2017

FOCUS DISCIPLINE GROWTH

Annual Report 2017

TOTAL ENERGY SERVICES INC.

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

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

REPORT TO SHAREHOLDERS

2017 was a transformative year for Total Energy Services. For the first half of the year our focus was on completing the acquisition of Savanna Energy Services, which occurred in June after a long and, at times, challenging process. Our focus during the second half of the year was on achieving the significant cost synergies we believed were attainable by integrating Savanna and Total Energy. With the exception of remediating Savanna's enterprise resource planning ("ERP") system, the integration process is substantially complete.

Our initial target for annual cost synergies was $10 million, excluding interest savings. I am pleased to report that we expect to achieve at least $14 million of operating and selling, general and administration cost savings during 2018. Additional savings beyond 2018 are expected to be realized as legacy commitments such as building leases expire and the remediation of Savanna's ERP system is completed. Additionally, to date we have realized over $5.0 million of annual interest expense savings through refinancing of Savanna's debt. Further interest savings are expected when we refinance the remaining $67.5 million of Savanna senior unsecured notes that mature in May 2018.

During the fourth quarter of 2017 we began the process of decommissioning and disposing of non-productive assets. Notably, our Rentals and Transportation Services segment's equipment fleet was reduced by approximately 700 rental pieces and 13 heavy trucks. Efforts to dispose of idle drilling and service rigs as well as excess real estate have recently begun and we expect this process to continue over the next several quarters.

LOOKING FORWARD

During the course of 2017 and into 2018, energy industry conditions have generally improved in the markets in which Total Energy competes, with the unfortunate exception of Canada. Canadian oil and natural gas producers have and continue to face significant headwinds, including suffering from substantial domestic commodity price discounts due to insufficient energy transportation infrastructure. The shift of energy investment away from Canada is evidenced by the fact that beginning in the third quarter of 2017, a majority of Total Energy's revenues were derived from outside of Canada. The proportion of revenue derived from outside of Canada continued to increase during the fourth quarter of 2017, with 55% of quarterly revenues coming from the United States and Australia. We expect this trend will continue unless and until Canada resolves its energy infrastructure limitations with the construction of oil and natural gas pipelines and liquefied natural gas export terminals.

Total Energy's current capital budget for 2018 is $48 million, which includes $24 million for equipment maintenance and upgrades and $24 million for targeted growth opportunities. As a result of the stagnant industry conditions in Canada, substantially all of Total Energy's growth capital has been allocated to international opportunities, including the continued expansion of our Compression and Process Services business in the United States.

Finally, all Shareholders and other interested persons are invited to attend the annual meeting of Shareholders that will commence at 2:30 p.m. (MDT) on Thursday, May 17, 2018 at the Calgary Petroleum Club, 319 – 5th Avenue S.W., Calgary, Alberta.

DANIEL K. HALYK
President and Chief Executive Officer

March 2018

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 8, 2018 and focuses on information and key statistics from the audited consolidated financial statements of the Company for the year ended December 31, 2017 (the "2017 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 2017 Financial Statements, the Company's 2017 Annual Report, the Annual Information Form ("AIF") for the year ended December 31, 2017 and the cautionary statement regarding forward-looking information and statements below. Additional information relating to Total Energy, including the Company's AIF, may be found on SEDAR at www.sedar.com. Unless otherwise indicated, all dollar amounts presented herein are in Canadian dollars.

FINANCIAL HIGHLIGHTS

	Three months ended December 31			Twelve months ended December 31		
	2017	2016	Change	**2017**	2016	Change
Revenue	**$ 180,230**	$ 57,415	214%	**$ 604,662**	$ 197,800	206%
Operating income (loss)	**9,680**	(4,296)	nm	**3,205**	(15,110)	nm
EBITDA (1)	**29,729**	3,554	736%	**71,604**	14,041	410%
Cashflow	**27,803**	2,827	883%	**76,571**	15,717	387%
Net income (loss)	**6,554**	(3,667)	nm	**(3,703)**	(11,914)	69%
Attributable to shareholders	**6,195**	(3,667)	nm	**(1,916)**	(11,914)	84%
Per Share Data (Diluted)						
EBITDA (1)	**0.64**	0.11	482%	**1.71**	0.45	280%
Cashflow	**0.60**	0.09	567%	**1.82**	0.51	257%
Attributable to shareholders:						
Net income (loss)	**0.13**	(0.12)	nm	**(0.05)**	(0.38)	87%
Financial Position at				**Dec. 31 2017**	Dec. 31 2016	
Total Assets				**1,066,781**	522,599	104%
Long-Term Debt and Obligations Under Finance Leases (excluding current portion)				**257,845**	46,557	454%
Working Capital (2)				**54,892**	71,770	(24%)
Net Debt (1)				**202,953**	–	nm
Shareholders' Equity				**546,574**	364,302	50%
Shares Outstanding (000's) (3)						
Basic and Diluted	**46,238**	30,920	50%	**41,963**	30,967	36%

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

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

(3) Basic and diluted shares outstanding reflect the weighted average number of common shares outstanding for the period. See note 17 to the 2017 Financial Statements.

"nm" – calculation is not meaningful

BUSINESS OF THE COMPANY

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

Acquisition

During the second quarter of 2017, the Company completed the acquisition of Savanna Energy Services Corp. ("Savanna") and thereby further diversified its exposure to global energy development. Results for the fourth quarter and the year ended December 31, 2017 were materially impacted by such acquisition. For further information on the Savanna acquisition, please refer to the "Acquisition of Savanna" section of this MD&A and note 5 to the 2017 Financial Statements.

Contract Drilling Services: At December 31, 2017, the Company operated a total fleet of 119 drilling rigs, with 101 rigs added on the acquisition of Savanna. The rig fleet is supported by an extensive fleet of owned top drives, walking systems, pumps and other ancillary equipment. Composition of the Company's drilling rig fleet is as follows:

By Type	
Triples	5
AC doubles	15
Mechanical doubles	53
Australian shallow	5
TDS and singles	41
	119

By Geography	
Canada	86
United States	28
Australia	5
	119

Rentals and Transportation Services: Total Energy's RTS business is presently conducted from 25 locations in western Canada and two locations in the northwestern United States. At December 31, 2017, this segment had approximately 11,000 pieces of major rental equipment (excluding access matting), a fleet of 112 heavy trucks and a significant inventory of small rental equipment. The Savanna acquisition added approximately 1,700 major rental pieces, four heavy trucks and a fleet of small rental equipment. Three full service branch locations in Canada were also added (Fort MacKay, Lloydminster and Swift Current).

Compression and Process Services: The Company fabricates a full range of natural gas compression equipment as well as select oil and natural gas process equipment. At December 31, 2017 the CPS segment occupied approximately 187,000 square feet of production facilities located in Calgary, Alberta and a 100,000 square foot facility in Weirton, West Virginia. The Weirton facility commenced production activity in June 2017 and will support North American and international equipment sales. As at December 31, 2017 the CPS segment also had a network of 12 branch locations throughout western Canada and the United States from which its natural gas compression parts and service business is conducted. This segment had 40,000 horsepower of compression in its rental fleet at December 31, 2017.

Well Servicing: The Company entered the well servicing business through the acquisition of Savanna. At December 31, 2017, the Company operated a total fleet of 86 well servicing rigs across western Canada, northwest United States and Australia. Composition of the Company's service rig fleet is as follows:

By Type	
Singles	38
Doubles	35
Australian spec	9
Flush-by	4
	86

By Geography	
Canada	57
United States	17
Australia	12
	86

SELECTED FINANCIAL INFORMATION

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

	Year Ended December 31,		
(in thousands of dollars except per share amounts)	**2017**	2016	2015
Revenue	**$ 604,662**	$ 197,800	$ 283,193
Cash provided by operations	**64,384**	38,489	40,744
Cashflow	**76,571**	15,717	19,064
Net (loss) income	**(3,703)**	(11,914)	8,655
Attributable to shareholders	**(1,916)**	–	–
Per share (basic)	**(0.05)**	(0.38)	0.28
Per share (diluted)	**(0.05)**	(0.38)	0.28
Dividends declared per share	**0.24**	0.24	0.24
Total assets	**1,066,781**	522,599	532,379
Long term liabilities (excluding current obligations under finance leases, current portion of long-term debt and deferred tax liability)	**260,579**	46,557	49,185

OVERALL PERFORMANCE

Total Energy's results for the year ended December 31, 2017 reflect improving North American industry activity levels from the historic lows experienced during 2016 and initial cost synergies arising from the integration of Savanna. Despite higher activity, operating margins remained under pressure, particularly within the CDS and RTS segments where spot market pricing continued to suffer from competitive market conditions. The Company's results for 2017 were materially impacted by the overall change in the scope and scale of the business arising from the acquisition of Savanna. Negatively impacting the Company's results for 2017 was approximately $7.6 million of non-recurring expenses, including $6.0 million of costs related to the acquisition and integration of Savanna and $1.4 million related to remediation of Savanna's enterprise resource planning system ("ERP").

The Company's financial condition remains strong, with a positive working capital balance of $54.9 million as at December 31, 2017 as compared to $71.8 million of working capital at December 31, 2016. Despite incurring a net loss and maintaining a dividend during 2017, shareholders' equity increased by $182.3 million due to the issuance of common shares by the Company in connection with the acquisition of all of the common shares ("Savanna Shares") of Savanna.

Revenue

The substantial increase in revenue for the three months and the year ended December 31, 2017 relative to the same periods in 2016 was the result of higher activity levels in all of the Company's segments and the acquisition of Savanna during the second quarter of 2017. Revenue during the three months and the year ended December 31, 2017 was $180.2 million and $604.7 million as compared to $57.4 million and $197.8 million during the same periods in 2016. During the three months and the year ended December 31, 2017 Savanna contributed $88.7 million and $257.7 million to the consolidated revenue of the Company.

Cost of Services

Cost of services increased by 192% and 202% to $137.8 million and $484.4 million for the three months and year ended December 31, 2017, as compared to $47.3 million and $160.5 million for the same periods in 2016. The increase in costs of services during the fourth quarter and the year ended December 31, 2017 was in line with higher activity levels in all business segments and the increased scale of operations arising from the acquisition of Savanna.

