

Western Energy Services Corp.
Condensed Consolidated Financial Statements
September 30, 2014 and 2013
(Unaudited)

Western Energy Services Corp.

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

	Note	September 30, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents		\$ 41,051	\$ 17,389
Trade and other receivables		87,722	90,519
Other current assets		4,451	5,576
		133,224	113,484
Non current assets			
Property and equipment	6	816,825	783,225
Goodwill		90,424	88,710
Other non current assets		500	1,373
		\$ 1,040,973	\$ 986,792
Liabilities			
Current liabilities			
Trade payables and other current liabilities		\$ 54,527	\$ 56,317
Dividends payable		5,615	5,504
Current portion of provisions		139	139
Current portion of long term debt	7	1,031	908
		61,312	62,868
Non current liabilities			
Provisions		1,852	1,957
Long term debt	7	263,624	262,877
Deferred taxes		106,664	95,665
		433,452	423,367
Shareholders' equity			
Share capital	8	423,575	411,143
Contributed surplus		5,466	6,088
Retained earnings		167,402	139,721
Accumulated other comprehensive income		9,772	5,171
Non controlling interest		1,306	1,302
		607,521	563,425
		\$ 1,040,973	\$ 986,792

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

Western Energy Services Corp.

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

	Note	Three months ended Sept 30		Nine months ended Sept 30	
		2014	2013	2014	2013
Revenue		\$ 125,225	\$ 101,389	\$ 368,622	\$ 250,230
Operating expenses		90,891	77,375	265,079	188,079
Gross profit		34,334	24,014	103,543	62,151
Administrative expenses		9,154	8,116	26,133	22,968
Finance costs	11	5,155	4,149	15,885	11,903
Other items		(218)	175	384	133
Income before income taxes		20,243	11,574	61,141	27,147
Income taxes	12	5,525	3,647	16,527	7,698
Net income		14,718	7,927	44,614	19,449
Other comprehensive income ⁽¹⁾					
Loss (gain) on translation of foreign operations		(2,437)	936	(2,559)	(1,567)
Loss on change in fair value of available for sale assets (net of tax)		-	-	-	1,621
Unrealized foreign exchange loss (gain) on net investment in subsidiary (net of tax)		(2,141)	728	(2,042)	(1,200)
Comprehensive income		\$ 19,296	\$ 6,263	\$ 49,215	\$ 20,595
Net income attributable to:					
Shareholders of the Company		\$ 14,651	\$ 7,863	\$ 44,442	\$ 19,373
Non controlling interest		67	64	172	76
Comprehensive income attributable to:					
Shareholders of the Company		\$ 19,229	\$ 6,199	\$ 49,043	\$ 20,519
Non controlling interest		67	64	172	76
Net income per share:					
Basic		\$ 0.20	\$ 0.11	\$ 0.60	\$ 0.29
Diluted		0.19	0.11	0.59	0.28
Weighted average number of shares:					
Basic	10	74,849,483	73,351,805	74,232,921	67,569,459
Diluted	10	75,742,044	73,793,367	75,641,911	68,587,001

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

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

Western Energy Services Corp.

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

	Note	Share capital	Contributed surplus ⁽¹⁾	Retained earnings	Accumulated other comprehensive income ⁽²⁾	Non controlling interest	Total shareholders' equity
Balance at December 31, 2012		\$ 322,878	\$ 4,689	\$ 125,579	\$ 1,644	\$ -	\$ 454,790
Common shares:							
Issued common shares on acquisition	8	83,999	-	-	-	-	83,999
Issued for cash on exercise of stock options	8	192	-	-	-	-	192
Issued for cash on exercise of warrants	8	2,939	-	-	-	-	2,939
Fair value of exercised options and warrants	8	1,078	(1,078)	-	-	-	-
Stock based compensation		-	1,826	-	-	-	1,826
Dividends declared		-	-	(15,478)	-	-	(15,478)
Non controlling interest acquired		-	-	-	-	1,110	1,110
Contributions from non controlling interest		-	-	-	-	70	70
Comprehensive income		-	-	19,373	1,146	76	20,595
Balance at September 30, 2013		411,086	5,437	129,474	2,790	1,256	550,043
Common shares:							
Issued for cash on exercise of warrants	8	43	-	-	-	-	43
Fair value of exercised options and warrants	8	14	(14)	-	-	-	-
Stock based compensation		-	665	-	-	-	665
Dividends declared		-	-	(5,504)	-	-	(5,504)
Comprehensive income		-	-	15,751	2,381	46	18,178
Balance at December 31, 2013		\$ 411,143	\$ 6,088	\$ 139,721	\$ 5,171	\$ 1,302	\$ 563,425
Common shares:							
Issued for cash on exercise of stock options	8	9,307	-	-	-	-	9,307
Issued for cash on exercise of warrants	8	227	-	-	-	-	227
Fair value of exercised options and warrants	8	2,898	(2,898)	-	-	-	-
Stock based compensation		-	2,276	-	-	-	2,276
Dividends declared		-	-	(16,761)	-	-	(16,761)
Comprehensive income		-	-	44,442	4,601	172	49,215
Distributions to non controlling interest		-	-	-	-	(168)	(168)
Balance at September 30, 2014		\$ 423,575	\$ 5,466	\$ 167,402	\$ 9,772	\$ 1,306	\$ 607,521

