	\$ (2,952)	137%	\$ (2,589)	\$ (11,008)	76%
Operating (loss) income, %	6%	nm		nm	nm	
Total pieces of rental equipment	11,700	10,000	17%	11,700	10,000	17%
Total heavy trucks	125	112	12%	125	112	12%
Rental equipment utilization	24%	15%	60%	22%	13%	69%

"nm" - calculation not meaningful

The revenue reported from the RTS segment increased for the three and nine months ended September 30, 2017 as compared to the same periods in 2016. This was due primarily to increased equipment utilization and an increase in the number of pieces of rental equipment available.

The increase in operating income resulted primarily from higher equipment utilization and the resultant increase in revenue on a year over year basis given this segment's relatively high fixed cost structure as compared to the Company's other business segments. Such fixed cost structure includes costs associated with its significant operating branch infrastructure,

including maintenance and repairs, utilities, insurance, property taxes and rent. In addition, depreciation expense on this segment's equipment fleet is recorded on a straight-line basis and is not correlated to levels of activity.

Compression and Process Services

(Stated in thousands of dollars, unless otherwise indicated)

September 30	Three Months Ended			Nine Months Ended		
	2017	2016	Change	2017	2016	Change
Revenue	\$ 67,707	\$ 32,774	107%	\$ 193,163	\$ 105,526	83%
EBITDA	\$ 8,864	\$ 3,854	130%	\$ 19,890	\$ 11,290	76%
EBITDA %	13%	12%		10%	11%	
Operating income	\$ 6,956	\$ 1,981	251%	\$ 14,307	\$ 5,100	181%
Operating income %	10%	6%		7%	5%	
Sales backlog at period end, \$ million	\$ 160.7	\$ 62.0	159%	\$ 160.7	\$ 62.0	159%
Horsepower of equipment on rent at period end	20,200	11,400	77%	20,200	11,400	77%
Rental equipment utilization (HP)	46%	30%	53%	42%	32%	31%

The revenue reported from the CPS segment increased for the three and nine months ended September 30, 2017 as compared to the same periods in 2016. This was due primarily to higher activity levels, particularly within certain international markets including Australia and the United States. Increased demand from international customers accounts for a substantial increase in the fabrication sales backlog at September 30, 2017 compared to 2016, with a majority of such backlog arising from international markets. The timeline for conversion of such sales backlog into revenue varies from order to order and often changes due to factors outside of the Company's control.

The increase in operating income in the CPS segment during the three and nine months ended September 30, 2017, as compared to the same periods in 2016 was due primarily to increased business activity in international markets and a marginal increase in pricing. The increase in operating income margin during the third quarter and first nine months of 2017 compared to the same periods in 2016 was primarily a result of increased overhead absorption due to higher production levels and increased compression rental revenues (which generally realize higher operating income margins than other sources of CPS revenue) arising from the year over year increase in compression horsepower on rent.

Well Servicing

(in thousands of dollars, except revenue per hour)

September 30	Three Months Ended			Nine Months Ended		
	2017	2016	Change	2017	2016	Change
Revenue	\$ 39,282	\$ -	nm	\$ 74,167	\$ -	nm
EBITDA	\$ 8,847	\$ -	nm	\$ 16,307	\$ -	nm
EBITDA %	23%	-	nm	22%	-	nm
Operating income	\$ 5,963	\$ -	nm	\$ 8,849	\$ -	nm
Operating income %	15%	-	nm	12%	-	nm
Billable hours	41,092	-	nm	75,942	-	nm
Revenue per billable hour	\$ 882	\$ -	nm	\$ 899	\$ -	nm
Operating hours	37,278	-	nm	68,772	-	nm

"nm" - calculation not meaningful

The WS segment was added in Q2 2017 as part of the acquisition of Savanna and therefore all of the revenue, EBITDA and earnings are incremental to the Company's results. The following summarizes the quarterly and year-to-date operating results for the well servicing segment by geographic area from the Effective Acquisition Date. The number of hours, per hour revenue and utilization above and below excludes results related to the Company's Australia trucking division.

TOTAL ENERGY SERVICES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of dollars, except per hour amounts)

Q3 2017	Canada	U.S.	Australia	Total
Revenue	\$ 10,592	\$ 4,311	\$ 24,379	\$ 39,282
Operating income	\$ 716	\$ 257	\$ 4,990	\$ 5,963
Operating income, %	7%	6%	20%	15%
Billable hours	18,164	6,187	16,741	41,092
Revenue per billable hour, dollars	\$ 583	\$ 697	\$ 1,274	\$ 882
Operating hours	18,164	6,187	12,927	37,278
Utilization % ⁽¹⁾	35%	37%	49%	47%

"nm" - calculation not meaningful

(1) The Company reports its service rig utilization for its operational service rigs in North America based on standard operating hours of 3,650 per rig per year. Utilization for the Company's service rigs in Australia is calculated based on standard operating hours of 8,760 per rig per year to reflect 24 hour operating conditions in that country and excludes stand-by time, even though revenue may be earned during this time.

(in thousands of dollars, except per hour amounts)

YTD 2017	Canada	U.S.	Australia	Total
Revenue	\$ 18,162	\$ 8,328	\$ 47,677	\$ 74,167
Operating income (loss)	\$ (1,258)	\$ 753	\$ 9,354	\$ 8,849
Operating income (loss), %	nm	9%	20%	12%
Billable hours	31,291	12,025	32,626	75,942
Revenue per billable hour, dollars	\$ 580	\$ 693	\$ 1,279	\$ 899
Operating hours	31,291	12,025	25,456	68,772
Utilization % ⁽¹⁾	30%	36%	48%	43%

Corporate

(Stated in thousands of dollars, unless otherwise indicated)

September 30	Three months ended			Nine months ended		
	2017	2016	Change	2017	2016	Change
Operating loss	\$ (3,880)	\$ (865)	(349)%	\$ (12,507)	\$ (3,395)	(268)%

Total Energy's Corporate segment includes activities related to the Company's corporate and public issuer affairs. This segment does not generate any revenue but provides sales, operating, financial, treasury, analytical and other support services to Total Energy's business segments and manages the corporate affairs of the Company, including matters related to its public listing.

Operating loss increased for the three and nine months ended September 30, 2017 due to higher costs incurred as part of the acquisition of Savanna. Included in the three and nine months ended September 30, 2017 is \$1.2 million and \$6.4 million of non-recurring costs incurred in connection with the acquisition of Savanna.

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operating Activities and Cashflow

(Stated in thousands of dollars, unless otherwise indicated)

September 30	Three months ended			Nine months ended		
	2017	2016	Change	2017	2016	Change
Cash provided by (used in) operating activities	\$ (2,329)	\$ 1,962	(219)%	\$ 37,657	\$ 21,389	76%
Per Share Data (Diluted)	(0.05)	0.06	(183)%	0.93	0.69	35%
Cashflow	30,044	6,076	394%	48,768	12,890	278%
Per Share Data (Diluted)	0.65	0.20	225%	1.20	0.42	186%

The changes in cash provided by operating activities and cashflow were due primarily to the acquisition of Savanna and changes in operating income (loss) as described above and working capital balances. Cashflow in the third quarter and first nine months of 2017 was positively impacted by higher EBITDA as compared to the same periods in 2016. The Company reinvests any remaining cash provided by operating activities after required long-term debt and finance lease payments and dividend payments to shareholders into the internal growth of existing businesses, acquisitions, voluntary repayment of long-term debt or the repurchase of the Company's shares pursuant to the Company's normal course issuer bid.

