

**Western Energy Services Corp.**  
**Condensed Consolidated Financial Statements**  
*March 31, 2015 and 2014*  
*(Unaudited)*

## Western Energy Services Corp.

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

|  | Note | March 31, 2015 | December 31, 2014 |
|--|------|----------------|-------------------|
| <b>Assets</b>                                |      |                |                   |
| Current assets                               |      |                |                   |
| Cash and cash equivalents                    |      | \$ 61,342      | \$ 62,662         |
| Trade and other receivables                  |      | 67,942         | 89,817            |
| Other current assets                         |      | 6,286          | 6,344             |
|  |      | 135,570        | 158,823           |
| Non current assets                           |      |                |                   |
| Property and equipment                       | 5    | 841,576        | 827,306           |
| Goodwill                                     |      | 70,662         | 69,607            |
| Other non current assets                     |      | 1,337          | 1,382             |
|  |      | \$ 1,049,145   | \$ 1,057,118      |
| <b>Liabilities</b>                           |      |                |                   |
| Current liabilities                          |      |                |                   |
| Trade payables and other current liabilities |      | \$ 36,506      | \$ 73,671         |
| Dividends payable                            |      | 5,593          | 5,615             |
| Current portion of provisions                |      | 139            | 139               |
| Current portion of long term debt            | 6    | 1,032          | 1,062             |
|  |      | 43,270         | 80,487            |
| Non current liabilities                      |      |                |                   |
| Provisions                                   |      | 1,786          | 1,819             |
| Long term debt                               | 6    | 264,207        | 264,165           |
| Deferred taxes                               |      | 117,124        | 109,444           |
|  |      | 426,387        | 455,915           |
| <b>Shareholders' equity</b>                  |      |                |                   |
| Share capital                                | 7    | 422,158        | 423,633           |
| Contributed surplus                          |      | 7,617          | 6,815             |
| Retained earnings                            |      | 163,109        | 153,544           |
| Accumulated other comprehensive income       |      | 27,455         | 15,125            |
| Non controlling interest                     |      | 2,419          | 2,086             |
|  |      | 622,758        | 601,203           |
|  |      | \$ 1,049,145   | \$ 1,057,118      |

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

## Western Energy Services Corp.

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

|   | Note | Three months ended<br>March 31, 2015 | Three months ended<br>March 31, 2014 |
|---|------|--------------------------------------|--------------------------------------|
| <b>Revenue</b>  |      | \$ 105,850                           | \$ 161,416                           |
| Operating expenses  |      | 71,475                               | 111,889                              |
| <b>Gross profit</b>   |      | 34,375                               | 49,527                               |
| Administrative expenses   |      | 8,495                                | 9,073                                |
| Finance costs   | 10   | 4,758                                | 5,403                                |
| Other items   |      | (594)                                | 489                                  |
| <b>Income before income taxes</b>   |      | 21,716                               | 34,562                               |
| Income taxes  | 11   | 6,422                                | 9,062                                |
| <b>Net income</b>   |      | 15,294                               | 25,500                               |
| <b>Other comprehensive income</b> <sup>(1)</sup>                              |      |                                      |                                      |
| Gain on translation of foreign operations                                     |      | (6,176)                              | (1,873)                              |
| Unrealized foreign exchange gain on net investment in subsidiary (net of tax) |      | (6,154)                              | (1,033)                              |
| <b>Comprehensive income</b>   |      | \$ 27,624                            | \$ 28,406                            |
| <b>Net income attributable to:</b>  |      |                                      |                                      |
| Shareholders of the Company   |      | \$ 15,158                            | \$ 25,413                            |
| Non controlling interest  |      | 136                                  | 87                                   |
| <b>Comprehensive income attributable to:</b>                                  |      |                                      |                                      |
| Shareholders of the Company   |      | \$ 27,488                            | \$ 28,319                            |
| Non controlling interest  |      | 136                                  | 87                                   |
| <b>Net income per share:</b>  |      |                                      |                                      |
| Basic   |      | \$ 0.20                              | \$ 0.35                              |
| Diluted   |      | 0.20                                 | 0.34                                 |
| <b>Weighted average number of shares:</b>                                     |      |                                      |                                      |
| Basic   | 9    | 74,686,828                           | 73,506,069                           |
| Diluted   | 9    | 74,702,482                           | 74,282,618                           |