Gross margin, as a percentage of revenue, for the three months and year ended December 31, 2017 was 24% and 20% as compared to 18% and 19% for the same periods in 2016. Gross margin realized in the fourth quarter of 2017 was higher than the fourth quarter of 2016 due primarily to the contribution of the WS segment through the acquisition of Savanna and higher utilization in the RTS segment. This was offset somewhat by competitive market conditions not permitting the Company to increase pricing to the extent necessary to offset higher cost of services, particularly in the CDS segment. Also impacting gross margin was an unrealized gain on foreign exchange of $0.6 million and unrealized loss on foreign exchange of $4.4 million, respectively, during the three months and year ended December 31, 2017 that relates to intercompany working capital balances.

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

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 107% to $13.3 million and 113% to $48.5 million for the three months and year ended December 31, 2017, respectively, relative to the prior year comparable periods. Such increase was due primarily to the acquisition of Savanna and includes $0.2 million and $6.0 million, respectively, of non-recurring acquisition and integration costs incurred during the three months and year ended December 31, 2017. Also included in 2017 selling, general and administrative expenses is $1.4 million of non-recurring ERP system remediation and related costs.

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

Share-based Compensation Expense

Share-based compensation expense arises from share options granted pursuant to the share option plan implemented in 2015. The increase in share-based compensation expense for the three months and year ended December 31, 2017 compared to the same periods in 2016 was due to the issuance of share options in 2017.

Depreciation Expense

Depreciation expense for the three months and year ended December 31, 2017 increased by 142% and 137%, respectively, as compared to the same periods in 2016. This was primarily due to the increase in property plant and equipment following the acquisition of Savanna. Depreciation expense incurred for the quarter and the year relating to these acquired assets was $12.4 million and $36.9 million, respectively. The year over year increase in drilling rig utilization and a change in depreciation estimate in the CDS segment as described in Note 10 of the 2017 Financial Statements also contributed to increased depreciation expense compared to 2016. All of the Company's property, plant and equipment is depreciated on a straight-line basis with the exception of contract drilling equipment, which is depreciated on a utilization basis subject to a minimum annual depreciation expense equal to an annual utilization of 96 days.

Operating Income (Loss)

Operating income for the three months and year ended December 31, 2017 improved to $9.7 million and $3.2 million, respectively, as compared to an operating loss of $4.3 million and $15.1 million for the comparable periods in 2016. The realization of operating income for 2017 was primarily a result of the contribution of the WS segment with the acquisition of Savanna and improved results from all business segments as compared to 2016. Negatively impacting operating income are losses on foreign exchange translation and non-recurring costs associated with the acquisition and integration of Savanna, as described above under the headings "Cost of Services" and "Selling, General and Administrative expenses".

Finance Costs

Finance costs for the three months and year ended December 31, 2017 were substantially higher than the prior year comparable periods as a result of higher debt levels following the acquisition of Savanna and certain non-recurring finance costs arising from the change of control at Savanna and the establishment of replacement financing by the Company. For 2017 finance costs include $1.6 million of penalty interest paid during the second quarter of 2017 following the change of control of Savanna and $0.5 million of non-recurring fees associated with the establishment of replacement financing as further described under the headings "Liquidity and Capital Resources" and "Acquisition of Savanna". Offsetting these higher costs were a $0.2 million and $0.3 million unrealized gain, respectively, on Other Assets for the three months and year ending December 31, 2017.

Gain on Sale of Property, Plant and Equipment

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

During the three months and year ended December 31, 2017, proceeds from the sale of property, plant and equipment totaled $3.0 million and $5.9 million, respectively, and resulted in a gain on sale of $1.2 million and $1.6 million. During the three months and year ending December 31, 2016, proceeds from the sale of property, plant and equipment totaled $0.1 million and $5.1 million and resulted in a gain on sale of $0.1 million and $1.0 million.

Income Taxes and Net income

During the three months and year ended December 31, 2017 the Company had a current income tax recovery of $0.4 million and $3.5 million, respectively, as compared to current income tax expense of $1.3 million and $2.0 million during the same periods in 2016. Deferred income tax was an expense of $0.8 million and a recovery of $2.2 million, respectively, for the three months and year ending December 31, 2017 as compared to deferred income tax recoveries of $2.4 million and $6.0 million for the corresponding periods in 2016. This year over year change in current and deferred income tax experience is due to the application of prior year losses against current year earnings and the recently announced decrease in the federal corporate income tax rate in the United States.

Acquisition of Savanna

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

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

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

Please see note 5 to the 2017 Financial Statements for further details regarding the acquisition of Savanna by the Company.

Purchase Price Consideration

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

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

Purchase Price Allocation

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

The acquisition has been accounted for as a business combination using the acquisition method whereby the net assets acquired and liabilities assumed are recorded at fair value. The preliminary purchase price allocation is based on management's best estimates of fair values of Savanna's assets and liabilities as at the Effective Acquisition Date although future adjustments to estimates may be required. Please see note 5 to the 2017 Financial Statements for a detailed allocation of the purchase price consideration to the acquired assets of Savanna.

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

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

The non-controlling interest ("NCI") was initially measured at the NCI's proportionate share of the net identifiable assets acquired. The subsequent transactions on April 7, 2017, April 27, 2017, June 20, 2017 and purchases of Savanna shares in the open market, were accounted for as equity transactions within shareholders` capital and reduced the NCI balance to the fair value of non-controlling interests of Limited Partnerships partially owned by the Company. During the period from April 5, 2017 to December 31, 2017, when the Company did not own 100% of the Savanna equity, a net loss of $1.2 million was incurred that is attributable to the NCI owners.

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

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

SEASONALITY

A significant portion of the Company's field operations are conducted in Canada where the ability to move heavy equipment is dependent on ground conditions. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until such roads have thoroughly dried out. The duration of this "spring breakup" has a direct impact on the Company's activity levels and operating results in Canada. In addition, many exploration and production areas in northern Canada are accessible only in winter months when the ground is frozen hard enough to support heavy equipment. The timing of freeze up and spring breakup affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Company's slowest period in Canada. Additionally, wet weather in Australia, normally in the first quarter, can restrict the Company's Australian operations. Consequently, quarterly operating results may not be indicative of full year operating results.

SUMMARY OF QUARTERLY RESULTS

(in thousands of dollars except per share amounts)

	Financial Quarter Ended			
	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	March 31, 2017
Revenue	**$ 180,230**	$ 185,158	$ 154,922	$ 84,352
Operating income (loss)	**9,680**	6,871	(13,105)	(241)
EBITDA [1]	**29,729**	27,356	6,577	7,942
Cashflow	**27,803**	30,044	10,860	7,821
Cash provided by (used in) operating activities	**26,727**	(2,329)	45,287	(5,301)
Net income (loss)	**6,554**	3,737	(13,141)	(853)
Attributable to shareholders	**6,195**	4,307	(11,565)	(853)
Per share data				
EBITDA [1]	**$ 0.64**	$ 0.59	$ 0.15	$ 0.25
Cashflow	**0.60**	0.65	0.25	0.25
Net income (loss) attributable to shareholders	**0.13**	0.09	(0.26)	(0.03)
Financial Position				
Total Assets	**$ 1,066,781**	$ 1,056,538	$ 1,053,302	$ 635,240
Long-Term Debt and Obligations Under Finance Leases (excluding current portion)	**257,845**	257,981	256,266	58,053
Working Capital [2]	**54,892**	37,053	21,309	77,158
Net Debt [1]	**202,953**	220,928	234,957	nil
Shareholders' Equity	**546,574**	544,647	547,405	466,149
Shares Outstanding (000's) [3]				
Basic	**46,238**	46,238	43,718	31,448
Diluted	**46,238**	46,238	43,718	31,489

	Financial Quarter Ended			
	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	March 31, 2016
Revenue	$ 57,415	$ 46,536	$ 43,893	$ 49,956
Operating income (loss)	(4,296)	(3,012)	(5,289)	(2,513)
EBITDA [(1)]	3,554	4,816	1,368	4,303
Cashflow	2,827	6,076	1,775	5,039
Cash provided by (used in) operating activities	17,100	1,962	6,741	12,686
Net income (loss)	(3,667)	(1,912)	(4,203)	(2,132)
Per share data (basic and diluted)				
EBITDA [(1)]	$ 0.11	$ 0.16	$ 0.04	$ 0.14
Cashflow	0.09	0.20	0.06	0.16
Net Earnings (Loss)	(0.12)	(0.06)	(0.14)	(0.07)
Financial Position				
Total Assets	$ 522,599	$ 507,711	$ 509,349	$ 522,225
Long-Term Debt and Obligations Under Finance Leases (excluding current portion)	46,557	46,719	47,483	48,235
Working Capital [(2)]	71,770	80,094	79,386	87,702
Net Debt [(1)]	nil	nil	nil	nil
Shareholders' Equity	364,302	369,857	374,004	379,696
Shares Outstanding (000's) [(3)]				
Basic and diluted	30,920	30,940	30,985	30,985

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

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

(3) Basic and diluted shares outstanding reflect the weighted average number of common shares outstanding for the period. See note 17 to the 2017 Financial Statements.

Aboriginal Partnerships

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

SEGMENTED RESULTS

Contract Drilling Services

(in thousands of dollars, unless otherwise indicated)	Three Months Ended			Twelve Months Ended		
December 31	**2017**	2016	Change	**2017**	2016	Change
Revenue	**$ 51,417**	$ 4,096	1,155%	**$ 158,051**	$ 11,109	1,323%
Operating income (loss)	**$ 3,634**	$ (921)	nm	**$ (8,858)**	$ (2,432)	(264%)
Operating income%	**7%**	nm		**nm**	nm	
Operating spud to release days	**2,476**	298	731%	**8,092**	776	943%
Revenue per spud to release day, dollars	**$ 20,766**	$ 13,745	51%	**$ 19,532**	$ 14,316	36%

"nm" – calculation not meaningful

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

(in thousands of dollars, unless otherwise indicated) **Q4 2017**	Drilling Canada	Drilling U.S.	Drilling Australia	**Total**
Revenue	$ 21,032	$ 17,517	$ 12,868	**$ 51,417**
Operating (loss) income	$ 341	$ (1,116)	$ 4,409	**3,634**
Operating (loss) income, %	2%	nm	34%	**7%**
Spud to release days	1,393	854	229	**2,476**
Revenue per spud to release day, dollars	15,098	20,512	$ 56,192	**$ 20,766**
Utilization % (spud to release)	18%	33%	50%	**23%**

"nm" – calculation not meaningful

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

"nm" – calculation not meaningful

(in thousands of dollars, unless otherwise indicated) **Q4 2016**	Drilling Canada	Total
Revenue	$ 4,096	$ 4,096
Operating loss	$ (921)	$ (921)
Operating loss, %	nm	nm
Spud to release days	298	298
Revenue per spud to release day, dollars	$ 13,745	$ 13,745
Utilization % (spud to release)	18%	18%

"nm" – calculation not meaningful

(in thousands of dollars, unless otherwise indicated) **2016**	Drilling Canada	Total
Revenue	$ 11,109	$ 11,019
Operating loss	(2,432)	(2,432)
Operating loss, %	nm	nm
Spud to release days	776	776
Revenue per spud to release days, dollars	$ 14,316	$ 14,316
Utilization % (spud to release)	12%	12%

"nm" – calculation not meaningful

The overall increase in CDS segment revenue relative to the three months and year ended December 31, 2016 is primarily a result of the acquisition of Savanna and the operating days generated by the drilling rigs acquired. Operating income for the fourth quarter 2017 was $3.6 million as compared to the operating loss of $0.9 million for the same period in 2016 due to marginally improved utilization and pricing in Canada and a positive contribution from Australian operations. Offsetting these gains was continued price competition, particularly in North America, and increased operating costs due to higher activity levels.

