2015 ANNUAL REPORT

Western
ENERGY SERVICES CORP.

Western Energy Services Corp. is an oilfield service company focused on providing superior service to its customers, and sustainable growth for shareholders.

CONTRACT DRILLING SERVICES

Horizon Drilling is Western's Canadian contract drilling division and currently operates a fleet of 52 drilling rigs, making it the sixth largest drilling rig contractor in Canada. Horizon's fleet is one of the newest drilling fleets in the Western Canadian Sedimentary Basin, which allows the company to provide customers with reliability, mobility and advanced technical capabilities.

Horizon Drilling – A Western Co.

Stoneham Drilling Corporation is Western's U.S. contract drilling division and currently operates a fleet of five drilling rigs in the Williston Basin in the United States. Similar in design to many of the Canadian based rigs, the U.S. fleet is suited for the current U.S. market which predominantly consists of drilling horizontal wells that are deeper and more technically challenging.

Stoneham Drilling Corporation – A Western Co.

WELL SERVICING

Eagle Well Servicing is Western's well servicing division, which currently operates a fleet of 66 well servicing rigs making it the fourth largest fleet in Canada. Eagle operates from four bases located in Alberta and Saskatchewan, allowing Eagle to service wells in all key Western Canadian Sedimentary Basin oil and natural gas resource plays. With an industry leading team, Eagle excels when it comes to safe, efficient and functional well servicing.

Eagle Well Servicing – A Western Co.

OILFIELD RENTAL EQUIPMENT SERVICES

Aero Rental Services is Western's oilfield rental equipment division that operates from facilities in Red Deer and Grande Prairie, Alberta, and Fort St. John, British Columbia. Aero supplies oil and natural gas exploration and production companies, as well as other oilfield service companies, with specialized high pressure rental equipment utilized in drilling and completions activities. Aero has followed an organic growth model, allowing it to evolve and adapt its rental equipment mix to the changing needs of its customers.

Aero Rental Services – A Western Co.

Cover Photo:
A Horizon Drilling 600,000 lb hook load, Duvernay class, AC telescopic triple, walking pad rig. This rig has a depth capacity (TVD) of 6,000 metres (19,700'), a high-pressure circulating system rated for 52,000 kPa (7,500 psi), a multi-directional integrated walking system, and has been optimized for craneless rig up. The proprietary batwing top drive system is safer, lighter, and easier to maintain with an innovative extend feature that surpasses conventional designs.

Annual Meeting

The Annual Meeting of the Shareholders of Western Energy Services Corp. will be held on Monday, May 9, 2016 at 3:00 pm (MST) in the McMurray Room at the Calgary Petroleum Club, 319 – 5th Avenue SW, Calgary Alberta.

Report to Shareholders

Industry context is all too important when providing an update of the business in 2015. Benchmark crude oil prices dropped considerably, averaging 48% lower in 2015 than in 2014, as global crude oil supply remained resilient in the face of lower pricing. Natural gas pricing was similarly weak, with Canadian benchmark pricing dropping 40%, and localized price realizations compounding this impact. This macro environment led to a significant drop in industry operating days in Canada and the United States as exploration and production customers reduced investment in their upstream projects. At Western, while we are very much aware of the environment in which we operate, and its impact on our businesses, we focus on what we can control, primarily the efficiency of our operations and our strong financial position. This focus has allowed us to build a resilient foundation for the Company.

Since Western was recapitalized in 2009, the Company has grown to include 52 Canadian based drilling rigs, five U.S. based drilling rigs, 66 well servicing rigs, and a sizeable rental equipment operation. This growth continued through 2015 as we added three new build Duvernay class drilling rigs to our Canadian fleet, including our newest rig, an AC walking triple, one slant well servicing rig to our well servicing fleet, and select rental equipment. In addition, in 2016 we opened a third rental location in Fort St. John to service one of the most active regions in the Western Canadian Sedimentary Basin ("WCSB"). Certainly, it may seem strange to be discussing growth with commodity prices and producer spending at multi-year lows, but we believe our growth story provides good insight into our Company and its management:

- First, Western has grown to the size it is today predominantly through acquisitions. These acquisitions have provided the business with the critical mass required to provide a high level of operational performance and safety to customers, key differentiators that remain important to our customers today, while allowing a cost structure that enables Western to always be competitive even in this low commodity price environment. Through these acquisitions, the Company continuously monitored costs, recognizing the importance of right-sizing for the prevailing business environment. Western remains focused on achieving a best in class cost structure, a mantra that is evidenced by the decisions to reduce salaried headcount by approximately one third since the beginning of 2015, lowering salaries by 10% for all salaried employees, reducing Board of Directors fees by 10%, and various other office related cost reductions.
- Second, it is worth noting that while growth at Western has slowed, it has not stopped. We continue to evaluate growth opportunities based on their merit, remaining committed to generating returns for our stakeholders. This thinking resulted in our planned 2016 capital program of $7 million, including $5 million of maintenance capital and $2 million of growth capital for our Aero rental business. Maintenance spending at his level will allow our fleet to remain competitive, with each and every rig remaining intact and marketable, ready to go to work when industry activity recovers. New capital for the Aero business will allow our rental fleet to grow when presented with opportunities that meet return thresholds. Our expectations for growth in 2016 are admittedly more subdued than in past years, but our processes for deploying incremental capital that can generate appropriate returns for our stakeholders remain very much intact.

At Western, we continue to place the utmost importance on the strength of our balance sheet, liquidity and cash position. The extreme volatility of commodity prices has continued, if not increased, since the beginning of 2016, with continued noise around the potential actions of OPEC as they pertain to the eventual rebalancing of the crude oil market. As indicated earlier, we focus on what we can control and as such, we believe a strong balance sheet is a prudent measure, providing a degree of safety in this uncertain operating environment. This resulted in our Board of Directors electing to suspend Western's quarterly dividend, freeing up liquidity and allowing the Company to pursue further growth opportunities.

As we reflect on 2015, we certainly recognize the challenges that faced the industry, but we also recognize the accomplishments of our Company. In 2015, we diversified our customer base as we were awarded work with a number of new customers. With industry activity at the low levels witnessed in 2015, we are certainly proud of this accomplishment. We believe this strengthens Western's ability to again generate strong returns for our stakeholders as these new clients add to Western's already strong customer base. Western also dramatically improved our safety record with our total recordable incident frequency ("TRIF") falling considerably from 2014, which was itself better than 2013. In 2015, the vast majority of Western's rigs operated without a recordable incident. This speaks to the Western's culture of safety, and exemplifies the focus and efforts of all of our employees.

At Western, we are constantly evolving to help achieve environmental and efficiency goals. Our new rigs are designed to be more efficient and use less energy than ever before. Design changes include the use of LED lighting on our rigs, reducing the power draw on generators, to more significant changes such as outfitting our rigs with the newest, fuel efficient engines. With one of the newest drilling and well servicing rig fleets in the Western Canadian Sedimentary Basin, we expect that our rigs have amongst the lowest emissions and lowest fuel consumption of any fleet. The ability to spend less time on a well, and using the most energy efficient rigs, results in a lower environmental footprint for our activities. This serves to advance our environmental initiatives, and those of our customers, and brings about the added benefit of reducing costs for our clients.

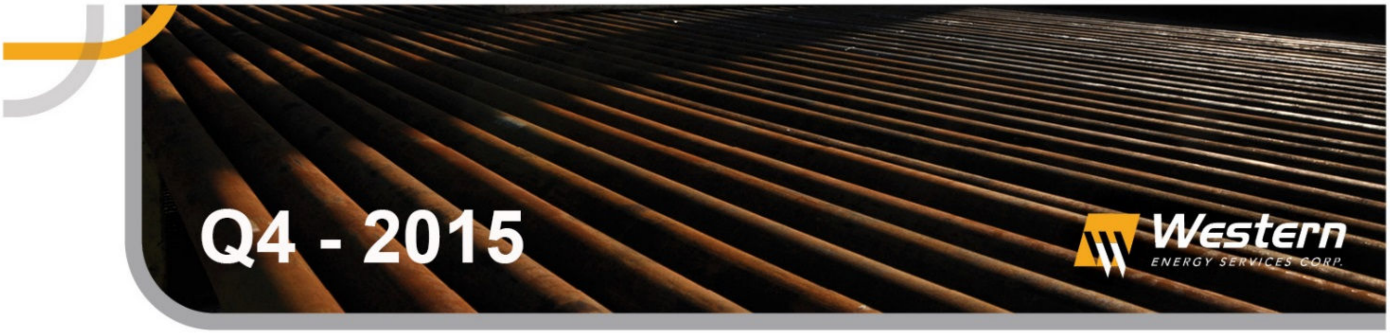
Looking forward to 2016, we will continue to manage our operations and balance sheet to best position Western to succeed when industry conditions improve. We continue to place the utmost importance on the long-term sustainability of the business, and maximizing stakeholder returns remains integral to all of our activities.

Finally, I would like to thank all of our employees for their efforts, dedication and loyalty. It is through the collective efforts of our people that Western has grown to become the quality oilfield service company it is today, and through these continued efforts, Western will be positioned to build upon its success. I would also like to thank our customers and stakeholders for their continued support.

Respectfully submitted,

Alex R.N. MacAusland
President and CEO
Western Energy Services Corp.

March 21, 2016



Management Discussion & Analysis 2015 — Dated: February 25, 2016

The following discussion of the financial condition, changes in financial condition and results of operations of Western Energy Services Corp. (the "Company" or "Western") should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Company for the years ended December 31, 2015 and 2014. This Management Discussion and Analysis ("MD&A") is dated February 25, 2016. All amounts are denominated in Canadian dollars (CDN$) unless otherwise identified.

Financial Highlights	**Three months ended December 31**		**Year ended December 31**		
(stated in thousands, except share and per share amounts)	**2015**	**2014**	**2015**	**2014**	**2013**
Revenue	42,678	139,210	227,524	507,832	379,943
Operating Revenue [1]	40,458	129,181	216,485	474,120	353,124
Gross Margin [1]	13,372	57,826	85,951	207,231	147,559
Gross Margin as a percentage of Operating Revenue	33%	45%	40%	44%	42%
Adjusted EBITDA [1]	7,573	50,419	60,545	176,777	117,423
Adjusted EBITDA as a percentage of Operating Revenue	19%	39%	28%	37%	33%
Cash flow from operating activities	11,139	47,830	90,955	181,351	114,358
Capital expenditures	3,259	31,071	33,562	108,604	95,234
Net income (loss)	(55,010)	(8,164)	(129,139)	36,450	35,246
-basic net income (loss) per share	(0.75)	(0.11)	(1.74)	0.49	0.51
-diluted net income (loss) per share	(0.75)	(0.11)	(1.74)	0.48	0.50
Weighted average number of shares					
-basic	73,655,198	74,882,690	74,238,320	74,396,701	69,032,574
-diluted	73,655,198	74,927,714	74,238,320	75,427,149	69,873,460
Outstanding common shares as at period end	73,646,292	74,866,028	73,646,292	74,866,028	73,386,191
Dividends declared	3,682	5,614	20,392	22,376	20,983
Dividends declared per common share	0.05	0.075	0.275	0.30	0.30
Operating Highlights					
Contract Drilling					
Canadian Operations					
Average contract drilling rig fleet	52	50	50	49	45
Operating Revenue per Revenue Day [1]	22,038	27,104	23,458	26,178	24,829
Operating Revenue per Operating Day [1]	24,228	29,710	25,821	28,699	27,513
Drilling rig utilization - Revenue Days [1]	22%	65%	29%	64%	61%
Drilling rig utilization - Operating Days [1]	20%	59%	26%	58%	55%
CAODC industry average utilization [1][2]	20%	45%	23%	44%	40%
United States Operations					
Average contract drilling rig fleet	5	5	5	5	5
Operating Revenue per Revenue Day (US$) [1]	31,350	28,309	29,483 [3]	26,124	22,507
Operating Revenue per Operating Day (US$) [1]	34,217	31,876	33,166 [3]	29,680	26,942
Drilling rig utilization - Revenue Days [1]	20%	95%	32%	94%	81%
Drilling rig utilization - Operating Days [1]	18%	85%	29%	83%	67%
Production Services					
Average well servicing rig fleet	66	65	66	65	48
Service rig Operating Revenue per Service Hour [1]	703	837	779	817	766
Service rig utilization [1]	25%	58%	30%	54%	45%

(1) See "Non-IFRS measures" on page 21 of this MD&A.
(2) Source: The Canadian Association of Oilwell Drilling Contractors ("CAODC"). The CAODC industry average is based on Operating Days divided by total available days.
(3) Excludes shortfall commitment and standby revenue from take or pay contracts of US$4.5 million for the year ended December 31, 2015.

Financial Position at (stated in thousands)	December 31, 2015	December 31, 2014	December 31, 2013
Working capital	70,679	78,336	50,616
Property and equipment	773,647	827,306	783,225
Total assets	876,608	1,057,118	986,792
Long term debt	264,155	264,165	262,877

Overall Performance and Results of Operations

Western is an oilfield service company focused on three core business lines: contract drilling, well servicing and oilfield rental equipment services. Western provides contract drilling services through its division, Horizon Drilling ("Horizon") in Canada, and its wholly owned subsidiary, Stoneham Drilling Corporation ("Stoneham"), in the United States ("US"). On December 28, 2015, Western wound up its partnership, Western Energy Services Partnership (the "Partnership") and rolled all of the Partnership's assets into IROC Drilling and Production Services Corp., which then changed its name to Western Production Services Corp. ("Western Production Services"). As a result, Western now provides well servicing operations in Canada through Western Production Services' division, Eagle Well Servicing ("Eagle") and oilfield rental equipment services in Canada through Western Production Services' division, Aero Rental Services ("Aero"). Financial and operating results for Horizon and Stoneham are included in Western's contract drilling segment, while Eagle and Aero's financial and operating results are included in Western's production services segment. Non-International Financial Reporting Standards ("Non-IFRS") measures are defined on page 21 of this MD&A. Abbreviations for standard industry terms are included on page 23 of this MD&A.

Western currently has a drilling rig fleet of 57 rigs specifically suited for drilling horizontal wells of increased complexity. Western is the sixth largest drilling contractor in Canada with a fleet of 52 rigs operating through Horizon. Of the Canadian fleet, 25 are classified as Cardium rigs, 19 as Montney rigs and eight as Duvernay rigs. As compared to the Cardium classified rigs, the Montney class rigs have a larger hookload, while the Duvernay class rigs have the largest hookload. Additionally, Western has five Duvernay class triple drilling rigs deployed in the United States operating through Stoneham. Western is also the fourth largest well servicing company in Canada with a fleet of 66 rigs operating through Eagle. Western's oilfield rental equipment division, which operates through Aero, provides oilfield rental equipment for frac services, well completions and production work, coil tubing and drilling services.

Crude oil and natural gas prices impact the cash flow of Western's customers, which in turn impacts the demand for Western's services. Overall performance of the Company was affected by the decline in crude oil and natural gas prices throughout 2015. While crude oil prices were strong in the first six months of 2014, they weakened significantly in the last half of 2014 and continued to weaken in 2015. Partially offsetting the decline in crude oil and natural gas prices for Western's Canadian customers was the strengthening of the US dollar in comparison to the Canadian dollar. The following table summarizes the average oil and natural gas prices, as well as the average foreign exchange rates for the three months ended December 31, 2015 and 2014 and for the years ended December 31, 2015 and 2014.

	Three months ended December 31			Year ended December 31		
	2015	2014	Change	2015	2014	Change
Average oil and natural gas prices(1)						
Oil						
West Texas Intermediate (US$/bbl)	42.18	73.15	(42%)	48.80	93.00	(48%)
Western Canadian Select (CDN$/bbl)	36.86	65.30	(44%)	44.83	82.04	(45%)
Natural Gas						
30 day Spot AECO (CDN$/mcf)	2.48	3.62	(32%)	2.71	4.50	(40%)
Average foreign exchange rates						
US dollar to Canadian dollar	1.34	1.14	18%	1.28	1.10	16%

(1) See "Abbreviations" on page 23 of this MD&A.

The significant reduction in commodity prices has resulted in a corresponding decrease in the demand for oilfield services in both Canada and the United States. The Canadian Association of Oilwell Drilling Contractors ("CAODC") reported that for drilling in Canada, the total number of Operating Days in the Western Canadian Sedimentary Basin ("WCSB") decreased approximately 50% for the year ended December 31, 2015, as compared to 2014. Similarly, as reported by Baker Hughes Incorporated, the number of active drilling rigs in the United States decreased approximately 47% in 2015 as compared to 2014. Well servicing hours were also impacted by the decline in demand, as the CAODC reported that Service Hours in the WCSB decreased approximately 40% in 2015, as compared to the prior year.

Key operational results for the three months ended December 31, 2015 include:

- Fourth quarter Operating Revenue decreased by $88.8 million (or 69%) to $40.4 million in 2015 as compared to $129.2 million in 2014. In the contract drilling segment, Operating Revenue decreased by $67.9 million (or 72%) to $27.0 million in the fourth quarter of 2015 as compared to $94.9 million in the fourth quarter of 2014; while in the production services segment, Operating Revenue decreased by $20.9 million (or 61%) to $13.5 million as compared to $34.4 million in the fourth quarter of 2014. The decrease in Operating Revenue is due to lower utilization and pricing in both the contract drilling and production services segments as described below:
  - Drilling rig utilization – Operating Days in Canada decreased to 20% in the fourth quarter of 2015 as compared to 59% in the fourth quarter of 2014, reflecting a 65% decrease in Operating Days. The Cardium class rigs were impacted the most by the decreased drilling activity and increased competition in the industry resulting in a 77% decrease in Operating Days; whereas Operating Days for the Montney and Duvernay class rigs were also impacted but to a lesser extent decreasing by 62% and 38% respectively, in the fourth quarter of 2015. Fourth quarter 2015 drilling rig utilization – Operating Days of 20% was consistent with the CAODC industry average during the quarter, as compared to the 1,400 basis points ("bps") premium to the industry average realized in the fourth quarter of 2014. The change relative to the CAODC industry average is partially due to a number of Western's customers, who typically have substantial drilling programs, significantly cutting their capital spending in 2015. Additionally, changes in the industry rig mix, as competitors continue to decommission older and shallower rigs in the WCSB, and add predominantly higher specification rigs that directly compete with Western's drilling rig fleet, impacts Western's relative utilization as compared to the CAODC industry average;
  - Additionally, lower activity and increased competition resulted in downward pricing pressure, which reduced Operating Revenue per Revenue Day in the contract drilling segment in Canada by approximately 19%. Pricing pressure was generally more significant for the Cardium class rigs and less so for the Montney and Duvernay class rigs;
  - In the United States, drilling rig utilization – Operating Days decreased to 18% in the fourth quarter of 2015, as compared to 85% in the same period of the prior year, due to reduced activity resulting from the decreased commodity price environment. However, in the United States, Operating Revenue per Revenue Day increased by approximately 11% in the fourth quarter of 2015, as one of Western's upgraded rigs worked throughout the quarter on a long term contract; and
  - Well servicing utilization decreased to 25% in the fourth quarter of 2015 as compared to 58% in the same period of the prior year. Reduced activity, coupled with a 16% decrease in well servicing hourly rates, due to pricing pressure in all areas, resulted in a $18.0 million (or 63%) decrease in well servicing Operating Revenue in the period.
- Fourth quarter Adjusted EBITDA totalled $7.6 million in 2015, a $42.8 million (or 85%) decrease, as compared to $50.4 million in the fourth quarter of 2014. Included in Adjusted EBITDA is approximately $1.5 million in one-time items, including severance and uncollectible accounts receivable. Normalizing for these items, Adjusted EBITDA would have been $9.1 million in the fourth quarter. The year over year decrease in Adjusted EBITDA is due to lower utilization and pricing in both the contract drilling and production services segments.
- Administrative expenses, excluding depreciation and stock based compensation, in the fourth quarter of 2015 decreased by $1.6 million (or 22%) to $5.8 million as compared to $7.4 million in the fourth quarter of 2014. The decrease in administrative expenses is due to lower employee related costs and cost control measures implemented throughout 2015.
- While the Company continues to actively market all of its drilling rigs, during the fourth quarter of 2015, the Company evaluated its property and equipment and decommissioned $26.6 million of largely Cardium class spare equipment that is no longer in use in the contract drilling segment.
- As a result of the declining commodity price environment and reduced outlook for current and future oilfield services activity and pricing, the Company completed an impairment test for each of its cash generating units ("CGU") as at December 31, 2015. Based on the results of these tests, it was determined that property and equipment in the Company's contract drilling and well servicing CGUs were impaired by $19.0 million and $22.9 million respectively.
- Net income decreased by $46.8 million to a loss of $55.0 million in the fourth quarter of 2015 (a loss of $0.75 per basic common share) as compared to a loss of $8.2 million in the same period in 2014 (a loss of $0.11 per basic common share). The decrease in net income in 2015 can be attributed to the following:
  - A $42.8 million decrease in Adjusted EBITDA due to lower utilization and pricing in both the contract drilling and production services segments;

- Losses on asset decommissioning of $26.6 million mainly in the contract drilling segment, coupled with impairment losses on property and equipment of $19.0 million and $22.9 million recorded in the contract drilling and well servicing segments respectively;
- A $0.7 million increase in finance costs and other items;

Offsetting the above mentioned items are the following:

- A decrease in depreciation expense of $8.1 million due to lower activity levels;
- A $27.1 million decrease in income tax expense due to lower taxable income; and
- Prior year loss on asset decommissioning of property and equipment and goodwill impairment losses recorded in the fourth quarter of 2014 totalling $7.2 million and $22.7 million respectively.

