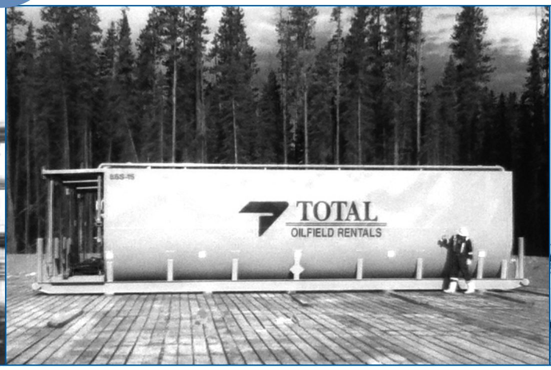
2018



FOCUS DISCIPLINE GROWTH

Annual Report 2018

TOTAL ENERGY SERVICES INC.

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 four 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

2018 was a tumultuous year for the global energy industry. With the exception of Canada, industry participants were generally optimistic that the tepid recovery in oil and natural gas drilling and completion activity that began in 2017 would gain momentum through 2018. This was the case until oil prices declined significantly in the fourth quarter of 2018. In Canada, political and legal impediments to investment in oil pipelines and other energy infrastructure continued to weigh negatively on investor sentiment throughout the year.

In such environment, Total Energy continued to focus on growing its business outside of Canada and such diversification efforts have been successful. In 2018 just over 50% of Total Energy's revenue came from international markets, primarily the United States and Australia, compared to approximately 20% in 2016.

The poor investment climate in Canada not only directed Total Energy's approximate $30 million of 2018 growth capital to foreign jurisdictions, it also forced the Company to rationalize Canadian operations. Such rationalization included the relocation of equipment and personnel to the United States, the disposition of underutilized or decommissioned equipment and the discontinuance of operations in geographic areas where the prospects for future activity were dim.

The acquisition of Savanna Energy Services that was completed in mid-2017 expanded Total Energy's international business platform and gave rise to the opportunity to achieve over $17 million of annualized cost savings following the successful integration of Savanna. As a result, 2018 saw a return to profitability after the Company suffered losses in 2016 and 2017, the only time Total Energy has not achieved annual profitability in its 22-year history.

During 2018 Total Energy continued to focus on preserving its financial strength and liquidity. The Company refinanced $67.5 million of senior unsecured notes previously issued by Savanna at a significantly lower interest rate and repaid $41.9 million of long term debt. At December 31, 2018 the Company had $125.0 million of positive working capital, including $31.2 million of cash and marketable securities. Total Energy maintained its quarterly dividend to shareholders during 2018 and has never reduced its dividend since implementation in 2009.

LOOKING FORWARD

With oil prices having recovered much of their late 2018 losses thus far in 2019, international industry conditions have stabilized and oilfield activity levels are relatively strong. Canada remains the exception, with first quarter drilling and completion activity levels approaching the lows experienced in 2016. As such, the focus for 2019 will remain similar to 2018, that being continued international growth, rationalization of Canadian operations, the relocation or disposal of underutilized equipment and capital discipline.

Total Energy's current capital budget for 2019 is $40.5 million, which includes $23.3 million for equipment maintenance and upgrades and $17.2 million for targeted growth opportunities. Substantially all of Total Energy's growth capital continues to be allocated to international opportunities, including the continued expansion of the Compression and Process Services business in the United States. Total Energy's flexible capital budget and strong liquidity position allows the Company to respond to any material changes in industry conditions, positive or negative, and to continue to pursue attractive investment opportunities despite very challenging equity markets for Canadian energy service companies.

On behalf of our Board of Directors I would like to thank our employees for their ongoing dedication and hard work as well as our owners and other stakeholders for their support and patience as we continue to navigate through these volatile and uncertain times.

Finally, all Shareholders and other interested persons are invited to attend the annual meeting of Shareholders that will commence at 10:00 a.m. (MDT) on Wednesday, May 15, 2019 at the Calgary Petroleum Club, 319 – 5th Avenue S.W., Calgary, Alberta.

Daniel Halyk

DANIEL K. HALYK
President and Chief Executive Officer

March 2019

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 March 7, 2019 and focuses on information and key statistics from the audited consolidated financial statements of the Company for the year ended December 31, 2018 (the "2018 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 2018 Financial Statements, the Company's 2018 Annual Report, the Annual Information Form ("AIF") for the year ended December 31, 2018 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 thousands of Canadian dollars, except per share amounts which are presented in Canadian dollars.

FINANCIAL HIGHLIGHTS

	Three months ended December 31			Twelve months ended December 31		
	2018	2017	Change	**2018**	2017	Change
Revenue	**$ 219,846**	$ 180,230	22%	**$ 851,809**	$ 604,662	41%
Operating income	**10,748**	9,680	11%	**36,558**	3,205	1,041%
EBITDA (1)	**29,153**	29,729	(2%)	**114,666**	71,604	60%
Cashflow	**23,070**	27,803	(17%)	**101,490**	76,571	33%
Net income (loss)	**8,570**	6,554	31%	**24,215**	(3,703)	nm
Attributable to shareholders	**8,555**	6,195	38%	**24,458**	(1,916)	nm
Per Share Data (Diluted)						
EBITDA (1)	**0.63**	0.64	(2%)	**2.49**	1.71	46%
Cashflow	**0.50**	0.60	(17%)	**2.20**	1.82	21%
Attributable to shareholders:						
Net income (loss)	**0.19**	0.13	46%	**0.53**	(0.05)	nm
Financial Position at				**Dec 31, 2018**	Dec 31, 2017	Change
Total Assets				**$ 1,078,124**	$ 1,066,781	1%
Long-Term Debt and Obligations Under Finance Leases (excluding current portion)				**286,319**	257,845	11%
Working Capital (2)				**124,967**	54,892	128%
Net Debt (1)				**161,352**	202,953	(20%)
Shareholders' Equity				**560,756**	546,574	3%
Common shares (000's) (3)						
Basic and Diluted	**45,933**	46,238	(1%)	**46,122**	41,963	10%

(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 17 to the 2018 Financial Statements.

"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 four 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") and well servicing, including completion, workover, maintenance and abandonment services ("WS"). The Company's operations are conducted within Canada, the United States of America ("United States" or "U.S.") and Australia. Corporate and public issuer affairs are conducted in the Company's Corporate segment.

Acquisition

During the second quarter of 2017, the Company completed the acquisition of Savanna Energy Services Corp. ("Savanna"). Results for the twelve months ended December 31, 2018 were materially impacted by such acquisition. For further information on the Savanna acquisition, please refer to note 5 to the 2018 Financial Statements.

Contract Drilling Services: At December 31, 2018, the Company operated a total fleet of 114 drilling rigs. 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	
Triples	4
AC doubles	13
Mechanical doubles	51
Australian shallow	5
TDS and singles	41
	114

By Geography	
Canada	85
United States	24
Australia	5
	114

Rentals and Transportation Services: Total Energy's RTS business is presently conducted from 20 locations in western Canada and two locations in the northwestern United States. At December 31, 2018, this segment had approximately 10,600 pieces of major rental equipment (excluding access matting), a fleet of 90 heavy trucks and a significant inventory of small rental equipment.

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 December 31, 2018 the CPS segment occupied approximately 246,000 square feet of production facilities located in Calgary, Alberta and 100,000 square foot production facility in Weirton, West Virginia. As at December 31, 2018 the CPS segment also had a network of 11 branch locations throughout western Canada and the United States from which its natural gas compression parts and service business is conducted. This segment had 47,400 horsepower of compression in its rental fleet at December 31, 2018.

Well Servicing: The Company entered the well servicing business through the acquisition of Savanna. At December 31, 2018, the Company operated a total fleet of 83 well servicing rigs across western Canada, northwest United States and Australia. Composition of the Company's service rig fleet is as follows:

By Type	
Singles	38
Doubles	32
Australian spec	9
Flush-by	4
	83

By Geography	
Canada	57
United States	14
Australia	12
	83

SELECTED FINANCIAL INFORMATION

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

	Year ended December 31		
	2018	2017	2016
Revenue	**$ 851,809**	$ 604,662	$ 197,800
Cash provided by operations	**115,705**	64,384	38,489
Cashflow	**101,490**	76,571	15,717
Net income (loss)	**24,215**	(3,703)	(11,914)
Attributable to shareholders	**24,458**	(1,916)	(11,914)
Per share (basic and diluted)	**0.53**	(0.05)	(0.38)
Dividends declared per share	**0.24**	0.24	0.24
Total assets	**1,078,124**	1,066,781	522,599
Long term liabilities (excluding current obligations under finance leases, current portion of long-term debt and deferred tax liability)	**287,893**	260,579	46,557

OVERALL PERFORMANCE

Total Energy's results for the year ended December 31, 2018 reflect improving industry activity levels in the United States and Australia as well as economies of scale and cost synergies arising from the integration of Savanna. Market conditions remained challenging in Canada during 2018, particularly during the fourth quarter when realized prices for Canadian oil fell materially due to lack of pipeline and other export transportation capacity. Also contributing to a decline in Canadian activity during the fourth quarter of 2018 was the decision of the Alberta government to impose oil production curtailments. Negatively impacting the Company's results for 2018 was approximately $1.8 million of rig relocation expenses incurred by the Company's drilling operation in the United States as the Company undertook a strategic consolidation of its U.S. contract drilling operations and $1.1 million of legal expenses related to two claims made against Savanna following the takeover of Savanna by the Company (see note 26 to the 2018 Financial Statements).

The Company's financial condition remains strong, with a positive working capital balance of $125.0 million as at December 31, 2018, an increase of $70.1 million from the working capital position at December 31, 2017. This increase was primarily due to the refinancing and repayment of short-term debt during the twelve months ended December 31, 2018 and improved financial performance compared to 2017. Shareholders' equity increased by $14.0 million from December 31, 2017.

Revenue

	Three months ended December 31			Twelve months ended December 31		
	2018	2017	Change	**2018**	2017	Change
Revenue	**$ 219,846**	$ 180,230	22%	**$ 851,809**	$ 604,662	41%

The increase in revenue for the three months ended December 31, 2018 relative to the same period in 2017 was the result of higher activity levels in the CPS and RTS segments. For the twelve months ended December 31, 2018 revenue relative to the same period in 2017 increased in all of the Company's segments, in part as a result of the acquisition of Savanna effective April 5, 2017.

Cost of Services and Gross Margin

	Three months ended December 31			Twelve months ended December 31		
	2018	2017	Change	**2018**	2017	Change
Cost of services	**$ 175,965**	$ 137,793	28%	**$ 681,430**	$ 484,389	41%
Gross margin	**$ 43,881**	$ 42,437	3%	**$ 170,379**	$ 120,273	42%
Gross margin, as a percentage of revenue	**20%**	24%		**20%**	20%	

The increase in costs of services during the fourth quarter of 2018 relative to the same period in 2017 is mostly due to increased activity levels in the CPS segment. The increase in cost of services for the twelve months ended December 31, 2018 compared to 2017 is in line with higher activity levels in all business segments and the increased scale of operations arising from the acquisition of Savanna.

Gross margin, as a percentage of revenue, for the three and twelve months ended December 31, 2018 was 20% as compared to 24% and 20% for the same periods in 2017. Gross margin percentage realized in the fourth quarter of 2018 was lower than the fourth quarter of 2017 due primarily to the CPS segment contributing 53% of consolidated revenue in the fourth quarter of 2018 compared to 41% in the fourth quarter of 2017. The CPS segment generates a lower gross margin as a percentage of revenue compared to other segments. Negatively impacting gross margin for the twelve months was $1.8 million of non-recurring expenses incurred by the CDS segment with the relocation of drilling equipment to Texas and Colorado from the north-eastern United States.

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 Administration Expenses

	Three months ended December 31			Twelve months ended December 31		
	2018	2017	Change	**2018**	2017	Change
Selling, general and administration expenses	**$ 14,758**	$ 13,332	11%	**$ 56,301**	$ 48,500	16%

Selling, general and administration expenses increased in the fourth quarter of 2018 relative to the same period in 2017 due to increased performance-based compensation as result of increased profitability in the CPS segment. For the twelve months ended December 31, 2018, selling, general and administration expenses increased relative to the same period in 2017, primarily due to the acquisition of Savanna in the second quarter of 2017. Included in the year is $1.1 million of legal expenses related to two claims made against Savanna following the takeover of Savanna by the Company. As a percentage of revenue, selling, general and administration expenses were 9% lower in the fourth quarter and 18% lower the twelve months ended December 31, 2018 compared to the same periods for 2017. This year over year decrease is due primarily to synergies achieved with the integration of Savanna.

Included in selling, general and administration 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

	Three months ended December 31			Twelve months ended December 31		
	2018	2017	Change	**2018**	2017	Change
Share-based compensation expense	**$ 598**	$ 594	1%	**$ 2,396**	$ 1,787	34%

Share-based compensation expense arises from share options granted pursuant to the share option plan implemented in 2015. Share-based compensation expense for the three months ended December 31, 2018 was consistent with the prior year comparable period. The increase in share-based compensation expense for the twelve months ended December 31, 2018 compared to the same period in 2017 was due to the issuance of share options in 2018.