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

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

## Western Energy Services Corp.

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

|  | Note | Share capital | Contributed surplus <sup>(1)</sup> | Retained earnings | Accumulated other comprehensive income <sup>(2)</sup> | Non controlling interest | Total shareholders' equity |
|--|------|---------------|------------------------------------|-------------------|---|--------------------------|----------------------------|
| Balance at December 31, 2013                 |      | \$ 411,143    | \$ 6,088                           | \$ 139,721        | \$ 5,171  | \$ 1,302                 | \$ 563,425                 |
| Common shares:                               |      |               |                                    |                   |   |                          |                            |
| Issued for cash on exercise of stock options | 7    | 2,287         | -                                  | -                 | -   | -                        | 2,287                      |
| Issued for cash on exercise of warrants      | 7    | 222           | -                                  | -                 | -   | -                        | 222                        |
| Fair value of exercised options and warrants | 7    | 798           | (798)                              | -                 | -   | -                        | -                          |
| Stock based compensation                     |      | -             | 769                                | -                 | -   | -                        | 769                        |
| Dividends declared                           |      | -             | -                                  | (5,538)           | -   | -                        | (5,538)                    |
| Comprehensive income                         |      | -             | -                                  | 25,413            | 2,906   | 87                       | 28,406                     |
| Balance at March 31, 2014                    |      | 414,450       | 6,059                              | 159,596           | 8,077   | 1,389                    | 589,571                    |
| Common shares:                               |      |               |                                    |                   |   |                          |                            |
| Issued for cash on exercise of stock options | 7    | 7,173         | -                                  | -                 | -   | -                        | 7,173                      |
| Issued for cash on exercise of warrants      | 7    | 5             | -                                  | -                 | -   | -                        | 5                          |
| Purchased under normal course issuer bid     | 7    | (127)         | -                                  | -                 | -   | -                        | (127)                      |
| Fair value of exercised options and warrants | 7    | 2,132         | (2,132)                            | -                 | -   | -                        | -                          |
| Stock based compensation                     |      | -             | 2,888                              | -                 | -   | -                        | 2,888                      |
| Dividends declared                           |      | -             | -                                  | (16,838)          | -   | -                        | (16,838)                   |
| Contributions from non controlling interest  |      | -             | -                                  | -                 | -   | 533                      | 533                        |
| Comprehensive income                         |      | -             | -                                  | 10,786            | 7,048   | 164                      | 17,998                     |
| Balance at December 31, 2014                 |      | \$ 423,633    | \$ 6,815                           | \$ 153,544        | \$ 15,125   | \$ 2,086                 | \$ 601,203                 |
| Common shares:                               |      |               |                                    |                   |   |                          |                            |
| Issued for cash on exercise of stock options | 7    | 90            | -                                  | -                 | -   | -                        | 90                         |
| Purchased under normal course issuer bid     | 7    | (1,602)       | -                                  | -                 | -   | -                        | (1,602)                    |
| Fair value of exercised options and warrants | 7    | 37            | (37)                               | -                 | -   | -                        | -                          |
| Stock based compensation                     |      | -             | 839                                | -                 | -   | -                        | 839                        |
| Dividends declared                           |      | -             | -                                  | (5,593)           | -   | -                        | (5,593)                    |
| Contributions from non controlling interest  |      | -             | -                                  | -                 | -   | 197                      | 197                        |
| Comprehensive income                         |      | -             | -                                  | 15,158            | 12,330  | 136                      | 27,624                     |
| Balance at March 31, 2015                    |      | \$ 422,158    | \$ 7,617                           | \$ 163,109        | \$ 27,455   | \$ 2,419                 | \$ 622,758                 |

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

(2) At March 31, 2015, the accumulated other comprehensive income balance consists of the translation of foreign operations and unrealized foreign exchange on net investment in subsidiary.