Investing Activities

September 30	Three months ended			Nine months ended		
	2017	2016	Change	2017	2016	Change
Net cash provided by (used in) investing activities	\$ (6,499)	\$ 549	(1,284)%	\$ (29,664)	\$ (10,863)	(173)%
Proceeds from sale of PP&E	1,814	788	130%	2,842	5,009	(43)%
Purchase of PP&E	(8,874)	(1,380)	(543)%	(22,306)	(6,262)	256%

Proceeds from sale of property, plant and equipment ("PP&E") are derived primarily from the disposal of compression rental equipment in the ordinary course of business and, to a lesser extent, the replacement and upgrade of older equipment in the Company's fleet.

During the third quarter of 2017, \$8.9 million of PP&E purchases were allocated as follows: \$2.4 million in the CDS segment relating primarily to the purchase of rig equipment, \$3.9 million in the RTS segment relating primarily to purchases of rental equipment, \$1.8 million in the CPS segment relating primarily to additions to the compression rental fleet and \$0.4 million in the WS segment to the purchase of rig equipment and re-certifications. During the first nine months of 2017, \$22.3 million of PP&E purchases were allocated as follows: \$7.7 million in the CDS segment relating primarily to the purchase of rig equipment, \$8.6 million in the RTS segment relating primarily to purchases of rental equipment, \$4.3 million in the CPS segment relating primarily to additions to the compression rental fleet, \$1.0 million in the WS segment to the purchase of rig equipment and re-certifications and \$26.8 million in Corporate segment relating to the cash consideration paid on the acquisition of Savanna Shares, including Savanna Shares acquired in the open market (see Note 4 to the Interim Financial Statements for further information) and \$0.7 million on enterprise resource planning system upgrades and leasehold improvements.

During the nine months ended September 30, 2017, \$26.8 million of cash costs were incurred in connection with the acquisition of Savanna, offset by \$16.2 million of cash acquired.

Financing Activities

September 30	Three months ended			Nine months ended		
	2017	2016	Change	2017	2016	Change
Net cash used in financing activities	\$ (4,212)	\$ (3,907)	8%	\$ (20,837)	\$ (11,128)	87%

The increase in cash used in financing activities was primarily due to increased interest payments arising from the increase in long-term debt associated with the acquisition of Savanna (please see further details on acquisition of Savanna above under the heading "Acquisition of Savanna" and below under the heading "Liquidity and Capital Resources").

Liquidity and Capital Resources

The Company had a working capital surplus of \$37.1 million as at September 30, 2017 compared to \$71.8 million as at December 31, 2016. As at September 30, 2017 and the date of this MD&A, the Company is in compliance with all debt covenants.

On the Effective Acquisition Date (April 5, 2017), the Company acquired control of Savanna. As part of the acquisition, the Company assumed \$281.3 million of long-term debt. Please see note 6 to the Interim Financial Statements for particulars of such debt.

On June 19, 2017 the Company entered into a three year \$225.0 million revolving syndicated credit facility ("Credit Facility"), with the option to increase such facility by \$75 million subject to certain terms and conditions, including the agreement of the lenders to increase their commitments. The Credit Facility includes a Canadian \$14.0 million operating line, an Australian \$6.0 million operating line and a Canadian \$205.0 million revolving facility. The Credit Facility bears interest at the banks' Canadian prime rate plus 0.25% to 2.75%, bankers' acceptance, letter of credit, LIBOR or BBSY advances plus a 1.5% to 4.0% stamping fee. These interest rate ranges are dependent on certain financial ratios of the Company. A standby fee ranging from 0.25% to 0.8% per annum is paid quarterly on the unused portion of the facility depending on certain financial ratios of the Company. At September 30, 2017, the applicable interest rate on amounts drawn on the Credit Facility was 3.66% and the standby rate was 0.44%.

The Company's ability to access the Credit Facility is dependent, among other conditions, on compliance with the following financial ratios, the definitions and thresholds for which are further described below:

	September 30, 2017	Threshold
Twelve-month trailing Bank EBITDA to interest expense	5.13	minimum 2.00
Total Senior Debt to twelve-month trailing Bank EBITDA	2.49	maximum 5.00

The Company was in compliance with all of its Credit Facility covenants at September 30, 2017. For further information on the compliance of financial ratios, please refer to and note 6 to the Interim Financial Statements.

The Credit Facility was used to repay the following Savanna debt:

7.15% term loan	\$ 104,500
7.0 % senior unsecured notes	39,554
Revolving credit facilities	61,844
	\$ 205,898

In addition to the Credit Facility, Savanna has established a \$5.0 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At September 30, 2017 this facility was fully available and undrawn.

At September 30, 2017 the Company's long-term debt consisted of the following:

	September 30, 2017	
	Interest rate	Principal Amount
Credit facility	3.66%	\$ 195,338
Senior unsecured notes	7.00%	67,531
Mortgage loan (2020 maturity)	3.06%	45,452
Mortgage loan (2041 maturity)	4.95%	16,544
Limited partnership credit facilities	5.45%	3,323
		\$ 328,188
Less current portion		72,043
		\$ 256,145

At September 30, 2017, amounts owing under the Credit Facility includes \$0.7 million in Australian Dollars (AUD \$0.7 million) and \$194.6 million denominated in Canadian dollars.

The limited partnership facilities are in limited partnerships partially owned by the Company. Within the individual limited partnerships, the loans are secured by a general assignment of book debts and a general security agreement charging all present and after-acquired property of the partnerships. The total amount available and outstanding consists of two separate facilities in two separate limited partnerships. The limited partnership facilities are subject to debt covenants. For one of the facilities, the related limited partnership's debt coverage service ratio (earnings before finance expenses and depreciation divided by scheduled interest and principal payments on a twelve month trailing basis) was modified and is calculated as: earnings before finance expenses and depreciation divided by scheduled interest payments on a twelve month trailing basis.

The Company expects that cash and cash equivalents, cash flow from operating activities, 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 required debt and finance lease payments, dividend payments and common share repurchases.

Dividends

For the three and nine months ended September 30, 2017 the Company declared dividends of \$2.8 million (\$0.06 per share) and \$7.9 million (\$0.18 per share) as compared to \$1.9 million (\$0.06 per share) and \$5.6 million (\$0.18 per share) for the same periods in 2016. The increase in the aggregate dividend paid reflects the increased number of shares of the Company outstanding following the acquisition of Savanna.

For 2017, the Company currently expects cash provided by operating activities and cashflow to exceed dividends to shareholders. Management and the Board of Directors of the Company continue to monitor the Company's dividend policy in the context of industry conditions and forecasted net income, cashflow, cash provided by operating activities, debt levels, capital expenditures and other investment opportunities and will aim to finance future dividends through cash provided by operating activities.

Capital Spending

Capital spending for the three months ending September 30, 2017 amounted to \$8.9 million of PP&E purchases. For the nine months ended September 30, 2017 capital spending amounted to \$49.1 million and consisted of \$22.3 million of PP&E purchases and \$26.8 million related to the acquisition of Savanna. Capital spending was funded with cash on hand and available credit facilities. The Company's capital spending for 2017 is currently budgeted to be \$44.8 million (including a \$22 million budget approved by the previous board of Savanna and excluding \$26.8 million related to the acquisition of Savanna), although the Company currently expects 2017 capital expenditures to be approximately \$40 million.

CONTRACTUAL OBLIGATIONS

At September 30, 2017, the Company had the following contractual obligations:

(in thousands of dollars)	Payments due by year					
	Total	2017	2018	2019	2020	2021 and after
Long-term debt	\$ 328,188	\$ 1,209	\$ 72,067	\$ 3,712	\$ 236,922	\$ 14,278
Commitments ⁽¹⁾	16,742	2,328	4,571	3,948	3,321	2,574
Finance leases	3,279	529	1,198	897	457	198
Purchase obligations ⁽²⁾	71,606	71,606	–	–	–	–
Total contractual obligations	\$ 419,815	\$ 75,672	\$ 77,836	\$ 8,557	\$ 240,700	\$ 17,050

(1) Commitments are described in Note 26 to the 2016 Audited Consolidated Financial Statements.