In Canada, for the three months and year ended December 31, 2017 revenue was higher than the comparable periods in 2016 following the acquisition of the Savanna drilling fleet. The modest operating income for the fourth quarter was due to marginally higher revenue per day and cost controls measures introduced during 2017. The Company's CDS segment had no operations in the United States or Australia in 2016.

Rentals and Transportation Services

(in thousands of dollars, unless otherwise indicated)	Three Months Ended			Twelve Months Ended		
December 31	**2017**	2016	Change	**2017**	2016	Change
Revenue	**$ 18,399**	$ 11,213	64%	**$ 68,867**	$ 39,059	76%
Operating loss	**$ (2,069)**	$ (4,200)	51%	**$ (4,658)**	$ (15,208)	69%
Operating loss, %	**nm**	nm		**nm**	nm	
Pieces of rental equipment	**11,000**	10,000	10%	**11,000**	10,000	10%
Heavy trucks	**112**	121	(7%)	**112**	121	(7%)
Rental equipment utilization	**24%**	18%	33%	**24%**	14%	71%

"nm" – calculation not meaningful

The revenue reported from the RTS segment increased for the three months and year ended December 31, 2017 as compared to the same periods in 2016. This was due primarily to increased equipment utilization and an increase in the number of pieces of rental equipment available.

The increase in operating income (decrease in loss) resulted primarily from higher equipment utilization and the resultant increase in revenue on a year over year basis given this segment's relatively high fixed cost structure as compared to the Company's other business segments. Such fixed cost structure includes costs associated with its significant operating branch infrastructure, including maintenance and repairs, utilities, insurance, property taxes and rent. In addition, depreciation expense on this segment's equipment fleet is recorded on a straight-line basis and is not correlated to levels of activity.

(in thousands of dollars, unless otherwise indicated) **Q4 2017**	RTS Canada	RTS U.S.	Total
Revenue	$ 15,159	$ 3,240	$ 18,399
Operating income (loss)	$ (2,702)	$ 633	$ (2,069)
Operating income (loss) %	nm	20%	nm
Pieces of rental equipment	10,500	500	11,000
Rental equipment utilization	24%	29%	24%

"nm" – calculation not meaningful

(in thousands of dollars, unless otherwise indicated) **2017**	RTS Canada	RTS U.S.	Total
Revenue	$ 60,439	$ 8,428	$ 68,867
Operating income (loss)	$ (4,781)	$ 123	$ (4,658)
Operating income (loss) %	nm	1%	nm
Pieces of rental equipment	10,500	500	11,000
Rental equipment utilization	24%	27%	24%

"nm" – calculation not meaningful

(in thousands of dollars, unless otherwise indicated) Q4 2016	RTS Canada	RTS U.S.	Total
Revenue	$ 10,005	$ 1,208	$ 11,213
Operating income (loss)	$ (3,776)	$ (424)	$ (4,200)
Operating income (loss) %	nm	nm	69%
Pieces of rental equipment	9,500	500	10,000
Rental equipment utilization	18%	18%	18%

"nm" – calculation not meaningful

(in thousands of dollars, unless otherwise indicated) 2016	RTS Canada	RTS U.S.	Total
Revenue	$ 35,042	$ 4,017	$ 39,059
Operating income (loss)	$ (13,457)	$ (1,751)	$ (15,208)
Operating income (loss) %	nm	nm	nm
Pieces of rental equipment	9,500	500	10,000
Rental equipment utilization	14%	13%	14%

"nm" – calculation not meaningful

Compression and Process Services

(in thousands of dollars, unless otherwise indicated)	Three Months Ended			Twelve Months Ended		
December 31	**2017**	2016	Change	**2017**	2016	Change
Revenue	**$ 73,213**	$ 42,106	74%	**$ 266,376**	$ 147,632	80%
Operating income	**$ 6,354**	$ 2,800	127%	**$ 20,661**	$ 7,900	162%
Operating income %	**9%**	7%		**8%**	5%	
Sales backlog at period end, $ million	**$ 167.9**	$ 65.5	156%	**$ 167.9**	$ 65.5	156%
Horsepower of equipment on rent at period end	**22,800**	12,600	81%	**22,800**	12,600	81%
Rental equipment utilization (HP)	**54%**	32%	69%	**47%**	32%	47%

The revenue reported from the CPS segment increased for the three months and year ended December 31, 2017 as compared to the same periods in 2016. This was due primarily to higher activity levels, particularly within certain international markets including the United States and Australia. Increased demand from international customers accounts for a substantial increase in the fabrication sales backlog at December 31, 2017 compared to 2016, with a majority of such backlog arising from international markets. The timeline for conversion of the sales backlog into revenue varies from order to order and often changes due to factors outside of the Company's control.

The increase in operating income in the CPS segment during the three months and year ended December 31, 2017, as compared to the same periods in 2016 was due primarily to increased business activity in international markets and increased utilization of the compression rental fleet. The increase in operating income margin during 2017 compared to the same periods in 2016 was primarily a result of increased overhead absorption due to higher production levels and increased compression rental revenues (which generally realize higher operating income margins than other sources of CPS revenue) arising from the year over year increase in compression horsepower on rent.

Well Servicing

(in thousands of dollars, except revenue per hour)	Three Months Ended			Twelve Months Ended		
December 31	**2017**	2016	Change	**2017**	2016	Change
Revenue	**$ 37,201**	$ –	nm	**$ 111,368**	$ –	nm
Operating income	**$ 7,113**	$ –	nm	**$ 12,950**	$ –	nm
Operating income %	**19%**	–	nm	**12%**	–	nm
Billable hours	**39,592**	–	nm	**115,534**	–	nm
Revenue per billable hour	**$ 883**	$ –	nm	**$ 893**	$ –	nm
Operating hours	**34,163**	–	nm	**102,935**	–	nm

"nm" – calculation not meaningful

The WS segment was added in the second quarter of 2017 as part of the acquisition of Savanna and therefore all of the revenue and earnings are incremental to the Company's results. Included in well servicing revenue for the fourth quarter and year of 2017, was $2.2 million and $8.2 million, respectively, from the Company's trucking operations in Australia. The number of hours and per hour revenue above excludes results related to the Company's Australian trucking operations.

Revenue and operating income for the fourth quarter of 2017 decreased relative to the third quarter of 2017. The decrease is primarily due to lower hours, particularly in Canada and the United States, due to the December holiday break. Per hour revenue for the fourth quarter of 2017 was consistent with per hour revenue in the third quarter of 2017. Competitive industry conditions continued to limit the Company's ability to implement meaningful pricing increases.

The following summarizes the quarterly and year-to-date operating results for the WS segment by geographic area from the Effective Acquisition Date. The number of hours, per hour revenue and utilization above and below excludes results related to the Company's Australian trucking operations.

(in thousands of dollars, except per hour amounts)

Q4 2017	Canada	U.S.	Australia	Total
Revenue	$ 10,761	$ 3,061	$ 23,379	$ 37,201
Operating income	$ 893	$ 449	$ 5,771	$ 7,113
Operating income %	8%	15%	25%	19%
Billable hours	17,574	4,678	17,340	39,592
Revenue per billable hour, dollars	$ 612	$ 654	$ 1,219	$ 883
Operating hours	17,574	4,678	11,911	34,163
Utilization % (1)	34%	30%	45%	43%

"nm" – calculation not meaningful

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

(in thousands of dollars, except per hour amounts)

2017	Canada	U.S.	Australia	Total
Revenue	$ 29,182	$ 11,387	$ 70,799	$ 111,368
Operating income (loss)	$ (3,377)	$ 1,202	$ 15,125	$ 12,950
Operating income (loss) %	nm	11%	21%	12%
Billable hours	48,866	16,702	49,966	115,534
Revenue per billable hour, dollars	$ 597	$ 682	$ 1,254	$ 893
Operating hours	48,866	16,702	37,367	102,935
Utilization % (1)	31%	36%	47%	43%

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

Corporate

(in thousands of dollars)	Three months ended			Twelve months ended		
December 31	**2017**	2016	Change	**2017**	2016	Change
Operating loss	**$ (5,352)**	$ (1,975)	(171%)	**$ (16,890)**	$ (5,370)	(215%)

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

Operating loss increased for the three months and year ended December 31, 2017 due to higher costs incurred as part of the acquisition of Savanna. Included in the three months and year ended December 31, 2017, respectively, is $0.2 million and $6.0 million of non-recurring costs incurred in connection with the acquisition and integration of Savanna and $0.9 million and $1.4 million of non-recurring Savanna ERP system remediation costs.