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

## Western Energy Services Corp.

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

|   | Note | Three months ended<br>March 31, 2015 | Three months ended<br>March 31, 2014 |
|---|------|--------------------------------------|--------------------------------------|
| <b>Operating activities</b>   |      |                                      |                                      |
| Net income  |      | \$ 15,294                            | \$ 25,500                            |
| Adjustments for:  |      |                                      |                                      |
| Depreciation included in operating expenses                           |      | 13,365                               | 17,880                               |
| Depreciation included in administrative expenses                      |      | 429                                  | 445                                  |
| Non cash stock based compensation included in operating expenses      | 8    | 90                                   | 222                                  |
| Non cash stock based compensation included in administrative expenses | 8    | 749                                  | 547                                  |
| Gain on sale of assets  |      | (52)                                 | (54)                                 |
| Income taxes  | 11   | 6,422                                | 9,062                                |
| Unrealized foreign exchange loss                                      |      | 18                                   | 16                                   |
| Finance costs   | 10   | 4,758                                | 5,403                                |
| Other   |      | (35)                                 | 740                                  |
| Cash generated from operating activities                              |      | 41,038                               | 59,761                               |
| Income taxes paid   |      | (8,460)                              | (184)                                |
| Change in non cash working capital                                    |      | 6,759                                | (20,943)                             |
| Cash flow from operating activities                                   |      | 39,337                               | 38,634                               |
| <b>Investing activities</b>   |      |                                      |                                      |
| Additions to property and equipment                                   | 5    | (17,863)                             | (20,129)                             |
| Proceeds on sale of property and equipment                            |      | 233                                  | 369                                  |
| Changes in non cash working capital                                   |      | (5,872)                              | (2,904)                              |
| Cash flow used in investing activities                                |      | (23,502)                             | (22,664)                             |
| <b>Financing activities</b>   |      |                                      |                                      |
| Issue of common shares  | 7    | 90                                   | 2,509                                |
| Share purchase under normal course issuer bid                         | 7    | (1,602)                              | -                                    |
| Repayment of long term debt   |      | (236)                                | (173)                                |
| Finance costs paid  |      | (9,989)                              | (9,504)                              |
| Dividends paid  |      | (5,615)                              | (5,504)                              |
| Contributions from non controlling interest                           |      | 197                                  | -                                    |
| Cash flow used in financing activities                                |      | (17,155)                             | (12,672)                             |
| (Decrease) increase in cash and cash equivalents                      |      | (1,320)                              | 3,298                                |
| Cash and cash equivalents, beginning of period                        |      | 62,662                               | 17,389                               |
| Cash and cash equivalents, end of period                              |      | \$ 61,342                            | \$ 20,687                            |
| Cash and cash equivalents:  |      |                                      |                                      |
| Bank accounts   |      | \$ 15,342                            | \$ 10,687                            |
| Short term investments  |      | 46,000                               | 10,000                               |
|   |      | \$ 61,342                            | \$ 20,687                            |

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

# Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

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## 1. Reporting entity:

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the registered office is 1700, 215 - 9th Avenue SW, Calgary, Alberta. Western is a publicly traded company that is listed on the Toronto Stock Exchange ("TSX") under the symbol "WRG". These condensed consolidated financial statements as at March 31, 2015 and for the three months ended March 31, 2015 and 2014 (the "Financial Statements") are comprised of Western, its divisions and its wholly owned subsidiaries (together referred to as the "Company"). The Company is an oilfield service company providing contract drilling services through its division, Horizon Drilling ("Horizon") in Canada, and its wholly owned subsidiary, Stoneham Drilling Corporation ("Stoneham") in the United States. Western provides well servicing operations through Western Energy Services Partnership's (the "Partnership") division, Eagle Well Servicing ("Eagle") and oilfield rental equipment services through the Partnership's division, Aero Rental Services ("Aero"). Financial and operating results for Horizon and Stoneham are included in Western's contract drilling segment, while financial and operating results for Eagle and Aero are included in Western's production services segment.

## 2. Basis of preparation and significant accounting policies:

Statement of compliance:

These Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board. These Financial Statements have been prepared using accounting policies and judgments which are consistent with Notes 3 and 4 of the audited annual consolidated financial statements as at December 31, 2014 and for the years ended December 31, 2014 and 2013 as filed on SEDAR at [www.sedar.com](http://www.sedar.com) and, as such, they should be read in conjunction with the said statements.

These Financial Statements were approved for issuance by Western's Board of Directors on April 30, 2015.

