

# 2016



## FOCUS DISCIPLINE GROWTH

Annual Report 2016

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

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

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## REPORT TO SHAREHOLDERS

2016 began with significant angst and ended with cautious optimism. The deterioration in oil prices that began in the second half of 2014 culminated in a severe contraction in North American energy industry capital spending during 2016, which in turn gave rise to industry activity levels reaching lows never before experienced by Total Energy. To illustrate just how challenging a year it was, 2016 represented the first year in the Company's 20 year history that it was not profitable.

Throughout the downturn, Total Energy has remained focused and disciplined in executing its strategy to preserve its asset base, operating capacity and financial strength. This strategy included declining business opportunities where price expectations were unreasonable or credit risk was unacceptable. From a revenue perspective, the consequence of such strategy was an anticipated loss of market share, particularly within the Company's Contract Drilling Services and Rental and Transportation Services segments. However, equipment wear and tear and bad debt were minimized and as activity levels improve, Total Energy will not be burdened by pricing arrangements made during the depths of the downturn.

From an operating cost perspective, while Total Energy was certainly focused on achieving operating efficiencies and the resultant cost savings, the Company determined not to cannibalize equipment, reduce or eliminate employee benefit plans or close operating branches. While this strategy undoubtedly gave rise to higher operating costs during 2016, it has positioned Total Energy well to respond to increased activity levels without incurring significant start-up costs or undue operational or human resource challenges.

With the rebound in industry activity levels that began in late 2016 and that has carried into 2017 and a consequential modest improvement in spot market prices, Total Energy has begun to regain lost market share and equipment utilization is trending back in line with industry averages. As well, the investment made by the Company to preserve its equipment is giving rise to the expected benefits. By way of example, in January 2017 the Contract Drilling Services segment started up its lightest double and oldest rig, Rig #1, which rig had not worked for well over a year. Despite this extended period of inactivity, Rig #1 incurred nominal start-up costs and zero down time for repairs during the course of its drilling program.

### LOOKING FORWARD

With the recovery in oil and natural gas prices over the course of 2016, activity levels began to recover during the latter part of the year. However, with certain exceptions, the North American energy service industry generally remains in a state of overcapacity that will require sustained higher activity levels and/or increased operating efficiencies to achieve a return to energy service industry profitability and reasonable returns on invested capital.

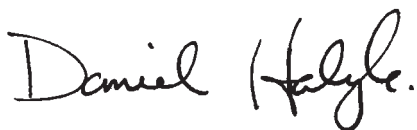
The severe downturn experienced during the past couple of years has exposed overcapacity, inefficiency and excess indebtedness within the North American energy services industry and illustrates the need for industry consolidation and increased operational efficiency in order to compete in an increasingly global, diversified and competitive energy market. Recognizing this need, Total Energy has pursued the acquisition of Savanna Energy Services Corp. ("Savanna") with an offer to acquire all of the common shares of Savanna on the basis of 0.130 of a share of Total Energy and \$0.20 cash for each Savanna share. Subject to being withdrawn, shortened or extended, the deadline for tendering to the offer is March 24, 2017.

If successful, Total Energy's offer to acquire Savanna will see it issue shares to the public for the first time since September 2005. By tendering to Total Energy's offer, Savanna shareholders stand to benefit from (i) the diversification and efficiencies arising from the combination of Total Energy and Savanna; (ii) Total Energy's proven track

record of operating its business and investing its owners' capital in a manner that has given rise to industry leading returns on shareholder equity over its 20 year history; and (iii) an eventual industry recovery.

On behalf of the Board of Directors of Total Energy, I would like to thank our employees for their hard work and perseverance during a difficult time for our industry. I would also extend a welcome to the shareholders and employees of Savanna Energy Services as we look forward to the successful conclusion of our efforts to bring our companies together.

Finally, all Shareholders and other interested persons are invited to attend the annual meeting of Shareholders which will commence at 10:00 a.m. (MDT) on Thursday, May 18, 2017 at the Calgary Petroleum Club, 319 – 5th Avenue S.W., Calgary, Alberta.

A handwritten signature in black ink that reads "Daniel Halyk." The signature is written in a cursive style with a period at the end.

DANIEL K. HALYK  
President and Chief Executive Officer

March 7, 2017

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

*The following MD&A for Total Energy Services Inc. ("Total Energy" or the "Company") was prepared as at March 7, 2017 and focuses on information and key statistics from the audited consolidated financial statements of the Company for the year ended December 31, 2016 (the "Financial Statements") and pertains to known risks and uncertainties relating to the energy services sector. This discussion should not be considered all-inclusive as it does not include all changes regarding general economic, political, governmental and environmental conditions. This MD&A should be read in conjunction with the Company's Financial Statements, the Company's 2016 Annual Report, the Annual Information Form ("AIF") for the year ended December 31, 2016 and the cautionary statement regarding forward-looking information and statements below. Additional information relating to Total Energy, including the Company's AIF, may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Unless otherwise indicated, all dollar amounts presented herein are in Canadian dollars.*

### BUSINESS OF THE COMPANY

Total Energy is a public energy services company based in Calgary, Alberta. Through its operating divisions, wholly owned subsidiaries and limited partnerships, Total Energy is involved in three businesses: contract drilling services ("CDS"), the rental and transportation of equipment used in the drilling, completion and production of oil and natural gas wells ("RTS") and the fabrication, sale, rental and servicing of new and used natural gas compression and oil and natural gas process equipment ("CPS"). Substantially all of the Company's operations are conducted within Canada although RTS and CPS conduct a limited amount of business in the United States of America through United States corporate affiliates. CPS generates international sales from its Calgary-based facilities.

**Contract Drilling Services:** At December 31, 2016, the Company operated a fleet of 18 rigs in Canada. Of these rigs, 16 are telescopic doubles and two are telescopic singles with integrated top drives. The Company also maintains an extensive inventory of top drives, drill pipe and spare components to support its operations.

**Rentals and Transportation Services:** Total Energy's RTS business is presently conducted from 21 locations in western Canada and two locations in the northwestern United States. At December 31, 2016, this segment had approximately 10,000 pieces of major rental equipment and a fleet of 121 heavy trucks.

**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, 2016 CPS occupied approximately 187,000 square feet of production facilities located in Calgary, Alberta which support Canadian and international equipment sales as well as a network of 11 branch locations throughout western Canada and the northwestern United States from which its natural gas compression parts and service business is conducted. This segment had 39,200 horsepower of compression in its rental fleet at December 31, 2016.

## SELECTED FINANCIAL INFORMATION

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

(in thousands of dollars except per share amounts)	Year Ended Dec. 31, 2016	Year Ended Dec. 31, 2015	Year Ended Dec. 31, 2014
Revenue	\$ 197,800	\$ 283,193	\$ 428,149
Cash provided by operations	38,489	40,744	81,941
Cashflow <sup>(1)</sup>	15,717	19,064	108,357
Net (loss) income	(11,914)	8,655	53,305
Per share (basic)	(0.38)	0.28	1.71
Per share (diluted)	(0.38)	0.28	1.66
Dividends declared per share	0.24	0.24	0.24
Total assets	522,599	532,379	595,906
Long term liabilities <sup>(2)</sup> (excluding current obligations under finance leases, current portion of long-term debt and deferred income taxes)	46,557	49,185	72,107

(1) Cashflow for the year ended December 31, 2015 is net of \$12.7 million of income taxes paid during the period that relates to 2014 taxable income as a result of the Company not having been required to make income tax installment payments during 2014 and \$7.1 million of taxes paid upon receipt of a federal income tax re-assessment received by the Company on August 30, 2015 as more particularly described in Note 27 of the Audited Consolidated Financial Statements.

(2) In 2014 includes convertible debentures at face value of \$69 million.

## SUMMARY OF QUARTERLY RESULTS

(in thousands of dollars except per share amounts)

	Financial Quarter Ended (Unaudited)			
	Dec 31, 2016	Sept 30, 2016	June 30, 2016	March 31, 2016
Revenue	\$ 57,415	\$ 46,536	\$ 43,893	\$ 49,956
Cashflow	2,827	6,076	1,775	5,039
Cash provided by operating activities	17,100	1,962	6,741	12,686
Net income (loss)	(3,667)	(1,912)	(4,203)	(2,132)
Per share (basic and diluted)	(0.12)	(0.06)	(0.14)	(0.07)

	Financial Quarter Ended (Unaudited)			
	Dec 31, 2015	Sept 30, 2015	June 30, 2015	March 31, 2015
Revenue	\$ 52,082	\$ 66,713	\$ 71,908	\$ 92,490
Cashflow	5,662	(580)	6,482	7,500
Cash provided by (used in) operating activities	6,410	(1,960)	12,555	23,739
Net income	(3,019)	1,570	921	9,183
Per share (basic and diluted)	(0.10)	0.05	0.03	0.30

Variations over the quarters are due in part to the cyclical nature of the energy service industry in Canada due to the occurrence of a “breakup”. The first quarter has generally been the strongest quarter for the Company. This strength is due to the northern exposure that the Company has, particularly in its CDS and RTS segments. The northern areas are busiest in the winter as these areas are frozen and allow for improved access to operations locations. The second quarter has generally been the slowest quarter due to a “breakup” as described above. Many of the areas that the Company operates in are not accessible during this period when ground conditions do not permit the movement of heavy equipment. The third quarter has generally been the third busiest quarter, as some of the issues associated with a “breakup” are no longer affecting access

to areas of operations. The fourth quarter has usually been the second busiest quarter of the year as customers are generally able to start accessing northern areas with the onset of winter and the ground freezing. Notwithstanding the foregoing, the significant downturn in North American oil and natural gas industry activity that began in mid-2014 has skewed activity levels such that historical Canadian seasonality trends have not been experienced since the latter part of 2015.