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operating Activities and Cashflow

(in thousands of dollars)	Three months ended			Twelve months ended		
December 31	**2017**	2016	Change	**2017**	2016	Change
Cash provided by operating activities	**$ 26,727**	$ 17,100	56%	**$ 64,384**	$ 38,489	67%
Per Share Data (Diluted)	**0.58**	0.55	5%	**1.53**	1.24	23%
Cashflow	**27,803**	2,827	883%	**76,571**	15,717	387%
Per Share Data (Diluted)	**0.60**	0.09	567%	**1.82**	0.51	257%

The changes in cash provided by operating activities and cashflow were due primarily to the acquisition of Savanna and increased activity levels compared to 2016 with resultant changes in operating income (loss) as described above. 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

(in thousands of dollars)	Three months ended			Twelve months ended		
December 31	**2017**	2016	Change	**2017**	2016	Change
Net cash provided by (used in) investing activities	**$ 276**	$ (5,820)	nm	**$ (29,388)**	$ (16,683)	(76%)
Proceeds from sale of PP&E	**3,033**	139	2,082%	**5,875**	5,148	14%
Purchase of PP&E	**(5,088)**	(4,828)	5%	**(27,394)**	(11,090)	147%

"nm" – calculation not meaningful

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

During the fourth quarter of 2017, $5.1 million of PP&E purchases were allocated as follows: $1.6 million in the CDS segment relating primarily to the purchase of rig equipment, $1.0 million in the RTS segment relating primarily to purchases of rental equipment and $2.5 million in the CPS segment relating primarily to additions to the compression rental fleet. During 2017, $27.4 million of PP&E purchases were allocated as follows: $9.9 million in the CDS segment relating primarily to the purchase of rig equipment, $9.6 million in the RTS segment relating primarily to purchases of rental equipment, $6.8 million in the CPS segment relating primarily to additions to the compression rental fleet and expansion to the northeast United States and $1.1 million in the WS segment to purchase of rig equipment and complete equipment re-certifications. In addition $26.8 million of cash acquisition costs were incurred during 2017 in the Corporate segment relating to the cash consideration paid on the acquisition of Savanna Shares, including Savanna Shares acquired in the open market (see Note 5 to the 2017 Financial Statements for further information).

Financing Activities

(in thousands of dollars)	Three months ended			Twelve months ended		
December 31	**2017**	2016	Change	**2017**	2016	Change
Net cash used in financing activities	**$ (8,921)**	$ (3,637)	145%	**$ (29,758)**	$ (14,765)	102%

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

Liquidity and Capital Resources

The Company had a working capital surplus of $54.9 million as at December 31, 2017 compared to $71.8 million as at December 31, 2016. As at December 31, 2017 and the date of this MD&A, the Company is in compliance with all debt covenants.

On the Effective Acquisition Date (April 5, 2017), the Company acquired control of Savanna. As part of the acquisition, the Company assumed $281.3 million of long-term debt. Please see notes 5 and 14 to the 2017 Financial Statements for particulars of such debt.

On June 19, 2017 the Company entered into a three year $225.0 million revolving syndicated credit facility ("Credit Facility"), with the option to increase such facility by $75 million subject to certain terms and conditions, including the agreement of the lenders to increase their commitments. The Credit Facility includes a Canadian $18.0 million operating line, an Australian $2.0 million operating line and a Canadian $205.0 million revolving facility. The Credit Facility bears interest at the banks' Canadian prime rate plus 0.25% to 2.75%, bankers' acceptance, letter of credit, LIBOR or BBSY advances plus a 1.5% to 4.0% stamping fee. These interest rate ranges are dependent on certain financial ratios of the Company. A standby fee ranging from 0.25% to 0.8% per annum is paid quarterly on the unused portion of the facility depending on certain financial ratios of the Company. At December 31, 2017, the applicable interest rate on amounts drawn on the Credit Facility was 3.65% and the standby rate was 0.44%. Letters of credit outstanding at December 31, 2017 were $4.9 million that reduces the amount that could be drawn on this facility.

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

	December 31, 2017	Threshold
Twelve-month trailing Bank EBITDA to interest expense	**5.07**	minimum 2.00
Total Senior Debt to twelve-month trailing Bank EBITDA	**1.95**	maximum 5.00

The Company was in compliance with all of its Credit Facility covenants at December 31, 2017. For further information regarding Credit Facility compliance requirements, please refer to note 14 to the 2017 Financial Statements.

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

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

In addition to the Credit Facility, Savanna has established a $5.0 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At December 31, 2017 this facility was fully available and undrawn.

At December 31, 2017 the Company's long-term debt consisted of the following:

	December 31, 2017	
	Interest rate	Principal Amount
Credit Facility	3.65%	$ 196,000
Senior unsecured notes	7.00%	67,531
Mortgage loan (2020 maturity)	3.06%	44,962
Mortgage loan (2041 maturity)	5.25%	16,375
Limited partnership credit facilities	5.45%	2,830
		327,698
Less current portion		72,058
		$ 255,640

At December 31, 2017, amounts owing under the Credit Facility and other outstanding long-term debt were denominated in Canadian dollars.

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

The Company expects that cash and cash equivalents, cash flow from operating activities, together with existing and available credit facilities (including the conditionally available $75 million increase to the Credit Facility), 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, 2017 the Company declared dividends of $2.8 million ($0.06 per share) and $10.7 million ($0.24 per share) as compared to $1.9 million ($0.06 per share) and $7.4 million ($0.24 per share) for the same periods in 2016. The increase in the aggregate dividend paid reflects the increased number of shares of the Company outstanding following the acquisition of Savanna.

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

Capital Spending

Capital spending for the three months ending December 31, 2017 consisted of $5.1 million of PP&E purchases. For 2017 capital spending amounted to $54.2 million and consisted of $27.4 million of PP&E purchases and $26.8 million related to the acquisition of Savanna. Capital spending was funded with cash on hand and available credit facilities.

CONTRACTUAL OBLIGATIONS

At December 31, 2017, the Company had the following contractual obligations:

	Payments due by year					
(in thousands of dollars)	Total	2018	2019	2020	2021	2022 and after
Long-term debt	$ 327,698	$ 72,058	$ 3,712	$ 237,585	$ 680	$ 13,663
Commitments (1)	15,877	4,465	3,678	3,331	2,900	1,503
Finance leases	3,800	1,595	1,181	771	224	29
Purchase obligations (2)	57,029	57,029	–	–	–	–
Total contractual obligations	$ 404,404	$ 135,147	$ 8,571	$ 241,687	$ 3,804	$ 15,195

(1) Commitments are described in Note 26 to the 2017 Financial Statements.

(2) Purchase obligations are described in Note 26 to the 2017 Financial Statements. As at December 31, 2017, purchase obligations primarily relate to commitments to purchase inventory in the CPS segment.

OFF-BALANCE SHEET ARRANGEMENTS

During 2017 and 2016, the Company had no off-balance sheet arrangements other than operating leases.

TRANSACTIONS WITH RELATED PARTIES

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

FINANCIAL INSTRUMENTS

Fair values

The Company's financial instruments as at December 31, 2017 include cash and cash equivalents, accounts receivable, other assets, accounts payable and accrued liabilities, dividends payable, forward foreign exchange contracts, obligations under finance leases and long-term debt. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and obligations under finance leases approximate their carrying amounts due to their short-terms to maturity. The fair value of other assets 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 market rate of 4.04% for a similar debt instrument at December 31, 2017 was $44.0 million (December 31, 2016: market rate of 3.32%, $46.5 million). The carrying value and Company`s liability with respect to the bank loan is $45.0 million.

OUTSTANDING COMPANY SHARE DATA

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

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

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

OUTLOOK

Industry Conditions

With a sustained improvement in commodity prices since WTI oil prices fell below US$30 a barrel in 2016, North American oil and natural gas drilling and completion activity levels continued the recovery that began in the fourth quarter of 2016. However, Canadian producers have and continue to suffer significant price discounts for oil and natural gas due to insufficient transportation infrastructure. Realized oil and natural gas prices in Australia have improved over the past several quarters. As such, current expectations are that oil and natural gas drilling activity for 2018 will increase in the United States and Australia but remain relatively flat in Canada as compared to 2017. Increased drilling and completion activity has contributed to increased demand for compression and process equipment and related services, including increased demand for compression rental equipment. While pricing for the Company's products and services has improved modestly, it remains low by historical standards, particularly in Canada within the CDS, RTS and WS segments. Higher activity levels will need to be sustained for some time before meaningful price recovery is achieved. Continued volatility in oil and natural gas prices and energy equity markets gives rise to caution regarding future activity levels.

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

Despite near term challenges and uncertainties, the Company believes that medium to long-term fundamentals require continued exploration and development in the markets in which it competes, particularly in respect of unconventional reserves, to meet global demand for oil and natural gas. A continued focus on the development of unconventional oil and natural gas resources in Canada and elsewhere is expected to continue to drive activity in the future, particularly 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 such as rail.

RISK FACTORS AND RISK MANAGEMENT

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

Industry Conditions

While oil and natural gas prices have increased from the lows of 2016, they remain volatile and North American natural gas prices remain low by historical standards. As a result, there continues to be significant uncertainty and volatility in the oil and gas industry, particularly in Canada where oil and natural gas drilling and completion activity remains relatively low. These low industry activity levels have resulted in fierce price competition for the products and services provided by the Company, particularly in Canada within the CDS, RTS and WS segments. While the Company has been proactive in managing its operating cost structure to adapt to the current environment, continued 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, particularly in Canada, the Company continues to face heightened counterparty credit risk as a substantial portion of the Company's dealings are with entities involved in the oil and gas industry. In regards to accounts receivable, the Company remains focused on actively managing credit risk. Specifically, management has remained diligent in assessing credit levels granted to customers, monitoring the aging of receivables and taking proactive steps to collect outstanding balances.

The Company does not have significant exposure to any individual customer or counter party other than one major and one intermediate oil and gas company which each accounted for over 10% of revenue during the three months ended December 31, 2017. During the year ended December 31, 2017 one intermediate oil and gas company accounted for more than 10% of revenue. No other customer accounted for more than 10% of revenue during these periods. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry.

Government Regulation

Total Energy's business and the business of its customers are subject to significant and evolving laws and government regulations, including in the areas of environment, labour and health and safety. For example, the implementation of a "carbon tax" and recent changes to employment standards in Alberta have increased the Company's cost of services in that jurisdiction.

CRITICAL ACCOUNTING ESTIMATES

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

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

Change in accounting estimate

During the third quarter of 2016, the Company conducted an operational efficiency review of its drilling rigs and related equipment based on the prevailing 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 determined that the utilization method based on operating days was appropriate, but 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 zero. The change in estimate results in these assets being depreciated during periods of inactivity. For further details, see Note 10 of the 2017 Financial Statements.

Critical Judgments in Applying Accounting Policies

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

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

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

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

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

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

Key Sources of Estimation Uncertainty

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

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

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

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

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

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

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

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

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

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

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

FUTURE ACCOUNTING POLICIES CHANGES

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

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 assessment has not identified any material differences in reporting under IFRS 15.

IFRS 15 permits the use of either a full retrospective transition method or modified retrospective transition method. The Company will adopt the standard on January 1, 2018, in accordance with the required effective date.

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's assessment has not identified any material differences in reporting under IFRS 9.