Normalizing for the one-time items, including after tax property and equipment impairments and decommissioning losses, severance and uncollectible accounts receivable, net income would have totalled a loss of $4.6 million.

- Fourth quarter 2015 capital expenditures of $3.3 million included $1.8 million of expansion capital and $1.5 million of maintenance capital. In total, capital spending in the fourth quarter of 2015 decreased by 89% from the $31.1 million incurred in the fourth quarter of 2014. The majority of fourth quarter 2015 capital expenditures relate to the contract drilling segment, which incurred $2.0 million in capital. These expenditures mainly relate to maintenance capital incurred in the period. Additionally, $1.2 million was incurred in the production services segment mainly relating to maintenance capital and the purchase of additional oilfield rental equipment.
- For the three months ended December 31, 2015, 39,100 common shares for a total cost of $0.2 million were repurchased, cancelled and charged to share capital under the Company's normal course issuer bid (the "NCIB"). On December 18, 2015, Western renewed its NCIB, which has been filed with and accepted by the Toronto Stock Exchange. Pursuant to the renewed NCIB, Western may purchase up to 4,550,000 common shares of the Company before the renewed NCIB expires on December 17, 2016.

Key operational results for the year ended December 31, 2015 include:

- Operating Revenue for 2015 decreased by $257.6 million (or 54%) to $216.5 million as compared to $474.1 million in the prior year. Operating Revenue in the contract drilling segment decreased by $199.9 million (or 57%) to $150.2 million as compared to $350.1 million in the prior year; while in the production services segment, Operating Revenue decreased by $58.8 million (or 47%) to $66.6 million in 2015 as compared to $125.4 million in the prior year. The decrease in Operating Revenue is due to the lower utilization and pricing in both the contract drilling and production services segments as described below:
  - Drilling rig utilization – Operating Days in Canada decreased to 26% for the year ended December 31, 2015 as compared to 58% in the prior year, reflecting 55% fewer Operating Days as the decreased commodity price environment resulted in significant reductions in the capital spending programs of Western's customers. In 2015, Operating Days for Western's Cardium class rigs decreased by 68% as compared to 2014 and were impacted to a greater extent by the competitive environment; whereas Operating Days for Western's Montney class rigs decreased by 52% while the Duvernay class rigs increased marginally by 1% as compared to the prior year. Drilling rig utilization – Operating Days of 26% for the year ended December 31, 2015 reflects an approximate 300 bps premium to the CAODC industry average of 23%, as compared to the 1,400 bps premium realized in 2014. The premium decrease relative to the CAODC industry average is due to a number of Western's customers, who typically have substantial drilling programs, significantly cutting their capital spending in 2015. Additionally, changes in the industry rig mix, as competitors continue to decommission older and shallower rigs in the WCSB, while the majority of new additions are higher specification rigs that directly compete with Western's drilling rig fleet, impacts Western's relative utilization as compared to the CAODC industry average;
  - Additionally, lower activity and increased competition led to downward pricing pressure on day rates and resulted in Operating Revenue per Revenue Day in the contract drilling segment in Canada decreasing by 10% in 2015. Pricing pressure was generally more significant for the Cardium class rigs and less so for the Montney and Duvernay class rigs;
  - In the United States in 2015, drilling rig utilization – Operating Days decreased to 29% as compared to 83% in the prior year. However, Operating Revenue per Revenue Day in the United States increased by approximately 13% for the year ended December 31, 2015 as one of Western's upgraded rigs worked throughout the year on a long term contract. Included in Operating Revenue in the contract drilling segment for the year ended December 31, 2015 is US$4.5 million in shortfall commitment and standby revenue on idle but contracted rigs in the United States; and

  - Well servicing utilization decreased by 2,400 bps to 30% in 2015, as compared to 54% in the prior year. The decrease in utilization coupled with a 5% decrease in well servicing hourly rates, due to pricing pressure in all areas, resulted in a $49.0 million (or 47%) year over year decrease in well servicing Operating Revenue in 2015.
- Adjusted EBITDA decreased by $116.3 million (or 66%) to $60.5 million in 2015, as compared to $176.8 million in 2014. The decrease in Adjusted EBITDA is due to lower activity and pricing across all of Western's divisions, partially offset by Western's cost structure, with approximately 80% of costs being variable, and effective reductions of fixed overhead costs. Normalizing for the US$4.5 million in shortfall commitment and standby revenue, one-time costs of $3.1 million, including severance and uncollectible accounts receivable, Adjusted EBITDA would have totalled $58.1 million in 2015.
- Administrative expenses in 2015, excluding depreciation and stock based compensation, decreased by $5.0 million (or 16%) to $25.4 million, as compared to $30.4 million in 2014. The decrease in administrative expenses is due to lower employee related costs and cost control measures.
- While the Company continues to actively market all of its drilling rigs, during the fourth quarter of 2015, the Company evaluated its property and equipment and decommissioned $26.6 million of largely Cardium class spare equipment that is no longer in use in the contract drilling segment.
- As a result of the declining commodity price environment and reduced outlook for current and future oilfield services activity and pricing, the Company completed an impairment test for each of its CGUs as at December 31, 2015. Based on the results of these tests, it was determined that property and equipment in the Company's contract drilling and well servicing CGUs were impaired by $19.0 million and $22.9 million respectively.
- As a result of the declining commodity price environment and reduced outlook for oilfield services activity and pricing, the Company recorded a $71.3 million goodwill impairment loss in the third quarter of 2015. $59.1 million of the goodwill impairment loss was recorded in the contract drilling segment, representing the full amount of goodwill allocated to the segment. Additionally, $12.2 million of the goodwill impairment loss was recorded in the production services segment, representing the full amount of goodwill allocated to the oilfield rental division.
- Net income decreased by $165.5 million to a loss of $129.1 million for the year ended December 31, 2015 (a loss of $1.74 per basic common share) as compared to net income of $36.4 million ($0.49 per basic common share) for the same period in 2014. The decrease in net income is mainly attributed to the following:
    - A $116.3 million decrease in Adjusted EBITDA due to lower activity and pricing across all of Western's divisions;
    - Losses on goodwill impairment of $59.1 million and $12.2 million in the contract drilling and production services segments respectively; and
    - Losses on asset decommissioning of $26.6 million mainly in the contract drilling segment, coupled with impairment losses on property and equipment of $19.0 million and $22.9 million recorded in the contract drilling and well servicing segments respectively.

  Offsetting the above mentioned items are the following factors increasing 2015 net income:
    - A decrease in depreciation expense of $24.3 million due to lower activity levels;
    - A decrease in income tax expense of $34.8 million due to lower taxable income;
    - The prior year loss on asset decommissioning and goodwill impairment losses recorded in the fourth quarter of 2014 totalling $7.2 million and $22.7 million respectively; and
    - A decrease of $1.4 million in finance costs and other items such as gains and losses on foreign exchange, asset sales and derivatives.

  Normalizing for the one-time items, including after tax impairments and decommissioning losses, shortfall commitment and standby revenue, severance and uncollectible accounts receivable, net income for 2015 would have totalled a loss of $5.8 million.
- 2015 capital expenditures of $33.6 million include $23.0 million of expansion capital and $10.6 million of maintenance capital, representing a 69% decrease from the $108.6 million incurred in 2014. The majority of the capital expenditures in 2015 relate to the contract drilling segment, which incurred $26.3 million in capital. These expenditures mainly relate to the completion of Western's 2014 drilling rig build program, which totaled $20.1 million in the period relating to the construction of three Duvernay class drilling rigs. The remaining capital spending in the contract drilling segment relates to maintenance capital. Additionally, capital expenditures totalled $7.1 million in the production services segment and related to the construction of one slant well servicing rig which was part of Western's 2014 rig build program, the purchase of additional oilfield rental equipment, and maintenance capital of $4.0 million.
- For the year ended December 31, 2015, 1,297,300 common shares for a total cost of $6.7 million were repurchased, cancelled and charged to share capital, or contributed surplus as applicable, under the Company's NCIB.

Dividend Suspension

Given the current commodity price environment and limited visibility for oilfield service activity, the Board of Directors has suspended the Company's quarterly dividend until further notice. This reduction will allow Western to preserve its liquidity while providing the Company with the financial flexibility to pursue further growth opportunities.

Outlook

Currently, 7 of Western's 57 drilling rigs (or 12%) are operating under long term take-or-pay contracts providing a base level of future revenue, with 4 of these contracts expected to expire in 2016 and 3 expected to expire in 2017. These contracts each typically generate between 250 and 350 Revenue Days per year.

Western's revised capital budget for 2016 is expected to total $7 million and is comprised of $2 million of expansion capital and $5 million of maintenance capital. The following table summarizes the capital spending incurred in 2015 and the revised 2016 capital budget:

Capital Expenditures (stated in millions)	Revised 2015 Budget Announced October 29, 2015	Capital Expenditures Year Ended December 31, 2015	Cancellations 2015	Carry Forward Capital Spending 2016	2016 Budget Announced December 16, 2015	Cancellations 2016	Revised 2016 Budget Announced February 25, 2016
Expansion	23	(23)	-	-	6	(4)	2
Maintenance	15	(11)	(4)	-	12	(7)	5
Total Capital Expenditures	**38**	**(34)**	**(4)**	**-**	**18**	**(11)**	**7**

Capital spending in 2015 totalled $34 million, a decrease from the previously announced revised 2015 capital budget of $38 million as an additional $4 million in maintenance capital expenditures were cancelled in the fourth quarter of 2015, due to the decrease in oilfield service activity. No capital from the revised 2015 budget was carried forward into 2016. The initial 2016 capital budget of $18 million announced in the fourth quarter of 2015 has been reduced by $11 million and now totals $7 million, comprised of $2 million of expansion capital and $5 million of maintenance capital. Expansion capital in the revised 2016 budget relates to additional oilfield rental equipment. Maintenance capital includes $3 million in the contract drilling segment and $2 million in the production services segment.

Western believes the revised 2016 capital budget provides a prudent use of cash resources and will allow it to maintain its balance sheet strength in the current market conditions. This budget also demonstrates the Company's commitment to maintaining Western's premier drilling and well servicing rig fleets, while remaining responsive to customer requirements, and expanding Western's strategic presence in the oilfield rental equipment market. Western will continue to manage its operations in a disciplined manner and make any required adjustments to its capital program as customer demand changes.

Subsequent to December 31, 2015, crude oil and natural gas prices have continued to deteriorate to levels not seen in over a decade. This continued pressure on commodity prices has resulted in continued year-over-year reductions to the capital spending plans for the majority of Western's customers. In many cases, the capital spending reductions have been significant. As a result, active drilling rig counts in both Canada and the United States are expected to be at or near 30 year lows in 2016. Activity levels throughout the oilfield service industry in the first quarter of 2016 are expected to be significantly lower as compared to the same period in the prior year, when the effect of the lower commodity price environment had not fully impacted Western's activity levels and pricing. Lower activity and pricing pressure will continue to impact Western's Adjusted EBITDA and cash flow from operating activities. Western's variable cost structure, under which approximately 80% of operating and administrative costs are variable, the suspension of the Company's quarterly dividend and a prudent capital budget will aid in preserving balance sheet strength. Within the current market, the Company's objective is to manage expenses within cash flow from operating activities. At December 31, 2015, Western's Net Debt to trailing 12 month Adjusted EBITDA ratio was 3.4. In addition to $58.4 million in cash and cash equivalents at December 31, 2015, Western has $175 million undrawn on the Company's revolving credit facility (the "Revolving Facility"), which does not mature until December 17, 2018, $20 million available on the Company's operating demand revolving loan (the "Operating Facility"), and no principal repayments due on the $265 million Senior Notes until they mature on January 30, 2019.

The Company's credit facilities contain certain financial covenants including an interest coverage ratio of 2.0 to 1.0 or greater. At December 31, 2015, the Company's interest coverage ratio was 2.8 to 1.0. The continued deterioration of the commodity price environment subsequent to year end and the corresponding impact on the demand for oilfield services activity has caused a number of oilfield service companies to seek covenant relief from their lenders. Western's interest coverage ratio is sensitive to the prolonged decline in oilfield services activity and failing to comply with this covenant could lead to restrictions on the Company's ability to access its credit facility in the future. At December 31, 2015, Western is in compliance with all debt covenants; however, due to estimates that oilfield services activity will remain low throughout 2016, Western is in discussions with its banking syndicate for relief to the existing banking covenants. Currently, there is no risk of a cross default with the Company's Senior Notes as the credit facility remains undrawn. In addition to suspending the Company's quarterly dividend and reducing capital spending to preserve balance sheet strength, the Company has taken a proactive approach to reducing administrative and fixed overhead costs including reducing fixed headcount since the beginning of 2015 by a third and implementing a 10% company-wide wage rollback to salaried employees and director's fees, as well as reducing various other office related costs.

Oilfield service activity in Canada will be impacted by the development of resource plays in Alberta and northeast British Columbia including those related to liquefied natural gas projects, increased crude oil transportation capacity through rail and pipeline development and foreign investment into Canada. Currently, the largest challenge facing the oilfield service industry is customer spending constraints as a result of lower commodity prices. Western's view is that its modern drilling and well servicing rig fleets, strong customer base, reputation, and disciplined cash management provide a competitive advantage which will enable the Company to manage through the current slowdown in oilfield services activity.

Segmented Information

Western operates in the contract drilling segment in both Canada and the United States as well as in the production services segment in Canada. Contract drilling includes drilling rigs along with related equipment. Production services includes well servicing rigs and related equipment as well as oilfield rental equipment.

Contract Drilling

Financial Highlights	**Three months ended December 31**		**Year ended December 31**	
(stated in thousands)	**2015**	**2014**	**2015**	**2014**
Revenue				
Operating Revenue[1]	26,978	94,877	150,252	350,105
Third party charges	1,414	7,898	7,627	26,502
Total revenue	28,392	102,775	157,879	376,607
Expenses				
Operating				
Cash operating expenses	18,975	58,031	93,120	216,065
Depreciation	5,871	12,745	26,340	46,712
Stock based compensation	93	203	391	587
Total operating expenses	24,939	70,979	119,851	263,364
Administrative				
Cash administrative expenses	3,477	3,896	14,380	17,314
Depreciation	94	58	364	238
Stock based compensation	(10)	85	412	362
Total administrative expenses	3,561	4,039	15,156	17,914
Gross Margin[1]	9,417	44,744	64,759	160,542
Gross Margin as a percentage of Operating Revenue	35%	47%	43%	46%
Adjusted EBITDA[1]	5,940	40,848	50,379	143,228
Adjusted EBITDA as a percentage of Operating Revenue	22%	43%	34%	41%
Operating Earnings[1]	(25)	28,045	23,675	96,278
Capital expenditures	2,037	27,366	26,314	94,647

	Three months ended December 31		**Year ended December 31**	
Operating Highlights	**2015**	**2014**	**2015**	**2014**
Canadian Operations				
Contract drilling rig fleet:				
Average	52	50	50	49
End of period	52	49	52	49
Operating Revenue per Revenue Day[1]	22,038	27,104	23,458	26,178
Operating Revenue per Operating Day[1]	24,228	29,710	25,821	28,699
Operating Days[1]	955	2,724	4,748	10,478
Number of meters drilled	220,296	503,189	1,038,946	2,041,842
Number of wells drilled	66	133	289	606
Average Operating Days per well	14.5	20.5	16.4	17.3
Drilling rig utilization - Revenue Days[1]	22%	65%	29%	64%
Drilling rig utilization - Operating Days[1]	20%	59%	26%	58%
CAODC industry average utilization[1][2]	20%	45%	23%	44%
United States Operations				
Contract drilling rig fleet:				
Average	5	5	5	5
End of period	5	5	5	5
Operating Revenue per Revenue Day (US$)[1]	31,350	28,309	29,483 [3]	26,124
Operating Revenue per Operating Day (US$)[1]	34,217	31,876	33,166 [3]	29,680
Operating Days[1]	84	385	526	1,506
Number of meters drilled	18,985	102,290	138,891	360,105
Number of wells drilled	3	18	24	65
Average Operating Days per well	25.5	21.4	21.9	23.2
Drilling rig utilization - Revenue Days[1]	20%	95%	32%	94%
Drilling rig utilization - Operating Days[1]	18%	85%	29%	83%

(1) See "Non-IFRS measures" on page 21 of this MD&A.

(2) Source: CAODC. The CAODC industry average is based on Operating Days divided by total available days.

(3) Excludes shortfall commitment and standby revenue from take or pay contracts of US$4.5 million for the year ended December 31, 2015.

