

Western Energy Services Corp.
Condensed Consolidated Financial Statements
September 30, 2019 and 2018
(Unaudited)

Western Energy Services Corp.

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

	Note	September 30, 2019	December 31, 2018
Assets			
Current assets			
Cash and cash equivalents		\$ 1,677	\$ 3,960
Trade and other receivables		32,193	41,084
Other current assets		5,166	6,468
		39,036	51,512
Non current assets			
Property and equipment	6	578,834	615,395
Other non current assets		73	388
		\$ 617,943	\$ 667,295
Liabilities			
Current liabilities			
Trade payables and other current liabilities		\$ 20,427	\$ 33,718
Current portion of provisions		-	233
Current portion of long term debt	7	4,847	1,822
		25,274	35,773
Non current liabilities			
Provisions		-	1,133
Long term debt	7	232,722	222,258
Deferred taxes		38,716	54,332
		296,712	313,496
Shareholders' equity			
Share capital	8	441,795	441,512
Contributed surplus		15,365	15,142
Retained earnings (deficit)		(166,808)	(136,992)
Accumulated other comprehensive income		29,140	32,152
Non controlling interest		1,739	1,985
		321,231	353,799
		\$ 617,943	\$ 667,295

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		Nine months ended Sept 30	
		2019	2018	2019	2018
Revenue		\$ 47,067	\$ 58,879	\$ 150,570	\$ 173,277
Expenses					
Operating		38,223	46,855	119,402	135,419
Administrative		3,876	4,333	12,514	14,158
Depreciation	6	15,471	16,501	48,319	49,750
Stock based compensation	9	145	223	459	1,024
Finance costs	11	4,676	4,574	14,052	14,447
Other items	12	(92)	99	(409)	2
Loss before income taxes		(15,232)	(13,706)	(43,767)	(41,523)
Income tax recovery	13	(3,657)	(3,598)	(14,986)	(9,993)
Net loss		(11,575)	(10,108)	(28,781)	(31,530)
Other comprehensive income (loss) ⁽¹⁾					
(Gain) loss on translation of foreign operations		(803)	1,047	1,915	(1,923)
Unrealized foreign exchange (gain) loss on net investment in subsidiary		(430)	604	1,097	(824)
Comprehensive loss		\$ (10,342)	\$ (11,759)	\$ (31,793)	\$ (28,783)
Net income (loss) attributable to:					
Shareholders of the Company		\$ (11,539)	\$ (10,079)	\$ (28,691)	\$ (31,532)
Non controlling interest		(36)	(29)	(90)	2
Comprehensive income (loss) attributable to:					
Shareholders of the Company		\$ (10,306)	\$ (11,730)	\$ (31,703)	\$ (28,785)
Non controlling interest		(36)	(29)	(90)	2
Net loss per share:					
Basic		\$ (0.13)	\$ (0.11)	\$ (0.31)	\$ (0.34)
Diluted		(0.13)	(0.11)	(0.31)	(0.34)
Weighted average number of shares:					
Basic	10	92,402,039	92,236,159	92,338,987	92,197,414
Diluted	10	92,402,039	92,236,159	92,338,987	92,197,414

(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, 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
Common shares:						
Issued on vesting of restricted share units	3	(3)	-	-	-	-
Stock based compensation	-	234	-	-	-	234
Distributions to non controlling interest	-	-	-	-	(134)	(134)
Comprehensive income (loss)	-	-	(9,626)	5,188	96	(4,342)
Balance at December 31, 2018	441,512	15,142	(136,992)	32,152	1,985	353,799
Common shares:						
Issued on vesting of restricted share units	283	(283)	-	-	-	-
Stock based compensation	-	506	-	-	-	506
IFRS 16 adoption (Note 4)	-	-	(1,125)	-	-	(1,125)
Distributions to non controlling interest	-	-	-	-	(156)	(156)
Comprehensive loss	-	-	(28,691)	(3,012)	(90)	(31,793)
Balance at September 30, 2019	\$ 441,795	\$ 15,365	\$ (166,808)	\$ 29,140	\$ 1,739	\$ 321,231