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		Twelve months ended	
December 31	**2017**	2016	**2017**	2016
Net income (loss)	**$ 6,554**	$ (3,667)	**$ (3,703)**	$ (11,914)
Add back (deduct):				
Depreciation	**18,831**	7,775	**66,781**	28,134
Finance costs	**3,902**	564	**14,198**	1,879
Income tax expense (recovery)	**442**	(1,118)	**(5,672)**	(4,058)
EBITDA	**$ 29,729**	$ 3,554	**$ 71,604**	$ 14,041

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

Net Debt

(in thousands of Canadian dollars)	**As at December 31, 2017**
Long-term debt	**$ 255,640**
Obligations under finance leases	**2,205**
Add back (deduct):	
Current liabilities	**206,473**
Current assets	**(261,365)**
Net Debt	**$ 202,953**

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 2017 Financial Statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Disclosure Controls and Procedures: The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is reported within the time periods specified under securities laws, and include controls and procedures that are designed to ensure that information is communicated to management of Total Energy, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. An evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) was conducted as at December 31, 2017. 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, 2017.

Internal Control Over Financial Reporting: The Chief Executive Officer and the Chief Financial Officer of Total Energy are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards ("IFRS"). The Chief Executive Officer and the Chief Financial Officer of Total Energy directed the assessment of the design and operating effectiveness of the Company's internal control over financial reporting as at December 31, 2017 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, 2017.

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" 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, 2016 to December 31, 2017.

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

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

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

DANIEL K. HALYK
President and Chief Executive Officer

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

March 8, 2018

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, 2017 and December 31, 2016, 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, 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, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards

KPMG LLP

Chartered Professional Accountants

March 8, 2018
Calgary, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	Note	**December 31, 2017**	December 31, 2016
ASSETS			
Current assets:			
Cash and cash equivalents	7	**$ 21,154**	$ 15,916
Accounts receivable	8	**150,990**	47,545
Inventory	9	**68,266**	54,964
Income taxes receivable	16	**1,176**	–
Other assets	11	**4,631**	5,095
Prepaid expenses and deposits		**15,148**	4,029
		261,365	127,549
Property, plant and equipment	10	**793,464**	383,497
Income taxes receivable	27	**7,070**	7,070
Deferred tax asset	16	**829**	430
Goodwill	12	**4,053**	4,053
		$ 1,066,781	$ 522,599
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	13	**$ 108,421**	$ 36,755
Deferred revenue		**21,625**	13,573
Dividends payable		**2,774**	1,856
Income taxes payable	16	**–**	249
Current portion of obligations under finance leases	15	**1,595**	1,408
Current portion of long-term debt	14	**72,058**	1,938
		206,473	55,779
Long-term debt	14	**255,640**	44,962
Obligations under finance leases	15	**2,205**	1,595
Onerous lease liability	13	**2,734**	–
Deferred tax liability	16	**53,155**	55,961
Shareholders' equity:			
Share capital	17	**291,317**	88,654
Contributed surplus		**4,550**	7,683
Accumulated other comprehensive loss		**(10,194)**	–
Non-controlling interest		**1,196**	–
Retained earnings		**259,705**	267,965
		546,574	364,302
		$ 1,066,781	$ 522,599

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

Approved by the Board of Total Energy Services Inc.

Director: Greg Melchin

Director: Bruce L. Pachkowski

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands of Canadian dollars except per share amounts)

	Note	2017	2016
REVENUE	19	$ 604,662	$ 197,800
Cost of services	20	484,389	160,541
Selling, general and administration	21	48,500	22,924
Share-based compensation	18	1,787	1,311
Depreciation	10	66,781	28,134
Operating income (loss)		3,205	(15,110)
Gain on sale of property, plant and equipment	10	1,618	1,017
Finance income	23	–	547
Finance costs	24	(14,198)	(2,426)
Net loss before income taxes		(9,375)	(15,972)
Current income tax (recovery) expense	16	(3,506)	1,950
Deferred income tax recovery	16	(2,166)	(6,008)
Total income tax recovery	16	(5,672)	(4,058)
Net loss for the year		$ (3,703)	$ (11,914)
Net loss attributable to:			
Shareholders of the Company		$ (1,916)	$ (11,914)
Non-controlling interest		$ (1,787)	$ –
Loss per share:	17		
Basic earnings per share		$ (0.05)	$ (0.38)
Diluted earnings per share		$ (0.05)	$ (0.38)

	Note	2017	2016
Net loss for the year		$ (3,703)	$ (11,914)
Other Comprehensive Income (Loss) (OCI):			
Changes in fair value of long-term investment	5	665	–
Realized gain on long-term investment	5	(665)	–
Foreign currency translation adjustment		(11,233)	–
Deferred tax effect	16	1,039	–
Total other comprehensive loss for the year		(10,194)	–
Total comprehensive loss		$ (13,897)	$ (11,914)
Total comprehensive loss attributable to:			
Shareholders of the Company		$ (12,110)	$ (11,914)
Non-controlling interest		$ (1,787)	$ –

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended December 31, 2017 and 2016
(in thousands of Canadian dollars)

	Note	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Non-controlling Interest	Retained earnings	Total Equity
Balance at December 31, 2015		$ 88,875	$ 8,255	$ –	$ –	$ 286,205	$ 383,335
Net loss and total comprehensive loss		–	–	–	–	(11,914)	(11,914)
Transactions with shareholders, recorded directly in equity:							
Dividends to shareholders ($0.24 per common share)		–	–	–	–	(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)
Balance at December 31, 2016		$ 88,654	$ 7,683	$ –	$ –	$ 267,965	$ 364,302
Net loss for the year		–	–	–	(1,787)	(1,916)	(3,703)
Other comprehensive loss for the year		–	–	(10,194)	–	–	(10,194)
Transactions with shareholders, recorded directly in equity:							
Dividends to shareholders ($0.24 per common share)		–	–	–	–	(10,654)	(10,654)
Issuance of common shares	17	104,544	–	–	–	–	104,544
Stock options exercised	18	2,899	(610)	–	–	–	2,289
Stock options expired	18	–	(4,310)	–	–	4,310	–
Share-based compensation	18	–	1,787	–	–	–	1,787
Partnership distributions		–	–	–	(150)	–	(150)
Non-controlling interest assumed on acquisition	5	–	–	–	111,383	–	111,383
Subsequent acquisition transactions – shares issued	5	95,220	–	–	(95,220)	–	–
Subsequent acquisition transactions – cash payment	5	–	–	–	(13,030)	–	(13,030)
		202,663	(3,133)	–	2,983	(6,344)	196,169
Balance at December 31, 2017		**$ 291,317**	**$ 4,550**	**$ (10,194)**	**$ 1,196**	**$ 259,705**	**$ 546,574**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

	Note	2017	2016
Cash provided by (used in):			
Operations:			
Net loss for the year		$ (3,703)	$ (11,914)
Add (deduct) items not affecting cash:			
Depreciation	10	66,781	28,134
Share-based compensation	18	1,787	1,311
Gain on disposal of property, plant and equipment	10	(1,618)	(1,017)
Finance income	23	–	(463)
Finance costs		14,497	2,426
Realized gain on long-term investment		(665)	–
Unrealized loss on foreign currencies translation		4,367	266
Current income tax (recovery) expense	16	(3,506)	1,950
Deferred income tax recovery	16	(2,166)	(6,008)
Income taxes recovered		797	1,032
Cashflow		76,571	15,717
Changes in non-cash working capital items:			
Accounts receivable	8	(13,040)	(119)
Inventory	9	(8,075)	4,102
Prepaid expenses and deposits		(9,085)	72
Accounts payable and accrued liabilities	13	11,871	15,700
Onerous leases	13	(503)	–
Deferred revenue		6,645	3,017
		64,384	38,489
Investments:			
Purchase of property, plant and equipment	10	(27,394)	(11,090)
Acquisition of business	5	(26,830)	(10,855)
Cash acquired	5	16,167	–
Proceeds on sale of other assets		374	576
Proceeds on disposal of property, plant and equipment		5,875	5,148
Changes in non-cash working capital items		2,420	(462)
		(29,388)	(16,683)
Financing:			
Advances under long-term debt	14	215,487	–
Repayment of long-term debt	14	(216,030)	(2,192)
Repayment of obligations under finance leases	15	(1,924)	(2,273)
Partnership distributions to non-controlling interests		(150)	–
Payment of dividends	17	(9,736)	(7,434)
Issuance of common shares	18	2,289	–
Repurchase of common shares	17	–	(1,000)
Interest paid		(19,694)	(1,866)
		(29,758)	(14,765)
Change in cash and cash equivalents		5,238	7,041
Cash and cash equivalents, beginning of year		15,916	8,875
Cash and cash equivalents, end of year		$ 21,154	$ 15,916

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

1. Reporting entity

Total Energy Services Inc. (the "Company") is incorporated under the Business Corporations Act (Alberta) and its head office is located in Calgary, Alberta at Suite 800, 311 – 6th Avenue S.W. The annual consolidated financial statements include the accounts of the Company, its subsidiaries and its wholly and partially owned partnerships established in Canada, the United States of America and Australia.

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

2. Basis of preparation

(a) Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 8, 2018.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and 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 purpose of calculating impairment. Cash generating units ("CGU" or "CGUs") are based on management's judgments and assessment of the CGU's ability to generate independent cash inflows. Judgments are also required to assess when impairment indicators exist and impairment testing is required.

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

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

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

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

(f) Key Sources of Estimation Uncertainty

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

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

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

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

As it pertains to accounts receivable the Company is required to estimate 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 by the Company, its subsidiaries and partnerships to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Business combinations and goodwill

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

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

Goodwill is measured at cost less accumulated impairment losses.

(ii) Subsidiaries and partnerships

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

(iii) Transactions eliminated on consolidation

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

(b) Foreign currency

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

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

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

(c) Financial instruments

(i) Non-derivative financial assets

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

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

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

The Company has the following non-derivative financial assets:

Financial Instrument	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 only when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities:

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

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

(iii) Forward foreign exchange contracts

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

(iv) Share capital

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

The estimated useful lives are as follows:

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

Depreciation methods, useful lives and residual values are reviewed at 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.

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

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

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

(ii) Non-financial assets

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

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

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

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

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

(h) Employee benefits

(i) Short-term employee benefits

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

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

(ii) Share-based payment transactions

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

(i) Revenue recognition

The Company recognizes revenue in its segments as follows; Contract Drilling, Well Servicing 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.

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

(j) Provisions

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

(k) Onerous contracts

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

(l) Lease payments

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

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

(m) Finance income and finance costs

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

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

(n) Income tax

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

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

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

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

(o) Earnings per share

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

(p) Segment reporting

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

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

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

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 assessment has not identified any material differences in reporting under IFRS 15.

