Western Energy Services Corp.

Condensed Consolidated Financial Statements

September 30, 2016 and 2015

(Unaudited)

Western Energy Services Corp.

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

	Note	September 30, 2016	December 31, 2015
Assets			
Current assets			
Cash and cash equivalents		$ 47,016	$ 58,445
Trade and other receivables		21,818	38,438
Other current assets		4,645	5,177
		73,479	102,060
Non current assets			
Property and equipment	5	720,554	773,647
Other non current assets		137	901
		$ 794,170	$ 876,608
Liabilities			
Current liabilities			
Trade payables and other current liabilities		$ 17,443	$ 26,793
Dividends payable		-	3,682
Current portion of provisions		143	145
Current portion of long term debt	6	634	761
		18,220	31,381
Non current liabilities			
Provisions		1,568	1,674
Long term debt	6	264,118	264,155
Deferred taxes		91,377	107,702
		375,283	404,912
Shareholders' equity			
Share capital	7	418,506	417,622
Contributed surplus		12,236	10,148
Retained earnings (deficit)		(43,782)	3,734
Accumulated other comprehensive income		29,851	37,794
Non controlling interest		2,076	2,398
		418,887	471,696
		$ 794,170	$ 876,608

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

Western Energy Services Corp.

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

	Note	Three months ended Sept 30 2016	Three months ended Sept 30 2015	Nine months ended Sept 30 2016	Nine months ended Sept 30 2015
Revenue		$ 32,485	$ 46,959	$ 79,312	$ 184,846
Operating expenses		43,601	41,684	103,904	141,869
Gross profit (loss)		(11,116)	5,275	(24,592)	42,977
Administrative expenses		5,926	7,649	18,841	23,584
Finance costs	10	5,708	5,508	17,044	15,029
Other items	11	266	(75)	(1,466)	(1,488)
Impairment of goodwill		-	71,256	-	71,256
Loss on asset decommissioning	5	-	-	5,225	-
Loss before income taxes		(23,016)	(79,063)	(64,236)	(65,404)
Income tax expense (recovery)	12	(6,043)	(2,247)	(16,772)	8,725
Net loss		(16,973)	(76,816)	(47,464)	(74,129)
Other comprehensive income (1)					
Loss (gain) on translation of foreign operations		(907)	(5,163)	3,356	(10,297)
Unrealized foreign exchange loss (gain) on net investment in subsidiary		(654)	(3,311)	4,587	(8,769)
Comprehensive loss		$ (15,412)	$ (68,342)	$ (55,407)	$ (55,063)
Net income (loss) attributable to:					
Shareholders of the Company		$ (16,945)	$ (76,873)	$ (47,516)	$ (74,306)
Non controlling interest		(28)	57	52	177
Comprehensive income (loss) attributable to:					
Shareholders of the Company		$ (15,384)	$ (68,399)	$ (55,459)	$ (55,240)
Non controlling interest		(28)	57	52	177
Net loss per share:					
Basic		$ (0.23)	$ (1.04)	$ (0.64)	$ (1.00)
Diluted		(0.23)	(1.04)	(0.64)	(1.00)
Weighted average number of shares:					
Basic	9	73,722,144	74,044,832	73,672,389	74,434,833
Diluted	9	73,722,144	74,044,832	73,672,389	74,434,833

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

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

Western Energy Services Corp.

