

Western Energy Services Corp.
Consolidated Financial Statements
December 31, 2014 and 2013

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 26, 2015

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, 2014 and 2013, and the consolidated statement of operations and comprehensive 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

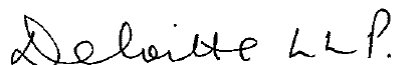
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain 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, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Accountants

February 26, 2015
Calgary, Alberta

Western Energy Services Corp.

Consolidated Balance Sheets
(thousands of Canadian dollars)

	Note	December 31, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents		\$ 62,662	\$ 17,389
Trade and other receivables	7	89,817	90,519
Other current assets	8	6,344	5,576
		158,823	113,484
Non current assets			
Property and equipment	9	827,306	783,225
Goodwill	10	69,607	88,710
Other non current assets	8	1,382	1,373
		\$ 1,057,118	\$ 986,792
Liabilities			
Current liabilities			
Trade payables and other current liabilities	11	\$ 73,671	\$ 56,317
Dividends payable		5,615	5,504
Current portion of provisions	12	139	139
Current portion of long term debt	13	1,062	908
		80,487	62,868
Non current liabilities			
Provisions	12	1,819	1,957
Long term debt	13	264,165	262,877
Deferred taxes	19	109,444	95,665
		455,915	423,367
Shareholders' equity			
Share capital	14	423,633	411,143
Contributed surplus		6,815	6,088
Retained earnings		153,544	139,721
Accumulated other comprehensive income		15,125	5,171
Non controlling interest		2,086	1,302
		601,203	563,425
		\$ 1,057,118	\$ 986,792

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 Income
(thousands of Canadian dollars except share and per share amounts)

	Note	Year ended December 31, 2014	Year ended December 31, 2013
Revenue		\$ 507,832	\$ 379,943
Operating expenses		363,603	280,980
Impairment of property and equipment	9	7,247	-
Gross profit		136,982	98,963
Administrative expenses		35,057	33,163
Finance costs	17	20,782	17,058
Other items	18	(286)	496
Impairment of goodwill	10	22,668	-
Income before income taxes		58,761	48,246
Income taxes	19	22,311	13,000
Net income		36,450	35,246
Other comprehensive income ⁽¹⁾			
Gain on translation of foreign operations		(6,296)	(3,034)
Loss on change in fair value of available for sale assets (net of tax)		-	1,621
Unrealized foreign exchange gain on net investment in subsidiary (net of tax)		(3,658)	(2,114)
Comprehensive income		\$ 46,404	\$ 38,773
Net income attributable to:			
Shareholders of the Company		\$ 36,199	\$ 35,124
Non controlling interest		251	122
Comprehensive income attributable to:			
Shareholders of the Company		\$ 46,153	\$ 38,651
Non controlling interest		251	122
Net income per share:			
Basic		\$ 0.49	\$ 0.51
Diluted		0.48	0.50
Weighted average number of shares:			
Basic	16	74,396,701	69,032,574
Diluted	16	75,427,149	69,873,460

(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 Statements 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, 2012		\$ 322,878	\$ 4,689	\$ 125,579	\$ 1,644	\$ -	\$ 454,790
Common shares:							
Issued common shares on acquisition	14	83,999	-	-	-	-	83,999
Issued for cash on exercise of stock options	14	192	-	-	-	-	192
Issued for cash on exercise of warrants	14	2,982	-	-	-	-	2,982
Fair value of exercised options and warrants	14	1,092	(1,092)	-	-	-	-
Stock based compensation	15	-	2,491	-	-	-	2,491
Dividends declared		-	-	(20,982)	-	-	(20,982)
Non controlling interest acquired		-	-	-	-	1,110	1,110
Contributions from non controlling interest		-	-	-	-	70	70
Comprehensive income		-	-	35,124	3,527	122	38,773
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	14	9,460	-	-	-	-	9,460
Issued for cash on exercise of warrants	14	227	-	-	-	-	227
Purchased under normal course issuer bid	14	(127)	-	-	-	-	(127)
Fair value of exercised options and warrants	14	2,930	(2,930)	-	-	-	-
Stock based compensation	15	-	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

(1) Contributed surplus relates to stock based compensation described in Note 15.

(2) At December 31, 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 consolidated financial statements.

Western Energy Services Corp.