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

(2) At September 30, 2019, 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		Nine months ended Sept 30	
		2019	2018	2019	2018
Operating activities					
Net loss		\$ (11,575)	\$ (10,108)	\$ (28,781)	\$ (31,530)
Adjustments for:					
Depreciation	6	15,471	16,501	48,319	49,750
Non cash stock based compensation	9	127	243	506	770
Finance costs	11	4,676	4,574	14,052	14,447
(Gain) loss on sale of fixed assets	12	(25)	62	(468)	209
Unrealized foreign exchange (gain) loss	12	(62)	12	114	(12)
Income tax recovery	13	(3,657)	(3,598)	(14,986)	(9,993)
Other		-	(57)	-	(132)
Change in non cash working capital		(5,547)	(9,597)	4,041	4,700
Cash flow (used in) from operating activities		(592)	(1,968)	22,797	28,209
Investing activities					
Additions to property and equipment	6	(1,143)	(3,776)	(5,026)	(13,858)
Proceeds on sale of property and equipment		102	166	813	483
Change in non cash working capital		(441)	(122)	(3,573)	(1,663)
Cash flow used in investing activities		(1,482)	(3,732)	(7,786)	(15,038)
Financing activities					
Repayment of senior notes		-	-	-	(265,000)
Issuance of second lien debt		-	-	-	215,000
Finance costs paid		(8,101)	(6,866)	(16,940)	(17,967)
Repayment of second lien debt	7	(538)	(538)	(1,613)	(538)
Repayment of finance lease obligations	7	(895)	(163)	(2,492)	(463)
Draw on revolving credit facility	7	12,000	9,000	4,000	9,000
(Repayment of) draw on operating credit facility	7	(1,366)	3,009	(93)	3,009
Distributions to non controlling interest		(31)	-	(156)	(100)
Change in non cash working capital		-	-	-	(159)
Cash flow from (used in) financing activities		1,069	4,442	(17,294)	(57,218)
Decrease in cash and cash equivalents		(1,005)	(1,258)	(2,283)	(44,047)
Cash and cash equivalents, beginning of period		2,682	6,036	3,960	48,825
Cash and cash equivalents, end of period		\$ 1,677	\$ 4,778	\$ 1,677	\$ 4,778

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)

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, 2019 and 2018 (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. Stoneham’s division, Western Oilfield Services, provides well servicing operations in the United States. Financial and operating results for Horizon and Stoneham are included in Western’s contract drilling segment, while financial and operating results for Eagle, Aero, and Western Oilfield Services 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. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the years ended December 31, 2018 and 2017. Except for standards adopted in the period as detailed in Note 4, these Financial Statements have been prepared using accounting policies and estimates which are consistent with Notes 3 and 4 of the audited annual consolidated financial statements as at December 31, 2018 and for the years ended December 31, 2018 and 2017 as filed on SEDAR at www.sedar.com.

These Financial Statements were approved for issuance by Western’s Board of Directors on October 23, 2019.

Functional and presentation currency:

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

Reclassification of depreciation and stock based compensation:

Beginning in the third quarter of 2019, the Company reclassified specific expenses to better align the expenses with management’s review of the performance and disclosure of its operating segments. Depreciation and stock based compensation expenses were previously grouped with operating and administrative expenses. The Company has reclassified these costs in the condensed consolidated statement of operations and comprehensive income. Historical results were reclassified to match the current period presentation. The reclassification did not impact operating loss, loss before income taxes, net loss or earnings per share. Management believes the reclassifications described above, now align the nature of the costs presented with the assessment of performance of each operating segment.

The following table shows the impact of the reclassification on the Company’s statement of operations and comprehensive income for the three and nine months ended September 30, 2018:

	Three months ended Sept 30, 2018		Nine months ended Sept 30, 2018	
	Before Reclassification	After Reclassification	Before Reclassification	After Reclassification
Expenses				
Operating	\$ 63,137	\$ 46,855	\$ 184,703	\$ 135,419
Administrative	4,775	4,333	15,648	14,158
Depreciation	-	16,501	-	49,750
Stock based compensation	-	223	-	1,024
Total	\$ 67,912	\$ 67,912	\$ 200,351	\$ 200,351

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)

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, 2019, the Company adopted the following standard:

IFRS 16 – Leases:

Effective January 1, 2019, the Company adopted IFRS 16, Leases, which removes the distinction between operating and finance leases and requires the Company to recognize a right of use asset ("finance lease asset") and lease liability ("finance lease obligation") at the start of all leases, except for short term leases, defined as leases with a term of less than one year, as well as leases where the underlying asset is of low value.