## OVERALL PERFORMANCE

The results for the three months and year ended December 31, 2016 reflect continued challenging North American energy industry conditions. While activity levels began showing signs of recovery, fierce price competition continued, particularly within the CDS and RTS segments, and the Company continued to decline business opportunities determined to be uneconomic or where customer credit risk was determined to be unacceptable. Negatively impacting the Company's results for the fourth quarter of 2016 was approximately \$1.2 million of non-recurring expenses, the majority of which relate to the Company's outstanding offer to purchase all of the common shares ("Savanna Shares") of Savanna Energy Services Corp. ("Savanna").

The Company's financial condition remains strong, with a positive working capital balance of \$71.8 million as at December 31, 2016 as compared to \$90.3 million of working capital at December 31, 2015. Shareholders' equity decreased by \$19.0 million during 2016 due to the realization of a net loss and continued payment of dividends.

### Revenue

The 10% increase in revenue for the three months ended December 31, 2016 relative to the same period in 2015 was the result of higher activity levels, particularly within the CPS segment. The 30% decrease in revenue during 2016 was due to lower activity levels and competitive pricing pressures in all three operating segments.

### Cost of Services

Cost of services increased by 20% and decreased by 22% to \$47.3 million and \$160.5 million, respectively, for the three months and year ended December 31, 2016, as compared to \$39.3 million and \$206.6 million for the same periods in 2015. The increase in costs of services during the fourth quarter of 2016 was the result of higher activity levels, particularly within the CPS segment. The decrease during 2016 resulted primarily from lower activity levels in all three operating segments. Gross margin, as a percentage of revenue, for the three months and year ended December 31, 2016 was 18% and 19%, respectively, as compared to 24% and 27% for the same periods in 2015. The lower gross margin realized in 2016 compared to 2015 is due primarily to price declines arising from competitive market conditions not being proportionately offset by cost reductions. Further, as the CDS and RTS segments historically generate a higher gross margin percentage than the CPS segment, the fact that these two segments contributed a lower portion of consolidated revenue in 2016 as compared to 2015 also contributed to such decline in gross margin.

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

### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 9% and decreased by 18% for the three months and year ended December 31, 2016 relative to the prior year comparable periods. The increase during three months ended December 31, 2016 was due primarily to costs associated with Company's offer to purchase all of the Savanna Shares made on December 9, 2016. The decrease during 2016 was due to decreased activity levels and efforts to reduce such costs given weak industry conditions. Cost reductions were achieved primarily through lower staffing levels, reductions in wages and salaries and negotiated pricing discounts from third party suppliers. Offsetting realized cost savings was a bad debt provision of \$0.3 million for the year ended December 31, 2016.

Included in selling, general and administrative costs 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 in these costs is compensation for directors and officers pursuant to the Company's cash based compensation plans.

#### **Share-based Compensation Expense**

Share-based compensation expense arises from share options granted pursuant to the share option plans implemented in 2015 and 2012. The decrease in share-based compensation expense for the three months and the year ended December 31, 2016 compared to the same period in 2015 was due to the vesting of the first tranche of share options issued in 2015 and the expiry and forfeiture of certain options in 2016.

#### **Depreciation Expense**

The increase in depreciation expense during the three months and year ended December 31, 2016 as compared to the same period in 2015 was primarily due to a change in depreciation estimate in the CDS segment as described in Note 10 of the 2016 Audited Consolidated Financial Statements. 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.

As a result of this change in estimate, there was an increase in depreciation expense of \$1.8 million for the year ended December 31, 2016.

#### **Operating Income (Loss)**

The realization of operating losses for the three months and year ended December 31, 2016 as compared to the operating loss and operating earnings for the same periods in 2015, respectively, is due to revenues decreasing disproportionately greater than costs, which in turn was due to challenging industry conditions and the Company's response thereto that included declining business opportunities due to unacceptable price expectations and credit risk as well as continued maintenance of its equipment and operating infrastructure. The decision to maintain its operating capacity was made with the intent to better position the Company for an eventual industry recovery. The increase in depreciation expense arising from the change in depreciation estimates in the CDS segment during the third quarter of 2016 also contributed to such operating loss during this period.

#### **Finance income**

The decrease in finance income during the three months and year ended December 31, 2016 compared to the same period in 2015 is due primarily to no dividends received in 2016 on other assets, being marketable securities held by the Company, partially offset by an increase in the market value of such holdings. Finance income includes dividends, increase in fair value of other assets, interest income on bank balances and other ancillary interest income.

#### **Finance Costs**

The decrease in finance costs for the three months and year ended December 31, 2016 compared to 2015 was due primarily to a lower unrealized decrease in the market value of other assets and lower interest expense due to the redemption of \$69 million of convertible debentures in May 2015 (see "Liquidity" section of this MD&A for further details). In addition to unrealized losses on other assets, finance costs include interest paid on finance leases, interest expense on the Term Loan (as defined under the heading "Liquidity and Capital Resources") and, during the year ended December 31, 2015, interest expense (including accretion) on the convertible debentures.

#### **Gain on Sale of Property, Plant and Equipment**

Disposals of equipment result from the exercise of purchase options on compression equipment previously on rent in the CPS segment as well as the replacement and upgrade of older equipment in the Company's equipment fleet.



During the year ended December 31, 2016, proceeds from the sale of property, plant and equipment totaled \$5.1 million and resulted in a gain on sale of \$1.0 million as compared to proceeds of \$31.4 million and a gain on sale of \$5.6 million for the comparable period of 2015. Such proceeds from dispositions related primarily to the sale of compression equipment from the CPS segment's compression rental fleet.

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

The realization of an income tax recovery during the three months and year ended December 31, 2016 was due to the Company realizing a net loss before income taxes as compared to the same periods in 2015 when the Company was profitable and therefore subject to corporate income tax expense.

#### **Outstanding take-over bid to purchase shares of Savanna Energy Services Corp.**

On December 9, 2016, the Company commenced an offer to purchase (the "Offer") all of the common shares (the "Savanna Shares") of Savanna Energy Services Corp. ("Savanna"), including any Savanna Shares that may become issued and outstanding (including upon the exercise, exchange or conversion of any securities convertible into, or exchangeable or exercisable for, Savanna Shares or otherwise evidencing a right to acquire any Savanna Shares or other securities of Savanna) after December 9, 2016 but prior to 11:59 p.m. (Pacific Time) on March 24, 2017, unless the Offer is accelerated or extended by the Company or withdrawn by the Company. The Offer was amended on March 1, 2017. Savanna shareholders who accept the Offer will be entitled to receive, in exchange for their Savanna Shares, 0.1300 of a common share of the Company plus \$0.20 cash for each Savanna Share. This exchange ratio is fixed and unless the Offer is amended or varied by the Company, will not be adjusted to reflect changes in the prices for Savanna Shares or the Company's common shares prior to the expiry of the Offer.

The financial impact of this transaction on the Company's financial statements will be determined in the event that the Offer is successful.

## **SEGMENTED RESULTS**

### **Contract Drilling Services**

The revenue reported from the CDS segment increased by 4% to \$4.1 million for the three months ended December 31, 2016, as compared to \$4.0 million for the same period in 2015 and decreased by 30% to \$11.1 million for the year ended December 31, 2016, as compared to \$15.9 million for the same period in 2015. For the fourth quarter of 2016 the CDS segment achieved a utilization rate, on a spud to rig-release basis, of 18% and year to date utilization of 12%, as compared to 15% and 14%, respectively, for the same periods in 2015. This decrease in utilization during 2016 relative to 2015 was due to substantially decreased oil and natural gas drilling activity in Canada and the Company's decision to forego opportunities to deploy equipment due to unacceptable pricing and customer credit risk. Operating days (spud to rig-release) for the three months and year ended December 31, 2016 totaled 298 and 776 days, respectively, as compared to 241 and 920 days for the same periods in 2015. Revenue per operating day received for contract drilling services for the three months and year ended December 31, 2016 decreased 16% and 17%, respectively, as compared to revenue per operating day during the same periods of 2015. The decrease in revenue per operating day was due primarily to lower spot market pricing as the Company had no drilling rigs under term fixed price contracts.

The CDS segment realized an operating loss of \$0.9 million and \$2.4 million, respectively, for the three months and year ended December 31, 2016, as compared to operating income of \$0.3 million and \$1.7 million for the prior year comparable periods. The substantial decline in equipment utilization combined with fierce price competition over the course of 2016 led to a reduction in revenue that was disproportionate to the reduction in costs, particularly due to the Company's determination not to cannibalize its drilling rig fleet in order to defer maintenance expenditures. In addition, for the year ended December 31, 2016, the \$1.8 million increase in depreciation expense due to the changes in depreciation estimates implemented during the third quarter of 2016 also contributed to such operating losses (see Note 10 of the 2016 Audited Consolidated Financial Statements).

### Rentals and Transportation Services

The revenue reported from the RTS segment decreased by 4% and 45% to \$11.2 million and \$39.1 million, respectively, for the three months and year ended December 31, 2016, as compared to \$11.7 million and \$71.0 million for the same periods in 2015. The revenue decrease was due primarily to reduced equipment utilization and pricing. Average utilization of the rental assets was 18% and 14%, respectively, for the three months and year ended December 31, 2016, as compared to 17% and 24% for the prior year comparable periods. Segment revenue per utilized rental piece decreased 9% and 6%, respectively, for the fourth quarter and year of 2016, respectively, as compared to the same periods in 2015. This segment exited the fourth quarter of 2016 with approximately 10,000 pieces of major rental equipment and a fleet of 121 heavy trucks as compared to 10,000 pieces of rental equipment and 119 heavy trucks at the end of 2015.

The RTS segment realized an operating loss of \$4.2 million and \$15.2 million, respectively, for the three months and year ended December 31, 2016, as compared to operating loss of \$3.1 million and operating income of \$1.7 million for the comparable periods in 2015. This decline resulted primarily from lower equipment utilization and pricing in 2016 as compared to 2015 and the fact that costs did not decrease proportionately to revenues, due in part to the Company's determination to maintain its geographic presence and core operating capacity in anticipation of an eventual recovery in industry conditions. This segment has a relatively high fixed cost structure as compared to the Company's other business segments. Such fixed cost structure includes costs associated with its significant operating branch infrastructure, including maintenance and repairs, utilities, insurance, property taxes and rent. In addition, depreciation expense on this segment's equipment fleet is recorded on a straight-line basis and is not correlated to levels of activity.

