

Western Energy Services Corp.
Condensed Consolidated Financial Statements
March 31, 2017 and 2016
(Unaudited)

Western Energy Services Corp.

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

	Note	March 31, 2017	December 31, 2016
Assets			
Current assets			
Cash and cash equivalents		\$ 34,123	\$ 44,597
Trade and other receivables		52,998	34,998
Other current assets		4,801	5,253
		91,922	84,848
Non current assets			
Property and equipment	5	693,036	708,567
Other non current assets		82	110
		\$ 785,040	\$ 793,525
Liabilities			
Current liabilities			
Trade payables and other current liabilities		\$ 30,784	\$ 32,906
Current portion of provisions		138	140
Current portion of long term debt	6	559	684
		31,481	33,730
Non current liabilities			
Provisions		1,501	1,534
Long term debt	6	264,150	264,070
Deferred taxes		85,374	86,984
		382,506	386,318
Shareholders' equity			
Share capital	7	418,509	418,509
Contributed surplus		13,353	12,666
Retained earnings (deficit)		(62,687)	(58,308)
Accumulated other comprehensive income		31,263	32,258
Non controlling interest		2,096	2,082
		402,534	407,207
		\$ 785,040	\$ 793,525

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

Western Energy Services Corp.

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

	Note	Three months ended March 31, 2017	Three months ended March 31, 2016
Revenue		\$ 84,222	\$ 33,937
Operating expenses		76,242	32,489
Gross profit		7,980	1,448
Administrative expenses		6,724	6,854
Finance costs	10	5,412	5,538
Other items	11	1,697	(2,130)
Loss before income taxes		(5,853)	(8,814)
Income tax recovery	12	(1,488)	(2,495)
Net loss		(4,365)	(6,319)
Other comprehensive loss ⁽¹⁾			
Loss on translation of foreign operations		576	3,937
Unrealized foreign exchange loss on net investment in subsidiary		419	5,012
Comprehensive loss		\$ (5,360)	\$ (15,268)
Net income (loss) attributable to:			
Shareholders of the Company		\$ (4,379)	\$ (6,431)
Non controlling interest		14	112
Comprehensive income (loss) attributable to:			
Shareholders of the Company		\$ (5,374)	\$ (15,380)
Non controlling interest		14	112
Net loss per share:			
Basic		\$ (0.06)	\$ (0.09)
Diluted		(0.06)	(0.09)
Weighted average number of shares:			
Basic	9	73,795,944	73,646,292
Diluted	9	73,795,944	73,646,292

(1) Other comprehensive loss 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 Statements 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, 2015	\$ 417,622	\$ 10,148	\$ 3,734	\$ 37,794	\$ 2,398	\$ 471,696
Stock based compensation	-	1,082	-	-	-	1,082
Distributions to non controlling interest	-	-	-	-	(227)	(227)
Comprehensive income (loss)	-	-	(6,431)	(8,949)	112	(15,268)
Balance at March 31, 2016	417,622	11,230	(2,697)	28,845	2,283	457,283
Common shares:						
Issued on vesting of restricted share units	887	(887)	-	-	-	-
Stock based compensation	-	2,323	-	-	-	2,323
Distributions to non controlling interest	-	-	-	-	(158)	(158)
Comprehensive income (loss)	-	-	(55,611)	3,413	(43)	(52,241)
Balance at December 31, 2016	418,509	12,666	(58,308)	32,258	2,082	407,207
Stock based compensation	-	687	-	-	-	687
Comprehensive income (loss)	-	-	(4,379)	(995)	14	(5,360)
Balance at March 31, 2017	\$ 418,509	\$ 13,353	\$ (62,687)	\$ 31,263	\$ 2,096	\$ 402,534

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

(2) At March 31, 2017, the accumulated other comprehensive income balance consists of the translation of foreign operations and unrealized foreign exchange on the 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 March 31, 2017	Three months ended March 31, 2016
Operating activities			
Net loss		\$ (4,365)	\$ (6,319)
Adjustments for:			
Depreciation included in operating expenses		16,381	7,311
Depreciation included in administrative expenses		322	420
Non cash stock based compensation included in operating expenses		97	143
Non cash stock based compensation included in administrative expenses		590	939
Finance costs	10	5,412	5,538
Income tax recovery	12	(1,488)	(2,495)
Other		13	317
Income taxes paid		-	(1,710)
Change in non cash working capital		(13,789)	4,460
Cash flow from operating activities		3,173	8,604
Investing activities			
Additions to property and equipment	5	(2,436)	(921)
Proceeds on sale of property and equipment		170	362
Changes in non cash working capital		(576)	(1,846)
Cash flow used in investing activities		(2,842)	(2,405)
Financing activities			
Repayment of long term debt		(171)	(234)
Finance costs paid		(10,634)	(10,649)
Dividends paid		-	(3,682)
Distributions to non controlling interest		-	(227)
Cash flow used in financing activities		(10,805)	(14,792)
Decrease in cash and cash equivalents		(10,474)	(8,593)
Cash and cash equivalents, beginning of period		44,597	58,445
Cash and cash equivalents, end of period		\$ 34,123	\$ 49,852
Cash and cash equivalents:			
Bank accounts		\$ 34,123	\$ 4,456
Short term investments		-	45,396
		\$ 34,123	\$ 49,852

