

**Western Energy Services Corp.**  
**Condensed Consolidated Financial Statements**  
*June 30, 2015 and 2014*  
*(Unaudited)*

## Western Energy Services Corp.

Condensed Consolidated Balance Sheets (Unaudited)  
(thousands of Canadian dollars)

	Note	June 30, 2015	December 31, 2014
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 83,572	\$ 62,662
Trade and other receivables		23,706	89,817
Other current assets		5,648	6,344
		112,926	158,823
Non current assets			
Property and equipment	5	840,231	827,306
Goodwill	6	70,487	69,607
Other non current assets		2,132	1,382
		\$ 1,025,776	\$ 1,057,118
<b>Liabilities</b>			
Current liabilities			
Trade payables and other current liabilities		\$ 26,574	\$ 73,671
Dividends payable		5,591	5,615
Current portion of provisions		139	139
Current portion of long term debt	7	1,004	1,062
		33,308	80,487
Non current liabilities			
Provisions		1,750	1,819
Long term debt	7	264,234	264,165
Deferred taxes		123,736	109,444
		423,028	455,915
<b>Shareholders' equity</b>			
Share capital	8	421,374	423,633
Contributed surplus		8,490	6,815
Retained earnings		144,927	153,544
Accumulated other comprehensive income		25,717	15,125
Non controlling interest		2,240	2,086
		602,748	601,203
		\$ 1,025,776	\$ 1,057,118

The accompanying notes are an integral part of these condensed consolidated financial statements.

## Western Energy Services Corp.

Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited)  
(thousands of Canadian dollars except share and per share amounts)

	Note	Three months ended June 30		Six months ended June 30	
		2015	2014	2015	2014
<b>Revenue</b>		\$ 32,037	\$ 81,981	\$ 137,887	\$ 243,397
Operating expenses		28,710	62,299	100,185	174,188
<b>Gross profit</b>		3,327	19,682	37,702	69,209
Administrative expenses		7,440	7,906	15,935	16,979
Finance costs	11	4,763	5,327	9,521	10,730
Other items		(819)	113	(1,413)	602
<b>Income (loss) before income taxes</b>		(8,057)	6,336	13,659	40,898
Income taxes	12	4,550	1,940	10,972	11,002
<b>Net (loss) income</b>		(12,607)	4,396	2,687	29,896
<b>Other comprehensive income <sup>(1)</sup></b>					
Loss (gain) on translation of foreign operations		1,042	1,751	(5,134)	(122)
Unrealized foreign exchange loss (gain) on net investment in subsidiary		696	1,132	(5,458)	99
<b>Comprehensive (loss) income</b>		\$ (14,345)	\$ 1,513	\$ 13,279	\$ 29,919
<b>Net (loss) income attributable to:</b>					
Shareholders of the Company		\$ (12,591)	\$ 4,378	\$ 2,567	\$ 29,791
Non controlling interest		(16)	18	120	105
<b>Comprehensive (loss) income attributable to:</b>					
Shareholders of the Company		\$ (14,329)	\$ 1,495	\$ 13,159	\$ 29,814
Non controlling interest		(16)	18	120	105
<b>Net (loss) income per share:</b>					
Basic		\$ (0.17)	\$ 0.06	\$ 0.04	\$ 0.40
Diluted		(0.17)	0.06	0.04	0.40
<b>Weighted average number of shares:</b>					
Basic	10	74,579,889	74,328,446	74,633,065	73,919,531
Diluted	10	74,591,816	75,733,872	74,652,435	75,440,466

(1) Other comprehensive income includes items that may be subsequently reclassified into profit and loss.

The accompanying notes are an integral part of these condensed consolidated financial statements.

## Western Energy Services Corp.

Condensed Consolidated Statement of Changes in Shareholders' Equity (Unaudited)  
(thousands of Canadian dollars)

	Note	Share capital	Contributed surplus <sup>(1)</sup>	Retained earnings	Accumulated other comprehensive income <sup>(2)</sup>	Non controlling interest	Total shareholders' equity
Balance at December 31, 2013		\$ 411,143	\$ 6,088	\$ 139,721	\$ 5,171	\$ 1,302	\$ 563,425
Common shares:							
Issued for cash on exercise of stock options	8	8,695	-	-	-	-	8,695
Issued for cash on exercise of warrants	8	222	-	-	-	-	222
Fair value of exercised options and warrants	8	2,719	(2,719)	-	-	-	-
Stock based compensation		-	1,253	-	-	-	1,253
Dividends declared		-	-	(11,147)	-	-	(11,147)
Distributions from non controlling interest		-	-	-	-	(168)	(168)
Comprehensive income		-	-	29,791	23	105	29,919
Balance at June 30, 2014		422,779	4,622	158,365	5,194	1,239	592,199
Common shares:							
Issued for cash on exercise of stock options	8	765	-	-	-	-	765
Issued for cash on exercise of warrants	8	5	-	-	-	-	5
Purchased under normal course issuer bid	8	(127)	-	-	-	-	(127)
Fair value of exercised options and warrants	8	211	(211)	-	-	-	-
Stock based compensation		-	2,404	-	-	-	2,404
Dividends declared		-	-	(11,229)	-	-	(11,229)
Contributions from non controlling interest		-	-	-	-	701	701
Comprehensive income		-	-	6,408	9,931	146	16,485
Balance at December 31, 2014		\$ 423,633	\$ 6,815	\$ 153,544	\$ 15,125	\$ 2,086	\$ 601,203
Common shares:							
Issued for cash on exercise of stock options	8	154	-	-	-	-	154
Purchased under normal course issuer bid	8	(2,468)	(27)	-	-	-	(2,495)
Fair value of exercised options and warrants	8	55	(55)	-	-	-	-
Stock based compensation		-	1,757	-	-	-	1,757
Dividends declared		-	-	(11,184)	-	-	(11,184)
Contributions from non controlling interest		-	-	-	-	34	34
Comprehensive income		-	-	2,567	10,592	120	13,279
Balance at June 30, 2015		\$ 421,374	\$ 8,490	\$ 144,927	\$ 25,717	\$ 2,240	\$ 602,748