Consolidated Statements of Cash Flows
(thousands of Canadian dollars)

	Note	Year ended December 31, 2014	Year ended December 31, 2013
Operating activities			
Net income		\$ 36,450	\$ 35,246
Adjustments for:			
Depreciation included in operating expenses		61,991	47,701
Depreciation included in administrative expenses		1,776	1,431
Stock based compensation included in operating expenses	15	936	895
Stock based compensation included in administrative expenses	15	2,721	1,596
Loss on sale of assets		9	1,137
Gain on sale of investments		-	(1,234)
Impairment of property and equipment	9	7,247	-
Impairment of goodwill	10	22,668	-
Income taxes	19	22,311	13,000
Finance costs	17	20,782	17,058
Other		35	(1,321)
Cash generated from operating activities		176,926	115,509
Income taxes paid		(754)	(6,965)
Change in non-cash working capital		5,179	5,814
Cash flow from operating activities		181,351	114,358
Investing activities			
Additions to property and equipment	9	(108,604)	(95,234)
Proceeds on sale of property and equipment		2,033	4,757
Business acquisitions		-	(62,898)
Proceeds from sale of investments		-	34,446
Changes in non-cash working capital		2,738	4,059
Cash flow used in investing activities		(103,833)	(114,870)
Financing activities			
Issue of common shares	14	9,687	3,174
Share purchase under normal course issuer bid	14	(127)	-
Repayment of long term debt		(1,013)	(49,823)
Issuance of senior notes		-	91,463
Issue costs of senior notes		-	(1,332)
Finance costs paid		(19,059)	(12,893)
Dividends paid		(22,266)	(19,946)
Contributions from non controlling interest		533	70
Change in non-cash working capital		-	600
Cash flow (used in) from financing activities		(32,245)	11,313
Increase in cash and cash equivalents		45,273	10,801
Cash and cash equivalents, beginning of year		17,389	6,588
Cash and cash equivalents, end of year		\$ 62,662	\$ 17,389
Cash and cash equivalents:			
Bank accounts		\$ 15,662	\$ 7,889
Short term investments		47,000	9,500
		\$ 62,662	\$ 17,389

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

Western Energy Services Corp.

Notes to the consolidated financial statements, 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 ("TSX") under the symbol "WRG". These consolidated financial statements as at and for the years ended December 31, 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 of IROC, as well as Matrix are included in Western's production services segment.

2. Basis of preparation:

(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 26, 2015.

(b) Basis of measurement:

These Financial Statements have been prepared on the historical cost basis except for the following items in the balance sheet:

- (i) derivative financial instruments are measured at fair value;
- (ii) financial instruments at fair value through profit or loss are measured at fair value; and
- (iii) financial instruments classified as available for sale are measured at fair value.

(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, are eliminated in preparing these Financial Statements.

A portion of the Company's operations are conducted through an arrangement 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 the arrangement. As a result, the Company fully consolidates the arrangement and has recorded a non controlling interest in equity and net income.

Western Energy Services Corp.

Notes to the consolidated financial statements, page 2

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

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.

Western Energy Services Corp.

Notes to the consolidated financial statements, page 3

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

3. Significant accounting policies (continued):

(d) Financial instruments (continued):

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.

(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, 2014 and 2013 relates to the early redemption option on the Senior Notes.

Western Energy Services Corp.

Notes to the consolidated financial statements, page 4

(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 drilling operating days	10-20%	Unit-of-production
Drill pipe	1,600 drilling operating days	10%	Unit-of-production
Major inspections and overhauls	1,000 drilling operating days	-	Unit-of-production
Ancillary drilling equipment	5 to 10 years	-	Straight-line
Well servicing rigs and related equipment	22,000 to 44,000 service hours	10-20%	Unit-of-production
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. 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.

(i) Inventory:

Inventory is measured at the lower of cost and net realizable value. 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.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

Western Energy Services Corp.

Notes to the consolidated financial statements, page 5

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

3. Significant accounting policies (continued):

(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 other assets, 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.

(ii) Stock based compensation awards:

Stock based compensation expense relates to stock options and cash and equity settled restricted share units ("RSUs"). The grant date fair values of stock option and equity settled RSU awards 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 reclassified into share capital. Upon vesting of equity settled RSUs, the related contributed surplus associated with the RSU award is reclassified into share capital.

Western Energy Services Corp.

Notes to the consolidated financial statements, page 6

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

3. Significant accounting policies (continued):

(k) Employee benefits (continued):

(ii) Stock based compensation awards (continued):

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.

(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.

Western Energy Services Corp.

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

3. Significant accounting policies (continued):

(p) Income tax (continued):

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 an 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.

(s) Standards adopted in the year:

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

- International Accounting Standard ("IAS") 36, Impairment of Assets – Amendments to IAS 36 requires entities to disclose the recoverable amount of an individual asset or impaired CGU. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014 and require retrospective application. For the year ended December 31, 2014, the Company has recorded an impairment loss on property and equipment, as well as goodwill, and has disclosed the recoverable amounts in Notes 9 and 10, respectively, of the financial statements.

(t) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended December 31, 2014, and have not been applied in preparing these Financial Statements.

Western Energy Services Corp.

Notes to the consolidated financial statements, page 8

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

3. Significant accounting policies (continued):

(t) New standards and interpretations not yet adopted (continued):

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, 2017, 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.

4. Critical accounting judgments and key sources of estimation uncertainty:

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates 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.