IFRS 15 permits the use of either a full retrospective transition method or modified retrospective transition method. The Company will adopt the standard on January 1, 2018, in accordance with the required effective date.

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's assessment has not identified any material differences in reporting under IFRS 9.

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

4. Determination of fair values

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

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

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

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

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

(a) Property, plant and equipment

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

(b) Inventories

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

(c) Accounts receivable

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

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

(d) Other assets

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

(e) Non-derivative financial liabilities

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

(f) Share-based payment transactions

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

5. Acquisitions

2017

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

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

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

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

Following the acquisition of 51.6% of Savanna Shares on March 24, 2017, Savanna and the Company commenced negotiations to reconstitute the board of directors of Savanna. On April 5, 2017 (the "Effective Acquisition Date") the Company obtained control of Savanna when Savanna and the Company agreed to the reconstitution of the board of directors of Savanna. All of the directors of Savanna, except one, resigned as directors of Savanna and seven new directors were appointed. New directors included three members of the board of directors of the Company. As at the Effective Acquisition Date the Company owned 61,777,797 or 52.2% of issued and outstanding Savanna shares.

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

(Tabular amounts in thousands of Canadian dollars)

Purchase Price Consideration

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

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

Purchase Price Allocation

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

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

The fair values of cash, accounts receivable and other current assets, and accounts payable and other liabilities approximate their carrying values due to the short-term maturity of the instruments. Fair value of property plant and equipment was determined by utilizing current market information for similar equipment, adjusted for the specific design, mechanical condition and marketability of such equipment. Fair value of long-term debt, excluding the mortgage loan, was determined by estimating expected cash outlays to settle such debt given management plans on the Effective Acquisition Date to refinance such debt in the near term. The majority of the debt was refinanced between June 20 and June 23, 2017. The principal amount of the remaining debt was assumed to approximate fair value given the short-term maturity of such debt. A $30.5 million deferred tax asset relating to non-capital losses available to be carried forward was not recognized on acquisition due to uncertainty as to the ability to utilize such losses in the future. Key assumptions underlying managements' estimate of fair value include expectations as to future market conditions in the oil and gas industry, expected useful lives of equipment, discount rates, recoverability of non-capital and capital tax losses and collectability of accounts receivable.

(Tabular amounts in thousands of Canadian dollars)

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

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

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

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

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

The non-controlling interest ("NCI") was initially measured at the NCI's proportionate share of the net identifiable assets acquired. The subsequent transactions on April 7, 2017, April 27, 2017, June 20, 2017 and purchases of Savanna Shares in the open market, were accounted for as equity transactions within shareholders' equity and reduced the NCI balance to the fair value of the non-controlling interests of Limited Partnerships partially owned by the Company. During the period from April 5, 2017 to December 31, 2017, when the Company did not own 100% of the Savanna equity, a net loss of $1.2 million was incurred that is attributable to the NCI.

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

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

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

(Tabular amounts in thousands of Canadian dollars)

2016

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.

6. Operating segments

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

Inter-segment pricing is determined on an arm's length basis.

As at and for the year ended December 31, 2017	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate	Total
Revenue	$ 158,051	$ 68,867	$ 266,376	$ 111,368	$ –	$ 604,662
Cost of services	132,959	42,790	229,717	78,923	–	484,389
Selling, general and administration	8,106	12,676	8,614	4,117	14,987	48,500
Share-based compensation	–	–	–	–	1,787	1,787
Depreciation	25,844	18,059	7,384	15,378	116	66,781
Operating income (loss)	(8,858)	(4,658)	20,661	12,950	(16,890)	3,205
Gain on sale of property, plant and equipment	339	756	107	371	45	1,618
Finance costs	(358)	(697)	(381)	–	(12,762)	(14,198)
Net income (loss) before income taxes	(8,877)	(4,599)	20,387	13,321	(29,607)	(9,375)
Goodwill	–	2,514	1,539	–	–	4,053
Total assets	460,712	239,876	201,392	142,574	22,227	1,066,781
Total liabilities	154,990	44,934	77,588	3,305	239,390	520,207
Capital expenditures [(1)]	9,881	9,606	6,792	1,076	39	27,394

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

(Tabular amounts in thousands of Canadian dollars)

As at and for the year ended December 31, 2016	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate	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 (2)	1,321	18,101	2,519	–	4	21,945

(2) Includes the acquisition of assets during 2016 described in note 5.

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

Year ended December 31, 2016	Canada	United States	Australia	Other	Total
Revenue	$ 157,026	$ 16,355	$ 24,152	$ 267	$ 197,800
Non-current assets (1)	372,368	13,688	1,494	–	387,550

(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, 2017	December 31, 2016
Trade receivables, net of allowance for doubtful accounts	**$ 114,941**	$ 34,707
Accrued and other receivables	**36,049**	12,838
	$ 150,990	$ 47,545

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 $24.0 million (2016: $12.5 million) of amounts pertaining to contracts in progress as at December 31, 2017.

(Tabular amounts in thousands of Canadian dollars)

9. Inventory

	December 31, 2017	December 31, 2016
Finished goods	**$ 2,497**	$ 3,669
Work-in-progress	**19,283**	20,095
Parts and raw materials	**46,486**	31,200
	$ 68,266	$ 54,964

For the year ended December 31, 2017, finished goods, work-in-progress and parts and raw materials of $201.1 million (December 31, 2016: $108.6 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	Service rigs and related equipment	Furniture, fixtures and other	Total
Cost									
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)
As at December 31, 2016	69,005	285,071	63,609	8,374	14,948	153,171	–	7,637	601,815
Acquisition	48,283	6,120	1,281	–	–	295,053	113,460	–	464,197
Additions	1,346	10,365	1,158	2,322	3,228	9,871	1,076	350	29,716
Disposals	–	(1,890)	(5,753)	(775)	–	–	(1,546)	–	(9,964)
Effect of changes in foreign exchange rates	(282)	(604)	(170)	–	(114)	(9,090)	(3,125)	(92)	(13,477)
As at December 31, 2017	**118,352**	**299,062**	**60,125**	**9,921**	**18,062**	**449,005**	**109,865**	**7,895**	**1,072,287**
Accumulated Depreciation									
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)
As at December 31, 2016	14,105	96,748	37,139	5,639	11,366	47,136	–	6,185	218,318
Depreciation expense	4,063	14,345	5,064	1,766	1,734	24,995	14,553	261	66,781
Disposals	–	(522)	(4,453)	(663)	–	–	(69)	–	(5,707)
Effect of changes in foreign exchange rates	(5)	(70)	(48)	–	(19)	(258)	(142)	(27)	(570)
As at December 31, 2017	**18,163**	**110,501**	**37,702**	**6,742**	**13,081**	**71,873**	**14,342**	**6,419**	**278,823**
Net Book Value									
As at December 31, 2015	55,714	190,699	27,528	4,103	4,508	108,704	–	1,366	392,622
As at December 31, 2016	54,900	188,323	26,470	2,735	3,582	106,035	–	1,452	383,497
As at December 31, 2017	**$ 100,189**	**$ 188,561**	**$ 22,423**	**$ 3,179**	**$ 4,981**	**$ 377,132**	**$ 95,523**	**$ 1,476**	**$ 793,464**

(Tabular amounts in thousands of Canadian dollars)

As at December 31, 2017, there was $2.4 million (December 31, 2016: $1.3 million) of property plant and equipment under construction. The Company has not capitalized any borrowing costs as there were no borrowing costs directly attributable to the acquisition and construction of property, plant and equipment.

The Company reviews the current value of property, plant and equipment at each reporting period for indicators of impairment. Based on improved commodity prices during the course of 2017 and the resultant increase in industry activity levels, no indications of impairment were identified during the period ended December 31, 2017.

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 loss as finance income or finance cost. During the year ended December 31, 2017, the Company recorded an unrealized gain of $0.3 million (2016: $0.5 million) resulting from changes in the market value of other assets and $0.6 million of realized loss on the sale of other assets (2016: $0.6 million). These amounts were included in finance costs. If the market value of securities on hand at December 31, 2017 would have decreased by 1%, with all other variables held constant, after tax net earnings for the period would have been approximately $34,000 lower (2016: $37,000).

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.

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

	December 31, 2017	December 31, 2016
Rentals and Transportation Services	**$ 2,514**	$ 2,514
Compression and Process Services	**1,539**	1,539
	$ 4,053	$ 4,053

The recoverable amount of the cash-generating units was based on its value in use. As the carrying amount of the unit was determined to be lower than its recoverable amount no impairment was recorded (2016: nil).

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

(Tabular amounts in thousands of Canadian dollars)

Unless indicated otherwise, value in use in 2017 was determined similarly as in 2016. 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 2017 and 2016.
- An after-tax discount rate of 8.8% (2016: 9.1%) was applied in determining the recoverable amount of the unit.
- The expectation is that activity levels stabilized in 2017 and will gradually recover in 2018 through 2020.

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, 2017	December 31, 2016
Trade payables	**$ 51,934**	$ 18,256
Wages and salaries payables and related accruals	**17,306**	2,207
Accrued costs and other payables	**38,724**	16,292
Current portion of onerous lease liabilities	**457**	–
	$ 108,421	$ 36,755

Included in accrued costs and other payables is $5.6 million (2016: $1.5 million) relating to contracts in progress as at December 31, 2017.

Onerous lease liabilities relate to provisions for office lease contracts that are no longer in use but for which the Company is still obligated to make payments. The aggregate liability was measured at the present value of the lower of the expected cost of terminating the contracts and the expected net cost of continuing with the contracts. The total onerous lease liability was $3.2 million as at December 31, 2017 (2016: $nil). Of the total liability, $0.5 million is included in accounts payable and accrued liabilities (2016: $nil).

14. Long-term debt

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

- $16.8 million mortgage loan maturing on December 31, 2041 and bearing interest at the variable annual rate of the lender's prime rate of interest plus 1.5%. This loan is secured by real estate located in Leduc, Alberta.
- $107.1 million of senior unsecured notes (the "Notes"). The Notes are due May 25, 2018, bear interest at a fixed rate of 7.0% per annum, which is payable semi-annually in May and November of each year and rank equal in right of payment to all existing and future unsecured indebtedness. These Notes contain certain restrictions that limit the Company's ability to incur additional indebtedness, make restricted payments, and dispose of certain assets.

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

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

(Tabular amounts in thousands of Canadian dollars)

See note 5 above for further details on the debt acquired by the Company upon the acquisition of Savanna.