Depreciation Expense

	Three months ended December 31			Twelve months ended December 31		
	2018	2017	Change	**2018**	2017	Change
Depreciation	**$ 17,777**	$ 18,831	(6%)	**$ 75,500**	$ 66,781	13%

Depreciation expense for the fourth quarter of 2018 decreased relative to the same period in 2017 due to lower equipment utilization in the Canadian and U.S. CDS segments. The increase in depreciation for the twelve months ended December 31, 2018 relative to 2017 is due to the increase in property plant and equipment following the acquisition of Savanna. 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

	Three months ended December 31			Twelve months ended December 31		
	2018	2017	Change	**2018**	2017	Change
Operating income	**$ 10,748**	$ 9,680	11%	**$ 36,558**	$ 3,205	1,041%

Operating income for the three and twelve months ended December 31, 2018 improved compared to the same periods in 2017. The increase in the fourth quarter of 2018 compared to 2017 was primarily due to increased activity in the CPS and RTS segments. For the twelve months ended December 31, 2018 compared to 2017, the increase in operating income is a result of improved results from all business segments and the realization of economies of scale and cost synergies following the acquisition of Savanna in the second quarter of 2017. Negatively impacting operating income in the twelve months ended December 31, 2018 was $1.8 million of rig relocation expenses incurred by the CDS segment and $1.1 million of legal expenses related to two claims made against Savanna following the takeover of Savanna by the Company.

Gain on Sale of Property, Plant and Equipment

	Three months ended December 31			Twelve months ended December 31		
	2018	2017	Change	**2018**	2017	Change
Gain on sale of property, plant and equipment	**$ 628**	$ 1,218	(48%)	**$ 2,608**	$ 1,618	61%
Proceeds on the sale of property, plant and equipment	**$ 3,790**	$ 3,033	25%	**$ 7,588**	$ 5,875	29%

Disposals of property, plant and equipment result from the rationalization, 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.

Equipment disposed of during the fourth quarter of 2018 included light duty vehicles, excess rental equipment and trucks in Canada and decommissioned equipment in Australia. Disposals in the twelve months ended December 31, 2018 included three decommissioned drilling rigs and three decommissioned service rigs located in the United States, light duty vehicles, excess rental equipment and trucks in Canada, excess drilling equipment in Canada and the United States and decommissioned equipment in Australia.

Finance Costs

	Three months ended December 31			Twelve months ended December 31		
	2018	2017	Change	**2018**	2017	Change
Finance costs	**$ 3,485**	$ 3,902	(11%)	**$ 13,778**	$ 14,198	(3%)

Finance costs for the three and twelve months ended December 31, 2018 were lower than the prior year comparable periods due to refinancing of Savanna debt at lower effective interest rates and the repayment of $41.9 million of long-term debt during 2018.

Income Taxes and Net Income (Loss)

	Three months ended December 31			Twelve months ended December 31		
	2018	2017	Change	**2018**	2017	Change
Current income tax recovery	**$ (7,807)**	$ (350)	2,131%	**$ (2,070)**	$ (3,506)	(41%)
Deferred income tax expense (recovery)	**7,128**	792	800%	**3,243**	(2,166)	nm
Total income tax (recovery) expense	**$ (679)**	$ 442	nm	**$ 1,173**	$ (5,672)	nm
Net income (loss)	**$ 8,570**	$ 6,554	31%	**$ 24,215**	$ (3,703)	nm

"nm" - calculation not meaningful

The year over year changes in current and deferred income tax experience is due to several factors, including a return to profitability in 2018, acceleration of non-capital losses on change in partnership taxation in 2017 and a decrease in the federal corporate income tax rate in the United States. Also contributing to the increase in deferred income tax recovery is the accelerated recognition of the income tax benefit on deferred financing costs following the refinancing of certain of Savanna's long-term debt in 2018. The tax benefit arising from Savanna's deferred financing costs were not recognized by the Company on the acquisition of Savanna for accounting purposes.

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

	Financial Quarter Ended			
	Dec 31, 2018	Sept 30, 2018	June 30, 2018	March 31, 2018
Revenue	**$ 219,846**	$ 232,925	$ 193,823	$ 205,215
Operating income	**10,748**	14,294	3,956	7,560
EBITDA (1)	**29,153**	34,632	23,226	27,655
Cashflow	**23,070**	34,799	22,472	21,149
Cash provided by operating activities	**30,658**	19,928	42,335	22,784
Net income	**8,570**	8,655	3,662	3,328
Attributable to shareholders	**8,555**	8,910	3,829	3,164
Per share data				
EBITDA (1)	**$ 0.63**	$ 0.75	$ 0.50	$ 0.60
Cashflow	**0.50**	0.75	0.49	0.46
Net income attributable to shareholders	**0.19**	0.19	0.08	0.07
Financial Position				
Total Assets	**$ 1,078,124**	$ 1,063,813	$ 1,050,740	$ 1,065,499
Long-Term Debt and Obligations Under Finance Leases (excluding current portion)	**286,319**	295,545	295,914	247,087
Working Capital (2)	**124,967**	117,586	103,113	54,906
Net Debt (1)	**161,352**	177,959	192,801	192,181
Shareholders' Equity	**560,756**	549,238	551,612	550,732
Common Shares (000's) (3)				
Basic	**45,933**	46,099	46,223	46,238
Diluted	**45,933**	46,099	46,223	46,241

	Financial Quarter Ended			
	Dec 31, 2017	Sept 30, 2017	June 30, 2017	March 31, 2017
Revenue	$ 180,230	$ 185,158	$ 154,922	$ 84,352
Operating income (loss)	9,680	6,871	(13,105)	(241)
EBITDA [1]	29,729	27,356	6,577	7,942
Cashflow	27,803	30,044	10,903	7,821
Cash provided by (used in) operating activities	26,727	(2,329)	45,287	(5,301)
Net income (loss)	6,554	3,737	(13,141)	(853)
Attributable to shareholders	6,195	4,307	(11,565)	(853)
Per share data (diluted)				
EBITDA [1]	$ 0.64	$ 0.59	$ 0.15	$ 0.25
Cashflow	0.60	0.65	0.25	0.25
Net income (loss) attributable to shareholders	0.13	0.09	(0.26)	(0.03)
Financial Position				
Total Assets	$ 1,066,781	$ 1,056,538	$ 1,053,302	$ 635,240
Long-Term Debt and Obligations Under Finance Leases (excluding current portion)	257,845	257,981	256,266	58,053
Working Capital [2]	54,892	37,053	21,309	77,158
Net Debt [1]	202,953	220,928	234,957	nil
Shareholders' Equity	546,574	544,647	547,405	466,149
Common Shares (000's) [3]				
Basic	46,238	46,238	43,718	31,448
Diluted	46,238	46,238	43,718	31,489

(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 17 to the 2018 Financial Statements.

Aboriginal Partnerships

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

SEGMENTED RESULTS

Contract Drilling Services

	Three Months Ended			Twelve Months Ended		
December 31	**2018**	2017	Change	**2018**	2017	Change
Revenue	**$ 47,254**	$ 51,417	(8%)	**$ 204,184**	$ 158,051	29%
Operating (loss) income	**$ (1,120)**	$ 3,634	nm	**$ (889)**	$ (8,858)	90%
Operating spud to release days	**2,152**	2,476	(13%)	**9,505**	8,092	17%
Revenue per spud to release day, dollars	**$ 21,958**	$ 20,766	6%	**$ 21,482**	$ 19,532	10%

"nm" - calculation not meaningful

The scope and scale of the contract drilling segment increased significantly in the second quarter of 2017 through the acquisition of Savanna. Prior to the Savanna acquisition, the CDS segment had 18 drilling rigs all located in Canada. During 2018, $1.8 million of non-recurring expenses were incurred to relocate drilling equipment to Texas and Colorado from the northeastern United States. Effective January 1, 2018 the Company began including CDS employee subsistence payments received from CDS customers in Canada as revenue, which has no impact on operating income, as the offsetting costs were also recognized. For the three and twelve months ended December 31, 2018 such payments amounted to $2.1 million and $9.4 million, or approximately $1,700 per operating day in Canada.

The following summarizes the operating results for the CDS segment by geographic area for the three and twelve months ended December 31, 2018.

Q4 2018	Drilling Canada	Drilling U.S.	Drilling Australia	**Total**
Revenue	$ 21,389	$ 14,186	$ 11,679	**$ 47,254**
Operating income (loss)	$ 132	$ (3,092)	$ 1,840	**$ (1,120)**
Spud to release days	1,208	640	304	**2,152**
Revenue per spud to release day, dollars	$ 17,706	$ 22,166	$ 38,418	**$ 21,958**
Utilization % (spud to release)	15%	29%	66%	**21%**

Q4 2017	Drilling Canada	Drilling U.S.	Drilling Australia	Total
Revenue	$ 21,032	$ 17,517	$ 12,868	$ 51,417
Operating income (loss)	$ 341	$ (1,116)	$ 4,409	$ 3,634
Spud to release days	1,393	854	229	2,476
Revenue per spud to release day, dollars	$ 15,098	$ 20,512	$ 56,192	$ 20,766
Utilization % (spud to release)	18%	33%	50%	23%

2018	Drilling Canada	Drilling U.S.	Drilling Australia	**Total**
Revenue	$ 92,878	$ 60,151	$ 51,155	**$ 204,184**
Operating income (loss)	$ 420	$ (12,527)	$ 11,218	**$ (889)**
Spud to release days	5,433	2,840	1,232	**9,505**
Revenue per spud to release day, dollars	$ 17,095	$ 21,180	$ 41,522	**$ 21,482**
Utilization % (spud to release)	17%	30%	68%	**22%**

2017	Drilling Canada	Drilling U.S.	Drilling Australia	Total
Revenue	$ 66,735	$ 61,698	$ 29,618	$ 158,051
Operating (loss) income	$ (5,845)	$ (9,766)	$ 6,753	$ (8,858)
Spud to release days	4,720	2,753	619	8,092
Revenue per spud to release day, dollars	$ 14,139	$ 22,411	$ 47,848	$ 19,532
Utilization % (spud to release)	19%	36%	45%	23%

The overall decrease in CDS segment revenue during the fourth quarter of 2018 relative to the three months ended December 31, 2017 is primarily a result of lower utilization in Canada and the United States. In Canada, activity levels were negatively impacted by a precipitous decline in realized prices for Western Canadian oil in the fourth quarter of 2018 and the implementation of an oil production curtailment by the Alberta government. Negatively impacting United States results for the fourth quarter of 2018 was significant downtime and $0.8 million of expenses related to the repair of a drilling rig that was damaged during rig move operations and unrecoverable top drive rental costs while an owned top drive was being repaired and recertified. Utilization in Australia increased due to an additional rig commencing operations as compared to the same period in 2017. Effective day rates in Australia were lower in Q4 2018 as compared to Q4 2017 due to lower pricing, a higher proportion of lower margin stand by hours and the mix of equipment operating. For 2018 as compared to 2017, overall revenue increased significantly due to the acquisition of Savanna and the operating days generated by the drilling rigs acquired.

Operating loss for the fourth quarter and twelve months ended December 31, 2018 was $1.1 million and $0.9 million as compared to operating income of $3.6 million and an operating loss of $8.9 million for the same periods in 2017. The realization of lower operating losses during 2018 in comparison to 2017 is due to higher utilization in Australia, improved discipline in declining unprofitable work and cost control measures introduced in 2017. Offsetting these gains were lower North American operating days, unpaid downtime and repair costs incurred in the U.S. during the fourth quarter when a rig was damaged during demobilization, continued price competition in Canada and legacy contracts in the United States that limited the ability to increase prices to the extent necessary to offset increasing operating costs. $1.8 million of non-recurring rig relocation costs for two drilling rigs relocated from Pennsylvania to Texas and Colorado during 2018 also negatively impacted U.S. CDS margins.

Rentals and Transportation Services

	Three Months Ended			Twelve Months Ended		
December 31	**2018**	2017	Change	**2018**	2017	Change
Revenue	**$ 19,959**	$ 18,399	8%	**$ 76,615**	$ 68,867	11%
Operating income (loss)	**$ 426**	$ (2,069)	nm	**$ (3,003)**	$ (4,658)	(36%)
Pieces of rental equipment	**10,600**	11,000	(4%)	**10,600**	11,000	(4%)
Heavy trucks	**90**	112	(20%)	**90**	112	(20%)
Rental equipment utilization	**27%**	24%	13%	**23%**	24%	(4%)

"nm" - calculation not meaningful

The revenue reported from the RTS segment for the three and twelve months ended December 31, 2018 increased as compared with the same period in 2017 due to increased utilization and improved pricing in the United States and a change in the mix of equipment utilized. During 2018, approximately 150 pieces of major rental equipment were relocated from Canada to the United States and 400 pieces of underutilized rental equipment were disposed of. During the fourth quarter of 2018 22 underutilized heavy trucks were disposed of.

The realization of operating income in the fourth quarter of 2018 as compared to the same period in 2017 was due to reduced operating losses in Canada as cost rationalization measures began to take effect and increased utilization and pricing in the United States. Operating loss for 2018 decreased compared to 2017 primarily due to increased operating income from the United States where activity levels increased significantly. This segment's relatively high fixed cost structure as compared to the Company's other business segments combined with the inability to increase prices to the extent necessary to offset cost inflation in Canada contributed to the operating loss for the year. 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. Given continued low activity levels in Canada, five RTS branch locations were closed at the end of 2018 in an effort to reduce fixed costs.

The following summarizes the operating results for the RTS segment by geographic area for the three and twelve months ended December 31, 2018.

