Western Energy Services Corp.

Condensed Consolidated Financial Statements

September 30, 2018 and 2017

(Unaudited)

Western Energy Services Corp.

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

	Note	September 30, 2018	December 31, 2017
Assets			
Current assets			
Cash and cash equivalents		$ 4,778	$ 48,825
Trade and other receivables		38,664	48,117
Other current assets		5,009	6,429
		48,451	103,371
Non current assets			
Property and equipment	7	620,169	652,828
Other non current assets		459	4,305
		$ 669,079	$ 760,504
Liabilities			
Current liabilities			
Trade payables and other current liabilities		$ 27,771	$ 39,891
Current portion of provisions		231	139
Current portion of long term debt	8	1,755	475
		29,757	40,505
Non current liabilities			
Provisions		1,192	1,415
Long term debt	8	222,564	265,219
Deferred taxes		57,525	67,211
		311,038	374,350
Shareholders' equity			
Share capital	9	441,509	441,019
Contributed surplus		14,911	14,631
Retained earnings (deficit)		(127,366)	(95,834)
Accumulated other comprehensive income		26,964	24,217
Non controlling interest		2,023	2,121
		358,041	386,154
		$ 669,079	$ 760,504

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 (Loss) (unaudited)
(thousands of Canadian dollars except share and per share amounts)

	Note	Three months ended Sept 30 2018	Three months ended Sept 30 2017	Nine months ended Sept 30 2018	Nine months ended Sept 30 2017
Revenue		$ 58,879	$ 54,131	$ 173,277	$ 171,660
Operating expenses		63,137	58,049	184,703	178,419
Gross profit		(4,258)	(3,918)	(11,426)	(6,759)
Administrative expenses		4,775	5,875	15,648	19,017
Finance costs	12	4,574	5,521	14,447	16,352
Other items	13	99	235	2	2,056
Loss before income taxes		(13,706)	(15,549)	(41,523)	(44,184)
Income tax recovery	14	(3,598)	(4,071)	(9,993)	(11,713)
Net loss		(10,108)	(11,478)	(31,530)	(32,471)
Other comprehensive income (loss) (1)					
Loss (gain) loss on translation of foreign operations		1,047	2,186	(1,923)	4,170
Unrealized foreign exchange loss (gain) on net investment in subsidiary		604	1,626	(824)	3,098
Comprehensive loss		$ (11,759)	$ (15,290)	$ (28,783)	$ (39,739)
Net income (loss) attributable to:					
Shareholders of the Company		$ (10,079)	$ (11,569)	$ (31,532)	(32,532)
Non controlling interest		(29)	91	2	61
Comprehensive income (loss) attributable to:					
Shareholders of the Company		$ (11,730)	$ (15,381)	$ (28,785)	(39,800)
Non controlling interest		(29)	91	2	61
Net loss per share:					
Basic		$ (0.11)	$ (0.16)	$ (0.34)	$ (0.44)
Diluted		(0.11)	(0.16)	(0.34)	(0.44)
Weighted average number of shares:					
Basic	11	92,236,159	73,877,203	92,197,414	73,823,970
Diluted	11	92,236,159	73,877,203	92,197,414	73,823,970

(1) Other comprehensive income (loss) 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 Statements of Changes in Shareholders' Equity (unaudited)
(thousands of Canadian dollars)

	Share capital	Contributed surplus (1)	Retained earnings (deficit)	Accumulated other comprehensive income(2)	Non controlling interest	Total shareholders' equity
Balance at December 31, 2016	$ 418,509	$ 12,666	$ (58,308)	$ 32,258	$ 2,082	$ 407,207
Common shares:						
Issued on vesting of restricted share units	894	(894)	-	-	-	-
Stock based compensation	-	1,521	-	-	-	1,521
Distributions to non controlling interest	-	-	-	-	(42)	(42)
Comprehensive income (loss)	-	-	(32,532)	(7,268)	61	(39,739)
Balance at September 30, 2017	419,403	13,293	(90,840)	24,990	2,101	368,947
Common shares:						
Issue of common shares (net of issue costs)	21,614	-	-	-	-	21,614
Issued on vesting of restricted share units	2	(2)	-	-	-	-
Stock based compensation	-	260	-	-	-	260
Issue of warrants	-	1,080	-	-	-	1,080
Comprehensive income (loss)	-	-	(4,994)	(773)	20	(5,747)
Balance at December 31, 2017	441,019	14,631	(95,834)	24,217	2,121	386,154
Common shares:						
Issued on vesting of restricted share units	490	(490)	-	-	-	-
Stock based compensation	-	770	-	-	-	770
Distributions to non controlling interest	-	-	-	-	(100)	(100)
Comprehensive income (loss)	-	-	(31,532)	2,747	2	(28,783)
Balance at September 30, 2018	$ 441,509	$ 14,911	$ (127,366)	$ 26,964	$ 2,023	$ 358,041