## 3. Seasonality:

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

## 4. Operating segments:

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

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

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

## Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

### 4. Operating segments (continued):

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

| Three months ended March 31, 2015                  | Contract<br>Drilling | Production<br>Services | Corporate | Inter-segment<br>Elimination | Total      |
|--|----------------------|------------------------|-----------|------------------------------|------------|
| Revenue  | \$ 79,112            | \$ 26,960              | \$ -      | \$ (222)                     | \$ 105,850 |
| Operating earnings (loss)                          | 24,538               | 4,112                  | (1,807)   | -                            | 26,843     |
| Finance costs                                      | -                    | -                      | 4,758     | -                            | 4,758      |
| Depreciation                                       | 10,179               | 3,370                  | 245       | -                            | 13,794     |
| Additions to property and equipment <sup>(1)</sup> | 15,029               | 2,910                  | 25        | -                            | 17,964     |

  

| Three months ended March 31, 2014                  | Contract<br>Drilling | Production<br>Services | Corporate | Inter-segment<br>Elimination | Total      |
|--|----------------------|------------------------|-----------|------------------------------|------------|
| Revenue  | \$ 123,303           | \$ 38,379              | \$ -      | \$ (266)                     | \$ 161,416 |
| Operating earnings (loss)                          | 35,743               | 7,192                  | (1,712)   | -                            | 41,223     |
| Finance costs                                      | -                    | -                      | 5,403     | -                            | 5,403      |
| Depreciation                                       | 13,711               | 4,337                  | 277       | -                            | 18,325     |
| Additions to property and equipment <sup>(1)</sup> | 17,574               | 2,885                  | 7         | -                            | 20,466     |

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

| Goodwill                                     | Contract<br>Drilling | Production<br>Services | Total     |
|--|----------------------|------------------------|-----------|
| 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 <sup>(1)</sup> | -                    | 1,714                  | 1,714     |
| Balance at December 31, 2014                 | 57,378               | 12,229                 | 69,607    |
| Foreign exchange adjustment                  | 1,055                | -                      | 1,055     |
| Balance at March 31, 2015                    | \$ 58,433            | \$ 12,229              | \$ 70,662 |

(1) On April 22, 2013, Western acquired all of the issued and outstanding common shares of IROC Energy Services Corp. ("IROC").

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

| As at March 31, 2015 | Contract<br>Drilling | Production<br>Services | Corporate | Total        |
|----------------------|----------------------|------------------------|-----------|--------------|
| Total assets         | \$ 773,810           | \$ 204,851             | \$ 70,484 | \$ 1,049,145 |
| Total liabilities    | 129,745              | 40,068                 | 256,574   | 426,387      |

  

| As at March 31, 2014 | Contract<br>Drilling | Production<br>Services | Corporate | Total        |
|----------------------|----------------------|------------------------|-----------|--------------|
| Total assets         | \$ 748,836           | \$ 242,813             | \$ 27,543 | \$ 1,019,192 |
| Total liabilities    | 116,965              | 42,820                 | 269,836   | 429,621      |

## Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

### 4. Operating segments (continued):

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

| Three months ended March 31, 2015 | Contract<br>Drilling | Production<br>Services | Corporate         | Total            |
|-----------------------------------|----------------------|------------------------|-------------------|------------------|
| Operating earnings                | \$ 24,538            | \$ 4,112               | \$ (1,807)        | \$ 26,843        |
| Add (deduct):                     |                      |                        |                   |                  |
| Stock based compensation          | (217)                | (90)                   | (656)             | (963)            |
| Finance costs                     | -                    | -                      | (4,758)           | (4,758)          |
| Other items                       | -                    | -                      | 594               | 594              |
| <b>Income before income taxes</b> | <b>\$ 24,321</b>     | <b>\$ 4,022</b>        | <b>\$ (6,627)</b> | <b>\$ 21,716</b> |

| Three months ended March 31, 2014 | Contract<br>Drilling | Production<br>Services | Corporate         | Total            |
|-----------------------------------|----------------------|------------------------|-------------------|------------------|
| Operating earnings                | \$ 35,743            | \$ 7,192               | \$ (1,712)        | \$ 41,223        |
| Add (deduct):                     |                      |                        |                   |                  |
| Stock based compensation          | (209)                | (169)                  | (391)             | (769)            |
| Finance costs                     | -                    | -                      | (5,403)           | (5,403)          |
| Other items                       | -                    | -                      | (489)             | (489)            |
| <b>Income before income taxes</b> | <b>\$ 35,534</b>     | <b>\$ 7,023</b>        | <b>\$ (7,995)</b> | <b>\$ 34,562</b> |