(2) Purchase obligations are described in Note 26 to the 2016 Audited Consolidated Financial Statements. As at September 30, 2017, purchase obligations relate to Total Energy's commitment to purchase inventory for the CPS segment.

OFF-BALANCE SHEET ARRANGEMENTS

During the first nine months of 2017 and the year of 2016, the Company had no off-balance sheet arrangements other than operating leases.

TRANSACTIONS WITH RELATED PARTIES

During 2017 and 2016 the Company had no material transactions with related parties.

FINANCIAL INSTRUMENTS

Fair values

As at September 30, 2017, the fair value of other assets was approximately \$4.7 million. The discounted future cash repayments of the Company's 5-year mortgage 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 5-year mortgage and related interest at the prevailing market rate of 3.95% for a similar debt instrument at September 30, 2017 was \$44.5 million (December 31, 2016: market rate of 3.32%, \$46.5 million). The carrying value and Company's liability with respect to the 5-year mortgage is \$45.5 million.

The discounted future cash repayments of the Company's 25-year mortgage 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 25-year mortgage and related interest at the prevailing market rate of 4.64% for a similar debt instrument at September 30, 2017 was \$16.9 million. The carrying value and Company's liability with respect to the 25-year mortgage is \$16.5 million.

OUTSTANDING COMPANY SHARE DATA

As at the date of this MD&A, the Company had 46,238,354 common shares outstanding.

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

Outstanding at September 30, 2017	Exercise Price	Remaining life (years)	Exercisable at September 30, 2017
76,666	\$ 14.96	0.40	76,666
53,334	\$ 14.72	0.60	53,334
1,290,000	\$ 14.13	2.80	859,994
1,465,000	\$ 12.93	4.80	–
2,885,000	\$ 13.55	3.66	989,994

OUTLOOK

Industry Conditions

While oil and natural gas prices have increased somewhat from the lows experienced in 2016, they remain low compared to prevailing prices at the time the current industry downturn began in the second half of 2014. As a result, there continues to be significant uncertainty and volatility in the oil and gas industry and North American oil and natural gas drilling and completion activity remains relatively low. These low industry activity levels have resulted in fierce price competition for the products and services provided by the Company, particularly in the CDS, RTS and WS segments. While the Company has been proactive in managing its operating cost structure to adapt to the current environment, continued low industry activity levels may require additional substantive measures be taken to preserve the Company's financial strength and flexibility. To date, the Company has made the strategic decision to preserve its operating infrastructure and capacity so as to minimize the cost of responding to increased activity levels in the future. This decision has resulted in increased operating costs relative to further costs savings that could be achieved by materially reducing operating capacity through the closure of operating branches and other similar measures.

Total Energy's deliberate strategy of preserving its asset base, operating capacity and financial strength through the downturn has enabled it to continue to recover lost market share while avoiding significant start-up costs and undue operational and human resource challenges. The Company's strategy to geographically diversify its revenue base has also begun to mitigate the risks associated with historically having generated almost all of its revenue in Canada. The Company's acquisition of Savanna in the second quarter of 2017 is expected to give rise to significant economies and efficiencies of scale. The current focus of the Company is to integrate Savanna's operations into the Company and achieve significant costs savings through rationalization of Savanna's cost structure.

Despite near term challenges and uncertainties, the Company believes that medium to long-term fundamentals require continued exploration and development in the markets in which it competes, particularly in respect of unconventional reserves, to meet global demand for oil and natural gas. A continued focus on the development of unconventional oil and natural gas resources in Canada is expected to continue to drive activity in the future, particularly should export opportunities for Canadian producers increase through the construction of new liquefied natural gas ("LNG") export terminals and additional pipeline or other take-away capacity.

RISK FACTORS AND RISK MANAGEMENT

In the normal course of business, Total Energy is exposed to financial and operating risks that may potentially impact its operating results. The Company employs risk management strategies with a view to mitigating these risks on a cost-effective basis. There have been no significant changes in risk and risk management in 2017 other than as described below.

Industry Conditions

While oil and natural gas prices have increased somewhat from the lows experienced in 2016, they remain low compared to prevailing prices at the time the current industry downturn began in the second half of 2014. As a result, there continues to be significant uncertainty and volatility in the oil and gas industry and North American oil and natural gas drilling and completion activity remains relatively low. These low industry activity levels have resulted in fierce price competition for the products and services provided by the Company, particularly in the CDS, RTS and WS segments. While the Company has been proactive in managing its operating cost structure to adapt to the current environment, continued low industry activity levels may require additional substantive measures be taken to preserve the Company's financial strength and flexibility. To date, the Company has made the strategic decision to preserve its operating infrastructure and capacity so as to minimize the cost of responding to increased activity levels in the future. This decision has resulted in increased operating costs relative to further costs savings that could be achieved by materially reducing operating capacity through the closure of operating branches and other similar measures.

Credit Risk

As a result of the challenging oil and natural gas market conditions, the Company continues to face heightened counterparty credit risk as a substantial portion of the Company's dealings are with entities involved in the oil and gas industry. In regards to accounts receivable, the Company remains focused on actively managing credit risk. Specifically, management has remained diligent in assessing credit levels granted to customers, monitoring the aging of receivables and taking proactive steps to collect outstanding balances.

The Company does not have significant exposure to any individual customer or counter party other than one oil and gas company which accounted for over 10% of revenue during the three and nine months ended September 30, 2017. No other customer accounted for more than 10% of revenue during this period. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry.

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. The recent implementation of a "carbon tax" by the Government of Alberta, effective January 1, 2017 is expected to increase the Company's operating costs although the Company is not able to quantify the full impact of such tax at this time.

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.

There have been no material changes to the Company's Critical Accounting Estimates during 2017.

Change in accounting estimate

During the first quarter of 2016, the Company conducted an operational efficiency review of its drilling rigs and related equipment based on the current economic and operating environment and taking into consideration the operating history of these assets, in order to assess their useful lives, pace of economic consumption and residual values. The Company continues to believe the utilization method based on operating days is appropriate, but has adjusted its "operating days used" estimates to reflect economic consumption of the rig and related equipment in periods of inactivity, essentially establishing a minimum depreciation charge based on 96 operating days each year, in addition to changing its residual value estimates to nil. The change in estimate results in these assets being depreciated during periods of inactivity. For further details, see Note 10 of the 2016 Audited Consolidated Financial Statements.

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 its receipts from operating activities and in which currency the Company has received financing.

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

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

Key Sources of Estimation Uncertainty

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

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

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

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

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

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

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

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

The Company's estimate of the fair value of forward foreign exchange contracts 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.

FUTURE ACCOUNTING POLICIES CHANGES

There have been no significant future accounting policy changes during 2017.

Several new accounting pronouncements issued by the IASB prior 2017 that are applicable to, or may have a future impact on, the Company. Please see page 33 of the Company's 2016 Annual Report for the details of such pronouncements.

NON-IFRS MEASURES

Management believes that EBITDA (earnings before interest, taxes, depreciation and amortization) is a useful measure because it gives an indication of the results from the Company's primary business activities prior to consideration of how such activities are financed and the impact of taxation and non-cash depreciation and amortization charges. Reconciliation of this non-IFRS measure to net income (loss) is set forth below.