Q4 2018	RTS Canada	RTS U.S.	**Total**
Revenue	$ 14,711	$ 5,248	**$ 19,959**
Operating (loss) income	$ (798)	$ 1,224	**$ 426**
Pieces of rental equipment	9,950	650	**10,600**
Rental equipment utilization	27%	40%	**27%**

Q4 2017	RTS Canada	RTS U.S.	Total
Revenue	$ 15,159	$ 3,240	$ 18,399
Operating (loss) income	$ (2,702)	$ 633	$ (2,069)
Pieces of rental equipment	10,500	500	11,000
Rental equipment utilization	24%	29%	24%

2018	RTS Canada	RTS U.S.	**Total**
Revenue	$ 60,225	$ 16,390	**$ 76,615**
Operating (loss) income	$ (5,491)	$ 2,488	**$ (3,003)**
Pieces of rental equipment	9,950	650	**10,600**
Rental equipment utilization	23%	37%	**23%**

2017	RTS Canada	RTS U.S.	Total
Revenue	$ 60,439	$ 8,428	$ 68,867
Operating (loss) income	$ (4,781)	$ 123	$ (4,658)
Pieces of rental equipment	10,500	500	11,000
Rental equipment utilization	24%	27%	24%

RTS Canada revenue decreased in the three and twelve months ended December 31, 2018 compared to the same periods in 2017 due to lower industry activity, the relocation of underutilized equipment to the United States and the disposal of underutilized and decommissioned equipment. Lower revenue combined with high fixed costs and labour, fuel and utility cost inflation arising from regulatory changes in Alberta, resulted in operating losses in 2018. RTS U.S. revenue for the three and twelve months ended December 31, 2018 increased compared to the same periods in 2017 due to higher utilization of a larger equipment fleet as industry activity improved significantly from the prior year. As a result RTS U.S. realized higher operating income for the three and twelve months ended December 31, 2018 as compared to same periods in 2017.

Compression and Process Services

	Three Months Ended			Twelve Months Ended		
December 31	**2018**	2017	Change	**2018**	2017	Change
Revenue	**$ 115,582**	$ 73,213	58%	**$ 420,664**	$ 266,376	58%
Operating income	**$ 11,852**	$ 6,354	87%	**$ 40,527**	$ 20,661	96%
Operating income, % of revenue	**10%**	9%	11%	**10%**	8%	25%
Sales backlog at period end, $ million	**$ 222.9**	$ 167.9	33%	**$ 222.9**	$ 167.9	33%
Horsepower of equipment on rent at period end	**34,800**	22,800	53%	**34,800**	22,800	53%
Rental equipment utilization (HP)	**70%**	54%	30%	**60%**	47%	28%

The revenue reported from the CPS segment increased for the three and twelve months ended December 31, 2018 as compared to the same periods in 2017. This was due primarily to higher international activity levels and increasing contribution from the Weirton, West Virginia facility. Demand from international customers continued to increase during 2018 and contributed to the substantial increase in the fabrication sales backlog at December 31, 2018 compared to the end of 2017. The timeline for conversion of the 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 twelve months ended December 31, 2018, as compared to the same periods in 2017 was due primarily to increased business activity in international markets, the continued ramp up of operations in Weirton and increased utilization of the compression rental fleet (which generates a higher operating income margin than other sources of CPS revenue). In response to increasing demand, during the fourth quarter of 2018 the CPS segment leased a fabrication facility that will result in an additional net 59,600 square feet of fabrication space in Canada. This facility will be put into service over the next few quarters and will increase Canadian fabrication space in this segment by approximately 30%.

Well Servicing

	Three Months Ended			Twelve Months Ended		
December 31	**2018**	2017	Change	**2018**	2017	Change
Revenue	**$ 37,051**	$ 37,201	0%	**$ 150,346**	$ 111,368	35%
Operating income	**$ 5,018**	$ 7,113	(29%)	**$ 18,987**	$ 12,950	47%
Operating income, % of revenue	**14%**	19%		**13%**	12%	
Service hours (1)	**42,382**	39,905	6%	**164,414**	116,095	42%
Revenue per service hour	**$ 874**	$ 932	(6%)	**$ 914**	$ 959	(5%)
Utilization (2)	**41%**	37%	11%	**40%**	37%	8%

(1) Service hours is defined as well servicing hours of service provided to customers and includes paid rig move and standby.

(2) The Company reports its service rig utilization for its operational service rigs in North America based on service hours of 3,650 per rig per year to reflect standard 10 hour operations per day. Utilization for the Company's service rigs in Australia is calculated based on service hours of 8,760 per rig per year to reflect standard 24 hour operations.

Overall revenue for the fourth quarter of 2018 was consistent with the same period in 2017 due to lower per service hour revenue in Australia arising from lower pricing, the mix of equipment working and depreciation of the Australian dollar, which was offset by overall increased equipment utilization and modestly improved pricing in North America. Operating income for the fourth quarter of 2018 was lower, primarily due to realization of an operating loss in the United States, lower margins in Australia and Australian dollar depreciation. Revenue and operating income for the twelve months ended December 31, 2018 increased compared to the same period in 2017 due to the acquisition of the WS segment in the second quarter of 2017. Also contributing to improved 2018 results was improved discipline in declining unprofitable work and cost control measures implemented in 2017 across all geographic regions.

The following summarizes the operating results for the WS segment by geographic area for the three and twelve months ended December 31, 2018.

Q4 2018	WS Canada	WS U.S.	WS Australia	**Total**
Revenue	$ 12,700	$ 2,853	$ 21,498	**$ 37,051**
Operating income (loss)	$ 958	$ (282)	$ 4,342	**$ 5,018**
Operating income (loss), % of revenue	8%	nm	20%	**14%**
Service hours [(1)]	19,467	3,624	19,291	**42,382**
Revenue per service hour, dollars	$ 652	$ 787	$ 1,114	**$ 874**
Utilization % [(2)]	37%	28%	73%	**41%**

"nm" - calculation not meaningful

Q4 2017	WS Canada	WS U.S.	WS Australia	Total
Revenue	$ 10,761	$ 3,061	$ 23,379	$ 37,201
Operating income	$ 893	$ 449	$ 5,771	$ 7,113
Operating income, % of revenue	8%	15%	25%	19%
Service hours [(1)]	17,574	4,678	17,653	39,905
Revenue per service hour, dollars	$ 612	$ 654	$ 1,324	$ 932
Utilization % [(2)]	34%	30%	67%	37%

2018	WS Canada	WS U.S.	WS Australia	**Total**
Revenue	$ 46,929	$ 13,944	$ 89,473	**$ 150,346**
Operating income	$ 2,350	$ 541	$ 16,096	**$ 18,987**
Operating income, % of revenue	5%	4%	18%	**13%**
Service hours [(1)]	72,343	18,306	73,765	**164,414**
Revenue per service hour, dollars	$ 649	$ 762	$ 1,213	**$ 914**
Utilization % [(2)]	35%	36%	70%	**40%**

2017	WS Canada	WS U.S.	WS Australia	Total
Revenue	$ 29,182	$ 11,387	$ 70,799	$ 111,368
Operating income (loss)	$ (3,377)	$ 1,202	$ 15,125	$ 12,950
Operating income (loss), % of revenue	nm	11%	21%	12%
Service hours [(1)]	48,866	16,702	50,527	116,095
Revenue per service hour, dollars	$ 597	$ 682	$ 1,401	$ 959
Utilization % [(2)]	31%	36%	65%	37%

"nm" - calculation not meaningful

(1) Service hours is defined as well servicing hours of service provided to customers and includes paid rig move and standby.

(2) The Company reports its service rig utilization for its operational service rigs in North America based on service hours of 3,650 per rig per year to reflect standard 10 hour operations per day. Utilization for the Company's service rigs in Australia is calculated based on service hours of 8,760 per rig per year to reflect standard 24 hour operations.

Canadian revenue and operating income improved for the twelve months ended December 31, 2018 compared to the same periods in 2017. This is primarily due to modestly improved pricing, discipline in declining unprofitable work and higher utilization compared with 2017.

In the United States revenue and utilization for the fourth quarter of 2018 was lower compared to the same period in 2017 due to adverse weather conditions and labour shortages that limited field operations. Pricing gains and increases in service hours resulted in higher revenues for the twelve months ended December 31, 2018 compared to the same period in 2017. Operating loss for the three months and operating income for the twelve months ended December 31, 2018 decreased relative to the same periods in 2017 due to a 23% decline in US service hours in the fourth quarter of 2018 compared to 2017.

Well servicing revenue and operating income in Australia for the fourth quarter of 2018 was lower compared to the same period in 2017 due to a combination of the mix of operating versus standby rates, lower pricing and a decline in the value of the Australian dollar relative to the Canadian dollar, which was offset somewhat by higher utilization. For the twelve months ended December 31, 2018 revenue and operating income was higher due to higher utilization compared to the same period in 2017, offset somewhat by lower pricing and the declining value of the Australian dollar.

Corporate

	Three months ended			Twelve months ended		
December 31	**2018**	2017	Change	**2018**	2017	Change
Operating loss	**$ (5,428)**	$ (5,352)	1%	**$ (19,064)**	$ (16,890)	13%

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 management and support services to Total Energy's business segments and manages the corporate affairs of the Company, including matters related to its public listing. The operating loss for the Corporate segment in 2018 was greater than 2017 due to the acquisition of Savanna in the second quarter of 2017 and increased corporate overhead costs arising therefrom.

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operating Activities and Cashflow

	Three months ended			Twelve months ended		
December 31	**2018**	2017	Change	**2018**	2017	Change
Cash provided by operating activities	**$ 30,658**	$ 26,727	15%	**$ 115,705**	$ 64,384	80%
Per Share Data (Diluted)	**0.67**	0.58	16%	**2.51**	1.53	64%
Cashflow	**$ 23,070**	$ 27,803	(17%)	**$ 101,490**	$ 76,571	33%
Per Share Data (Diluted)	**0.50**	0.60	(17%)	**2.20**	1.82	21%

The changes in cash provided by operating activities and cashflow were due primarily to increased activity levels and improved operating results compared to 2017 with resultant changes in operating income (loss) as described above as well as the acquisition of Savanna in the second quarter of 2017. 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

	Three months ended			Twelve months ended		
December 31	**2018**	2017	Change	**2018**	2017	Change
Net cash (used in) provided by investing activities	**$ (6,361)**	$ 276	nm	**$ (31,891)**	$ (29,388)	9%
Proceeds from sale of PP&E	**$ 3,790**	$ 3,033	25%	**$ 7,588**	$ 5,875	29%
Purchase of PP&E	**$ (12,128)**	$ (5,088)	138%	**$ (40,630)**	$ (27,394)	48%

"nm" - calculation not meaningful

Proceeds from the sale of property, plant and equipment ("PP&E") are derived primarily from the disposal of equipment in the ordinary course of business and the replacement and upgrade of older equipment in the Company's fleet. During the fourth quarter of 2018 equipment disposed consisted of older light duty vehicles and trailers and excess rental equipment and heavy trucks in Canada. During the twelve months ended December 31, 2018 equipment disposed consisted of three decommissioned drilling rigs and three decommissioned service rigs located in the United States, light duty vehicles, rental equipment, heavy trucks, trailers and excess drilling equipment in Canada and the United States.

During the fourth quarter of 2018, $12.1 million of PP&E purchases were allocated as follows: $3.6 million in the CDS segment relating to the purchase of rig equipment and rig recertifications and upgrades, $3.2 million in the RTS segment relating to purchases of rental and transportation equipment in the U.S., $4.2 million in the CPS segment relating to additions to the compression rental fleet and $1.1 million in the WS segment relating to service rig recertifications and upgrades. For the twelve months ended December 31, 2018, $40.6 million of PP&E purchases were allocated as follows: $14.2 million in the CDS segment relating to the purchase of rig equipment and rig recertifications and upgrades, $11.2 million in the RTS segment relating to equipment upgrades and purchases of rental and transportation equipment, $11.5 million in the CPS segment relating to additions to the compression rental fleet and U.S. expansion and $3.7 million in the WS segment relating to service rig recertifications and upgrades.

Financing Activities

	Three months ended			Twelve months ended		
December 31	**2018**	2017	Change	**2018**	2017	Change
Net cash used in financing activities	**$ (18,071)**	$ (8,921)	103%	**$ (74,328)**	$ (29,758)	150%

In the fourth quarter of 2018 $9.0 million of long-term debt was voluntarily repaid with cash on hand along with regular principal repayments on the Company's mortgage loans. The increase in cash used in financing activities for 2018 compared to 2017 was primarily due to the voluntary repayment of $19.0 million of long-term debt during the year and the repayment of $17.5 million of the $67.5 million of senior unsecured notes previously issued by Savanna with cash on hand.

Liquidity and Capital Resources

The Company had a working capital surplus of $125.0 million as at December 31, 2018 compared to $54.9 million as at December 31, 2017. This increase was due primarily to improved financial performance and the refinancing and repayment of short-term debt during 2018. As at December 31, 2018 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 notes 5 and 14 to the 2018 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"). On April 25, 2018 the Credit Facility was increased by $65.0 million to $290.0 million and the maturity date extended to June 19, 2021. The Company has the option to increase such facility by $75.0 million subject to certain terms and conditions, including the agreement of the lenders to increase their commitments. The Credit Facility includes a Canadian $18.0 million operating line, an Australian $2.0 million operating line and a Canadian $270.0 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 December 31, 2018, the applicable interest rate on amounts drawn on the Credit Facility was 4.36% and the standby rate was 0.44%. $0.3 million of letters of credit ("LOC") were outstanding at December 31, 2018 which reduces the amount of credit available under the Credit Facility by an equivalent amount.

On May 25, 2018 the Company repaid $67.5 million principal amount of 7.0% senior unsecured notes issued by a subsidiary together with $2.3 million of accrued interest thereon. Such repayment was funded by a $50.0 million draw on the Credit Facility and $19.8 million of cash on hand.