(1) Contributed surplus relates to stock based compensation described in Note 10.

(2) At September 30, 2018, the accumulated other comprehensive income balance consists of the translation of foreign operations and unrealized foreign exchange on the 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)

	Note	Three months ended Sept 30 2018	Three months ended Sept 30 2017	Nine months ended Sept 30 2018	Nine months ended Sept 30 2017
Operating activities					
Net loss		$ (10,108)	$ (11,478)	$ (31,530)	$ (32,471)
Adjustments for:					
Depreciation included in operating expenses		16,232	16,196	48,936	48,989
Depreciation included in administrative expenses		269	300	814	929
Non cash stock based compensation included in operating expenses		68	18	226	214
Non cash stock based compensation included in administrative expenses		175	121	544	1,307
Finance costs	12	4,574	5,521	14,447	16,352
Income tax recovery	14	(3,598)	(4,071)	(9,993)	(11,713)
Other		17	(58)	65	(129)
Income taxes received		-	1,685	-	1,685
Change in non cash working capital		(9,597)	(6,625)	4,700	278
Cash flow (used in) from operating activities		(1,968)	1,609	28,209	25,441
Investing activities					
Additions to property and equipment	7	(3,776)	(6,349)	(13,858)	(12,220)
Proceeds on sale of property and equipment		166	175	483	793
Change in non cash working capital		(122)	2,140	(1,663)	2,692
Cash flow used in investing activities		(3,732)	(4,034)	(15,038)	(8,735)
Financing activities					
Repayment of senior notes	8	-	-	(265,000)	-
Issuance of second lien debt	8	-	-	215,000	-
Repayment of second lien debt	8	(538)	-	(538)	-
Finance costs paid		(6,866)	(10,449)	(17,967)	(21,147)
Draw on revolving credit facility	8	9,000	-	9,000	-
Draw on operating credit facility	8	3,009	-	3,009	-
Repayment of other long term debt		(163)	(157)	(463)	(538)
Distributions to non controlling interest		-	(42)	(100)	(42)
Change in non cash working capital		-	-	(159)	-
Cash flow from (used in) financing activities		4,442	(10,648)	(57,218)	(21,727)
Decrease in cash and cash equivalents		(1,258)	(13,073)	(44,047)	(5,021)
Cash and cash equivalents, beginning of period		6,036	52,649	48,825	44,597
Cash and cash equivalents, end of period		$ 4,778	$ 39,576	$ 4,778	$ 39,576

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

1. Reporting entity:

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the head 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 and for the three and nine months ended September 30, 2018 and 2017 (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 and oilfield rental equipment services in Canada through its wholly owned subsidiary Western Production Services Corp. ("Western Production Services"). Western Production Services' division, Eagle Well Servicing ("Eagle") provides well servicing operations, while its division, Aero Rental Services ("Aero") provides oilfield rental equipment services. 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 ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board. Except for standards adopted in the period as detailed in Note 4, 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, 2017 and for the years ended December 31, 2017 and 2016 as filed on SEDAR at 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 October 24, 2018.

Functional and presentation currency:

These Financial Statements are presented in Canadian dollars, which is Western's functional currency.