EBITDA

(in thousands of Canadian dollars)	Three months		Nine Months	
September 30	2017	2016	2017	2016
Net income (loss)	\$ 3,737	\$ (1,912)	\$ (10,257)	\$ (8,247)
Add back (deduct):				
Depreciation	20,310	7,662	47,950	20,359
Finance costs (income)	3,053	(1)	10,296	1,315
Income tax expense (recovery)	256	(933)	(6,114)	(2,940)
EBITDA	\$ 27,356	\$ 4,816	\$ 41,875	\$ 10,487

Net debt is equal to long-term debt plus obligations under finance leases plus current liabilities minus current assets.

Net Debt

(in thousands of Canadian dollars)	As at September 30, 2017
Long-term debt	\$ 256,145
Obligations under finance leases	1,836
Add back (deduct):	
Current liabilities	197,472
Current assets	(234,525)
Net Debt	\$ 220,928

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying unaudited condensed interim consolidated financial statements, and has in place appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Company, and has reviewed and approved this MD&A and the accompanying unaudited condensed interim consolidated financial statements. The Audit Committee is also responsible for determining that management fulfills its responsibilities in the financial control of operations, including disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR").

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes in the design of the Company's ICFR during the quarter ended September 30, 2017 that would materially affect, or is reasonably likely to materially affect the Company's ICFR.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION AND 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" 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.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (in thousands of Canadian dollars)

	Note	September 30, 2017	December 31, 2016
ASSETS			
Current assets:			
Cash and cash equivalents		\$ 3,072	\$ 15,916
Accounts receivable		154,597	47,545
Inventory		55,668	54,964
Income taxes receivable		472	–
Other assets	5	4,684	5,095
Prepaid expenses and deposits		16,032	4,029
		234,525	127,549
Property, plant and equipment		807,070	383,497
Income taxes receivable		7,070	7,070
Deferred tax asset		3,820	430
Goodwill		4,053	4,053
		\$ 1,056,538	\$ 522,599
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 101,973	\$ 36,755
Deferred revenue		19,239	13,573
Dividends payable		2,774	1,856
Income taxes payable		–	249
Current portion of obligations under finance leases		1,443	1,408
Current portion of long-term debt	6	72,043	1,938
		197,472	55,779
Long-term debt	6	256,145	44,962
Obligations under finance leases		1,836	1,595
Onerous lease liability	7	2,967	–
Deferred tax liability		53,471	55,961
Shareholders' equity:			
Share capital	8	291,317	88,654
Contributed surplus		3,956	7,683
Accumulated other comprehensive income		(7,898)	–
Non-controlling interest		987	–
Retained earnings		256,285	267,965
		544,647	364,302
		\$ 1,056,538	\$ 522,599

The notes on pages 29 to 39 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS)

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

	Note	Three months ended September 30		Nine months ended September 30	
		2017	2016	2017	2016
REVENUE		\$ 185,158	\$ 46,536	\$ 424,432	\$ 140,385
Cost of services		144,353	36,427	346,596	113,283
Selling, general and administration		12,915	5,392	35,168	16,480
Share-based compensation	9	709	67	1,193	1,077
Depreciation		20,310	7,662	47,950	20,359
Operating income (loss)		6,871	(3,012)	(6,475)	(10,814)
Gain on sale of property, plant and equipment		175	166	400	942
Finance (costs) income		(3,053)	1	(10,296)	(1,315)
Net income (loss) before income taxes		3,993	(2,845)	(16,371)	(11,187)
Current income tax expense (recovery)		1,802	247	(3,156)	643
Deferred income tax recovery		(1,546)	(1,180)	(2,958)	(3,583)
Total income tax expense (recovery)		256	(933)	(6,114)	(2,940)
Net income (loss) for the period		\$ 3,737	\$ (1,912)	\$ (10,257)	\$ (8,247)
Net income (loss) attributable to:					
Shareholders of the Company		\$ 4,307	\$ (1,912)	\$ (8,111)	\$ (8,247)
Non-controlling interest		(570)	–	(2,146)	–
Income (loss) per share					
Basic and diluted	8	\$ 0.09	\$ (0.06)	\$ (0.20)	\$ (0.27)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Note	Three months ended September 30		Nine months ended September 30	
		2017	2016	2017	2016
Net income (loss) for the period		\$ 3,737	\$ (1,912)	\$ (10,257)	\$ (8,247)
Changes in fair value of long-term investment		–	–	665	–
Realized gain on long-term investment		–	–	(665)	–
Foreign currency translation adjustment		(6,069)	–	(10,820)	–
Deferred tax effect		1,639	–	2,922	–
Total other comprehensive loss for the period		(4,430)	–	(7,898)	–
Total comprehensive loss		\$ (693)	\$ (1,912)	\$ (18,155)	\$ (8,247)
Total comprehensive loss attributable to:					
Shareholders of the Company		\$ (123)	\$ (1,912)	\$ (16,009)	\$ (8,247)
Non-controlling interest		(570)	–	(2,146)	–

The notes on pages 29 to 39 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EQUITY

As at and for the three and nine months ended September 30, 2017 and 2016, and year ended December 31, 2016
Unaudited (in thousands of Canadian dollars)

	Note	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Non- controlling Interest	Retained earnings	Total Equity
Balance at December 31, 2015		\$ 88,875	\$ 8,255	\$ –	\$ –	\$ 286,205	\$ 383,335
Net loss and total comprehensive loss		–	–	–	–	(11,914)	(11,914)
<i>Transactions with shareholders, recorded directly in equity:</i>							
Dividends to shareholders (\$0.24 per common share)		–	–	–	–	(7,430)	(7,430)
Repurchase of common shares	8	(221)	–	–	–	(779)	(1,000)
Share-based compensation	9	–	1,311	–	–	–	1,311
Expiration of share options	9	–	(1,883)	–	–	1,883	–
		(221)	(572)	–	–	(6,326)	(7,119)
Balance at December 31, 2016		\$ 88,654	\$ 7,683	\$ –	\$ –	\$ 267,965	\$ 364,302
Net loss for the period		–	–	–	(2,146)	(8,111)	(10,257)
Other comprehensive loss for the period		–	–	(7,898)	–	–	(7,898)
<i>Transactions with shareholders, recorded directly in equity:</i>							
Dividends to shareholders (\$0.18 per common share)		–	–	–	–	(7,879)	(7,879)
Issuance of common shares	8	104,544	–	–	–	–	104,544
Stock options exercised	9	2,899	(610)	–	–	–	2,289
Stock options expired	9	–	(4,310)	–	–	4,310	–
Share-based compensation	9	–	1,193	–	–	–	1,193
Non-controlling interest assumed on acquisition	4	–	–	–	111,383	–	111,383
Subsequent acquisition transactions – shares issued	4	95,220	–	–	(95,220)	–	–
Subsequent acquisition transactions – cash payment	4	–	–	–	(13,030)	–	(13,030)
		202,663	(3,727)	–	3,133	(3,569)	198,500
Balance at September 30, 2017		\$ 291,317	\$ 3,956	\$ (7,898)	\$ 987	\$ 256,285	\$ 544,647

	Note	Share Capital	Contributed Surplus	Retained earnings	Total Equity
Balance at December 31, 2015		\$ 88,875	\$ 8,255	\$ 286,205	\$ 383,335
Net loss and total comprehensive loss for the period		–	–	(8,247)	(8,247)
<i>Transactions with shareholders, recorded directly in equity:</i>					
Dividends to shareholders (\$0.18 per common share)		–	–	(5,575)	(5,575)
Repurchase of common shares	8	(163)	–	(570)	(733)
Share-based compensation	9	–	1,077	–	1,077
Expiration of share options		–	(1,396)	1,396	–
		(163)	(319)	(4,749)	(5,231)
Balance at September 30, 2016		\$ 88,712	\$ 7,936	\$ 273,209	\$ 369,857

The notes on pages 29 to 39 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)