Segmented information by geographic area is as follows:

| As at and for the period ended March 31, 2015 | Canada         | United States  | Total            |
|---|----------------|----------------|------------------|
| Revenue                                       | \$ 91,766      | \$ 14,084      | \$ 105,850       |
| Property and equipment                        | 720,259        | 121,317        | 841,576          |
| <b>Total assets</b>                           | <b>901,878</b> | <b>147,267</b> | <b>1,049,145</b> |

| As at and for the period ended March 31, 2014 | Canada         | United States  | Total            |
|---|----------------|----------------|------------------|
| Revenue                                       | \$ 150,263     | \$ 11,153      | \$ 161,416       |
| Property and equipment                        | 685,499        | 102,387        | 787,886          |
| <b>Total assets</b>                           | <b>906,904</b> | <b>112,288</b> | <b>1,019,192</b> |

Significant Customers:

For the three months ended March 31, 2015 and 2014, the Company had one significant customer comprising 11.7% and 12.2% respectively, of the Company's total revenue. The trade receivable balance related to this customer as at March 31, 2015 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 at March 31, 2015.



## Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

### 5. Property and equipment:

|                                  | Land            | Buildings       | Contract drilling equipment | Production services equipment | Office and shop equipment | Vehicles under finance leases | Total               |
|----------------------------------|-----------------|-----------------|-----------------------------|-------------------------------|---------------------------|-------------------------------|---------------------|
| <b>Cost:</b>                     |                 |                 |                             |                               |                           |                               |                     |
| Balance at December 31, 2014     | \$ 5,089        | \$ 4,048        | \$ 779,921                  | \$ 196,564                    | \$ 12,540                 | \$ 3,840                      | \$ 1,002,002        |
| Additions                        | -               | -               | 15,025                      | 2,718                         | 120                       | -                             | 17,863              |
| Finance lease additions          | -               | -               | -                           | -                             | -                         | 101                           | 101                 |
| Disposals                        | -               | -               | (871)                       | (320)                         | (46)                      | (99)                          | (1,336)             |
| Foreign exchange adjustment      | -               | -               | 11,993                      | -                             | 52                        | 34                            | 12,079              |
| <b>Balance at March 31, 2015</b> | <b>\$ 5,089</b> | <b>\$ 4,048</b> | <b>\$ 806,068</b>           | <b>\$ 198,962</b>             | <b>\$ 12,666</b>          | <b>\$ 3,876</b>               | <b>\$ 1,030,709</b> |
| <b>Accumulated depreciation:</b> |                 |                 |                             |                               |                           |                               |                     |
| Balance at December 31, 2014     | \$ -            | \$ 637          | \$ 143,807                  | \$ 23,918                     | \$ 5,261                  | \$ 1,073                      | \$ 174,696          |
| Depreciation for the period      | -               | 46              | 9,966                       | 3,140                         | 423                       | 219                           | 13,794              |
| Disposals                        | -               | -               | (863)                       | (187)                         | (11)                      | (94)                          | (1,155)             |
| Foreign exchange adjustment      | -               | -               | 1,754                       | -                             | 32                        | 12                            | 1,798               |
| <b>Balance at March 31, 2015</b> | <b>\$ -</b>     | <b>\$ 683</b>   | <b>\$ 154,664</b>           | <b>\$ 26,871</b>              | <b>\$ 5,705</b>           | <b>\$ 1,210</b>               | <b>\$ 189,133</b>   |
| <b>Carrying amounts:</b>         |                 |                 |                             |                               |                           |                               |                     |
| At December 31, 2014             | \$ 5,089        | \$ 3,411        | \$ 636,114                  | \$ 172,646                    | \$ 7,279                  | \$ 2,767                      | \$ 827,306          |
| <b>At March 31, 2015</b>         | <b>\$ 5,089</b> | <b>\$ 3,365</b> | <b>\$ 651,404</b>           | <b>\$ 172,091</b>             | <b>\$ 6,961</b>           | <b>\$ 2,666</b>               | <b>\$ 841,576</b>   |

Included in property and equipment at March 31, 2015 are assets under construction of \$45.3 million (December 31, 2014: \$36.8 million) which includes three drilling rig builds and one slant well servicing rig build, as well as ancillary drilling and well servicing equipment.