For the year ended December 31, 2015, Operating Revenue in the contract drilling segment totalled $150.2 million, a $199.9 million decrease (or 57%), as compared to the year ended December 31, 2014. Included in Operating Revenue in 2015 is US$4.5 million of shortfall commitment and standby revenue on idle but contracted rigs in the United States. Reduced demand for contract drilling services in both Canada and the United States, due to the decreased commodity price environment, led to significantly lower year over year activity and has put downward pressure on day rates in Canada and the United States. However, changes in the Company's active rig mix, weighted to the Montney and Duvernay class rigs in the fleet, which command higher day rates, helped to offset some of the decrease in average day rates.

During the year ended December 31, 2015, Adjusted EBITDA in the contract drilling segment decreased by $92.9 million (or 65%) to $50.4 million, as compared to $143.2 million in 2014, mainly due to the decrease in Operating Days in both Canada and the United States, coupled with a 10% decrease in Operating Revenue per Revenue Day in Canada. The decrease in activity in both Canada and the United States and the decrease in pricing in Canada, were partially offset by the increase in Operating Revenue per Revenue Day in the United States, the US$4.5 million in shortfall commitment and standby revenue on idle but contracted rigs and cost control measures in both Canada and the United States.

For the year ended December 31, 2015, cash administrative expenses decreased 17% to $14.4 million, compared to $17.3 million in the prior year, mainly due to lower employee costs and effective cost control measures.

Depreciation expense for the year ended December 31, 2015 decreased by $20.2 million to $26.7 million due to the decrease in Operating Days in 2015 as compared to 2014, as the majority of depreciation expense is calculated on a per Operating Day basis.

Capital expenditures in the contract drilling segment totalled $26.3 million in 2015, and include $19.9 million related to expansion capital and $6.4 million related to maintenance capital, representing a 72% decrease from the $94.6 million incurred in 2014. Of the expansion capital incurred for 2015, substantially all relates to the completion of the Company's 2014 rig build program related to the construction of three Duvernay class drilling rigs, all of which were commissioned during the third quarter of 2015.

As a result of the declining commodity price environment and reduced outlook for drilling activity and pricing, the Company recorded a $59.1 million goodwill impairment loss in the third quarter of 2015 in the contract drilling segment, representing the full amount of goodwill allocated to the segment. Additionally, while the Company continues to actively market all of its drilling rigs, in the fourth quarter of 2015, the Company recorded decommissioning losses on property and equipment in the contract drilling segment of $26.5 million largely related to Cardium class spare equipment that is no longer in use, as well as impairment losses on property and equipment of $19.0 million.

Canadian Operations

During the year ended December 31, 2015, drilling rig utilization – Operating Days in Canada decreased to 26% as compared to 58% in 2014. The decrease in utilization is due to lower demand, resulting in a 55% decrease in the Company's Operating Days to 4,748 days in 2015, as compared to 10,478 days in 2014. The majority of the reduction in Operating Days relates to Western's Cardium class rigs which typically operate in highly competitive conventional resource plays. Operating Days on these drilling rigs decreased by 68% in 2015 as compared to 2014, while Operating Days on Western's Montney and Duvernay class rigs were impacted to a lesser extent, decreasing by 52% and increasing by 1% respectively. Additionally, the first quarter of 2014 benefited from a strong start up of customer capital programs following a strong fourth quarter of 2013, whereas 2015 was impacted by customer capital spending cuts, resulting in an early end to first quarter activity, a delayed start to the summer drilling season, and lower year over year activity in every quarter of 2015.

The Company's drilling rig utilization – Operating Days in Canada of 26% for 2015 reflects an approximate 300 bps premium to the CAODC industry average of 23%, as compared to the 1,400 bps premium realized for 2014. The decrease in the Company's utilization premium from 2014 is partially due to a reduction in the industry rig count from 804 rigs at December 31, 2014 to 765 rigs at December 31, 2015 as competitors continue to decommission older shallower rigs given the current market conditions. From the end of 2014 to the end of 2015, 61 drilling rigs were added to the industry fleet with 100 drilling rigs being removed by decommissioning or movement out of the WCSB, for a net reduction of 39 drilling rigs year over year. Of the rigs added year over year, the majority of new additions are higher specification drilling rigs that directly compete with Western's Montney and Duvernay class rig fleet, which impacts Western's utilization premium to the industry average. Subsequent to December 31, 2015, industry rig counts continued to decrease to 693 at February 25, 2016, an additional 9% decline. Additionally, the change relative to the CAODC industry average is partially due to a number of Western's customers, who typically have substantial drilling programs, significantly cutting their capital spending in 2015. The Company's utilization premium for 2015, as compared to the CAODC industry average, is attributable to the efforts by the Company's marketing group to reposition the Company's rigs with new customers, thereby broadening the Company's customer base and preserving Western's premium to the CAODC average.

For the year ended December 31, 2015, Operating Revenue per Revenue Day in Canada totalled $23,458 compared to $26,178 in the prior year, a 10% decrease. While downward pricing pressure decreased day rates in all rig categories in Canada, Operating Days on the Company's Duvernay and Montney class rigs, which command higher day rates, increased as a percentage of the Company's total Operating Days. The increased proportion of Operating Days from these drilling rigs, specifically in the first quarter of 2015, partially offset some of the industry pricing pressure resulting in only a 10% decrease in Operating Revenue per Revenue Day in 2015. Pricing pressure was generally more significant for the Cardium class rigs and less so for the Montney and Duvernay class rigs. Third party charges per Revenue Day decreased for the year ended December 31, 2015 to approximately $1,300 per Revenue Day as compared to approximately $2,200 per Revenue Day for 2014, mainly due to lower fuel prices.

United States Operations

For the year ended December 31, 2015, Operating Days decreased by 980 days (or 65%) resulting in drilling rig utilization – Operating Days decreasing to 29% compared to 83% in the prior year. The decrease in 2015 is due to reduced activity resulting from the decreased commodity price environment. In the Williston basin in North Dakota where the Company operates in the United States, drilling rig counts decreased by approximately 70% to 53 active drilling rigs at December 31, 2015, as compared to 179 active drilling rigs at December 31, 2014.

For the year ended December 31, 2015, Operating Revenue per Revenue Day in the United States increased by 13% to US$29,483, as one of Western's upgraded rigs worked throughout the year on a long term contract. The increased day rates and shortfall commitment and standby revenue on idle but contracted rigs of US$4.5 million partially offset the decline in utilization for the year ended December 31, 2015.

Production Services

	Three months ended December 31		Year ended December 31	
(stated in thousands)	**2015**	**2014**	**2015**	**2014**
Revenue				
Operating Revenue[(1)]	13,525	34,447	66,550	125,404
Third party charges	806	2,131	3,412	7,210
Total revenue	14,331	36,578	69,962	132,614
Expenses				
Operating				
Cash operating expenses	10,376	23,496	48,770	85,925
Depreciation	2,562	3,995	11,133	15,279
Stock based compensation	142	197	406	424
Total operating expenses	13,080	27,688	60,309	101,628
Administrative				
Cash administrative expenses	1,578	1,839	6,694	7,710
Depreciation	102	114	415	425
Stock based compensation	127	104	384	398
Total administrative expenses	1,807	2,057	7,493	8,533
Gross Margin[(1)]	3,955	13,082	21,192	46,689
Gross margin as a percentage of Operating Revenue	29%	38%	32%	37%
Adjusted EBITDA[(1)]	2,377	11,243	14,498	38,979
Adjusted EBITDA as a percentage of Operating Revenue	18%	33%	22%	31%
Operating Earnings (Loss)[(1)]	(287)	7,134	2,950	23,275
Capital expenditures	1,188	3,616	7,109	13,707
Well servicing rig fleet:				
Average	66	65	66	65
End of period	66	65	66	65
Service rig Operating Revenue per Service Hour[(1)]	703	837	779	817
Service Hours[(1)]	15,352	34,456	71,225	127,768
Service rig utilization [(1)]	25%	58%	30%	54%

(1) See "Non-IFRS measures" on page 21 of this MD&A.

The Company's production services segment includes Eagle's well servicing fleet, which currently totals 66 rigs, as well as Aero's oilfield rental equipment. For the year ended December 31, 2015, Operating Revenue decreased by $58.8 million (or 47%) to $66.6 million, compared to $125.4 million in the prior year. For 2015, Eagle's contribution to Operating Revenue in the production services segment decreased by $48.9 million (or 47%) to $55.5 million as compared to $104.4 million in the prior year, whereas Aero's contribution to Operating Revenue in the production services segment decreased by $9.9 million (or 47%) to $11.1 million, compared to $21.0 million in the prior year. The decrease in Operating Revenue for both Eagle and Aero in 2015, as compared to 2014, is due to reduced customer spending resulting from the decreased commodity price environment, leading to lower pricing and activity.

Service Hours have decreased by 56,543 for the year ended December 31, 2015 to 71,225 (30% utilization) as compared to 127,768 (54% utilization) in the prior year. Service rig Operating Revenue per Service Hour decreased by 5% for the year ended December 31, 2015 to $779 compared to $817 in the prior year. While Eagle has experienced pricing pressure across all operating areas, average hourly rates have declined marginally year over year, as an increased proportion of Service Hours were completed in geographic areas that generate higher hourly rates.

Adjusted EBITDA decreased to $14.5 million during 2015 from $39.0 million in 2014. The lower EBITDA in 2015 was due to the decreased commodity price environment which impacted the demand and pricing for the Company's services and was partially offset by lower employee costs and cost control measures. During 2015, cash administrative expenses, which exclude depreciation and stock based compensation, decreased by 13% to $6.7 million as compared to $7.7 million in the prior year.

Depreciation expense in 2015 decreased by 27%, to $11.5 million, reflecting fewer Service Hours compared to the prior year as the majority of Eagle's depreciation expense is calculated on a per Service Hour basis.

During the year ended December 31, 2015, capital expenditures in the production services segment totalled $7.1 million and included expansion capital of $3.1 million mainly related to the construction of one slant well servicing rig carried forward from Western's 2014 rig build program and the purchase of additional oilfield rental equipment. Additionally, maintenance capital of $4.0 million was incurred in 2015. Total capital expenditures of $7.1 million in 2015 represented a 48% decrease from the $13.7 million incurred in 2014. During the first quarter of 2015, Eagle commissioned the slant well servicing rig previously under construction and now has a fleet of 66 well servicing rigs.

As a result of the declining commodity price environment and reduced outlook for oilfield rental activity, the Company recorded a $12.2 million goodwill impairment loss in the third quarter of 2015 in the production services segment, representing the full amount of goodwill allocated to the oilfield rental division. Additionally, in the fourth quarter of 2015, the Company recorded impairment losses on property and equipment of $22.9 million related to the Eagle well servicing rigs.

Corporate

	Three months ended December 31		Year ended December 31	
(stated in thousands)	**2015**	**2014**	**2015**	**2014**
Administrative				
Cash administrative expenses	744	1,672	4,332	5,430
Depreciation	420	272	1,215	1,113
Stock based compensation	804	884	2,724	2,067
Total administrative expenses	1,968	2,828	8,271	8,610
Finance costs	5,412	4,897	20,441	20,782
Other items	(221)	(670)	(1,709)	(286)
Income taxes				
Current tax (recovery) expense	(2,692)	3,670	(8,732)	9,457
Deferred tax (recovery) expense	(18,581)	2,114	(3,816)	12,853
Total income tax (recovery) expense	(21,273)	5,784	(12,548)	22,310
Operating loss(1)	(1,164)	(1,944)	(5,547)	(6,543)
Capital expenditures	34	89	139	250

(1) See "Non-IFRS measures" on page 21 of this MD&A.

Corporate cash administrative expenses, which exclude depreciation and stock based compensation, for the year ended December 31, 2015 decreased by 20% to $4.3 million as compared to the prior year, mainly due to lower employee related costs.

For the year ended December 31, 2015, finance costs on a consolidated basis decreased by $0.3 million to $20.4 million, mainly due to higher capitalized interest related to Western's rig build program in 2015, as compared to 2014. The Company had an effective interest rate on its borrowings of 8.2% in both 2015 and 2014.

Other items for the year ended December 31, 2015 reflect net gains of $1.7 million consisting of gains and losses on foreign exchange, asset sales and derivatives.

For the year ended December 31, 2015, income taxes on a consolidated basis totalled a recovery of $12.5 million representing an effective tax rate of 8.9% as compared to a tax rate of 38.0% in 2014. The current tax recovery for 2015 of $8.7 million is mainly due to the recognition of tax losses during the year, expected to be carried back to prior taxation years. In 2015, the effective tax rate was impacted by the goodwill impairment loss of $71.3 million recorded in the third quarter of 2015 and by the increase in the Alberta corporate tax rate to 12% from 10% previously, which received Royal Assent in the second quarter of 2015, and resulted in an approximate $6.0 million increase to deferred income tax expense in the year. The effective tax rate for 2015 was also impacted by a higher proportion of taxable income earned in the United States which has higher corporate tax rates. Normalizing for these items, the Company's effective tax rate for the year ended December 31, 2015 is approximately 26.5%.

Liquidity and Capital Resources

The Company's liquidity needs in the short term and long term can be sourced in several ways including: available cash balances, funds from operations, borrowing against existing credit facilities, new debt instruments, equity issuances and proceeds from the sale of assets. As at December 31, 2015, Western had cash and cash equivalents of $58.4 million, a decrease of $4.3 million from December 31, 2014. As a result, Western's consolidated Net Debt balance at December 31, 2015 was $206.5 million, an increase of $3.9 million as compared to December 31, 2014. During the year ended December 31, 2015, Western had Adjusted EBITDA of $60.5 million and a positive change in non-cash working capital of $24.6 million mainly due to the collection of prior year receivables, which was offset by capital expenditures of $33.6 million, dividend payments of $22.3 million, cash interest payments of $19.8 million, income tax payments of $8.4 million and shares repurchased under the Company's NCIB of $6.7 million.

As at December 31, 2015, Western had a working capital balance of $70.7 million, a $7.6 million decrease as compared to December 31, 2014. Currently, the Company has $265.0 million in Senior Notes outstanding and $195.0 million in undrawn credit facilities. The Company's credit facilities contain certain financial covenants including an interest coverage ratio of 2.0 to 1.0 or greater. At December 31, 2015, the Company's interest coverage ratio was 2.8 to 1.0. The continued deterioration of the commodity price environment subsequent to year end and the corresponding impact on the demand for oilfield services activity has caused a number of oilfield service companies to seek covenant relief from their lenders. Western's interest coverage ratio is sensitive to reduced cash flow resulting from the prolonged decline in oilfield services activity and failing to comply with this covenant could lead to restrictions on the Company's ability to access its credit facility in the future. At December 31, 2015, Western is in compliance with all debt covenants; however, due to the estimates that oilfield services activity will remain low throughout 2016, Western is currently in discussions with its banking syndicate for relief to the existing banking covenants. As at December 31, 2015, Western's Net Debt to trailing 12 month Adjusted EBITDA is 3.4 with no scheduled long term debt repayments until January 2019. As such, cash from operations coupled with Western's working capital, including cash balances, and available credit facilities are expected to be sufficient to cover Western's financial obligations including the revised 2016 capital budget.

For the years ended December 31, 2015 and 2014, the Company had one customer comprising 10.7% and 13.1% respectively, of the Company's total revenue. The trade receivable balance relating to this customer as at December 31, 2015 represented 2.8% of the Company's total trade and other receivables. This customer is a publicly traded company with a market capitalization in excess of $30 billion at December 31, 2015. The Company's significant customers may change from period to period.

Fourth Quarter 2015

Selected Financial Information

Financial Highlights	**Three months ended December 31**	
(stated in thousands, except share and per share amounts)	**2015**	**2014**
Total Revenue	42,678	139,210
Operating Revenue	40,458	129,181
Gross Margin(1)	13,372	57,826
Gross Margin as a percentage of operating revenue	33%	45%
EBITDA(1)	7,573	50,419
EBITDA as a percentage of operating revenue	19%	39%
Cash flow from operating activities	11,139	47,830
Capital expenditures	3,259	31,071
Net loss	(55,010)	(8,164)
-basic net loss per share	(0.75)	(0.11)
-diluted net loss per share	(0.75)	(0.11)
Weighted average number of shares		
-basic	73,655,198	74,882,690
-diluted	73,655,198	74,927,714
Outstanding common shares as at period end	73,646,292	74,866,028
Dividends declared	3,682	5,614
Dividends declared per common share	0.05	0.075

Operating Highlights		
Contract Drilling		
Canadian Operations		
Average contract drilling rig fleet	52	50
Contract drilling rig fleet - end of period	52	49
Operating Revenue per Revenue Day (CDN$)(1)	22,038	27,104
Operating Revenue per Operating Day (CDN$)(1)	24,228	29,710
Operating Days(1)	955	2,724
Number of meters drilled	220,296	503,189
Number of wells drilled	66	133
Average operating days per well	14.5	20.5
Drilling rig utilization - Revenue Day(1)	22%	65%
Drilling rig utilization - Operating Day(1)	20%	59%
CAODC industry average utilization rate(2)	20%	45%
United States Operations		
Average contract drilling rig fleet	5	5
Contract drilling rig fleet - end of period	5	5
Operating Revenue per Revenue Day (US$)(1)	31,350	28,309
Operating Revenue per Operating Day (US$)(1)	34,217	31,876
Operating Days(1)	84	385
Number of meters drilled	18,985	102,290
Number of wells drilled	3	18
Average operating days per well	25.5	21.4
Drilling rig utilization - Revenue Day(1)	20%	95%
Drilling rig utilization - Operating Day(1)	18%	85%
Production Services		
Average well servicing rig fleet	66	65
Well servicing rig fleet - end of period	66	65
Service rig Operating Revenue per Service Hour (CDN$)(1)	703	837
Service Hours(1)	15,352	34,456
Service rig utilization(1)	25%	58%

(1) See "Non-IFRS measures" on page 21 of this MD&A.

(2) Source: CAODC. The CAODC industry average is based on Operating Days divided by total available days.

Consolidated

Fourth quarter Operating Revenue decreased by $88.8 million (or 69%) to $40.4 million in 2015 as compared to $129.2 million in 2014. In the contract drilling segment, Operating Revenue decreased by $67.9 million (or 72%) to $27.0 million in the fourth quarter of 2015 as compared to $94.9 million in the fourth quarter of 2014; while in the production services segment, Operating Revenue decreased by $20.9 million (or 61%) to $13.5 million as compared to $34.4 million in the fourth quarter of 2014. The decrease in Operating Revenue is due to decreased utilization and pricing in both the contract drilling and production services segments.

Adjusted EBITDA decreased by $42.8 million (or 85%) to $7.6 million in 2015, as compared to $50.4 million in 2014. The decrease in Adjusted EBITDA is due to lower activity and pricing across all of Western's divisions, partially offset by Western's cost structure, with approximately 80% of costs being variable, and effective reductions of fixed overhead costs. Normalizing for one time costs of approximately $1.5 million, including severance and uncollectible accounts receivable, Adjusted EBITDA would have totalled $9.1 million in the fourth quarter of 2015.

As a result of the declining commodity price environment and reduced outlook for current and future oilfield services activity and pricing, the Company completed an impairment test for each of its CGUs as at December 31, 2015. Based on the results of these tests, it was determined that property and equipment in the Company's contract drilling and well servicing CGUs were impaired by $19.0 million and $22.9 million respectively. Additionally, the Company decommissioned $26.6 million of largely Cardium class spare drilling equipment that is no longer in use and recorded a loss on asset decommissioning in the fourth quarter of 2015.