At December 31, 2018 the Company's long-term debt consisted of the following:

	December 31, 2018	
	Interest rate	Principal Amount
Credit Facility	4.36%	$ 227,000
Mortgage loan (2020 maturity)	3.06%	42,965
Mortgage loan (2041 maturity)	4.55%	15,638
Limited partnership credit facility	5.50%	172
		285,775
Less current portion		2,912
		$ 282,863

At December 31, 2018 amounts owing under the Credit Facility and other debt were denominated in Canadian dollars. The weighted average interest rate on the Company's debt at December 31, 2018 was 4.18%.

In August of 2018 a U.S. $20 million letter of credit facility was established. Letters of credit issued pursuant to this facility do not reduce availability under the Credit Facility. At December 31, 2018 $4.5 million Canadian dollars of LOCs were outstanding under this facility.

In addition to the Credit Facility, a subsidiary of the Company has established a $5.0 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At December 31, 2018 this facility was undrawn and fully available.

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:

	December 31, 2018	Threshold
Twelve-month trailing Bank EBITDA to interest expense	6.79	minimum 3.00
Total Senior Debt to twelve-month trailing Bank EBITDA	1.95	maximum 3.00

The Company was in compliance with all of its Credit Facility and other debt covenants at December 31, 2018. For further information regarding Credit Facility compliance requirements and details on the Company's borrowings, please refer to note 14 to the 2018 Financial Statements.

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 twelve months ended December 31, 2018 the Company declared dividends of $2.8 million ($0.06 per share) and $11.0 million ($0.24 per share) as compared to $2.8 million ($0.06 per share) and $10.7 million ($0.24 per share) for the same periods in 2017. The increase in the aggregate dividend paid during 2018 compared to 2017 reflects the increased number of shares of the Company following the acquisition of Savanna in the second quarter of 2017.

For the twelve months ended December 31, 2018 cash provided by operating activities, cashflow and net income exceeded 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 and twelve months ending December 31, 2018 consisted of $12.1 million and $40.6 million of PP&E purchases. Capital spending was funded with cash on hand and available credit facilities.

CONTRACTUAL OBLIGATIONS

At December 31, 2018 the Company had the following contractual obligations:

		Payments due by year				
	Total	2019	2020	2021	2022	2023 and after
Long-term debt	$ 285,775	$ 2,912	$ 41,585	$ 227,680	$ 680	$ 12,918
Commitments [(1)]	15,152	4,735	4,153	2,878	869	2,517
Finance leases	5,832	2,376	1,936	1,114	293	113
Purchase obligations [(2)]	63,060	63,060	–	–	–	–
Total contractual obligations	$ 369,819	$ 73,083	$ 47,674	$ 231,672	$ 1,842	$ 15,548

(1) Commitments are described in Note 25 to the 2018 Financial Statements.

(2) Purchase obligations are described in Note 25 to the 2018 Financial Statements. As at December 31, 2018, purchase obligations primarily relate to commitments to purchase inventory in the CPS segment.

OFF-BALANCE SHEET ARRANGEMENTS

During 2018 and 2017, the Company had no off-balance sheet arrangements other than operating leases.

TRANSACTIONS WITH RELATED PARTIES

During 2018 and 2017 the Company had no material transactions with related parties.

FINANCIAL INSTRUMENTS

Fair values

The discounted future cash repayments of the Company's mortgage loan due in 2020 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 such mortgage and related interest at the prevailing market rate of 4.05% for a similar debt instrument at December 31, 2018 was $42.4

million (December 31, 2017: market rate of 4.04%, $44.0 million). The carrying value and Company`s liability with respect to this mortgage is $43.0 million.

As at December 31, 2018, the fair value of other assets was approximately $0.5 million.

OUTSTANDING COMPANY SHARE DATA

As at the date of this MD&A, the Company had 45,835,900 common shares outstanding.

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

Outstanding at December 31, 2018	Exercise Price	Remaining life (years)	Exercisable at December 31, 2018
1,180,000	$ 14.13	1.60	1,180,000
1,255,000	$ 12.96	3.50	418,337
60,000	$ 12.00	3.60	20,000
525,000	$ 13.54	4.20	–
150,000	$ 12.99	4.40	–
3,170,000	$ 13.47	2.95	1,618,337

OUTLOOK

Industry Conditions

Political and regulatory uncertainty has contributed to challenging and uncertain energy market conditions and reduced industry capital spending in Canada as oil and natural gas producers continue to face a shortage of export pipeline capacity. Oil and natural gas prices in the United States and Australia have improved over the past several quarters. As such, current expectations are that oil and natural gas industry activity for 2019 will remain stable or modestly increase in the United States and Australia but decrease in Canada as compared to 2018. Increased international drilling and completion activity has contributed to increased demand for compression and process equipment and related services, including increased demand for compression rental equipment. While pricing for the Company's products and services has marginally improved, it remains low by historical standards, particularly in Canada within the CDS, RTS and WS segments. Higher activity levels will need to be sustained for some time before meaningful price recovery is achieved. Continued volatility in global oil and natural gas prices and energy equity markets gives rise to caution regarding future activity levels.

Total Energy's 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 mitigated 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 has given rise to significant economies and efficiencies of scale.

Regulatory and taxation changes in Alberta have resulted in increased labour, fuel, utility and administrative costs, which have particularly impacted the RTS segment where competitive market conditions have prevented recovery of such increased costs through price increases. As such, given the prospects of continued relatively low drilling and completions activity levels in Canada for the foreseeable future, five RTS branch locations were closed at the end of 2018 in an effort to reduce the fixed cost structure within the RTS segment and certain underutilized equipment was either redeployed to the United States or disposed of.

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 and elsewhere is expected to continue to drive activity in the future, particularly in light of the recent determination of a consortium led by Shell to proceed with the construction of a new liquefied natural gas ("LNG") export terminal at Kitimat, British Columbia.

RISK FACTORS AND RISK MANAGEMENT

In the normal course of business, Total Energy is exposed to financial and operating risks that may potentially and materially 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 2018 other than as described below.

Industry Conditions

While oil prices have increased from the lows of 2016, they remain volatile and North American natural gas prices remain low by historical standards. As a result, there continues to be significant uncertainty and volatility in the oil and gas industry, particularly in Canada where oil and natural gas drilling and completion activity remains relatively low. These stagnant activity levels have resulted in continued price competition for the products and services provided by the Company, particularly in Canada within 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 stagnant industry activity levels may require additional substantive measures be taken to preserve the Company's financial strength and flexibility.

Credit Risk

As a result of the challenging oil and natural gas market conditions, particularly in Canada, 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 did not have significant exposure to any individual customer or counter party, except for one major oil and gas company which accounted for over 10% of revenue for the fourth quarter of 2018. For the twelve months ended December 31, 2018 two major oil and gas companies each accounted for over 10% of revenue. No other customer accounted for more than 10% of revenue during these periods. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry.

Government Regulation

Total Energy's business and the business of its customers are subject to significant, evolving and often unanticipated laws and government regulations, including in the areas of environment, labor, health and safety and taxation. For example, the implementation of a "carbon tax" and changes to employment standards in Alberta have increased the Company's cost of services in that jurisdiction. Political intervention in the regulation of energy infrastructure construction has also created additional risk and uncertainty which in turn has resulted in reduced capital expenditures and industry activity in Canada.

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 2018.

Critical Judgments in Applying Accounting Policies

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

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

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

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

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

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

Key Sources of Estimation Uncertainty

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in the 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 recognizes revenue over time in accounting for its equipment manufacturing contract revenue. Recognizing revenue over time 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.

STANDARDS ADOPTED IN THE PERIOD

As at January 1, 2018 the Company adopted the following International Financial Reporting Standards ("IFRS"):

IFRS 15 – Revenue from Contracts with Customers

Effective January 1, 2018 the Company adopted IFRS 15, Revenue from Contracts with Customers using the cumulative-effect method of adoption. The adoption of this standard had no material impact on the amounts recorded in the financial statements. Please see note 3 to the 2018 Financial Statements for further information.

IFRS 9 – Financial Instruments

Effective January 1, 2018 the Company adopted the amendments in IFRS 9, Financial Instruments, including the classification and measurement of financial assets and the expected loss impairment model. The amendments to IFRS 9 are effective for annual periods on or after January 1, 2018 and are applied retrospectively. The standard addresses classification and measurement of financial assets and replaces multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement. The adoption of this standard had no material impact on the amounts recorded in the financial statements. Please see Note 3 to the 2018 Financial Statements for further information.

ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

IFRS 16 Leases

IFRS 16, published on January 13, 2016, supersedes IAS 17 – Leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless a lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 applies to reporting periods beginning on or after January 1, 2019.

The Company plans to apply IFRS 16 effective January 1, 2019 using the modified retrospective method. Under this method, financial information will not be restated and will continue to be reported under the accounting standards in effect for those periods. The Company will recognize lease obligations related to its lease commitments for office and shop leases. They will be measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at January 1, 2019. The associated right of use asset will be measured at the lease obligation amount, resulting in no adjustment to the opening balance of retained earnings. The Company intends to apply the following practical expedients permitted under the new standard:

(i) leases of low dollar value will continue to be expensed as incurred; and

(ii) the Company will not apply any grandfathering practical expedients.

As at January 1, 2019 the Company expects to recognize approximately $12.3 million in right-of-use assets and $12.3 million of incremental lease obligations.

International Financial Reporting Interpretation Committee's Interpretation 23 – "Uncertainty over Income Tax Treatments" ("IFRIC 23")

IFRIC 23 clarifies the accounting for uncertainties in income taxes. The interpretation requires the entity to use the most likely amount or the expected value of the tax treatment if it concludes that it is not probable that a particular tax treatment will be accepted. It requires an entity to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so.

IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do so without using hindsight. Management does not expect the adoption of IFRIC 23 will have material impact on the Company's consolidated financial statements.

FUTURE ACCOUNTING POLICIES CHANGES

There have been no significant future accounting policy changes during 2018.

Several new accounting pronouncements have been issued by the International Accounting Standards Board ("IASB") prior to 2018 that are applicable to, or may have a future impact on, the Company. Please see note 3 of the Company's 2018 Financial Statements 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

	Three months ended		Twelve months ended	
December 31	**2018**	2017	**2018**	2017
Net income (loss)	**$ 8,570**	$ 6,554	**$ 24,215**	$ (3,703)
Add back (deduct):				
Depreciation	**17,777**	18,831	**75,500**	66,781
Finance costs	**3,485**	3,902	**13,778**	14,198
Income tax (recovery) expense	**(679)**	442	**1,173**	(5,672)
EBITDA	**$ 29,153**	$ 29,729	**$ 114,666**	$ 71,604

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

Net Debt

	As at December 31, 2018
Long-term debt	**$ 282,863**
Obligations under finance leases	**3,456**
Add back (deduct):	
Current liabilities	**171,964**
Current assets	**(296,931)**
Net Debt	**$ 161,352**

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying 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 2018 Financial Statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Disclosure Controls and Procedures: The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is reported within the time periods specified under securities laws, and include controls and procedures that are designed to ensure that information is communicated to management of Total Energy, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. An evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) was conducted as at December 31, 2018. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer of Total Energy have concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2018.

Internal Control Over Financial Reporting: The Chief Executive Officer and the Chief Financial Officer of Total Energy are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards ("IFRS"). The Chief Executive Officer and the Chief Financial Officer of Total Energy directed the assessment of the design and operating effectiveness of the Company's internal control over financial reporting as at December 31, 2018 and based on that assessment determined that the Company's internal control over financial reporting was, in all material respects, appropriately designed and operating effectively. There were no changes to internal controls over financial reporting that would materially affect, or be reasonably likely to materially affect, the Company's internal controls over financial reporting during the quarter ended December 31, 2018.

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

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, labour 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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

Management has prepared Management's Discussion and Analysis (MD&A). The MD&A is based upon Total Energy's financial results prepared in accordance with IFRS. The MD&A compares the audited financial results for the twelve months ended December 31, 2017 to December 31, 2018.

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

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

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

DANIEL K. HALYK
President and Chief Executive Officer

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

March 7, 2019

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Total Energy Services Inc.

Opinion

We have audited the consolidated financial statements of Total Energy Services Inc. (the "Entity"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, the consolidated statements of comprehensive income (loss), the consolidated statements of changes in equity, the consolidated statements of cash flows for the years then ended, and notes, to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditors' report is Lee Bardwell.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 7, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	Note	December 31, 2018	December 31, 2017
ASSETS			
Current assets:			
Cash and cash equivalents	7	$ 30,640	$ 21,154
Accounts receivable	8	155,946	150,990
Inventory	9	84,743	68,266
Income taxes receivable	16	7,299	1,176
Other assets	11	527	4,631
Prepaid expenses and deposits		17,776	15,148
		296,931	261,365
Property, plant and equipment	10	768,613	793,464
Income taxes receivable	26	7,070	7,070
Deferred tax asset	16	1,457	829
Goodwill	12	4,053	4,053
		$ 1,078,124	$ 1,066,781
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	13	$ 126,608	$ 108,421
Deferred revenue		37,316	21,625
Dividends payable		2,752	2,774
Current portion of obligations under finance leases	15	2,376	1,595
Current portion of long-term debt	14	2,912	72,058
		171,964	206,473
Long-term debt	14	282,863	255,640
Obligations under finance leases	15	3,456	2,205
Onerous lease liability	13	1,574	2,734
Deferred tax liability	16	57,691	53,155
Shareholders' equity:			
Share capital	17	288,902	291,317
Contributed surplus		6,384	4,550
Accumulated other comprehensive loss		(5,320)	(10,194)
Non-controlling interest		238	1,196
Retained earnings		270,372	259,705
		560,576	546,574
		$ 1,078,124	$ 1,066,781

The notes on pages 32 to 64 are an integral part of these consolidated financial statements.