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

	Share capital	Contributed surplus [1]	Retained earnings (deficit)	Accumulated other comprehensive income[2]	Non controlling interest	Total shareholders' equity
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	154	-	-	-	-	154
Issued for cash on exercise of warrants	470	(470)	-	-	-	-
Purchased under normal course issuer bid	(6,610)	(28)	-	-	-	(6,638)
Fair value of exercised options	55	(55)	-	-	-	-
Stock based compensation	-	2,846	-	-	-	2,846
Dividends declared	-	-	(16,710)	-	-	(16,710)
Contributions from non controlling interest	-	-	-	-	34	34
Comprehensive income (loss)	-	-	(74,306)	19,066	177	(55,063)
Balance at September 30, 2015	417,702	9,108	62,528	34,191	2,297	525,826
Common shares:						
Purchased under normal course issuer bid	(80)	-	-	-	-	(80)
Stock based compensation	-	1,040	-	-	-	1,040
Dividends declared	-	-	(3,683)	-	-	(3,683)
Comprehensive income (loss)	-	-	(55,111)	3,603	101	(51,407)
Balance at December 31, 2015	417,622	10,148	3,734	37,794	2,398	471,696
Common shares:						
Issued on vesting of restricted share units	884	(884)	-	-	-	-
Stock based compensation	-	2,972	-	-	-	2,972
Distributions to non controlling interest	-	-	-	-	(374)	(374)
Comprehensive income (loss)	-	-	(47,516)	(7,943)	52	(55,407)
Balance at September 30, 2016	$ 418,506	$ 12,236	$ (43,782)	$ 29,851	$ 2,076	$ 418,887

(1) Contributed surplus relates to stock based compensation described in Note 8.

(2) At September 30, 2016, the accumulated other comprehensive income balance consists of the translation of foreign operations and unrealized foreign exchange on net investment in subsidiary.

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

Western Energy Services Corp.

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

		Three months ended Sept 30		Nine months ended Sept 30	
	Note	**2016**	**2015**	**2016**	**2015**
Operating activities					
Net loss		$ (16,973)	$ (76,816)	$ (47,464)	$ (74,129)
Adjustments for:					
Depreciation included in operating expenses		16,712	8,791	41,352	29,040
Depreciation included in administrative expenses		378	464	1,204	1,378
Non cash stock based compensation included in operating expenses		94	157	410	398
Non cash stock based compensation included in administrative expenses		764	932	2,562	2,448
Finance costs	10	5,708	5,508	17,044	15,029
Impairment of goodwill		-	71,256	-	71,256
Loss on asset decommissioning	5	-	-	5,225	-
Income tax expense (recovery)	12	(6,043)	(2,247)	(16,772)	8,725
Other		316	813	971	(278)
Cash generated from operating activities		956	8,858	4,532	53,867
Income taxes received (paid)		6,919	-	8,255	(8,402)
Change in non cash working capital		(6,966)	(9,388)	5,171	34,351
Cash flow from (used in) operating activities		909	(530)	17,958	79,816
Investing activities					
Additions to property and equipment	5	(651)	(4,752)	(1,995)	(30,303)
Proceeds on sale of property and equipment		101	119	522	646
Changes in non cash working capital		61	(1,570)	(1,783)	(13,005)
Cash flow used in investing activities		(489)	(6,203)	(3,256)	(42,662)
Financing activities					
Issue of common shares		-	-	-	154
Shares purchased under normal course issuer bid		-	(4,143)	-	(6,638)
Repayment of long term debt		(173)	(313)	(570)	(777)
Finance costs paid		(10,481)	(10,238)	(21,505)	(19,236)
Dividends paid		-	(5,591)	(3,682)	(16,799)
Contributions from (distributions to) non controlling interest		(147)	-	(374)	34
Cash flow used in financing activities		(10,801)	(20,285)	(26,131)	(43,262)
Decrease in cash and cash equivalents		(10,381)	(27,018)	(11,429)	(6,108)
Cash and cash equivalents, beginning of period		57,397	83,572	58,445	62,662
Cash and cash equivalents, end of period		$ 47,016	$ 56,554	$ 47,016	$ 56,554
Cash and cash equivalents:					
Bank accounts		$ 47,016	$ 10,542	$ 47,016	$ 10,542
Short term investments		-	46,012	-	46,012
		$ 47,016	$ 56,554	$ 47,016	$ 56,554

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

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

1. Reporting entity:

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the registered office is 1700, 215 - 9th Avenue SW, Calgary, Alberta. Western is a publicly traded company that is listed on the Toronto Stock Exchange ("TSX") under the symbol "WRG". These condensed consolidated financial statements as at September 30, 2016 and for the three and nine months ended September 30, 2016 and 2015 (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:

Statement of compliance:

These Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board. These Financial Statements have been prepared using accounting policies and judgments which are consistent with Notes 3 and 4 of the audited annual consolidated financial statements as at December 31, 2015 and for the years ended December 31, 2015 and 2014 as filed on SEDAR at www.sedar.com and, as such, they should be read in conjunction with the said statements.