### Compression and Process Services

The revenue reported from the CPS segment increased by 16% and decreased by 25% to \$42.1 million and \$147.6 million, respectively, for the three months and year ended December 31, 2016, as compared to \$36.5 million and \$196.3 million for the same periods in 2015. The revenue increase during the fourth quarter of 2016 was due primarily to higher activity levels, particularly within certain international markets including Australia. The year over year revenue decrease was due primarily to lower demand for new equipment and a smaller compression rental fleet operating at a lower utilization rate compared to the prior year period. The reduction in the size of the compression rental fleet was due to significant disposals of rental units during 2015. During 2016, approximately 2,000 horsepower of idle rental compression units were sold to third party customers as compared to approximately 25,700 horsepower sold upon the exercise of purchase options by customers during the same period in 2015. This segment exited the fourth quarter of 2016 with a backlog of fabrication sales orders of approximately \$65.5 million, as compared to a backlog of \$48.9 million at December 31, 2015 and \$62.0 million at September 30, 2016. The timeline for conversion of such sales backlog into revenue varies from order to order and often changes due to factors outside of the Company's control. As at December 31, 2016, the total horsepower of compressors on rent was approximately 12,600 as compared to approximately 15,800 as at December 31, 2015 and 11,400 at September 30, 2016. The compression rental fleet experienced an average utilization of 32% (based on fleet horsepower) during both the three months and year ended December 31, 2016, as compared to 42% and 61%, respectively, for the same periods in 2015.

The CPS segment generated operating income of \$2.8 million and \$7.9 million, respectively, for the three months and year ended December 31, 2016, as compared to \$3.4 million and \$21.7 million for the comparable periods in 2015. Operating income margins in this segment were 7% and 5%, respectively, for the three months and year ended December 31, 2016, as compared to 9% and 11% for the comparable periods in 2015. The decrease in operating income margin during 2016 compared to 2015 was a result of competitive pricing, lower production levels due to lower customer demand (which in turn resulted in lower overhead absorption) and a 20% decrease in compression horsepower on rent at December 31, 2016 compared to December 31, 2015.

### Corporate

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

The Corporate segment realized an operating loss of \$2.0 million and \$5.4 million, respectively, for the three months and year ended December 31, 2016, as compared to \$1.0 million and \$5.3 million for the comparable periods in 2015. The increase in the operating losses during the fourth quarter of 2016 was due to costs incurred in connection with Company's offer to purchase all of the issued and outstanding common shares of Savanna Energy Services Corp.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Provided by Operating Activities and Cashflow

Cash provided by operating activities was \$17.1 million and \$38.5 million, respectively, for the three months and year ended December 31, 2016, as compared to \$6.4 million and \$40.7 million for the comparable periods in 2015. Cashflow was \$2.8 million and \$15.7 million, respectively, for the three months and year ended December 31, 2016, as compared to \$5.7 million and \$19.1 million for the comparable periods in 2015. The changes in cash provided by operating activities and cashflow were due primarily to changes in operating income as described above and working capital balances. Cashflow for 2016 was negatively impacted by the realization of a net loss. 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

Net cash used in investing activities was \$5.8 million and \$16.7 million, respectively, for the three months and year ended December 31, 2016, as compared to \$3.0 million and \$4.6 million for the comparable periods in 2015. During 2016, the Company realized \$5.1 million of proceeds from the sale of property, plant and equipment ("PP&E") as compared to \$31.4 million of proceeds in 2015. Such proceeds are derived primarily from the disposal of compression rental equipment and, to a lesser extent, the replacement and upgrade of older equipment in the Company's fleet.

During 2016, \$11.1 million of PP&E purchases and \$10.9 million of acquisitions were allocated as follows: \$1.3 million in the CDS segment relating primarily to the purchase of rig equipment, \$18.1 million in the RTS segment relating primarily to acquisitions and purchases of new and used rental equipment and \$2.5 million in the CPS segment relating primarily to additions to the compression rental fleet.

### Financing Activities

Net cash used in financing activities was \$3.6 million and \$14.8 million, respectively, for the three months and year ended December 31, 2016, as compared to \$3.9 million and \$35.0 million for the comparable periods in 2015. The decrease in net cash used in financing activities in 2016 was primarily due to the redemption of \$69 million of convertible debentures in May of 2015 that was funded by the \$50.0 million Term Loan (as defined under the heading "Liquidity" below) and cash on hand.

### Liquidity

The Company had a working capital surplus of \$71.8 million as at December 31, 2016 compared to \$90.3 million as at December 31, 2015. As at December 31, 2016 and the date of this MD&A, the Company is in compliance with all debt covenants.

The Company has a \$65 million committed revolving facility (the "Operating Facility") with a major Canadian financial institution that was recently renewed to February 17, 2019. Repayment of amounts drawn on the Operating Facility are not required until February 2019 in the event such facility is not subsequently renewed. The Operating Facility bears interest at the lender's prime rate plus 0.40% and is secured by the Company's cash and cash equivalents, accounts receivable and inventory. As at December 31, 2016, the Operating Facility was undrawn and available to the extent of \$58.5 million based on the prescribed margin requirements at that time.

On May 19, 2015, the Company completed the redemption of \$69 million of 5.75% convertible unsecured subordinated debentures (the "Debentures") that were due to mature on March 31, 2016. Upon redemption, the Company paid to the holders of Debentures \$1,007.72 per \$1,000 principal amount of Debentures which was equal to the outstanding principal amount of the Debentures plus accrued and unpaid interest up to, but excluding, the redemption date. This transaction resulted in additional accelerated accretion expense of \$0.7 million that was recorded as part of finance costs and a reduction of \$1.2 million to the equity portion of the Debentures. The remaining \$3.4 million equity portion of the Debentures was credited to retained earnings.

In connection with the redemption of the Debentures, the Company secured a \$50 million bank loan (the "Term Loan") with the Company's primary bank. See Note 14 of the 2016 Audited Consolidated Financial Statements for further details regarding the Operating Facility and the Term Loan.

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 months and year ended December 31, 2016 and 2015, the Company declared dividends of \$1.9 million (\$0.06 per share) and \$7.4 million (\$0.24 per share), respectively.

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

#### Capital Spending

Capital spending in 2016 amounted to \$21.9 million and related to \$11.1 million of PP&E purchases and \$10.9 million of acquisitions. Capital Spending was funded with cash on hand. For further information, see Notes 5 and 10 to the 2016 Audited Consolidated Financial Statements. The Company's capital spending for 2017 is currently budgeted to be \$22.8 million.

## CONTRACTUAL OBLIGATIONS

At December 31, 2016, the Company had the following contractual obligations:

(in thousands of dollars)	Total	Payments due by year				
		2017	2018	2019	2020	2021 and after
Long-term debt	\$ 46,900	\$ 1,938	\$ 1,998	\$ 2,060	\$ 40,904	\$ -
Commitments <sup>(1)</sup>	3,918	1,958	1,138	664	79	79
Finance leases	3,003	1,408	782	505	227	81
Purchase obligations <sup>(2)</sup>	22,089	22,089	-	-	-	-
<b>Total contractual obligations</b>	<b>\$ 75,910</b>	<b>\$ 27,393</b>	<b>\$ 3,918</b>	<b>\$ 3,229</b>	<b>\$ 41,210</b>	<b>\$ 160</b>

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

(2) Purchase obligations are described in Note 26 to the 2016 Audited Consolidated Financial Statements. As at December 31, 2016, purchase obligations relate to Total Energy's commitment to purchase \$22.1 million of inventory for the Compression and Process Services segment.

## OFF-BALANCE SHEET ARRANGEMENTS

During 2016 and 2015, the Company had no off-balance sheet arrangements.

## TRANSACTIONS WITH RELATED PARTIES

During 2016 and 2015, the Company had no material transactions with related parties.

## FINANCIAL INSTRUMENTS

### Fair values

As at December 31, 2016, the fair value of other assets was approximately \$5.1 million. The net present value of future cash repayments of the Term Loan is \$46.5 million utilizing an interest rate for a similar debt instrument at December 31, 2016 of 3.32%. The carrying value and Company's liability with respect to the Term Loan is \$46.9 million.

## OUTSTANDING COMPANY SHARE DATA

As at the date of this MD&A, the Company had 30,920,000 common shares outstanding.

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

Outstanding at December 31, 2016	Exercise Price	Remaining life (years)	Exercisable at December 31, 2016
1,140,000	\$ 13.74	0.40	1,140,000
76,666	\$ 14.96	1.10	76,666
53,334	\$ 14.72	1.40	53,334
1,290,000	\$ 14.13	3.60	429,997
2,560,000	\$ 13.99	2.05	1,699,997

## OUTLOOK

### Industry Conditions

North American oil and natural gas drilling and completion activity levels during the fourth quarter of 2016 remained low compared to historical levels. While there was some improvement in oil and natural gas prices over the course of 2016, the prices for these commodities have been volatile and did not recover to the levels realized prior to the industry downturn that began in the second half of 2014. As a result, many North American oil and natural gas producers remained in a difficult financial position, which in turn resulted in substantial reductions to their capital expenditure programs for 2016. Preliminary indications for 2017 are that North American oil and natural gas producers will increase their capital expenditure budgets as compared to 2016. This is evidenced by higher levels of oil and natural gas drilling and completion activity thus far in 2017 as compared to 2016. However, utilization levels generally remain below energy service industry capacity and sustained higher activity levels will be required to support price increases necessary for a return to significant energy service industry profitability.