(1) Contributed surplus relates to stock based compensation described in Note 9.

(2) At June 30, 2015, the accumulated other comprehensive income balance consists of the translation of foreign operations and unrealized foreign exchange on net investment in subsidiary.

The accompanying notes are an integral part of these condensed consolidated financial statements.

## Western Energy Services Corp.

Condensed Consolidated Statements of Cash Flows (Unaudited)  
(thousands of Canadian dollars)

		Three months ended June 30		Six months ended June 30	
	Note	2015	2014	2015	2014
<b>Operating activities</b>					
Net (loss) income		\$ (12,607)	\$ 4,396	\$ 2,687	\$ 29,896
Adjustments for:					
Depreciation included in operating expenses		6,884	11,329	20,249	29,209
Depreciation included in administrative expenses		485	439	914	884
Non cash stock based compensation included in operating expenses	9	151	195	241	417
Non cash stock based compensation included in administrative expenses	9	767	289	1,516	836
Gain on sale of assets		(130)	(83)	(182)	(137)
Income taxes	12	4,550	1,940	10,972	11,002
Unrealized foreign exchange (gain) loss		(15)	70	3	86
Finance costs	11	4,763	5,327	9,521	10,730
Other		(877)	(33)	(912)	707
Cash generated from operating activities		3,971	23,869	45,009	83,630
Income taxes received (paid)		58	(185)	(8,402)	(369)
Change in non cash working capital		36,980	48,228	43,739	27,285
<b>Cash flow from operating activities</b>		<b>41,009</b>	<b>71,912</b>	<b>80,346</b>	<b>110,546</b>
<b>Investing activities</b>					
Additions to property and equipment	5	(7,688)	(27,026)	(25,551)	(46,389)
Proceeds on sale of property and equipment		294	341	527	710
Changes in non cash working capital		(5,563)	2,906	(11,435)	(764)
<b>Cash flow used in investing activities</b>		<b>(12,957)</b>	<b>(23,779)</b>	<b>(36,459)</b>	<b>(46,443)</b>
<b>Financing activities</b>					
Issue of common shares	8	64	6,408	154	8,917
Shares purchased under normal course issuer bid	8	(893)	-	(2,495)	-
Repayment of long term debt		(228)	(237)	(464)	(410)
Finance costs received (paid)		991	202	(8,998)	(9,302)
Dividends paid		(5,593)	(5,537)	(11,208)	(11,041)
(Distributions to) contributions from non controlling interest		(163)	(168)	34	(168)
<b>Cash flow (used in) from financing activities</b>		<b>(5,822)</b>	<b>668</b>	<b>(22,977)</b>	<b>(12,004)</b>
Increase in cash and cash equivalents		22,230	48,801	20,910	52,099
Cash and cash equivalents, beginning of period		61,342	20,687	62,662	17,389
<b>Cash and cash equivalents, end of period</b>		<b>\$ 83,572</b>	<b>\$ 69,488</b>	<b>\$ 83,572</b>	<b>\$ 69,488</b>
Cash and cash equivalents:					
Bank accounts		\$ 10,082	\$ 29,488	\$ 10,082	\$ 29,488
Short term investments		73,490	40,000	73,490	40,000
		<b>\$ 83,572</b>	<b>\$ 69,488</b>	<b>\$ 83,572</b>	<b>\$ 69,488</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.

# Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

(tabular amounts are in thousands of Canadian dollars, except common share and per common share amounts)

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## 1. Reporting entity:

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the registered office is 1700, 215 - 9th Avenue SW, Calgary, Alberta. Western is a publicly traded company that is listed on the Toronto Stock Exchange ("TSX") under the symbol "WRG". These condensed consolidated financial statements as at June 30, 2015 and for the three and six months ended June 30, 2015 and 2014 (the "Financial Statements") are comprised of Western, its divisions and its wholly owned subsidiaries (together referred to as the "Company"). The Company is an oilfield service company providing contract drilling services through its division, Horizon Drilling ("Horizon") in Canada, and its wholly owned subsidiary, Stoneham Drilling Corporation ("Stoneham") in the United States. Western provides well servicing operations through Western Energy Services Partnership's (the "Partnership") division, Eagle Well Servicing ("Eagle") and oilfield rental equipment services through the Partnership's division, Aero Rental Services ("Aero"). Financial and operating results for Horizon and Stoneham are included in Western's contract drilling segment, while financial and operating results for Eagle and Aero are included in Western's production services segment.

## 2. Basis of preparation and significant accounting policies:

Statement of compliance:

These Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board. These Financial Statements have been prepared using accounting policies and judgments which are consistent with Notes 3 and 4 of the audited annual consolidated financial statements as at December 31, 2014 and for the years ended December 31, 2014 and 2013 as filed on SEDAR at [www.sedar.com](http://www.sedar.com) and, as such, they should be read in conjunction with the said statements.

These Financial Statements were approved for issuance by Western's Board of Directors on July 30, 2015.

## 3. Seasonality:

The Company's operations are often weather dependent, which has a seasonal effect. During the first quarter, the environment in the field is conducive to oilfield activities including frozen conditions allowing oil and gas companies to move heavy equipment to otherwise inaccessible areas and the resulting demand for services, such as those provided by the Company, is high. The second quarter is normally a slower period in Canada due to the spring thaw and wet conditions creating weight restrictions on roads and reducing the mobility of heavy equipment, which slows activity levels in the industry. The third and fourth quarters are usually representative of average activity levels. Therefore, interim periods may not be representative of the results expected for the full year of operation due to seasonality.

## 4. Operating segments:

The Company operates in the Canadian and United States oilfield service industry through its contract drilling and production services segments. Contract drilling includes drilling rigs along with related ancillary equipment and provides services to oil and natural gas exploration and production companies. Production services includes well servicing rigs and related equipment, as well as oilfield rental equipment and provides services to oil and natural gas exploration and production companies and in the case of oilfield rental equipment, to other oilfield service companies as well.

The Company's President & Chief Executive Officer and Senior Vice President, Finance & Chief Financial Officer ("Senior Management") review internal management reports for these segments on at least a monthly basis.

Information regarding the results of the segments is included below. Performance is measured based on operating earnings, as included in internal management reports. Operating earnings is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Operating earnings is calculated as revenue less operating expenses (excluding stock based compensation), administrative expenses (excluding stock based compensation) and depreciation expense.

## Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

(tabular amounts are in thousands of Canadian dollars, except common share and per common share amounts)

### 4. Operating segments (continued):

The following is a summary of the Company's results by segment for the three and six months ended June 30, 2015 and 2014:

Three months ended June 30, 2015	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	\$ 17,603	\$ 14,465	\$ -	\$ (31)	\$ 32,037
Operating loss	(1,461)	(181)	(1,472)	-	(3,114)
Finance costs	-	-	4,763	-	4,763
Depreciation	4,259	2,824	286	-	7,369
Additions to property and equipment <sup>(1)</sup>	6,233	1,546	11	-	7,790

Three months ended June 30, 2014	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	\$ 58,280	\$ 24,443	\$ -	\$ (742)	\$ 81,981
Operating earnings (loss)	10,809	2,647	(1,196)	-	12,260
Finance costs	-	-	5,327	-	5,327
Depreciation	8,199	3,289	280	-	11,768
Additions to property and equipment <sup>(1)</sup>	24,547	248	54	-	24,849

Six months ended June 30, 2015	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	\$ 96,715	\$ 41,425	\$ -	\$ (253)	\$ 137,887
Operating earnings (loss)	23,077	3,931	(3,279)	-	23,729
Finance costs	-	-	9,521	-	9,521
Depreciation	14,438	6,194	531	-	21,163
Additions to property and equipment <sup>(1)</sup>	21,076	4,643	35	-	25,754

Six months ended June 30, 2014	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	\$ 181,583	\$ 62,822	\$ -	\$ (1,008)	\$ 243,397
Operating earnings (loss)	46,552	9,839	(2,908)	-	53,483
Finance costs	-	-	10,730	-	10,730
Depreciation	21,910	7,626	557	-	30,093
Additions to property and equipment <sup>(1)</sup>	41,355	3,133	61	-	44,549

(1) Additions include the purchase of property and equipment, finance lease additions and property and equipment acquired through business acquisitions.

## Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

(tabular amounts are in thousands of Canadian dollars, except common share and per common share amounts)

### 4. Operating segments (continued):

Goodwill	Contract		Production		Total
	Drilling		Services		
Balance at December 31, 2013	\$	55,527	\$	33,183	\$ 88,710
Impairment of goodwill		-		(22,668)	(22,668)
Foreign exchange adjustment		1,851		-	1,851
Adjustments: IROC acquisition <sup>(1)</sup>		-		1,714	1,714
Balance at December 31, 2014		57,378		12,229	69,607
Foreign exchange adjustment		880		-	880
Balance at June 30, 2015	\$	58,258	\$	12,229	\$ 70,487

(1) On April 22, 2013, Western acquired all of the issued and outstanding common shares of IROC Energy Services Corp. ("IROC").