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

Functional and presentation currency:

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

Change in Accounting Estimate:

Effective April 1, 2016, Western changed the method for depreciating its drilling and well service rigs and related equipment from unit of production to straight line and changed certain estimates relating to useful lives and salvage values. The change in depreciation methodology reflects the technological developments within the industry and the Company believes that straight line depreciation better reflects the future economic benefit related to these assets. Additionally, the change will result in idle or underutilized assets being depreciated more quickly in periods of low activity. A summary of the new depreciation methodologies for drilling and well servicing rigs and related equipment is as follows:

	Expected Life	**Residual values**	**Depreciation method**
Drilling rigs and related equipment:			
Drilling rigs	8 to 25 years	10%	Straight-line
Drill pipe	5 to 8 years	-	Straight-line
Major inspections and overhauls	3 to 5 years	-	Straight-line
Well servicing rigs and related equipment	12 to 25 years	10%	Straight-line

These adjustments were applied prospectively and resulted in an increase of approximately $8.6 million and $22.1 million of additional depreciation expense for the three and nine months ended September 30, 2016 respectively, over what would have been expensed had the previous assumptions using the unit of production methodology continued to be used in the period. The estimated additional depreciation expense for the year ending December 31, 2016 from this change is expected to be approximately $29.1 million.

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

3. Seasonality:

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

4. Operating segments:

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

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

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

The following is a summary of the Company's results by segment for the three and nine months ended September 30, 2016 and 2015:

Three months ended September 30, 2016	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 21,400	$ 11,090	$ -	$ (5)	$ 32,485
Operating earnings (loss)	(12,773)	(2,667)	(754)	-	(16,194)
Finance costs	-	-	5,708	-	5,708
Depreciation	13,236	3,646	208	-	17,090
Additions to property and equipment (1)	446	205	-	-	651

Three months ended September 30, 2015	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 32,772	$ 14,206	$ -	$ (19)	$ 46,959
Operating earnings (loss)	623	(694)	(1,104)	-	(1,175)
Finance costs	-	-	5,508	-	5,508
Depreciation	6,301	2,690	264	-	9,255
Additions to property and equipment (1)	3,201	1,481	70	-	4,752

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

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

4. Operating segments (continued):

Nine months ended September 30, 2016	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 52,327	$ 27,003	$ -	$ (18)	$ 79,312
Operating earnings (loss)	(28,237)	(9,366)	(2,684)	-	(40,287)
Finance costs	-	-	17,044	-	17,044
Depreciation	32,458	9,455	643	-	42,556
Additions to property and equipment (1)	996	998	1	-	1,995

Nine months ended September 30, 2015	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 129,487	$ 55,631	$ -	$ (272)	$ 184,846
Operating earnings (loss)	23,700	3,237	(4,383)	-	22,554
Finance costs	-	-	15,029	-	15,029
Depreciation	20,739	8,884	795	-	30,418
Additions to property and equipment (1)	24,277	6,124	105	-	30,506

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

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

As at September 30, 2016	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 599,046	$ 147,959	$ 47,165	$ 794,170
Total liabilities	93,663	27,692	253,928	375,283

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

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

Three months ended September 30, 2016	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (12,773)	$ (2,667)	$ (754)	$ (16,194)
Add (deduct):				
Stock based compensation	(100)	(109)	(639)	(848)
Finance costs	-	-	(5,708)	(5,708)
Other items	-	-	(266)	(266)
Loss before income taxes	$ (12,873)	$ (2,776)	$ (7,367)	$ (23,016)

Three months ended September 30, 2015	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ 623	$ (694)	$ (1,104)	$ (1,175)
Add (deduct):				
Stock based compensation	(269)	(190)	(740)	(1,199)
Finance costs	-	-	(5,508)	(5,508)
Other items	-	-	75	75
Impairment of goodwill	(59,027)	(12,229)	-	(71,256)
Loss before income taxes	$ (58,673)	$ (13,113)	$ (7,277)	$ (79,063)