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

(2) At September 30, 2014, 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	2014	2013	2014	2013
Operating activities					
Net income		\$ 14,718	\$ 7,927	\$ 44,614	\$ 19,449
Adjustments for:					
Depreciation included in operating expenses		16,042	13,262	45,251	31,785
Depreciation included in administrative expenses		448	347	1,332	1,086
Non cash stock based compensation included in operating expenses	9	194	271	611	643
Non cash stock based compensation included in administrative expenses	9	829	519	1,665	1,183
Loss (gain) on sale of assets		52	36	(85)	(1,228)
Income taxes	12	5,525	3,647	16,527	7,698
Unrealized foreign exchange (gain) loss		(122)	61	(36)	6
Finance costs	11	5,155	4,149	15,885	11,903
Other		(37)	(526)	670	(666)
Cash generated from operating activities		42,804	29,693	126,434	71,859
Income taxes paid		(169)	-	(538)	(6,786)
Change in non cash working capital		(19,660)	(23,026)	7,625	12,419
Cash flow from operating activities		22,975	6,667	133,521	77,492
Investing activities					
Additions to property and equipment	6	(31,144)	(31,002)	(77,533)	(67,705)
Proceeds on sale of property and equipment		614	3,863	1,324	4,509
Business acquisitions		-	-	-	(62,898)
Proceeds on sale of investments		-	-	-	34,444
Changes in non cash working capital		(5,645)	(618)	(6,409)	432
Cash flow used in investing activities		(36,175)	(27,757)	(82,618)	(91,218)
Financing activities					
Issue of common shares	8	617	106	9,534	3,131
Repayment of long term debt		(313)	(60,166)	(723)	(49,527)
Issuance of senior notes		-	91,463	-	91,463
Issue costs of senior notes		-	(1,058)	-	(1,058)
Finance costs paid		(9,932)	(5,998)	(19,234)	(13,080)
Dividends paid		(5,609)	(5,501)	(16,650)	(14,444)
Contributions from (distributions to) non controlling interest		-	-	(168)	70
Change in non cash working capital		-	-	-	600
Cash flow from (used in) financing activities		(15,237)	18,846	(27,241)	17,155
Increase (decrease) in cash and cash equivalents		(28,437)	(2,244)	23,662	3,429
Cash and cash equivalents, beginning of period		69,488	12,261	17,389	6,588
Cash and cash equivalents, end of period		\$ 41,051	\$ 10,017	\$ 41,051	\$ 10,017
Cash and cash equivalents:					
Bank accounts		\$ 8,551	\$ 5,017	\$ 8,551	\$ 5,017
Short term investments		32,500	5,000	32,500	5,000
		\$ 41,051	\$ 10,017	\$ 41,051	\$ 10,017

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

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited), page 1

(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 under the symbol "WRG". These condensed consolidated financial statements as at September 30, 2014 and for the three and nine months ended September 30, 2014 and 2013 (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. Subsequent to the acquisition of IROC Energy Services Corp. ("IROC") on April 22, 2013, Western provides well servicing operations through Western Energy Services Partnership's (the "Partnership") division, Eagle Well Servicing ("Eagle"). Previously, well servicing operations were conducted through Western's division, Matrix Well Servicing ("Matrix"). Western also provides oilfield rental services through the Partnership's division, Aero Rental Services ("Aero"). Financial and operating results for Eagle and Aero from the date of the acquisition, as well as Matrix, are included in Western's production services segment.

2. Basis of preparation and significant accounting policies:

Statement of compliance:

These Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board. 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, 2013 and for the years ended December 31, 2013 and 2012 as filed on SEDAR at www.sedar.com and, as such, they should be read in conjunction with said statements.