Contract Drilling

During the fourth quarter of 2015, Operating Revenue in the contract drilling segment totalled $27.0 million, a $67.9 million decrease (or 72%), as compared to the fourth quarter of 2014. Reduced demand for the Company's contract drilling services in both Canada and the United States, due to the decreased commodity price environment, led to significantly lower year over year activity and has put downward pressure on day rates in Canada and the United States. Operating Revenue per Revenue Day in Canada decreased 19% in the fourth quarter of 2015, as compared to the fourth quarter of 2014. However, in the United States, one of Western's upgraded rigs worked throughout the quarter on a long term contract, resulting in an 11% increase in Operating Revenue per Revenue Day during the fourth quarter of 2015.

For the three months ended December 31, 2015, cash administrative expenses, which exclude depreciation and stock based compensation, decreased 10% to $3.5 million, compared to $3.9 million for the same period of the prior year. The decrease is mainly due to lower employee costs and effective cost control measures. During the fourth quarter of 2015, Adjusted EBITDA in the contract drilling segment decreased by $34.9 million (or 86%) to $5.9 million, as compared to $40.8 million in the fourth quarter of 2014, due to the decrease in Operating Days in both Canada and the United States, coupled with the decrease in Operating Revenue per Revenue Day in Canada of 19%, partially offset by the increase in Operating Revenue per Revenue Day in the United States and cost control measures in both Canada and the United States. Normalizing for one time costs of approximately $1.5 million, including severance and uncollectible accounts receivable, Adjusted EBITDA would have totalled $7.4 million.

As compared to the same period of the prior year, depreciation expense in the contract drilling segment for the fourth quarter of 2015 decreased by $6.8 million to $6.0 million due to the decrease in Operating Days in the period, as the majority of depreciation expense is calculated on a per Operating Day basis.

Capital expenditures in the contract drilling segment totalled $2.0 million in the fourth quarter of 2015 and include $1.0 million related to expansion capital and $1.0 million related to maintenance capital. In total capital expenditures in the contract drilling segment decreased by 92% in the fourth quarter of 2015 compared to the fourth quarter of 2014.

Canadian Operations

During the fourth quarter of 2015, drilling rig utilization – Operating Days in Canada decreased to 20% as compared to 59% in the fourth quarter of 2014. The decrease in utilization is due to reduced customer spending, resulting in a 65% decrease in the Company's Operating Days to 955 days in the fourth quarter of 2015, as compared to 2,724 days in the same period of the prior year. The majority of the decrease in Operating Days relates to Western's Cardium class rigs which operate in a highly competitive environment, as approximately 62% of all rigs in the WCSB are classified as Cardium class rigs. Operating Days on Western's Cardium class rigs decreased by 77% for the three months December 31, 2015, as compared to the same period in the prior year, while Operating Days on Western's Montney and Duvernay class rigs were impacted to a lesser extent, decreasing by 62% and 38% respectively. The Company's drilling rig utilization – Operating Days in Canada of 20% in the fourth quarter of 2015 was consistent with the CAODC industry average, as compared to the 1,400 bps premium realized in the fourth quarter of 2014. The change relative to the CAODC industry average is due to a number of Western's larger customers, who typically have substantial drilling programs, significantly cutting their capital spending in 2015, which resulted in a discount to the CAODC industry average. Additionally, the industry rig mix in the WCSB has changed year over year. From the end of 2014 to the end of 2015, 61 drilling rigs were added to the industry fleet with 100 drilling rigs being removed by decommissioning or movement out of the WCSB, resulting in 39 fewer drilling rigs year over year. Of the rigs added to the industry year over year, the majority of new additions are higher specification drilling rigs that directly compete with Western's drilling rig fleet, which impacts Western's utilization premium to the industry average.

For the three months ended December 31, 2015, Operating Revenue per Revenue Day in Canada totalled $22,038 compared to $27,104 in the same period of the prior year, a 19% decrease. The decreased commodity price environment and increased competition in the contract drilling industry resulted in downward pricing pressure, decreasing day rates on all rig categories in Canada. Third party charges per Revenue Day decreased in the fourth quarter of 2015 to approximately $1,300 per Revenue Day as compared to approximately $2,500 per Revenue Day in the fourth quarter of 2014, mainly due to lower fuel prices.

United States Operations

In the United States in the fourth quarter of 2015, Operating Days decreased by 301 days (or 78%) resulting in drilling rig utilization – Operating Days decreasing to 18% compared to 85% in the same period in the prior year. The decrease for the three month period ended December 31, 2015 is due to reduced activity resulting from the decreased commodity price environment, where in the Williston basin in North Dakota, drilling rig counts decreased by approximately 70% to 53 active drilling rigs at December 31, 2015, as compared to 179 active drilling rigs at December 31, 2014.

During the fourth quarter of 2015, Operating Revenue per Revenue Day in the United States increased by 11% to US$31,350, as one of Western's upgraded rigs worked throughout the quarter on a long term contract. The increased day rates partially offset the decline in utilization in the fourth quarter of 2015.

Production Services

During the fourth quarter of 2015, Operating Revenue decreased by $20.9 million (or 61%) to $13.5 million, compared to $34.4 million in the fourth quarter of 2014. For the quarter ended December 31, 2015, Eagle's contribution to Operating Revenue in the production services segment decreased by $18.0 million (or 63%) to $10.8 million as compared to $28.8 million in the same period of the prior year, whereas Aero's contribution to Operating Revenue in the production services segment decreased by $2.9 million (or 51%) to $2.7 million, compared to $5.6 million in the fourth quarter of 2014. The decrease in Operating Revenue for both Eagle and Aero for the three months ended December 31, 2015, as compared to the same period in the prior year, is due to reduced customer spending resulting from the decreased commodity price environment, leading to lower pricing and activity.

Service Hours have decreased by 55% in the fourth quarter of 2015 to 15,352 (25% utilization) as compared to 34,456 (58% utilization) in the same period of the prior year. Service rig Operating Revenue per Service Hour in the fourth quarter of 2015 decreased by 16% to $703 as compared to $837 in the same period of the prior year, due to pricing pressure across all of Eagle's operating areas.

Adjusted EBITDA decreased to $2.4 million during the fourth quarter of 2015 from $11.2 million in the fourth quarter of 2014 mainly due to the decreased commodity price environment impacting the demand and pricing for the Company's services, which was partially offset by lower employee costs and cost control measures. During the fourth quarter of 2015, cash administrative expenses, which exclude depreciation and stock based compensation, decreased by 11% to $1.6 million as compared to $1.8 million in the same period of the prior year.

In the three months ended December 31, 2015, depreciation expense decreased by 35% to $2.7 million mainly due to fewer Service Hours as compared to the same period of the prior year as the majority of Eagle's depreciation expense is calculated on a per Service Hour basis.

During the three months ended December 31, 2015, capital expenditures in the production services segment totalled $1.2 million, representing a 67% decrease from the $3.6 million incurred in the fourth quarter of 2014, and mainly related to maintenance capital and the purchase of additional oilfield rental equipment.

Corporate

Corporate cash administrative expenses, which exclude depreciation and stock based compensation, for the three month period ended December 31, 2015 decreased by 55% to $0.7 million due to lower employee related costs.

For the three month period ended December 31, 2015, finance costs on a consolidated basis increased by $0.5 million to $5.4 million, as no interest was capitalized by Western in the fourth quarter of 2015, as compared to the fourth quarter of 2014 when $0.4 million was capitalized related to Western's 2014 rig build program.

Other items for the three months ended December 31, 2015 reflect net gains of $0.2 million consisting of gains and losses on foreign exchange, asset sales and derivatives.

For the three months ended December 31, 2015, income taxes on a consolidated basis totalled a recovery of $21.3 million and represented an effective tax rate of 27.9%, as compared to an effective tax recovery rate of 243.1% during the three months ended December 31, 2014. Normalizing for the goodwill impairment loss of $22.7 million in the prior year, Western's effective tax rate was 28.5% in the fourth quarter of 2014. The current tax recovery for the three months ended December 31, 2015 of $2.7 million is mainly due to the recognition of tax losses during the period, expected to be carried back to prior taxation years.

Summary of Quarterly Results

In addition to other market factors, quarterly results of Western are markedly affected by weather patterns throughout its operating areas. Historically, the first quarter of the calendar year is very active, followed by a much slower second quarter due to what is known in the Canadian oilfield service industry as "spring breakup", where due to the spring thaw, provincial and county road bans restrict movement of heavy equipment. As a result of this, the variation of Western's results on a quarterly basis, particularly in the first and second quarters, can be significant quarter over quarter independent of other demand factors. The following is a summary of selected financial information of the Company for the last eight completed quarters.

Three months ended	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014
(stated in thousands, except per share amounts)								
Revenue	42,678	46,959	32,037	105,850	139,210	125,225	81,981	161,416
Operating Revenue(1)	40,458	44,350	30,719	100,958	129,181	117,960	77,352	149,627
Gross Margin(1)	13,372	14,285	10,403	47,891	57,826	50,570	31,206	67,629
Adjusted EBITDA(1)	7,573	8,080	4,255	40,637	50,419	42,782	24,028	59,548
Cash flow from operating activities	11,139	(530)	41,009	39,337	47,830	22,975	71,912	38,634
Net income (loss)	(55,010)	(76,816)	(12,607)	15,294	(8,164)	14,718	4,396	25,500
per share - basic	(0.75)	(1.04)	(0.17)	0.20	(0.11)	0.20	0.06	0.35
per share - diluted	(0.75)	(1.04)	(0.17)	0.20	(0.11)	0.19	0.06	0.34
Total assets	876,608	947,137	1,025,776	1,049,145	1,057,118	1,040,973	1,016,112	1,019,192
Long term debt	264,155	264,219	264,234	264,207	264,165	263,624	263,293	263,119
Dividends declared	3,682	5,526	5,591	5,593	5,614	5,615	5,609	5,538

(1) See "Non-IFRS measures" on page 21 of this MD&A.

Revenue was impacted by lower commodity prices in 2015. Prior to the first quarter of 2015, with the exception of lower activity in the second quarter of 2014, due to the seasonal nature of the oilfield service industry in Canada, revenue was significantly higher due to the Company's capital spending program and increased activity in both the contract drilling and production services segments throughout 2014 as WTI and AECO averaged approximately US$93/bbl and $5/mcf respectively.

Adjusted EBITDA has followed a similar trend to revenue, steadily increasing after spring breakup in the second quarters through the third and fourth quarters and into the first quarter. Adjusted EBITDA is generally highest in the first quarter when activity is the highest. Adjusted EBITDA was impacted significantly in 2015 due to the decreased commodity price environment resulting in customers delaying or cancelling their capital programs. Adjusted EBITDA was strong throughout 2014 and the first quarter of 2015, with the exception of the second quarter of 2014 which was impacted by spring breakup in Canada. Following spring breakup in the second quarter of 2015, Adjusted EBITDA was significantly weaker due to the lower commodity price environment impacting the capital spending programs of Western's customers.

Net income has fluctuated throughout the last eight quarters due to the seasonal nature of the oilfield service industry in Canada. The Company recorded a net loss in the fourth quarter of 2014 due to impairment losses of $22.7 million on goodwill and decommissioning losses of $7.2 million on property and equipment. Additionally, the Company recorded a net loss in the third quarter of 2015 mainly due to goodwill impairment losses of $71.3 million and a net loss in the fourth quarter of 2015 due to property and equipment decommissioning and impairment losses totalling $68.5 million.

With the exception of the third and fourth quarters of 2015, which were impacted by significant impairment and decommissioning losses, total assets of the Company have remained relatively constant throughout the last eight quarters as capital spending has been largely offset by depreciation and the impairment losses on goodwill and decommissioning losses on property and equipment recorded in the fourth quarter of 2014.

Goodwill

Goodwill represents the excess, at the date of acquisition, of the purchase price of a business acquisition over the fair value of the net tangible assets acquired. A continuity of Western's goodwill balance at December 31, 2015 and 2014 is as follows:

(stated in thousands)	Amount
December 31, 2013	$ 88,710
Adjustment: IROC acquisition[(1)]	1,714
Foreign exchange adjustment	1,851
Impairment of goodwill	(22,668)
December 31, 2014	69,607
Foreign exchange adjustment	1,649
Impairment of goodwill	(71,256)
December 31, 2015	$ -

(1) On April 22, 2013, Western acquired IROC Energy Services Corp. ("IROC").

Contractual Obligations

In the normal course of business the Company incurs contractual obligations. The expected maturities of the Company's contractual obligations as at December 31, 2015 are as follows:

(stated in thousands)	2016	2017	2018	2019	2020	Thereafter	Total
Senior Notes	$ -	$ -	$ -	$ 265,000	$ -	$ -	$ 265,000
Senior Notes interest	20,869	20,869	20,869	10,434	-	-	73,041
Trade payables and other current liabilities [(1)]	17,931	-	-	-	-	-	17,931
Dividends payable	3,682	-	-	-	-	-	3,682
Operating leases	4,249	3,528	3,372	3,208	3,320	10,349	28,026
Purchase commitments	961	-	-	-	-	-	961
Other long term debt	892	665	73	-	-	-	1,630
Total	$ 48,584	$ 25,062	$ 24,314	$ 278,642	$ 3,320	$ 10,349	$ 390,271

(1) Trade payables and other current liabilities exclude the Company's interest accrued as at December 31, 2015 on the Senior Notes.

There have been no material changes in the contractual obligations detailed above, other than in the normal course of business, during the year ended December 31, 2015.

Outstanding Share Data

	February 25, 2016	**December 31, 2015**	**December 31, 2014**
Common shares outstanding	73,646,292	73,646,292	74,866,028
Restricted share units outstanding	753,694	759,504	304,336
Stock options outstanding	5,999,775	6,058,906	5,093,972

Off Balance Sheet Arrangements

As at December 31, 2015, Western had no off balance sheet arrangements in place.

Transactions with Related Parties

During the year ended December 31, 2015, the Company had no transactions with related parties.

Financial Instruments

Fair Values

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 a "financial asset or financial liability at fair value through profit or loss", "available-for-sale financial assets", "held-to-maturity investments", "loans and receivables", or "other financial liabilities".

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 on 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.

Derivatives embedded in other instruments or host contracts are separated from the host contract and accounted for separately when their economic characteristics and risks are not closely related to the host contract. Embedded derivatives are recorded on the balance sheet at their estimated fair value and changes in the fair value are recorded through net income. The asset is recognized in other assets on the balance sheet while a change in the value of the embedded derivative is included in other items within net income.

The Company has the following non-derivative financial assets:

(i) Financial assets at fair value through profit or loss:

Cash and cash equivalents are classified as held for trading within the fair value through profit or loss category. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income.

(ii) Loans and receivables:

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

(iii) Available for sale:

From time to time, the Company may have certain equity investments in publicly traded entities. Investments that have a quoted price in an active market are measured at fair value with changes in fair value recognized in other comprehensive income. When the investment is ultimately sold, any gains or losses are recognized in net income and any unrealized gains or losses previously recognized in other comprehensive income are reversed.

The Company has the following non-derivative financial liabilities:

(i) Other financial liabilities:

Trade and other payables, finance lease obligations, the Senior Notes and credit facilities are classified as "other financial liabilities". Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Other financial liabilities, including the Senior Notes, 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.

(ii) Equity instruments:

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects.

Credit Risk

The Company's trade receivables are with customers in the oil and 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 constantly reviews individual customer trade receivables, taking into consideration payment history and the aging of the trade receivable to monitor collectability. 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.

Interest Rate Risk

The Company is exposed to interest rate risk on debt subject to floating interest rates, such as the Company's credit facilities, which are currently undrawn.

Foreign Exchange Risk

The Company is exposed to foreign exchange fluctuations in relation to its US dollar capital expenditures and US operations. The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary. From time-to-time the Company may use forward foreign currency contracts to hedge against these fluctuations.

Liquidity Risk

Liquidity risk is the exposure of the Company to the risk of not being able to meet its financial obligations as they become due. To manage liquidity risk, the Company forecasts operational results and capital spending on a regular basis. Variances between actual results and forecast are continually monitored to assess the Company's ability to meet its financial obligations.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

The President & Chief Executive Officer ("CEO") and Senior Vice President, Finance & Chief Financial Officer ("CFO") of Western are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") for the Company.

DC&P is designed to provide reasonable assurance that material information relating to the Company is made known to the CEO and CFO by others, particularly in the period in which the annual filings are being prepared, and that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified in securities legislation, and includes controls and procedures designed to ensure that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

In accordance with the requirements of National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings", an evaluation of the effectiveness of DC&P and ICFR was carried out under the supervision of the CEO and CFO at December 31, 2015. This evaluation was based on the framework established in the Internal Control – Integrated Framework (2013) issued in May 2013 by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO "). Based on this evaluation, the CEO and CFO have concluded that the Company's DC&P and ICFR are effectively designed and operating as intended.

The Company's management, including the CEO and CFO, does not expect that the Company's DC&P and ICFR will prevent or detect all misstatements or instances of fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues, misstatements or instances of fraud, if any, within the Company have been detected.

There have been no changes to the Company's ICFR that occurred during the most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

Critical Accounting Estimates

This MD&A of the Company's financial condition and results of operations is based on the consolidated financial statements for the year ended December 31, 2015, which were prepared in accordance with IFRS. The presentation of these financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of provisions at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates and judgements are based on historical experience and on various assumptions that are believed to be reasonable under the circumstances. Anticipating future events cannot occur with absolute certainty, therefore these estimates may change as new events occur, more experience is acquired and as the Company's operating environment changes. The Company's key accounting estimates relate to business combinations, impairment, depreciation, current and deferred taxes and the determination of the fair value of share based payments.

The accounting estimates believed to be the most difficult, subjective or require complex judgements and which are the most critical to the reporting of results of operations and financial positions of the Company are as follows:

Business Combinations

The Company assesses the fair values of the net assets acquired based on management's best estimate of market value, which takes into consideration the condition of the assets acquired, current industry conditions and the discounted future cash flows expected to be received from the assets as well as the amount it is expected to cost to settle the outstanding liabilities.

Impairment

The Company assesses impairment at each reporting date by evaluating conditions specific to the organization that may lead to impairment of assets. Where an impairment indicator exists, or annually in the case of goodwill, the recoverable amount of the asset or cash generating unit is determined. The application of judgement is required in determining if an impairment test is required. If indicators conclude that the asset is no longer impaired, the Company will reverse impairment losses on assets. Impairment losses on goodwill are not reversed. Similar to determining if an impairment exists, judgment is required in assessing if a reversal of an impairment loss is required. Value-in-use and fair value less cost to sell calculations performed in assessing the recoverable amounts incorporate a number of key estimates. As at September 30, 2015, the Company completed its assessments and recognized a goodwill impairment loss of $71.3 million in the third quarter of 2015. As at December 31, 2015, the Company completed its assessments and recognized property and equipment impairment losses of $41.9 million in the fourth quarter of 2015. There were no reversals of previous property and equipment impairment losses in the year ended December 31, 2015. Additionally, in the fourth quarter of 2015 the Company decommissioned $26.6 million of largely Cardium class spare equipment that is no longer in use in the contract drilling segment.