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

4. Operating segments (continued):

Nine months ended September 30, 2016	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ (28,237)	$ (9,366)	$ (2,684)	$ (40,287)
Add (deduct):				
Stock based compensation	(447)	(537)	(2,162)	(3,146)
Finance costs	-	-	(17,044)	(17,044)
Other items	-	-	1,466	1,466
Loss on asset decommissioning	(5,225)	-	-	(5,225)
Loss before income taxes	$ (33,909)	$ (9,903)	$ (20,424)	$ (64,236)

Nine months ended September 30, 2015	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ 23,700	$ 3,237	$ (4,383)	$ 22,554
Add (deduct):				
Stock based compensation	(716)	(521)	(1,924)	(3,161)
Finance costs	-	-	(15,029)	(15,029)
Other items	-	-	1,488	1,488
Impairment of goodwill	(59,027)	(12,229)	-	(71,256)
Loss before income taxes	$ (36,043)	$ (9,513)	$ (19,848)	$ (65,404)

Segmented information by geographic area is as follows:

As at September 30, 2016	Canada	United States	Total
Property and equipment	$ 611,968	$ 108,586	$ 720,554
Total assets	677,277	116,893	794,170

As at December 31, 2015	Canada	United States	Total
Property and equipment	$ 644,510	$ 129,137	$ 773,647
Total assets	742,824	133,784	876,608

	Canada	United States	Total
Revenue - three months ended September 30, 2016	$ 28,264	$ 4,221	$ 32,485
Revenue - three months ended September 30, 2015	43,255	3,704	46,959
Revenue - nine months ended September 30, 2016	68,758	10,554	79,312
Revenue - nine months ended September 30, 2015	160,461	24,385	184,846

Significant Customers:
For the three months ended September 30, 2016 the Company had one significant customer comprising 11.4% of the Company’s total revenue. The trade receivable balance outstanding related to the significant customer was 2.8% of the Company’s total trade and other receivables as at September 30, 2016. For the nine months ended September 30, 2016, the Company also had one significant customer comprising 11.8% of the Company’s total revenue. The trade receivable balance outstanding related to the significant customer was 4.9% of the Company’s total trade and other receivables as at September 30, 2016.

For the three months ended September 30, 2015, the Company had two significant customers comprising 12.0% and 10.1% respectively, of the Company’s total revenue. One of these previously mentioned customers was also a significant customer for the nine months ended September 30, 2015, comprising 11.8% of the Company’s total revenue.

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

5. Property and Equipment:

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

	Land	Buildings	Contract drilling equipment	Production services equipment	Office and shop equipment	Vehicles under finance leases	Total
Cost:							
Balance at December 31, 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)
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	$ 790,681	$ 202,218	$ 12,604	$ 3,631	$ 1,018,428
Additions	-	-	993	806	196	-	1,995
Loss on asset decommissioning	-	-	(6,507)	-	-	-	(6,507)
Disposals	-	-	(392)	(1,585)	(9)	(323)	(2,309)
Foreign exchange adjustment	-	-	(10,456)	-	(35)	(154)	(10,645)
Balance at September 30, 2016	$ 5,089	$ 4,205	$ 774,319	$ 201,439	$ 12,756	$ 3,154	$ 1,000,962
Accumulated depreciation:							
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)
Impairment on property and equipment	-	-	18,997	22,865	-	-	41,862
Disposals	-	-	(1,174)	(665)	(273)	(390)	(2,502)
Foreign exchange adjustment	-	-	4,771	-	75	32	4,878
Balance at December 31, 2015	$ -	$ 826	$ 178,793	$ 56,668	$ 6,992	$ 1,502	$ 244,781
Depreciation for the period	-	146	31,973	8,858	1,129	450	42,556
Loss on asset decommissioning	-	-	(1,282)	-	-	-	(1,282)
Disposals	-	-	(202)	(865)	(7)	(191)	(1,265)
Foreign exchange adjustment	-	-	(4,253)	-	(28)	(101)	(4,382)
Balance at September 30, 2016	$ -	$ 972	$ 205,029	$ 64,661	$ 8,086	$ 1,660	$ 280,408
Carrying amounts:							
At December 31, 2015	$ 5,089	$ 3,379	$ 611,888	$ 145,550	$ 5,612	$ 2,129	$ 773,647
At September 30, 2016	$ 5,089	$ 3,233	$ 569,290	$ 136,778	$ 4,670	$ 1,494	$ 720,554

