Western Energy Services Corp.

Condensed Consolidated Financial Statements

June 30, 2016 and 2015

(Unaudited)

Western Energy Services Corp.

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

	Note	June 30, 2016	December 31, 2015
Assets			
Current assets			
Cash and cash equivalents		$ 57,397	$ 58,445
Trade and other receivables		16,460	38,438
Other current assets		4,988	5,177
		78,845	102,060
Non current assets			
Property and equipment	5	735,765	773,647
Other non current assets		147	901
		$ 814,757	$ 876,608
Liabilities			
Current liabilities			
Trade payables and other current liabilities		$ 17,775	$ 26,793
Dividends payable		-	3,682
Current portion of provisions		145	145
Current portion of long term debt	6	647	761
		18,567	31,381
Non current liabilities			
Provisions		1,602	1,674
Long term debt	6	264,145	264,155
Deferred taxes		96,855	107,702
		381,169	404,912
Shareholders' equity			
Share capital	7	417,635	417,622
Contributed surplus		12,249	10,148
Retained earnings (deficit)		(26,837)	3,734
Accumulated other comprehensive income		28,290	37,794
Non controlling interest		2,251	2,398
		433,588	471,696
		$ 814,757	$ 876,608

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

Western Energy Services Corp.

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

	Note	Three months ended June 30 2016	Three months ended June 30 2015	Six months ended June 30 2016	Six months ended June 30 2015
Revenue		$ 12,890	$ 32,037	$ 46,827	$ 137,887
Operating expenses		27,814	28,710	60,303	100,185
Gross (loss) profit		(14,924)	3,327	(13,476)	37,702
Administrative expenses		6,061	7,440	12,915	15,935
Finance costs	10	5,798	4,763	11,336	9,521
Other items	11	398	(819)	(1,732)	(1,413)
Loss on asset decommissioning	5	5,225	-	5,225	-
Income (loss) before income taxes		(32,406)	(8,057)	(41,220)	13,659
Income tax (recovery) expense	12	(8,234)	4,550	(10,729)	10,972
Net (loss) income		(24,172)	(12,607)	(30,491)	2,687
Other comprehensive income (1)					
Loss (gain) on translation of foreign operations		326	1,042	4,263	(5,134)
Unrealized foreign exchange loss (gain) on net investment in subsidiary		229	696	5,241	(5,458)
Comprehensive (loss) income		$ (24,727)	$ (14,345)	$ (39,995)	$ 13,279
Net (loss) income attributable to:					
Shareholders of the Company		$ (24,140)	$ (12,591)	$ (30,571)	$ 2,567
Non controlling interest		(32)	(16)	80	120
Comprehensive (loss) income attributable to:					
Shareholders of the Company		$ (24,695)	$ (14,329)	$ (40,075)	$ 13,159
Non controlling interest		(32)	(16)	80	120
Net (loss) income per share:					
Basic		$ (0.33)	$ (0.17)	$ (0.41)	$ 0.04
Diluted		(0.33)	(0.17)	(0.41)	0.04
Weighted average number of shares:					
Basic	9	73,648,192	74,579,889	73,647,241	74,633,065
Diluted	9	73,648,192	74,579,889	73,647,241	74,652,435

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

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

Western Energy Services Corp.