On June 19, 2017 the Company entered into a three year $225 million revolving syndicated credit facility ("Credit Facility"), with the option to increase such facility by $75 million subject to certain terms and conditions, including the agreement of the lenders to increase their commitments. The Credit Facility includes a Canadian $18.0 million operating line, an Australian $2.0 million operating line and a Canadian $205.0 million revolving facility. The Credit Facility bears interest at the banks' Canadian prime rate plus 0.25% to 2.75%, bankers' acceptance, letter of credit, LIBOR or BBSY advances plus a 1.5% to 4.0% stamping fee. The applicable interest rate within such ranges is dependent on certain financial ratios of the Company. A standby fee ranging from 0.25% to 0.8% per annum is paid quarterly on the unused portion of the facility depending on certain financial ratios of the Company. At December 31, 2017, the applicable interest rate on amounts drawn on the Credit Facility was 3.65% and the standby rate was 0.44%. Letters of credit outstanding at December 31, 2017 were $4.9 million that reduces the amount that could be drawn on this facility.

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

	December 31, 2017	Threshold
Twelve-month trailing Bank EBITDA to interest expense	**5.07**	minimum 2.00
Total Senior Debt to twelve-month trailing Bank EBITDA	**1.95**	maximum 5.00

	Minimum Bank EBITDA to interest expense	Maximum Senior Debt to Bank EBITDA
For the trailing twelve months ended December 31, 2017	**2.00**	5.00
For the trailing twelve months ending March 31, 2018	**2.50**	4.00
For the trailing twelve months ending June 30, 2018	**2.50**	4.00
For the trailing twelve months ending September 30, 2018	**3.00**	3.00

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

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

The Credit Facility is secured by a general security agreement over all the present and future property of the Company and its subsidiaries. The Company was in compliance with all of its Credit Facility covenants at December 31, 2017.

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

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

In addition to the Credit Facility, Savanna has established a $5.0 million revolving operating credit facility with a member of the Credit Facility lenders' syndicate. At December 31, 2017 this facility was fully available and undrawn.

(Tabular amounts in thousands of Canadian dollars)

At December 31, 2017 the Company's long-term debt consisted of the following:

	December 31, 2017		December 31, 2016	
	Interest rate	Principal Amount	Interest rate	Principal Amount
Credit facility	3.65%	$ 196,000	–	$ –
Senior unsecured notes	7.00%	67,531	–	–
Mortgage loan (2020 maturity)	3.06%	44,962	3.06%	46,900
Mortgage loan (2041 maturity)	5.25%	16,375	–	–
Limited partnership credit facilities	5.45%	2,830	–	–
		$ 327,698		$ 46,900
Less current portion		72,058		1,938
		$ 255,640		$ 44,962

At December 31, 2017 amounts owing under the Credit Facility were denominated in Canadian dollars.

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

2020 Mortgage loan

The 2020 Mortgage 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 2020 Mortgage loan bears a fixed interest rate of 3.06%, is secured by certain of the Company`s real estate assets.

At December 31, 2017 and 2016 the Company was in compliance with all debt covenants.

15. Finance lease liabilities

	December 31, 2017	December 31, 2016
Finance lease liability	$ 3,800	$ 3,003
Less current portion	1,595	1,408
Long-term finance lease liability, end of year	$ 2,205	$ 1,595

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 2.75% - 4.39% (December 31, 2016: 2.71% - 3.37%) and mature on various dates up to 2022.

(Tabular amounts in thousands of Canadian dollars)

In 2017, interest of $0.1 million (December 31, 2016 - $0.1 million) relating to finance lease obligations has been included in finance costs.

	Minimum lease payments		Present value of minimum lease payments	
	December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Not later than one year	**$ 1,689**	$ 1,513	**$ 1,595**	$ 1,408
Later than one year and not later than five years	**2,278**	1,689	**2,205**	1,595
Later than 5 years	**–**	–	**–**	–
	3,967	3,202	**3,800**	3,003
Less: future finance charges	**(167)**	(199)	**–**	–
Present value of minimum lease payments	**$ 3,800**	$ 3,003	**$ 3,800**	$ 3,003

16. Deferred income tax assets and (liabilities)

The components of the net deferred income tax liability at December 31, 2017 and 2016 are as follows:

	December 31, 2017	December 31, 2016
Deferred income tax assets:		
Non-capital losses	**$ 34,628**	$ 966
Unrealized foreign exchange on capital items	**1,039**	–
Other assets	**643**	676
Partnership loss deferral	**–**	4,534
Deferred income tax liabilities:		
Property, plant and equipment	**(88,320)**	(61,430)
Other	**(316)**	(277)
	$ (52,326)	$ (55,531)
Deferred income tax assets, net	**829**	430
Deferred income tax liabilities, net	**(53,155)**	(55,961)
Net deferred income tax (liabilities)	**$ (52,326)**	$ (55,531)

By Country:

	December 31, 2017	December 31, 2016
Deferred income tax assets:		
Australia	**$ 829**	$ –
United States	**–**	430
Deferred income tax liabilities:		
Canada	**$ (44,625)**	(55,961)
United States	**(8,530)**	–
Net deferred income tax liabilities	**$ (52,326)**	$ (55,531)

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

(Tabular amounts in thousands of Canadian dollars)

At December 31, 2017, the Company had $30.5 million (2016: nil) of unrecognized tax benefits relating to non-capital losses that, if recognized, would have a favorable impact on Company's effective income tax rate in the future periods.

At December 31, 2017 the Company's non-capital losses available to carry forward totaling $240.6 million (2016: nil), of which $188.7 million relate to Canadian entities and $51.9 million relate to United States entities. The unused tax losses, which begin to expire in 2029, may be applied to reduce future taxable income and future income taxes payable.

Movement in temporary differences during the period:

	Dec 31, 2015	Recognized in net loss	Dec 31, 2016	**Recognized in net income**	**Deferred taxes on acquisition**	**Recognized in OCI**	**Dec 31, 2017**
Deferred income tax assets:							
Partnership loss deferral	$ –	$ 4,534	$ 4,534	**$ (4,534)**	**$ –**	**$ –**	**$ –**
Non-capital losses	–	966	966	**9,662**	**24,000**	**–**	**34,628**
Unrealized foreign exchange	–	–	–	**–**	**–**	**1,039**	**1,039**
Other assets	737	(61)	676	**(33)**	**–**	**–**	**643**
Deferred income tax liabilities:							
Property, plant and equipment	(58,840)	(2,590)	(61,430)	**(2,890)**	**(24,000)**	**–**	**(88,320)**
Partnership income deferral	(3,133)	3,133	–	**–**	**–**	**–**	**–**
Other	(303)	26	(277)	**(39)**	**–**	**–**	**(316)**
	$ (61,539)	$ 6,008	$ (55,531)	**$ 2,166**	**$ –**	**$ 1,039**	**$ (52,326)**

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:

	2017	2016
Net loss before income taxes	**$ (9,375)**	$ (15,972)
Income tax rate	**27%**	27%
Expected income tax recovery	**$ (2,531)**	$ (4,285)
Changes in taxes resulting from:		
Change in tax rates	**(3,225)**	(231)
Non-deductible share-based compensation	**483**	352
Other	**(399)**	106
Total income tax recovery	**$ (5,672)**	$ (4,058)

(Tabular amounts in thousands of Canadian dollars)

17. Share capital

(a) Common share capital

Common shares of Total Energy Services Inc.

(i) Authorized:

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

(ii) Common shares issued:

	Number of shares (thousands)	Amount
Balance, December 31, 2015	30,997	$ 88,875
Repurchased and cancelled	(77)	(221)
Balance, December 31, 2016	30,920	88,654
Issued on acquisition (note 5)	7,924	104,544
Issued on subsequent acquisition transactions (note 5)	7,228	95,220
Issued on exercise of stock options	166	2,899
Balance, December 31, 2017	**46,238**	**$ 291,317**

During the year ended December 31, 2017 no common shares were repurchased under the Company's normal course issuer bid (year ended December 31, 2016: 77,100 at average price of $12.97 including commissions).

(b) Per share amounts

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

	Year ended December 31, 2017	Year ended December 31, 2016
Net loss for the year attributable to shareholders	**$ (1,916)**	$ (11,914)
Weighted average number of shares outstanding – Basic	**41,963**	30,967
Loss per share – basic	**$ (0.05)**	$ (0.38)
Net loss for the year attributable to shareholders	**$ (1,916)**	$ (11,914)
Weighted average number of shares outstanding – Basic	**41,963**	30,967
Share option dilution	**–**	–
Weighted average number of shares outstanding – Diluted	**41,963**	30,967
Loss per share – diluted	**$ (0.05)**	$ (0.38)

For the year ended December 31, 2017, 2,825,000 options (December 31, 2016: 2,560,000) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

During 2017, the Company declared dividends of $10.7 million (2016: $7.4 million) or $0.24 (2016: $0.24) per common share.

(Tabular amounts in thousands of Canadian dollars)

18. Share-based compensation plan

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

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

Share option transactions during 2017 and 2016 were as follows:

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

The share options issued vest 1/3 on the first, second and third anniversary from the grant date and expire five years from the date of grant. The options expire on various dates ranging from February 19, 2018 to August 9, 2022.

There were 166,600 options exercised during 2017 (2016: nil). During 2017, the weighted average market price at the time of exercise of options was $13.94 per share.

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

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

(Tabular amounts in thousands of Canadian dollars)

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

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value of the share options granted. The average per share fair value of the options granted during 2017 was $2.36 (2016: nil) per option using the following assumptions:

	December 31, 2017
Expected volatility	26.05% - 29.14%
Annual dividend yield	1.85% - 2.00%
Risk free interest rate	0.96% - 1.43%
Forfeitures	5%
Expected life (years)	3 to 5 years

For the year ended December 31, 2017 the Company recognized share-based compensation expense of $1.8 million (2016 - $1.3 million).