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

## RISK FACTORS AND RISK MANAGEMENT

In the normal course of business, Total Energy is exposed to financial and operating risks that may potentially impact its operating results. The Company employs risk management strategies with a view to mitigating these risks on a cost-effective basis. There have been no significant changes in risk and risk management in 2016 other than as described below.

### Industry Conditions

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

### Credit Risk

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

The Company does not have significant exposure to any individual customer or counter party other than two intermediate oil and gas companies that accounted for over 10% of revenue, one during the three-month period and another during the year ended December 31, 2016. No other customer accounted for more than 10% of revenue during this period. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry.

### Government Regulation

Total Energy's business and the business of its customers are subject to significant and evolving laws and government regulations, including in the areas of environment, health and safety. The recent implementation of a "carbon tax" by the Government of Alberta, effective January 1, 2017 is expected to increase the Company's operating costs although the Company is not able to quantify the full impact of such tax at this time.

## CRITICAL ACCOUNTING ESTIMATES

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

There have been no material changes to our Critical Accounting Estimates during 2016, other than change in depreciation estimates in the CDS segment.

### **Change in accounting estimate**

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

As a result of this change in estimate, there was an increase in depreciation expense of \$1.8 million for the year ended December 31, 2016.

### **Critical Judgments in Applying Accounting Policies**

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

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

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

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

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

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

### **Key Sources of Estimation Uncertainty**

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

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

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

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

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

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

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

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

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

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

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

#### **FUTURE ACCOUNTING POLICIES CHANGES**

There have been no significant future accounting policy changes during 2016.

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

##### **IFRS 15 Revenue from Contracts with customers**

In May 2014, IFRS 15, Revenues from Contracts with customers, was introduced to clarify the principles for recognizing revenue from contracts with customers. The main objective is to remove inconsistencies and weaknesses in existing revenue recognition standards by providing clear principles for revenue recognition in a robust framework, provide a single revenue recognition model which will improve comparability, and simplify the preparation of the financial statements.

The Company's preliminary high level assessment has not identified any material differences in reporting under IFRS 15. In the first quarter of 2017 the Company expects to complete detailed gap assessments. The Company will also continue to evaluate the potential impacts to systems and processes.

IFRS 15 permits the use of either a full retrospective transition method or modified retrospective transition method. The Company anticipates that it will adopt the standard on January 1, 2018, in accordance with required effective date, using the modified retrospective method. The Company is continuing to evaluate the impact of various practical expedients that are available under this method.

##### **IFRS 16 Leases**

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



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

#### IFRS 9 Financial Instruments

IFRS 9 was issued in November 2009 and contains requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement, for debt instruments with a new mixed measurement model having only two categories; amortized cost and fair value through profit and loss. The standard is effective for annual and interim reporting periods beginning on or after January 1, 2018. The Company does not anticipate a significant impact to the consolidated financial statements.

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

#### NON-IFRS MEASURES

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

EBITDA (in thousands of Canadian dollars)	Three months ended Dec. 31, 2016	Three months ended Dec. 31, 2015	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015
<b>Net income (loss) and total comprehensive income</b>	<b>\$ (3,667)</b>	\$ (3,019)	<b>\$ (11,914)</b>	\$ 8,655
Add back (deduct):				
Depreciation	7,775	6,732	28,134	27,488
Finance income	(57)	(260)	(547)	(897)
Finance costs	621	3,547	2,426	9,728
Income tax (recovery) expense	(1,118)	(419)	(4,058)	7,895
<b>EBITDA</b>	<b>\$ 3,554</b>	\$ 6,581	<b>\$ 14,041</b>	\$ 52,869

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

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

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

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

The Chief Executive Officer and the Chief Financial Officer, together with other members of management (collectively, the "Officers"), have designed the Company's disclosure controls and procedures in order to provide reasonable assurance that the information required to be disclosed by the Company and its consolidated divisions, subsidiaries and partnerships in its filings or other reports submitted by it under securities legislation is in compliance with the time periods specified in the

securities legislation. These disclosure controls and procedures include controls and procedures which have been designed to ensure that the information required to be disclosed by the Company and its consolidated divisions and subsidiaries in its filings or other reports submitted by it under securities legislation is accumulated and communicated to the Officers and others within those entities to allow timely decisions regarding required disclosure.

**Disclosure Controls and Procedures:** The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is reported within the time periods specified under securities laws, and include controls and procedures that are designed to ensure that information is communicated to management of Total Energy, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. An evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) was conducted as at December 31, 2016. 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, 2016.

**Internal Control Over Financial Reporting:** The Chief Executive Officer and Chief Financial Officer of Total Energy are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards ("IFRS"). The Chief Executive Officer and Chief Financial Officer of Total Energy directed the assessment of the design and operating effectiveness of the Company's internal control over financial reporting as at December 31, 2016 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, 2016.

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 and environmental laws and regulations and changes in how such laws and regulations are interpreted and enforced. Forward-looking information respecting the anticipated costs associated with the purchase of capital equipment are based upon historical prices for various classes of equipment, expectations relating to the impact of inflation on the future cost of such equipment and management's views concerning the negotiating position of the Company and its affiliates. Forward-looking information concerning the nature and timing of growth within the various business divisions is based on the current budget of the Company (which is subject to change), factors that affected the historical growth of such business divisions, sources of historic growth opportunities and expectations relating to future economic and operating conditions. Forward-looking information concerning the future competitive position of the Company's business divisions is based upon the current competitive environment in which those business divisions operate, expectations relating to future economic and operating conditions, current and announced build programs and other expansion plans of other organizations that operate in the energy service business. Forward-looking information concerning the financing of future business activities is based upon the financing sources on which the Company and its predecessors have historically relied and expectations relating to future economic and operating conditions. Forward-looking information concerning future economic and operating conditions is based upon historical economic and operating conditions, opinions of third-party analysts respecting anticipated economic and operating conditions. Although management of the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Accordingly, readers should not place undue reliance upon any of the forward-looking information set out in this MD&A. All of the forward-looking statements of the Company contained in this MD&A are expressly qualified, in their entirety, by this cautionary statement. The various risks to which the Company is exposed are described in additional detail in this MD&A under the heading "Risk Factors" below and in the Company's AIF. Except as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking information or statements, whether as a result of new information, future events or otherwise.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

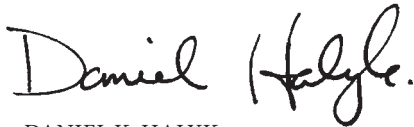
The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies in the notes to financial statements. When necessary, management 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, 2015 to December 31, 2016.

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

March 7, 2017



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

**INDEPENDENT AUDITORS' REPORT**

To the Shareholders of Total Energy Services Inc.

We have audited the accompanying consolidated financial statements of Total Energy Services Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

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

**Auditors' Responsibility**

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

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Total Energy Services Inc. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**KPMG LLP**

Chartered Professional Accountants

March 7, 2017

Calgary, Canada

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	Note	December 31, 2016	December 31, 2015
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	7	\$ 15,916	\$ 8,875
Accounts receivable	8	47,545	48,091
Inventory	9	54,964	59,066
Income taxes receivable	16	–	2,733
Other assets	11	5,095	5,768
Prepaid expenses and deposits		4,029	4,101
		<b>127,549</b>	<b>128,634</b>
Property, plant and equipment	10	383,497	392,622
Income taxes receivable	27	7,070	7,070
Deferred tax asset	16	430	–
Goodwill	12	4,053	4,053
		<b>\$ 522,599</b>	<b>\$ 532,379</b>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable and accrued liabilities	13	\$ 36,755	\$ 22,002
Deferred revenue		13,573	10,556
Dividends payable		1,856	1,860
Income taxes payable	16	249	–
Current portion of obligations under finance leases	15	1,408	2,023
Current portion of long-term debt	14	1,938	1,879
		<b>55,779</b>	<b>38,320</b>
Long-term debt	14	44,962	46,900
Obligations under finance leases	15	1,595	2,285
Deferred tax liability	16	55,961	61,539
Shareholders' equity:			
Share capital	17	88,654	88,875
Contributed surplus		7,683	8,255
Retained earnings		267,965	286,205
		<b>364,302</b>	<b>383,335</b>
		<b>\$ 522,599</b>	<b>\$ 532,379</b>

The notes on pages 24 to 52 are an integral part of these consolidated financial statements.

Approved by the Board of Total Energy Services Inc.



Director: Greg Melchin



Director: Bruce L. Pachkowski

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands of Canadian dollars except per share amounts)

Years ended December 31,	Note	2016	2015
<b>REVENUE</b>	19	\$ 197,800	\$ 283,193
Cost of services	20	160,541	206,550
Selling, general and administration	21	22,924	27,975
Share-based compensation	18	1,311	1,375
Depreciation	10	28,134	27,488
Operating income (loss)		(15,110)	19,805
Gain on sale of property, plant and equipment	10	1,017	5,576
Finance income	23	547	897
Finance costs	24	(2,426)	(9,728)
Net income (loss) before income taxes		(15,972)	16,550
Current income tax expense	16	1,950	6,906
Deferred income tax (recovery) expense	16	(6,008)	989
Total income tax (recovery) expense	16	(4,058)	7,895
Net income (loss) and total comprehensive (loss) income for the year		\$ (11,914)	\$ 8,655
Earnings (loss) per share	17		
Basic earnings per share		\$ (0.38)	\$ 0.28
Diluted earnings per share		\$ (0.38)	\$ 0.28

*The notes on pages 24 to 52 are an integral part of these consolidated financial statements.*

## CONSOLIDATED STATEMENTS CHANGES IN EQUITY

Years ended December 31, 2016 and 2015  
(in thousands of Canadian dollars)