Key sources of estimation uncertainty:

A number of the Company's accounting policies and disclosures require key assumptions concerning the future, and other key sources of estimation uncertainty 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 judgments and key sources of estimation uncertainty 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 is 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 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.

Property and equipment:

The fair value of property and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of equipment is based on market and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

The value in use calculation associated with property and equipment used for impairment assessments 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.

Goodwill:

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value.

Western Energy Services Corp.

Notes to the consolidated financial statements, page 9

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

4. Critical accounting judgments and key sources of estimation uncertainty (continued):

(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.

(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) Determination of functional currency:

The determination of functional currency is a matter of determining the primary economic environment in which an entity operates. IAS 21, *The Effects of Changes in Foreign Exchange Rates*, sets out a number of factors to apply in making the determination of the functional currency. However, applying the factors in IAS 21 does not always result in a clear indication of functional currency. Where IAS 21 factors indicate differing functional currencies within a subsidiary, the Company uses judgment in the ultimate determination of that subsidiary's functional currency. Judgment was applied in the determination of the functional currency of certain of the Company's operating entities.

(e) Stock based awards:

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 are measured using the amount expected to vest and 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.

(f) Non-derivative financial liabilities:

As detailed in the Company's accounting policy, 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 are 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.

Western Energy Services Corp.

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5. 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 services 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 is included below. Performance is measured based on segment profit, as included in internal management reports. Segment profit 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. Segment profit is calculated as revenue less cash operating expenses, cash administrative expenses and depreciation expense.

The following is a summary of the Company's results by segment for the years ended December 31, 2014 and 2013:

Year ended December 31, 2014	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	\$ 376,607	\$ 132,614	\$ -	\$ (1,389)	\$ 507,832
Segment profit (loss)	96,278	23,275	(6,543)	-	113,010
Finance costs	-	-	20,782	-	20,782
Impairment of property and equipment	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, non-cash capital asset additions and property and equipment acquired through business acquisitions.

Year ended December 31, 2013	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	\$ 308,022	\$ 72,270	\$ -	\$ (349)	\$ 379,943
Segment profit (loss)	71,057	6,538	(9,304)	-	68,291
Finance costs	-	-	17,058	-	17,058
Depreciation	38,106	9,923	1,103	-	49,132
Additions to property and equipment ⁽¹⁾	86,911	176,777	610	-	264,298

(1) Additions include the purchase of property and equipment, non-cash capital asset additions and property and equipment acquired through business acquisitions.

Goodwill	Contract Drilling	Production Services	Total
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
Impairment of goodwill	-	(22,668)	(22,668)
Foreign exchange adjustment	1,851	-	1,851
Adjustments: IROC acquisition (Note 6)	-	1,714	1,714
Balance at December 31, 2014	\$ 57,378	\$ 12,229	\$ 69,607

Western Energy Services Corp.

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

5. Operating segments (continued):

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

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

As at December 31, 2013	Contract Drilling	Production Services	Corporate	Total
Total assets	\$ 726,591	\$ 235,309	\$ 24,892	\$ 986,792
Total liabilities	109,359	35,901	278,107	423,367

A reconciliation of segment profit to income before income taxes is as follows:

	Year ended December 31, 2014	Year ended December 31, 2013
Segment profit	\$ 113,010	\$ 68,291
Add (deduct):		
Stock based compensation	(3,838)	(2,491)
Finance costs	(20,782)	(17,058)
Other items	286	(496)
Impairment of property and equipment	(7,247)	-
Impairment of goodwill	(22,668)	-
Income before income taxes	\$ 58,761	\$ 48,246

Segmented information by geographic area is as follows:

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

As at and for the year ended December 31, 2013	Canada	United States	Total
Revenue	\$ 345,308	\$ 34,635	\$ 379,943
Property and equipment	691,351	91,874	783,225
Total assets	885,195	101,597	986,792

Significant customers:

For the year ended December 31, 2014, the Company had one significant customer comprising 13.1% of the Company's total revenue. The trade receivable balances related to this customer as at December 31, 2014 represented 9.8% of the Company's total trade and other receivables. This customer is a publicly traded company with a market capitalization in excess of \$35 billion. For the year ended December 31, 2013, the Company had one significant customer comprising 10.8% of the Company's total revenue.

Western Energy Services Corp.

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6. Business acquisition:

IROC Energy Services Corp. ("IROC")

On April 22, 2013, Western acquired all of the issued and outstanding common shares of IROC in exchange for cash consideration equal to \$62.9 million and 12,352,832 common shares of Western at an ascribed price of \$6.80 per share, based on the trading price of Western on the close of the transaction. The final value allocated to the shares issued was \$84.0 million.

The acquisition of IROC enabled the Company to continue its growth strategy as an oilfield service provider in the Canadian oilfield service industry and to enter the oilfield rental equipment industry in Canada. The acquisition provided the Company with an increased market share in the production services industry through access to IROC's assets and customer base.