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

	Share capital	Contributed surplus [(1)]	Retained earnings (deficit)	Accumulated other comprehensive income[(2)]	Non controlling interest	Total shareholders' equity
Balance at December 31, 2014	$ 423,633	$ 6,815	$ 153,544	$ 15,125	$ 2,086	$ 601,203
Common shares:						
Issued for cash on exercise of stock options	154	-	-	-	-	154
Purchased under normal course issuer bid	(2,468)	(27)	-	-	-	(2,495)
Fair value of exercised options	55	(55)	-	-	-	-
Stock based compensation	-	1,757	-	-	-	1,757
Dividends declared	-	-	(11,184)	-	-	(11,184)
Contributions from non controlling interest	-	-	-	-	34	34
Comprehensive income	-	-	2,567	10,592	120	13,279
Balance at June 30, 2015	421,374	8,490	144,927	25,717	2,240	602,748
Common shares:						
Issued on vesting of restricted share units	471	(471)	-	-	-	-
Purchased under normal course issuer bid	(4,223)	(1)	-	-	-	(4,224)
Stock based compensation	-	2,130	-	-	-	2,130
Dividends declared	-	-	(9,209)	-	-	(9,209)
Comprehensive income (loss)	-	-	(131,984)	12,077	158	(119,749)
Balance at December 31, 2015	417,622	10,148	3,734	37,794	2,398	471,696
Common shares:						
Issued on vesting of restricted share units	13	(13)	-	-	-	-
Stock based compensation	-	2,114	-	-	-	2,114
Distributions to non controlling interest	-	-	-	-	(227)	(227)
Comprehensive income (loss)	-	-	(30,571)	(9,504)	80	(39,995)
Balance at June 30, 2016	$ 417,635	$ 12,249	$ (26,837)	$ 28,290	$ 2,251	$ 433,588

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

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

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

Western Energy Services Corp.

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

	Note	Three months ended June 30 2016	Three months ended June 30 2015	Six months ended June 30 2016	Six months ended June 30 2015
Operating activities					
Net (loss) income		$ (24,172)	$ (12,607)	$ (30,491)	$ 2,687
Adjustments for:					
Depreciation included in operating expenses		17,329	6,884	24,640	20,249
Depreciation included in administrative expenses		406	485	826	914
Non cash stock based compensation included in operating expenses		173	151	316	241
Non cash stock based compensation included in administrative expenses		859	767	1,798	1,516
Finance costs	10	5,798	4,763	11,336	9,521
Loss on asset decommissioning	5	5,225	-	5,225	-
Income tax (recovery) expense	12	(8,234)	4,550	(10,729)	10,972
Other		338	(1,022)	655	(1,091)
Cash (used in) generated from operating activities		(2,278)	3,971	3,576	45,009
Income taxes received (paid)		3,046	58	1,336	(8,402)
Change in non cash working capital		7,677	36,980	12,137	43,739
Cash flow from operating activities		8,445	41,009	17,049	80,346
Investing activities					
Additions to property and equipment	5	(423)	(7,688)	(1,344)	(25,551)
Proceeds on sale of property and equipment		59	294	421	527
Changes in non cash working capital		2	(5,563)	(1,844)	(11,435)
Cash flow used in investing activities		(362)	(12,957)	(2,767)	(36,459)
Financing activities					
Issue of common shares		-	64	-	154
Shares purchased under normal course issuer bid		-	(893)	-	(2,495)
Repayment of long term debt		(163)	(228)	(397)	(464)
Finance costs (paid) received		(375)	991	(11,024)	(8,998)
Dividends paid		-	(5,593)	(3,682)	(11,208)
(Distributions to) contributions from non controlling interest		-	(163)	(227)	34
Cash flow used in financing activities		(538)	(5,822)	(15,330)	(22,977)
Increase (decrease) in cash and cash equivalents		7,545	22,230	(1,048)	20,910
Cash and cash equivalents, beginning of period		49,852	61,342	58,445	62,662
Cash and cash equivalents, end of period		$ 57,397	$ 83,572	$ 57,397	$ 83,572
Cash and cash equivalents:					
Bank accounts		$ 5,876	$ 10,082	$ 5,876	$ 10,082
Short term investments		51,521	73,490	51,521	73,490
		$ 57,397	$ 83,572	$ 57,397	$ 83,572