	Note	Share Capital	Contributed Surplus	Equity portion of convertible debenture	Retained earnings	Total Equity
Balance at December 31, 2014		\$ 88,899	\$ 6,880	\$ 4,601	\$ 281,683	\$ 382,063
Net income and total comprehensive income		-	-	-	8,655	8,655
<i>Transactions with shareholders, recorded directly in equity:</i>						
Dividends to shareholders	17	-	-	-	(7,440)	(7,440)
Repurchase of common shares	17	(24)	-	-	(84)	(108)
Redemption of convertible debentures	14	-	-	(4,601)	3,391	(1,210)
Share-based compensation	18	-	1,375	-	-	1,375
		(24)	1,375	(4,601)	(4,133)	(7,383)
Balance at December 31, 2015		\$ 88,875	\$ 8,255	\$ -	\$ 286,205	\$ 383,335
Net loss and total comprehensive loss		-	-	-	(11,914)	(11,914)
<i>Transactions with shareholders, recorded directly in equity:</i>						
Dividends to shareholders	17	-	-	-	(7,430)	(7,430)
Repurchase of common shares	17	(221)	-	-	(779)	(1,000)
Share-based compensation	18	-	1,311	-	-	1,311
Expiration of share options	18	-	(1,883)	-	1,883	-
		(221)	(572)	-	(6,326)	(7,119)
<b>Balance at December 31, 2016</b>		<b>\$ 88,654</b>	<b>\$ 7,683</b>	<b>\$ -</b>	<b>\$ 267,965</b>	<b>\$ 364,302</b>

*The notes on pages 24 to 52 are an integral part of these consolidated financial statements.*



## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

Years ended December 31,	Note	2016	2015
<b>Cash provided by (used in):</b>			
Operations:			
Net income (loss) for the year		\$ (11,914)	\$ 8,655
Add (deduct) items not affecting cash:			
Depreciation	10	28,134	27,488
Share-based compensation	18	1,311	1,375
Gain on disposal of property, plant and equipment	10	(1,017)	(5,576)
Finance income	23	(463)	–
Finance costs	24	2,426	9,728
Unrealized loss (gain) on foreign currencies translation		266	(1,038)
Current income tax expense	16	1,950	6,906
Deferred income tax (recovery) expense	16	(6,008)	989
Income taxes recovered (paid)		1,032	(29,463)
Cashflow		15,717	19,064
Changes in non-cash working capital items:			
Accounts receivable	8	(119)	51,377
Inventory	9	4,102	(4,718)
Prepaid expenses and deposits		72	1,475
Accounts payable and accrued liabilities	13	15,700	(29,580)
Deferred revenue		3,017	3,126
		38,489	40,744
Investments:			
Purchase of property, plant and equipment	10	(11,090)	(22,079)
Acquisition of business	5	(10,855)	(1,231)
Proceeds on sale of other assets		576	411
Purchase of other assets		–	(6,127)
Proceeds on disposal of property, plant and equipment		5,148	31,413
Changes in non-cash working capital items		(462)	(6,994)
		(16,683)	(4,607)
Financing:			
Advances under long-term debt	14	–	50,000
Repayment of long-term debt	14	(2,192)	(1,221)
Repayment of convertible debentures	14	–	(69,000)
Repayment of obligations under finance leases	15	(2,273)	(3,056)
Payment of dividends	17	(7,434)	(7,440)
Repurchase of common shares	17	(1,000)	(108)
Interest paid		(1,866)	(4,182)
		(14,765)	(35,007)
Change in cash and cash equivalents		7,041	1,130
Cash and cash equivalents, beginning of year		8,875	7,745
Cash and cash equivalents, end of year		\$ 15,916	\$ 8,875

The notes on pages 24 to 52 are an integral part of these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015  
(Tabular amounts in thousands of Canadian dollars)

### 1. Reporting entity

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

The consolidated financial statements include the accounts of the Company, its subsidiaries and its partnerships established in Canada, the United States of America and Australia.

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

### 2. Basis of preparation

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#### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorized for issue by the Board of Directors on March 7, 2017.

#### (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 functional currency. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

#### (d) Use of estimates and judgements

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

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

#### (e) Critical Judgments in Applying Accounting Policies

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

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

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

The Company’s functional currency is based on the primary economic environment in which it operates and is based on an analysis of several factors including which currency principally affects sales prices of products sold by the

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015  
(Tabular amounts in thousands of Canadian dollars)

Company, which currency influences the main expenses of providing services, in which currency the Company keeps its receipts from operating activities and in which currency the Company has received financing.

The Company makes judgments regarding the determination of its reportable segments, including aggregation criteria (as appropriate), for segmented reporting. 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 uses the percentage-of-completion method in accounting for its equipment manufacturing contract revenue. Use of the percentage-of-completion method requires estimates of the stage of completion of the contract to date as a proportion of the total work to be performed.

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

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

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

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

The Company's estimate of the fair value of 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 to all periods presented in these consolidated financial statements. The accounting policies have been applied consistently by the Company, its subsidiaries and partnerships.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015  
(Tabular amounts in thousands of Canadian dollars)

**(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 subsidiary 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 US 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. When material, gains or losses on translation are included as a component of shareholders' equity in accumulated other comprehensive income.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015  
(Tabular amounts in thousands of Canadian dollars)

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

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

The Company has the following non-derivative financial assets:

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

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

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

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

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

(ii) Non-derivative financial liabilities

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015  
(Tabular amounts in thousands of Canadian dollars)

The Company has the following non-derivative financial liabilities:

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

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

(iii) 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 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 net in net income or loss.

(ii) Subsequent costs

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## (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 - 8,000 operating days	–	utilization (minimum annual deemed utilization of 96 days)
Other	3-5 years	–	straight-line

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

## (e) Leased assets

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

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

## (f) Inventory

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

## (g) Impairment

## (i) Financial assets (including receivables)

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015  
(Tabular amounts in thousands of Canadian dollars)

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

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

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

(ii) Non-financial assets

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

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

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

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**(h) Employee benefits****(i) Short-term employee benefits**

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

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

**(ii) Share-based payment transactions**

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

**(i) Revenue recognition**

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

**(j) Provisions**

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

**(k) Onerous contracts**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015  
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**(l) Lease payments**

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

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

**(m) Finance income and finance costs**

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

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

**(n) Income tax**

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

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

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

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

**(o) Earnings per share**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**(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.

**Accounting pronouncements not yet adopted**

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

**IFRS 15 Revenue from Contracts with customers**

In May 2014, IFRS 15, Revenues from Contracts with customers, was introduced to clarify the principles for recognizing revenue from contracts with customers. The main objective is to remove inconsistencies and weaknesses in existing revenue recognition standards by providing clear principles for revenue recognition in a robust framework, provide a single revenue recognition model which will improve comparability, and simplify the preparation of the financial statements.

The Company's preliminary high level assessment has not identified any material differences in reporting under IFRS 15. In the first quarter of 2017 the Company expects to complete detailed gap assessments. The Company will also continue to evaluate the potential impacts to systems and processes.

IFRS 15 permits the use of either a full retrospective transition method or modified retrospective transition method. The Company anticipates that it will adopt the standard on January 1, 2018, in accordance with required effective date, using the modified retrospective method. The Company is continuing to evaluate the impact of various practical expedients that are available under this method.

**IFRS 16 Leases**

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

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

**IFRS 9 Financial Instruments**

IFRS 9 was issued in November 2009 and contains requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement, for debt instruments with a new mixed measurement model having only two categories; amortized cost and fair value through profit and loss. The standard is effective for annual and interim reporting periods beginning on or after January 1, 2018. The Company does not anticipate a significant impact to the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### 4. Determination of fair values

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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 changes in fair value is recorded in profit or loss for the period.

**(e) Non-derivative financial liabilities**

Fair value, which is determined for disclosure purposes, other than the original bifurcation of the convertible debentures, is calculated based on the present value of future principal and interest cash flows, discounted at the market

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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rate of interest at the reporting date. In respect of the liability component of convertible debentures, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

**(f) Share-based payment transactions**

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

**5. Acquisitions**

Effective January 1, 2016 the Company, through a wholly-owned United States subsidiary, acquired certain oilfield rental assets for \$3.6 million (US\$2.6 million). The Company financed the acquisition with cash on hand.

Effective May of 2016 the Company, through a wholly-owned United States subsidiary, acquired certain oilfield rental and transportation assets and real estate for \$5.1 million (US\$3.9 million) in two separate transactions. The Company financed such acquisitions with cash on hand.

Effective October 26, 2016, the Company, through a wholly-owned subsidiary, acquired certain oilfield transportation assets for \$2.2 million. The Company financed the acquisition with cash on hand.

The fair value of the assets acquired was determined using market quotes. The acquired assets, described above, were integrated into the Company's Rentals and Transportation Services segment's existing operations on the date such assets were acquired. As a result, it is not practical to provide separate financial results for such assets.

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

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

**Net assets acquired:**

Property, plant and equipment and licenses	\$ 1,663
Working capital adjustments	189
Loans	(554)
Deferred tax liability	(432)
<b>Total</b>	<b>\$ 866</b>

**Consideration paid:**

Cash	\$ 1,231
Working capital adjustments	189
Loans repaid	(554)
<b>Total</b>	<b>\$ 866</b>

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

The acquisition related costs have been included in general and administrative expenses.

## 6. Operating segments

The Company operates primarily in Canada in three industry segments: Contract Drilling Services, Rental and Transportation Services and Compression and Process Services.

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

For each of the reporting segments, the Company's Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis.

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

The segmented amounts are as follows:

As at and for the year ended December 31, 2016	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Corporate <sup>(1)</sup>	Total
Revenue	\$ 11,109	\$ 39,059	\$ 147,632	\$ –	\$ 197,800
Cost of services	7,556	27,072	125,913	–	160,541
Selling, general and administration	1,805	10,688	6,452	3,979	22,924
Share-based compensation	–	–	–	1,311	1,311
Depreciation	4,180	16,507	7,367	80	28,134
Operating income (loss)	(2,432)	(15,208)	7,900	(5,370)	(15,110)
Gain on sale of property, plant and equipment	72	294	651	–	1,017
Finance income	–	–	–	547	547
Finance costs	(360)	(747)	(423)	(896)	(2,426)
Net income (loss) before income taxes	(2,720)	(15,661)	8,128	(5,719)	(15,972)
Goodwill	–	2,514	1,539	–	4,053
Total assets	110,864	230,419	169,359	11,957	522,599
Total liabilities	22,040	40,810	46,932	48,515	158,297
Capital expenditures <sup>(2)</sup>	\$ 1,321	\$ 18,101	\$ 2,519	\$ 4	\$ 21,945

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

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

(2) Includes the acquisitions described in note 5.