The following summarizes the major classes of consideration transferred at the acquisition date:

As at April 22, 2013	Amount
Cash paid	\$ 62,934
Shares issued	83,999
Assumption of bank debt (net of \$36 in cash acquired)	29,411
	\$ 176,344

This acquisition has been accounted for using the acquisition method on April 22, 2013, whereby the assets acquired and the liabilities assumed were recorded at their fair values with the surplus of the aggregate consideration relative to the fair value of the identifiable net assets recorded as goodwill. The Company assessed 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. Subsequent to the acquisition date, IROC's operating results have been included in Western's revenues, expenses and capital spending. The purchase price allocation is final as at December 31, 2014.

The following summarizes the allocation of the aggregate consideration for the IROC acquisition:

	Amount
Net working capital (excluding cash)	\$ 329
Property and equipment	166,003
Goodwill	34,897
Deferred tax liability	(23,775)
Non controlling interest	(1,110)
	\$ 176,344

Trade receivables net of the allowance for doubtful accounts, included in net working capital, are comprised of contractual amounts due of \$21.1 million, all of which was collected as at December 31, 2013.

The Company estimates that had the acquisition closed on January 1, 2013, \$106.6 million of revenue for the year ended December 31, 2013 would have been attributable to IROC's assets. Included in this estimated amount is \$68.2 million of revenue recognized by the Company subsequent to the acquisition date relating to IROC's assets. The Company cannot reasonably determine the net income amount attributable to IROC's assets had the acquisition closed on January 1, 2013 or from the acquisition date, due to the fact that IROC's management and cost structure has been changed and integrated into the Company's operations.

The Company assessed the acquisition for intangible assets and concluded that none existed.

Goodwill on the IROC acquisition was attributed to the price paid for IROC's newly constructed modern rig fleet in competitive market conditions. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company incurred costs related to the acquisition of IROC of \$2.1 million relating to due diligence as well as external legal and advisory fees, which were expensed within other items in 2013 (see Note 18).

Western Energy Services Corp.

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7. Trade and other receivables:

	December 31, 2014	December 31, 2013
Trade receivables	\$ 77,524	\$ 74,131
Accrued trade receivables	11,676	15,191
Other receivables	633	1,453
Allowance for doubtful accounts	(16)	(256)
Total	\$ 89,817	\$ 90,519

The Company's exposure to credit risk related to trade and other receivables is disclosed in Note 21.

8. Other assets:

	December 31, 2014	December 31, 2013
Current:		
Prepaid expenses	\$ 2,944	\$ 2,856
Inventory	2,611	2,040
Deposits	608	551
Deferred charges and other	181	129
Total current portion of other assets	6,344	5,576
Non current:		
Deferred charges and other	1,382	1,373
Total non current portion of other assets	1,382	1,373
Total other assets	\$ 7,726	\$ 6,949

Western Energy Services Corp.

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

9. 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
Acquisitions: 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)
Foreign exchange adjustment	-	-	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 6)	-	-	-	(2,453)	-	-	(2,453)
Additions	-	259	93,961	13,381	674	329	108,604
Finance lease additions	-	-	941	-	-	1,361	2,302
Impairment of loss and derecognition	-	-	(7,726)	(360)	-	-	(8,086)
Disposals	-	-	(1,221)	(1,685)	-	(557)	(3,463)
Foreign exchange adjustment	-	-	10,198	-	47	24	10,269
Balance at December 31, 2014	\$ 5,089	\$ 4,048	\$ 780,145	\$ 196,564	\$ 12,540	\$ 3,616	\$ 1,002,002
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)
Foreign exchange adjustment	-	-	563	-	9	4	576
Balance at December 31, 2013	-	463	97,396	9,688	3,291	766	111,604
Depreciation for the period	-	174	46,147	14,808	1,945	693	63,767
Impairment of loss and derecognition	-	-	(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
Carrying amounts:							
At December 31, 2013	\$ 5,089	\$ 3,326	\$ 586,596	\$ 177,993	\$ 8,528	\$ 1,693	\$ 783,225
At December 31, 2014	\$ 5,089	\$ 3,411	\$ 636,338	\$ 172,646	\$ 7,279	\$ 2,543	\$ 827,306

Assets under construction:

Included in property and equipment at December 31, 2014 are assets under construction of \$36.8 million (December 31, 2013: \$16.5 million) which include costs incurred to date for the construction of three drilling rig builds and one slant well servicing rig build, as well as ancillary drilling and well servicing equipment.

For the year ended December 31, 2014, the Company recorded an impairment loss of \$7.2 million (December 31, 2013: \$nil) related to a decommissioned shallow drilling rig and used equipment in the contract drilling segment, and underutilized rental equipment in the production services segment. The recoverable amount for these assets of \$1.7 million was determined based on fair value less cost to sell as at December 31, 2014, and is classified as a Level 3 fair value measurement. Refer to Note 21 for information on fair value hierarchy classifications.