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

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

1. Reporting entity:

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the registered office is 1700, 215 - 9th Avenue SW, Calgary, Alberta. Western is a publicly traded company that is listed on the Toronto Stock Exchange ("TSX") under the symbol "WRG". These condensed consolidated financial statements as at June 30, 2016 and for the three and six months ended June 30, 2016 and 2015 (the "Financial Statements") are comprised of Western, its divisions and its wholly owned subsidiaries (together referred to as the "Company"). The Company is an oilfield service company providing contract drilling services through its division, Horizon Drilling ("Horizon") in Canada, and its wholly owned subsidiary, Stoneham Drilling Corporation ("Stoneham") in the United States. On December 28, 2015, Western wound up its partnership, Western Energy Services Partnership (the "Partnership") and rolled all of the Partnership's assets into IROC Drilling and Production Services Corp., which changed its name to Western Production Services Corp. ("Western Production Services"). As a result, Western now provides well servicing operations in Canada through Western Production Services' division, Eagle Well Servicing ("Eagle") and oilfield rental equipment services in Canada through Western Production Services' division, Aero Rental Services ("Aero"). Financial and operating results for Horizon and Stoneham are included in Western's contract drilling segment, while financial and operating results for Eagle and Aero are included in Western's production services segment.

2. Basis of preparation and significant accounting policies:

Statement of compliance:

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

These Financial Statements were approved for issuance by Western's Board of Directors on July 26, 2016.

Change in Accounting Estimate:

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

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

These adjustments were applied prospectively and resulted in an increase of approximately $12.7 million of additional depreciation expense for the three and six months ended June 30, 2016, over what would have been expensed had the previous assumptions using the unit of production methodology continued to be used in the period. The estimated additional depreciation expense for the year ending December 31, 2016 from this change is approximately $24.7 million.

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

3. Seasonality:

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

4. Operating segments:

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

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

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

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

Three months ended June 30, 2016	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 7,602	$ 5,291	$ -	$ (3)	$ 12,890
Operating earnings (loss)	(13,961)	(5,157)	(607)	-	(19,725)
Finance costs	-	-	5,798	-	5,798
Depreciation	13,800	3,721	214	-	17,735
Additions to property and equipment (1)	236	187	-	-	423

Three months ended June 30, 2015	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 17,603	$ 14,465	$ -	$ (31)	$ 32,037
Operating earnings (loss)	(1,461)	(181)	(1,472)	-	(3,114)
Finance costs	-	-	4,763	-	4,763
Depreciation	4,259	2,824	286	-	7,369
Additions to property and equipment (1)	6,233	1,546	11	-	7,790

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

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

4. Operating segments (continued):

Six months ended June 30, 2016	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 30,927	$ 15,913	$ -	$ (13)	$ 46,827
Operating earnings (loss)	(15,463)	(6,699)	(1,930)	-	(24,092)
Finance costs	-	-	11,336	-	11,336
Depreciation	19,222	5,809	435	-	25,466
Additions to property and equipment (1)	550	793	1	-	1,344

Six months ended June 30, 2015	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 96,715	$ 41,425	$ -	$ (253)	$ 137,887
Operating earnings (loss)	23,077	3,931	(3,279)	-	23,729
Finance costs	-	-	9,521	-	9,521
Depreciation	14,438	6,194	531	-	21,163
Additions to property and equipment (1)	21,076	4,643	35	-	25,754

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

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

As at June 30, 2016	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 601,543	$ 147,906	$ 65,308	$ 814,757
Total liabilities	93,230	27,276	260,663	381,169

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

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

Three months ended June 30, 2016	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ (13,961)	$ (5,157)	$ (607)	$ (19,725)
Add (deduct):				
Stock based compensation	(228)	(257)	(775)	(1,260)
Finance costs	-	-	(5,798)	(5,798)
Other items	-	-	(398)	(398)
Loss on asset decommissioning	(5,225)	-	-	(5,225)
Loss before income taxes	$ (19,414)	$ (5,414)	$ (7,578)	$ (32,406)

Three months ended June 30, 2015	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ (1,461)	$ (181)	$ (1,472)	$ (3,114)
Add (deduct):				
Stock based compensation	(231)	(242)	(526)	(999)
Finance costs	-	-	(4,763)	(4,763)
Other items	-	-	819	819
Loss before income taxes	$ (1,692)	$ (423)	$ (5,942)	$ (8,057)