### 6. Long term debt:

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

|   | March 31, 2015    | December 31, 2014 |
|---|-------------------|-------------------|
| <b>Current:</b>   |                   |                   |
| Other long term debt - current portion <sup>(1)</sup>         | \$ 1,032          | \$ 1,062          |
| <b>Total current portion of long term debt</b>                | <b>1,032</b>      | <b>1,062</b>      |
| <b>Non current:</b>   |                   |                   |
| Senior Notes  | 265,000           | 265,000           |
| Less: net unamortized premium and issue costs on Senior Notes | (1,995)           | (2,122)           |
| Other long term debt - non current portion <sup>(1)</sup>     | 1,202             | 1,287             |
| <b>Total non current portion of long term debt</b>            | <b>264,207</b>    | <b>264,165</b>    |
| <b>Total long term debt</b>                                   | <b>\$ 265,239</b> | <b>\$ 265,227</b> |

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

### 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 was 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.

## Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

### 6. Long term debt (continued):

#### Credit facilities (continued):

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 March 31, 2015, the Company had \$175.0 million in available credit under the Revolving Facility and \$20.0 million under the Operating Facility.

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

|   | Covenant        |
|---|-----------------|
| Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio <sup>(1)(2)</sup> | 2.5:1.0 or less |
| Maximum Consolidated Debt to Consolidated Capitalization Ratio <sup>(3)</sup>   | 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, unsecured debt, and finance leases; reduced by cash on hand in excess of \$20 million and outstanding principal on unsecured debt (including the Company's Senior Notes).

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.

(3) Consolidated Capitalization in the credit facilities is defined as the aggregate of Consolidated Debt and total shareholders' equity as shown on the consolidated balance sheet.

As at March 31, 2015 and December 31, 2014, the Company was in compliance with all covenants related to its credit facilities.

#### Senior Notes:

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

At March 31, 2015, the fair value of the Senior Notes was approximately \$261.0 million (December 31, 2014: \$250.4 million).

## Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

### 7. Share capital:

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

|  | Issued and<br>outstanding shares | Amount     |
|--|----------------------------------|------------|
| Balance at December 31, 2013                       | 73,386,191                       | \$ 411,143 |
| Issued for cash on exercise of stock options       | 1,394,976                        | 9,460      |
| Issued for cash on exercise of warrants            | 108,261                          | 227        |
| Shares purchased under normal course issuer bid    | (23,400)                         | (127)      |
| Fair value of exercised stock options and warrants | -                                | 2,930      |
| Balance at December 31, 2014                       | 74,866,028                       | 423,633    |
| Issued for cash on exercise of stock options       | 15,800                           | 90         |
| Shares purchased under normal course issuer bid    | (303,700)                        | (1,602)    |
| Fair value of exercised stock options              | -                                | 37         |
| Balance at March 31, 2015                          | 74,578,128                       | \$ 422,158 |

During the three months ended March 31, 2015, the Company declared dividends of \$5.6 million. During the three months ended March 31, 2014, \$5.5 million in dividends were declared, and for the year ended December 31, 2014, \$22.4 million in dividends were declared. The Company had dividends payable of \$5.6 million as at March 31, 2015 (December 31, 2014: \$5.6 million).

On December 15, 2014, Western initiated a normal course issuer bid (the "Bid"), which has been filed with and accepted by the TSX. 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 three months ended March 31, 2015, 303,700 common shares for a total cost of \$1.6 million were repurchased, cancelled, and charged to share capital. In total, since the Bid was initiated, 327,100 common shares for a total cost of \$1.7 million have been repurchased, cancelled, and charged to share capital.