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)

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 and for the three months ended March 31, 2017 and 2016 (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 and oilfield rental equipment services in Canada through its wholly owned subsidiary Western Production Services Corp. ("Western Production Services"). Western Production Services' division, Eagle Well Servicing ("Eagle") provides well servicing operations, while its division, Aero Rental Services ("Aero") provides oilfield rental equipment services. 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, 2016 and for the years ended December 31, 2016 and 2015 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 April 26, 2017.

Functional and presentation currency:

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

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 oilfield service industry through its contract drilling segment in Canada and the United States, and through its production services segment in Canada. 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 ("Executive Management") review internal management reports for these operating segments on at least a monthly basis.

Information regarding the results of the operating 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 operating 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).

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 operating segment for the three months ended March 31, 2017 and 2016:

Three months ended March 31, 2017	Contract		Production		Inter-segment		Total
	Drilling	Services	Corporate	Elimination			
Revenue	\$ 64,035	\$ 20,283	\$ -	\$ (96)	\$	\$	84,222
Operating earnings (loss)	2,471	1,003	(1,552)	-			1,922
Finance costs	-	-	5,412	-			5,412
Depreciation	13,041	3,495	167	-			16,703
Additions to property and equipment	1,805	631	-	-			2,436

Three months ended March 31, 2016	Contract		Production		Inter-segment		Total
	Drilling	Services	Corporate	Elimination			
Revenue	\$ 23,325	\$ 10,622	\$ -	\$ (10)	\$	\$	33,937
Operating loss	(1,502)	(1,542)	(1,323)	-			(4,367)
Finance costs	-	-	5,538	-			5,538
Depreciation	5,422	2,088	221	-			7,731
Additions to property and equipment	314	606	1	-			921

Total assets and liabilities by operating segment are as follows:

As at March 31, 2017	Contract		Production				Total
	Drilling	Services	Corporate	Elimination			
Total assets	\$ 604,708	\$ 150,472	\$ 29,860	\$	\$	\$	785,040
Total liabilities	99,529	30,872	252,105	-			382,506

As at December 31, 2016	Contract		Production				Total
	Drilling	Services	Corporate	Elimination			
Total assets	\$ 605,121	\$ 147,891	\$ 40,513	\$	\$	\$	793,525
Total liabilities	99,873	28,324	258,121	-			386,318

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

Three months ended March 31, 2017	Contract		Production				Total
	Drilling	Services	Corporate	Elimination			
Operating earnings (loss)	\$ 2,471	\$ 1,003	\$ (1,552)	\$	\$	\$	1,922
Add (deduct):							
Stock based compensation	(95)	(80)	(491)	-			(666)
Finance costs	-	-	(5,412)	-			(5,412)
Other items	-	-	(1,697)	-			(1,697)
Income (loss) before income taxes	\$ 2,376	\$ 923	\$ (9,152)	\$	\$	\$	(5,853)

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):

Three months ended March 31, 2016	Contract		Production		Corporate	Total
	Drilling	Services	Services	Corporate		
Operating loss	\$ (1,502)	\$ (1,542)	\$ (1,323)	\$ (4,367)		
Add (deduct):						
Stock based compensation	(119)	(172)	(748)	(1,039)		
Finance costs	-	-	(5,538)	(5,538)		
Other items	-	-	2,130	2,130		
Loss before income taxes	\$ (1,621)	\$ (1,714)	\$ (5,479)	\$ (8,814)		

Segmented information by geographic area is as follows:

As at March 31, 2017	Canada	United States	Total
Property and equipment	\$ 586,970	\$ 106,066	\$ 693,036
Total assets	666,763	118,277	785,040

As at December 31, 2016	Canada	United States	Total
Property and equipment	\$ 599,511	\$ 109,056	\$ 708,567
Total assets	673,113	120,412	793,525

	Canada	United States	Total
Revenue - three months ended March 31, 2017	\$ 78,200	\$ 6,022	\$ 84,222
Revenue - three months ended March 31, 2016	30,492	3,445	33,937

Significant Customers:

For the three months ended March 31, 2017, the Company had no customers comprising 10.0% or more of the Company's total revenue. For the three months ended March 31, 2016 the Company had two significant customers comprising 11.9% and 10.2% respectively, of the Company's total revenue.