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 crude oil and natural gas exploration and production companies to move heavy equipment to otherwise inaccessible areas and the resulting demand for services, such as those provided by the Company, is typically high. The second quarter is normally a slower period in Canada, as the spring thaw and wet conditions create weight restrictions on roads, 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. Standards adopted in the period:

As at January 1, 2018, the Company adopted the following standards:

IFRS 15 – Revenue from Contracts with Customers:

Effective January 1, 2018, the Company adopted IFRS 15, Revenue from Contracts with Customers using the modified retrospective approach, which requires the cumulative effect of adopting IFRS 15 to be recognized as at January 1, 2018. Upon adoption of this standard, the Company did not have a cumulative adjustment, with the previous revenue recognition policy being applied consistently under the new standard. The Company's revenue recognition policy under IFRS 15 is as follows:

A portion of the Company's revenue is generated from contracts with its customers. Long term contracts, as well as short term contracts, are common in the contract drilling segment, whereas the Company's other operating segments typically do not have long term contracts. In the production services segment, master service agreements may be signed with Western's customers, however there typically is no term commitment for a specific number of service rig hours. Long term contracts are those contracts with a term greater than one year. Segmented disclosures are included in Note 6, disaggregating revenue by geographic area and by operating segment.

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

4. Standards adopted in the period (continued):

Similar to revenue on short term or spot market contracts, the Company satisfies its performance obligations related to its long term contracts as the Company provides its services on a per billable day or hourly basis. As days are worked on the customer's contract, the Company satisfies its performance obligation to the customer and recognizes revenue. The Company has elected to use the practical expedient under IFRS 15, paragraph B16, as the Company invoices its customers on a per day or per hour basis that directly corresponds with the value received by the customer. Revenue is therefore recognized on a per day or per hour basis, for both drilling and rig mobilization days. Should the customer terminate a long term drilling contract early, the Company may be entitled to shortfall commitment revenue on the contract. The Company recognizes shortfall commitment revenue when payment from the customer is certain. At the inception of a contract, an estimate for shortfall commitment revenue is not recognized, as the Company expects the customer to use its services for the full term of the contract. As a result, determining when to recognize shortfall commitment revenue requires judgment to ensure that revenue is recognized when the performance obligation has been satisfied and collectability assured.

IFRS 9 – Financial Instruments:

Effective January 1, 2018, the Company adopted the amendments in IFRS 9, Financial Instruments, including the classification and measurement of financial assets and the expected loss impairment model. The amendments to IFRS 9 are effective for annual periods on or after January 1, 2018 and are applied retrospectively. The standard now includes three categories for financial assets, as compared to five categories under IAS 39, including amortized cost, fair value through profit or loss, and fair value through other comprehensive income. IFRS 9 removes the loans and receivables and held for trading categories previously included under IAS 39. For financial liabilities, most of the requirements from IAS 39 were included in IFRS 9 and did not impact the Company's financial liabilities. Additionally, IFRS 9 also includes a greater emphasis on the Company's credit risk and how the Company's credit losses are determined. Note 16 describes the Company's financial instruments and credit risk in detail.

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

	IAS 39		IFRS 9	
Financial Asset / Liability	**Classification**	**Measurement**	**Classification**	**Measurement**
Cash and cash equivalents	Held for trading	Fair value	Amortized cost	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost	Amortized cost	Amortized cost
Trade payables and other current liabilities	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost
Finance lease obligations	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost
Second Lien Facility	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost
Credit Facilities	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost

5. New standards and interpretations not yet adopted:

IFRS 16, Leases, was issued in January 2016 and replaces the previous guidance on leases. This standard provides a single recognition and measurement model to be applied to leases, with required recognition of assets and liabilities for most leases. This standard is effective for annual periods beginning on or after January 1, 2019. At September 30, 2018, the Company has completed the majority of its assessments of IFRS 16. The adoption of IFRS 16 is expected to have an impact on the Financial Statements, as the Company currently has long term office leases that are classified as operating leases, with monthly rent payments recorded through the condensed consolidated statements of operations and comprehensive income. Under IFRS 16, Western's office leases will become finance leases, with the present value of the future lease payments used to estimate the value of the right of use assets and lease obligations. Western currently estimates the value of its most significant right of use asset to be approximately $6.2 million with a corresponding net liability of approximately $7.1 million as at January 1, 2019. IFRS 16 will result in additional disclosure in Western's notes to the Financial Statements, relating to the right of use assets and the lease obligations. Additionally, Western will be required to disclose the depreciation relating to the right of use assets and interest relating to the lease obligations separately in the notes to the Financial Statements. Western expects that IFRS 16 will not have a significant impact on Western's other short term operating leases, such as office equipment.

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5. New standards and interpretations not yet adopted (continued):

Additionally, Western anticipates that its long term drilling contracts will be classified as operating leases under IFRS 16. The Company does not expect any significant changes to its Financial Statements as the current treatment for its long term drilling contracts is consistent with IFRS 16 guidance. However, the Company does anticipate more detailed note disclosures in its Financial Statements relating to its long term drilling contracts.