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

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

Year ended December 31, 2016	Canada	United States	Australia	International	Total
Revenue	\$ 157,026	\$ 16,355	\$ 24,152	\$ 267	\$ 197,800
Non-current assets <sup>(1)</sup>	372,368	13,688	1,494	–	387,550
Year ended December 31, 2015	Canada	United States	Australia	International	Total
Revenue	\$ 273,545	\$ 9,317	\$ 98	\$ 233	\$ 283,193
Non-current assets <sup>(1)</sup>	390,733	4,360	1,582	–	396,675

(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, 2016	December 31, 2015
Trade receivables, net of allowance for doubtful accounts	\$ 34,707	\$ 38,480
Accrued and other receivables	12,838	9,611
	\$ 47,545	\$ 48,091

The Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 25. Included in accrued and other receivables is \$12.5 million (2015: \$7.9 million) of amounts pertaining to contracts in progress as at December 31, 2016.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 9. Inventory

	December 31, 2016	December 31, 2015
Finished goods	\$ 3,669	\$ 3,672
Work-in-progress	20,095	18,145
Parts and raw materials	31,200	37,249
	<b>\$ 54,964</b>	<b>\$ 59,066</b>

For the year ended December 31, 2016, finished goods, work-in-progress and parts and raw materials of \$108.6 million (December 31, 2015: \$136.8 million) are included in cost of services (note 20).

## 10. Property, plant and equipment

	Land and buildings	Rental equipment	Automotive equipment	Leased assets	Shop machinery and equipment	Drilling rigs and related equipment	Furniture, fixtures and other	Total
<i>Cost</i>								
As at December 31, 2014	\$ 58,803	\$ 292,818	\$ 59,733	\$ 11,188	\$ 13,694	\$ 151,542	\$ 5,945	\$ 593,723
Acquisition	–	18	1,095	–	103	–	447	1,663
Transfers and other	(19)	26	513	(276)	29	–	98	371
Additions	8,358	10,332	956	1,881	301	1,618	514	23,960
Disposals	(8)	(26,989)	(402)	(2,467)	(28)	(895)	–	(30,789)
As at December 31, 2015	67,134	276,205	61,895	10,326	14,099	152,265	7,004	588,928
Acquisition	1,537	6,012	3,055	–	41	–	523	11,168
Transfers and other	43	(79)	516	(557)	–	–	(8)	(85)
Additions	295	7,112	1,434	968	819	1,312	118	12,058
Disposals	(4)	(4,179)	(3,291)	(2,363)	(11)	(406)	–	(10,254)
<b>As at December 31, 2016</b>	<b>69,005</b>	<b>285,071</b>	<b>63,609</b>	<b>8,374</b>	<b>14,948</b>	<b>153,171</b>	<b>7,637</b>	<b>601,815</b>
<i>Accumulated Depreciation</i>								
As at December 31, 2014	8,876	74,669	29,805	5,664	7,572	42,040	5,106	173,732
Transfers and other	–	2	22	–	3	–	11	38
Depreciation expense	2,548	12,491	4,878	2,608	2,026	2,416	521	27,488
Disposals	(4)	(1,656)	(338)	(2,049)	(10)	(895)	–	(4,952)
As at December 31, 2015	11,420	85,506	34,367	6,223	9,591	43,561	5,638	196,306
Transfers and other	–	6	552	(557)	–	–	–	1
Depreciation expense	2,687	12,686	4,480	1,967	1,786	3,981	547	28,134
Disposals	(2)	(1,450)	(2,260)	(1,994)	(11)	(406)	–	(6,123)
<b>As at December 31, 2016</b>	<b>14,105</b>	<b>96,748</b>	<b>37,139</b>	<b>5,639</b>	<b>11,366</b>	<b>47,136</b>	<b>6,185</b>	<b>218,318</b>
<i>Net Book Value</i>								
As at December 31, 2014	49,927	218,149	29,928	5,524	6,122	109,502	839	419,991
As at December 31, 2015	55,714	190,699	27,528	4,103	4,508	108,704	1,366	392,622
<b>As at December 31, 2016</b>	<b>\$ 54,900</b>	<b>\$ 188,323</b>	<b>\$ 26,470</b>	<b>\$ 2,735</b>	<b>\$ 3,582</b>	<b>\$ 106,035</b>	<b>\$ 1,452</b>	<b>\$ 383,497</b>

As at December 31, 2016, there was \$1.3 million (December 31, 2015: nil) 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.



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The Company reviews the current value of property, plant and equipment at each reporting period for indicators of impairment. Based on improved commodity prices during the course of 2016 and the resultant increase in industry activity levels during the latter part of the year, no indications of impairment were identified during the period ended December 31, 2016.

During the year ended December 31, 2015 the Company determined that low commodity prices and the resulting impact on current and future business and industry activity levels was an indicator of impairment and performed a comprehensive assessment of carrying values of property, plant and equipment for the Contract Drilling Services (“CDS”), Rentals and Transportation Services (“RTS”) and Compression and Process Services (“CPS”) Cash Generating Unit (“CGU”).

The recoverable amount of each CGU was determined using a value in use calculation based on discounted cash flow calculations. Cash flows were projected based on past experience, actual operating results, future expected outcomes, current market conditions and a 15-year horizon with no growth after five years. Cash flow information was derived primarily from management projections, which were developed based on expectations of industry activity and pricing with reference to benchmark commodity pricing, historical performance and the prevailing market conditions. The expectation was that activity levels will trough in 2016 and then gradually recover from 2017 through 2019 in line with historical industry experience.

Cash flows used in the calculation were discounted using a discount rate specific to each CGU. The discount rate was derived from the Company’s weighted average cost of capital, adjusted for risk factors specific to each CGU. The after-tax discount rate used in determining the recoverable amount was approximately 9.7%.

The recoverable amount of each CGU as determined based on value in use calculation exceeded its carrying value and no impairment charge was recorded.

#### Change in accounting estimate

During the third quarter of 2016, the Company conducted an operational efficiency review of its drilling rigs and related equipment. Such review was based on the current economic and operating environment and considered the operating history of these assets in order to assess their useful lives, pace of economic consumption and residual values. The Company continues to believe the utilization method based on operating days is appropriate but has adjusted its “operating days used” estimates to reflect economic consumption of the rig and related equipment in periods of inactivity, essentially establishing a minimum depreciation charge based on 96 operating days each year. In addition, its residual value estimates were changed to nil. The change in estimate results in these assets being depreciated during periods of inactivity.

As a result of this change in estimate, there was an increase in depreciation expense of \$1.8 million for the year ended December 31, 2016.

## 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 income as finance income or finance cost. During the year ended December 31, 2016, the Company recorded an unrealized gain of \$0.5 million (2015: \$5.1 million unrealized loss) resulting from changes in the market value of other assets and \$0.6 million of realized loss on the sale of other assets (2015: \$0.1 million). These amounts were included in finance costs. If the market value of securities on hand at December 31, 2016 would have decreased by 1%, with all other variables held constant, after tax net earnings for the period would have been approximately \$37,000 lower (2015: \$42,000).

## 12. Goodwill

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

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

	December 31, 2016	December 31, 2015
Rental and Transportation Services	\$ 2,514	\$ 2,514
Compression and Process Services	1,539	1,539
	<b>\$ 4,053</b>	<b>\$ 4,053</b>

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 (2015: 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 2016 was determined similarly as in 2015. 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 2016 and 2015.
- An after-tax discount rate of 9.1% (2015: 9.7%) was applied in determining the recoverable amount of the unit.
- The expectation is that activity levels troughed in 2016 and will gradually recover in 2017 through 2019 in line with historical industry experience.

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

### 13. Accounts payable and accrued liabilities

	December 31, 2016	December 31, 2015
Trade payables	\$ 18,256	\$ 9,252
Wages and salaries payables	2,207	2,406
Accrued costs and other payables	16,292	10,344
	<b>\$ 36,755</b>	<b>\$ 22,002</b>

Included in accrued costs and other payables is \$1.5 million (2015: \$0.7 million) relating to contracts in progress as at December 31, 2016.

### 14. Long-term debt

#### Revolving credit facility

In October 2016 the Company renewed its \$65 million revolving credit facility and amended certain margin requirements with a major Canadian financial institution. The revolving credit facility was extended to February 17, 2019 bears interest at the bank's prime rate plus 0.40% and is secured by the Company's cash and cash equivalents, accounts receivable and inventory. Specifically, the margining requirements were changed so that credit would be given for 85% of investment grade accounts receivable plus, without duplication, 75% of non-investment grade accounts receivable that are outstanding for less than 90 days, and 50% of materials inventory up to a maximum of \$32.5 million, less priority claims and outstanding letters of credit (prior to renewal: 75% of accounts receivable outstanding less than 90 days, and 50% of materials inventory to a maximum of \$30.0 million).

This facility was undrawn at December 31, 2016 and 2015 and available to the extent of \$58.5 million based on margin requirements at December 31, 2016 (December 31, 2015: \$57.4 million).