Depreciation

The Company's property and equipment is depreciated based upon estimates of useful lives and salvage values. These estimates are based on industry practice and the Company's own experience and may change as more experience is gained, market conditions shift or new technological advancements are made.

The componentization of the Company's property and equipment, specifically drilling rig equipment and well servicing rig equipment, is based on management's judgment as to which components constitute a significant cost in relation to the entire item. The componentization process also requires management's judgement in assessing whether individual components have similar consumption patterns and useful lives.

Income taxes

Preparation of the consolidated financial statements involves determining an estimate of, or provision for, income taxes in each of the jurisdictions in which the Company operates. The process also involves making an estimate of taxes currently payable and taxes expected to be payable or recoverable in future periods, referred to as deferred taxes. Deferred taxes result from the effects of temporary differences due to items that are treated differently for tax and accounting purposes. The tax effects of these differences are reflected in the consolidated balance sheet as deferred tax assets and liabilities. An assessment must also be made to determine the likelihood that the Company's future taxable income will be sufficient to permit the recovery of deferred tax assets. To the extent that such recovery is not probable, recognized deferred tax assets must be reduced to the recoverable amount. Judgement is required in determining the provision for income taxes and recognition of deferred tax assets and liabilities. Management must also exercise judgement in its assessment of continually changing tax interpretations, regulations and legislation, to ensure deferred tax assets and liabilities are complete and fairly presented. The effects of differing assessments and applications could be material.

Share based payments

Stock based compensation expense associated with stock options and equity settled restricted share units is based on various assumptions, using a Black-Scholes option pricing model to calculate an estimate of fair value. The inputs into the model include interest rates, expected life, expected volatility, expected forfeitures, expected dividends and share prices and these inputs affect the estimated fair value calculated. Determining the estimated expected life, volatility, forfeitures and expected dividends requires management's judgement.

Business Risks

For a comprehensive listing of the Company's business risks please see the most recent Annual Information Form for the year ended December 31, 2015 as filed on SEDAR at www.sedar.com. The Company's primary business risks as at December 31, 2015 are as follows:

- The Company's business relies on the oil and gas exploration and production industry which is subject to a number of risks including general economic conditions, fluctuations in demand and supply of oil and gas production, fluctuations in commodity prices, competition and increases in operating costs. In addition, changes may occur in government regulations, including regulations relating to foreign acquisitions, prices, taxes, royalties, land tenure, allowable production, importing and exporting of oil and natural gas and environmental protection for the oil and gas industry as a whole. Risks impacting the oil and gas exploration and production industry, including the ability of oil and gas companies to accumulate capital or variations in their exploration and development budgets, may also affect the Company's business. The exact impact of these risks cannot be accurately predicted.

- The low commodity price environment that existed throughout 2015 is expected to continue throughout 2016. If a low commodity price environment persists as expected, the demand for the Company's equipment and services will remain lower than normal and the Company's utilization rates and revenue will continue to be adversely affected during such time. In addition, lower utilization and revenue could result in the Company not being in compliance with certain covenants in its credit facility and under its long term note indenture, which in turn could restrict the Company's ability to access its credit facility, pay distributions and incur additional debt in the future.
- The Company's exploration and production customer's facilities and other operations emit greenhouse gases and require them to comply with legislation in those provinces and states where they operate. On November 22, 2015, the Alberta government announced new emissions regulations, including an economy wide price on carbon emissions effective January 1, 2017 and methane emission reductions. The direct or indirect costs of greenhouse gas emission reduction regulations may have a material adverse effect on the Company's business, financial condition and results of operations and cash flows, as well as impacting the Company's customer's operations.
- In addition to global economic events and uncertainty, the capacity within North America to ship commodities to market introduces uncertainties in levels of activity and pricing for oil and natural gas production.
- The Company is vulnerable to market prices. Fixed costs, including costs associated with operations, leases, and labour costs account for a significant portion of the Company's expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, or other factors could significantly affect its financial results.
- Competition among oilfield service companies offering related services is significant. Some competitors are larger and have greater revenue than the Company and overall greater financial resources. The Company's ability to generate revenue depends on its ability to attract and win contracts and to perform services.
- Currently, the Company is focused on providing services in the WCSB as well as certain geographic areas in the United States, which may expose the Company to more extreme market fluctuations relating to items such as weather and general economic conditions which may be more extreme than the broader industry conditions.
- The success of the Company is dependent upon the efforts and abilities of its management team. The loss of any member of the management team could have a material adverse effect upon the business and prospects of the Company.
- The Company's business is subject to the operating risks inherent to the oilfield service industry. On occasion, substantial liabilities to third parties may be incurred. The Company will have the benefit of insurance maintained by it and industry standard contracts, however, it may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.
- The oilfield service industry has experienced a high degree of invention and innovation. It is possible that new technology will be developed which will compete with the Company's products and services.
- A portion of the operations of the Company are in the United States which subject the Company to currency fluctuations and different tax and regulatory laws.

Non-IFRS Measures

Western uses certain measures in this MD&A which do not have any standardized meaning as prescribed by IFRS. These measures which are derived from information reported in the consolidated financial statements may not be comparable to similar measures presented by other reporting issuers. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Company. These Non-IFRS measures are identified and defined as follows:

Operating Revenue

Management believes that in addition to revenue, Operating Revenue is a useful supplemental measure as it provides an indication of the revenue generated by Western's principal operating activities, excluding flow through third party charges such as rig fuel, which at the customer's request may be paid for initially by Western, then recharged in its entirety to Western's customers.

Gross Margin

Management believes that in addition to net income, Gross Margin is a useful supplemental measure as it provides an indication of the results generated by Western's principal operating activities prior to considering administrative expenses, depreciation and amortization, how those activities are financed, the impact of foreign exchange, how the results are taxed, how funds are invested, and how non-cash items and one-time gains and losses affect results.

The following table provides a reconciliation of revenue under IFRS, as disclosed in the consolidated statements of operations and comprehensive income, to Operating Revenue and Gross Margin:

	Three months ended December 31		Year ended December 31	
(stated in thousands)	**2015**	**2014**	**2015**	**2014**
Operating Revenue				
Drilling	26,978	94,877	150,252	350,105
Production services	13,525	34,447	66,550	125,404
Less: inter-company eliminations	(45)	(143)	(317)	(1,389)
	40,458	**129,181**	**216,485**	**474,120**
Third party charges	2,220	10,029	11,039	33,712
Revenue	**42,678**	**139,210**	**227,524**	**507,832**
Less: operating expenses	(37,974)	(98,524)	(179,843)	(363,603)
Add:				
Depreciation - operating	8,433	16,740	37,473	61,991
Stock based compensation - operating	235	400	797	1,011
Gross Margin	**13,372**	**57,826**	**85,951**	**207,231**

Adjusted EBITDA

Management believes that in addition to net income, earnings before interest and finance costs, taxes, depreciation and amortization, other non-cash items and one-time gains and losses (“Adjusted EBITDA”) is a useful supplemental measure as it provides an indication of the results generated by the Company’s principal operating activities similar to Gross Margin but also factors in the cash administrative expenses incurred in the period.

Operating Earnings

Management believes that in addition to net income, Operating Earnings is a useful supplemental measure as it provides an indication of the results generated by the Company’s principal operating activities similar to Adjusted EBITDA but also factors in the depreciation expense incurred in the period.

The following table provides a reconciliation of net income under IFRS, as disclosed in the consolidated statements of operations and comprehensive income, to earnings before interest and finance costs, taxes, depreciation and amortization (“EBITDA”), Adjusted EBITDA and Operating Earnings:

	Three months ended December 31		Year ended December 31	
(stated in thousands)	**2015**	**2014**	**2015**	**2014**
Net income (loss)	(55,010)	(8,164)	(129,139)	36,450
Add:				
Finance costs	5,412	4,897	20,441	20,782
Income tax (recovery) expense	(21,273)	5,784	(12,548)	22,311
Depreciation - operating	8,433	16,740	37,473	61,991
Depreciation - administrative	616	444	1,994	1,776
EBITDA	(61,822)	19,701	(81,779)	143,310
Add:				
Stock based compensation - operating	235	400	797	1,011
Stock based compensation - administrative	921	1,073	3,520	2,827
Loss on asset decommissioning	26,598	7,247	26,598	7,247
Impairment of property and equipment	41,862	-	41,862	-
Impairment loss on goodwill	-	22,668	71,256	22,668
Other items	(221)	(670)	(1,709)	(286)
Adjusted EBITDA	7,573	50,419	60,545	176,777
Subtract:				
Depreciation - operating	(8,433)	(16,740)	(37,473)	(61,991)
Depreciation - administrative	(616)	(444)	(1,994)	(1,776)
Operating Earnings (Loss)	(1,476)	33,235	21,078	113,010

Net Debt

The following table provides a reconciliation of long term debt under IFRS, as disclosed in the consolidated balance sheets to Net Debt:

(stated in thousands)	December 31, 2015	December 31, 2014
Long term debt	264,155	264,165
Current portion of long term debt	761	1,062
Less: cash and cash equivalents	(58,445)	(62,662)
Net Debt	**206,471**	**202,565**

Drilling rig utilization – Operating Days: Calculated based on Operating Days divided by total available days.

Drilling rig utilization – Revenue Days: Calculated based on Revenue Days divided by total available days.

Operating Days: Defined as contract drilling days, calculated on a spud to rig release basis.

Revenue Days: Defined as Operating Days plus rig mobilization days.

Service Hours: Defined as well servicing hours completed.

Service rig utilization: Calculated based on Service Hours divided by available hours, being 10 hours per day, per well servicing rig, 365 days per year.

Contract Drilling Rig Classifications

Cardium class rig: Defined as any contract drilling rig which has a total hookload of less than or equal to 399,999 lbs (or 177,999 daN).

Montney class rig: Defined as any contract drilling rig which has a total hookload between 400,000 lbs (or 178,000 daN) and 499,999 lbs (or 221,999 daN).

Duvernay class rig: Defined as any contract drilling rig which has a total hookload equal to or greater than 500,000 lbs (or 222,000 daN).

Abbreviations:

- Barrel (“bbl”);
- Basis point (“bps”): A 1% change equals 100 basis points and a 0.01% change is equal to one basis point;
- Canadian Association of Oilwell Drilling Contractors (“CAODC”);
- DecaNewton (“daN”);
- International Financial Reporting Standards (“IFRS”);
- Pounds (“lbs”);
- Thousand cubic feet (“mcf”);
- West Texas Intermediate (“WTI”);
- Western Canadian Sedimentary Basin (“WCSB”); and
- Western Canadian Select (“WCS”).

Forward-Looking Statements and Information

This MD&A contains certain statements or disclosures relating to Western that are based on the expectations of Western as well as assumptions made by and information currently available to Western which may constitute forward-looking information under applicable securities laws. All such statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that Western anticipates or expects may, or will occur in the future (in whole or part) should be considered forward-looking information. In some cases forward-looking information can be identified by terms such as “forecast”, “future,” “may”, “will”, “expect”, “anticipate,”, “believe”, “potential”, “enable”, “plan”, “continue”, “contemplate”, “pro forma”, or other comparable terminology.

In particular, forward-looking information in this MD&A includes, but is not limited to, statements relating to future declaration of dividends; the future demand for the Company’s services and equipment; the terms of existing and future drilling contracts in Canada and the US and the revenue resulting therefrom (including the number of Operating Days typically generated from the Company’s contracts); the Company’s expansion and maintenance capital plans for 2016, including the ability of current capital resources to cover Western’s financial obligations and the 2016 capital budget; the Company’s expected sources of funding to support such capital plans and the Company’s ability to adjust capital spending in the remainder of 2016 if market conditions continue to change; the use and availability of the Company’s credit facilities; the Company’s ability to maintain certain covenants under its credit facility; expectations as to the increase in crude oil transportation capacity through rail and pipeline development; expectations as to the necessary approvals for liquefied natural gas projects being obtained; the expectation of continued foreign investment into the Canadian oilfield industry; the expectation that producer spending constraints will continue to be a large challenge facing the Company in 2016; and forward-looking statements under the heading “Critical Accounting Estimates”.

The material assumptions in making the forward-looking statements in this MD&A include, but are not limited to, assumptions relating to, demand levels and pricing for oilfield services; fluctuations in the price and demand for oil and natural gas; the current low levels of, and pressures on, commodity pricing; the continued business relationship between the Company and its significant customers; general economic and financial market conditions; the development of liquefied natural gas projects, crude oil transport and pipeline approval and development; the Company’s ability to finance its operations; the effects of seasonal and weather conditions on operations and facilities; the competitive environment to which the various business segments are, or may be, exposed in all aspects of their business; the ability of the Company’s various business segments to access equipment (including spare parts and new technologies); changes in laws or regulations; currency exchange fluctuations; the ability of the Company to attract and retain skilled labour and qualified management; the ability to retain and attract significant customers; and other unforeseen conditions which could impact the use of services supplied by Western including Western’s ability to respond to such conditions.

Although Western believes that the expectations and assumptions on which such forward-looking statements and information are based on are reasonable, undue reliance should not be placed on the forward-looking statements and information as Western cannot give any assurance that they will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risk that the demand for oilfield services will not improve for the remainder of 2016 and that commodity prices will remain low, and other general industry, economic, market and business conditions. Readers are cautioned that the foregoing list of risks, uncertainties and assumptions are not exhaustive. Additional information on these and other risk factors that could affect Western’s operations and financial results are included in Western’s annual information form which may be accessed through the SEDAR website at www.sedar.com. The forward-looking statements and information contained in this MD&A are made as of the date hereof and Western does not undertake any obligation to update publicly or revise any forward-looking statements and information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Additional data

The Annual Information Form containing additional information relating to the Company is filed on SEDAR at www.sedar.com.

Western Energy Services Corp.

Consolidated Financial Statements

December 31, 2015 and 2014

To the Shareholders of Western Energy Services Corp.:

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of Western Energy Services Corp. ("Western" or the "Company"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Audit Committee is appointed by the Board of Directors, with all of its members being independent directors. The Audit Committee meets with management, as well as with the external auditors, to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the auditor's report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited independently by Deloitte LLP on behalf of the Company in accordance with generally accepted auditing standards. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements.

"Signed"
Alex R.N. MacAusland
President &
Chief Executive Officer

"Signed"
Jeffrey K. Bowers
Senior Vice President, Finance &
Chief Financial Officer

February 25, 2016

Deloitte.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Western Energy Services Corp.

We have audited the accompanying consolidated financial statements of Western Energy Services Corp., which comprise the consolidated balance sheets as at December 31, 2015 and 2014, and the consolidated statements of operations and comprehensive (loss) income, changes in shareholders' equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Western Energy Services Corp. as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Signed
"Deloitte LLP"

Chartered Professional Accountants, Chartered Accountants
February 25, 2016
Calgary, Alberta

Western Energy Services Corp.

Consolidated Balance Sheets
(thousands of Canadian dollars)

	Note	December 31, 2015	December 31, 2014
Assets			
Current assets			
Cash and cash equivalents		$ 58,445	$ 62,662
Trade and other receivables	6	38,438	89,817
Other current assets	7	5,177	6,344
		102,060	158,823
Non current assets			
Property and equipment	8	773,647	827,306
Goodwill	9	-	69,607
Other non current assets	7	901	1,382
		$ 876,608	$ 1,057,118
Liabilities			
Current liabilities			
Trade payables and other current liabilities	10	$ 26,793	$ 73,671
Dividends payable		3,682	5,615
Current portion of provisions	11	145	139
Current portion of long term debt	12	761	1,062
		31,381	80,487
Non current liabilities			
Provisions	11	1,674	1,819
Long term debt	12	264,155	264,165
Deferred taxes	18	107,702	109,444
		404,912	455,915
Shareholders' equity			
Share capital	13	417,622	423,633
Contributed surplus		10,148	6,815
Retained earnings		3,734	153,544
Accumulated other comprehensive income		37,794	15,125
Non controlling interest		2,398	2,086
		471,696	601,203
		$ 876,608	$ 1,057,118

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

Approved on behalf of the Board of Directors:

"Signed"
Ronald P. Mathison
Director, Chairman of the Board

"Signed"
Lorne A. Gartner
Director, Chairman of the Audit Committee

Western Energy Services Corp.

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

	Note	Year ended December 31, 2015	Year ended December 31, 2014
Revenue		$ 227,524	$ 507,832
Operating expenses		179,843	363,603
Gross profit		47,681	144,229
Administrative expenses		30,920	35,057
Finance costs	16	20,441	20,782
Other items	17	(1,709)	(286)
Loss on asset decommissioning	8	26,598	7,247
Impairment of property and equipment	8	41,862	-
Impairment of goodwill	9	71,256	22,668
Income (loss) before income taxes		(141,687)	58,761
Income tax (recovery) expense	18	(12,548)	22,311
Net (loss) income		(129,139)	36,450
Other comprehensive income (1)			
Gain on translation of foreign operations		(12,741)	(6,296)
Unrealized foreign exchange gain on net investment in subsidiary		(9,928)	(3,658)
Comprehensive (loss) income		$ (106,470)	$ 46,404
Net (loss) income attributable to:			
Shareholders of the Company		$ (129,417)	$ 36,199
Non controlling interest		278	251
Comprehensive (loss) income attributable to:			
Shareholders of the Company		$ (106,748)	$ 46,153
Non controlling interest		278	251
Net (loss) income per share:			
Basic		$ (1.74)	$ 0.49
Diluted		(1.74)	0.48
Weighted average number of shares:			
Basic	15	74,238,320	74,396,701
Diluted	15	74,238,320	75,427,149

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

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

Western Energy Services Corp.

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

	Note	Share capital	Contributed surplus (1)	Retained earnings	Accumulated other comprehensive income(2)	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	13	9,460	-	-	-	-	9,460
Issued for cash on exercise of warrants	13	227	-	-	-	-	227
Purchased under normal course issuer bid	13	(127)	-	-	-	-	(127)
Fair value of exercised options and warrants	13	2,930	(2,930)	-	-	-	-
Stock based compensation	14	-	3,657	-	-	-	3,657
Dividends declared		-	-	(22,376)	-	-	(22,376)
Contributions from non controlling interest		-	-	-	-	533	533
Comprehensive income		-	-	36,199	9,954	251	46,404
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	13	154	-	-	-	-	154
Issued on vesting of restricted share units	13	471	(471)	-	-	-	-
Purchased under normal course issuer bid	13	(6,691)	(28)	-	-	-	(6,719)
Fair value of exercised options	13	55	(55)	-	-	-	-
Stock based compensation	14	-	3,887	-	-	-	3,887
Dividends declared		-	-	(20,393)	-	-	(20,393)
Contributions from non controlling interest		-	-	-	-	34	34
Comprehensive income (loss)		-	-	(129,417)	22,669	278	(106,470)
Balance at December 31, 2015		$ 417,622	$ 10,148	$ 3,734	$ 37,794	$ 2,398	$ 471,696

(1) Contributed surplus relates to Company's normal course issuer bid and stock based compensation, described in Note 13 and 14 respectively.

(2) At December 31, 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 consolidated financial statements.

Western Energy Services Corp.