	Note	Three months ended September 30		Nine months ended September 30	
		2017	2016	2017	2016
Cash provided by (used in):					
Operations:					
Net income (loss) for the period		\$ 3,737	\$ (1,912)	\$ (10,257)	\$ (8,247)
Add (deduct) items not affecting cash:					
Depreciation		20,310	7,662	47,950	20,359
Share-based compensation		709	67	1,193	1,077
Gain on sale of property, plant and equipment		(175)	(166)	(400)	(942)
Unrealized gain on other assets	5	(990)	(802)	(99)	(423)
Finance costs		3,732	801	11,060	1,749
Realized gain on long-term investment		–	–	(665)	–
Unrealized loss on foreign currencies translation		253	22	4,949	735
Current income tax expense (recovery)		1,802	247	(3,156)	643
Deferred income tax recovery		(1,546)	(1,180)	(2,958)	(3,583)
Income taxes recovered		2,212	1,337	1,151	1,522
Cashflow		30,044	6,076	48,768	12,890
Changes in non-cash working capital items:					
Accounts receivable		(32,570)	(6,223)	(15,978)	4,198
Inventory		(913)	(387)	4,523	7,910
Prepaid expenses and deposits		(4,488)	(1,472)	(10,654)	(603)
Accounts payable and accrued liabilities		5,590	5,223	7,009	3,002
Onerous leases		(227)	–	(270)	–
Deferred revenue		235	(1,255)	4,259	(6,008)
Cash provided by (used in) operating activities		(2,329)	1,962	37,657	21,389
Investing:					
Purchase of property, plant and equipment		(8,874)	(1,380)	(22,306)	(6,262)
Acquisitions	4	–	–	(26,830)	(8,689)
Cash acquired	4	–	–	16,167	–
Proceeds on sale of other assets		143	373	258	439
Proceeds on disposal of property, plant and equipment		1,814	788	2,842	5,009
Changes in non-cash working capital items		418	768	205	(1,360)
Cash provided by (used in) investing activities		(6,499)	549	(29,664)	(10,863)
Financing:					
Advances under long-term debt	6	6,023	–	210,023	–
Repayment of long-term debt	6	(4,178)	(717)	(210,076)	(1,717)
Repayment of obligations under finance leases		(433)	(524)	(1,377)	(1,790)
Dividends to shareholders		(2,774)	(1,860)	(6,961)	(5,579)
Issuance of common shares	8	–	–	2,289	–
Repurchase of common shares	8	–	(445)	–	(733)
Interest paid		(2,850)	(361)	(14,735)	(1,309)
Cash used in financing activities		(4,212)	(3,907)	(20,837)	(11,128)
Change in cash and cash equivalents		(13,040)	(1,396)	(12,844)	(602)
Cash and cash equivalents, beginning of period		16,112	9,669	15,916	8,875
Cash and cash equivalents, end of period		\$ 3,072	\$ 8,273	\$ 3,072	\$ 8,273

The notes on pages 29 to 39 are an integral part of these condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the nine months ended September 30, 2017 and 2016
Unaudited (tabular amounts in thousands of Canadian dollars)

1. Reporting Entity

Total Energy Services Inc. (the “Company”) is incorporated under the Business Corporations Act (Alberta) and its head office is located in Calgary, Alberta at Suite 2550, 300 – 5th Avenue S.W. The condensed interim consolidated financial statements include the accounts of the Company, its subsidiaries and its wholly and partially owned partnerships established in Canada, the United States of America and Australia.

The Company provides a variety of products and services to the oil and natural gas industry primarily in Canada, the United States and Australia, including contract drilling services, the rental and transportation of equipment used in oil and natural gas drilling, completion and production processes, the fabrication, sale, rental and servicing of natural gas compression and oil and natural gas process equipment and well servicing.

2. Basis of Presentation

Statement of Compliance:

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, “Interim Financial Reporting” of International Financial Reporting Standards (IFRS) and using the accounting policies outlined in the Company’s consolidated financial statements for the year ended December 31, 2016. These condensed interim consolidated financial statements do not include all the necessary annual disclosures and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2016.

These condensed interim consolidated financial statements were approved by the Board of Directors on November 8, 2017.

Seasonality

A significant portion of the Company’s field operations are conducted in Canada where the ability to move heavy equipment is dependent on ground 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 and operating results in Canada. 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 in Canada. Additionally, wet weather in Australia, normally in the first quarter, can restrict the Company’s Australian operations. Consequently, quarterly operating results may not be indicative of full year operating results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the nine months ended September 30, 2017 and 2016

Unaudited (tabular amounts in thousands of Canadian dollars)

3. Segmented Information

The Company manages its business in five reportable segments: Contract Drilling Services, Rental and Transportation Services, Compression and Process Services, Well Servicing and Corporate. For each of the reporting segments, the Company's Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis. Corporate includes activities related to corporate and public company affairs.

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

As at and for the three months ended September 30, 2017	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate	Total
Revenue	\$ 58,634	\$ 19,535	\$ 67,707	\$ 39,282	\$ –	\$ 185,158
Cost of services	48,271	10,783	56,542	28,757	–	144,353
Selling, general and administration	2,774	3,136	2,357	1,664	2,984	12,915
Share-based compensation	–	–	–	–	709	709
Depreciation	10,854	4,519	1,852	2,898	187	20,310
Operating income (loss)	(3,265)	1,097	6,956	5,963	(3,880)	6,871
Gain on sale of property, plant and equipment	5	84	56	(14)	44	175
Finance costs	(117)	(173)	(94)	(1)	(2,668)	(3,053)
Net income (loss) before income taxes	(3,377)	1,008	6,918	5,948	(6,504)	3,993
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	444,009	239,014	174,744	133,647	65,124	1,056,538
Total liabilities	59,066	44,339	60,881	14,678	332,927	511,891
Capital expenditures	\$ 2,377	\$ 3,894	\$ 1,843	\$ 444	\$ 316	\$ 8,874

As at and for the three months ended September 30, 2016	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate	Total
Revenue	\$ 3,151	\$ 10,611	\$ 32,774	\$ –	\$ –	\$ 46,536
Cost of services	2,195	6,836	27,396	–	–	36,427
Selling, general and administration	441	2,594	1,579	–	778	5,392
Share-based compensation	–	–	–	–	67	67
Depreciation	1,691	4,133	1,818	–	20	7,662
Operating income (loss)	(1,176)	(2,952)	1,981	–	(865)	(3,012)
Gain on sale of property, plant and equipment	37	74	55	–	–	166
Finance income (costs)	(90)	(181)	(101)	–	373	1
Net income (loss) before income taxes	(1,229)	(3,059)	1,935	–	(492)	(2,845)
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	111,811	225,436	157,328	–	13,136	507,711
Total liabilities	21,753	37,879	29,752	–	48,470	137,854
Capital expenditures	\$ 852	\$ 454	\$ 74	\$ –	\$ –	\$ 1,380

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the nine months ended September 30, 2017 and 2016

Unaudited (tabular amounts in thousands of Canadian dollars)

As at and for the nine months ended September 30, 2017	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate	Total
Revenue	\$ 106,634	\$ 50,468	\$ 193,163	\$ 74,167	\$ –	\$ 424,432
Cost of services	94,367	30,413	167,214	54,602	–	346,596
Selling, general and administration	6,424	9,096	6,145	3,244	10,259	35,168
Share-based compensation	–	–	–	–	1,193	1,193
Depreciation	20,378	13,548	5,497	7,472	1,055	47,950
Operating income (loss)	(14,535)	(2,589)	14,307	8,849	(12,507)	(6,475)
Gain (loss) on sale of property, plant and equipment	5	279	86	(14)	44	400
Finance costs	(305)	(530)	(281)	(1)	(9,179)	(10,296)
Net income (loss) before income taxes	(14,835)	(2,840)	14,112	8,834	(21,642)	(16,371)
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	444,009	239,014	174,744	133,647	65,124	1,056,538
Total liabilities	59,066	44,339	60,881	14,678	332,927	511,891
Capital expenditures ⁽¹⁾	\$ 7,618	\$ 8,595	\$ 4,309	\$ 777	\$ 1,007	\$ 22,306