The Company elected to apply the practical expedients in IFRS 16 related to short term leases, as well as leases where the underlying asset is of low value. Lease payments related to these leases are expensed on a straight line basis over the lease term and included in the consolidated statement of operations and comprehensive income. The expense related to short term and low value leases is disclosed in Note 7.

The Company used the modified retrospective method upon adoption, which requires the cumulative effective of adopting IFRS 16 to be recognized as an adjustment to the opening balance of retained earnings. The prior year balances were not adjusted. The following table shows the impact of adopting IFRS 16 on the Company's balance sheet:

	December 31, 2018	IFRS 16 Impact	January 1, 2019
Assets			
Current assets			
Cash	\$ 3,960	\$ -	\$ 3,960
Trade and other receivables	41,084	-	41,084
Other current assets	6,468	(122)	6,346
	51,512	(122)	51,390
Non current assets			
Property and equipment	615,395	10,080	625,475
Other non current assets	388	-	388
	\$ 667,295	\$ 9,958	\$ 677,253
Liabilities			
Current liabilities			
Trade payables and other current liabilities	\$ 33,718	\$ -	\$ 33,718
Current portion of provisions	233	(233)	-
Current portion of long term debt	1,822	2,807	4,629
	35,773	2,574	38,347
Non current liabilities			
Provisions	1,133	(1,133)	-
Long term debt	222,258	10,018	232,276
Deferred taxes	54,332	(376)	53,956
	313,496	11,083	324,579
Shareholders' equity			
Share capital	441,512	-	441,512
Contributed surplus	15,142	-	15,142
Retained earnings (deficit)	(136,992)	(1,125)	(138,117)
Accumulated other comprehensive income	32,152	-	32,152
Non controlling interest	1,985	-	1,985
	353,799	(1,125)	352,674
	\$ 667,295	\$ 9,958	\$ 677,253

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. Standards adopted in the period (continued):

The following table shows the impact of adopting IFRS 16 on the Company's statement of operations and comprehensive income:

	Three months ended September 30, 2019	Nine months ended September 30, 2019
Incremental interest on long term debt	\$ 168	\$ 534
Incremental depreciation on leased assets	629	1,891
Reduced operating and administrative expenses	(792)	(2,420)
Net impact of adopting IFRS 16	\$ 5	\$ 5

The Company's finance lease assets and finance lease obligations policy under IFRS 16 is as follows:

Finance lease assets:

The Company has lease agreements for items including office space, vehicles, shops and office equipment which qualify as leased assets under IFRS 16. The Company's vehicle leases were capitalized under the previous lease standard, IAS 17, as leased assets.

At the inception of an arrangement, the Company determines whether such an arrangement is or contains a finance lease under IFRS 16. An agreement which results in the Company having the right to control the use of an asset over a period of time with set payments is considered a finance lease. Finance lease assets are capitalized at the date the lease commences and are comprised of the initial lease liability, less any lease incentives received. Depreciation is calculated based on the initial cost of the asset and recognized in net income on a straight line basis over the estimated useful life of the lease. The finance lease assets are included in property and equipment on the consolidated balance sheet and segregated in Note 6.

Finance lease obligations:

The adoption of IFRS 16 requires the Company to make judgments that affect the valuation of finance lease obligations and the corresponding finance lease assets, including whether a contract falls within the scope of IFRS 16, the term of the lease, and determining the interest rate used for discounting future cash flows. The finance lease obligations, and the corresponding finance lease assets, at inception of the agreement are measured at the present value of the fixed lease payments, discounted using the Company's incremental borrowing rate at the inception of the agreement. As at January 1, 2019, the date of transition, the Company's incremental borrowing rate was based on the terms of its Credit Facilities. Payments made related to the finance lease obligations are allocated between finance costs and the reduction of the outstanding finance lease obligations. The finance lease obligations are included in Note 7.

Finance costs are allocated to each period during the lease term using the effective interest rate method. Lease modifications, where the scope increases in exchange for additional corresponding consideration, are accounted for as a separate lease. The lease term includes the non-cancellable period of the lease agreement and periods covered by any option to renew, where it is reasonably certain that the option will be exercised.