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

4. Operating segments (continued):

Six months ended June 30, 2016	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ (15,463)	$ (6,699)	$ (1,930)	$ (24,092)
Add (deduct):				
Stock based compensation	(347)	(428)	(1,524)	(2,299)
Finance costs	-	-	(11,336)	(11,336)
Other items	-	-	1,732	1,732
Loss on asset decommissioning	(5,225)	-	-	(5,225)
Loss before income taxes	$ (21,035)	$ (7,127)	$ (13,058)	$ (41,220)

Six months ended June 30, 2015	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ 23,077	$ 3,931	$ (3,279)	$ 23,729
Add (deduct):				
Stock based compensation	(447)	(331)	(1,184)	(1,962)
Finance costs	-	-	(9,521)	(9,521)
Other items	-	-	1,413	1,413
Income (loss) before income taxes	$ 22,630	$ 3,600	$ (12,571)	$ 13,659

Segmented information by geographic area is as follows:

As at June 30, 2016	Canada	United States	Total
Property and equipment	$ 626,410	$ 109,355	$ 735,765
Total assets	699,132	115,625	814,757

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

	Canada	United States	Total
Revenue - three months ended June 30, 2016	$ 10,002	$ 2,888	$ 12,890
Revenue - three months ended June 30, 2015	25,440	6,597	32,037
Revenue - six months ended June 30, 2016	40,494	6,333	46,827
Revenue - six months ended June 30, 2015	117,206	20,681	137,887

Significant Customers:
For the three months ended June 30, 2016 the Company had two significant customers comprising 22.4% and 13.8% respectively, of the Company’s total revenue. There was no trade receivable balance outstanding related to one of the significant customers, while the other significant customer’s trade receivable balance was 6.8% of the Company’s total trade and other receivables as at June 30, 2016. One of the previously mentioned customers was also a significant customer for the six months ended June 30, 2016, comprising 13.5% of the Company’s total revenue.

For the three months ended June 30, 2015, the Company had three significant customers comprising 12.2%, 11.5% and 10.4% respectively, of the Company’s total revenue, one of which was also a significant customer for the six months ended June 30, 2015, comprising 11.8% of the Company’s total revenue.

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

5. Property and Equipment:

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

	Land	Buildings	Contract drilling equipment	Production services equipment	Office and shop equipment	Vehicles under finance leases	Total
Cost:							
Balance at December 31, 2014	$ 5,089	$ 4,048	$ 779,921	$ 196,564	$ 12,540	$ 3,840	$ 1,002,002
Additions	-	157	26,224	6,918	263	-	33,562
Finance lease additions	-	-	-	-	-	203	203
Loss on asset decommissioning	-	-	(40,020)	(198)	-	-	(40,218)
Disposals	-	-	(1,438)	(1,066)	(308)	(483)	(3,295)
Foreign exchange adjustment	-	-	25,994	-	109	71	26,174
Balance at December 31, 2015	$ 5,089	$ 4,205	$ 790,681	$ 202,218	$ 12,604	$ 3,631	$ 1,018,428
Additions	-	-	547	601	196	-	1,344
Loss on asset decommissioning	-	-	(6,507)	-	-	-	(6,507)
Disposals	-	-	(253)	(882)	(9)	(265)	(1,409)
Foreign exchange adjustment	-	-	(12,682)	-	(45)	(159)	(12,886)
Balance at June 30, 2016	$ 5,089	$ 4,205	$ 771,786	$ 201,937	$ 12,746	$ 3,207	$ 998,970
Accumulated depreciation:							
Balance at December 31, 2014	$ -	$ 637	$ 143,807	$ 23,918	$ 5,261	$ 1,073	$ 174,696
Depreciation for the period	-	189	25,930	10,632	1,929	787	39,467
Loss on asset decommissioning	-	-	(13,538)	(82)	-	-	(13,620)
Impairment on property and equipment	-	-	18,997	22,865	-	-	41,862
Disposals	-	-	(1,174)	(665)	(273)	(390)	(2,502)
Foreign exchange adjustment	-	-	4,771	-	75	32	4,878
Balance at December 31, 2015	$ -	$ 826	$ 178,793	$ 56,668	$ 6,992	$ 1,502	$ 244,781
Depreciation for the period	-	98	18,894	5,389	771	314	25,466
Loss on asset decommissioning	-	-	(1,282)	-	-	-	(1,282)
Disposals	-	-	(127)	(518)	(7)	(166)	(818)
Foreign exchange adjustment	-	-	(4,802)	-	(36)	(104)	(4,942)
Balance at June 30, 2016	$ -	$ 924	$ 191,476	$ 61,539	$ 7,720	$ 1,546	$ 263,205
Carrying amounts:							
At December 31, 2015	$ 5,089	$ 3,379	$ 611,888	$ 145,550	$ 5,612	$ 2,129	$ 773,647
At June 30, 2016	$ 5,089	$ 3,281	$ 580,310	$ 140,398	$ 5,026	$ 1,661	$ 735,765