As at and for the nine months ended September 30, 2016	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate	Total
Revenue	\$ 7,013	\$ 27,846	\$ 105,526	\$ –	\$ –	\$ 140,385
Cost of services	4,751	18,521	90,011	–	–	113,283
Selling, general and administration	1,349	8,007	4,866	–	2,258	16,480
Share-based compensation	–	–	–	–	1,077	1,077
Depreciation	2,424	12,326	5,549	–	60	20,359
Operating income (loss)	(1,511)	(11,008)	5,100	–	(3,395)	(10,814)
Gain on sale of property, plant and equipment	47	254	641	–	–	942
Finance costs	(272)	(556)	(321)	–	(166)	(1,315)
Net income (loss) before income taxes	(1,736)	(11,310)	5,420	–	(3,561)	(11,187)
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	111,811	225,436	157,328	–	13,136	507,711
Total liabilities	21,753	37,879	29,752	–	48,470	137,854
Capital expenditures ⁽²⁾	\$ 1,097	\$ 12,495	\$ 1,355	\$ –	\$ 4	\$ 14,951

(1) Does not include the acquisition of Savanna described in note 4 to the 2017 third quarter Condensed Interim Consolidated Financial Statements.

(2) Includes the acquisition of assets in January of 2016 described in note 5 to the 2016 annual audited Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the nine months ended September 30, 2017 and 2016

Unaudited (tabular amounts in thousands of Canadian dollars)

The Company's operations are carried on in the following geographic locations:

Three months ended September 30, 2017	Canada	United States	Australia	Other	Total
Revenue	\$ 91,739	\$ 58,405	\$ 34,981	\$ 33	\$ 185,158
Non-current assets ⁽¹⁾	578,765	138,208	94,150	–	811,123

Three months ended September 30, 2016	Canada	United States	Australia	Other	Total
Revenue	\$ 44,249	\$ 2,287	\$ –	\$ –	\$ 46,536
Non-current assets ⁽¹⁾	372,566	13,286	1,516	–	387,368

Nine months ended September 30, 2017	Canada	United States	Australia	Other	Total
Revenue	\$ 251,421	\$ 102,458	\$ 70,509	\$ 44	\$ 424,432
Non-current assets ⁽¹⁾	578,765	138,208	94,150	–	811,123

Nine months ended September 30, 2016	Canada	United States	Australia	Other	Total
Revenue	\$ 128,918	\$ 10,077	\$ 1,114	\$ 276	\$ 140,385
Non-current assets ⁽¹⁾	372,566	13,286	1,516	–	387,368

(1) Includes property, plant and equipment and goodwill.

4. Acquisitions

2017

On December 9, 2016, the Company commenced an offer to purchase all of the outstanding common shares (“Savanna Shares”) of Savanna Energy Services Corp. (“Savanna”). On March 1, 2017, the Company amended its original offer to, among other things, increase the consideration payable for Savanna Shares taken up by the Company to 0.1300 of a Company common share and \$0.20 in cash per Savanna Share (together, the “Offer”). On March 24, 2017, the Company acquired 60,952,797 Savanna Shares validly tendered to the Offer (and not previously withdrawn), which represented approximately 51.6% of the total number of outstanding Savanna Shares, and extended the period for the tender of additional Savanna Shares under the Offer to April 7, 2017. On April 7, 2017, the Company acquired an additional 35,641,916 Savanna Shares pursuant to the Offer and extended the Offer to April 27, 2017. On April 27, 2017, an additional 3,178,051 Savanna Shares were acquired under the Offer and the Offer expired.

During the course of the Offer, the Company purchased 1.8 million Savanna Shares for cash through the facilities of the TSX at an average price of \$1.96 per share, or \$3.5 million in aggregate.

On June 20, 2017, the Company acquired the remaining Savanna Shares upon completion of a corporate amalgamation transaction (the “Amalgamation”) for the same consideration offered to holders of Savanna Shares under the Offer at which time Savanna became a wholly-owned subsidiary of the Company.

Pursuant to the Offer and the Amalgamation, the Company issued an aggregate of 15,151,754 common shares, representing the share consideration paid by the Company for Savanna Shares. Cash consideration of \$23.3 million was also paid to the holders of Savanna Shares (excluding the \$3.5 million spent to acquire Savanna Shares in the open market).

Following the acquisition of 51.6% of Savanna Shares on March 24, 2017, Savanna and the Company commenced negotiations to reconstitute the board of directors of Savanna. On April 5, 2017 (the “Effective Acquisition Date”) the Company obtained control of Savanna when Savanna and the Company agreed to the reconstitution of the board of directors of Savanna. All of the directors of Savanna, except one, resigned as directors of Savanna and seven new directors were

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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appointed. New directors included three members of the board of directors of the Company. As at the Effective Acquisition Date the Company owned 61,777,797 or 52.2% of issued and outstanding Savanna shares.

The Company acquired Savanna to, among other things, benefit from substantial operating and overhead cost synergies and economies of scale expected from the combination of the two companies.

Purchase Price Consideration

The purchase price consideration as at the Effective Acquisition Date is as follows:

Share consideration	\$ 105,209
Cash Consideration	\$ 13,800
Total consideration	\$ 119,009

Purchase Price Allocation

The acquisition has been accounted for as a business combination using the acquisition method whereby the net assets acquired and liabilities assumed are recorded at fair value. The preliminary purchase price allocation is based on management's best estimates of fair values of Savanna's assets and liabilities as at the Effective Acquisition Date. Future adjustments to estimates may be required.

Cash	\$ 16,167
Accounts receivable	92,062
Inventory	5,227
Prepaid expenses and deposits	1,351
Property, plant and equipment	464,197
Accounts payable and other liabilities	(67,271)
Long-term debt	(281,341)
Net assets acquired	230,392
Non-controlling interest	(111,383)
	\$ 119,009

The fair values of cash, accounts receivable and other current assets, and accounts payable and other liabilities approximate their carrying values due to the short-term maturity of the instruments. Fair value of property plant and equipment was determined by utilizing current market information for similar equipment, adjusted for the specific design, mechanical condition and marketability of such equipment. Fair value of long-term debt, excluding the mortgage loan, was determined by estimating expected cash outlays to settle such debt given management plans on the Effective Acquisition Date to refinance such debt in the near term. The majority of the debt was refinanced between June 20 and June 23, 2017. The principal amount of the remaining debt was assumed to approximate fair value given the short-term maturity of such debt. A \$32.7 million deferred tax asset relating to non-capital losses available to be carried forward was not recognized on acquisition due to uncertainty as to the ability to utilize such losses in the future. Key assumptions underlying managements' estimate of fair value include expectations as to future market conditions in the oil and gas industry, expected useful lives of equipment, discount rates, recoverability of non-capital and capital tax losses and collectability of accounts receivable.

Depreciation of property, plant and equipment acquired was recognized in the consolidated statement of income (loss) and is consistent with the Company's existing depreciation estimates except for service rigs, which represent a new line of equipment for the Company. Service rigs will be depreciated on a straight line basis with a useful life of 10 to 20 years for various components of the rig and zero salvage value.