6. Operating segments:

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

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

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

The following is a summary of the Company's results by operating segment for the three and nine months ended September 30, 2018 and 2017:

Three months ended September 30, 2018	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 46,319	$ 12,634	$ -	$ (74)	$ 58,879
Operating loss	(5,688)	(2,203)	(919)	-	(8,810)
Finance costs	-	-	4,574	-	4,574
Depreciation	13,212	3,153	136	-	16,501
Additions to property and equipment (1)	3,468	441	-	-	3,909

Three months ended September 30, 2017	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 41,185	$ 12,957	$ -	$ (11)	$ 54,131
Operating loss	(6,393)	(1,869)	(1,352)	-	(9,614)
Finance costs	-	-	5,521	-	5,521
Depreciation	12,977	3,356	163	-	16,496
Additions to property and equipment (1)	5,733	872	-	-	6,605

(1) Additions include the purchase of property and equipment and finance lease additions.

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

6. Operating segments (continued):

Nine months ended September 30, 2018	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 134,779	$ 38,734	$ -	$ (236)	$ 173,277
Operating loss	(16,760)	(5,641)	(3,649)	-	(26,050)
Finance costs	-	-	14,447	-	14,447
Depreciation	39,585	9,766	399	-	49,750
Additions to property and equipment [1]	12,613	2,035	-	-	14,648

Nine months ended September 30, 2017	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 130,440	$ 41,335	$ -	$ (115)	$ 171,660
Operating loss	(15,402)	(4,580)	(4,308)	-	(24,290)
Finance costs	-	-	16,352	-	16,352
Depreciation	39,110	10,312	496	-	49,918
Additions to property and equipment [1]	11,001	2,076	1	-	13,078

(1) Additions include the purchase of property and equipment and finance lease additions.

Total assets and liabilities by operating segment are as follows:

As at September 30, 2018	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 535,593	$ 127,118	$ 6,368	$ 669,079
Total liabilities	85,582	25,079	200,377	311,038

As at December 31, 2017	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 568,218	$ 136,100	$ 56,186	$ 760,504
Total liabilities	95,182	27,613	251,555	374,350

A reconciliation of operating loss to loss before income taxes by operating segment is as follows:

Three months ended September 30, 2018	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (5,688)	$ (2,203)	$ (919)	$ (8,810)
Add (deduct):				
Stock based compensation	(86)	13	(150)	(223)
Finance costs	-	-	(4,574)	(4,574)
Other items	-	-	(99)	(99)
Loss before income taxes	$ (5,774)	$ (2,190)	$ (5,742)	$ (13,706)

Three months ended September 30, 2017	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (6,393)	$ (1,869)	$ (1,352)	$ (9,614)
Deduct:				
Stock based compensation	(43)	(24)	(112)	(179)
Finance costs	-	-	(5,521)	(5,521)
Other items	-	-	(235)	(235)
Loss before income taxes	$ (6,436)	$ (1,893)	$ (7,220)	$ (15,549)

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

6. Operating segments (continued):

Nine months ended September 30, 2018	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (16,760)	$ (5,641)	$ (3,649)	$ (26,050)
Deduct:				
Stock based compensation	(385)	(63)	(576)	(1,024)
Finance costs	-	-	(14,447)	(14,447)
Other items	-	-	(2)	(2)
Loss before income taxes	$ (17,145)	$ (5,704)	$ (18,674)	$ (41,523)

Nine months ended September 30, 2017	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (15,402)	$ (4,580)	$ (4,308)	$ (24,290)
Deduct:				
Stock based compensation	(214)	(193)	(1,079)	(1,486)
Finance costs	-	-	(16,352)	(16,352)
Other items	-	-	(2,056)	(2,056)
Loss before income taxes	$ (15,616)	$ (4,773)	$ (23,795)	$ (44,184)

Segmented information by geographic area is as follows:

As at September 30, 2018	Canada	United States	Total
Property and equipment	$ 519,189	$ 100,980	$ 620,169
Total assets	561,074	108,005	669,079

As at December 31, 2017	Canada	United States	Total
Property and equipment	$ 554,006	$ 98,822	$ 652,828
Total assets	652,935	107,569	760,504