Approved by the Board of Total Energy Services Inc.

Director: Greg Melchin

Director: Bruce L. Pachkowski

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands of Canadian dollars except per share amounts)

	Note	2018	2017
REVENUE	19	**$ 851,809**	$ 604,662
Cost of services	20	**681,054**	484,389
Selling, general and administration	21	**56,301**	48,500
Share-based compensation	18	**2,396**	1,787
Depreciation	10	**75,500**	66,781
Operating income		**36,558**	3,205
Gain on sale of property, plant and equipment	10	**2,608**	1,618
Finance costs	23	**(13,778)**	(14,198)
Net income (loss) before income taxes		**25,388**	(9,375)
Current income tax recovery	16	**(2,070)**	(3,506)
Deferred income tax expense (recovery)	16	**3,243**	(2,166)
Total income tax expense (recovery)	16	**1,173**	(5,672)
Net income (loss) for the year		**$ 24,215**	$ (3,703)
Net income (loss) attributable to:			
Shareholders of the Company		**$ 24,458**	$ (1,916)
Non-controlling interest		**$ (243)**	$ (1,787)
Income (loss) per share:			
Basic and diluted earnings per share	17	**$ 0.53**	$ (0.05)

	Note	2018	2017
Net income (loss) for the year		**$ 24,215**	$ (3,703)
Other Comprehensive Income (Loss) (OCI):			
Changes in fair value of long-term investment	5	**–**	665
Realized gain on long-term investment	5	**–**	(665)
Foreign currency translation adjustment		**5,539**	(11,233)
Deferred tax effect	16	**(665)**	1,039
Total other comprehensive income (loss) for the year		**4,874**	(10,194)
Total comprehensive income (loss)		**$ 29,089**	$ (13,897)
Total comprehensive income (loss) attributable to:			
Shareholders of the Company		**$ 29,332**	$ (12,110)
Non-controlling interest		**$ (243)**	$ (1,787)

The notes on pages 32 to 64 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended December 31, 2018 and 2017
(in thousands of Canadian dollars)

	Note	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Non-controlling Interest	Retained earnings	Total Equity
Balance at December 31, 2016		$ 88,654	$ 7,683	$ –	$ –	$ 267,965	$ 364,302
Net loss		–	–	–	(1,787)	(1,916)	(3,703)
Other comprehensive loss		–	–	(10,194)	–	–	(10,194)
Transactions with shareholders, recorded directly in equity:							
Dividends to shareholders ($0.24 per common share)		–	–	–	–	(10,654)	(10,654)
Issuance of common shares	17	104,544	–	–	–	–	104,544
Stock options exercised	18	2,899	(610)	–	–	–	2,289
Stock options expired	18	–	(4,310)	–	–	4,310	–
Share-based compensation	18	–	1,787	–	–	–	1,787
Partnership distributions		–	–	–	(150)	–	(150)
Non-controlling interest assumed on acquisition	5	–	–	–	111,383	–	111,383
Subsequent acquisition transactions – shares issued	5	95,220	–	–	(95,220)	–	–
Subsequent acquisition transactions – cash payment	5	–	–	–	(13,030)	–	(13,030)
		202,663	(3,133)	–	2,983	(6,344)	196,169
Balance at December 31, 2017		$ 291,317	$ 4,550	$ (10,194)	$ 1,196	$ 259,705	$ 546,574
Net income (loss)		–	–	–	(243)	24,458	24,215
Other comprehensive income		–	–	4,874	–	–	4,874
Transactions with shareholders, recorded directly in equity:							
Dividends to shareholders ($0.24 per common share)		–	–	–	–	(10,985)	(10,985)
Repurchase of common shares	17	(2,415)	–	–	–	(1,776)	(4,191)
Share-based compensation	18	–	2,396	–	–	–	2,396
Stock options expired		–	(562)	–	–	562	–
Purchase of partners' share in limited partnership		–	–	–	10	(1,592)	(1,582)
Partnership distributions		–	–	–	(725)	–	(725)
		(2,415)	1,834	–	(715)	(13,791)	(15,087)
Balance at December 31, 2018		**$ 288,902**	**$ 6,384**	**$ (5,320)**	**$ 238**	**$ 270,372**	**$ 560,576**

The notes on pages 32 to 64 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

	Note	2018	2017
Cash provided by (used in):			
Operations:			
Net income (loss) for the year		$ 24,215	$ (3,703)
Add (deduct) items not affecting cash:			
Depreciation	10	75,500	66,781
Share-based compensation	18	2,396	1,787
Gain on disposal of property, plant and equipment	10	(2,608)	(1,618)
Finance costs		9,991	14,497
Realized gain on long-term investment		–	(665)
Unrealized (gain) loss on foreign currencies translation		(5,124)	4,367
Current income tax recovery	16	(2,070)	(3,506)
Deferred income tax expense (recovery)	16	3,243	(2,166)
Income taxes (paid) recovered		(4,053)	797
Cashflow		101,490	76,571
Changes in non-cash working capital items:			
Accounts receivable	8	(5,893)	(13,040)
Inventory	9	(16,477)	(8,075)
Prepaid expenses and deposits		2,060	(9,085)
Accounts payable and accrued liabilities	13	19,993	11,871
Onerous leases	13	(1,159)	(503)
Deferred revenue		15,691	6,645
		115,705	64,384
Investments:			
Purchase of property, plant and equipment	10	(40,630)	(27,394)
Acquisition of business	5	–	(26,830)
Acquisition of non-controlling interest		(1,582)	–
Cash acquired	5	–	16,167
Proceeds on sale of other assets		3,790	374
Proceeds on disposal of property, plant and equipment		7,588	5,875
Changes in non-cash working capital items		(1,057)	2,420
		(31,891)	(29,388)
Financing:			
Advances under long-term debt	14	50,000	215,487
Repayment of long-term debt	14	(91,923)	(216,030)
Repayment of obligations under finance leases	15	(2,227)	(1,924)
Partnership distributions to non-controlling interests		(725)	(150)
Payment of dividends	17	(11,007)	(9,736)
Issuance of common shares	18	–	2,289
Repurchase of common shares	17	(4,191)	–
Interest paid		(14,255)	(19,694)
		(74,328)	(29,758)
Change in cash and cash equivalents		9,486	5,238
Cash and cash equivalents, beginning of year		21,154	15,916
Cash and cash equivalents, end of year		$ 30,640	$ 21,154

The notes on pages 32 to 64 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017
(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 800, 311 – 6th Avenue S.W. The annual 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 (the "United States") 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 preparation

(a) Statement of compliance

The consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and are presented in thousands of Canadian dollars. The significant accounting policies adopted in the preparation of the consolidated financial statements are set out in Note 3. Unless otherwise stated, these policies have been consistently applied to all the periods presented. The consolidated financial statements include the accounts of the Company, its subsidiaries and the limited partnerships partially owned by the Company. The Company's partners' shares in the equity and net loss of the limited partnerships partially owned by the Company are reported as non-controlling interests. All inter-company transactions, balances, revenues and expenses have been eliminated. The Company's net income (loss) and cash flows include the results of any acquisitions from their effective dates.

The consolidated financial statements were authorized for issue by the Board of Directors on March 7, 2019.

(b) Basis of measurement

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

(c) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency. Transactions of the Company's individual entities are recorded in their own functional currency based on the primary economic environment in which it operates. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

(d) Use of estimates and judgments

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

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

(e) Critical judgments in applying accounting policies

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

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

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

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

The Company makes judgments regarding the determination of its reportable segments, including aggregation criteria (as appropriate), for segmented reporting. The operating segments that exhibit similar long-term financial performance and economic characteristics (similar products and services, production processes, class and type of customer, distribution methods and channels, regulatory environment, etc.) are aggregated in a single reportable segment. Operating segments that do not exhibit similar long-term performance and economic characteristics are presented in a separate reportable segment when their revenue, assets or absolute value of profit or loss exceeds prescribed quantitative thresholds.

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

(f) Key sources of estimation uncertainty

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

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

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

The Company accounts for its equipment manufacturing contract revenue over time. This method requires estimates of the stage of completion of the contract to date as a proportion of the total work to be performed.

As it 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 it pertains to accounts receivable the Company is required to estimate expected credit losses based on historic collection trends and experiences with customers.

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

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

The Company's estimate of the fair value of forward foreign exchange contracts is dependent on estimated forward prices, rates and volatility in those prices and discount rates.

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

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Business combinations and goodwill

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

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

Goodwill is measured at cost less accumulated impairment losses.

(ii) Subsidiaries and partnerships

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

(iii) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) The Canadian dollar is the presentation currency of the Company. Each of the Company's subsidiaries determines its functional currency, and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the Canadian operations is the Canadian dollar, the functional currency of the United States entities is the United States dollar and the functional currency of the Australian operations is the Australian dollar.

(ii) Assets and liabilities of foreign operations having a functional currency other than the Canadian dollar are translated at the rate of exchange prevailing at the reporting date, and revenues and expenses at average rates during the period. Gains or losses on translation are included as a component of shareholders' equity in accumulated other comprehensive income/loss.

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

(c) Financial instruments

(i) Non-derivative financial assets

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

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

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

The Company has the following non-derivative financial assets:

Financial instrument	Initial measurement	Subsequent measurement
Cash and cash equivalents	Amortized cost	Amortized cost
Accounts receivable	Amortized cost	Amortized cost
Deposits	Amortized cost	Amortized cost
Other assets	Fair value through profit or loss	Fair value through profit or loss

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

The Company initially recognizes trade and other receivables on the date that they originate. Impairment of trade and other receivables is recognized in selling, general and administration expenses when evidence of impairment arises. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss, or a portion of such is reversed. The amount of the impairment loss reversed may not exceed the original impairment amount. (see note 8).

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

(ii) Non-derivative financial liabilities

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

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

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

The Company has the following non-derivative financial liabilities:

Financial instrument	Initial measurement	Subsequent measurement
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Dividends payable	Amortized cost	Amortized cost
Finance leases	Amortized cost	Amortized cost
Long-term debt	Amortized cost	Amortized cost

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

(iii) Forward foreign exchange contracts

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

(iv) Share capital

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

The estimated useful lives are as follows:

	Useful life	Residual value	Basis of depreciation
Buildings	20 years	–	straight-line
Shop machinery and equipment	5 years	–	straight-line
Rental equipment	5 to 15 years	25% – 33%	straight-line
Light duty vehicles	3 years	–	straight-line
Heavy duty vehicles	7 years	25%	straight-line
Drilling rigs and related equipment	600 to 8,000 operating days	–	utilization (minimum annual deemed utilization of 96 days)
Service rigs and related equipment	3 to 12 years	–	straight-line
Other	3 to 5 years	–	straight-line

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

(e) Leased assets

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

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

(f) Inventory

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

(g) Impairment

(i) Financial assets (including receivables)

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

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

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

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

(ii) Non-financial assets

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

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

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

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

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

(h) Employee benefits

(i) Short-term employee benefits

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

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

(ii) Share-based payment transactions

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

(i) Revenue from contracts with customers

The Company enters into a variety of contracts and recognizes revenue when performance obligations have been fulfilled. The following describes the recognition of revenue for each of the Company's contracts, which is consistent with its reportable operating segments outlined in Note 6.

Contract Drilling

The Company enters into contract drilling contracts whereby it performs drilling services to its customers. Performance obligations for these contracts are satisfied on a billable day basis at the applicable daily rate, as specified in the contract.

Well Servicing

The Company enters into well servicing contracts to provide a variety of well completion, workover and maintenance and abandonment services. Performance obligations for these contracts are satisfied on an hourly basis at the applicable daily or hourly rate, as specified in the contract.

Rentals and Transportation

The Company enters into contracts with its customers to provide rental and transportation equipment used in the drilling, completion and production of oil and natural gas. Performance obligations for these contracts are satisfied on a daily basis at the applicable daily or hourly rate, as specified in the contract.

Compression and Process Services

The Company enters into contracts that involve the design, manufacture, installation, start-up and service of compression and process equipment. Performance obligations for these contracts are satisfied over time and are measured by reference to labour hours incurred to date as a proportion of total expected labour hours over the amount specified in the contract. Revenues and costs only begin to be recognized when the Company can reasonably measure its progress towards complete satisfaction of the contract. Any foreseeable losses on such projects are charged to operations when determined and work in progress is presented as part of accounts receivable. If payments received from a customer exceed the revenue recognized, the difference increases the deferred revenue balance. Parts and service performance obligations are satisfied at a point in time or over time at the monthly, daily, hourly or job rates specified in the contract.

In the course of its ordinary activities the Company undertakes certain transactions that do not generate revenue and are incidental to its main revenue generating activities. Such transactions are not intended or expected to result in a material increase in equity. The Company presents the results of such incidental transactions by netting any income with related expenses arising on the same transaction.

(j) Provisions

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

(k) Onerous contracts

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

(l) Lease payments

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

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

(m) Finance income and finance costs

Finance income is comprised of interest income on outstanding cash balances, dividends received, realized and unrealized gains on other assets and other interest income. Finance income is recognized as it accrues in net income or loss.