Subsequent to the Effective Acquisition Date the Company acquired the remaining 56.6 million Savanna Shares in several transactions on the same terms as the Offer and through purchases in the open market, resulting in a total acquisition price of \$227.3 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Unaudited (tabular amounts in thousands of Canadian dollars)

Date	Number of Savanna shares taken up '000	Number of Company shares issued '000	5-day VWAP of Company shares \$	Value of Company's shares issued \$000	Cash paid \$000	Total consideration \$000
April 7, 2017	35,642	4,633	13.28	\$ 61,519	\$ 7,128	\$ 68,647
April 27, 2017	3,178	413	13.57	5,607	636	6,243
June 20, 2017	16,779	2,182	12.88	28,094	3,356	31,450
Open market purchases	975	–	–	–	1,910	1,910
	56,574	7,228	–	\$ 95,220	\$ 13,030	\$ 108,250

The estimated fair values of the net assets acquired on the Effective Acquisition Date were not adjusted to reflect the changes in the Company's share price on the various subsequent transaction dates.

The following table summarizes the fair value of Savanna debt assumed by the Company:

	April 5, 2017	
	Interest rate	Amount
Revolving credit facilities	7.47%	\$ 48,727
Senior unsecured notes	7.00%	107,085
Term loan	7.15%	104,500
Mortgage loan	4.95%	16,828
Limited partnership facilities	5.44%	4,201
		\$ 281,341

The non-controlling interest ("NCI") was initially measured at the NCI's proportionate share of the net identifiable assets acquired. The subsequent transactions on April 7, 2017, April 27, 2017, June 20, 2017 and purchases of Savanna shares in the open market, were accounted for as equity transactions within shareholders' equity and reduced the NCI balance to the fair value of the non-controlling interests of Limited Partnerships partially owned by the Company. During the period from April 5, 2017 to September 30, 2017, when the Company did not own 100% of the Savanna equity, a net loss of \$1.2 million was incurred that is attributable to the NCI.

Acquisition costs of \$5.7 million have been charged to selling, general and administration expenses in the condensed interim consolidated statements of comprehensive income for the nine-month period ended September 30, 2017. In addition, \$0.7 million of costs relating to the acquisition were recorded during the three-month period ended December 31, 2016.

Savanna contributed \$169.0 million to consolidated revenues and \$10.0 million to consolidated net loss from the Effective Acquisition Date to September 30, 2017.

Had the acquisition occurred on January 1, 2017, Savanna would have contributed \$276.6 million to consolidated revenues and \$30.2 million to consolidated net losses.

5. Other Assets

Other assets consist primarily of marketable securities of publicly traded entities (level 1 of fair value hierarchy values based on quoted prices). Other assets are designated as financial assets measured at fair value, with changes in fair value recorded in the statement of loss as finance cost. The Company reported an unrealized gain of \$1.0 million and \$0.1 million, respectively, during the three and nine-month period ended September 30, 2017 (unrealized gain of \$0.8 and \$0.4 million, respectively, during three and nine-months ended September 30, 2016), resulting from changes in the market value of other assets. During the three and nine months ended September 30, 2017, the Company realized a loss on sale of other assets of \$0.2 million and \$0.3 million, respectively (three and nine months ended September 30, 2016: \$0.4 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Unaudited (tabular amounts in thousands of Canadian dollars)

6. Long-term debt

On April 5, 2017 the Company acquired control of Savanna. As part of the acquisition, the Company assumed \$281.3 million of long term debt, the particulars of which are as follows:

- \$16.8 million mortgage loan maturing on December 31, 2041 and bearing interest at the annual rate of 4.95%. This loan is secured by real estate located in Leduc, Alberta.
- \$107.1 million of senior unsecured notes (the “Notes”). The Notes are due May 25, 2018, bear interest at a fixed rate of 7.0% per annum, which is payable semi-annually in May and November of each year and rank equal in right of payment to all existing and future unsecured indebtedness. These Notes contain certain restrictions that limit the Company’s ability to incur additional indebtedness, make restricted payments, and dispose of certain assets.

On April 18, 2017 the Company made a change of control offer for the Notes. On June 22, 2017, the Company redeemed \$39.6 million principal amount of Notes that were tendered to such offer at a price equal to 101% of the principal amount of the notes redeemed, plus accrued and unpaid interest on such Notes. The redemption resulted in a \$0.4 million loss recorded in finance costs.

- \$104.5 million term loan bearing interest at a fixed rate of 7.15% plus an additional 2% per annum effective March 24, 2017 when the Company acquired over 50% of the outstanding Savanna Shares and the lender did not consent to such change of control. This loan was repaid on June 20, 2017.
- \$48.7 million drawn on Savanna’s revolving credit facilities, which amounts were repaid and such credit facilities discontinued on June 20, 2017.

See note 4 above for further details on the debt acquired by the Company upon the acquisition of Savanna.

On June 19, 2017 the Company entered into a three year \$225 million revolving syndicated credit facility (“Credit Facility”), with the option to increase such facility by \$75 million subject to certain terms and conditions, including the agreement of the lenders to increase their commitments. The Credit Facility includes a Canadian \$14.0 million operating line, an Australian \$6.0 million operating line and a Canadian \$205.0 million revolving facility. The Credit Facility bears interest at the banks’ Canadian prime rate plus 0.25% to 2.75%, bankers’ acceptance, letter of credit, LIBOR or BBSY advances plus a 1.5% to 4.0% stamping fee. The applicable interest rate within such ranges is dependent on certain financial ratios of the Company. A standby fee ranging from 0.25% to 0.8% per annum is paid quarterly on the unused portion of the facility depending on certain financial ratios of the Company. At September 30, 2017, the applicable interest rate on amounts drawn on the Credit Facility was 3.66% and the standby rate was 0.44%.

The Company’s ability to access the Credit Facility is dependent, among other conditions, on compliance with the following financial ratios, the definitions and thresholds for which are further described below:

	September 30, 2017	Threshold
Twelve-month trailing Bank EBITDA to interest expense	5.13	minimum 2.00
Total Senior Debt to twelve-month trailing Bank EBITDA	2.49	maximum 5.00
	Minimum Bank EBITDA to interest expense	Maximum Senior Debt to Bank EBITDA
For the trailing twelve months ended September 30, 2017	2.00	5.00
For the trailing twelve months ending December 31, 2017	2.00	5.00
For the trailing twelve months ending March 31, 2018	2.50	4.00
For the trailing twelve months ending June 30, 2018	2.50	4.00
For the trailing twelve months ending September 30, 2018	3.00	3.00

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Readers are cautioned that the ratios described above do not have standardized meanings under IFRS as the computation of these ratios excludes amounts from certain non-guarantor subsidiaries and limited partnerships partially owned by the Company. Key definitions for the purpose of calculating the Company's financial debt covenants are as follows:

- Bank EBITDA is determined (on a 12 month trailing basis) as earnings before finance expenses, income taxes, depreciation, share-based compensation and certain non-recurring and non-cash income and expenses as defined in the credit agreement and excludes amounts from certain non-guarantor subsidiaries and the limited partnerships partially owned by the Company.
- Senior Debt is determined as total long-term debt (including the current portions thereof but excluding the mortgage loans, the senior unsecured notes, the limited partnership facilities and certain other obligations identified in the credit agreement) minus cash on hand.

The Credit Facility is secured by a general security agreement over all the present and future property of the Company and its subsidiaries. The Company was in compliance with all of its Credit Facility covenants at September 30, 2017.

The Credit Facility was primarily used to repay the following Savanna debt:

7.15% term loan	\$ 104,500
7.0 % senior unsecured notes	39,554
Revolving credit facilities	61,844
	\$ 205,898

In addition to the Credit Facility, Savanna has established a \$5.0 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At September 30, 2017 this facility was fully available and undrawn.