	Canada	United States	Total
Revenue - three months ended September 30, 2018	$ 49,954	$ 8,925	$ 58,879
Revenue - three months ended September 30, 2017	46,559	7,572	54,131
Revenue - nine months ended September 30, 2018	150,477	22,800	173,277
Revenue - nine months ended September 30, 2017	150,192	21,468	171,660

Significant Customers:

For the three and nine months ended September 30, 2018, the Company had no significant customers comprising 10.0% or more of the Company’s total revenue. For the three months ended September 30, 2017, the Company had one significant customer comprising 10.5% of the Company’s total revenue. For the nine months ended September 30, 2017, the Company had no customers comprising 10.0% or more of the Company’s total revenue.

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

7. Property and equipment:

The following table summarizes the Company's property and equipment:

	Land	Buildings	Contract drilling equipment	Production services equipment	Office and shop equipment	Vehicles under finance leases	Total
Cost:							
Balance at December 31, 2017	$ 5,089	$ 4,396	$ 780,836	$ 202,870	$ 12,724	$ 3,457	$ 1,009,372
Additions	-	-	12,007	1,662	189	-	13,858
Finance lease additions	-	-	-	-	-	790	790
Disposals	-	-	(5,065)	(654)	(477)	(679)	(6,875)
Foreign exchange adjustment	-	-	4,657	-	20	8	4,685
Balance at September 30, 2018	$ 5,089	$ 4,396	$ 792,435	$ 203,878	$ 12,456	$ 3,576	$ 1,021,830
Accumulated depreciation:							
Balance at December 31, 2017	$ -	$ 1,218	$ 264,960	$ 79,671	$ 9,098	$ 1,597	$ 356,544
Depreciation for the period	-	151	39,257	9,352	666	324	$ 49,750
Disposals	-	-	(4,715)	(436)	(477)	(555)	$ (6,183)
Foreign exchange adjustment	-	-	1,523	-	19	8	$ 1,550
Balance at September 30, 2018	$ -	$ 1,369	$ 301,025	$ 88,587	$ 9,306	$ 1,374	$ 401,661
Carrying amounts:							
At December 31, 2017	$ 5,089	$ 3,178	$ 515,876	$ 123,199	$ 3,626	$ 1,860	$ 652,828
At September 30, 2018	$ 5,089	$ 3,027	$ 491,410	$ 115,291	$ 3,150	$ 2,202	$ 620,169

8. Long term debt:

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

	September 30, 2018	December 31, 2017
Current:		
Second Lien Facility	$ 2,150	$ -
Other long term debt (1)	477	475
Less: unamortized issue costs	(872)	-
Total current portion of long term debt	1,755	475
Non current:		
Second Lien Facility	212,312	-
Revolving Facility	9,000	-
Operating Facility	3,009	-
Senior Notes	-	265,000
Other long term debt (1)	1,112	788
Less: unamortized issue costs	(2,869)	(569)
Total non current portion of long term debt	222,564	265,219
Total long term debt	$ 224,319	$ 265,694

(1) Other long term debt relates to finance lease obligations.

Credit Facilities:

At September 30, 2018, Western's credit facility consisted of a $70.0 million syndicated revolving credit facility (the "Revolving Facility") and a $10.0 million committed operating facility (the "Operating Facility" and together the "Credit Facilities") which mature on December 17, 2020. In addition to the $80.0 million of available credit under the Credit Facilities, Western has access to an accordion feature whereby an incremental $50.0 million of borrowing would become available, subject to lender approval.

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

8. Long term debt (continued):

Advances under the Credit Facilities are limited by the Company's borrowing base. The borrowing base is applicable when the Debt Service Coverage ratio is less than 2.0 and either (i) more than $40.0 million is drawn under the Credit Facilities or (ii) the net book value of Western's property and equipment is less than $400.0 million. The borrowing base is determined as follows:

- 85% of investment grade accounts receivable; plus
- 75% of non-investment grade accounts receivable; plus
- 25% of the net book value of property and equipment to a maximum of $50.0 million.

As at September 30, 2018, the borrowing base calculation was not applicable as the Company had less than $40.0 million drawn on its Credit Facilities and the net book value of Western's property and equipment was greater than $400.0 million.

Amounts borrowed under the Credit 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 Credit Facilities agreement.