As at January 1, 2014, the Company adopted the following standard:

- IAS 36, Impairment of Assets – Amendments to IAS 36 require entities to disclose the recoverable amount of an impaired Cash Generating Unit ("CGU"). The Company assessed the effect of IAS 36 on its financial results and financial position and will adopt these disclosures in the annual financial statements.

These Financial Statements were approved for issuance by Western's Board of Directors on October 30, 2014.

3. Seasonality:

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

4. Operating segments:

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

Senior Management reviews internal management reports for these segments on at least a monthly basis.

Information regarding the results of the segments are 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 cash operating expenses, cash administrative expenses and depreciation expense.

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited), page 2

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

4. Operating segments (continued):

The following is a summary of the Company's results by segment for the three and nine months ended September 30, 2014 and 2013:

Three months ended September 30, 2014	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	\$ 92,249	\$ 33,214	\$ -	\$ (238)	\$ 125,225
Operating earnings (loss)	21,681	6,302	(1,691)	-	26,292
Finance costs	-	-	5,155	-	5,155
Depreciation	12,237	3,969	284	-	16,490
Additions to property and equipment ⁽¹⁾	26,620	4,957	159	-	31,736

Three months ended September 30, 2013	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	\$ 74,346	\$ 27,072	\$ -	\$ (29)	\$ 101,389
Operating earnings (loss)	14,551	3,723	(1,586)	-	16,688
Finance costs	-	-	4,149	-	4,149
Depreciation	9,957	3,379	273	-	13,609
Additions to property and equipment ⁽¹⁾	28,097	3,200	212	-	31,509

Nine months ended September 30, 2014	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	\$ 273,832	\$ 96,036	\$ -	\$ (1,246)	\$ 368,622
Operating earnings (loss)	68,233	16,141	(4,599)	-	79,775
Finance costs	-	-	15,885	-	15,885
Depreciation	34,147	11,595	841	-	46,583
Additions to property and equipment ⁽¹⁾	67,975	8,090	220	-	76,285

Nine months ended September 30, 2013	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	\$ 209,295	\$ 40,964	\$ -	\$ (29)	\$ 250,230
Operating earnings (loss)	43,088	2,958	(5,037)	-	41,009
Finance costs	-	-	11,903	-	11,903
Depreciation	26,507	5,541	823	-	32,871
Additions to property and equipment ⁽¹⁾	62,322	174,216	585	-	237,123

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

	Contract Drilling	Production Services	Total
Goodwill			
Balance at December 31, 2012	\$ 55,527	\$ -	\$ 55,527
Additions: IROC acquisition	-	33,183	33,183
Balance at December 31, 2013	55,527	33,183	88,710
Adjustments: IROC acquisition (note 5)	-	1,714	1,714
Balance at September 30, 2014	\$ 55,527	\$ 34,897	\$ 90,424

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited), page 3

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

4. Operating segments (continued):

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

As at September 30, 2014	Contract		Production	Corporate	Total
	Drilling	Services			
Total assets	\$ 751,989	\$ 233,255	\$ 55,729	\$ 1,040,973	
Total liabilities	123,852	40,726	268,874	433,452	

As at September 30, 2013	Contract		Production	Corporate	Total
	Drilling	Services			
Total assets	\$ 693,150	\$ 233,615	\$ 21,071	\$ 947,836	
Total liabilities	91,149	33,871	272,773	397,793	

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2014	2013	2014	2013
Operating earnings	\$ 26,292	\$ 16,688	\$ 79,775	\$ 41,009
Add (deduct):				
Stock based compensation	(1,112)	(790)	(2,365)	(1,826)
Finance costs	(5,155)	(4,149)	(15,885)	(11,903)
Other items	218	(175)	(384)	(133)
Income before income taxes	\$ 20,243	\$ 11,574	\$ 61,141	\$ 27,147

Segmented information by geographic area is as follows:

As at and for the period ended September 30, 2014	Canada	United States	Total
Revenue: three months ended	\$ 111,814	\$ 13,411	\$ 125,225
Revenue: nine months ended	332,566	36,056	368,622
Property and equipment	706,220	110,605	816,825
Total assets	919,237	121,736	1,040,973

As at and for the period ended September 30, 2013	Canada	United States	Total
Revenue: three months ended	\$ 91,052	\$ 10,337	\$ 101,389
Revenue: nine months ended	226,978	23,252	250,230
Property and equipment	681,840	88,930	770,770
Total assets	850,741	97,095	947,836

Significant Customers:

For the three and nine months ended September 30, 2014, the Company had one significant customer comprising 12.8% and 13.5% respectively, of the Company's total revenue. The trade receivable balance related to this customer as at September 30, 2014 represented 10.7% of the Company's total trade and other receivables. This customer is a publicly traded company with a market capitalization in excess of \$45 billion at September 30, 2014.