Western Energy Services Corp.

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

10. Goodwill:

		Goodwill
Balance at December 31, 2012	\$	55,527
Additions: IROC acquisition		33,183
Balance at December 31, 2013		88,710
Impairment loss		(22,668)
Foreign exchange adjustment		1,851
Adjustments: IROC acquisition (Note 6)		1,714
Balance at December 31, 2014	\$	69,607

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, 2014	December 31, 2013
CGU:		
Contract drilling	\$ 57,378	\$ 55,527
Well servicing	-	21,675
Oilfield rental equipment	12,229	11,508
Total goodwill allocated	\$ 69,607	\$ 88,710

For impairment testing purposes, goodwill has been allocated to the Company's cash-generating units that are expected to benefit from the synergies of the business combinations which resulted in the initial recognition of the goodwill. These cash-generating units are based on contract drilling rigs, well servicing rigs and oilfield rental equipment within the Company's contract drilling and production services segments.

The recoverable amounts of these cash-generating units was determined based on a value in use calculation which uses cash flow projections based on a five year forecast which incorporates the Company's 2015 budget approved by the Board of Directors for the following fiscal year and a pre-tax discount rate of 14% (December 31, 2013: 13%) per annum. Based on management's best estimates at December 31, 2014, a trailing five year average utilization and profit margin, plus 2% price inflation per year, were used to project cash flows from 2016 to 2019. The cash flows beyond 2019 have been extrapolated using a 2% per annum growth rate. The forecasted cash flows are based on management's best estimates of future pricing, asset utilization, rates for available equipment and costs to maintain that equipment.

The results of the tests indicated a goodwill impairment of \$22.7 million on the well servicing CGU as at December 31, 2014 (December 31, 2013: \$nil), which represented the total amount of goodwill related to the well servicing division. The goodwill impairment is due to the declining commodity price environment and outlook for oilfield services activity and pricing, which has 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 is \$139.7 million as at December 31, 2014.

The most sensitive inputs to the model used for all CGUs 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 not have changed the results of the analysis for the contract drilling, well servicing and oilfield rental equipment CGUs. All else being equal, a 0.5% decrease in the growth rates would not have changed the results of the analysis for the contract drilling, well servicing and oilfield rental equipment CGUs. All else being equal, a 5.0% decrease in profit margin would not have changed the results of the analysis for the contract drilling, well servicing and oilfield rental equipment CGUs.

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11. Trade payables and other current liabilities:

	December 31, 2014	December 31, 2013
Trade payables	\$ 23,252	\$ 14,073
Accrued trade payables and expenses	50,419	42,244
Total	\$ 73,671	\$ 56,317

The Company's exposure to foreign exchange and liquidity risk related to trade payables and other current liabilities is disclosed in Note 21.

12. Provisions:

	Onerous contracts	Lease inducements	Total
Balance at December 31, 2012	\$ 104	\$ 2,233	\$ 2,337
Provisions used during the year	(108)	(137)	(245)
Accretion of provisions	4	-	4
Balance at December 31, 2013	-	2,096	2,096
Provisions used during the year	-	(138)	(138)
Balance at December 31, 2014	\$ -	\$ 1,958	\$ 1,958

	December 31, 2014	December 31, 2013
Current	\$ 139	\$ 139
Non current	1,819	1,957
	\$ 1,958	\$ 2,096

At December 31, 2014, 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.

13. Long term debt:

This note provides information about the contractual terms of the Company's long term debt instruments. The Company's exposure to interest rate, foreign exchange and liquidity risk is disclosed in Note 21.

	December 31, 2014	December 31, 2013
Current:		
Operating Facility ^(a)	\$ -	\$ -
Other long term debt - current portion ⁽¹⁾	1,062	908
Total current portion of long term debt	1,062	908
Non current:		
Revolving Facility ^(a)	-	-
Senior Notes ^(b)	265,000	265,000
Less: net unamortized premium and issue costs on Senior Notes	(2,122)	(2,635)
Other long term debt - non current portion ⁽¹⁾	1,287	512
Total non current portion of long term debt	264,165	262,877
Total long term debt	\$ 265,227	\$ 263,785

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

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13. Long term debt (continued):

(a) Credit facilities:

On December 18, 2014, the Company amended its credit facilities to increase its revolving credit facility (the "Revolving Facility") to \$175.0 million, from \$125.0 million previously, with a maturity date extension to December 17, 2018 and increased the Company's operating demand revolving loan (the "Operating Facility") to \$20.0 million, from \$10.0 million previously. The syndicate of banks providing the Revolving Facility has also expanded as a result of these amendments. 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.