The Credit Facilities are secured by the assets of Western and its subsidiaries. As at September 30, 2018, $9.0 million and $3.0 million was drawn on the Revolving Facility and Operating Facility respectively.

The Company's Credit Facilities are subject to the following financial covenants:

	Covenant	September 30, 2018
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio (1)(2)	3.0:1.0 or less	0.25:1.0
Maximum Consolidated Debt to Consolidated Capitalization Ratio (3)(4)	0.6:1.0 or less	0.38:1.0
Minimum Debt Service Coverage Ratio (5)	1.5:1.0 or more	Not applicable

(1) Consolidated Senior Debt in the Credit Facilities is defined as indebtedness under the Revolving Facility, Operating Facility and finance leases; reduced by all cash and cash equivalents.
(2) Consolidated EBITDA in the Credit Facilities is defined on a trailing twelve month basis 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 Debt in the Credit Facilities is defined as Consolidated Senior Debt plus outstanding principal on unsecured debt, including the Second Lien Facility.
(4) Consolidated Capitalization in the Credit Facilities is defined as the aggregate of Consolidated Debt and total shareholders` equity as reported on the consolidated balance sheet.
(5) Debt Service Coverage Ratio is defined as the ratio of Consolidated EBITDA, as previously defined, divided by the sum of interest expense on a twelve month trailing basis and scheduled long term debt principal repayments for the next twelve months. The ratio is only applicable when $40.0 million or more is drawn on the Credit Facilities or the net book value of Western's property and equipment is less than $400.0 million. When applicable, the ratio must meet or exceed 1.5 as at September 30, 2018 and December 31, 2018 and 2.0 thereafter.

As at September 30, 2018, the Company was in compliance with all covenants related to its Credit Facilities.

Second Lien Facility:

On January 31, 2018, the Company completed a one time draw of $215.0 million on its second lien secured term loan facility ("the Second Lien Facility"). The proceeds from the Second Lien Facility draw, along with cash on hand and funds available under the Credit Facility were used to redeem the Senior Notes. Interest is payable semi-annually, at a rate of 7.25% per annum, on January 1 and July 1 each year. Amortization payments equal to 1% of the principal amount are payable annually in quarterly installments beginning on July 1, 2018, with the balance due on January 31, 2023. At September 30, 2018, $214.5 million was outstanding on the Second Lien Facility.

Senior Notes:

Prior to the draw of the Second Lien Facility on January 31, 2018, the Company had $265.0 million 7⅞% senior unsecured notes (the "Senior Notes") outstanding which were redeemed on February 1, 2018 at their par value.

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

9. 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, 2017	92,175,598	$ 441,019
Issued on vesting of restricted share units	128,940	490
Balance at September 30, 2018	92,304,538	$ 441,509

There were no dividends declared during the three and nine months ended September 30, 2018 and 2017.

10. 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, provided that, when combined, the maximum number of common shares reserved for issuance under all stock based compensation arrangements of the Company does not exceed 10% of the Company's outstanding common shares.

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

	Stock options outstanding	Weighted average exercise price
Balance at December 31, 2017	6,475,613	$ 5.17
Granted	2,880,490	0.87
Forfeited	(403,371)	4.39
Expired	(499,368)	6.88
Balance at September 30, 2018	8,453,364	$ 3.64

For the three and nine months ended September 30, 2018 and 2017, no stock options were cancelled. The average fair value of the stock options granted for the three and nine months ended September 30, 2018 was $0.25 per stock option (for the three and nine months ended September 30, 2017: $0.34 and $0.39 per stock option respectively). As at September 30, 2018, Western had 4,373,262 (December 31, 2017: 3,789,666) exercisable stock options outstanding at a weighted average exercise price equal to $5.90 (December 31, 2017: $6.92) per stock option.

Restricted share unit plan:

The Company's restricted share unit ("RSU") plan provides RSUs 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 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 the grant. The RSU plan allows the Board of Directors to issue up to 5% of the Company's outstanding common shares as equity settled RSUs, provided that, when combined, the maximum number of common shares reserved for issuance under all stock based compensation arrangements of the Company does not exceed 10% of the Company's outstanding common shares.