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**Convertible debentures**

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

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

	2015
Convertible debentures, opening balance	\$ 66,361
Accretion of discount	1,429
Equity portion of convertible debenture	1,210
Redemption of convertible debentures	(69,000)
Convertible debentures, end of year	<u>\$ –</u>

**Term loan**

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

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

	December 31, 2016		December 31, 2015	
	Principal	Interest	Principal	Interest
Not later than one year	\$ 1,938	\$ 1,408	\$ 1,879	\$ 1,466
Later than one year and not later than five years	44,962	3,049	46,900	4,457
Later than 5 years	–	–	–	–
	<u>\$ 46,900</u>	<u>\$ 4,457</u>	<u>\$ 48,779</u>	<u>\$ 5,923</u>

Both the bank term loan and revolving credit facility requires that the Company maintain a debt to equity ratio not exceeding 2.5 to 1 and a current ratio of at least of 1.3 to 1. The debt to equity ratio is calculated as long-term debt and finance lease liabilities of the Company less cash and cash equivalents, divided by total equity. The current ratio is calculated as current assets divided by current liabilities (excluding current portion of long-term term debt and finance leases). At December 31, 2016 the Company was in compliance with all bank covenants.

**15. Finance lease liabilities**

	December 31, 2016	December 31, 2015
Finance lease liability	\$ 3,003	\$ 4,308
Less current portion	1,408	2,023
Long-term finance lease liability, end of year	<u>\$ 1,595</u>	<u>\$ 2,285</u>

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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 2.71% – 3.37% (December 31, 2015: 2.12% – 3.13%) and mature on various dates up to 2021 (see note 25).

In 2016, interest of \$0.1 million (December 31, 2015 – \$0.2 million) relating to finance lease obligations has been included in finance costs.

	Minimum lease payments		Present value of minimum lease payments	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Not later than one year	\$ 1,513	\$ 2,166	\$ 1,408	\$ 2,023
Later than one year and not later than five years	1,689	2,425	1,595	2,285
Later than 5 years	–	–	–	–
	3,202	4,591	3,003	4,308
Less: future finance charges	(199)	(283)	–	–
Present value of minimum lease payments	\$ 3,003	\$ 4,308	\$ 3,003	\$ 4,308

#### 16. Deferred income tax assets and liabilities

The components of the net deferred income tax liability at December 31, 2016 and 2015 are as follows:

	December 31, 2016	December 31, 2015
Deferred income tax assets:		
Non-capital losses	\$ 966	\$ –
Other assets	676	737
Partnership loss deferral	4,534	–
Deferred income tax liabilities:		
Property, plant and equipment	(61,430)	(58,840)
Partnership income deferral	–	(3,133)
Other	(277)	(303)
	\$ (55,531)	\$ (61,539)
Deferred income tax assets	430	–
Deferred income tax liabilities	(55,961)	(61,539)
Net deferred income tax assets (liabilities)	\$ (55,531)	\$ (61,539)

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.

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Movement in temporary differences during the period:

	Dec 31, 2014	Recognized in net income	Deferred taxes on acquisition	Dec 31, 2015	Recognized in net loss	Dec 31, 2016
Deferred income tax assets:						
Partnership loss deferral	\$ -	\$ -	\$ -	\$ -	\$ 4,534	\$ 4,534
Non-capital losses	-	-	-	-	966	966
Other assets	-	737	-	737	(61)	676
Deferred income tax liabilities:						
Convertible debentures	\$ (510)	510	-	-	-	-
Property, plant and equipment	(50,597)	(7,811)	(432)	(58,840)	(2,590)	(61,430)
Partnership income deferral	(8,724)	5,591	-	(3,133)	3,133	-
Other	(287)	(16)	-	(303)	26	(277)
	\$ (60,118)	\$ (989)	\$ (432)	\$ (61,539)	\$ 6,008	\$ (55,531)

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:

	2016	2015
Net income (loss) before income taxes	\$ (15,972)	\$ 16,550
Income tax rate	26.83%	26.03%
Expected income tax (recovery) expense	\$ (4,285)	\$ 4,308
Changes in taxes resulting from:		
Change in tax rates	(231)	3,580
Non-deductible share-based compensation	352	358
Other	106	(351)
Total income tax expense (recovery)	\$ (4,058)	\$ 7,895

## 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.

(iii) Common shares issued:

	Number of shares (thousands)	Amount
Balance, December 31, 2014	31,005	\$ 88,899
Repurchased and cancelled	(8)	(24)
Balance, December 31, 2015	30,997	\$ 88,875
Repurchased and canceled	(77)	(221)
<b>Balance, December 31, 2016</b>	<b>30,920</b>	<b>88,654</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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During the year ended December 31, 2016, 77,100 common shares (December 31, 2015: 7,900) were repurchased under the Company's normal course issuer bid at an average price of \$12.97 (December 31, 2015: \$13.64), including commissions, and these shares were cancelled. The excess of price paid over the average price per common share has been charged to retained earnings.

**(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, 2016	Year ended December 31, 2015
Net income (loss) for the year	\$ (11,914)	\$ 8,655
Weighted average number of shares outstanding – Basic	30,967	31,000
Earnings (loss) per share – basic	\$ (0.38)	\$ 0.28
Net income (loss) for the year	\$ (11,914)	\$ 8,655
Weighted average number of shares outstanding – Basic	30,967	31,000
Share option dilution	–	22
Weighted average number of shares outstanding – Diluted	30,967	31,022
Earnings (loss) per share – diluted	\$ (0.38)	\$ 0.28

For the year ended December 31, 2016, 2,560,000 options (December 31, 2015: 1,920,000) and nil shares (December 31, 2015: 1,177,226) potentially issuable upon conversion of the convertible debentures weighted for the time period prior to redemption were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

During 2016, the Company declared dividends of \$7.4 million (2015: \$7.4 million) or \$0.24 (2015: \$0.24) per common share.

**18. Share-based compensation plan**

On June 1, 2009, the Company implemented a share option plan which was drafted to comply with the policies of the Toronto Stock Exchange. Under the plan, options to acquire common shares of the Company may be granted to officers and employees of the Company and to consultants retained by the Company. On May 24, 2012 and May 21, 2015, the Company implemented new share option plans, which terms are consistent with the previous share option plan. The terms of the plans (collectively the "TSX Plans") are outlined below.

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

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Share option transactions during 2016 and 2015 were as follows:

	Weighted average exercise price	Number of Options
Balance, December 31, 2014	\$ 14.73	1,720,000
Granted	14.13	1,400,000
Forfeited	22.81	(60,000)
Balance, December 31, 2015	\$ 14.30	3,060,000
Expired	15.97	(376,666)
Forfeited	15.54	(123,334)
<b>Balance, December 31, 2016</b>	<b>\$ 13.99</b>	<b>2,560,000</b>

The share options issued during 2015 vest 1/3 on the first, second and third anniversary from the grant date and expire five years from the date of grant. The options expire on various dates ranging from May 24, 2017 to July 28, 2020.

There were no options exercised during 2016 and 2015.

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

Outstanding at December 31, 2016	Exercise Price	Remaining life (years)	Exercisable at December 31, 2016
1,140,000	\$ 13.74	0.40	1,140,000
76,666	14.96	1.10	76,666
53,334	14.72	1.40	53,334
1,290,000	14.13	3.60	429,997
<b>2,560,000</b>	<b>\$ 13.99</b>	<b>2.05</b>	<b>1,699,997</b>

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

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value of the share options granted. There were no options granted in 2016. The average per share fair value of the options granted during 2015 is \$2.36 per option using the following assumptions:

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

For the year ended December 31, 2016 the Company recognized share-based compensation expense of \$1.3 million (2015 – \$1.4 million).

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**19. Revenue**

	2016	2015
Rendering of services	\$ 100,103	\$ 152,110
Sale of goods	97,697	131,083
	<u>\$ 197,800</u>	<u>\$ 283,193</u>

**20. Cost of services**

	2016	2015
Inventory	\$ 108,575	\$ 136,832
Wages and salaries	33,295	46,349
Repair and maintenance	6,955	9,306
Fuel and travel	6,043	8,888
Rent and services	2,382	3,045
Parts and supplies	723	783
Other	2,568	1,347
	<u>\$ 160,541</u>	<u>\$ 206,550</u>

**21. Selling, general and administration**

	2016	2015
Wages and salaries	\$ 15,149	\$ 19,469
Professional and legal	2,311	1,932
Office and marketing	2,001	2,585
Rent	1,274	1,284
Travel	970	1,268
Other	1,219	1,437
	<u>\$ 22,924</u>	<u>\$ 27,975</u>

**22. Employee benefits**

	2016	2015
Cost of services	\$ 33,295	\$ 46,349
Selling, general and administration	15,149	19,469
Share-based compensation	1,311	1,375
	<u>\$ 49,755</u>	<u>\$ 67,193</u>

**23. Finance income**

	2016	2015
Change in fair value of other assets	\$ 463	\$ -
Interest on outstanding cash balances	84	66
Dividends	-	831
	<u>\$ 547</u>	<u>\$ 897</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 24. Finance costs

	2016	2015
Interest on long-term debt	\$ 1,466	\$ 1,009
Interest on finance lease obligations	116	177
Convertible debenture interest	–	1,524
Accretion of convertible debenture	–	1,429
Change in fair value of other assets	–	5,110
Other interest	844	479
	<b>\$ 2,426</b>	<b>\$ 9,728</b>

## 25. Financial risk management and financial instruments overview

**Capital management**

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying businesses. The Company seeks to maintain an appropriate balance between the level of long-term debt and shareholders' equity to ensure access to the capital markets to fund growth and working capital having regard to the cyclical nature of the energy services industry. Historically the Company has maintained a conservative ratio of long-term debt to long-term debt plus equity. As at December 31, 2016 and 2015 these ratios were as follows:

	December 31, 2016	December 31, 2015
Long-term debt (including current portion)	\$ 46,900	\$ 48,779
Shareholders' equity	364,302	383,335
Total capitalization	\$ 411,202	\$ 432,114
Long-term debt to long-term debt plus equity ratio	0.11	0.11

As at December 31, 2016, the Company was subject to externally imposed minimum capital requirements relating to its revolving credit facility and term loan. Both the bank term loan and revolving credit facility require that the Company maintain a debt to equity ratio not exceeding 2.5 to 1 and a current ratio of at least of 1.3 to 1. The debt to equity ratio is calculated as long-term debt and finance lease liabilities of the Company less cash and cash equivalents, divided by total equity. The current ratio is calculated as current assets divided by current liabilities (excluding current portion of long-term term debt and finance leases). The Company monitored these requirements to ensure compliance with them. As at December 31, 2016 and 2015 the Company was in compliance with all external minimum capital requirements.