During the second quarter of 2016, the Company decommissioned one of its Cardium class drilling rigs, resulting in a loss on asset decommissioning of $5.2 million.

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

6. Long term debt:

This note provides information about the contractual terms of the Company's long term debt instruments. The following table summarizes the Company's current and non current portion of long term debt:

	September 30, 2016	December 31, 2015
Current:		
Other long term debt – current portion (1)	$ 634	$ 761
Total current portion of long term debt	634	761
Non current:		
Senior Notes	265,000	265,000
Less: net unamortized premium and issue costs on Senior Notes	(1,219)	(1,607)
Other long term debt – non current portion (1)	337	762
Total non current portion of long term debt	264,118	264,155
Total long term debt	$ 264,752	$ 264,916

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

Credit facilities:

On April 27, 2016, the Company elected to reduce its syndicated revolving credit facility (the "Revolving Facility") from $175.0 million to $40.0 million and reduced its previously uncommitted operating demand revolving loan of $20.0 million to a committed operating facility (the "Operating Facility") totaling $10.0 million.

On July 25, 2016, the Company added a lender to its syndicated Revolving Facility and increased the amount available by $10.0 million to $50.0 million, from $40.0 million previously. The Revolving Facility has an interest coverage ratio when $30.0 million or more is drawn on the Company's Credit Facilities. The interest coverage ratio has been waived during the covenant relief period, which began on January 1, 2016 and ends after December 31, 2017. Subsequent to the covenant relief period, the interest coverage ratio must exceed 1.0 and 1.25 in the first and second quarters of 2018 respectively, and 1.5 thereafter. Additionally, the Consolidated Senior Debt to Consolidated EBITDA ratio has been reduced during the covenant relief period to 3.0 to 1.0 under the increased Revolving Facility from 4.0 to 1.0 previously.

At September 30, 2016, in addition to the $60.0 million of available credit under the Revolving Facility and Operating Facility (the "Credit Facilities"), Western had access to an accordion feature whereby an incremental $50.0 million of borrowing would become available, subject to the approval of the lenders. During the covenant relief period, there are restrictions on exercising the accordion and on certain payments made by the Company, including dividends, normal course issuer bid purchases and capital expenditures in excess of Western's approved budget. The Credit Facilities maturity date of December 17, 2018 remains unchanged.

Additionally, advances under the Credit Facilities will be limited by the Company's borrowing base. The borrowing base is determined as follows:

- 85% of investment grade accounts receivable; plus
- 75% of non-investment grade accounts receivable; plus
- 25% of the net book value of property and equipment (to a maximum of $40.0 million, with a seasonal increase to $50.0 million each quarter ending June 30).

Amounts borrowed under the Credit Facilities bear interest at the bank's Canadian prime rate, US base rate, LIBOR or the banker's acceptance rate plus an applicable margin depending, in each case, on the ratio of Consolidated Debt to Consolidated EBITDA as defined by the Credit Facilities agreement.

The Credit Facilities are secured by the assets of Western and its subsidiaries. As at September 30, 2016, the Revolving Facility and the Operating Facility were undrawn.