For the three months ended September 30, 2013, the Company had two significant customers comprising 11.5% and 10.6% respectively, of the Company's total revenue. For the nine months ended September 30, 2013, the Company had one significant customer comprising 11.2% of the Company's total revenue.

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited), page 4

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

5. Business acquisition:

IROC Energy Services Corp. ("IROC")

On April 22, 2013, Western acquired all of the issued and outstanding common shares of IROC as described in Note 6 on the December 31, 2013 audited financial statements. During the second quarter of 2014, adjustments were made to the fair values of the assets acquired in the acquisition. The impact of these adjustments on the purchase price allocation resulted in an increase in net working capital of \$0.2 million, a decrease in the deferred tax liability of \$0.6 million and a decrease in property and equipment equal to \$2.5 million which aggregated to a net increase in goodwill of \$1.7 million. As at June 30, 2014, the purchase price allocation was final.

6. 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, 2012	\$ 4,974	\$ 3,636	\$ 593,463	\$ 17,944	\$ 9,157	\$ 1,722	\$ 630,896
Acquisition: business combination	115	145	-	166,283	1,508	405	168,456
Additions	-	8	86,446	7,713	1,067	-	95,234
Finance lease additions	-	-	-	-	-	608	608
Disposals	-	-	(2,129)	(4,259)	(62)	(287)	(6,737)
Impact of foreign exchange	-	-	6,212	-	149	11	6,372
Balance at December 31, 2013	5,089	3,789	683,992	187,681	11,819	2,459	894,829
Acquisition: business combination (Note 5)	-	-	-	(2,453)	-	-	(2,453)
Additions	-	27	67,163	9,829	514	-	77,533
Finance lease additions	-	-	-	-	-	1,205	1,205
Disposals	-	-	(1,166)	(784)	-	(308)	(2,258)
Impact of foreign exchange	-	-	5,931	-	27	11	5,969
Balance at September 30, 2014	\$ 5,089	\$ 3,816	\$ 755,920	\$ 194,273	\$ 12,360	\$ 3,367	\$ 974,825
Accumulated depreciation:							
Balance at December 31, 2012	\$ -	\$ 301	\$ 60,198	\$ 384	\$ 1,481	\$ 375	\$ 62,739
Depreciation for the year	-	162	37,274	9,356	1,848	492	49,132
Disposals	-	-	(639)	(52)	(47)	(105)	(843)
Impact of foreign exchange	-	-	563	-	9	4	576
Balance at December 31, 2013	-	463	97,396	9,688	3,291	766	111,604
Depreciation for the period	-	130	33,555	10,926	1,472	500	46,583
Disposals	-	-	(510)	(288)	-	(221)	(1,019)
Impact of foreign exchange	-	-	815	-	13	4	832
Balance at September 30, 2014	\$ -	\$ 593	\$ 131,256	\$ 20,326	\$ 4,776	\$ 1,049	\$ 158,000
Carrying amounts:							
At December 31, 2013	\$ 5,089	\$ 3,326	\$ 586,596	\$ 177,993	\$ 8,528	\$ 1,693	\$ 783,225
At September 30, 2014	\$ 5,089	\$ 3,223	\$ 624,664	\$ 173,947	\$ 7,584	\$ 2,318	\$ 816,825

Assets under construction:

Included in property and equipment at September 30, 2014 are assets under construction of \$32.9 million (December 31, 2013: \$16.5 million) which includes five drilling rig builds and one slant well servicing rig build, as well as ancillary drilling and well servicing equipment.

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited), page 5

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

7. Long term debt:

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

	September 30, 2014	December 31, 2013
Current:		
Other long term debt - current portion ⁽¹⁾	\$ 1,031	\$ 908
Total current portion of long term debt	1,031	908
Non current:		
Senior Notes	265,000	265,000
Less: net unamortized premium and issue costs on Senior Notes	(2,251)	(2,635)
Other long term debt - non current portion ⁽¹⁾	875	512
Total non current portion of long term debt	263,624	262,877
Total long term debt	\$ 264,655	\$ 263,785

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

Credit facilities:

Western's credit facilities consist of a \$10.0 million operating demand revolving loan (the "Operating Facility") and a \$125.0 million committed four year extendible revolving credit facility (the "Revolving Facility"). The maturity date on the Revolving Facility is October 18, 2017. The Operating Facility principal balance is due on demand with interest paid monthly. 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.