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

(n) Income tax

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

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

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

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

(o) Earnings per share

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

(p) Segment reporting

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

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

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

Standards adopted in the period

As at January 1, 2018 the Company adopted the following standards which had no material impact on the amounts recorded in these financial statements:

IFRS 15 – Revenue from contracts with customers

Effective January 1, 2018 the Company adopted IFRS 15, Revenue from Contracts with Customers using the cumulative-effect method of adoption.

The Company enters into a variety of contracts and recognizes revenue when performance obligations have been fulfilled. The following describes the recognition of revenue for each of the Company's contracts, which is consistent with its reportable operating segments outlined in Note 6.

Contract Drilling

The Company enters into contract drilling contracts whereby it performs drilling services to its customers. Performance obligations for these contracts are satisfied on a billable day basis at the applicable daily rate, as specified in the contract.

Well Servicing

The Company enters into well servicing contracts to provide a variety of well completion, workover and maintenance and abandonment services. Performance obligations for these contracts are satisfied on an hourly basis at the applicable daily or hourly rate, as specified in the contract.

(Tabular amounts in thousands of Canadian dollars)

Rentals and Transportation

The Company enters into contracts with its customers to provide rental and transportation equipment used in the drilling, completion and production of oil and natural gas. Performance obligations for these contracts are satisfied on a daily basis at the applicable daily or hourly rate, as specified in the contract.

Compression and Process Services

The Company enters into contracts that involve the design, manufacture, installation, start-up and service of compression and process equipment. Performance obligations for these contracts are satisfied over time and are measured by reference to labour hours incurred to date as a proportion of total expected labour hours over the amount specified in the contract. Revenues and costs only begin to be recognized when the Company can reasonably measure its progress towards complete satisfaction of the contract. Parts and service performance obligations are satisfied at a point in time or over time at the monthly, daily, hourly or job rates specified in the contract.

IFRS 9 Financial Instruments

Effective January 1, 2018 the Company adopted the amendments in IFRS 9, Financial Instruments, including the classification and measurement of financial assets and the expected loss impairment model. The amendments to IFRS 9 are effective for annual periods on or after January 1, 2018 and are applied retrospectively. The standard addresses classification and measurement of financial assets and replaces multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement.

The following table summarizes the changes to the Company's financial asset and liability classifications:

Financial instrument	IAS 39 category	IFRS 9 category
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Other assets	Fair value through profit or loss	Fair value through profit or loss

Accounting pronouncements not yet adopted

IFRS 16 Leases

IFRS 16, published on January 13, 2016, supersedes IAS 17 – Leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless a lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 applies to reporting periods beginning on or after January 1, 2019.

The Company plans to apply IFRS 16 effective January 1, 2019 using the modified retrospective method. Under this method, financial information will not be restated and will continue to be reported under the accounting standards in effect for those periods. The Company will recognize lease obligations related to its lease commitments for office, vehicles and shop leases. They will be measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at January 1, 2019. The associated right of use asset will be measured at the lease obligation amount, resulting in no adjustment to the opening balance of retained earnings. The Company intends to apply the following practical expedients permitted under the new standard:

(i) leases of low dollar value will continue to be expensed as incurred; and

(ii) the Company will not apply any grandfathering practical expedients.

As at January 1, 2019 the Company expects to recognize approximately $12.3 million in right-of-use assets and $12.3 million of incremental lease obligations.

International Financial Reporting Interpretation Committee's Interpretation 23 – "Uncertainty over Income Tax Treatments" ("IFRIC 23")

IFRIC 23 clarifies the accounting for uncertainties in income taxes. The interpretation requires the entity to use the most likely amount or the expected value of the tax treatment if it concludes that it is not probable that a particular tax treatment will be accepted. It requires an entity to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so.

IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do so without using hindsight. Management does not expect the adoption of IFRIC 23 will have a material impact on the Company's consolidated financial statements.

4. Determination of fair values

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

Financial assets and liabilities recorded or disclosed at fair value in the consolidated statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels are based on the amount of subjectivity associated with the inputs in the fair value determination and are as follows:

Level I – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II – Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level III – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

(a) Property, plant and equipment

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

(b) Inventories

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

(c) Accounts receivable

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

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

(d) Other assets

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

(e) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(f) Share-based payment transactions

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

5. 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

(Tabular amounts in thousands of Canadian dollars)

Savanna. All of the directors of Savanna, except one, resigned as directors of Savanna and seven new directors were 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 of Savanna 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 $30.5 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.

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.

(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 shares issued	Cash paid	Total consideration
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 December 31, 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.

$6.0 million of costs related to the acquisition and integration of Savanna have been charged to selling, general and administration expenses in the consolidated financial statements for the year ended December 31, 2017. In addition, $0.7 million of costs relating to such acquisition were recorded during the three-month period ended December 31, 2016.

Savanna contributed $257.7 million to consolidated revenues and $24.9 million to consolidated net loss from the Effective Acquisition Date to December 31, 2017.

Had the acquisition occurred on January 1, 2017, Savanna would have contributed $365.2 million to consolidated revenues and $30.1 million to consolidated net losses.

(Tabular amounts in thousands of Canadian dollars)

6. Operating segments

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.

As at and for the year ended December 31, 2018	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate (2)	Total
Revenue	$ 204,184	$ 76,615	$ 420,664	$ 150,346	$ –	$ 851,809
Cost of services	164,571	47,514	361,217	107,752	–	681,054
Selling, general and administration	8,261	14,135	12,876	4,441	16,588	56,301
Share-based compensation	–	–	–	–	2,396	2,396
Depreciation	32,241	17,969	6,044	19,166	80	75,500
Operating income (loss)	(889)	(3,003)	40,527	18,987	(19,064)	36,558
Gain on sale of property, plant and equipment	433	466	564	1,020	125	2,608
Finance costs	(87)	(96)	(46)	(113)	(13,436)	(13,778)
Net income (loss) before income taxes	(543)	(2,633)	41,045	19,894	(32,375)	25,388
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	435,247	241,837	245,226	134,921	20,893	1,078,124
Total liabilities	58,051	37,997	111,259	4,929	305,132	517,368
Capital expenditures	14,221	11,234	11,445	3,723	7	40,630

As at and for the year ended December 31, 2017	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate (2)	Total
Revenue	$ 158,051	$ 68,867	$ 266,376	$ 111,368	$ –	$ 604,662
Cost of services	132,959	42,790	229,717	78,923	–	484,389
Selling, general and administration	8,106	12,676	8,614	4,117	14,987	48,500
Share-based compensation	–	–	–	–	1,787	1,787
Depreciation	25,844	18,059	7,384	15,378	116	66,781
Operating income (loss)	(8,858)	(4,658)	20,661	12,950	(16,890)	3,205
Gain on sale of property, plant and equipment	339	756	107	371	45	1,618
Finance costs	(358)	(697)	(381)	–	(12,762)	(14,198)
Net income (loss) before income taxes	(8,877)	(4,599)	20,387	13,321	(29,607)	(9,375)
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	460,712	239,876	201,392	142,574	22,227	1,066,781
Total liabilities	59,570	44,934	77,588	3,305	334,810	520,207
Capital expenditures (1)	9,881	9,606	6,792	1,076	39	27,394

(1) Does not include the acquisition of Savanna described in note 5.

(2) Corporate includes the Company's corporate activities and obligations pursuant to long-term credit facilities.

(Tabular amounts in thousands of Canadian dollars)

Year ended December 31, 2018	**Canada**	**United States**	**Australia**	**Other**	**Total**
Revenue	**$ 423,796**	**$ 255,825**	**$ 172,105**	**$ 83**	**$ 851,809**
Non-current assets (1)	**524,756**	**167,760**	**80,150**	**–**	**772,666**

Year ended December 31, 2017	Canada	United States	Australia	Other	Total
Revenue	$ 332,644	$ 164,895	$ 107,079	$ 44	$ 604,662
Non-current assets (1)	550,143	147,289	100,085	–	797,517

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

7. Cash and cash equivalents

Cash and cash equivalents represent cash in bank.

8. Accounts receivable

	December 31, 2018	December 31, 2017
Trade receivables, net of allowance for doubtful accounts	**$ 118,420**	$ 114,941
Accrued and other receivables	**37,526**	36,049
	$ 155,946	$ 150,990

The Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 24. Included in accrued and other receivables is $26.5 million (2017: $24.0 million) of amounts pertaining to contracts in progress as at December 31, 2018.

9. Inventory

	December 31, 2018	December 31, 2017
Finished goods	**$ 1,005**	$ 2,497
Work-in-progress	**38,795**	19,283
Parts and raw materials	**44,943**	46,486
	$ 84,743	$ 68,266

For the year ended December 31, 2018, finished goods, work-in-progress and parts and raw materials of $335.5 million (December 31, 2017: $201.1 million) are included in cost of services (note 20).

(Tabular amounts in thousands of Canadian dollars)

10. Property, plant and equipment

	Land and buildings	Rental equipment	Automotive equipment	Leased assets	Shop machinery and equipment	Drilling rigs and related equipment	Service rigs and related equipment	Furniture, fixtures and other	Total
Cost									
As at December 31, 2016	$ 69,005	$ 285,071	$ 63,609	$ 8,374	$ 14,948	$ 153,171	$ –	$ 7,637	$ 601,815
Acquisition	48,283	6,120	1,281	–	–	295,053	113,460	–	464,197
Additions	1,346	10,365	1,158	2,322	3,228	9,871	1,076	350	29,716
Disposals	–	(1,890)	(5,753)	(775)	–	–	(1,546)	–	(9,964)
Effect of changes in foreign exchange rates	(282)	(604)	(170)	–	(114)	(9,090)	(3,125)	(92)	(13,477)
As at December 31, 2017	118,352	299,062	60,125	9,921	18,062	449,005	109,865	7,895	1,072,287
Additions	**1,895**	**14,264**	**3,689**	**4,257**	**3,610**	**13,789**	**2,916**	**467**	**44,887**
Disposals	**(1,406)**	**(1,206)**	**(9,049)**	**(1,698)**	**(34)**	**(1,660)**	**(1,610)**	**–**	**(16,663)**
Effect of changes in foreign exchange rates	**454**	**1,653**	**222**	**54**	**362**	**10,031**	**(579)**	**128**	**12,325**
As at December 31, 2018	**119,295**	**313,773**	**54,987**	**12,534**	**22,000**	**471,165**	**110,592**	**8,490**	**1,112,836**
Accumulated Depreciation									
As at December 31, 2016	14,105	96,748	37,139	5,639	11,366	47,136	–	6,185	218,318
Depreciation expense	4,063	14,345	5,064	1,766	1,734	24,995	14,553	261	66,781
Disposals	–	(522)	(4,453)	(663)	–	–	(69)	–	(5,707)
Effect of changes in foreign exchange rates	(5)	(70)	(48)	–	(19)	(258)	(142)	(27)	(570)
As at December 31, 2017	18,163	110,501	37,702	6,742	13,081	71,873	14,342	6,419	278,823
Depreciation expense	**4,757**	**13,431**	**4,385**	**1,880**	**1,237**	**31,465**	**18,046**	**299**	**75,500**
Disposals	**(913)**	**(635)**	**(6,824)**	**(1,510)**	**(34)**	**(685)**	**(1,082)**	**–**	**(11,683)**
Effect of changes in foreign exchange rates	**34**	**80**	**81**	**5**	**61**	**1,245**	**37**	**40**	**1,583**
As at December 31, 2018	**22,041**	**123,377**	**35,344**	**7,117**	**14,345**	**103,898**	**31,343**	**6,758**	**344,223**
Net Book Value									
As at December 31, 2016	54,900	188,323	26,470	2,735	3,582	106,035	–	1,452	383,497
As at December 31, 2017	100,189	188,561	22,423	3,179	4,981	377,132	95,523	1,476	793,464
As at December 31, 2018	**$ 97,254**	**$ 190,396**	**$ 19,643**	**$ 5,417**	**$ 7,655**	**$ 367,267**	**$ 79,249**	**$ 1,732**	**$ 768,613**

As at December 31, 2018, there was $3.7 million (December 31, 2017: $2.4 million) of property plant and equipment under construction. The Company has not capitalized any borrowing costs as there were no borrowing costs directly attributable to the acquisition and construction of property, plant and equipment.

The Company reviews the current value of property, plant and equipment at each reporting period for indicators of impairment. Based on a modestly improved industry environment during the course of 2018 and the resultant increase in industry activity levels, no indications of impairment were identified during the period ended December 31, 2018.

(Tabular amounts in thousands of Canadian dollars)

11. Other assets

Other assets consist primarily of marketable securities of publicly traded entities (level 1 of fair value through profit or loss hierarchy with values based on quoted prices). Other assets are designated as financial assets measured at fair value through profit or loss, with changes in fair value recorded in the statement of comprehensive loss as finance income or finance cost. During the year ended December 31, 2018, the Company recorded an unrealized gain of $3.9 million (2017: $0.3 million) resulting from changes in the market value of other assets and $4.2 million of realized loss on the sale of other assets (2017: $0.6 million). These amounts were included in finance costs.

12. Goodwill

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

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

	December 31, 2018	December 31, 2017
Rentals and Transportation Services	**$ 2,514**	$ 2,514
Compression and Process Services	**1,539**	1,539
	$ 4,053	$ 4,053

The recoverable amount of the cash-generating units was based on its value in use. As the carrying amount of the unit was determined to be lower than its recoverable amount no impairment was recorded (2017: nil).

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit.

Unless indicated otherwise, value in use in 2018 was determined similarly as in 2017. The calculation of the value in use was based on the following key assumptions.