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

6. Long term debt (continued):

A summary of the Company's financial covenants as at September 30, 2016 is as follows:

	Covenant	September 30, 2016
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio (1)(2)	3.0:1.0 or less	0.0:1.0
Maximum Consolidated Debt to Consolidated Capitalization Ratio (3)(4)	0.6:1.0 or less	0.34:1.0
Minimum Consolidated EBITDA to Consolidated Interest Expense Ratio (5)	Not applicable	Not applicable
Minimum Current Ratio (6)	1.15:1.0 or more	4.18:1.0

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

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

(3) Consolidated Debt in the Credit Facilities is defined as Consolidated Senior Debt plus outstanding principal on unsecured debt, including the Senior Notes.

(4) Consolidated Capitalization in the Credit Facilities is defined as the aggregate of Consolidated Debt and total shareholders` equity as reported on the consolidated balance sheet.

(5) Consolidated EBITDA to Consolidated Interest in the Credit Facilities is defined on a trailing twelve month basis as Consolidated EBITDA (as previously defined) divided by all interest of the Company accrued, including capitalized interest and interest related to lease obligations. The interest coverage ratio is only applicable after December 31, 2017 when $30.0 million or more is drawn on the Credit Facilities. Subsequent to December 31, 2017, the interest coverage ratio must exceed 1.0 and 1.25 in the first and second quarters of 2018 respectively, and 1.5 thereafter.

(6) Current Ratio in the Credit Facilities is defined as current assets, including cash and cash equivalents, divided by current liabilities, excluding any current portion of long term debt.

At September 30, 2016 the Company was in compliance with all debt covenants under 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 September 30, 2016, the fair value of the Senior Notes was approximately $239.5 million (December 31, 2015: $245.5 million).

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

7. 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, 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
Issued on vesting of restricted share units	148,974		884
Balance at September 30, 2016	73,795,266	$	418,506

During the three and nine months ended September 30, 2016, no dividends were declared. During the three and nine months ended September 30, 2015, $5.5 million and $16.7 million in dividends were declared, respectively.

8. 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, 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
Granted	1,400,712		3.30
Forfeited	(413,698)		6.95
Expired	(190,766)		8.17
Balance at September 30, 2016	6,855,154	$	6.30

For the three and nine months ended September 30, 2016, no stock options were cancelled under the plan. As at September 30, 2016, Western had 3,299,236 (December 31, 2015: 1,966,647) exercisable stock options outstanding at a weighted average exercise price equal to $7.51 (December 31, 2015: $7.98) per stock option.

Restricted share unit plan:

The Company's restricted share unit ("RSU") plan provides for RSUs to be issued to directors, officers, employees and consultants of the Company so that they may participate in the growth and development of Western. Subject to the specific provisions of the RSU plan, eligibility, vesting period, terms of the RSUs and the number of RSUs granted are to be determined by the Board of Directors at the time of 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)

8. Stock based compensation (continued):

Restricted share unit plan (continued):

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

	Equity settled	Cash settled	Total
Balance at December 31, 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
Granted	180,554	169,937	350,491
Issued as a result of dividends	6,540	5,556	12,096
Vested	(148,974)	(105,851)	(254,825)
Forfeited	(21,040)	(82,594)	(103,634)
Balance at September 30, 2016	427,349	336,283	763,632

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2016	2015	2016	2015
Stock options	$ 635	$ 829	$ 2,176	$ 2,214
Restricted share units – equity settled grants	223	260	796	632
Total equity settled stock based compensation expense	858	1,089	2,972	2,846
Restricted share units – cash settled grants	(10)	110	174	315
Total stock based compensation expense	$ 848	$ 1,199	$ 3,146	$ 3,161

9. Earnings per share:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2016	2015	2016	2015
Issued common shares, beginning of period	73,648,484	74,435,928	73,646,292	74,866,028
Shares issued	73,660	19,070	26,097	23,683
Shares purchased under normal course issuer bid	-	(410,166)	-	(454,878)
Weighted average number of common shares (basic)	73,722,144	74,044,832	73,672,389	74,434,833
Dilutive effect of equity securities	-	-	-	-
Weighted average number of common shares (diluted)	73,722,144	74,044,832	73,672,389	74,434,833

For the three and nine months ended September 30, 2016, 6,855,154 stock options (three and nine months ended September 30, 2015: 6,463,425) and 427,349 RSUs (three and nine months ended September 30, 2015: 425,212) 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)