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

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

6. Long term debt:

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

	June 30, 2016	December 31, 2015
Current:		
Other long term debt – current portion [1]	$ 647	$ 761
Total current portion of long term debt	647	761
Non current:		
Senior Notes	265,000	265,000
Less: net unamortized premium and issue costs on Senior Notes	(1,349)	(1,607)
Other long term debt – non current portion [1]	494	762
Total non current portion of long term debt	264,145	264,155
Total long term debt	$ 264,792	$ 264,916

(1) At June 30, 2016 and December 31, 2015, other long term debt consists of finance lease obligations.

Credit facilities:

On April 27, 2016, the Company elected to reduce its syndicated revolving credit facility (the "Revolving Facility") from $175.0 million to $40.0 million and reduced its previously uncommitted operating demand revolving loan of $20.0 million to a committed operating facility (the "Operating Facility") totaling $10.0 million. At June 30, 2016, in addition to the $50.0 million of available credit under the Revolving Facility and Operating Facility (the "Credit Facilities"), Western had access to an accordion feature whereby an incremental $60.0 million of borrowing would become available, subject to the approval of the lenders. The Credit Facilities include a covenant relief period from January 1, 2016 to December 31, 2017. During the covenant relief period, there are restrictions on exercising the accordion and on certain payments made by the Company, including dividends, normal course issuer bid purchases and capital expenditures in excess of Western's approved budget. The Credit Facilities maturity date of December 17, 2018 remains unchanged.

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

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

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

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

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

6. Long term debt (continued):

Accompanying the reduction of the Credit Facilities was a revised covenant package. A summary of the Company's financial covenants as at June 30, 2016 is as follows:

	Covenant	June 30, 2016
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio (1)(2)(3)	4.0:1.0 or less	0.00:1.0
Maximum Consolidated Debt to Consolidated Capitalization Ratio (4)(5)	0.6:1.0 or less	0.32:1.0
Minimum Current Ratio (6)	1.15:1.0 or more	4.40:1.0

(1) Consolidated Senior Debt to Consolidated EBITDA reduces to 3.0:1.0 or less subsequent to January 1, 2018.

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

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

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

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

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

At June 30, 2016 the Company was in compliance with all debt covenants under its Credit Facilities.

Senior Notes:

The Company has $265.0 million 7⅞% senior unsecured notes (the "Senior Notes") outstanding which are due on January 30, 2019. The Senior Notes contain certain early redemption options under which the Company has the option to redeem all or a portion of the Senior Notes at various redemption prices, which include the principal amount plus accrued and unpaid interest, if any, to the applicable redemption date. Interest is payable semi-annually on January 30 and July 30. The Senior Notes are unsecured, ranking equal in right of payment to all existing and future unsecured indebtedness, and have been guaranteed by the Company's current and future subsidiaries. The Senior Notes indenture contains certain restrictions relating to items such as making restricted payments and incurring additional debt.

At June 30, 2016, the fair value of the Senior Notes was approximately $232.9 million (December 31, 2015: $245.5 million).