Total assets and liabilities of the reportable segments are as follows:

As at June 30, 2015	Contract		Production		Corporate	Total
	Drilling		Services			
Total assets	\$	741,710	\$	194,863	\$ 89,203	\$ 1,025,776
Total liabilities		115,869		39,183	267,976	423,028

As at June 30, 2014	Contract		Production		Corporate	Total
	Drilling		Services			
Total assets	\$	713,034	\$	226,508	\$ 76,570	\$ 1,016,112
Total liabilities		111,768		38,031	274,114	423,913

A reconciliation of operating earnings to income (loss) before income taxes is as follows:

Three months ended June 30, 2015	Contract		Production		Corporate	Total
	Drilling		Services			
Operating loss	\$	(1,461)	\$	(181)	\$ (1,472)	\$ (3,114)
Add (deduct):						
Stock based compensation		(231)		(242)	(526)	(999)
Finance costs		-		-	(4,763)	(4,763)
Other items		-		-	819	819
Loss before income taxes	\$	(1,692)	\$	(423)	\$ (5,942)	\$ (8,057)

Three months ended June 30, 2014	Contract		Production		Corporate	Total
	Drilling		Services			
Operating earnings (loss)	\$	10,809	\$	2,647	\$ (1,196)	\$ 12,260
Deduct:						
Stock based compensation		(173)		(142)	(169)	(484)
Finance costs		-		-	(5,327)	(5,327)
Other items		-		-	(113)	(113)
Income (loss) before income taxes	\$	10,636	\$	2,505	\$ (6,805)	\$ 6,336



## Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

(tabular amounts are in thousands of Canadian dollars, except common share and per common share amounts)

### 4. Operating segments (continued):

A reconciliation of operating earnings to income before income taxes is as follows (continued):

Six months ended June 30, 2015	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	\$ 23,077	\$ 3,931	\$ (3,279)	\$ 23,729
Add (deduct):				
Stock based compensation	(447)	(331)	(1,184)	(1,962)
Finance costs	-	-	(9,521)	(9,521)
Other items	-	-	1,413	1,413
<b>Income (loss) before income taxes</b>	<b>\$ 22,630</b>	<b>\$ 3,600</b>	<b>\$ (12,571)</b>	<b>\$ 13,659</b>

Six months ended June 30, 2014	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	\$ 46,552	\$ 9,839	\$ (2,908)	\$ 53,483
Deduct:				
Stock based compensation	(382)	(311)	(560)	(1,253)
Finance costs	-	-	(10,730)	(10,730)
Other items	-	-	(602)	(602)
<b>Income (loss) before income taxes</b>	<b>\$ 46,170</b>	<b>\$ 9,528</b>	<b>\$ (14,800)</b>	<b>\$ 40,898</b>

Segmented information by geographic area is as follows:

As at and for the period ended June 30, 2015	Canada	United States	Total
Revenue: three months ended	\$ 25,440	\$ 6,597	\$ 32,037
Revenue: six months ended	117,206	20,681	137,887
Property and equipment	721,767	118,464	840,231
<b>Total assets</b>	<b>882,812</b>	<b>142,964</b>	<b>1,025,776</b>

As at and for the period ended June 30, 2014	Canada	United States	Total
Revenue: three months ended	\$ 70,489	\$ 11,492	\$ 81,981
Revenue: six months ended	220,752	22,645	243,397
Property and equipment	691,691	105,306	796,997
<b>Total assets</b>	<b>899,509</b>	<b>116,603</b>	<b>1,016,112</b>

#### Significant Customers:

For the three months ended June 30, 2015, the Company had three customers comprising 12.2%, 11.5% and 10.4% respectively, of the Company's total revenue. The trade receivable balance relating to these customers as at June 30, 2015 represented 8.0%, 4.6% and 3.9% respectively, of the Company's total trade and other receivables. These three customers are publicly traded companies with market capitalizations each in excess of \$5 billion at June 30, 2015. One of these previously mentioned customers was also a significant customer for the six months ended June 30, 2015, comprising 11.8% of the Company's total revenue.

For the three months ended June 30, 2014, the Company had two significant customers comprising 17.1% and 10.2% respectively, of the Company's total revenue, one of which was also a significant customer for the six months ended June 30, 2014, comprising 13.9% of the Company's total revenue.

## Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

(tabular amounts are in thousands of Canadian dollars, except common share and per common share amounts)

### 5. Property and equipment:

	Land	Buildings	Contract drilling equipment	Production services equipment	Office and shop equipment	Vehicles under finance leases	Total
<b>Cost:</b>							
Balance at December 31, 2014	\$ 5,089	\$ 4,048	\$ 779,921	\$ 196,564	\$ 12,540	\$ 3,840	\$ 1,002,002
Additions	-	3	21,067	4,335	146	-	25,551
Finance lease additions	-	-	-	-	-	203	203
Disposals	-	-	(1,016)	(563)	(46)	(254)	(1,879)
Foreign exchange adjustment	-	-	10,061	-	43	28	10,132
<b>Balance at June 30, 2015</b>	<b>\$ 5,089</b>	<b>\$ 4,051</b>	<b>\$ 810,033</b>	<b>\$ 200,336</b>	<b>\$ 12,683</b>	<b>\$ 3,817</b>	<b>\$ 1,036,009</b>
<b>Accumulated depreciation:</b>							
Balance at December 31, 2014	\$ -	\$ 637	\$ 143,807	\$ 23,918	\$ 5,261	\$ 1,073	\$ 174,696
Depreciation for the period	-	95	14,024	5,735	886	423	21,163
Disposals	-	-	(937)	(365)	(11)	(221)	(1,534)
Foreign exchange adjustment	-	-	1,416	-	27	10	1,453
<b>Balance at June 30, 2015</b>	<b>\$ -</b>	<b>\$ 732</b>	<b>\$ 158,310</b>	<b>\$ 29,288</b>	<b>\$ 6,163</b>	<b>\$ 1,285</b>	<b>\$ 195,778</b>
<b>Carrying amounts:</b>							
At December 31, 2014	\$ 5,089	\$ 3,411	\$ 636,114	\$ 172,646	\$ 7,279	\$ 2,767	\$ 827,306
At June 30, 2015	\$ 5,089	\$ 3,319	\$ 651,723	\$ 171,048	\$ 6,520	\$ 2,532	\$ 840,231

Included in property and equipment at June 30, 2015 are assets under construction of \$12.8 million (December 31, 2014: \$36.8 million) related to the Company's drilling rig program, as well as ancillary drilling and well servicing equipment.

### 6. Goodwill:

	Goodwill
Balance at December 31, 2014	\$ 69,607
Foreign exchange adjustment	880
<b>Balance at June 30, 2015</b>	<b>\$ 70,487</b>

The determination of cash generating units ("CGUs") is based on management's judgment regarding shared equipment, geographic proximity and materiality. The Company currently has three CGUs consisting of contract drilling, well servicing and oilfield rental equipment.

The following summarizes the goodwill allocated to each CGU:

	June 30, 2015	December 31, 2014
<b>CGU:</b>		
Contract drilling	\$ 58,258	\$ 57,378
Well servicing	-	-
Oilfield rental equipment	12,229	12,229
<b>Total goodwill allocated</b>	<b>\$ 70,487</b>	<b>\$ 69,607</b>

As at June 30, 2015, the Company identified impairment indicators related to the prolonged commodity price downturn and as such, performed an impairment analysis at June 30, 2015.

Goodwill has been allocated to the Company's cash-generating units that are expected to benefit from the synergies of the business combinations which resulted in the initial recognition of the goodwill. These cash-generating units are based on contract drilling rigs, well servicing rigs and oilfield rental equipment within the Company's contract drilling and production services segments.

## Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

(tabular amounts are in thousands of Canadian dollars, except common share and per common share amounts)

### 6. Goodwill (continued):

The recoverable amounts of these cash-generating units was determined based on a value in use calculation which uses cash flow projections based on a five year forecast which incorporates the Company's most recent 2015 and 2016 forecasts and a pre-tax discount rate of 14% (December 31, 2014: 14%) per annum.

Based on management's best estimates at June 30, 2015, a trailing five year average utilization and profit margin, plus 2% price inflation per year, were used to project cash flows from 2017 to 2019. The cash flows beyond 2019 have been extrapolated using a 2% per annum growth rate. The forecasted cash flows are based on management's best estimates of future pricing, asset utilization, and maintenance capital. Management has assumed that the current downturn in the oil and gas industry is temporary. For the purposes of completing the impairment analysis on the contract drilling CGU, assumptions were made relating to average contract drilling utilization. These rates ranged from 35% to 55% per year.

The results of the tests indicated no goodwill impairment exists at June 30, 2015 on the contract drilling and oilfield rental equipment CGUs.

The most sensitive inputs to the model used for all CGUs are the discount rate, the growth rate, profit margin and utilization rate. The impairment test's sensitivity to these inputs is as follows: All else being equal, a 0.5% increase in the discount rate or a 0.5% decrease in the growth rate would not have changed the results of the analysis. All else being equal, a 1% decrease in profit margin or in the utilization rate would not have changed the results of the analysis.

### 7. Long term debt:

This note provides information about the contractual terms of the Company's long term debt instruments.

	June 30, 2015	December 31, 2014
Current:		
Other long term debt - current portion <sup>(1)</sup>	\$ 1,004	\$ 1,062
Total current portion of long term debt	1,004	1,062
Non current:		
Senior Notes	265,000	265,000
Less: net unamortized premium and issue costs on Senior Notes	(1,867)	(2,122)
Other long term debt - non current portion <sup>(1)</sup>	1,101	1,287
Total non current portion of long term debt	264,234	264,165
Total long term debt	\$ 265,238	\$ 265,227

(1) Other long term debt consists of finance lease obligations and a note payable.