19. Revenue

	2017	2016
Rendering of services	**$ 402,278**	$ 100,103
Sale of goods	**202,384**	97,697
	$ 604,662	$ 197,800

20. Cost of services

	2017	2016
Inventory	**$ 201,073**	$ 108,575
Wages and salaries	**169,848**	33,295
Repair and maintenance	**70,935**	7,678
Fuel and travel	**23,573**	6,043
Rent and services	**4,818**	2,382
Other	**14,142**	2,568
	$ 484,389	$ 160,541

(Tabular amounts in thousands of Canadian dollars)

21. Selling, general and administration

	2017	2016
Wages and salaries	$ 29,034	$ 15,149
Professional and legal	9,708	2,311
Office and marketing	2,180	2,001
Rent	3,416	1,274
Travel	1,577	970
Other	2,585	1,219
	$ 48,500	$ 22,924

22. Employee benefits

	2017	2016
Cost of services	$ 169,848	$ 33,295
Selling, general and administration	29,034	15,149
Share-based compensation	1,787	1,311
	$ 200,669	$ 49,755

23. Finance income

	2017	2016
Change in fair value of other assets	$ –	$ 463
Interest on outstanding cash balances	–	84
Dividends	–	–
	$ –	$ 547

24. Finance costs

	2017	2016
Interest on long-term debt	$ 13,892	$ 1,466
Interest on finance lease obligations	82	116
Other interest	224	844
	$ 14,198	$ 2,426

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, 2017 and 2016 these ratios were as follows:

(Tabular amounts in thousands of Canadian dollars)

	December 31, 2017	December 31, 2016
Long-term debt (including current portion)	**$ 327,698**	$ 46,900
Shareholders' equity	**546,574**	364,302
Total capitalization	**$ 874,272**	$ 411,202
Long-term debt to long-term debt plus equity ratio	**0.37**	0.11

As at December 31, 2017, the Company was subject to externally imposed minimum capital requirements relating to the Credit Facility and 2020 Mortgage loan as described in note 14. The Company monitored these requirements to ensure compliance with them. As at December 31, 2017 and 2016 the Company was in compliance with all external minimum capital requirements.

Financial instruments

The Company's financial instruments as at December 31, 2017 include cash and cash equivalents, accounts receivable, other assets, accounts payable and accrued liabilities, dividends payable, forward foreign exchange contracts, obligations under finance leases and long-term debt. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and obligations under finance leases approximate their carrying amounts due to their short-terms to maturity. The fair value of other assets 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 loss in the period the changes in fair value occur. The discounted future cash repayments of the Company`s bank loan are calculated using prevailing market rates of a similar debt instrument as at the reporting date. The net present value of future cash repayments of the bank loan and related interest at the prevailing market rate of 4.04% for a similar debt instrument at December 31, 2017 was $44.0 million (December 31, 2016: market rate of 3.32%, $46.5 million). The carrying value and Company`s liability with respect to the bank loan is $45.0 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, 2017, $10.0 million, or 6% of accounts receivable (2016: $3.9 million or 8%) were more than 90 days overdue, which includes $3.8 million of doubtful accounts for which a provision has been recognized (December 31, 2016: $2.3 million).

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

(Tabular amounts in thousands of Canadian dollars)

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

	Allowance for doubtful accounts
Balance at December 31, 2015	$ 1,980
Provisions and revisions	324
Balance at December 31, 2016	$ 2,304
Provisions and revisions	1,516
Balance at December 31, 2017	**$ 3,820**

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, 2017. 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, 2017, the Company maintained credit facilities which were available to a maximum of $230 million, senior unsecured notes of $67.5 million, mortgage debt of $61.3 million and limited partnership credit facilities of $2.8 million (December 31, 2016: revolving facility of $65 million and $46.9 million of term debt) to ensure the Company has sufficient working capital to operate its business. The Company is reviewing options to refinance $67.5 million of senior unsecured notes that mature in May 2018, including exercise of all or a portion of the $75 million accordion feature of the Credit Facility.

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

As at December 31, 2016	No later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Accounts payable and accrued liabilities	$ 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
Total	$ 43,470	$ 49,700	$ –	$ 93,170

(Tabular amounts in thousands of Canadian dollars)

Market risk

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

- Foreign currency exchange rate risk

Transaction exposure

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company's sales in its Canadian operations are predominantly denominated in Canadian dollars, which is the functional currency of Canadian operations, and as such the Company does not have significant exposure to foreign currency exchange rate risk. Where sales are denominated in a currency other than Canadian dollars, the Company may enter into forward currency contracts to mitigate its exposure to exchange rate fluctuations from the date of sale until the date of receipt of funds. The Company estimates that in its Canadian operations approximately 20% of its cost of services in 2017 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, 2017 the net amount of foreign exchange differences related to transaction exposure recorded in net loss was $1.0 million (2016: $0.1 million).

Translation exposure

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

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

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

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

- Forward foreign exchange contracts

The notional principal amount of forward foreign exchange contracts outstanding as at December 31, 2017 was US$14.7 million (December 31, 2016: US$4.3 million). These contracts are short term in nature. The fair value of the forward foreign exchange contracts was determined using quoted forward rates for the identical contracts at December 31, 2017 (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, 2017 was $1.25 Canadian dollar per United States dollar (December 31, 2016: $1.34 Canadian dollar per United States dollar). For the year ended December 31, 2017 the mark to market gain on foreign exchange contracts was $1.0 million (2016: $0.2 million gain) and is included in the net loss.

(Tabular amounts in thousands of Canadian dollars)

- 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, 2017, if interest rates had been 1% lower with all other variables held constant, after tax net earnings for the period would have been approximately $0.8 million higher (December 31, 2016 - $27,000). An equal and opposite impact would have occurred to net earnings had interest rates been 1% higher. The sensitivity in 2017 is higher as compared to 2016 due primarily to an increase in the Company's variable interest rate debt.

The Company had no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2017.

Company's mortgage debt and senior unsecured notes bear fixed interest rates 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, 2017	December 31, 2016
Less than one year	$ 4,465	$ 1,958
Between one and five years	11,412	1,960
More than five years	–	–
	$ 15,877	$ 3,918

The Company also has purchase obligations of $57.0 million as at December 31, 2017 (December 31, 2016: $22.1 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, 2017. The $7.1 million paid on account of the Reassessment has been recorded as income tax receivable on the basis management believes it will be successful in defending the Company`s filing position. In the event the Company is not successful, an additional $14.4 million of cash may be owing and $21.4 million of income tax expense would be recognized.

During the year ended December 31, 2017, one of the Company's subsidiaries, Savanna, received a statement of claim from Western Energy Services Corp. ("Western") for payment of a termination fee in the amount of $20 million pursuant to an arrangement agreement between Savanna and Western dated March 8, 2017, as amended on March 14, 2017 (the "Arrangement Agreement"). Savanna terminated the Arrangement Agreement on March 28, 2017 following the acquisition by Total of over 50% of the outstanding common shares of Savanna in accordance with the terms and conditions of the Arrangement Agreement. Western is claiming Savanna was not entitled to terminate the Arrangement Agreement and therefore breached the Arrangement Agreement. Savanna has filed a statement of defense and has received legal advice that Western's claim is without merit. Management believes that Savanna will be successful in defending against the Western claim and, as such, the Company has not recognized any provision for such claim.

(Tabular amounts in thousands of Canadian dollars)

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

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

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, 2017	December 31, 2016
Short-term employee benefits	**$ 6,436**	$ 3,267
Share-based compensation (1)	**1,661**	1,450
	$ 8,097	$ 4,717

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

At December 31, 2017 directors and officers of the Company own or control 5.3 percent of the voting shares of the Company (2016: 8 percent).

There have been no transactions over the reporting period with key management personnel (2016: nil), and no outstanding balances exist as at period end (2016: nil).

(Tabular amounts in thousands of Canadian dollars)

29. Subsidiaries

Significant subsidiaries and partnerships

	Country of Incorporation	Ownership Interest, %	
		2017	2016
Chinook Drilling, a division of Total Energy Services Inc.	Canada	–	100
Total Oilfield Rentals Ltd.	Canada	100	100
Bidell Gas Compression Ltd.	Canada	100	100
Spectrum Process Systems Inc.	Canada	100	100
TES Investments Ltd.	Canada	100	100
TES Services Inc.	United States	100	100
Total Oilfield Rentals Inc.	United States	100	100
Bidell Gas Compression Inc.	United States	100	100
TES Land Inc.	United States	100	100
Total Energy Services Australia Pty Ltd.	Australia	100	100
Savanna Energy Services Corp.	Canada	100	–
Savanna Energy Services (U.S.A.) Corp.	United States	100	–
Savanna Energy Services Pty Ltd.	Australia	100	–
Savanna Well Servicing Inc.	Canada	100	–
Savanna Well Servicing Corp.	United States	100	–
Savanna Drilling Corp.	Canada	100	–
Savanna Drilling LLC	United States	100	–
Savanna Energy Services Partnership #1	Canada	50	–
Savanna Energy Services Partnership #5	Canada	50	–
Savanna Energy Services Partnership #6	Canada	50	–
Savanna Energy Services Partnership #7	Canada	50	–
Savanna Energy Services Partnership #9	Canada	50	–
Savanna Energy Services Partnership #10	Canada	50	–
Fort McKay – Savanna Energy Services Limited Partnership	Canada	49	–

CORPORATE INFORMATION

BOARD OF DIRECTORS

Bruce Pachkowski [2, 3]
Chairman of the Board

Daniel Halyk
President and Chief Executive Officer

George Chow [1]

Glenn Dagenais [2, 3]

Greg Melchin [1, 2]

Andrew Wiswell [1, 3]

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

MANAGEMENT TEAM

Daniel Halyk
President and Chief Executive Officer

Gerry Crawford
Vice President, Field Services

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

Yuliya Gorbach
Vice President, Finance and Chief Financial Officer

William Kosich
Vice President, Drilling Services

Brad Macson
Vice President, Operations

Ashley Ting
Corporate Controller

HEAD OFFICE

Suite 800, 311 – 6th Avenue SW

Calgary, Alberta T2P 3H2

Telephone: (403) 216-3939

Toll Free: (877) 818-6825

Fax: (403) 234-8731

Website: www.totalenergy.ca

Email: investorrelations@totalenergy.ca

AUDITOR

KPMG LLP

Calgary, Alberta

TRUSTEE, REGISTRAR AND TRANSFER AGENT

Computershare

Calgary, Alberta

LEGAL COUNSEL

Bennett Jones, LLP

Calgary, Alberta

BANKERS

HSBC

The Toronto Dominion Bank

The Bank of Nova Scotia

Alberta Treasury Branches

Export Development Corp.

STOCK EXCHANGE LISTING

Toronto Stock Exchange

Common Shares: TOT

CANADIAN LOCATIONS

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

U.S. LOCATIONS

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

AUSTRALIAN LOCATIONS

Toowoomba, QLD

TOTAL
OILFIELD RENTALS LTD.

SPECTRUM
Process Systems

BIDELL™
GAS COMPRESSION

Savanna Drilling

Savanna Well Servicing