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

	Equity settled	Cash settled	Total
Balance at December 31, 2017	191,420	1,221,893	1,413,313
Granted	495,110	399,712	894,822
Vested	(128,940)	(404,947)	(533,887)
Forfeited	(12,589)	(140,116)	(152,705)
Balance at September 30, 2018	545,001	1,076,542	1,621,543

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

10. Stock based compensation (continued):

Stock based compensation expense recognized in the condensed consolidated statements of operations and comprehensive income (loss) is comprised of the following:

	Three months ended Sept 30		Nine months ended Sept 30	
	2018	2017	2018	2017
Stock options	$ 186	$ 114	$ 580	$ 1,071
Restricted share units – equity settled grants	57	25	190	450
Total equity settled stock based compensation expense	243	139	770	1,521
Restricted share units – cash settled grants	(20)	40	254	(35)
Total stock based compensation expense	$ 223	$ 179	$ 1,024	$ 1,486

Warrants:

As at September 30, 2018, Western had 7,099,546 warrants outstanding. Each warrant will entitle the holder to acquire one common share at an exercise price of $1.77 per common share at any time prior to October 17, 2020, after which they expire.

11. Earnings per share:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2018	2017	2018	2017
Issued common shares, beginning of period	92,179,281	73,795,944	92,175,598	73,795,944
Weighted average number of common shares issued	56,878	81,259	21,816	28,026
Weighted average number of common shares (basic)	92,236,159	73,877,203	92,197,414	73,823,970
Dilutive effect of equity securities	-	-	-	-
Weighted average number of common shares (diluted)	92,236,159	73,877,203	92,197,414	73,823,970

For the three and nine months ended September 30, 2018, 8,453,364 stock options (three and nine months ended September 30, 2017: 6,828,042 stock options), 545,001 equity settled RSUs (three and nine months ended September 30, 2017: 200,807 equity settled RSUs) and 7,099,546 warrants (three and nine months ended September 30, 2017: nil) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

12. Finance costs:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2018	2017	2018	2017
Interest expense on long term debt	$ 4,232	$ 5,441	$ 12,996	$ 16,085
Amortization of debt financing fees	129	27	386	82
Accretion expense on Second Lien Facility	220	-	582	-
Accretion expense on Senior Notes	-	131	569	388
Interest income	(7)	(78)	(86)	(203)
Total finance costs	$ 4,574	$ 5,521	$ 14,447	$ 16,352

The Company had an effective interest rate of 8.1% and 8.6% on its borrowings for the three and nine months ended September 30, 2018 (three and nine months ended September 30, 2017: 8.3%). The increase in the effective interest rate for the nine months ended September 30, 2018 is due to $0.6 million in non-cash accretion expense related to the early redemption of the Senior Notes on February 1, 2018.

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

13. Other items:

Other items recognized in the condensed consolidated statements of operations and comprehensive income (loss) are comprised of the following:

	Three months ended Sept 30		Nine months ended Sept 30	
	2018	2017	2018	2017
Transaction costs	$ -	$ -	$ -	$ 1,597
Loss (gain) on sale of fixed assets	62	(39)	209	(51)
Realized foreign exchange loss (gain)	25	278	(195)	501
Unrealized foreign exchange loss (gain)	12	(4)	(12)	9
Total other items	$ 99	$ 235	$ 2	$ 2,056

14. Income taxes:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2018	2017	2018	2017
Current tax expense (recovery)	$ -	$ 33	$ (45)	$ 33
Deferred tax recovery	(3,598)	(4,104)	(9,948)	(11,746)
Total income tax recovery	$ (3,598)	$ (4,071)	$ (9,993)	$ (11,713)

As at September 30, 2018, the Company has loss carry forwards equal to approximately $167.9 million in Canada, which will expire between 2035 and 2038. In the United States, the Company has approximately US$49.9 million loss carry forwards which expire between 2028 and 2036.

15. Costs by nature:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2018	2017	2018	2017
Depreciation of property and equipment (Note 7)	$ 16,501	$ 16,496	$ 49,750	$ 49,918
Employee benefits: salaries and benefits	32,329	31,372	94,616	94,396
Employee benefits: stock based compensation (Note 10)	223	179	1,024	1,486
Repairs and maintenance	5,887	4,304	15,027	13,336
Third party charges	4,808	3,020	15,265	11,927

16. Financial risk management and financial instruments:

Effective January 1, 2018, the Company adopted the amendments to IFRS 9, Financial Instruments. All of the Company's financial instruments are now measured at amortized cost, including cash and cash equivalents, trade and other receivables, trade payables and other current liabilities, and long term debt instruments such as the Credit Facilities, the Second Lien Facility, and finance lease obligations. The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2017.