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 December 31, 2014, 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
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio ⁽¹⁾⁽²⁾	2.5:1.0 or less
Maximum Consolidated Debt to Consolidated Capitalization Ratio	0.6:1.0 or less
Minimum Consolidated EBITDA to Consolidated Interest Expense Ratio	2.0:1.0 or more

(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 consolidated debt which includes indebtedness under the Revolving Facility, Operating Facility, and finance leases, reduced by cash on hand in excess of \$20 million and outstanding principal on unsecured debt. 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 December 31, 2014 and 2013, the Company was in compliance with all covenants related to its credit facilities.

(b) Senior Notes:

During 2012, the Company completed a private placement of \$175.0 million 7% Senior Notes. The Senior Notes were issued at par value and are due on January 30, 2019. On September 18, 2013, the Company completed a private placement of an additional \$90.0 million principal amount Senior Notes which were issued at \$1,016.25 per \$1,000 principal amount plus accrued interest from and including, July 30, 2013 and 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, 2014, the fair value of the Senior Notes was approximately \$250.4 million (December 31, 2013: \$270.3 million).

Western Energy Services Corp.

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14. Share capital:

At December 31, 2014, the Company was 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	1,394,976	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

For the year ended December 31, 2014, the Company declared dividends of \$22.4 million (December 31, 2013: \$21.0 million) representing an annual cash dividend of \$0.30 per share and had dividends payable of \$5.6 million at December 31, 2014 (December 31, 2013: \$5.5 million).

On December 15, 2014, Western initiated a normal course issuer bid (the "Bid"), which has been filed with and accepted by the Toronto Stock Exchange. Pursuant to the Bid, Western may purchase for cancellation up to 5,550,000 common shares of the Company. The Bid commenced on December 17, 2014 and will terminate on the earlier of: (i) December 16, 2015; and (ii) the date on which the maximum number of Common Shares are purchased pursuant to the Bid. For the year ended December 31, 2014, 23,400 common shares for a total cost of \$0.1 million were repurchased, cancelled, and charged to share capital.

15. 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	2,495,566	9.46
Exercised	(1,394,976)	6.78
Forfeited	(432,216)	7.62
Balance at December 31, 2014	5,093,972	\$ 8.23

Western Energy Services Corp.

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

15. Stock based compensation (continued):

For the years ended December 31, 2014 and 2013, no stock options were cancelled. The average fair value of the stock options granted in 2014 was \$2.71 per stock option (2013: \$1.92 per stock option). For the year ended December 31, 2014, the Company recorded approximately \$3.3 million in stock based compensation expense related to stock options (December 31, 2013: \$2.5 million).

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

As at December 31, 2014 Exercise price (\$/share)	Number of options outstanding	Weighted average contractual life remaining (years)	Number of options exercisable
5.70-7.00	1,387,770	2.77	507,760
7.01-10.00	2,037,979	3.28	696,331
10.01-11.14	1,668,223	4.61	-
	5,093,972	3.58	1,204,091

As at December 31, 2014, Western had 1,204,091 (December 31, 2013: 1,289,509 options) exercisable stock options outstanding at a weighted average exercise price equal to \$7.12 (December 31, 2013: \$6.96) 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 methodology using the following averaged inputs:

	2014	2013
Risk-free interest rate	1%	1%
Average forfeiture rate	16%	22%
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	3%	4%
Expected share price volatility	60%	60%

Restricted share unit plan:

In August 2014, the Company implemented a 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 the RSU plan, eligibility, vesting period, terms of the units 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 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	176,351	136,444	312,795
Issued as a result of dividends	3,987	2,822	6,808
Forfeited	(3,000)	(12,267)	(15,267)
Balance at December 31, 2014	177,338	126,999	304,336

Western Energy Services Corp.

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15. Stock based compensation (continued):

The estimated fair value of the equity settled RSUs granted during the year ended December 31, 2014 was \$1.1 million (December 31, 2013: \$nil) 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 methodology using the following averaged inputs:

	2014	2013
Risk-free interest rate	1%	-
Average forfeiture rate	16%	-
Average expected life	2.0 years	-
Maximum life	3.0 years	-
Average vesting period	2.0 years	-
Expected dividend	3%	-
Expected share price volatility	60%	-

Stock based compensation expense is comprised of the following:

	Year ended December 31, 2014	Year ended December 31, 2013
Stock options	\$ 3,325	\$ 2,491
Restricted share units - equity settled grants	332	-
Total equity settled stock based compensation expense	3,657	2,491
Restricted share units - cash settled grants	181	-
Total stock based compensation expense	\$ 3,838	\$ 2,491

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 December 31, 2014	-	\$ -

Each warrant entitled the holder to purchase one common share of Western. As at December 31, 2014, all warrants have been exercised.