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, 2016	\$ 5,089	\$ 4,205	\$ 779,649	\$ 201,481	\$ 12,488	\$ 3,160	\$ 1,006,072
Additions	-	-	1,792	625	19	-	2,436
Disposals	-	-	(311)	(106)	-	(90)	(507)
Foreign exchange adjustment	-	-	(1,422)	-	(6)	(3)	(1,431)
Balance at March 31, 2017	\$ 5,089	\$ 4,205	\$ 779,708	\$ 202,000	\$ 12,501	\$ 3,067	\$ 1,006,570
Accumulated depreciation:							
Balance at December 31, 2016	\$ -	\$ 1,021	\$ 218,781	\$ 67,800	\$ 8,110	\$ 1,793	\$ 297,505
Depreciation for the period	-	48	12,922	3,347	278	108	16,703
Disposals	-	-	(158)	(83)	-	(54)	(295)
Foreign exchange adjustment	-	-	(371)	-	(6)	(2)	(379)
Balance at March 31, 2017	\$ -	\$ 1,069	\$ 231,174	\$ 71,064	\$ 8,382	\$ 1,845	\$ 313,534
Carrying amounts:							
At December 31, 2016	\$ 5,089	\$ 3,184	\$ 560,868	\$ 133,681	\$ 4,378	\$ 1,367	\$ 708,567
At March 31, 2017	\$ 5,089	\$ 3,136	\$ 548,534	\$ 130,936	\$ 4,119	\$ 1,222	\$ 693,036

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:

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

	March 31, 2017	December 31, 2016
Current:		
Other long term debt – current portion ⁽¹⁾	\$ 559	\$ 684
Total current portion of long term debt	559	684
Non current:		
Senior Notes	265,000	265,000
Less: net unamortized premium and issue costs on Senior Notes	(960)	(1,088)
Other long term debt – non current portion ⁽¹⁾	110	158
Total non current portion of long term debt	264,150	264,070
Total long term debt	\$ 264,709	\$ 264,754

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

Credit facilities:

The Company has a \$50.0 million syndicated revolving credit facility (the "Revolving Facility") and a \$10.0 million committed operating facility (the "Operating Facility" and together the "Credit Facilities"). As at March 31, 2017, in addition to the \$60.0 million of available credit under the Credit Facilities, Western had access to an accordion feature whereby an incremental \$50.0 million of borrowing would become available, subject to the approval of the lenders. During the covenant relief period, which began on January 1, 2016 and ends after December 31, 2017, there are restrictions on exercising the accordion and on certain payments made by the Company, including dividends, share repurchases and capital expenditures. The Credit Facilities mature on December 17, 2018.

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 March 31, 2017, the Revolving Facility and the Operating Facility were undrawn.

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):

A summary of the Company's financial covenants as at March 31, 2017 is as follows:

	Covenant	March 31, 2017
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio ⁽¹⁾⁽²⁾	3.0:1.0 or less	0.0:1.0
Maximum Consolidated Debt to Consolidated Capitalization Ratio ⁽³⁾⁽⁴⁾	0.6:1.0 or less	0.36:1.0
Minimum Consolidated EBITDA to Consolidated Interest Expense Ratio ⁽⁵⁾	Not applicable	Not applicable
Minimum Current Ratio ⁽⁶⁾	1.15:1.0 or more	2.97:1.0

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

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

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

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

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

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

As at March 31, 2017, 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, 2017, the fair value of the Senior Notes was approximately \$264.3 million (December 31, 2016: \$249.4 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, 2016	73,795,944	\$ 418,509
Balance at March 31, 2017	73,795,944	418,509

There were no dividends declared during the three months ended March 31, 2017 and 2016.

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:

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, 2016	6,153,886	\$ 6.23
Granted	118,750	3.10
Forfeited	(68,368)	6.48
Expired	(7,500)	8.79
Balance at March 31, 2017	6,196,768	\$ 6.16

For the three months ended March 31, 2017, no stock options were cancelled. As at March 31, 2017, Western had 3,059,748 (December 31, 2016: 2,951,043) exercisable stock options outstanding at a weighted average exercise price equal to \$7.49 (December 31, 2016: \$7.49) per stock option.