### Credit facilities:

On December 18, 2014, the Company amended its credit facilities to increase its revolving credit facility (the "Revolving Facility") to \$175.0 million, from \$125.0 million previously, with a maturity date extension to December 17, 2018 and increased the Company's operating demand revolving loan (the "Operating Facility") to \$20.0 million, from \$10.0 million previously. The syndicate of banks providing the Revolving Facility was also expanded as a result of these amendments. The Revolving Facility requires interest to be paid monthly with no scheduled principal repayments unless the Revolving Facility is not extended by the maturity date. The Operating Facility principal balance is due on demand with interest paid monthly.

Amounts borrowed under the Operating and Revolving Facilities bear interest at the bank's Canadian prime rate, US base rate, LIBOR, or the banker's acceptance rate plus an applicable margin depending, in each case, on the ratio of Consolidated Debt to Consolidated EBITDA as defined by the relevant agreement. The credit facilities are secured by the assets of Western and its subsidiaries. As at June 30, 2015, the Company had \$175.0 million in available credit under the Revolving Facility and \$20.0 million under the Operating Facility.

## Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

(tabular amounts are in thousands of Canadian dollars, except common share and per common share amounts)

### 7. Long term debt (continued):

#### Credit facilities (continued):

The Company's credit facilities are subject to the following financial covenants:

	Covenant
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio <sup>(1)(2)</sup>	2.5:1.0 or less
Maximum Consolidated Debt to Consolidated Capitalization Ratio <sup>(3)</sup>	0.6:1.0 or less
Minimum Consolidated EBITDA to Consolidated Interest Expense Ratio	2.0:1.0 or more

(1) In the event of a material acquisition during any fiscal quarter, the ratio shall increase by 0.50 until (and including) the end of the second full fiscal quarter after the material acquisition.

(2) Consolidated Senior Debt in the credit facilities is defined as Consolidated Debt, which includes indebtedness under the Revolving Facility, Operating Facility, unsecured debt, and finance leases; reduced by cash on hand in excess of \$20 million and the outstanding principal on unsecured debt (including the Company's Senior Notes).

Consolidated EBITDA in the credit facilities is defined as consolidated net income (loss), plus interest, income taxes, depreciation and amortization and any other non-cash items or extraordinary or non-recurring losses, less gains on sale of property and equipment and any other non-cash items or extraordinary or non-recurring gains that are included in the calculation of consolidated net income.

(3) Consolidated Capitalization in the credit facilities is defined as the aggregate of Consolidated Debt and total shareholders' equity as shown on the consolidated balance sheet.

As at June 30, 2015 and December 31, 2014, the Company was in compliance with all covenants related to its credit facilities.

#### Senior Notes:

The Company has \$265.0 million 7% senior unsecured notes (the "Senior Notes") outstanding which are due on January 30, 2019. The Senior Notes contain certain early redemption options under which the Company has the option to redeem all or a portion of the Senior Notes at various redemption prices, which include the principal amount plus accrued and unpaid interest, if any, to the applicable redemption date. Interest is payable semi-annually on January 30 and July 30. The Senior Notes are unsecured, ranking equal in right of payment to all existing and future unsecured indebtedness, and have been guaranteed by the Company's current and future subsidiaries. The Senior Notes indenture contains certain restrictions relating to items such as making restricted payments and incurring additional debt.

At June 30, 2015, the fair value of the Senior Notes was approximately \$267.7 million (December 31, 2014: \$250.4 million).

### 8. Share capital:

The Company is authorized to issue an unlimited number of common shares. The following table summarizes Western's common shares:

	Issued and outstanding shares	Amount
Balance at December 31, 2013	73,386,191	\$ 411,143
Issued for cash on exercise of stock options	1,394,976	9,460
Issued for cash on exercise of warrants	108,261	227
Shares purchased under normal course issuer bid	(23,400)	(127)
Fair value of exercised stock options and warrants	-	2,930
Balance at December 31, 2014	74,866,028	423,633
Issued for cash on exercise of stock options	26,800	154
Shares purchased under normal course issuer bid	(456,900)	(2,468)
Fair value of exercised stock options	-	55
Balance at June 30, 2015	74,435,928	\$ 421,374

During the three and six months ended June 30, 2015, the Company declared dividends of \$5.6 million and \$11.2 million respectively. During the three and six months ended June 30, 2014, \$5.6 million and \$11.1 million in dividends were declared, respectively, and for the year ended December 31, 2014, \$22.4 million in dividends were declared. The Company had dividends payable of \$5.6 million as at June 30, 2015 (December 31, 2014: \$5.6 million).

## Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

(tabular amounts are in thousands of Canadian dollars, except common share and per common share amounts)

### 8. Share capital (continued):

On December 15, 2014, Western initiated a normal course issuer bid (the "NCIB"), which has been filed with and accepted by the TSX. Pursuant to the NCIB, Western may purchase for cancellation up to 5,550,000 common shares of the Company. The NCIB commenced on December 17, 2014 and will terminate on the earlier of: (i) December 16, 2015; and (ii) the date on which the maximum number of Common Shares are purchased pursuant to the NCIB. For the three and six months ended June 30, 2015, 153,200 and 456,900 common shares for a total cost of \$0.9 million and \$2.5 million respectively, were repurchased, cancelled, and charged to share capital or contributed surplus, as applicable. As at July 30, 2015, since the NCIB was initiated, 628,000 common shares for a total cost of \$3.4 million have been repurchased, cancelled, and charged to share capital, or contributed surplus, as applicable.

### 9. Stock based compensation:

#### Stock options:

The Company's stock option plan provides for stock options to be issued to directors, officers, employees and consultants of the Company so that they may participate in the growth and development of Western. Subject to the specific provisions of the stock option plan, eligibility, vesting period, terms of the options and the number of options granted are to be determined by the Board of Directors at the time of grant. The stock option plan allows the Board of Directors to issue up to 10% of the Company's outstanding common shares as stock options.

The following table summarizes the movements in Western's outstanding stock options:

	Stock options outstanding	Weighted average exercise price
Balance at December 31, 2013	4,425,598	\$ 7.02
Granted	2,495,566	9.46
Exercised	(1,394,976)	6.78
Forfeited	(432,216)	7.62
Balance at December 31, 2014	5,093,972	8.23
Granted	98,766	6.41
Exercised	(26,800)	5.75
Forfeited	(662,370)	8.62
Expired	(164,233)	5.70
Balance at June 30, 2015	4,339,335	\$ 8.24

For the three and six months ended June 30, 2015, no stock options were cancelled under the plan. As at June 30, 2015, Western had 1,628,741 (December 31, 2014: 1,204,091) exercisable stock options outstanding at a weighted average exercise price equal to \$7.30 (December 31, 2014: \$7.12) per stock option.

#### Restricted share unit plan:

In August 2014, the Company implemented a restricted share unit ("RSU") plan for eligible directors, officers, employees and consultants of the Company so that they may participate in the growth and development of Western. The TSX has accepted the adoption of the RSU plan, the RSU plan and the RSUs granted thereunder. The RSU plan received shareholder approval on May 7, 2015 at the Company's annual general meeting. Under the terms of the RSU plan, the RSUs awarded will vest in three equal portions on the first, second and third anniversary of the grant date and will be settled in equity or cash at the discretion of the Board of Directors.

Subject to the specific provisions of the RSU plan, eligibility, vesting period, terms of the RSUs and the number of RSUs granted are to be determined by the Board of Directors at the time of grant. The RSU plan allows the Board of Directors to issue up to 1% of the Company's outstanding common shares as RSUs, provided that, when combined, the maximum number of common shares reserved for issuance under all other stock based compensation arrangements of the Company, does not exceed 10% of the Company's outstanding common shares.

## Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

(tabular amounts are in thousands of Canadian dollars, except common share and per common share amounts)

### 9. Stock based compensation (continued):

#### Restricted share unit plan (continued):

The following table summarizes the movements in Western's outstanding RSUs:

	Equity settled	Cash settled	Total
Balance at December 31, 2013	-	-	-
Granted	176,351	136,444	312,795
Issued as a result of dividends	3,987	2,822	6,809
Forfeited	(3,000)	(12,267)	(15,267)
Balance at December 31, 2014	177,338	126,999	304,337
Granted	6,283	9,400	15,683
Issued as a result of dividends	3,675	2,873	6,548
Forfeited	(28,918)	(9,923)	(38,841)
Balance at June 30, 2015	158,378	129,349	287,727

Stock based compensation expense is comprised of the following:

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Stock options	\$ 745	\$ 484	\$ 1,385	\$ 1,253
Restricted share units - equity settled grants	173	-	372	-
Total equity settled stock based compensation expense	918	484	1,757	1,253
Restricted share units - cash settled grants	81	-	205	-
Total stock based compensation expense	\$ 999	\$ 484	\$ 1,962	\$ 1,253

### 10. Earnings per share:

The weighted average number of common shares is calculated as follows:

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Issued common shares, beginning of period	74,578,128	73,840,827	74,866,028	73,386,191
Effect of shares issued (purchased under the NCIB)	1,761	487,619	(232,963)	533,340
Weighted average number of common shares (basic)	74,579,889	74,328,446	74,633,065	73,919,531
Dilutive effect of equity securities	11,927	1,405,426	19,370	1,520,935
Weighted average number of common shares (diluted)	74,591,816	75,733,872	74,652,435	75,440,466

For the three and six months ended June 30, 2015, 4,279,632 stock options (three and six months ended June 30, 2014: 52,500) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

### 11. Finance costs:

Finance costs recognized in the condensed consolidated statements of operations and comprehensive income are comprised of the following:

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Interest expense on long term debt	\$ 5,457	\$ 5,386	\$ 10,842	\$ 10,701
Amortization of debt financing fees and provisions	131	170	260	333
Interest income	(128)	(109)	(225)	(121)
Total finance costs before capitalized interest	5,460	5,447	10,877	10,913
Capitalized interest	(697)	(120)	(1,356)	(183)
Total finance costs	\$ 4,763	\$ 5,327	\$ 9,521	\$ 10,730

The Company had an effective interest rate of 8.4% on its borrowings for the three and six months ended June 30, 2015 (three and six months ended June 30, 2014: 8.4%).

## Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

(tabular amounts are in thousands of Canadian dollars, except common share and per common share amounts)

### 12. Income taxes:

Income taxes recognized in the condensed consolidated statements of operations and comprehensive income are comprised of the following:

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Current tax (recovery) expense	\$ (2,286)	\$ 981	\$ (3,771)	\$ 3,801
Deferred tax expense	6,836	959	14,743	7,201
<b>Total income taxes</b>	<b>\$ 4,550</b>	<b>\$ 1,940</b>	<b>\$ 10,972</b>	<b>\$ 11,002</b>

In June 2015, the Alberta corporate tax rate was increased to 12% from 10% previously. As a result, the Company's deferred tax liability increased by \$6.0 million, with a corresponding increase to deferred tax expense in the period. This tax rate increase received Royal Assent on June 29, 2015.

As at June 30, 2015, the Company has gross loss carry forwards equal to approximately \$12.1 million in Canada, which expire between 2026 and 2035. In the United States, the Company has approximately US\$46.4 million gross loss carry forwards which expire between 2028 and 2034.

### 13. Costs by nature:

The Company presents certain expenses in the condensed consolidated statements of operations and comprehensive income by function. The following table presents significant expenses by nature:

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Depreciation of property and equipment (Note 5)	\$ 7,369	\$ 11,768	\$ 21,163	\$ 30,093
Employee benefits: salaries and benefits	18,440	37,411	64,146	102,885
Employee benefits: stock based compensation (Note 9)	999	484	1,962	1,253
Repairs and maintenance	1,815	4,459	5,488	12,529
Third party charges	1,318	4,629	6,210	16,418

### 14. Financial risk management and financial instruments:

The Company's financial instruments include cash and cash equivalents, trade and other receivables, trade payables and other current liabilities, derivatives and long term debt instruments such as the credit facilities and the Senior Notes. Cash and cash equivalents and derivatives are carried at fair value. The carrying amounts of trade and other receivables, trade payables, and other current liabilities approximate their fair values due to their short term nature. The credit facilities bear interest at rates that approximate market rates and therefore their carrying values approximate fair values. The Senior Notes are recorded at their amortized cost. Fair value disclosure of the Senior Notes is based on their trading price on June 30, 2015.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2014.

Financial assets and liabilities recorded at fair value in the condensed consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

Hierarchical levels based on the amount of subjectivity associated with the inputs in the fair value determination of these assets and liabilities 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.

## Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

(tabular amounts are in thousands of Canadian dollars, except common share and per common share amounts)

### 14. Financial risk management and financial instruments (continued):

The Company's cash and cash equivalents balance, derivatives and Senior Notes are the only financial assets or liabilities measured using fair value. The Company's cash and cash equivalents are categorized as Level I as there are quoted prices in an active market for these instruments. The estimated fair value of derivatives and the Senior Notes is based on Level II inputs as the inputs are directly observable through correlation with market data.

Capital management:

The capital structure of the Company at June 30, 2015 and December 31, 2014 is as follows:

	Note	June 30, 2015	December 31, 2014
Other long term debt	7	\$ 2,105	\$ 2,349
Senior Notes	7	265,000	265,000
Total debt		267,105	267,349
Shareholders' equity		602,748	601,203
Less: cash and cash equivalents		(83,572)	(62,662)
Total capitalization		\$ 786,281	\$ 805,890

### 15. Commitments:

As at June 30, 2015, the Company has total commitments which require payments based on the maturity terms as follows:

	2015	2016	2017	2018	2019	Thereafter	Total
Senior Notes	\$ -	\$ -	\$ -	\$ -	\$ 265,000	\$ -	\$ 265,000
Senior Notes interest	10,434	20,869	20,869	20,869	10,434	-	83,475
Trade payables and other current liabilities	26,574	-	-	-	-	-	26,574
Dividends payable	5,591	-	-	-	-	-	5,591
Operating leases	2,226	3,600	2,536	2,377	2,329	11,839	24,907
Purchase commitments	4,078	-	-	-	-	-	4,078
Other long term debt	637	876	615	71	-	-	2,199
Total	\$ 49,540	\$ 25,345	\$ 24,020	\$ 23,317	\$ 277,763	\$ 11,839	\$ 411,824

### 16. Subsequent event:

On July 30, 2015, the Board of Directors of Western declared a quarterly dividend of \$0.075 per share, payable on October 15, 2015, to shareholders of record at the close of business on September 30, 2015. The dividends will be eligible dividends for Canadian income tax purposes.