### 8. Stock based compensation:

#### Stock options:

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

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

|                              | Stock options<br>outstanding | Weighted average<br>exercise price |
|------------------------------|------------------------------|------------------------------------|
| Balance at December 31, 2013 | 4,425,598                    | \$ 7.02                            |
| Granted                      | 2,495,566                    | 9.46                               |
| Exercised                    | (1,394,976)                  | 6.78                               |
| Forfeited                    | (432,216)                    | 7.62                               |
| Balance at December 31, 2014 | 5,093,972                    | 8.23                               |
| Granted                      | 13,600                       | 6.01                               |
| Exercised                    | (15,800)                     | 5.70                               |
| Forfeited                    | (472,371)                    | 8.54                               |
| Expired                      | (164,233)                    | 5.70                               |
| Balance at March 31, 2015    | 4,455,168                    | \$ 8.29                            |

## Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

### 8. Stock based compensation (continued):

#### Stock options (continued):

For the three months ended March 31, 2015, no stock options were cancelled under the plan. As at March 31, 2015, Western had 1,240,221 (December 31, 2014: 1,204,091) exercisable stock options outstanding at a weighted average exercise price equal to \$7.42 (December 31, 2014: \$7.12) per stock option.

#### Restricted share unit plan:

In August 2014, the Company implemented a restricted share unit ("RSU") plan for eligible directors, officers, employees and consultants of the Company so that they may participate in the growth and development of Western. Although the TSX has accepted the adoption of the RSU plan, the RSU plan and RSUs granted thereunder prior to the receipt of shareholder approval of the RSU plan remain subject to shareholder ratification, which will be sought at the Company's next annual meeting. Under the terms of the RSU plan, the RSUs awarded will vest in three equal portions on the first, second and third anniversary of the grant date and will be settled in equity or cash at the discretion of the Company.

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

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

|                                 | Equity settled | Cash settled | Total    |
|---------------------------------|----------------|--------------|----------|
| Balance at December 31, 2013    | -              | -            | -        |
| Granted                         | 176,351        | 136,444      | 312,795  |
| Issued as a result of dividends | 3,987          | 2,822        | 6,809    |
| Forfeited                       | (3,000)        | (12,267)     | (15,267) |
| Balance at December 31, 2014    | 177,338        | 126,999      | 304,337  |
| Granted                         | -              | 6,950        | 6,950    |
| Issued as a result of dividends | 1,659          | 1,258        | 2,917    |
| Forfeited                       | (16,002)       | (8,556)      | (24,558) |
| Balance at March 31, 2015       | 162,995        | 126,651      | 289,646  |

Stock based compensation expense is comprised of the following:

|   | Three months ended<br>March 31, 2015 | Three months ended<br>March 31, 2014 |
|---|--------------------------------------|--------------------------------------|
| Stock options   | \$ 640                               | \$ 769                               |
| Restricted share units - equity settled grants        | 199                                  | -                                    |
| Total equity settled stock based compensation expense | 839                                  | 769                                  |
| Restricted share units - cash settled grants          | 124                                  | -                                    |
| Total stock based compensation expense                | \$ 963                               | \$ 769                               |

## Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

### 9. Earnings per share:

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

|  | Three months ended<br>March 31, 2015 | Three months ended<br>March 31, 2014 |
|--|--------------------------------------|--------------------------------------|
| Issued common shares, beginning of period          | 74,866,028                           | 73,386,191                           |
| Effect of shares (purchased) issued                | (179,200)                            | 119,878                              |
| Weighted average number of common shares (basic)   | 74,686,828                           | 73,506,069                           |
| Dilutive effect of equity securities               | 15,654                               | 776,549                              |
| Weighted average number of common shares (diluted) | 74,702,482                           | 74,282,618                           |

For the three months ended March 31, 2015, 4,385,465 stock options (three months ended March 31, 2014: 1,355,666) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

### 10. Finance costs:

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

|  | Three months ended<br>March 31, 2015 | Three months ended<br>March 31, 2014 |
|--|--------------------------------------|--------------------------------------|
| Interest expense on long term debt                 | \$ 5,385                             | \$ 5,315                             |
| Amortization of debt financing fees and provisions | 129                                  | 164                                  |
| Interest income                                    | (97)                                 | (13)                                 |
| Total finance costs before capitalized interest    | 5,417                                | 5,466                                |
| Capitalized interest                               | (659)                                | (63)                                 |
| Total finance costs                                | \$ 4,758                             | \$ 5,403                             |

The Company had an effective interest rate of 8.4% on its borrowings for the three months ended March 31, 2015 (three months ended March 31, 2014: 8.4%).