Restricted share unit plan:

The Company's restricted share unit ("RSU") plan provides 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 the 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 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, 2016	410,311	318,265	728,576
Granted	6,200	15,000	21,200
Vested	-	(5,412)	(5,412)
Forfeited	(794)	(14,624)	(15,418)
Balance at March 31, 2017	415,717	313,229	728,946

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

	Three months ended March 31, 2017	Three months ended March 31, 2016
Stock options	\$ 479	\$ 800
Restricted share units – equity settled grants	208	282
Total equity settled stock based compensation expense	687	1,082
Restricted share units – cash settled grants	(21)	(43)
Total stock based compensation expense	\$ 666	\$ 1,039

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 March 31, 2017	Three months ended March 31, 2016
Weighted average number of common shares (basic)	73,795,944	73,646,292
Dilutive effect of equity securities	-	-
Weighted average number of common shares (diluted)	73,795,944	73,646,292

For the three months ended March 31, 2017, 6,196,798 stock options (three months ended March 31, 2016: 5,950,409 stock options) and 415,717 RSUs (three months ended March 31, 2016: 410,401 RSUs) 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 (loss) are comprised of the following:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Interest expense on long term debt	\$ 5,307	\$ 5,486
Amortization of debt financing fees and provisions	155	129
Interest income	(50)	(77)
Total finance costs	\$ 5,412	\$ 5,538

The Company had an effective interest rate of 8.3% on its borrowings for the three months ended March 31, 2017 (three months ended March 31, 2016: 8.4%).

11. Other items:

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

	Three months ended March 31, 2017	Three months ended March 31, 2016
Transaction costs	\$ 1,597	\$ -
Realized foreign exchange loss (gain)	51	(2,485)
Loss (gain) on sale of fixed assets	42	(69)
Unrealized foreign exchange loss	7	11
Mark-to-market loss on fair value of derivatives	-	413
Total other items	\$ 1,697	\$ (2,130)

During three months ended March 31, 2017, the Company incurred transaction costs of \$1.6 million. The costs were mainly incurred on legal fees, financial advisory fees, and due diligence expenses related to the proposed, but unsuccessful, acquisition of all of the common shares of Savanna Energy Services Corp.

12. Income taxes:

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

	Three months ended March 31, 2017	Three months ended March 31, 2016
Current tax recovery	\$ -	\$ (419)
Deferred tax recovery	(1,488)	(2,076)
Total income tax recovery	\$ (1,488)	\$ (2,495)

As at March 31, 2017, the Company has gross loss carry-forwards equal to approximately \$99.9 million in Canada, which will expire by 2037. In the United States, the Company has approximately US\$51.8 million gross loss carry forwards which expire between 2028 and 2036.

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)

13. Costs by nature:

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

	Three months ended March 31, 2017	Three months ended March 31, 2016
Depreciation of property and equipment (Note 5)	\$ 16,703	\$ 7,731
Employee benefits: salaries and benefits	42,287	20,662
Employee benefits: stock based compensation (Note 8)	666	1,039
Repairs and maintenance	5,833	1,576
Third party charges	6,069	1,737

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 March 31, 2017.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2016.

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

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

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

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

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

Capital management:

The overall capitalization of the Company at March 31, 2017 and December 31, 2016 is as follows:

	Note	March 31, 2017	December 31, 2016
Other long term debt	6	\$ 669	\$ 842
Senior Notes	6	265,000	265,000
Total debt		265,669	265,842
Shareholders' equity		402,534	407,207
Less: cash and cash equivalents		(34,123)	(44,597)
Total capitalization		\$ 634,080	\$ 628,452

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)

15. Commitments:

As at March 31, 2017, the Company has commitments which require payments based on the maturity terms as follows:

	2017	2018	2019	2020	2021	Thereafter	Total
Senior Notes	\$ -	\$ -	\$ 265,000	\$ -	\$ -	\$ -	\$ 265,000
Senior Notes interest	10,349	20,869	10,520	-	-	-	41,738
Trade payables and other current liabilities ⁽¹⁾	27,296	-	-	-	-	-	27,296
Operating leases	2,967	3,804	3,651	3,511	2,781	7,701	24,415
Purchase commitments	3,111	-	-	-	-	-	3,111
Other long term debt	545	161	-	-	-	-	706
Total	\$ 44,268	\$ 24,834	\$ 279,171	\$ 3,511	\$ 2,781	\$ 7,701	\$ 362,266

(1) Trade payables and other current liabilities exclude interest accrued as at March 31, 2017 on the Senior Notes.