**Financial instruments**

The Company's financial instruments as at December 31, 2016 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 in the period the changes in fair value occur. The discounted future cash repayments of the Company's bank loan are calculated using prevailing market rates of a similar debt instrument as at the reporting date. The net present value of future cash repayments of the bank loan and related interest at the prevailing

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market rate of 3.32% for a similar debt instrument at December 31, 2016 was \$46.5 million (December 31, 2015: market rate of 2.90%, \$49.1 million). The carrying value and Company's liability with respect to the bank loan is \$46.9 million.

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

- Credit risk
- Liquidity risk
- Market risk

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

#### Credit risk

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

The vast majority of the Company's trade accounts receivable are customers involved in the oil and gas industry, and the ultimate collection of the accounts receivable is dependent on both industry related factors and customer specific factors. Industry related factors that may affect collection include commodity prices and access to capital. Customer specific factors that may affect collection include realized commodity prices, the success of drilling programs, well reservoir decline rates and access to capital. 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, 2016, \$3.9 million, or 8% of accounts receivable (2015: \$6.6 million or 13%) were more than 90 days overdue, which includes \$2.3 million of doubtful accounts for which a provision has been recognized (December 31, 2015: \$2.0 million).

The ageing of accounts receivable is in the range of expectations given the challenging economic environment.

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

	Allowance for doubtful accounts
Balance at December 31, 2014	\$ 1,591
Provisions and revisions	389
Balance at December 31, 2015	<u>\$ 1,980</u>
Provisions and revisions	324
<b>Balance at December 31, 2016</b>	<b><u>\$ 2,304</u></b>

The Company does not have significant exposure to any individual customer or counter party, other than one intermediate oil and gas company, accounted for over 10% of revenue during the year ended December 31, 2016. 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, 2016, the Company maintained a revolving credit facility which was available to a maximum of \$65 million and had long-term debt of \$46.9 million outstanding that comes up for renewal on April 30, 2020 (December

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31, 2015: \$65 million and \$48.8 million) to ensure the Company has sufficient working capital to operate its business. As at December 31 of each of 2016 and 2015 the revolving credit facility was undrawn.

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

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

As at December 31, 2016	Later than 1 year			Total
	No later than 1 year	and not later than 5 years	Later than 5 years	
Accounts payable and accrued liabilities	\$ 36,755	\$ –	\$ –	\$ 36,755
Dividends payable	1,856	–	–	1,856
Long-term debt	3,346	48,011	–	51,357
Finance leases	1,513	1,689	–	3,202
<b>Total</b>	<b>\$ 43,470</b>	<b>\$ 49,700</b>	<b>\$ –</b>	<b>\$ 93,170</b>

As at December 31, 2015	Later than 1 year			Total
	No later than 1 year	and not later than 5 years	Later than 5 years	
Accounts payable and accrued liabilities	\$ 22,002	\$ –	\$ –	\$ 22,002
Dividends payable	1,860	–	–	1,860
Long-term debt	3,345	51,357	–	54,702
Finance leases	2,166	2,425	–	4,591
<b>Total</b>	<b>\$ 29,373</b>	<b>\$ 53,782</b>	<b>\$ –</b>	<b>\$ 83,155</b>

### Market risk

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

- Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company's sales are predominantly denominated in Canadian dollars, which is the Company's functional currency, and as such the Company does not have significant exposure to foreign currency exchange rate risk. Where sales are denominated in a currency other than Canadian dollars, the Company may enter into forward currency contracts to mitigate its exposure to exchange rate fluctuations from the date of sale until the date of receipt of funds. The Company estimates that approximately 37% of its operating expenses in 2016 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, 2016 net amount of foreign exchange differences recorded in net loss was \$0.1 million.

- Forward foreign exchange contracts

The notional principal amount of forward foreign exchange contracts outstanding as at December 31, 2016 was US\$4.3 million (December 31, 2015: US\$1.0 million). These contracts are short term in nature. The fair value of the forward foreign

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exchange contracts was determined using quoted forward rates for the identical contracts at December 31, 2016 (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, 2016 was \$1.34 Canadian dollar per United States dollar (December 31, 2015: \$1.41 Canadian dollar per United States dollar). For the year ended December 31, 2016 the mark to market gain on foreign exchange contracts was \$0.2 million (2015: \$0.1 million loss) and is included in the net loss.

- 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, 2016, if interest rates had been 1% lower with all other variables held constant, after tax net earnings for the period would have been approximately \$27,000 higher (December 31, 2015 – \$36,000), due to lower interest expense on existing finance lease obligations. An equal and opposite impact would have occurred to net earnings had interest rates been 1% higher. The sensitivity in 2016 is consistent with 2015 due primarily to the fixed interest rate on the Company's on long-term debt.

The Company had no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2016.

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

## 26. Commitments

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

	December 31, 2016	December 31, 2015
Less than one year	\$ 1,958	\$ 2,219
Between one and five years	1,960	3,279
More than five years	-	-
	<b>\$ 3,918</b>	<b>\$ 5,498</b>

The Company also has purchase obligations of \$22.1 million as at December 31, 2016 (December 31, 2015: \$8.6 million) relating to commitments to purchase inventory.

## 27. Contingencies

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

The Company has received both legal and tax advice relating to its conversion from an income trust to a corporation indicating that its income tax filing position is strong. As such, the Company has filed notices of objection in response to the Reassessment and intends to vigorously defend its filing position and seek reimbursement from the CRA for the costs arising from having to defend such Reassessment to the fullest extent possible. Management believes that it will be successful in defending its tax filing position, and as such, the Company has not recognized any provision for the Reassessment at December 31, 2016. 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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successful, an additional \$13.7 million of cash may be owing and \$20.8 million of income tax expense, including interest, would be recognized.

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

## 28. Related parties

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

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

Key management personnel compensation is comprised of:

	December 31, 2016	December 31, 2015
Short-term employee benefits	\$ 3,267	\$ 4,099
Share-based compensation <sup>(1)</sup>	1,450	1,116
	<u>\$ 4,717</u>	<u>\$ 5,215</u>

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

At December 31, 2016 directors of the Company own or control 8 percent of the voting shares of the Company (2015: 8 percent).

There have been no transactions over the reporting period with key management personnel (2015: nil), and no outstanding balances exist as at period end (2015: nil).

## 29. Take-over bid to purchase shares of Savanna Energy Services Corp.

On December 9, 2016, the Company commenced an offer to purchase (the "Offer") all of the common shares (the "Savanna Shares") of Savanna Energy Services Corp. ("Savanna"), including any Savanna Shares that may become issued and outstanding (including upon the exercise, exchange or conversion of any securities convertible into, or exchangeable or exercisable for, Savanna Shares or otherwise evidencing a right to acquire any Savanna Shares or other securities of Savanna) after December 9, 2016 but prior to 11:59 p.m. (Pacific Time) on March 24, 2017, unless the Offer is accelerated or extended by the Company or withdrawn by the Company. The Offer was amended on March 1, 2017. Savanna shareholders who accept the Offer will be entitled to receive, in exchange for their Savanna Shares, 0.1300 of a common share of the Company plus \$0.20 cash for each Savanna Share. This exchange ratio is fixed and unless the Offer is amended or varied by the Company, will not be adjusted to reflect changes in the prices for Savanna Shares or the Company's common shares prior to the expiry of the Offer.

The financial impact of this transaction on the Company's financial statements will be determined in the event that the Offer is successful.

TOTAL ENERGY SERVICES INC.  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**30. Subsidiaries**

Significant subsidiaries and partnerships:

	Country of Incorporation	Ownership Interest, %	
		2016	2015
Chinook Drilling, a division of Total Energy Services Inc.	Canada	100	100
Total Oilfield Rentals LP	Canada	100	100
Bidell Equipment LP	Canada	100	100
Spectrum Process Systems Inc.	Canada	100	100
Total Oilfield Rental Inc.	Canada	100	100
TES Investments Ltd.	Canada	100	100
TES Finance Corp.	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

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

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

Daniel Halyk  
*President and Chief Executive Officer*

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

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

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

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

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

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

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

### MANAGEMENT TEAM

#### TOTAL ENERGY SERVICES INC.

Daniel Halyk  
*President and Chief Executive Officer*

Gerry Crawford  
*Vice President, Field Services*

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

Yuliya Gorbach  
*Vice President, Finance and Chief Financial Officer*

William Kosich  
*Vice President, Drilling Services*

Brad Macson  
*Vice President, Operations*

#### CHINOOK DRILLING, A DIVISION OF TOTAL ENERGY SERVICES INC.

Rod Rundell  
*General Manager*

#### TOTAL OILFIELD RENTALS LIMITED PARTNERSHIP

Clint Gaboury  
*General Manager*

#### BIDELL EQUIPMENT LIMITED PARTNERSHIP

Sean Ulmer  
*President*

#### SPECTRUM PROCESS SYSTEMS INC.

Kelly Mantei  
*General Manager*

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

### AUDITOR

KPMG LLP

Calgary, Alberta

### TRUSTEE, REGISTRAR AND TRANSFER AGENT

Computershare

Calgary, Alberta

### LEGAL COUNSEL

Bennett Jones, LLP

Calgary, Alberta

### BANKER

HSBC

Calgary, Alberta

### STOCK EXCHANGE LISTING

Toronto Stock Exchange

Common Shares: TOT

### CANADIAN LOCATIONS

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

### U.S. LOCATIONS

Denver, CO • Watford City, ND • Casper, WY • Gillette, WY



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