The following reconciliation includes the Company's operating lease commitments at December 31, 2018, compared to the Company's finance lease obligations as at the date of transition of January 1, 2019:

	January 1, 2019
Operating lease commitments at December 31, 2018	\$ 21,107
Current leases with a lease term of less than one year	(68)
Office operating costs and building amenities	(5,966)
Other	(74)
Gross lease liabilities at January 1, 2019	14,999
Effect of discounting	(2,174)
Finance lease obligations at January 1, 2019	\$ 12,825

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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. Standards adopted in the period (continued):

Revenue from contracts:

In addition to being a lessee as described previously, the Company is also a lessor with respect to some of its drilling rig contracts. The Company has short term and long term drilling rig contracts, with short term contracts being less than one year and long term contracts being greater than one year. Western has elected to use the practical expedient under IFRS 16.5 for its short term drilling contracts, which scopes out contracts less than one year. For its long term drilling contracts, the Company is considered a lessor. As such, the Company has disclosed its revenue in Note 5 between revenue from short term contracts and revenue from long term contracts.

5. Operating segments:

The Company operates in the oilfield service industry through its contract drilling segment and through its production services segment in both Canada and the United States. 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 & Corporate Secretary ("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, administrative expenses, and depreciation.

The following is a summary of the Company's results by operating segment for the three and nine months ended September 30, 2019 and 2018:

	Contract		Production		Inter-segment		
Three months ended September 30, 2019	Drilling	Services	Corporate	Elimination	Total		
Revenue	\$ 32,814	\$ 14,276	\$ -	\$ (23)	\$ 47,067		
Operating loss	(6,952)	(2,436)	(1,115)	-	(10,503)		
Finance costs	-	-	4,676	-	4,676		
Depreciation	11,666	3,309	496	-	15,471		
Additions to property and equipment	724	419	-	-	1,143		

	Contract		Production		Inter-segment		
Three months ended September 30, 2018	Drilling	Services	Corporate	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	3,384	392	-	-	3,776		

	Contract		Production		Inter-segment		
Nine months ended September 30, 2019	Drilling	Services	Corporate	Elimination	Total		
Revenue	\$ 109,870	\$ 40,877	\$ -	\$ (177)	\$ 150,570		
Operating loss	(17,852)	(7,904)	(3,909)	-	(29,665)		
Finance costs	-	-	14,052	-	14,052		
Depreciation	36,962	9,953	1,404	-	48,319		
Additions to property and equipment	3,509	1,115	402	-	5,026		

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. Operating segments (continued):

Nine months ended September 30, 2018	Contract		Production		Inter-segment		Total
	Drilling		Services		Corporate	Elimination	
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	12,036		1,779		43	-	13,858

Total assets and liabilities by operating segment are as follows:

As at September 30, 2019	Contract		Production		Corporate		Total
	Drilling		Services				
Total assets	\$ 488,663	\$	\$ 118,728	\$	10,552	\$	617,943
Total liabilities	72,820		22,983		200,909		296,712

As at December 31, 2018	Contract		Production		Corporate		Total
	Drilling		Services				
Total assets	\$ 537,236	\$	\$ 124,101	\$	5,958	\$	667,295
Total liabilities	85,826		24,875		202,795		313,496

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

Three months ended September 30, 2019	Contract		Production		Corporate		Total
	Drilling		Services				
Operating loss	\$ (6,952)	\$	\$ (2,436)	\$	(1,115)	\$	(10,503)
Add (deduct):							
Stock based compensation	(34)		(16)		(95)		(145)
Finance costs	-		-		(4,676)		(4,676)
Other items	-		-		92		92
Loss before income taxes	\$ (6,986)	\$	\$ (2,452)	\$	(5,794)	\$	(15,232)

Three months ended September 30, 2018	Contract		Production		Corporate		Total
	Drilling		Services				
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)

Nine months ended September 30, 2019	Contract		Production		Corporate		Total
	Drilling		Services				
Operating loss	\$ (17,852)	\$	\$ (7,904)	\$	(3,909)	\$	(29,665)
Add (deduct):							
Stock based compensation	(115)		(59)		(285)		(459)
Finance costs	-		-		(14,052)		(14,052)
Other items	-		-		409		409
Loss before income taxes	\$ (17,967)	\$	\$ (7,963)	\$	(17,837)	\$	(43,767)

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. 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)

Segmented information by geographic area is as follows:

As at September 30, 2019	Canada	United States	Total
Property and equipment	\$ 467,541	\$ 111,293	\$ 578,834
Total assets	497,033	120,910	617,943

As at December 31, 2018	Canada	United States	Total
Property and equipment	\$ 504,657	\$ 110,738	\$ 615,395
Total assets	545,968	121,327	667,295

	Canada	United States	Total
Revenue - three months ended September 30, 2019	\$ 35,464	\$ 11,603	\$ 47,067
Revenue - three months ended September 30, 2018	49,954	8,925	58,879
Revenue - nine months ended September 30, 2019	112,624	37,946	150,570
Revenue - nine months ended September 30, 2018	150,477	22,800	173,277

Revenue from contracts:

For the three months ended September 30, 2019, the Company's revenue from long term and short term contracts in the contract drilling segment totaled \$6.0 million and \$26.8 million respectively. For the nine months ended September 30, 2019, the Company's revenue from long term and short term contracts in the drilling segment totaled \$34.7 million and \$75.2 million respectively.

For the three and nine months ended September 30, 2019, the Company had no revenue from long term contracts in the production services segment.

Significant customers:

For the three and nine months ended September 30, 2019 and 2018, the Company had no significant customers comprising 10.0% or more 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)

6. 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	Finance lease assets	Total
Cost:							
Balance at December 31, 2018	\$ 5,089	\$ 4,396	\$ 806,053	\$ 203,888	\$ 12,513	\$ 3,911	\$ 1,035,850
Additions to property and equipment	-	-	3,509	976	541	-	5,026
Finance lease additions	-	-	-	-	-	241	241
Adoption of IFRS 16 (Note 4)	-	-	-	-	-	10,080	10,080
Disposals	-	-	(1,836)	(1,134)	(8)	(240)	(3,218)
Foreign exchange adjustment	-	-	(5,034)	(114)	(21)	(38)	(5,207)
Balance at September 30, 2019	\$ 5,089	\$ 4,396	\$ 802,692	\$ 203,616	\$ 13,025	\$ 13,954	\$ 1,042,772
Accumulated depreciation:							
Balance at December 31, 2018	\$ -	\$ 1,419	\$ 316,848	\$ 91,110	\$ 9,565	\$ 1,513	\$ 420,455
Depreciation	-	151	36,435	8,679	702	2,352	48,319
Disposals	-	-	(1,624)	(1,065)	(8)	(176)	(2,873)
Foreign exchange adjustment	-	-	(1,886)	(42)	(20)	(15)	(1,963)
Balance at September 30, 2019	\$ -	\$ 1,570	\$ 349,773	\$ 98,682	\$ 10,239	\$ 3,674	\$ 463,938
Carrying amounts:							
At December 31, 2018	\$ 5,089	\$ 2,977	\$ 489,205	\$ 112,778	\$ 2,948	\$ 2,398	\$ 615,395
At September 30, 2019	\$ 5,089	\$ 2,826	\$ 452,919	\$ 104,934	\$ 2,786	\$ 10,280	\$ 578,834

7. Long term debt:

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

	September 30, 2019	December 31, 2018
Current:		
Second Lien Facility	\$ 2,150	\$ 2,150
Finance lease obligations ⁽¹⁾	3,566	542
Less: unamortized issue costs	(869)	(870)
Total current portion of long term debt	4,847	1,822
Non current:		
Second Lien Facility	210,163	211,775
Revolving Facility	15,000	11,000
Operating Facility	798	891
Finance lease obligations ⁽¹⁾	8,762	1,242
Less: unamortized issue costs	(2,001)	(2,650)
Total non current portion of long term debt	232,722	222,258
Total long term debt	\$ 237,569	\$ 224,080

(1) Finance lease obligations include leases capitalized under IFRS 16 (See Note 4). During the three and nine months ended September 30, 2019, the Company expensed less than \$0.1 million and \$0.1 million respectively, related to leases of low value assets or leases with a term of less than one year.

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:

At September 30, 2019, the Company's credit facilities consisted of a \$50.0 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, 2021.

Advances under the Credit Facilities are limited by the Company's borrowing base. The borrowing base is applicable when 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 \$300.0 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 \$40.0 million.

As at September 30, 2019, 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 the Company's property and equipment was greater than \$300.0 million.