16. Earnings per share:

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

	Year ended December 31, 2014	Year ended December 31, 2013
Issued common shares, beginning of period	73,386,191	59,582,143
Effect of shares issued	1,010,510	9,450,431
Weighted average number of common shares (basic)	74,396,701	69,032,574
Dilutive effect of equity compensation plans	1,030,448	840,886
Weighted average number of common shares (diluted)	75,427,149	69,873,460

At December 31, 2014, 1,813,016 options (December 31, 2013: 3,382,765 options) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

Western Energy Services Corp.

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17. Finance costs:

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

	Year ended December 31, 2014	Year ended December 31, 2013
Interest expense on long term debt	\$ 20,489	\$ 16,553
Amortization of debt financing fees and provisions	644	729
Interest and dividend income	(351)	(224)
Total finance costs	\$ 20,782	\$ 17,058

For the year ended December 31, 2014, the Company incurred interest and financing costs of approximately \$21.8 million (December 31, 2013: \$18.3 million), which includes capitalized interest of \$1.0 million (December 31, 2013: \$1.2 million) on its long term debt (see Note 13). The Company had an effective interest rate of 8.0% on its borrowings for the year ended December 31, 2014 (December 31, 2013: 7.4%).

18. Other items:

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

	Year ended December 31, 2014	Year ended December 31, 2013
Loss on sale of assets	\$ 9	\$ 1,137
Gain on sale of investments	-	(1,234)
Loss (gain) on fair value of derivatives	166	(608)
Foreign exchange gain	(457)	(419)
Other income	(4)	(452)
Acquisition costs	-	2,072
Total other items	\$ (286)	\$ 496

19. Income taxes:

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

	Year ended December 31, 2014	Year ended December 31, 2013
Current tax expense	\$ 9,457	\$ 520
Deferred tax expense	12,854	12,480
Total income taxes	\$ 22,311	\$ 13,000

The following summarizes the income taxes recognized directly into other comprehensive income:

	Year ended December 31, 2014	Year ended December 31, 2013
Translation differences for foreign operations	\$ 529	\$ 333
Available for sale financial assets	-	(232)
Total income taxes in other comprehensive income	\$ 529	\$ 101

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19. 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, 2014		Year ended December 31, 2013	
Income before income taxes	\$	58,761	\$	48,246
Federal and provincial statutory rates	25.3%	14,866	25.2%	12,151
Income taxed at higher rates		741		29
Impairment of goodwill		5,735		-
Stock based compensation		881		628
Non-deductible expenses		282		516
Change in effective tax rate on temporary differences		135		349
Change in estimate		(351)		(211)
Change in previously unrecognized tax assets		(109)		-
Return to provision adjustment		(18)		(320)
Other		149		(142)
Total income taxes	\$	22,311	\$	13,000

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

	December 31, 2014		December 31, 2013	
Property and equipment	\$	(129,831)	\$	(114,690)
Other assets		(216)		(257)
Deferred charges and accruals		(5,345)		(1,893)
Provisions		491		523
Long-term debt		363		233
Share issue costs		264		762
Other tax pools		509		535
Tax loss carry-forwards		24,229		19,105
Other		92		17
Net deferred tax liabilities	\$	(109,444)	\$	(95,665)

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 loan	(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)

Western Energy Services Corp.

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

19. Income taxes (continued):

Movements of the Company's temporary differences for the year ended December 31, 2013 is as follows:

	Balance Dec 31, 2012	Recognized in other comprehensive income	Recognized in net income	Impact of foreign exchange	Acquired in business combinations	Balance Dec 31, 2013
Property and equipment	\$ (75,047)	\$ -	\$ (14,064)	\$(1,850)	\$ (23,729)	\$(114,690)
Other assets	(276)	232	(213)	-	-	(257)
Deferred charges	79	-	(38)	-	-	41
Provisions	579	-	(56)	-	-	523
Long term debt	222	-	(84)	-	95	233
Timing differences on accruals	203	-	596	13	(2,365)	(1,553)
Foreign exchange on inter-company loan	(45)	(333)	(3)	-	-	(381)
Share issue costs	1,141	-	(500)	-	121	762
Other tax pools	473	-	(11)	10	80	552
Tax loss carry-forwards	14,787	-	1,893	988	1,437	19,105
Net deferred tax liabilities	\$ (57,884)	\$ (101)	\$ (12,480)	\$ (839)	\$ (24,361)	\$ (95,665)

At December 31, 2014, the Company has gross loss carry forwards equal to approximately \$6.0 million in Canada, which expire between 2026 and 2034. In the United States, the Company has approximately US\$50.0 million gross loss carry forwards which expire between 2028 and 2034.

At December 31, 2014 and 2013, the Company had no unrecognized deductible temporary differences.