- Cash flows were projected based on past experience, actual operating results, current market conditions and a 15-year horizon in both 2018 and 2017.
- An after-tax discount rate of 9.6% (2017: 8.8%) was applied in determining the recoverable amount of the unit.
- The expectation is that activity levels stabilized in 2017, began a modest recovery in 2018 and will continue to gradually recover through to 2021.

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

13. Accounts payable and accrued liabilities

	December 31, 2018	December 31, 2017
Trade payables	**$ 70,247**	$ 51,934
Wages and salaries payables and related accruals	**19,743**	17,306
Accrued costs and other payables	**35,731**	38,724
Current portion of onerous lease liabilities	**887**	457
	$ 126,608	$ 108,421

Included in accrued costs and other payables is $4.6 million (2017: $5.6 million) relating to contracts in progress as at December 31, 2018.

(Tabular amounts in thousands of Canadian dollars)

Onerous lease liabilities relate to provisions for office 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. The total onerous lease liability was $2.5 million as at December 31, 2018 (2017: $3.2 million). Of the total liability, $0.9 million is included in accounts payable and accrued liabilities (2017: $0.5 million).

14. Long-term debt

At December 31, 2018 the Company's long-term debt consisted of the following:

	December 31, 2018		December 31, 2017	
	Interest rate	**Principal Amount**	Interest rate	Principal amount
Credit Facility	**4.36%**	**$ 227,000**	3.65%	$ 196,000
Senior unsecured notes	**–**	**–**	7.00%	67,531
Mortgage loan (2020 maturity)	**3.06%**	**42,965**	3.06%	44,962
Mortgage loan (2041 maturity)	**4.55%**	**15,638**	5.25%	16,375
Limited partnership credit facility	**5.50%**	**172**	5.45%	2,830
		285,775		327,698
Less current portion		**2,912**		72,058
		$ 282,863		$ 255,640

At December 31, 2018 amounts owing under the Credit Facility were denominated in Canadian dollars.

On June 19, 2017 the Company entered into a three year $225 million revolving syndicated credit facility (the "Credit Facility"). On April 25, 2018 the Credit Facility was increased by $65 million to $290 million and the maturity date extended to June 19, 2021. The Company has 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 $18.0 million operating line, an Australian $2.0 million operating line and a Canadian $270.0 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 December 31, 2018, the applicable interest rate on amounts drawn on the Credit Facility was 4.36% and the standby rate was 0.44%.

In August of 2018 a U.S. $20 million letter of credit facility was established (the "LOC Facility"). Letters of credit ("LOC") issued pursuant to the LOC Facility do not reduce availability under the Credit Facility. At December 31, 2018 $4.5 million Canadian dollars of LOCs were outstanding under the LOC Facility and $0.3 million of LOCs were outstanding under the Credit Facility (2017: $4.9 million under the Credit Facility).

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:

	December 31 2018	Threshold
Twelve-month trailing Bank EBITDA to interest expense	**6.79**	minimum 3.00
Total Senior Debt to twelve-month trailing Bank EBITDA	**1.95**	maximum 3.00

(Tabular amounts in thousands of Canadian dollars)

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 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.

In addition to the Credit Facility, a subsidiary of the Company has established a $5.0 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At December 31, 2018 this facility was undrawn and fully available.

On May 25, 2018 the Company repaid $67.5 million principal amount of 7.0% senior unsecured notes issued by a subsidiary together with $2.3 million of accrued interest thereon. Such repayment was funded by a $50.0 million draw on the Credit Facility and $19.8 million of cash on hand.

Mortgage Loan (2020 maturity) is a loan maturing on April 29, 2020 that is amortized over 20 years with blended monthly principal and interest payments of approximately $278,800. At maturity, approximately $40.2 million of principal will become due and payable assuming only regular monthly payments are made. This loan bears interest at a fixed rate of 3.06% and is secured by certain of the Company`s real estate.

Mortgage Loan (2041 maturity) is a loan maturing on December 31, 2041 and bears interest at a floating rate that was 4.50% at December 31, 2018. This loan is secured by certain of the Company's real estate.

Limited partnership credit facility is a loan to an aboriginal partnership that is secured by a general assignment of book debts and a general security agreement charging all present and after-acquired property of the partnership. On September 6, 2018 the Company repaid $1.2 million principal amount owing under a second aboriginal limited partnership credit facility. Such repayment was funded by cash on hand and the credit facility was extinguished.

At December 31, 2018 the Company was in compliance with all debt covenants.

15. Finance lease liabilities

	December 31, 2018	December 31, 2017
Finance lease liability	**$ 5,832**	$ 3,800
Less current portion	**2,376**	1,595
Long-term finance lease liability, end of year	**$ 3,456**	$ 2,205

The Company has entered into various agreements with third parties for the purpose of financing certain automotive equipment. The leases bear interest at rates ranging from 2.49% to 4.88% (December 31, 2017: 2.75% to 4.39%) and mature on various dates up to 2023.

(Tabular amounts in thousands of Canadian dollars)

In 2018, interest of $0.3 million (December 31, 2017 – $0.1 million) relating to finance lease obligations has been included in finance costs.

	Minimum lease payments		Present value of minimum lease payments	
	December 31, 2018	December 31, 2017	**December 31, 2018**	December 31, 2017
Not later than one year	**$ 2,698**	$ 1,689	**$ 2,376**	$ 1,595
Later than one year and not later than five years	**4,429**	2,278	**3,456**	2,205
Later than 5 years	**–**	–	**–**	–
	7,127	3,967	**5,832**	3,800
Less: future finance charges	**(1,295)**	(167)	**–**	–
Present value of minimum lease payments	**$ 5,832**	$ 3,800	**$ 5,832**	$ 3,800

16. Deferred income tax assets and (liabilities)

The components of the net deferred income tax liability at December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Deferred income tax assets:		
Non-capital losses	**$ 26,735**	$ 34,628
Unrealized foreign exchange on capital items	**374**	1,039
Long-term leave provision	**2,283**	–
Other assets	**–**	643
Deferred income tax liabilities:		
Property, plant and equipment	**(84,241)**	(88,320)
Unrealized foreign exchange on working capital balances	**(1,229)**	
Other	**(156)**	(316)
	$ (56,234)	$ (52,326)
Deferred income tax assets, net	**1,457**	829
Deferred income tax liabilities, net	**(57,691)**	(53,155)
Net deferred income tax liabilities	**$ (56,234)**	$ (52,326)

By Country:

	December 31, 2018	December 31,2017
Deferred income tax assets:		
Australia	**$ 1,457**	$ 829
Deferred income tax liabilities:		
Canada	**$ (55,284)**	$ (44,625)
United States	**(2,407)**	(8,530)
Net deferred income tax liabilities	**$ (56,234)**	$ (52,326)

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

(Tabular amounts in thousands of Canadian dollars)

At December 31, 2018, the Company had $29.7 million (2017: $30.5 million) of unrecognized tax benefits relating to non-capital losses that, if recognized, would have a favorable impact on Company's effective income tax rate in the future periods.

At December 31, 2018 the Company's non-capital losses available to carry forward totaling $208.9 million (2017: $240.6 million), of which $126.8 million relate to Canadian entities (2017: $188.7 million), $81.8 million relate to United States entities (2017: $51.9 million) and $0.4 million to Australian entities (2017: $nil). The unused tax losses, which begin to expire in 2029, may be applied to reduce future taxable income and future income taxes payable.

Movement in temporary differences during the period:

	Dec 31, 2016	Recognized in net income	Deferred taxes on acquisition	Recognized in OCI	Dec 31, 2017	**Recognized in net income**	**Recognized in OCI**	**Dec 31, 2018**
Deferred income tax assets:								
Partnership loss deferral	$ 4,534	$ (4,534)	$ –	$ –	$ –	**$ –**	**$ –**	**$ –**
Non-capital losses	966	9,662	24,000	–	34,628	**(7,893)**	**–**	**26,735**
Unrealized foreign exchange	–	–		1,039	1,039	**–**	**(665)**	**374**
Long-term leave provision	–	–	–	–	–	**2,283**	**–**	**2,283**
Other assets	676	(33)	–	–	643	**(643)**	**–**	**–**
Deferred income tax liabilities:								
Property, plant and equipment	(61,430)	(2,890)	(24,000)	–	(88,320)	**4,079**	**–**	**(84,241)**
Unrealized foreign exchange on intercompany working capital balances	–	–	–	–	–	**(1,229)**	**–**	**(1,229)**
Other	(277)	(39)	–	–	(316)	**160**	**–**	**(156)**
	$ (55,531)	$ 2,166	$ –	$ 1,039	$ (52,326)	**$ (3,243)**	**$ (665)**	**$ (56,234)**

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

	2018	2017
Net income (loss) before income taxes	**$ 25,388**	$ (9,375)
Income tax rate	**27%**	27%
Expected income tax expense (recovery)	**$ 6,855**	$ (2,531)
Changes in taxes resulting from:		
Change in tax rates	**474**	(3,225)
Non-taxable items	**(1,530)**	483
Change in tax treatment of deferred charges	**(1,431)**	–
Other	**(3,195)**	(399)
Total income tax expense (recovery)	**$ 1,173**	$ (5,672)

(Tabular amounts in thousands of Canadian dollars)

17. Share capital

(a) Common share capital

Common shares of Total Energy Services Inc.

(i) *Authorized:*

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

(ii) *Common shares issued:*

	Number of shares (thousands)	Amount
Balance, December 31, 2016	30,920	$ 88,654
Issued on acquisition (note 5)	7,924	104,544
Issued on subsequent acquisition transactions (note 5)	7,228	95,220
Issued on exercise of stock options	166	2,899
Balance, December 31, 2017	46,238	$ 291,317
Redeemed pursuant to acquisition sunset clause	(7)	–
Repurchased and cancelled	(371)	(2,337)
Repurchased not cancelled	–	(78)
Balance, December 31, 2018	**45,860**	**$ 288,902**

During the year ended December 31, 2018 379,536 common shares were repurchased under the Company's normal course issuer bid at an average price of $11.04 per share including commissions (year ended December 31, 2017: nil), of which 370,936 shares were cancelled and 8,600 shares were cancelled subsequent to the year end.

(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:

	Year ended December 31, 2018	Year ended December 31, 2017
Net income (loss) for the year attributable to shareholders	**$ 24,458**	$ (1,916)
Weighted average number of shares outstanding – basic	**46,122**	41,963
Income (loss) per share – basic	**$ 0.53**	$ (0.05)
Income (loss) for the year attributable to shareholders	**$ 24,458**	$ (1,916)
Weighted average number of shares outstanding – diluted	**46,122**	41,963
Income (loss) per share – diluted	**$ 0.53**	$ (0.05)

For the year ended December 31, 2018, 3,170,000 options (December 31, 2017: 2,825,000) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding. During 2018, the Company declared dividends of $11.0 million (2017: $10.7 million) or $0.24 (2017: $0.24) per common share.

18. Share-based compensation plan

On May 21, 2015 the Company implemented a share option plan which was drafted to comply with the policies of the TSX. Under the plan, options to acquire common shares of the Company may be granted to officers and employees of the Company. The terms of the plan (the "TSX Plan") are outlined below.

(Tabular amounts in thousands of Canadian dollars)

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

Share option transactions during 2018 and 2017 were as follows:

	Weighted average exercise price	Number of Options
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, December 31, 2017	$ 13.55	2,885,000
Granted	13.42	675,000
Forfeited	12.96	(260,000)
Expired	14.96	(130,000)
Balance, December 31, 2018	**$ 13.47**	**3,170,000**

The share options issued 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 July 29, 2020 to May 11, 2023.

No options were exercised during 2018 (2017: 166,600). The weighted average market price at the time of exercise of options in 2017 was $13.94 per share.

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

Outstanding at December 31, 2018	**Exercise Price**	**Remaining life (years)**	**Exercisable at December 31, 2018**
1,180,000	**14.13**	**1.60**	**1,180,000**
1,255,000	**12.96**	**3.50**	**418,337**
60,000	**12.00**	**3.60**	**20,000**
525,000	**13.54**	**4.20**	**–**
150,000	**12.99**	**4.40**	**–**
3,170,000	**13.47**	**2.95**	**1,618,337**

Outstanding at December 31, 2017	Exercise Price	Remaining life (years)	Exercisable at December 31, 2017
76,666	14.96	0.10	76,666
53,334	14.72	0.40	53,334
1,290,000	14.13	2.60	859,994
1,405,000	12.96	4.50	–
60,000	12.00	4.60	–
2,885,000	13.55	3.46	989,994

(Tabular amounts in thousands of Canadian dollars)

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value of the share options granted. The average per share fair value of the options granted during 2018 was $2.46 (2017: $2.36) per option using the following assumptions:

	December 31, 2018	December 31, 2017
Expected volatility	**25.88% – 27.88%**	26.05% – 29.14%
Annual dividend yield	**1.77% – 1.85%**	1.85% – 2.00%
Risk free interest rate	**1.93% – 2.17%**	0.96% – 1.43%
Forfeitures	**9%**	5%
Expected life (years)	**3 to 5 years**	3 to 5 years

For the year ended December 31, 2018 the Company recognized share-based compensation expense of $2.4 million (2017 – $1.8 million).