7. Share capital:

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

	Issued and outstanding shares	Amount
Balance at December 31, 2014	74,866,028	$ 423,633
Issued for cash on exercise of stock options	26,800	154
Issued on vesting of restricted share units	50,764	471
Shares purchased under normal course issuer bid	(1,297,300)	(6,691)
Fair value of exercised stock options	-	55
Balance at December 31, 2015	73,646,292	417,622
Issued on vesting of restricted share units	2,192	13
Balance at June 30, 2016	73,648,484	$ 417,635

During the three and six months ended June 30, 2016, no dividends were declared. During the three and six months ended June 30, 2015, $5.6 million and $11.2 million in dividends were declared, respectively.

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

8. Stock based compensation:

Stock options:

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

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

	Stock options outstanding	Weighted average exercise price
Balance at December 31, 2014	5,093,972	$ 8.23
Granted	2,509,831	5.10
Exercised	(26,800)	5.75
Forfeited	(1,307,994)	7.91
Expired	(210,103)	5.74
Balance at December 31, 2015	6,058,906	7.10
Granted	13,300	3.05
Forfeited	(251,574)	6.94
Expired	(98,334)	7.63
Balance at June 30, 2016	5,722,298	$ 7.09

For the three and six months ended June 30, 2016, no stock options were cancelled under the plan. As at June 30, 2016, Western had 2,377,982 (December 31, 2015: 1,966,647) exercisable stock options outstanding at a weighted average exercise price equal to $7.80 (December 31, 2015: $7.98) per stock option.

Restricted share unit plan:

The Company's restricted share unit ("RSU") plan provides for RSUs to be issued to directors, officers, employees and consultants of the Company so that they may participate in the growth and development of Western. Subject to the specific provisions of the RSU plan, eligibility, vesting period, terms of the RSUs and the number of RSUs granted are to be determined by the Board of Directors at the time of grant. The RSU plan allows the Board of Directors to issue up to 1% of the Company's outstanding common shares as equity settled RSUs, provided that, when combined, the maximum number of common shares reserved for issuance under all other stock based compensation arrangements of the Company does not exceed 10% of the Company's outstanding common shares.

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

	Equity settled	Cash settled	Total
Balance at December 31, 2014	177,338	126,999	304,337
Granted	328,845	322,151	650,996
Issued as a result of dividends	11,627	9,333	20,960
Vested	(50,764)	(38,931)	(89,695)
Forfeited	(56,777)	(70,317)	(127,094)
Balance at December 31, 2015	410,269	349,235	759,504
Granted	-	32,480	32,480
Issued as a result of dividends	6,540	5,556	12,096
Vested	(2,192)	(2,587)	(4,779)
Forfeited	(12,229)	(61,332)	(73,561)
Balance at June 30, 2016	402,388	323,352	725,740

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

8. Stock based compensation (continued):

Restricted share unit plan (continued):

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Stock options	$ 741	$ 745	$ 1,541	$ 1,385
Restricted share units – equity settled grants	291	173	573	372
Total equity settled stock based compensation expense	1,032	918	2,114	1,757
Restricted share units – cash settled grants	228	81	185	205
Total stock based compensation expense	$ 1,260	$ 999	$ 2,299	$ 1,962

9. Earnings per share:

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Issued common shares, beginning of period	73,646,292	74,578,128	73,646,292	74,866,028
Shares issued	1,900	6,963	949	12,405
Shares purchased under normal course issuer bid	-	(5,202)	-	(245,368)
Weighted average number of common shares (basic)	73,648,192	74,579,889	73,647,241	74,633,065
Dilutive effect of equity securities	-	-	-	19,370
Weighted average number of common shares (diluted)	73,648,192	74,579,889	73,647,241	74,652,435

For the three and six months ended June 30, 2016, 5,722,298 stock options (three and six months ended June 30, 2015: 4,339,335 and 4,279,632 respectively) and 402,388 RSUs (three and six months ended June 30, 2015: 158,378) 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 June 30		Six months ended June 30	
	2016	2015	2016	2015
Interest expense on long term debt	$ 5,345	$ 5,457	$ 10,831	$ 10,842
Amortization of debt financing fees and provisions	540	131	669	260
Interest income	(87)	(128)	(164)	(225)
Total finance costs before capitalized interest	5,798	5,460	11,336	10,877
Capitalized interest	-	(697)	-	(1,356)
Total finance costs	$ 5,798	$ 4,763	$ 11,336	$ 9,521

The Company had an effective interest rate of 8.8% and 8.6% on its borrowings for the three and six months ended June 30, 2016 respectively (three and six months ended June 30, 2015: 8.4%).