### 11. Income taxes:

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

|                      | Three months ended<br>March 31, 2015 | Three months ended<br>March 31, 2014 |
|----------------------|--------------------------------------|--------------------------------------|
| Current tax expense  | \$ (1,485)                           | \$ 2,820                             |
| Deferred tax expense | 7,907                                | 6,242                                |
| Total income taxes   | \$ 6,422                             | \$ 9,062                             |

As at March 31, 2015, the Company has gross loss carry forwards equal to approximately \$2.9 million in Canada, which expire between 2026 and 2034. In the United States, the Company has approximately US\$49.6 million gross loss carry forwards which expire between 2028 and 2034.

## Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

### 12. Costs by nature:

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

|  | Three months ended<br>March 31, 2015 | Three months ended<br>March 31, 2014 |
|--|--------------------------------------|--------------------------------------|
| Depreciation of property and equipment (Note 5)      | \$ 13,794                            | \$ 18,325                            |
| Employee benefits: salaries and benefits             | 45,705                               | 65,474                               |
| Employee benefits: stock based compensation (Note 8) | 963                                  | 769                                  |
| Repairs and maintenance                              | 3,673                                | 8,070                                |
| Third party charges                                  | 4,892                                | 11,789                               |

### 13. Financial risk management and financial instruments:

The Company's financial instruments include cash and cash equivalents, trade and other receivables, trade payables and other current liabilities, derivatives and long term debt instruments such as the credit facilities and the Senior Notes. Cash and cash equivalents and derivatives are carried at fair value. The carrying amounts of trade and other receivables, trade payables, and other current liabilities approximate their fair values due to their short term nature. The credit facilities bear interest at rates that approximate market rates and therefore their carrying values approximate fair values. The Senior Notes are recorded at their amortized cost. Fair value disclosure of the Senior Notes is based on the trading price on March 31, 2015.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2014.

Financial assets and liabilities recorded at fair value in the condensed consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

Hierarchical levels based on the amount of subjectivity associated with the inputs in the fair value determination of these assets and liabilities are as follows:

Level I – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II – Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level III – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

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

Capital management:

The capital structure of the Company at March 31, 2015 and December 31, 2014 is as follows:

|                                 | Note | March 31, 2015 | December 31, 2014 |
|---------------------------------|------|----------------|-------------------|
| Other long term debt            | 6    | \$ 2,234       | \$ 2,349          |
| Senior Notes                    | 6    | 265,000        | 265,000           |
| Total debt                      |      | 267,234        | 267,349           |
| Shareholders' equity            |      | 622,758        | 601,203           |
| Less: cash and cash equivalents |      | (61,342)       | (62,662)          |
| Total capitalization            |      | \$ 828,650     | \$ 805,890        |

## Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

### 14. Commitments:

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

|  | 2015             | 2016             | 2017             | 2018             | 2019              | Thereafter       | Total             |
|--|------------------|------------------|------------------|------------------|-------------------|------------------|-------------------|
| Senior Notes                                 | \$ -             | \$ -             | \$ -             | \$ -             | \$ 265,000        | \$ -             | \$ 265,000        |
| Senior Notes interest                        | 10,434           | 20,869           | 20,869           | 20,869           | 10,434            | -                | 83,475            |
| Trade payables and other current liabilities | 36,506           | -                | -                | -                | -                 | -                | 36,506            |
| Dividends payable                            | 5,593            | -                | -                | -                | -                 | -                | 5,593             |
| Operating leases                             | 4,092            | 3,375            | 2,530            | 2,377            | 2,329             | 11,839           | 26,542            |
| Purchase commitments                         | 8,032            | -                | -                | -                | -                 | -                | 8,032             |
| Other long term debt                         | 926              | 814              | 574              | 31               | -                 | -                | 2,345             |
| <b>Total</b>                                 | <b>\$ 65,583</b> | <b>\$ 25,058</b> | <b>\$ 23,973</b> | <b>\$ 23,277</b> | <b>\$ 277,763</b> | <b>\$ 11,839</b> | <b>\$ 427,493</b> |

### 15. Subsequent event:

On April 30, 2015, the Board of Directors of Western declared a quarterly dividend of \$0.075 per share, payable on July 16, 2015, to shareholders of record at the close of business on June 30, 2015. The dividends will be eligible dividends for Canadian income tax purposes.