19. Revenue

	2018	2017
Rendering of services	**$ 486,838**	$ 402,278
Sale of goods	**364,971**	202,384
	$ 851,809	$ 604,662

20. Cost of services

	2018	2017
Inventory	**$ 335,529**	$ 201,073
Wages and salaries	**228,187**	169,848
Repair and maintenance	**80,905**	70,935
Fuel and travel	**23,084**	23,573
Rent and services	**6,733**	4,818
Other	**6,616**	14,142
	$ 681,054	$ 484,389

21. Selling, general and administration

	2018	2017
Wages and salaries	**$ 35,411**	$ 29,034
Professional and legal	**5,126**	9,708
Marketing and risk management	**5,024**	2,180
Rent	**5,012**	3,416
Travel and fuel	**2,058**	1,577
Other	**3,670**	2,585
	$ 56,301	$ 48,500

(Tabular amounts in thousands of Canadian dollars)

22. Employee benefits

	2018	2017
Cost of services	$ 228,187	$ 169,848
Selling, general and administration	35,411	29,034
Share-based compensation	2,396	1,787
	$ 265,994	$ 200,669

23. Finance costs

	2018	2017
Interest on long-term debt	$ 13,720	$ 13,892
Interest on finance lease obligations	313	82
Other interest	(255)	224
	$ 13,778	$ 14,198

24. Financial risk management and financial instruments overview

Capital management

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying businesses. The Company seeks to maintain an appropriate balance between the level of long-term debt and shareholders' equity to ensure access to the capital markets to fund growth and working capital having regard to the cyclical nature of the energy services industry. Historically the Company has maintained a conservative ratio of long-term debt to long-term debt plus equity. As at December 31, 2018 and 2017 these ratios were as follows:

	December 31, 2018	December 31, 2017
Long-term debt (including current portion)	$ 285,775	$ 327,698
Shareholders' equity	560,576	546,574
Total capitalization	$ 846,351	$ 874,272
Long-term debt to long-term debt plus equity ratio	0.34	0.37

As at December 31, 2018, the Company was subject to externally imposed minimum capital requirements relating to the Credit Facility and Mortgage loans (2020 and 2041 maturities) as described in note 14. The Company monitored these requirements to ensure compliance with them. As at December 31, 2018 and 2017 the Company was in compliance with all external minimum capital requirements.

Financial instruments

The Company's financial instruments as at December 31, 2018 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 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 (loss) in the period the changes in fair value occur. The discounted future cash repayments of the Company`s 2020 Mortgage loan are calculated using prevailing market rates of a similar debt instrument as at the reporting date. The net present value of future cash repayments of the 2020 Mortgage loan and related interest at the prevailing market rate of 4.05% for a similar debt instrument at December 31, 2018 was $42.4 million (December 31, 2017: market rate of 4.04%, $44.0 million). The carrying value and Company`s liability with respect to the 2020 Mortgage loan is $43.0 million.

(Tabular amounts in thousands of Canadian dollars)

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

- Credit risk
- Liquidity risk
- Market risk

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

Credit risk

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

The vast majority of the Company's trade accounts receivable are customers involved in the oil and gas industry, and the ultimate collection of the accounts receivable is dependent on both industry related factors and customer specific factors. Industry related factors that may affect collection include commodity prices and access to capital. Customer specific factors that may affect collection include realized commodity prices, the success of drilling programs, well reservoir decline rates and access to capital. The Company continuously monitors the recoverability of accounts receivable balances and subject to agreed payment terms, generally considers the balance to be overdue when it ages over 90 days. As at December 31, 2018, $6.4 million, or 4% of accounts receivable (2017: $10.0 million or 6%) were more than 90 days overdue, which includes $2.5 million of doubtful accounts for which a provision has been recognized (December 31, 2017: $3.8 million).

The ageing of accounts receivable is in the range of expectations given current market conditions.

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

	Allowance for doubtful accounts
Balance at December 31, 2016	$ 2,304
Provisions and revisions	1,516
Balance at December 31, 2017	$ 3,820
Provisions and revisions	(1,352)
Balance at December 31, 2018	**$ 2,468**

The Company does not have significant exposure to any individual customer or counter party, other than two major oil and gas companies that each accounted for over 10% of revenue during the year ended December 31, 2018. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry as a whole.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, to the extent reasonably possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable costs or losses or risking harm to the Company's reputation. As at December 31, 2018, the Company maintained credit facilities which were available to a maximum of $295 million, mortgage debt of $58.6 million and limited partnership credit facilities of $0.2 million (December 31, 2017, the Company maintained credit facilities which were available to a maximum of $230 million, senior unsecured notes of $67.5 million, mortgage debt of $61.3 million and limited partnership credit facilities of $2.8 million) to ensure the Company has sufficient working capital to operate its business.

(Tabular amounts in thousands of Canadian dollars)

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

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

As at December 31, 2018	No later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Accounts payable and accrued liabilities (note 13)	$ 125,721	$ –	$ –	$ 125,721
Dividends payable	2,752	–	–	2,752
Long-term debt (note 14)	14,756	287,890	16,995	319,641
Finance leases (note 15)	2,698	4,429	–	7,127
Onerous lease contracts (note 13)	887	2,031	–	2,918
Total	$ 146,814	$ 294,350	$ 16,995	$ 458,159

As at December 31, 2017	No later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Accounts payable and accrued liabilities (note 13)	$ 107,964	$ –	$ –	$ 107,964
Dividends payable	2,774	–	–	2,774
Long-term debt (note 14)	83,338	257,560	19,082	359,980
Finance leases (note 15)	1,689	2,278	–	3,967
Onerous lease contracts (note 13)	457	2,415	319	3,191
Total	$ 196,222	$ 262,253	$ 19,401	$ 477,876

Market risk

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

- Foreign currency exchange rate risk

Transaction exposure

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company's sales in its Canadian operations are predominantly denominated in Canadian dollars, which is the functional currency of Canadian operations, and as such the Company does not have significant exposure to foreign currency exchange rate risk. Where sales are denominated in a currency other than Canadian dollars, the Company may enter into forward currency contracts to mitigate its exposure to exchange rate fluctuations from the date of sale until the date of receipt of funds. The Company estimates that in its Canadian operations approximately 30% of its cost of services in 2018 were purchased using a foreign currency. Where foreign currency denominated purchases are made, it is the Company's practice to pay invoiced amounts within 15 days of receipt of invoice to reduce the Company`s exposure to foreign exchange risk. In addition, from time to time the Company purchases funds in the foreign currency to which the order is denominated to mitigate against foreign exchange rate changes from the date of ordering to when payment is made. Pricing to customers is also customarily adjusted to reflect changes in the Canadian dollar landed cost of imported goods. For the year ended December 31, 2018 the net amount of foreign exchange loss related to transaction exposure recorded in net income was $1.5 million (2017: foreign exchange gains of $1.0 million).

(Tabular amounts in thousands of Canadian dollars)

Translation exposure

The Company is exposed to foreign currency fluctuations as revenues, expenses and working capital derived from its foreign operations are denominated in United States dollars and Australian dollars. In addition, the Company's foreign subsidiaries are subject to translation gains and losses on consolidation. Realized foreign exchange gains and losses are included in net income (loss) while foreign exchange gains and losses arising on the translation of the assets, liabilities, revenues and expenses of the Company's foreign operations are included in other comprehensive income (loss).

The Company's sensitivity to foreign currency fluctuations is as follows: all else being equal, a hypothetical strengthening of 5% of each of the United States dollar and Australian dollar against the Canadian dollar would have increased (decreased) net income (loss) before income taxes and other comprehensive income (loss) as follows:

For the year ended December 31, 2018	United States Dollar	Australian Dollar	Total
Net income (loss) before income taxes	$ (554)	$ 619	$ 65
Other comprehensive income (loss)	8,545	5,277	13,822
	$ 7,991	**$ 5,896**	**$ 13,887**

For the year ended December 31, 2017	United States Dollar	Australian Dollar	Total
Net income (loss) before income taxes	$ (82)	$ 451	$ 369
Other comprehensive income (loss)	8,759	1,472	10,231
	$ 8,677	$ 1,923	$ 10,600

For a hypothetical 5% weakening of each of the United States dollar and Australian dollar against the Canadian dollar, there would be an equal and opposite effect on net income (loss) before income taxes and other comprehensive income (loss) to that presented above.

- Forward foreign exchange contracts

The notional principal amount of forward foreign exchange contracts outstanding as at December 31, 2018 was US$23.6 million (December 31, 2017: US$14.7 million). These contracts are short term in nature. The fair value of the forward foreign exchange contracts was determined using quoted forward rates for the identical contracts at December 31, 2018 (level 2 of fair value hierarchy with values based on quoted prices). The forward market exchange rate used to fair value these outstanding contracts as at December 31, 2018 was $1.36 Canadian dollar per United States dollar (December 31, 2017: $1.25 Canadian dollar per United States dollar). For the year ended December 31, 2018 the mark to market loss on foreign exchange contracts was $1.8 million (2017: $1.0 million gain) and is included in net income.

- Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on borrowings under existing and available credit facilities which utilize a combination of short term fixed rates through the use of 30 to 90 day Banker's Acceptance and floating rates. For the year ended December 31, 2018, if interest rates had been 1% lower with all other variables held constant, after tax net earnings for the period would have been approximately $1.7 million higher (December 31, 2017 – $0.8 million). An equal and opposite impact would have occurred to net earnings had interest rates been 1% higher. The sensitivity in 2018 is higher as compared to 2017 due primarily to an increase in the Company's variable interest rate debt.

The Company had no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2018.

The Company's 2020 Mortgage loan bears fixed interest rate and thus is not exposed to interest rate risk.

(Tabular amounts in thousands of Canadian dollars)

25. Commitments

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

	December 31, 2018	December 31, 2017
Less than one year	$ 4,735	$ 4,465
Between one and five years	8,470	11,412
More than five years	1,948	–
	$ 15,153	$ 15,877

The Company also has purchase obligations of $63.1 million as at December 31, 2018 (December 31, 2017: $57.0 million) relating to commitments to purchase inventory.

26. Contingencies

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

The Company has received both legal and tax advice relating to its conversion from an income trust to a corporation indicating that its income tax filing position is strong. As such, the Company has filed notices of objection in response to the Reassessment and intends to vigorously defend its filing position and seek reimbursement from the CRA for the costs arising from having to defend such Reassessment to the fullest extent possible. Management believes that it will be successful in defending its tax filing position, and as such, the Company has not recognized any provision for the Reassessment at December 31, 2018. 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 $15.2 million of cash may be owing and $22.2 million of income tax expense would be recognized.

In April of 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.

In November of 2017 the Company received a Statement of Claim filed in the Alberta Court of Queen's Bench by Her Majesty the Queen in Right of Alberta, by its agent, Alberta Investment Management Corporation ("AIMCo") against the Company and Savanna. AIMCo's claim primarily relates to Savanna's refusal to pay a $6 million change of control penalty (the "Additional Penalty") to AIMCo. The Company and Savanna have received legal advice that AIMCo's claim for the Additional Penalty is not enforceable and have filed a statement of defense. Savanna has also filed a third party claim against its former directors that seeks indemnity in the event that AIMCo is successful in its claim against Savanna.

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

(Tabular amounts in thousands of Canadian dollars)

27. Related parties

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

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

Key management personnel compensation is comprised of:

	December 31, 2018	December 31, 2017
Short-term employee benefits	$ 5,884	$ 6,436
Share-based compensation (1)	2,396	1,661
	$ 8,280	$ 8,097

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

At December 31, 2018 directors and officers of the Company own or control 5.6 percent of the voting shares of the Company (2017: 5.3 percent).

There have been no transactions over the reporting period with key management personnel (2017: nil), and no outstanding balances exist as at period end (2017: nil).

28. Subsidiaries

Significant subsidiaries and partnerships

	Country of Incorporation	Ownership Interest, % 2018	Ownership Interest, % 2017
Total Oilfield Rentals Ltd.	Canada	100	100
Bidell Gas Compression Ltd.	Canada	100	100
Spectrum Process Systems Inc.	Canada	100	100
TES Investments Ltd.	Canada	100	100
TES Services Inc.	United States	100	100
Total Oilfield Rentals Inc.	United States	100	100
Bidell Gas Compression Inc.	United States	100	100
TES Land Inc.	United States	100	100
Total Energy Services Australia Pty Ltd.	Australia	100	100
Savanna Energy Services Corp.	Canada	100	100
Savanna Energy Services (U.S.A.) Corp.	United States	100	100
Savanna Energy Services Pty Ltd.	Australia	100	100
Savanna Well Servicing Inc.	Canada	100	100
Savanna Well Servicing Corp.	United States	100	100
Savanna Drilling Corp.	Canada	100	100
Savanna Drilling LLC	United States	100	100
Fort McKay – Savanna Energy Services Limited Partnership	Canada	100	49
Savanna Energy Services Partnership #1	Canada	100	50
Savanna Energy Services Partnership #5	Canada	50	50
Savanna Energy Services Partnership #6	Canada	50	50
Savanna Energy Services Partnership #7	Canada	50	50
Savanna Energy Services Partnership #9	Canada	50	50
Savanna Energy Services Partnership #10	Canada	50	50

CORPORATE INFORMATION

BOARD OF DIRECTORS

Bruce Pachkowski [2, 3]
Chairman of the Board

Daniel Halyk
President and Chief Executive Officer

George Chow [1]

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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AUDITOR

KPMG LLP

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

Brooks • Calgary • Carlyle • Clairmont • Dawson Creek • Drayton Valley • Drumheller • Edson • Fort Nelson
Fort St. John • Fox Creek • Grande Prairie • High Level • Lac La Biche • Leduc • Lloydminster • Medicine Hat
Red Deer • Red Earth • Rocky Mountain House • Slave Lake • Swift Current • Weyburn/Midale • Whitecourt

U.S. LOCATIONS

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

AUSTRALIAN LOCATIONS

Toowoomba, QLD