10. Finance costs:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2016	2015	2016	2015
Interest expense on long term debt	$ 5,623	$ 5,509	$ 16,454	$ 16,350
Amortization of debt financing fees and provisions	157	130	826	390
Interest income	(72)	(53)	(236)	(277)
Total finance costs before capitalized interest	5,708	5,586	17,044	16,463
Capitalized interest	-	(78)	-	(1,434)
Total finance costs	$ 5,708	$ 5,508	$ 17,044	$ 15,029

The Company had an effective interest rate of 8.6% on its borrowings for the three and nine months ended September 30, 2016 (three and nine months ended September 30, 2015: 8.4%).

11. Other items:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2016	2015	2016	2015
Realized foreign exchange gain	$ (86)	$ (924)	$ (2,545)	$ (1,317)
Mark-to-market loss (gain) on fair value of derivatives	-	821	552	(20)
Loss (gain) on sale of fixed assets	352	28	522	(154)
Unrealized foreign exchange loss	-	-	5	3
Total other items	$ 266	$ (75)	$ (1,466)	$ (1,488)

12. Income taxes:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2016	2015	2016	2015
Current tax recovery	$ (370)	$ (2,269)	$ (1,197)	$ (6,040)
Deferred tax expense (recovery)	(5,673)	22	(15,575)	14,765
Total income tax expense (recovery)	$ (6,043)	$ (2,247)	$ (16,772)	$ 8,725

As at September 30, 2016, the Company has gross loss carry forwards equal to approximately $66.5 million in Canada, which will expire between 2035 and 2036. In the United States, the Company has approximately US$51.2 million gross loss carry forwards which expire between 2028 and 2036.

13. Costs by nature:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2016	2015	2016	2015
Depreciation of property and equipment (Note 5)	$ 17,090	$ 9,255	$ 42,556	$ 30,418
Employee benefits: salaries and benefits	20,585	25,653	50,450	89,799
Employee benefits: stock based compensation (Note 8)	848	1,199	3,146	3,161
Repairs and maintenance	2,267	2,746	4,853	8,248
Third party charges	1,820	2,609	4,054	8,819

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

14. Financial risk management and financial instruments:

The Company's financial instruments include cash and cash equivalents, trade and other receivables, trade payables and other current liabilities, derivatives and long term debt instruments such as the Credit Facilities and the Senior Notes. Cash and cash equivalents and derivatives are carried at fair value. The carrying amounts of trade and other receivables, trade payables, and other current liabilities approximate their fair values due to their short term nature. The Credit Facilities bear interest at rates that approximate market rates and therefore their carrying values approximate fair values. The Senior Notes are recorded at their amortized cost. Fair value disclosure of the Senior Notes is based on their trading price on September 30, 2016.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2015.

Financial assets and liabilities recorded at fair value in the condensed consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels based on the amount of subjectivity associated with the inputs in the fair value determination of these assets and liabilities are as follows:

Level I – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.
Level II – Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
Level III – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

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

Capital management:
The overall capitalization of the Company at September 30, 2016 and December 31, 2015 is as follows:

	Note	September 30, 2016	December 31, 2015
Other long term debt	6	$ 971	$ 1,523
Senior Notes	6	265,000	265,000
Total debt		265,971	266,523
Shareholders' equity		418,887	471,696
Less: cash and cash equivalents		(47,016)	(58,445)
Total capitalization		$ 637,842	$ 679,774

15. Commitments:

As at September 30, 2016, 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	10,520	-	-	52,258
Trade payables and other current liabilities(1)	13,841	-	-	-	-	-	13,841
Operating leases	1,008	3,878	3,706	3,550	3,525	10,632	26,299
Purchase commitments	847	-	-	-	-	-	847
Other long term debt	206	747	99	-	-	-	1,052
Total	$ 15,902	$ 25,494	$ 24,674	$ 279,070	$ 3,525	$ 10,632	$ 359,297

(1) Trade payables and other current liabilities exclude interest accrued as at September 30, 2016 on the Senior Notes.