

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (in thousands of Canadian dollars)

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

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

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS)

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

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

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

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

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

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EQUITY

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

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

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

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

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)

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

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

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

### 1. Reporting Entity

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

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

### 2. Basis of Presentation

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#### Statement of Compliance:

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

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

#### Seasonality

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Unaudited (tabular amounts in thousands of Canadian dollars)

## 3. Segmented Information

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Unaudited (tabular amounts in thousands of Canadian dollars)

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Unaudited (tabular amounts in thousands of Canadian dollars)

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

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

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

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

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

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

#### 4. Acquisitions

##### 2017

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Unaudited (tabular amounts in thousands of Canadian dollars)

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

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

**Purchase Price Consideration**

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

Share consideration	\$ 105,209
Cash Consideration	\$ 13,800
<b>Total consideration</b>	<b>\$ 119,009</b>

**Purchase Price Allocation**

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Unaudited (tabular amounts in thousands of Canadian dollars)

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

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
		<b>\$ 281,341</b>

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

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

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

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

## 5. Other Assets

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Unaudited (tabular amounts in thousands of Canadian dollars)

**6. Long-term debt**

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

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

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

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

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

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

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

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

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Unaudited (tabular amounts in thousands of Canadian dollars)

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

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

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

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

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

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

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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**7. Onerous leases**

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

**8. Share Capital****(a) Common share capital**

Common shares of Total Energy Services Inc.

**(i) Authorized:**

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

Unlimited number of preferred shares.

**(ii) Common shares issued:**

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

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

**(b) Per share amounts**

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

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

For the three and nine months ended September 30, 2017, 2,885,000 share options (September 30, 2016: 2,696,666) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Unaudited (tabular amounts in thousands of Canadian dollars)

**9. Share-Based Compensation Plan**

Share option transactions during 2017 and 2016 were as follows:

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

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

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value of the share options granted. The average per share fair value of the options granted during 2017 is \$2.31 per option using the following assumptions:

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

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

**10. Financial Instruments**

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Unaudited (tabular amounts in thousands of Canadian dollars)

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

## 11. Contingencies

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

The Company has received both legal and tax advice relating to its conversion from an income trust to a corporation indicating that its income tax filing position is strong. As such, the Company has filed notices of objection in response to the Reassessment and intends to vigorously defend its filing position and seek reimbursement from the CRA for the costs arising from having to defend such Reassessment to the fullest extent possible. Management believes that it will be successful in defending its tax filing position, and as such, the Company has not recognized any provision for the Reassessment at September 30, 2017. The \$7.1 million paid on account of the Reassessment has been recorded as income tax receivable on the basis management believes it will be successful in defending the Company's filing position. In the event the Company is not successful, an additional \$14.2 million of cash may be owing and \$21.2 million of income tax expense would be recognized.

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

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

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