11. Other items:

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Realized foreign exchange loss (gain)	$ 26	$ 167	$ (2,459)	$ (393)
Mark-to-market loss (gain) on fair value of derivatives	139	(841)	552	(841)
Loss (gain) on sale of fixed assets	239	(130)	170	(182)
Unrealized foreign exchange (gain) loss	(6)	(15)	5	3
Total other items	$ 398	$ (819)	$ (1,732)	$ (1,413)

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

12. Income taxes:

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Current tax recovery	$ (408)	$ (2,286)	$ (827)	$ (3,771)
Deferred tax (recovery) expense	(7,826)	6,836	(9,902)	14,743
Total income tax (recovery) expense	$ (8,234)	$ 4,550	$ (10,729)	$ 10,972

As at June 30, 2016, the Company has gross loss carry-forwards equal to approximately $48.5 million in Canada, which will expire between 2035 and 2036. In the United States, the Company has approximately US$51.0 million gross loss carry forwards which expire between 2028 and 2036.

13. Costs by nature:

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Depreciation of property and equipment (Note 5)	$ 17,735	$ 7,369	$ 25,466	$ 21,163
Employee benefits: salaries and benefits	9,203	18,440	29,865	64,146
Employee benefits: stock based compensation (Note 8)	1,260	999	2,299	1,962
Repairs and maintenance	809	1,815	2,385	5,488
Third party charges	497	1,318	2,234	6,210

14. Financial risk management and financial instruments:

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

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

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

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

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

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

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

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

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

Capital management:

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

	Note	June 30, 2016	December 31, 2015
Other long term debt	6	$ 1,141	$ 1,523
Senior Notes	6	265,000	265,000
Total debt		266,141	266,523
Shareholders' equity		433,588	471,696
Less: cash and cash equivalents		(57,397)	(58,445)
Total capitalization		$ 642,332	$ 679,774

15. Commitments:

As at June 30, 2016, the Company has total commitments which require payments based on the maturity terms as follows:

	2016	2017	2018	2019	2020	Thereafter	Total
Senior Notes	$ -	$ -	$ -	$ 265,000	$ -	$ -	$ 265,000
Senior Notes interest	10,406	20,869	20,869	10,520	-	-	62,664
Trade payables and other current liabilities[1]	9,027	-	-	-	-	-	9,027
Operating leases	2,120	3,887	3,706	3,550	3,525	10,632	27,420
Purchase commitments	385	-	-	-	-	-	385
Other long term debt	423	719	84	-	-	-	1,226
Total	$ 22,361	$ 25,475	$ 24,659	$ 279,070	$ 3,525	$ 10,632	$ 365,722

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

16. Subsequent Event:

Subsequent to June 30, 2016, the Company added a lender to its syndicated Revolving Facility and increased the amount available by $10.0 million to $50.0 million, from $40.0 million previously. The increased Revolving Facility reinstates an interest coverage ratio when $30.0 million or more is drawn on the Company’s Credit Facilities. The interest coverage ratio has been waived during the covenant relief period, which ends after December 31, 2017. Subsequent to the covenant relief period, the interest coverage ratio must exceed 1.0 and 1.25 in the first and second quarters of 2018 respectively, and 1.5 thereafter. Additionally, the Consolidated Senior Debt to Consolidated EBITDA ratio has been reduced during the covenant relief period to 3.0 to 1.0 under the increased Revolving Facility from 4.0 to 1.0 previously. Terms of the Credit Facilities are described in detail in Note 6.