Amounts borrowed under the Operating and Revolving Facilities bear interest at the bank's Canadian prime rate, US base rate, LIBOR, or the banker's acceptance rate plus an applicable margin depending, in each case, on the ratio of Consolidated Debt to Consolidated EBITDA as defined by the relevant agreement. The credit facilities are secured by the assets of Western and its subsidiaries. As at September 30, 2014, the Company had \$125.0 million in available credit under the Revolving Facility and \$10.0 million under the Operating Facility.

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

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

(1) In the event of a material acquisition during any fiscal quarter, the ratio shall increase by 0.50 for 90 days following the material acquisition.

(2) 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.

As at September 30, 2014 and December 31, 2013, the Company was in compliance with all covenants related to its credit facilities.

Senior Notes:

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

At September 30, 2014, the fair value of the Senior Notes was approximately \$279.9 million (December 31, 2013: \$270.3 million).

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited), page 6

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

8. Share capital:

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

	Issued and outstanding shares	Amount
Balance at December 31, 2012	59,582,143	\$ 322,878
Issued for cash on exercise of stock options	31,666	192
Issued for cash on exercise of warrants	1,419,550	2,982
Fair value of exercised stock options and warrants	-	1,092
Issued on acquisition of IROC	12,352,832	83,999
Balance at December 31, 2013	73,386,191	411,143
Issued for cash on exercise of stock options	1,388,976	9,307
Issued for cash on exercise of warrants	108,261	227
Fair value of exercised stock options and warrants	-	2,898
Balance at September 30, 2014	74,883,428	\$ 423,575

During the three and nine months ended September 30, 2014, the Company declared dividends of \$5.6 million and \$16.8 million respectively. During the three and nine months ended September 30, 2013, \$5.5 million and \$15.5 million in dividends were declared, respectively, and for the year ended December 31, 2013, \$21.0 million in dividends were declared. The Company had dividends payable of \$5.6 million as at September 30, 2014 (December 31, 2013: \$5.5 million).

9. Stock based compensation:

Stock options:

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

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

	Stock options outstanding	Weighted average exercise price
Balance at December 31, 2012	2,522,733	\$ 7.08
Granted	2,335,000	7.03
Exercised	(31,666)	6.06
Forfeited	(400,469)	7.48
Balance at December 31, 2013	4,425,598	7.02
Granted	2,392,623	9.48
Exercised	(1,388,976)	6.78
Forfeited	(339,500)	7.67
Balance at September 30, 2014	5,089,745	\$ 8.20

For the three and nine months ended September 30, 2014, no stock options were cancelled under the plan. As at September 30, 2014, Western had 1,012,588 (December 31, 2013: 1,289,509) exercisable stock options outstanding at a weighted average exercise price equal to \$7.10 (December 31, 2013: \$6.96) per stock option.

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited), page 7

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

9. Stock based compensation (continued):

Restricted share unit plan:

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. Although the TSX has accepted the adoption of the RSU plan, the RSU plan and RSUs granted thereunder prior to the receipt of shareholder approval of the RSU plan remain subject to shareholder ratification, which will be sought at the Company's next annual 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 Company.

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

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

	Equity settled	Cash settled	Total
Balance at December 31, 2013 and 2012	-	-	-
Granted	144,051	131,038	275,089
Forfeited	(300)	(217)	(517)
Balance at September 30, 2014	143,751	130,821	274,572

Stock based compensation expense is comprised of the following:

	Three months ended Sept 30		Nine months ended Sept 30	
	2014	2013	2014	2013
Stock options	\$ 935	\$ 790	\$ 2,188	\$ 1,826
Restricted share units - equity settled grants	88	-	88	-
Restricted share units - cash settled grants	89	-	89	-
Total stock based compensation expense	\$ 1,112	\$ 790	\$ 2,365	\$ 1,826

Warrants:

The following table summarizes Western's outstanding warrants:

	Warrants outstanding	Weighted average exercise price
Balance at December 31, 2012	1,527,811	\$ 2.10
Exercised	(1,419,550)	2.10
Balance at December 31, 2013	108,261	2.10
Exercised	(108,261)	2.10
Balance at September 30, 2014	-	\$ -

Each warrant entitled the holder to purchase one common share of Western. As at September 30, 2014, all warrants have been exercised.