Consolidated Statements of Cash Flows
(thousands of Canadian dollars)

	Note	Year ended December 31, 2015	Year ended December 31, 2014
Operating activities			
Net (loss) income		$ (129,139)	$ 36,450
Adjustments for:			
Depreciation included in operating expenses		37,473	61,991
Depreciation included in administrative expenses		1,994	1,776
Non cash stock based compensation included in operating expenses	14	571	936
Non cash stock based compensation included in administrative expenses	14	3,316	2,721
Loss (gain) on sale of assets		(153)	9
Loss on asset decommissioning	8	26,598	7,247
Impairment of property and equipment	8	41,862	-
Impairment of goodwill	9	71,256	22,668
Income taxes	18	(12,548)	22,311
Finance costs	16	20,441	20,782
Other		161	35
Cash generated from operating activities		61,832	176,926
Income taxes paid		(8,404)	(754)
Change in non cash working capital		37,527	5,179
Cash flow from operating activities		90,955	181,351
Investing activities			
Additions to property and equipment	8	(33,562)	(108,604)
Proceeds on sale of property and equipment		946	2,033
Changes in non cash working capital		(12,891)	2,738
Cash flow used in investing activities		(45,507)	(103,833)
Financing activities			
Issue of common shares	13	154	9,687
Shares purchased under normal course issuer bid	13	(6,719)	(127)
Repayment of long term debt		(1,056)	(1,013)
Finance costs paid		(19,752)	(19,059)
Dividends paid		(22,326)	(22,266)
Contributions from non controlling interest		34	533
Cash flow used in financing activities		(49,665)	(32,245)
Increase (decrease) in cash and cash equivalents		(4,217)	45,273
Cash and cash equivalents, beginning of year		62,662	17,389
Cash and cash equivalents, end of year		$ 58,445	$ 62,662
Cash and cash equivalents:			
Bank accounts		$ 12,913	$ 15,662
Short term investments		45,532	47,000
		$ 58,445	$ 62,662

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

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 consolidated financial statements as at and for the years ended December 31, 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. On December 28, 2015, Western wound up its partnership, Western Energy Services Partnership (the “Partnership”) and rolled all of the Partnership’s assets into IROC Drilling and Production Services Corp., which changed its name to Western Production Services Corp. (“Western Production Services”). As a result, Western now provides well servicing operations in Canada through Western Production Services’ division, Eagle Well Servicing (“Eagle”) and oilfield rental equipment services in Canada through Western Production Services’ 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:

(a) Statement of compliance:

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

Preparation of these Financial Statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity and areas where assumptions and estimates are significant to these Financial Statements are disclosed in Note 4.

These Financial Statements were approved for issuance by Western’s Board of Directors on February 25, 2016.

(b) Basis of measurement:

The consolidated financial statements have been prepared using the historical cost basis except as detailed in the Company’s accounting policies in Note 3.

(c) Functional and presentation currency:

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

3. Significant accounting policies:

The significant accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, unless otherwise indicated.

(a) Basis of consolidation:

These Financial Statements include the accounts of Western and its subsidiaries, which are entities over which Western has control. Control exists when Western has the power, directly or indirectly, to direct the relevant activities of an entity so as to obtain benefit from its activities. The financial results of Western’s subsidiaries are included in the Financial Statements from the date that control commences until the date that control ceases. The accounting policies of Western’s subsidiaries have been aligned with the policies adopted by Western. When Western ceases to control a subsidiary, the financial statements of that subsidiary are de-consolidated.

Inter-company balances and transactions, and any income and expenses arising from inter-company transactions, have been eliminated in these Financial Statements.

A portion of the Company’s operations are conducted through arrangements where the Company and a third party each have a 50% interest. Based on the criteria outlined in IFRS 10, Consolidated Financial Statements, the Company determined that, for financial reporting purposes, the Company has control of these arrangements. As a result, the Company fully consolidates the arrangements and has recorded a non controlling interest in equity and net income.

3. Significant accounting policies (continued):

(b) Foreign currency transactions and operations:

The Canadian dollar is Western's functional and presentation currency. Each of the Company's subsidiaries functional currency is determined individually and items included in the financial statements of each subsidiary are measured using that functional currency. Transactions in foreign currencies are translated to the respective functional currencies of Western and its subsidiaries at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate in effect on the balance sheet date with any resulting foreign exchange gain or loss recognized in net income. Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rate in effect on the date of the transaction. Foreign currency gains and losses on transactions are reported on a net basis and recognized in other items within net income.

The Company's current foreign operations are conducted through Stoneham, which has US dollar functional currency. For the purposes of presenting the Financial Statements, the assets and liabilities of this foreign operation are translated to Canadian dollars using exchange rates in effect on the balance sheet date. Income and expenses are translated at the average exchange rate for the period. Exchange differences arising from this translation are recognized in other comprehensive income.

(c) Business combinations:

The Company uses the acquisition method to account for business combinations. The Company measures goodwill as the fair value of the consideration transferred, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a gain on acquisition is recognized immediately in net income.

Goodwill is allocated as of the date of the business combination to the Company's reporting segments that are expected to benefit from the business combination and represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which can be no higher than the operating segment level. Goodwill is not amortized and is tested for impairment annually. Additionally, goodwill is reviewed at each reporting date to determine if events or changes in circumstances indicate that the asset might be impaired, in which case an impairment test is performed. Goodwill is measured at cost less accumulated impairment losses.

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

(d) Financial instruments:

Recognition and measurement:

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 a "financial asset or financial liability at fair value through profit or loss", "available-for-sale financial assets", "held-to-maturity investments", "loans and receivables", or "other financial liabilities".

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 on 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.

The Company has the following non-derivative financial assets:

(i) Financial assets at fair value through profit or loss:

Cash and cash equivalents are held for trading within the fair value through profit or loss category. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income.

3. Significant accounting policies (continued):

(d) Financial instruments (continued):

(ii) Loans and receivables:

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

(iii) Available for sale:

From time to time, the Company may have certain equity investments in publicly traded entities. Investments that have a quoted price in an active market are measured at fair value with changes in fair value recognized in other comprehensive income. When the investment is ultimately sold, any gains or losses are recognized in net income and any unrealized gains or losses previously recognized in other comprehensive income are reversed.

The Company has the following non-derivative financial liabilities:

(i) Other financial liabilities:

Trade and other payables, finance lease obligations, senior unsecured notes (the "Senior Notes") and credit facilities are classified as "other financial liabilities". Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Other financial liabilities, including the Senior Notes, 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.

(ii) Equity instruments:

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

(e) Cash and cash equivalents:
Cash and cash equivalents are comprised of cash balances and short term investments with original maturities of three months or less.

(f) Investments:
Investments, if any, are classified as available for sale financial assets with changes in fair value recognized in other comprehensive income. When the investments are ultimately sold, any gains or losses are reversed and recognized through net income.

(g) Embedded derivatives:
Derivatives embedded in other instruments or host contracts are separated from the host contract and accounted for separately when their economic characteristics and risks are not closely related to the host contract. Embedded derivatives are recorded on the balance sheet at their estimated fair value and changes in the fair value are recorded through net income. The asset is recognized in other assets on the balance sheet while changes in the value of the embedded derivatives are included in other items within net income.

The only embedded derivative the Company has as at December 31, 2015 and 2014 relates to the early redemption option on the Senior Notes.

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

3. Significant accounting policies (continued):

(h) Property and equipment:

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

Cost includes expenditures that are directly attributable to the acquisition of the asset and bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The cost of self-constructed assets includes the cost of materials and direct labour as well as any other costs directly attributable to bringing the assets to a working condition for their intended use.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are included in the cost of those assets, until such time as the assets are substantially available for their intended use. All other borrowing costs are recognized in net income in the period incurred.

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. Costs associated with certifications and overhauls of drilling and well servicing rigs are capitalized and depreciated over the anticipated period between certifications, while the carrying amount of a replaced part, previous certification or overhaul is derecognized. The costs of day-to-day servicing of property and equipment (i.e. repairs and maintenance) are recognized in net income as incurred.

Depreciation is calculated based on the cost of the asset, less its estimated residual value. Depreciation is recognized in net income either on a unit of production or straight-line basis over the estimated useful lives of each class of asset. Leased assets are depreciated over the shorter of the lease term and their estimated useful lives unless it is reasonably certain that the Company will obtain ownership at the end of the lease term, in which case, the estimated useful life of the asset is used. Land is not depreciated.

The estimated useful lives of each class of asset for the current and comparative periods are as follows:

	Expected Life	Residual values	Depreciation method
Buildings	25 years	-	Straight-line
Drilling rigs and related equipment:			
Drilling rigs	1,600 to 5,000 operating days	10-20%	Unit-of-production
Drill pipe	1,000 to 1,700 operating days	10%	Unit-of-production
Major inspections and overhauls	1,000 operating days	-	Unit-of-production
Well servicing rigs and related equipment	22,000 to 44,000 service hours	10-20%	Unit-of-production
Ancillary drilling and well servicing equipment	5 to 15 years	-	Straight-line
Rental equipment	1 to 30 years	-	Straight-line
Shop and office equipment	1 to 10 years	-	Straight-line
Vehicles	3 years	20%	Straight-line

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted if appropriate.

An item of property and equipment is derecognized when it is either disposed of or when it is determined that no further economic benefit is expected from the item’s future use or disposal and as such is decommissioned. Losses realized on decommissioned assets are recognized in net income upon derecognition. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal, less associated costs of disposal, with the carrying amount of property and equipment, and are recognized in other items within net income.

3. Significant accounting policies (continued):

(i) Inventory:
Inventory is primarily comprised of operating supplies and is measured at the lower of cost and net realizable value. Inventory is charged to operating expenses as items are consumed at the amount of the average cost of the item. Write downs of inventory are reversed if there has been a change in the estimates used to determine the recoverable amount and the decrease in impairment write down can be objectively related to an event occurring after the impairment was recognized.

(j) Impairment:

(i) Financial assets:
Financial assets are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates a loss event has occurred after the initial recognition of the asset, and the loss event had a negative effect on the estimated future cash flows of the asset that can be estimated reliably.

(ii) Non-financial assets:
The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is an indication of impairment. If an indication exists, then the asset's carrying amount is assessed for impairment. For goodwill the recoverable amount is estimated each year at the same time, unless there is an indication of impairment.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the business combination.

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of assets other than goodwill, impairment losses recognized in prior periods are assessed at each reporting date for indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and the decrease in impairment loss can be objectively related to an event occurring after the impairment was recognized. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Such reversal is recognized in net income.

(k) Employee benefits:

(i) Short-term employee benefits:
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3. Significant accounting policies (continued):

(k) Employee benefits (continued):

(ii) Stock based compensation awards:

Stock based compensation expense relates to stock options as well as cash and equity settled restricted share units ("RSUs"). The grant date fair values of stock option and equity settled RSUs granted to employees are recognized as an employee expense, with a corresponding increase in equity, over the vesting period. The amount recognized as an expense is based on the estimate of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. Upon exercise of stock options, the consideration paid by the employee is included in share capital and the related contributed surplus associated with the stock options exercised is reclassed into share capital. Upon vesting of equity settled RSUs, the related contributed surplus associated with the RSU is reclassified into share capital.

For cash settled RSUs, the fair value of the RSUs is recognized as stock based compensation expense, with a corresponding increase in accrued liabilities over the vesting period. The amount recognized as an expense is based on the estimate of the number of RSUs expected to vest. Cash settled RSUs are measured at their fair value at each reporting period on a mark-to-market basis. Upon vesting of the cash settled RSUs, the liability is reduced by the cash payout.

(l) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost within net income. Also, a provision is recognized if an inducement or incentive is associated with a lease, such as a free rent period on an office lease or cash payments received for leasehold improvements. Lease inducements received are recognized as a reduction to the total lease expense, over the term of the lease.

(m) Revenue:

The Company's services are sold based upon purchase orders or contracts with customers that include fixed or determinable prices based upon daily or hourly rates and recoverable costs. Revenue is recognized when there is persuasive evidence that an arrangement exists, the service has been provided, the rate is fixed or determinable, and collection of the amounts billed to the customer is reasonably assured. The Company considers persuasive evidence to exist when a formal contract is signed or customer acceptance is obtained. Contract terms do not include a provision for significant post-service delivery obligations. Revenue from contracts of long or medium terms are recorded using the percentage-of-completion method, as services are provided, and collection is reasonably assured.

(n) Leased assets and payments:

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. Leases which result in the Company assuming substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition of a finance lease, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments under the lease agreement. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between finance expense and the reduction of the outstanding liability. Finance expense is allocated to each period during the lease term using the effective interest rate method.

All other leases that are determined not to be finance leases are considered operating leases. Payments made under operating leases are recognized in net income on a straight-line basis over the term of the lease.

3. Significant accounting policies (continued):

(o) Finance income and finance costs:

Finance income comprises interest income on cash and cash equivalent balances. Interest income is recognized as it accrues in net income.

Finance costs comprise interest expense on borrowings, costs associated with securing debt instruments, and unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition or construction of a qualifying asset are recognized in net income when incurred.

(p) Income tax:

Income tax expense is comprised of current and deferred income taxes. Income tax is recognized in net income and other comprehensive income except to the extent that it relates to items recognized in equity on the consolidated balance sheet.

Current income tax is calculated using tax rates which are enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions on the basis of amounts expected to be paid to taxation authorities.

Deferred income taxes are recognized, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the respective entity's financial statements.

Deferred income taxes are determined using tax rates which are enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities are recognized for all taxable temporary differences, except for temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible balances can be utilized. All deferred tax assets are analyzed at each reporting period and reduced to the extent that it is no longer probable that the asset will be recovered.

(q) Earnings per share:

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the Company's net income or loss by the weighted average number of common shares outstanding during the reporting period. Diluted EPS is determined by adjusting the Company's net income or loss and the weighted average number of common shares outstanding for the effects of all potentially dilutive common shares, which comprise equity settled RSUs and in-the-money stock options and warrants granted. Diluted EPS is calculated using the treasury stock method where the deemed proceeds from the exercise of stock options or warrants and the associated unrecognized stock based compensation expense are considered to be used to reacquire common shares at the average share price for the reporting period. The average market value of Western's shares for purposes of calculating the dilutive effect of stock options is based on quoted market prices for the period during which the options were outstanding in the reporting period.

(r) Segment reporting:

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' results are reviewed regularly by the Company's President & Chief Executive Officer and Senior Vice President, Finance & Chief Financial Officer ("Senior Management"), to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to Senior Management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Company's operating segments are defined in Note 5.

3. Significant accounting policies (continued):

(s) Standards adopted in the year:

The Company did not adopt any new or revised accounting standards for the year ended December 31, 2015. In 2015, the Company reclassified the 2014 impairment of property and equipment to loss on asset decommissioning to conform to the current year's presentation.

(t) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2015, and have not been applied in preparing these Financial Statements. The following new standards have not been adopted which may impact the Company in the future:

- IFRS 15, Revenue from Contracts with Customers, was issued in May 2014 and replaces the previous guidance on revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The standard provides a single, principles based five step model to be applied to all contracts with customers. The Company is currently evaluating the impact of the adoption of this new standard on its financial statements.

- IFRS 9, Financial Instruments, was amended in July 2014 with respect to its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted and shall be applied retrospectively. The Company is currently evaluating the impact of the adoption of this new standard on its financial statements.

- 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, with early adoption permitted if the Company is also applying IFRS 15, Revenue from Contracts with Customers. The Company is currently evaluating the impact of the adoption of this new standard on its financial statements.

4. Critical accounting estimates and judgements:

The preparation of the Financial Statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies (described in Note 3) and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

A number of the Company's accounting policies and disclosures require key assumptions concerning the future and other estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities or disclosures within the next fiscal year. Where applicable, further information about the assumptions made is disclosed in the notes specific to that asset or liability. The critical accounting estimates and judgments set out below have been applied consistently to all periods presented in these Financial Statements.

(a) Impairment:

An evaluation of whether or not an asset is impaired involves consideration of whether indicators of impairment exist. Factors which could indicate impairment exists include: significant underperformance of an asset relative to historical or projected operating results, significant changes in the manner in which an asset is used or in the Company's overall business strategy, the carrying amount of the net assets of the entity being more than its market capitalization or significant negative industry or economic trends. In some cases, these events are clear. However, in many cases, a clearly identifiable event indicating possible impairment does not occur. Instead, a series of individually insignificant events occur over a period of time leading to an indication that an asset may be impaired. Events can occur in these situations that may not be known until a date subsequent to their occurrence. Management continually monitors the Company's operating segments, the markets, and the business environment, and makes judgments and assessments about conditions and events in order to conclude whether a possible impairment exists.

4. Critical accounting estimates and judgements (continued):

(a) Impairment (continued):

When there is an indicator of impairment and at a minimum annually in the case of goodwill, the recoverable amount of the asset is estimated to determine the amount of impairment, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The determination of CGUs is based on management judgement.

The recoverable amount for property and equipment is the higher of fair value less costs to sell and value in use, whereas for goodwill the recoverable amount is based on the value in use calculation. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Arriving at the estimated future cash flows involves significant judgments, estimates and assumptions, including those associated with the future cash flows of the CGU, determination of the CGU, discount rates and asset useful lives.

(b) Property and equipment:

Property and equipment are depreciated over their estimated useful lives while factoring in an asset's estimated residual value as determined by management. All estimates of useful lives and residual values are set out in Note 3 (h). Assessing the reasonableness of the estimated useful life, residual value and the appropriate depreciation methodology requires judgment and is based on management's experience and knowledge of the industry. Additionally, when determining to decommission an asset, future utilization and economic conditions are considered based on management's experience and knowledge of the industry and requires management's judgement.

(c) Income taxes:

Preparation of the Financial Statements involves determining an estimate of, or provision for, income taxes in each of the jurisdictions in which the Company operates. The process also involves making an estimate of taxes currently payable and taxes expected to be payable or recoverable in future periods, referred to as deferred taxes. Deferred taxes result from the effects of temporary differences due to items that are treated differently for tax and accounting purposes. The tax effects of these differences are reflected in the consolidated balance sheet as deferred tax assets and liabilities.

An assessment must also be made to determine the likelihood that the Company's future taxable income will be sufficient to permit the recovery of deferred income tax assets. To the extent that such recovery is not probable, recognized deferred tax assets must be reduced. Judgment is required in determining the provision for income taxes and recognition of deferred tax assets and liabilities. Management must also exercise judgment in its assessment of continually changing tax interpretations, regulations and legislation, to ensure deferred tax assets and liabilities are complete and fairly presented. The effects of differing assessments and applications could be material.

(d) Stock based compensation:

The fair value of employee stock options and equity settled RSUs are measured using a Black Scholes option pricing model. Measurement inputs include the share price on the grant date, the exercise price of the instrument, the expected volatility, the weighted average expected life of the instruments, the expected dividends and the risk-free interest rate. Service and non-market performance conditions are not taken into account in determining fair value.

The stock based compensation recognized is also determined based on management's grant date estimate of the forfeitures that are expected to occur over the life of the stock options and equity settled RSUs. Cash settled RSUs outstanding are fair valued using a mark-to-market calculation based on the Company's closing share price at the end of the period. The number of stock options and RSUs that actually vest could differ from the estimated number of awards expected to vest and any differences between the actual and estimated forfeitures are recognized prospectively as they occur.