20. 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, 2014	Year ended December 31, 2013
Depreciation of property and equipment (Note 9)	\$ 63,767	\$ 49,132
Employee benefits: salaries and benefits	212,286	165,674
Employee benefits: stock based compensation (Note 15)	3,838	2,491
Repairs and maintenance	29,310	22,554
Third party charges	33,712	26,819

21. Financial risk management and financial instruments:

The Company's financial instruments include cash and cash equivalents, trade and other receivables, investments, trade payables and other current liabilities, derivatives and long term debt instruments such as the credit facilities and Senior Notes. Cash and cash equivalents, investments 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, 2014.

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 year ended December 31, 2014 as there was no balance outstanding on the credit facilities during the year ended December 31, 2014 (December 31, 2013: \$0.4 million). Other long term debt, such as the Senior Notes and the Company's finance leases, are subject to fixed interest rates.

Western Energy Services Corp.

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

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, 2014, 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, 2014, 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 \$0.2 million and \$0.5 million, respectively (December 31, 2013: \$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, 2014, approximately 99% 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, 2014	December 31, 2013
Trade receivables:		
Current	\$ 51,537	\$ 38,913
Outstanding for 31 to 60 days	21,856	28,347
Outstanding for 61 to 90 days	3,788	5,640
Outstanding for over 90 days	343	1,231
Accrued trade receivables	11,676	15,191
Other receivables	633	1,453
Allowance for doubtful accounts	(16)	(256)
Total	\$ 89,817	\$ 90,519

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 irrecoverable and are written off against the financial asset directly.

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.

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

Liquidity risk (continued):

The table below provides an analysis of the expected maturities of the Company's outstanding obligations at December 31, 2014:

	Total amount	Due prior to December 31				
		2015	2016	2017	2018	2019 Thereafter
Financial liabilities:						
Trade and other current liabilities	\$ 73,671	\$ 73,671	\$ -	\$ -	\$ -	\$ -
Senior Notes	265,000	-	-	-	-	265,000
Total	\$ 338,671	\$ 73,671	\$ -	\$ -	\$ -	\$ 265,000

Cash flows included in the maturity analysis may occur significantly earlier, or at significantly different amounts.

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, investments and derivatives are the only financial assets or liabilities measured using fair value. The Company's cash and cash equivalents and investment balances 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.

Capital management:

The overall capitalization of the Company at December 31, 2014 is as follows:

	Note	December 31, 2014	December 31, 2013
Other long term debt	13	\$ 2,349	\$ 1,420
Senior Notes	13	265,000	265,000
Total debt		267,349	266,420
Shareholders' equity		601,203	563,425
Less: cash and cash equivalents		(62,662)	(17,389)
Total capitalization		\$ 805,890	\$ 812,456

Western Energy Services Corp.

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

Capital Management (continued):

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, 2014, the Company had \$195.0 million in available credit under its credit facilities and was in compliance with all debt covenants (see Note 13).

22. Commitments:

The Company has total commitments which require payments for the next five years based on the maturity terms as follows:

	2015	2016	2017	2018	2019	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	73,671	-	-	-	-	-	73,671
Dividends payable	5,615	-	-	-	-	-	5,615
Operating leases	4,430	3,343	2,507	2,376	2,329	11,839	26,824
Purchase commitments	16,363	-	-	-	-	-	16,363
Other long term debt	1,200	748	551	-	-	-	2,499
Total	\$ 122,148	\$ 24,960	\$ 23,927	\$ 23,245	\$ 277,763	\$ 11,839	\$ 483,882

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 \$0.075 per share on January 15, 2015 to shareholders of record on December 31, 2014.

Operating leases:

The Company has offices and oilfield service equipment under operating leases. The leases typically run for a period of one to thirteen 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 as well as an outstanding note payable.

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23. Related party transactions:

During the years ended December 31, 2014 and 2013, the Company did not have any significant sales transactions with any related parties. At December 31, 2014, there are no significant balances outstanding in trade and other receivables with related parties (December 31, 2013: \$nil).

24. Key management personnel:

During the year ended December 31, 2014, the Company paid compensation to key management personnel as follows:

	Year ended	
	December 31, 2014	December 31, 2013
Short-term employee benefits ⁽¹⁾	\$ 2,363	\$ 4,819
Stock based compensation ⁽²⁾	744	447
	<u>\$ 3,107</u>	<u>\$ 5,266</u>

(1) Includes approximately \$2 million in one-time personnel costs for the year ended December 31, 2013.

(2) The total fair value of stock options and RSUs granted to key management personnel for the year ended December 31, 2014 was equal to \$2.4 million (December 31, 2013: \$0.1 million) which is being recognized in net income over the options' vesting period.

25. 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, 2014	December 31, 2013
Stoneham Drilling Corporation	USA	100	100
Western Energy Services Partnership	Canada	100	100

26. Subsequent events:

On February 26, 2015, the Board of Directors of Western declared a quarterly dividend of \$0.075 per share, payable on April 16, 2015, to shareholders of record at the close of business on March 31, 2015. The dividends will be eligible dividends for Canadian income tax purposes.