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited), page 8

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

10. Earnings per share:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2014	2013	2014	2013
Issued common shares, beginning of period	74,780,175	73,343,763	73,386,191	59,582,143
Effect of shares issued	69,308	8,042	846,730	7,987,316
Weighted average number of common shares (basic)	74,849,483	73,351,805	74,232,921	67,569,459
Dilutive effect of equity securities	892,561	441,562	1,408,990	1,017,542
Weighted average number of common shares (diluted)	75,742,044	73,793,367	75,641,911	68,587,001

For the three and nine months ended September 30, 2014, 1,726,123 stock options (three and nine months ended September 30, 2013: 1,268,267 and 3,407,933 options respectively) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

11. Finance costs:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2014	2013	2014	2013
Interest expense on long term debt	\$ 5,096	\$ 3,965	\$ 15,616	\$ 11,406
Amortization of debt financing fees and provisions	166	187	498	709
Interest and dividend income	(107)	(3)	(229)	(212)
Total finance costs	\$ 5,155	\$ 4,149	\$ 15,885	\$ 11,903

For the three and nine months ended September 30, 2014, the Company incurred interest and financing costs of approximately \$5.5 million and \$16.4 million respectively (three and nine months ended September 30, 2013: \$4.5 million and \$12.7 million respectively), which includes capitalized interest of \$0.3 million and \$0.5 million respectively (three and nine months ended September 30, 2013: \$0.4 million and \$0.8 million respectively), on its long term debt (see Note 7). The Company had an effective interest rate of 7.9% on its borrowings for the three and nine months ended September 30, 2014 (three and nine months ended September 30, 2013: 6.7% and 7.0% respectively).

12. Income taxes:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2014	2013	2014	2013
Current tax expense	\$ 1,987	\$ 289	\$ 5,788	\$ 289
Deferred tax expense	3,538	3,358	10,739	7,409
Total income taxes	\$ 5,525	\$ 3,647	\$ 16,527	\$ 7,698

As at September 30, 2014, the Company has gross loss carry forwards equal to approximately US\$43.5 million in the United States which expire between 2028 and 2034 and approximately \$6.0 million in Canada which expire by 2034.

13. Costs by nature:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2014	2013	2014	2013
Depreciation of property and equipment (Note 6)	\$ 16,490	\$ 13,609	\$ 46,583	\$ 32,871
Employee benefits: salaries and benefits	53,569	44,609	156,454	111,044
Employee benefits: stock based compensation (Note 9)	1,112	790	2,365	1,826
Repairs and maintenance	8,286	6,819	20,814	14,928
Third party charges	7,265	5,792	23,683	16,937

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited), page 9

(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 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 the trading price on September 30, 2014.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2013.

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 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 derivatives and the Senior Notes is based on Level II inputs as the inputs are directly observable through correlation with market data.

Capital management:

The capital structure of the Company at September 30, 2014 is as follows:

	Note	September 30, 2014	December 31, 2013
Other long term debt	7	\$ 1,906	\$ 1,420
Senior Notes	7	265,000	265,000
Total debt		266,906	266,420
Shareholders' equity		607,521	563,425
Less: cash and cash equivalents		(41,051)	(17,389)
Total capitalization		\$ 833,376	\$ 812,456

15. Commitments:

As at September 30, 2014, the Company has total commitments which require payments based on the maturity terms as follows:

	2014	2015	2016	2017	2018	Thereafter	Total
Senior Notes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 265,000	\$ 265,000
Senior Notes interest	-	20,869	20,869	20,869	20,869	10,434	93,910
Trade payables and other current liabilities	54,527	-	-	-	-	-	54,527
Dividends payable	5,615	-	-	-	-	-	5,615
Operating leases	1,096	4,324	3,276	2,444	2,374	14,168	27,682
Purchase commitments	30,730	4,733	-	-	-	-	35,463
Other long term debt	404	934	567	215	-	-	2,120
Total	\$ 92,372	\$ 30,860	\$ 24,712	\$ 23,528	\$ 23,243	\$ 289,602	\$ 484,317

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited), page 10

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

16. Subsequent event:

On October 30, 2014, the Board of Directors of Western declared a quarterly dividend of \$0.075 per share, payable on January 15, 2015, to shareholders of record at the close of business on December 31, 2014. The dividends will be eligible dividends for Canadian income tax purposes.