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

4. Critical accounting estimates and judgements (continued):

(e) Non-derivative financial liabilities:

As detailed in Note 3 (d), the Company records its financial instruments at fair value on inception with changes in fair value recorded when required by the Company's classification of such instruments.

Calculation of the fair value of the Company's financial instruments is complex and requires judgment around the selection of market inputs and is based on many variables including but not limited to credit spreads and interest rate spreads which are factors outside management's control.

The fair value of non-derivative financial liabilities for disclosure purposes is calculated based on the present value of future principal and interest payments, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

5. 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 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 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.

The following is a summary of the Company's results by segment for the years ended December 31, 2015 and 2014:

Year ended December 31, 2015	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 157,879	$ 69,962	$ -	$ (317)	$ 227,524
Operating earnings (loss)	23,675	2,950	(5,547)	-	21,078
Finance costs	-	-	20,441	-	20,441
Loss on asset decommissioning	26,482	116	-	-	26,598
Impairment of property and equipment	18,997	22,865	-	-	41,862
Depreciation	26,704	11,548	1,215	-	39,467
Additions to property and equipment (1)	26,393	7,233	139	-	33,765

Year ended December 31, 2014	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 376,607	$ 132,614	$ -	$ (1,389)	$ 507,832
Operating earnings (loss)	96,278	23,275	(6,543)	-	113,010
Finance costs	-	-	20,782	-	20,782
Loss on asset decommissioning	6,956	291	-	-	7,247
Depreciation	46,950	15,704	1,113	-	63,767
Additions to property and equipment (1)	95,781	12,363	309	-	108,453

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

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

5. Operating segments (continued):

The following is a summary of the Company's goodwill by segment:

Goodwill	Contract Drilling	Production Services	Total
Balance at December 31, 2013	$ 55,527	$ 33,183	$ 88,710
Adjustments: IROC acquisition (1)	-	1,714	1,714
Foreign exchange adjustment	1,851	-	1,851
Impairment of goodwill	-	(22,668)	(22,668)
Balance at December 31, 2014	57,378	12,229	69,607
Foreign exchange adjustment	1,649	-	1,649
Impairment of goodwill	(59,027)	(12,229)	(71,256)
Balance at December 31, 2015	$ -	$ -	$ -

(1) On April 22, 2013, Western acquired IROC Energy Services Corp. ("IROC").

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

As at December 31, 2015	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 654,285	$ 158,432	$ 63,891	$ 876,608
Total liabilities	104,260	32,423	268,229	404,912

As at December 31, 2014	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 777,678	$ 211,328	$ 68,112	$ 1,057,118
Total liabilities	137,490	42,894	275,531	455,915

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

Year ended December 31, 2015	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ 23,675	$ 2,950	$ (5,547)	$ 21,078
Add (deduct):				
Stock based compensation	(803)	(790)	(2,724)	(4,317)
Finance costs	-	-	(20,441)	(20,441)
Other items	-	-	1,709	1,709
Loss on asset decommissioning	(26,482)	(116)	-	(26,598)
Impairment of property and equipment	(18,997)	(22,865)	-	(41,862)
Impairment of goodwill	(59,027)	(12,229)	-	(71,256)
Loss before income taxes	$ (81,634)	$ (33,050)	$ (27,003)	$ (141,687)

Year ended December 31, 2014	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ 96,278	$ 23,275	$ (6,543)	$ 113,010
Deduct:				
Stock based compensation	(949)	(822)	(2,067)	(3,838)
Finance costs	-	-	(20,782)	(20,782)
Other items	-	-	286	286
Loss on asset decommissioning	(6,956)	(291)	-	(7,247)
Impairment of goodwill	-	(22,668)	-	(22,668)
Income (loss) before income taxes	$ 88,373	$ (506)	$ (29,106)	$ 58,761

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

5. Operating segments (continued):

Segmented information by geographic area is as follows:

As at and for the year ended December 31, 2015	Canada	United States	Total
Revenue	$ 199,265	$ 28,259	$ 227,524
Property and equipment	644,510	129,138	773,648
Total assets	742,824	133,784	876,608

As at and for the year ended December 31, 2014	Canada	United States	Total
Revenue	$ 457,536	$ 50,296	$ 507,832
Property and equipment	714,257	113,049	827,306
Total assets	921,907	135,211	1,057,118

Significant Customers:

For the years ended December 31, 2015 and 2014, the Company had one significant customer comprising 10.7% and 13.1% respectively, of the Company's total revenue. The trade receivable balance relating to this customer as at December 31, 2015 represented 2.8% of the Company's total trade and other receivables. This customer is a publicly traded company with a market capitalization in excess of $30 billion at December 31, 2015.

6. Trade and other receivables:

The Company's trade and other receivables as at December 31, 2015 and 2014 are as follows:

	December 31, 2015	December 31, 2014
Trade receivables	$ 24,609	$ 77,524
Income tax receivable	10,350	-
Accrued trade receivables	3,295	11,676
Other receivables	1,273	633
Allowance for doubtful accounts	(1,089)	(16)
Total	$ 38,438	$ 89,817

The Company's exposure to credit risk related to trade and other receivables is disclosed in Note 20.

7. Other Assets:

The Company's other assets as at December 31, 2015 and 2014 are as follows:

	December 31, 2015	December 31, 2014
Current:		
Prepaid expenses	$ 1,432	$ 2,944
Inventory	3,058	2,611
Deposits	506	608
Deferred charges and other	181	181
Total current portion of other assets	5,177	6,344
Non current:		
Deferred charges and other	901	1,382
Total non current portion of other assets	901	1,382
Total other assets	$ 6,078	$ 7,726

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

8. Property and Equipment:

The following table summarizes the Company's property and equipment as at December 31, 2015 and 2014:

	Land	Buildings	Contract drilling equipment	Production services equipment	Office and shop equipment	Vehicles under finance leases	Total
Cost:							
Balance at December 31, 2013	$ 5,089	$ 3,789	$ 683,992	$ 187,681	$ 11,819	$ 2,459	$ 894,829
Acquisition: business combination	-	-	-	(2,453)	-	-	(2,453)
Additions	-	259	94,290	13,381	674	-	108,604
Finance lease additions	-	-	-	-	-	1,920	1,920
Loss on asset decommissioning	-	-	(7,726)	(360)	-	-	(8,086)
Disposals	-	-	(1,221)	(1,685)	-	(557)	(3,463)
Foreign exchange adjustment	-	-	10,586	-	47	18	10,651
Balance at December 31, 2014	$ 5,089	$ 4,048	$ 779,921	$ 196,564	$ 12,540	$ 3,840	$ 1,002,002
Additions	-	157	26,224	6,918	263	-	33,562
Finance lease additions	-	-	-	-	-	203	203
Loss on asset decommissioning	-	-	(40,020)	(198)	-	-	(40,218)
Impairment on property and equipment	-	-	(18,997)	(22,865)	-	-	(41,862)
Disposals	-	-	(1,438)	(1,066)	(308)	(483)	(3,295)
Foreign exchange adjustment	-	-	25,994	-	109	71	26,174
Balance at December 31, 2015	$ 5,089	$ 4,205	$ 771,684	$ 179,353	$ 12,604	$ 3,631	$ 976,566
Accumulated depreciation:							
Balance at December 31, 2013	$ -	$ 463	$ 97,396	$ 9,688	$ 3,291	$ 766	$ 111,604
Depreciation for the year	-	174	46,147	14,808	1,945	693	63,767
Loss on asset decommissioning	-	-	(771)	(68)	-	-	(839)
Disposals	-	-	(517)	(510)	-	(394)	(1,421)
Foreign exchange adjustment	-	-	1,552	-	25	8	1,585
Balance at December 31, 2014	$ -	$ 637	$ 143,807	$ 23,918	$ 5,261	$ 1,073	$ 174,696
Depreciation for the period	-	189	25,930	10,632	1,929	787	39,467
Loss on asset decommissioning			(13,538)	(82)	-	-	(13,620)
Disposals	-	-	(1,174)	(665)	(273)	(390)	(2,502)
Foreign exchange adjustment	-	-	4,771	-	75	32	4,878
Balance at December 31, 2015	$ -	$ 826	$ 159,796	$ 33,803	$ 6,992	$ 1,502	$ 202,919
Carrying amounts:							
At December 31, 2014	$ 5,089	$ 3,411	$ 636,114	$ 172,646	$ 7,279	$ 2,767	$ 827,306
At December 31, 2015	$ 5,089	$ 3,379	$ 611,888	$ 145,550	$ 5,612	$ 2,129	$ 773,647

Assets under construction:

Included in property and equipment at December 31, 2015 are assets under construction of $1.4 million (December 31, 2014: $36.8 million) which includes ancillary drilling and well servicing equipment.

As at December 31, 2015, the Company identified impairment indicators related to the prolonged commodity price downturn and as such performed an impairment analysis on each of its CGUs. These CGUs are based on contract drilling rigs, well servicing rigs and oilfield rental equipment within the Company's contract drilling and production services segments.

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

8. Property and Equipment (continued):

As at December 31, 2015, the recoverable amounts allocated to these CGUs were determined based on a value in use calculation which uses cash flow projections based on historical results and incorporates the Company's most recent 2016 forecast. The value in use calculation was used rather than current fair value less costs to sell estimates, due to limited fair value estimates being available. For the purposes of completing the impairment analysis on the contract drilling CGU, assumptions were made relating to average contract drilling utilization. These rates range from 25% to 60% per year. For the purposes of completing the impairment analysis on the well servicing CGU, assumptions were made relating to average well servicing utilization. These rates range from 20% to 60% per year. Management has reflected that the current downturn in the oilfield service industry will continue through 2016 and 2017. Cash flow projections for 2018 to 2020 have assumed a gradual recovery to historical activity levels. Cash flow projections thereafter for the remaining economic life based on an average life ranging from 10 years to 19 years have been extrapolated based on a 2% per annum growth rate. Salvage values have been based on management's best estimate based on historical experience and range between 0% and 20%.

The forecasted cash flows are based on management's best estimates of future pricing, asset utilization, rates for available equipment, costs to maintain that equipment and a pre-tax discount rate of 17% (December 31, 2014: 14%) per annum.

The results of the tests indicated an impairment of property and equipment at December 31, 2015 of $41.9 million (December 31, 2014: nil), with $19.0 million and $22.9 million related to the contract drilling and well servicing CGUs respectively. The property and equipment impairment losses are due to the declining commodity price environment, which has resulted in reductions to the capital spending plans for Western's customers, and has resulted in a reduced outlook for oilfield service activity. Based on the value in use calculation, the recoverable amount of the contract drilling, well servicing and oilfield rental equipment CGUs is $617.9 million, $114.3 million and $37.4 million respectively, as at December 31, 2015. Additionally, at December 31, 2015, the Company evaluated its property and equipment and decommissioned $26.6 million (December 31, 2014: $7.2 million) of equipment for which it was determined that no further economic benefit would be realized.

The most sensitive inputs to the model are the discount rate and the growth rate. The impairment test's sensitivity to these inputs is as follows: All else being equal, a 0.5% increase in the discount rate would have led to additional impairment losses of $20.1 million. All else being equal, a 5% decrease in cash flows would have led to additional impairment losses of $41.8 million. All else being equal, a 0.5% decrease in the discount rate would have led to a decrease in the impairment losses of $21.0 million. All else being equal, a 5% increase in cash flows would have led to a decrease in the impairment losses of $25.8 million. There was no impairment in the oilfield rental equipment CGU and no impact from the above sensitivities.

9. Goodwill:

The following table summarizes the Company's goodwill as at December 31, 2015 and 2014:

		Goodwill
Balance at December 31, 2013	$	88,710
Adjustments: IROC acquisition		1,714
Foreign exchange adjustment		1,851
Impairment loss		(22,668)
Balance at December 31, 2014	$	69,607
Foreign exchange adjustment		1,649
Impairment of goodwill		(71,256)
Balance at December 31, 2015	$	-

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

9. Goodwill (continued):

The determination of 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:

	December 31, 2015	December 31, 2014
CGU:		
Contract drilling	$ -	$ 57,378
Well servicing	-	-
Oilfield rental equipment	-	12,229
Total goodwill allocated	$ -	$ 69,607

As at September 30, 2015, the Company identified impairment indicators related to the prolonged commodity price downturn and as such performed an impairment analysis. For impairment testing purposes, goodwill was allocated to the Company's CGUs that were expected to benefit from the synergies of the business combinations which resulted in the initial recognition of the goodwill. These CGUs are based on contract drilling rigs, well servicing rigs and oilfield rental equipment within the Company's contract drilling and production services segments.

As at September 30, 2015, the recoverable amounts of goodwill allocated to these CGUs were determined based on a value in use calculation which uses cash flow projections based on historical results and incorporates the Company's most recent 2015 and 2016 internal forecasts. For the purposes of completing the impairment analysis on the contract drilling CGU, assumptions were made relating to average contract drilling utilization. These rates range from 30% to 60% per year. Management reflected that the current downturn in the oilfield service industry will continue through 2016. Cash flow projections for 2017 to 2020 assumed a gradual recovery to historical activity levels. Cash flow projections thereafter were extrapolated based on a 2% per annum growth rate. The forecasted cash flows were based on management's best estimates of future pricing, asset utilization, rates for available equipment, costs to maintain that equipment and a pre-tax discount rate of 14% (December 31, 2014: 14%) per annum.

The results of the tests indicated a goodwill impairment at September 30, 2015 of $71.3 million, with $59.1 million related to the contract drilling CGU and $12.2 million related to the oilfield rental equipment CGU. This impairment represented the total amount of goodwill allocated to each CGU. The goodwill impairment was due to the declining commodity price environment, which has resulted in reductions to the capital spending plans for Western's customers, and has resulted in a reduced outlook for oilfield service activity. The recoverable amount of the contract drilling and oilfield equipment rental CGUs was $664.0 million and $32.6 million respectively, as at September 30, 2015. Please refer to Note 8 for the updated impairment analysis as at December 31, 2015.

As at December 31, 2014, the company identified impairment indicators related to the commodity price downturn and as such performed an impairment analysis. As at December 31, 2014, the recoverable amounts of these cash-generating units was determined based on a value in use calculation which used cash flow projections based on a five year forecast which incorporated the Company's 2015 budget approved by the Board of Directors. For the purposes of completing the impairment analysis on the contract drilling CGU, assumptions were made related to average contract drilling utilization. These rates ranged from 50% to 60% per year. For the purposes of completing the impairment analysis on the well servicing CGU, assumptions were made related to average well servicing utilization. These rates ranged from 45% to 55% per year. For all CGU's, based on management's best estimates at December 31, 2014, the cash flows beyond 2015 were extrapolated using a 2% per annum growth rate. The forecasted cash flows were based on management's best estimates of future pricing, asset utilization, rates for available equipment, costs to maintain that equipment and a pre-tax discount rate of 14% per annum.

As at December 31, 2014, the results of the tests indicated a goodwill impairment of $22.7 million on the well servicing CGU, which represented the total amount of goodwill related to the well servicing division. The goodwill impairment was due to the declining commodity price environment and outlook for oilfield services activity and pricing, which resulted in reductions to the capital spending plans for the majority of Western's customers. Based on the value in use calculation, the recoverable amount of the well servicing CGU was $139.7 million as at December 31, 2014.

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

10. Trade payable and other current liabilities:

Trade payables and current liabilities as at December 31, 2015 and 2014 are as follows:

	December 31, 2015	December 31, 2014
Trade payables	$ 7,340	$ 23,252
Accrued trade payables and expenses	19,453	50,419
Total	$ 26,793	$ 73,671

The Company's exposure to foreign exchange and liquidity risk related to trade payables and other current liabilities is disclosed in Note 20.

11. Provisions:

At December 31, 2015, the Company has recognized a provision for the deferral of an office lease inducement received, which is amortized on a straight-line basis over the life of the contract. The following table summarizes the lease inducement as at December 31, 2015 and 2014:

	Lease inducements
Balance at December 31, 2013	$ 2,096
Provisions used during the year	(138)
Balance at December 31, 2014	1,958
Provisions used during the year	(139)
Balance at December 31, 2015	$ 1,819

The following table summarizes the balance sheet classification of the Company's provisions as at December 31, 2015 and 2014:

	December 31, 2015	December 31, 2014
Current	$ 145	$ 139
Non current	1,674	1,819
	$ 1,819	$ 1,958

12. Long term debt:

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

	December 31, 2015	December 31, 2014
Current:		
Other long term debt – current portion (1)	$ 761	$ 1,062
Total current portion of long term debt	761	1,062
Non current:		
Senior Notes	265,000	265,000
Less: net unamortized premium and issue costs on Senior Notes	(1,607)	(2,122)
Other long term debt – non current portion (1)	762	1,287
Total non current portion of long term debt	264,155	264,165
Total long term debt	$ 264,916	$ 265,227

(1) At December 31, 2015, other long term debt consists of finance lease obligations.

Credit facilities:

Western's credit facilities consist of a $175.0 million revolving credit facility (the "Revolving Facility"), with a maturity date of December 17, 2018 and a $20.0 million operating demand revolving loan (the "Operating Facility"). 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.

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

12. Long term debt (continued):

Amounts borrowed under the Operating Facility and Revolving Facility 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 December 31, 2015, the Company had $175.0 million in available credit under the Revolving Facility and $20.0 million under the Operating Facility.

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

	Covenant	December 31, 2015
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio (1)(2)(3)	2.5:1.0 or less	0.0:1
Maximum Consolidated Debt to Consolidated Capitalization Ratio (4)(5)	0.6:1.0 or less	0.3:1
Minimum Consolidated EBITDA to Consolidated Interest Expense Ratio (3)(6)	2.0:1.0 or more	2.8:1

(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 indebtedness under the Revolving Facility, Operating Facility and finance leases; reduced by cash on hand in excess of $20 million.

(3) 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.

(4) Consolidated Debt in the credit facilities is defined as Consolidated Senior Debt plus outstanding principal on unsecured debt, including the Senior Notes.

(5) 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.

(6) Consolidated Interest Expense in the credit facilities is defined as all interest accrued or payable on outstanding debt, including capitalized interest and imputed interest with respect to finance lease obligations and is presented in the financial statements under finance costs (Note 16).

As at December 31, 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 7⅞% 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 December 31, 2015, the fair value of the Senior Notes was approximately $245.5 million (December 31, 2014: $250.4 million).

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

13. 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
Issued on vesting of restricted share units	50,764		471
Shares purchased under normal course issuer bid	(1,297,300)		(6,691)
Fair value of exercised stock options	-		55
Balance at December 31, 2015	73,646,292	$	417,622

During the year ended December 31, 2015, the Company declared dividends of $20.4 million (December 31, 2014: $22.4 million). The Company had dividends payable of $3.7 million as at December 31, 2015 (December 31, 2014: $5.6 million).

On December 15, 2014, Western initiated a normal course issuer bid (the "NCIB"). Pursuant to the NCIB, Western could purchase for cancellation up to 5,550,000 common shares of the Company. On December 16, 2015, Western renewed its NCIB, which has been filed with and accepted by the TSX. Pursuant to the NCIB, Western may purchase for cancellation up to 4,550,000 common shares of the Company. The NCIB commenced on December 18, 2015 and will terminate on the earlier of: (i) December 17, 2016; and (ii) the date on which the maximum number of Common Shares are purchased pursuant to the NCIB.