Amounts borrowed under the Credit Facilities bear interest at the bank's Canadian prime rate, 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 the Company and its subsidiaries.

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

	Covenant ⁽¹⁾	September 30, 2019
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio ⁽²⁾⁽³⁾	3.0:1.0 or less	0.64:1.0
Maximum Consolidated Debt to Consolidated Capitalization Ratio ⁽⁴⁾⁽⁵⁾	0.6:1.0 or less	0.41:1.0
Minimum Current Ratio ⁽⁶⁾	1.15:1.0 or more	2.37:1.0

(1) The Company's covenant calculations use IFRS in effect as at December 31, 2018 and therefore, at September 30, 2019, exclude the impact of adopting IFRS 16, Leases.

(2) Consolidated Senior Debt in the Credit Facilities is defined as indebtedness under the Revolving Facility, Operating Facility and vehicle finance lease obligations; reduced by all cash and cash equivalents.

(3) 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.

(4) Consolidated Debt in the Credit Facilities is defined as Consolidated Senior Debt plus outstanding principal on unsecured debt, including the Second Lien Facility.

(5) 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.

(6) Current Ratio is defined as the ratio of current assets to current liabilities as reported on the consolidated balance sheet, where current liabilities exclude the current portion of long term debt and accrued interest.

As at September 30, 2019, the Company was in compliance with all covenants related to its Credit Facilities. The adoption of IFRS 16 did not have an impact on the Company's Credit Facility covenants.

Second Lien Facility:

At September 30, 2019, the Company had \$212.3 million outstanding on the second lien secured term loan facility (the "Second Lien Facility"). 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 initial principal amount of \$215.0 million are payable annually, in quarterly installments, with the balance due on January 31, 2023.

Western Energy Services Corp.

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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, 2018	92,305,542	\$ 441,512
Issued on vesting of restricted share units	195,772	283
Balance at September 30, 2019	92,501,314	\$ 441,795

There were no dividends declared during the three and nine months ended September 30, 2019 and 2018.

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, 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 the Company's outstanding stock options:

	Stock options outstanding	Weighted average exercise price
Balance at December 31, 2018	8,313,537	\$ 3.55
Granted	2,194,060	0.24
Forfeited	(1,027,104)	1.70
Expired	(1,371,677)	9.37
Balance at September 30, 2019	8,108,816	\$ 1.91

For the three and nine months ended September 30, 2019 and 2018, no stock options were cancelled. The average fair value of the stock options granted for the three and nine months ended September 30, 2019 was \$0.08 per stock option (for the three and nine months ended September 30, 2018: \$0.25 per stock option). As at September 30, 2019, Western had 4,154,542 (December 31, 2018: 4,246,448) exercisable stock options outstanding at a weighted average exercise price equal to \$3.16 (December 31, 2018: \$5.82) 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 the Company's outstanding RSUs:

	Equity settled	Cash settled	Total
Balance at December 31, 2018	543,997	1,054,475	1,598,472
Granted	408,495	376,640	785,135
Vested	(195,771)	(417,606)	(613,377)
Forfeited	(76,132)	(149,582)	(225,714)
Balance at September 30, 2019	680,589	863,927	1,544,516

Western Energy Services Corp.

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

9. 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	
	2019	2018	2019	2018
Stock options	\$ 86	\$ 186	\$ 329	\$ 580
Restricted share units – equity settled grants	41	57	177	190
Total equity settled stock based compensation expense	127	243	506	770
Restricted share units – cash settled grants	18	(20)	(47)	254
Total stock based compensation expense	\$ 145	\$ 223	\$ 459	\$ 1,024

Warrants:

As at September 30, 2019, Western had 7,099,546 warrants outstanding (December 31, 2018: 7,099,546). Each warrant entitles 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.