All financial instruments are measured at fair value upon initial recognition of the transaction. Measurement in subsequent periods is dependent on whether the instrument is classified as "amortized cost", "fair value through profit or loss" or "fair value through other comprehensive income".

The Company derecognizes a financial asset when the contractual right to the cash flows from the asset expires, or it transfers the right to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the balance sheet 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.

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

16. Financial risk management and financial instruments (continued):

The Company has the following financial assets and liabilities recognized at amortized cost:

Cash and cash equivalents are initially recognized at fair value and are subsequently measured at amortized cost with changes therein recognized in net income.

The Company's trade and other receivables are classified under the amortized cost category and are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value, adjusted for any directly attributable transaction costs. Subsequent to initial recognition, trade and other receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Trade payables and other current liabilities, finance lease obligations, the Second Lien Facility and Credit Facilities are classified under the amortized cost category. Financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Financial liabilities, including the Second Lien Facility, are subsequently measured at amortized cost using the effective interest method. Transaction costs incurred with respect to the Credit Facilities are deferred and amortized using the straight line method over the term of the facility. The asset is recognized in other assets on the balance sheet while the amortization is included in finance costs within net income. Transaction costs related to undrawn term loans are recognized in deferred charges until the term loan is drawn. Subsequent to drawing on the term loan, transaction costs are netted against the term loan and amortized using the effective interest method.

Credit risk:

The Company's trade receivables are with customers in the crude oil and natural gas industry and are subject to normal industry credit risk. The Company's practice is to manage credit risk by performing a detailed analysis of the credit worthiness of new customers before the Company's standard payment terms are offered. Additionally, the Company continuously reviews individual customer trade receivables, taking into consideration payment history and the aging of the trade receivable to monitor collectability.

Under IFRS 9, Financial Instruments, the Company is required to review impairment of its trade and other receivables at each reporting period and to review its loss allowance for expected future credit losses. The Company records an allowance for doubtful accounts if an account is determined to be uncollectible. Any provisions recorded by the Company are reviewed regularly to determine if any of the balances provided for should be written off. The allowance for doubtful accounts could materially change as a result of fluctuations in the financial position of the Company's customers.

The Company completes a detailed review of its historical credit losses as part of its impairment assessment. The Company has had minimal historical impairment losses on its trade and other receivables, due in part to its credit management processes. As such, the Company assesses impairment losses on an individual customer account basis, rather than recognize a loss allowance on all outstanding trade and other receivables.

Capital management:

The overall capitalization of the Company at September 30, 2018 and December 31, 2017 is as follows:

	Note	September 30, 2018	December 31, 2017
Second Lien Facility	8	$ 214,462	$ -
Revolving Facility	8	9,000	-
Operating Facility	8	3,009	-
Senior Notes	8	-	265,000
Other long term debt	8	1,589	1,263
Total debt		228,060	266,263
Shareholders' equity		358,041	386,154
Less: cash and cash equivalents		(4,778)	(48,825)
Total capitalization		$ 581,323	$ 603,592

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

17. Commitments:

As at September 30, 2018, the Company has commitments which require payments based on the maturity terms as follows:

	2018	2019	2020	2021	2022	Thereafter	Total
Second Lien Facility	$ 538	$ 2,150	$ 2,150	$ 2,150	$ 2,150	$ 205,324	$ 214,462
Second Lien Facility interest	-	15,503	15,390	15,192	15,036	8,744	69,865
Trade payables and other current liabilities[(1)]	23,928	-	-	-	-	-	23,928
Operating leases	1,052	4,007	3,739	2,857	2,534	5,149	19,338
Revolving Facility	-	-	9,000	-	-	-	9,000
Purchase commitments	3,666	53	-	-	-	-	3,719
Operating Facility	-	-	3,009	-	-	-	3,009
Other long term debt	149	530	715	329	-	-	1,723
Total	$ 29,333	$ 22,243	$ 34,003	$ 20,528	$ 19,720	$ 219,217	$ 345,044

(1) Trade payables and other current liabilities exclude interest accrued as at September 30, 2018 on the Second Lien Facility.