For the year ended December 31, 2015, 1,297,300 common shares (December 31, 2014: 23,400 common shares) for a total cost of $6.7 million (December 31, 2014: $0.1 million) were repurchased, cancelled, and charged to share capital or contributed surplus under the NCIBs.

14. 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	2,509,831		5.10
Exercised	(26,800)		5.75
Forfeited	(1,307,994)		7.91
Expired	(210,103)		5.74
Balance at December 31, 2015	6,058,906	$	7.10

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

14. Stock based compensation (continued):

For the years ended December 31, 2015 and December 31, 2014, no stock options were cancelled. The average fair value of the stock options granted in 2015 was $1.29 per stock option (2014: $2.71 per stock option). For the year ended December 31, 2015, the Company recorded approximately $3.0 million in stock based compensation expense related to stock options (December 31, 2014: $3.3 million).

The following table summarizes the details of Western's outstanding stock options:

As at December 31, 2015 Exercise Price ($/share)	Number of options outstanding	Weighted average contractual life remaining (years)	Number of options exercisable
4.51-6.00	2,226,473	4.61	5,000
6.01-8.00	2,369,053	2.40	1,403,611
8.01-10.00	160,362	1.69	123,695
10.01-11.14	1,303,018	3.61	434,341
	6,058,906	3.45	1,966,647

As at December 31, 2015, Western had 1,966,647 (December 31, 2014: 1,204,091) exercisable stock options outstanding at a weighted average exercise price equal to $7.98 (December 31, 2014: $7.12) per stock option.

The accounting fair value of the stock options as at the date of grant is calculated in accordance with a Black Scholes option pricing model using the following average inputs:

	2015	2014
Risk-free interest rate	1%	1%
Average forfeiture rate	16%	16%
Average expected life	2.0 years	2.0 years
Maximum life	5.0 years	5.0 years
Average vesting period	2.0 years	2.0 years
Expected dividend	6%	3%
Expected share price volatility	60%	60%

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 accepted the adoption of the RSU plan and the RSUs granted thereunder and 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 equity settled 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.

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

14. Stock based compensation (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	328,845	322,151	650,996
Issued as a result of dividends	11,627	9,333	20,960
Vested	(50,764)	(38,931)	(89,695)
Forfeited	(56,777)	(70,317)	(127,094)
Balance at December 31, 2015	410,269	349,235	759,504

The estimated fair value of the equity settled RSUs granted during the year ended December 31, 2015 was $1.2 million (December 31, 2014: $1.1 million) and will be recognized as an expense over the vesting periods of the RSUs.

The accounting fair value of the equity settled RSUs as at the grant date is calculated in accordance with a Black Scholes option pricing model using the following average inputs:

	2015	2014
Risk-free interest rate	1%	1%
Average forfeiture rate	17%	16%
Average expected life	2.0 years	2.0 years
Maximum life	3.0 years	3.0 years
Average vesting period	2.0 years	2.0 years
Expected dividend	6%	3%
Expected share price volatility	60%	60%

Stock based compensation expense is comprised of the following:

	Year ended December 31, 2015	Year ended December 31, 2014
Stock options	$ 2,991	$ 3,325
Restricted share units – equity settled grants	896	332
Total equity settled stock based compensation expense	3,887	3,657
Restricted share units – cash settled grants	430	181
Total stock based compensation expense	$ 4,317	$ 3,838

The outstanding liability related to cash settled RSUs at December 31, 2015 was $0.4 million (December 31, 2014: $0.2 million).

15. Earnings per share:

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

	Year ended December 31, 2015	Year ended December 31, 2014
Issued common shares, beginning of period	74,866,028	73,386,191
Shares issued	37,260	1,011,354
Shares purchased under NCIB	(664,968)	(844)
Weighted average number of common shares (basic)	74,238,320	74,396,701
Dilutive effect of equity securities	-	1,030,448
Weighted average number of common shares (diluted)	74,238,320	75,427,149

For the year ended December 31, 2015, 6,058,906 stock options (December 31, 2014: 1,813,016 options) and 410,269 RSUs (December 31, 2014: 141,351 RSUs) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

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

16. Finance costs:

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

	Year ended December 31, 2015	Year ended December 31, 2014
Interest expense on long term debt	$ 21,870	$ 21,490
Amortization of debt financing fees and provisions	520	644
Interest income	(515)	(351)
Total finance costs before capitalized interest	21,875	21,783
Capitalized interest	(1,434)	(1,001)
Total finance costs	$ 20,441	$ 20,782

The Company had an effective interest rate of 8.2% on its borrowings for the year ended December 31, 2015 (December 31, 2014: 8.2%).

17. Other items:

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

	Year ended December 31, 2015	Year ended December 31, 2014
(Gain) loss on sale of assets	$ (154)	$ 9
Loss on fair value of derivatives	301	166
Foreign exchange gain	(1,856)	(457)
Other income	-	(4)
Total other items	$ (1,709)	$ (286)

18. Income taxes:

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

	Year ended December 31, 2015	Year ended December 31, 2014
Current tax (recovery) expense	$ (8,732)	$ 9,457
Deferred tax (recovery) expense	(3,816)	12,854
Total income tax (recovery) expense	$ (12,548)	$ 22,311

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

18. Income taxes (continued):

The following provides a reconciliation of income before income taxes recognized in the consolidated statements of operations and comprehensive income:

		Year ended December 31, 2015		Year ended December 31, 2014
Income (loss) before income taxes		$ (141,687)		$ 58,761
Federal and provincial statutory rates	26.8%	(37,941)	25.3%	14,866
Income (loss) taxed at higher rates		(539)		741
Impairment of goodwill		19,090		5,735
Stock based compensation		932		881
Non controlling interest		(75)		-
Non-deductible expenses		392		282
Change in effective tax rate on temporary differences		5,986		135
Change in estimate		-		(351)
Change in previously unrecognized tax assets		-		(109)
Return to provision adjustment		40		(18)
Other		(433)		149
Total income taxes		$ (12,548)		$ 22,311

The following table details the nature of the Company's temporary differences:

	December 31, 2015	December 31, 2014
Property and equipment	$ (139,075)	$ (129,831)
Other assets	(148)	(216)
Deferred charges and accruals	(20)	(5,345)
Provisions	483	491
Long-term debt	59	363
Share issue costs	-	264
Other tax pools	520	509
Tax loss carry-forwards	29,885	24,229
Other	594	92
Net deferred tax liabilities	$ (107,702)	$ (109,444)

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

18. Income taxes (continued):

Movements of the Company's temporary differences for the year ended December 31, 2015 is as follows:

	Balance Dec 31, 2014	Recognized in other comprehensive income	Recognized in net income	Impact of foreign exchange	Balance Dec 31, 2015
Property and equipment	$ (129,832)	$ -	$ (1,974)	$ (7,269)	$ (139,075)
Other assets	(216)	-	66	-	(150)
Deferred charges	(21)	-	(26)	-	(47)
Provisions	490	-	(8)	-	482
Long term debt	363	-	(304)	-	59
Timing differences on accruals	(4,412)	-	4,426	14	28
Foreign exchange on inter-company loan	(912)	758	154	-	-
Share issue costs	263	-	(263)	-	-
Other tax pools	603	-	454	58	1,115
Tax loss carry-forwards	24,230	-	1,291	4,365	29,886
Net deferred tax liabilities	$ (109,444)	$ 758	$ 3,816	$ (2,832)	$ (107,702)

Movements of the Company's temporary differences for the year ended December 31, 2014 is as follows:

	Balance Dec 31, 2013	Recognized in other comprehensive income	Recognized in net income	Impact of foreign exchange	Acquired in business combinations	Balance Dec 31, 2014
Property and equipment	$ (114,690)	$ -	$ (12,982)	$ (2,784)	$ 624	$ (129,832)
Other assets	(257)	-	41	-	-	(216)
Deferred charges	41	-	(62)	-	-	(21)
Provisions	523	-	(33)	-	-	490
Long term debt	233	-	130	-	-	363
Timing differences on accruals	(1,553)	-	(2,839)	(20)	-	(4,412)
Foreign exchange on inter-company	(381)	(529)	(2)	-	-	(912)
Share issue costs	762	-	(499)	-	-	263
Other tax pools	552	-	32	19	-	603
Tax loss carry-forwards	19,105	-	3,360	1,765	-	24,230
Net deferred tax liabilities	$ (95,665)	$ (529)	$ (12,854)	$ (1,020)	$ 624	$ (109,444)

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 for the twelve months ended December 31, 2015. This tax rate increase received Royal Assent on June 29, 2015.

As at December 31, 2015, the Company has gross loss carry-forwards equal to approximately $9.4 million in Canada, which will expire by 2035. In the United States, the Company has approximately US$49.5 million gross loss carry forwards which expire between 2028 and 2034.

19. Costs by nature:

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

	Year ended December 31, 2015	Year ended December 31, 2014
Depreciation of property and equipment (Note 8)	$ 39,467	$ 63,767
Employee benefits: salaries and benefits	112,189	212,286
Employee benefits: stock based compensation (Note 14)	4,317	3,838
Repairs and maintenance	10,798	29,310
Third party charges	11,039	33,712

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

20. 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 December 31, 2015.

Interest rate risk:

The Company is exposed to interest rate risk on certain debt instruments, such as the Operating Facility and Revolving Facility, to the extent the prime interest rate changes and/or the Company's interest rate margin changes. For the credit facilities, a one percent change in interest rates would have had a $nil impact on interest expense for the years ended December 31, 2015 and 2014 as there was no balance outstanding on the credit facilities during the years ended December 31, 2015 and 2014. Other long term debt, such as the Senior Notes and the Company's finance leases, are subject to fixed interest rates.

Foreign exchange risk:

The Company is exposed to foreign currency fluctuations in relation to its United States dollar capital expenditures and international operations. From time to time, the Company may use forward foreign currency contracts to hedge against these fluctuations. At December 31, 2015, portions of the Company's cash balances, trade payables and accrued liabilities were denominated in United States dollars and subject to foreign exchange fluctuations which are recorded within net income. In addition, Stoneham, Western's United States subsidiary, is subject to foreign currency translation adjustments upon consolidation, which is recorded separately within other comprehensive income. For the year ended December 31, 2015, the increase or decrease in net income and other comprehensive income for each one percent change in foreign exchange rates between the Canadian and United States dollars is estimated to be less than $0.3 million and $0.6 million, respectively (December 31, 2014: $0.2 million and $0.5 million, respectively).

Credit risk:

Credit risk arises from cash held with banks and financial institutions, as well as credit exposure to customers in the form of outstanding trade and other receivables. The maximum exposure to credit risk is equal to the carrying value of the financial assets which reflects management's assessment of the credit risk.

At December 31, 2015, approximately 95% of the Company's trade receivables were less than 90 days old. The Company believes the unimpaired amounts greater than 90 days old are still collectible based on historic payment behavior and an analysis of the underlying customers' ability to pay.

The table below provides an analysis of the aging of the Company's trade receivables:

	December 31, 2015	December 31, 2014
Trade receivables:		
Current	$ 13,534	$ 51,537
Outstanding for 31 to 60 days	7,031	21,856
Outstanding for 61 to 90 days	2,715	3,788
Outstanding for over 90 days	1,329	344
Accrued trade receivables	3,295	11,676
Other receivables	1,273	632
Income tax receivable	10,350	-
Allowance for doubtful accounts	(1,089)	(16)
Total	$ 38,438	$ 89,817

Impairment losses:

The allowance for doubtful accounts in respect of trade and other receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered unrecoverable and are written off against the financial asset directly. For the year ended December 31, 2015, the Company impaired trade receivables by $1.1 million (December 31, 2014: $nil), resulting in a corresponding increase in the allowance for doubtful accounts balance as at December 31, 2015.

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

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

Liquidity risk:

Liquidity risk is the exposure of the Company to the risk of not being able to meet its financial obligations as they become due. The Company manages liquidity risk through management of its capital structure, monitoring and reviewing actual and forecasted cash flows and the effect on bank covenants, and maintaining unused credit facilities where possible to ensure there are available cash resources to meet the Company's liquidity needs.

The Company's cash flow from operating activities, existing credit facilities and excess working capital are expected to be greater than anticipated capital expenditures and the contractual maturities of the Company's financial liabilities. This expectation could be adversely affected by a material negative change in the oilfield service industry, which in turn could lead to covenant breaches on the Company's credit facility, which if not amended or waived, could limit, in part, or in whole, the Company's access to the credit facilities.

The table below provides an analysis of the expected maturities of the Company's outstanding obligations at December 31, 2015:

	Total	Due prior to December 31					
	amount	2016	2017	2018	2019	2020	Thereafter
Financial liabilities:							
Trade and other current liabilities	$ 26,793	$ 26,793	$ -	$ -	$ -	$ -	$ -
Senior notes	265,000	-	-	-	265,000	-	-
Dividends payable	3,682	3,682	-	-	-	-	-
Other long-term debt	1,523	761	762	-	-	-	-
Total	$ 296,998	$ 31,236	$ 762	$ -	$ 265,000	$ -	$ -

Cash flows included in the maturity analysis may occur significantly earlier, or at significantly different amounts. Details of other operating commitments are disclosed in Note 21.

Market risk:

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

The Company may use derivatives and also incur financial liabilities in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors. The Company does not apply hedge accounting in order to manage volatility within the statements of operations and comprehensive income.

Fair value:

Financial assets and liabilities recorded at fair value in the 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.

The Company's cash and cash equivalents balance and derivatives 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 the Senior Notes is based on Level II inputs as the inputs are directly observable through correlation with market data.

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

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

Capital management:

The overall capitalization of the Company at December 31, 2015 is as follows:

	Note	December 31, 2015	December 31, 2014
Other long term debt	12	$ 1,523	$ 2,349
Senior Notes	12	265,000	265,000
Total debt		266,523	267,349
Shareholders' equity		471,696	601,203
Less: cash and cash equivalents		(58,445)	(62,662)
Total capitalization		$ 679,774	$ 805,890

Management is focused on several objectives while managing the capital structure of the Company, specifically:

- Ensuring the Company has the financing capacity to continue to execute on opportunities to increase overall market share through strategic acquisitions or organic growth that add value for the Company's shareholders;
- Maintaining a strong capital base to ensure that investor, creditor and market confidence are secured;
- Maintaining balance sheet strength, ensuring the Company's strategic objectives are met, while retaining an appropriate amount of leverage; and
- Safeguarding the entity's ability to continue as a going concern, such that it continues to provide returns for shareholders and benefits for other stakeholders.

The Company manages its capital structure based on current economic conditions, the risk characteristics of the underlying assets, and planned capital requirements within guidelines approved by its Board of Directors. Total capitalization is maintained or adjusted by drawing on existing debt facilities, issuing new debt or equity securities when opportunities are identified and through the disposition of underperforming assets to reduce debt when required.

As at December 31, 2015, the Company had $195.0 million in undrawn credit under its credit facilities and was in compliance with all debt covenants (see Note 12).

21. Commitments:

As at December 31, 2015, the Company has total commitments which require payments based on the maturity terms as follows:

	2016	2017	2018	2019	2020	Thereafter	Total
Senior Notes	$ -	$ -	$ -	$ 265,000	$ -	$ -	$ 265,000
Senior Notes interest	20,869	20,869	20,869	10,434	-	-	73,041
Trade payables and other current liabilities(1)	17,931	-	-	-	-	-	17,931
Dividends payable	3,682	-	-	-	-	-	3,682
Operating leases	4,249	3,528	3,372	3,208	3,320	10,349	28,026
Purchase commitments	961	-	-	-	-	-	961
Other long term debt	892	665	73	-	-	-	1,630
Total	$ 48,584	$ 25,062	$ 24,314	$ 278,642	$ 3,320	$ 10,349	$ 390,271

(1) Trade payables and other current liabilities exclude interest accrued as at December 31, 2015 on the Senior Notes.

Senior Notes and interest:

The Company pays interest on the Senior Notes semi-annually on January 30 and July 30. The Senior Notes are due January 30, 2019.

Trade payables and other current liabilities:

The Company has recorded trade payables for amounts due to third parties which are expected to be paid within one year.

Dividends Payable:

The Company paid a quarterly dividend equal to $0.05 per share on January 14, 2016 to shareholders of record on December 31, 2015.

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

21. Commitments (continued):

Operating leases:

The Company has offices and oilfield service equipment under operating leases. The leases typically run for a period of one to ten years, typically with an option to renew the lease after that date.

Purchase commitments:

The Company has agreements in place to purchase certain capital and other operational items with third parties.

Other long term debt:

The Company has other long term debt relating to leased vehicles.

22. Related party transactions:

During the years ended December 31, 2015 and 2014, the Company did not have any sales transactions with related parties. At December 31, 2015, there are no significant balances outstanding in trade and other receivables with related parties (December 31, 2014: $nil).

23. Key management personnel:

	Year ended December 31, 2015	Year ended December 31, 2014
Short-term employee benefits	$ 1,564	$ 2,363
Stock based compensation (1)	1,164	744
	$ 2,728	$ 3,107

(1) The total fair value of stock options and RSUs granted to key management personnel for the year ended December 31, 2015 was equal to $1.2 million (December 31, 2014: $2.4 million), which is being recognized in net income (loss) over the option's and RSU's vesting period.

24. Subsidiaries

Details of the Company's material wholly owned subsidiaries and partnerships at the end of the reporting periods are as follows:

		Ownership interest (%)	
	Country of incorporation	December 31, 2015	December 31, 2014
Stoneham Drilling Corporation	USA	100	100
Western Production Services Corp.	Canada	100	100

WESTERN ENERGY SERVICES CORP.
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CORPORATE INFORMATION

DIRECTORS

Donald D. Copeland [1][2][3]
Victoria, British Columbia

Lorne A. Gartner [1][3]
Calgary, Alberta

Alex R.N. MacAusland [3]
Calgary, Alberta

Ronald P. Mathison [1][2]
Calgary, Alberta

John R. Rooney [2][3]
Calgary, Alberta

[1] Member of the Audit Committee
[2] Member of the Corporate Governance and Compensation Committee
[3] Member of the Health, Safety and Environment Committee

OFFICERS

Ronald P. Mathison
Chairman of the Board

Alex R.N. MacAusland
President and
Chief Executive Officer

Jeffrey K. Bowers
Sr. Vice President Finance
and Chief Financial Officer

Rick M. Harrison
Sr. Vice President Operations

Darcy D. Reinboldt
Sr. Vice President Operations

David G. Trann
Vice President Finance

Peter Balkwill
Vice President
Operations Finance

Tim J. Sebastian
Vice President,
General Counsel and
Corporate Secretary

Jeff A. Vathje
Vice President
Human Resources

Steven A. MacNabb
Vice President Health,
Safety and Environment

LEGAL COUNSEL

Norton Rose Fulbright
Canada LLP
Calgary, Alberta

AUDITOR

Deloitte LLP
Calgary, Alberta

BANKS

Royal Bank of Canada
HSBC Bank Canada
Alberta Treasury Branches
The Bank of Nova Scotia
Wells Fargo Bank

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Symbol: WRG

TRANSFER AGENT

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Calgary, Alberta

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