10. Earnings per share:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2019	2018	2019	2018
Issued common shares, beginning of period	92,307,042	92,179,281	92,305,542	92,175,598
Weighted average number of common shares issued	94,997	56,878	33,445	21,816
Weighted average number of common shares (basic)	92,402,039	92,236,159	92,338,987	92,197,414
Dilutive effect of equity securities	-	-	-	-
Weighted average number of common shares (diluted)	92,402,039	92,236,159	92,338,987	92,197,414

For the three and nine months ended September 30, 2019, 8,108,816 stock options (three and nine months ended September 30, 2018: 8,453,364 stock options), 680,589 equity settled RSUs (three and nine months ended September 30, 2018: 545,001 equity settled RSUs) and 7,099,546 warrants (three and nine months ended September 30, 2018: 7,099,546 warrants) 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 (loss) are comprised of the following:

	Three months ended Sept 30		Nine months ended Sept 30	
	2019	2018	2019	2018
Interest expense on long term debt ⁽¹⁾	\$ 4,343	\$ 4,232	\$ 13,061	\$ 12,996
Amortization of debt financing fees	118	129	353	386
Accretion expense on Second Lien Facility	219	220	651	582
Accretion expense on senior notes	-	-	-	569
Interest income	(4)	(7)	(13)	(86)
Total finance costs	\$ 4,676	\$ 4,574	\$ 14,052	\$ 14,447

(1) Interest expense on long term debt includes \$0.2 million and \$0.6 million of interest expense related to finance lease obligations for the three and nine months ended September 30, 2019 respectively.

The Company had an effective interest rate of 7.8% and 7.9% on its borrowings for the three and nine months ended September 30, 2019 (three and nine months ended September 30, 2018: 8.1% and 8.6 %).

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. 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	
	2019	2018	2019	2018
(Gain) loss on sale of fixed assets	\$ (25)	\$ 62	\$ (468)	\$ 209
Realized foreign exchange (gain) loss	(5)	25	(55)	(195)
Unrealized foreign exchange (gain) loss	(62)	12	114	(12)
Total other items	\$ (92)	\$ 99	\$ (409)	\$ 2

13. 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	
	2019	2018	2019	2018
Current tax recovery	\$ -	\$ -	\$ -	\$ (45)
Deferred tax recovery	(3,657)	(3,598)	(14,986)	(9,948)
Total income tax recovery	\$ (3,657)	\$ (3,598)	\$ (14,986)	\$ (9,993)

As at September 30, 2019, the Company has loss carry-forwards equal to approximately \$207.9 million in Canada, which will expire between 2035 and 2039. In the United States, the Company has approximately US\$50.2 million in loss carry forwards which expire between 2028 and 2038.

14. 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	
	2019	2018	2019	2018
Employee salaries and benefits	\$ 27,585	\$ 32,329	\$ 85,232	\$ 94,616
Repairs and maintenance	4,897	5,887	15,221	15,027
Third party charges	2,464	4,808	9,502	15,265

15. Capital management:

The overall capitalization of the Company at September 30, 2019 and December 31, 2018 is as follows:

	Note	September 30, 2019	December 31, 2018
Second Lien Facility	7	\$ 212,313	\$ 213,925
Revolving Facility	7	15,000	11,000
Operating Facility	7	798	891
Finance lease obligations	7	12,328	1,784
Total debt		240,439	227,600
Shareholders' equity		321,231	353,799
Less: cash and cash equivalents		(1,677)	(3,960)
Total capitalization		\$ 559,993	\$ 577,439

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)

16. Commitments:

As at September 30, 2019, the Company has commitments which require payments based on the maturity terms as follows:

	2019	2020	2021	2022	2023	Thereafter	Total
Second Lien Facility	\$ 538	\$ 2,150	\$ 2,150	\$ 2,150	\$ 205,325	\$ -	\$ 212,313
Second Lien Facility interest	-	15,376	15,179	15,105	7,473	-	53,133
Trade payables and other current liabilities ⁽¹⁾	16,589	-	-	-	-	-	16,589
Operating commitments ⁽²⁾	2,348	922	843	841	816	884	6,654
Revolving Facility	-	-	15,000	-	-	-	15,000
Operating Facility	-	-	798	-	-	-	798
Finance lease obligations ⁽³⁾	1,129	4,226	2,960	2,167	1,792	1,860	14,134
Total	\$ 20,604	\$ 22,674	\$ 36,930	\$ 20,263	\$ 215,406	\$ 2,744	\$ 318,621

(1) Trade payables and other current liabilities exclude the Company's interest accrued as at September 30, 2019 on the Second Lien Facility.

(2) Operating commitments include purchase commitments, short term operating leases, and operating expenses associated with long term leases.

(3) Finance lease obligations represent the gross lease commitments to be paid over the term of the Company's outstanding long term leases and include those leases capitalized under IFRS 16 (See Note 4).