At September 30, 2017 the Company's long-term debt consisted of the following:

	September 30, 2017	
	Interest rate	Principal Amount
Credit facility	3.66%	\$ 195,338
Senior unsecured notes	7.00%	67,531
Mortgage loan (2020 maturity)	3.06%	45,452
Mortgage loan (2041 maturity)	4.95%	16,544
Limited partnership credit facilities	5.45%	3,323
		\$ 328,188
Less current portion		72,043
		\$ 256,145

At September 30, 2017 amounts owing under the Credit Facility included \$0.7 million in Australian Dollars (AUD \$0.7 million) and \$194.6 million denominated in Canadian dollars.

The limited partnership facilities are in limited partnerships partially owned by the Company. Within the individual limited partnerships, the loans are secured by a general assignment of book debts and a general security agreement charging all present and after-acquired property of the partnerships. The total amount available and outstanding consists of two separate facilities in two separate limited partnerships. The limited partnership facilities are subject to debt covenants. For one of the facilities, the related limited partnership's debt coverage service ratio (earnings before finance expenses and depreciation divided by scheduled interest and principal payments on a twelve month trailing basis) was modified and is calculated as: earnings before finance expenses and depreciation divided by scheduled interest payments on a twelve month trailing basis.

At September 30, 2017 the Company was in compliance with all debt covenants.

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7. Onerous leases

Onerous lease liabilities relate to provisions for office and shop lease contracts that are no longer in use but for which the Company is still obligated to make payments. The aggregate liability was measured at the present value of the lower of the expected cost of terminating the contracts and the expected net cost of continuing with the contracts.

8. 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, 2015	30,997	\$ 88,875
Repurchased and canceled	(77)	(221)
Balance, December 31, 2016	30,920	88,654
Issued on acquisition (note 4)	7,924	104,544
Issued on subsequent acquisition transactions (note 4)	7,228	95,220
Issued on exercise of stock options	166	2,899
Balance, September 30, 2017	46,238	\$ 291,317

During the three and nine months ended September 30, 2017, nil common shares were repurchased under the Company's normal course issuer bid (year ended December 31, 2016: 77,100 at average price of \$12.97 including commissions).

(b) Per share amounts

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

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Net income (loss) for the period	\$ 4,307	\$ (1,912)	\$ (8,111)	\$ (8,247)
Weighted average number of shares outstanding – basic	46,238	30,980	40,523	30,978
Earnings (loss) per share – basic and diluted	\$ 0.09	\$ (0.06)	\$ (0.20)	\$ (0.27)

For the three and nine months ended September 30, 2017, 2,885,000 share options (September 30, 2016: 2,696,666) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. Share-Based Compensation Plan

Share option transactions during 2017 and 2016 were as follows:

	Weighted average exercise price	Number of Options
Balance, December 31, 2015	\$ 14.30	3,060,000
Expired	15.97	(376,666)
Forfeited	15.54	(123,334)
Balance, December 31, 2016	\$ 13.99	2,560,000
Granted	12.93	1,715,000
Exercised	13.74	(166,600)
Forfeited	12.96	(250,000)
Expired	13.74	(973,400)
Balance, September 30, 2017	\$ 13.55	2,885,000

At September 30, 2017 989,994 outstanding options were exercisable.

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 2017 is \$2.31 per option using the following assumptions:

	September 30, 2017
Expected volatility	25.96% – 29.14%
Annual dividend yield	1.85% – 2.00%
Risk free interest rate	0.96% – 1.43%
Forfeitures	5%
Expected life (years)	3 to 5 years

The share options issued during 2017 vest 1/3 on the first, second and third anniversary from the grant date and expire five years from the date of grant. The options expire on various dates ranging from February 19, 2018 to June 30, 2021.

10. Financial Instruments

The Company's financial instruments as at September 30, 2017 include cash and cash equivalents, accounts receivable, other assets, accounts payable and accrued liabilities, dividends payable, forward foreign exchange contracts, 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 and long-term investment was determined based on market prices quoted on the relevant stock exchanges on which the marketable securities trade (level 1 of fair value hierarchy).

Changes in fair value of other assets are recorded in the statement of comprehensive income in the period the changes in fair value occur. Changes in fair value of long-term investments are recorded in statement of other comprehensive income. The discounted future cash repayments of the Company's 5-year mortgage 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 5-year mortgage and related interest at the prevailing market rate of 3.95% for a similar debt instrument at September 30, 2017 was \$44.5 million (December 31, 2016: market rate of 3.32%, \$46.5 million). The carrying value and Company's liability with respect to the bank loan is \$45.5 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The discounted future cash repayments of the Company's 25-year mortgage 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 25-year mortgage and related interest at the prevailing market rate of 4.64% for a similar debt instrument at September 30, 2017 was \$16.9 million. The carrying value and Company's liability with respect to the 25-year mortgage is \$16.5 million.

11. 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 September 30, 2017. 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 \$14.2 million of cash may be owing and \$21.2 million of income tax expense would be recognized.

During the nine-month period ended September 30, 2017, one of the Company's subsidiaries, Savanna, received a statement of claim from Western Energy Services Corp. ("Western") for payment of a termination fee in the amount of \$20 million pursuant to an arrangement agreement between Savanna and Western dated March 8, 2017, as amended on March 14, 2017 (the "Arrangement Agreement"). Savanna terminated the Arrangement Agreement on March 28, 2017 following the acquisition by Total of over 50% of the outstanding common shares of Savanna in accordance with the terms and conditions of the Arrangement Agreement. Western is claiming Savanna was not entitled to terminate the Arrangement Agreement and therefore breached the Arrangement Agreement. Savanna has filed a statement of defense and has received legal advice that Western's claim is without merit. Management believes that Savanna will be successful in defending against the Western claim and, as such, the Company has not recognized any provision for such claim.

During the nine-month period ended September 30, 2017, Savanna repaid all amounts owing to the Alberta Investment Management Corporation ("AIMCo"). Included in the amount paid to AIMCo was an industry standard 2% per annum penalty on the \$104.5 million principal amount owing to AIMCo as a result of AIMCo having determined not to consent to the change of control. AIMCo has claimed an additional \$6.0 million change of control penalty (the "Additional Penalty"), which claim has been rejected by Savanna. The Company has received preliminary legal advice that AIMCo's claim for the Additional Penalty is not enforceable and intends to vigorously defend any claim that AIMCo might make in that regard. Management believes Savanna will be successful in defending any such claim and, as such, the Company has not recognized any provision for the Additional Penalty.

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Bruce Pachkowski^{2,3}
Chairman of the Board

Daniel Halyk
President and Chief Executive Officer

George Chow¹

Glenn Dagenais^{2,3}

Greg Melchin^{1,2}

Andrew Wiswell^{1,3}

¹ Member of the Compensation Committee

² Member of the Audit Committee

³ Member of the Corporate Governance and Nominating Committee

MANAGEMENT TEAM

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

Ashley Ting
Corporate Controller

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Calgary, Alberta

TRUSTEE, REGISTRAR AND TRANSFER AGENT

Computershare

Calgary, Alberta

LEGAL COUNSEL

Bennett Jones, LLP

Calgary, Alberta

BANKERS

HSBC

The Toronto Dominion Bank

The Bank of Nova Scotia

Alberta Treasury Branches

Export Development Corp.

STOCK EXCHANGE LISTING

Toronto Stock Exchange

Common Shares: TOT

CANADIAN LOCATIONS

Calgary • Carlyle • Dawson Creek • Drayton Valley • Drumheller • Edmonton • Edson • Fort MacKay • 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 • Saskatoon • Slave Lake • Swift Current • Valleyview • Weyburn/Midale • Whitecourt

U.S. LOCATIONS

Denver, CO • Dickinson, ND • Watford City, ND • Casper, WY • Gillette, WY • Weirton, WV • Midland, TX

AUSTRALIAN LOCATIONS

Brisbane, QLD • Toowoomba, QLD



Savanna Drilling



Savanna Well Servicing

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