Western Energy Services Corp.

Condensed Consolidated Financial Statements

September 30, 2017 and 2016

(Unaudited)

Western Energy Services Corp.

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

	Note	September 30, 2017	December 31, 2016
Assets			
Current assets			
Cash and cash equivalents		$ 39,576	$ 44,597
Trade and other receivables		29,837	34,998
Other current assets		4,403	5,253
		73,816	84,848
Non current assets			
Property and equipment	5	663,542	708,567
Other non current assets		27	110
		$ 737,385	$ 793,525
Liabilities			
Current liabilities			
Trade payables and other current liabilities		$ 26,994	$ 32,906
Current portion of provisions		138	140
Current portion of long term debt	6	500	684
		27,632	33,730
Non current liabilities			
Provisions		1,448	1,534
Long term debt	6	264,958	264,070
Deferred taxes		74,400	86,984
		368,438	386,318
Shareholders' equity			
Share capital	7	419,403	418,509
Contributed surplus		13,293	12,666
Retained earnings (deficit)		(90,840)	(58,308)
Accumulated other comprehensive income		24,990	32,258
Non controlling interest		2,101	2,082
		368,947	407,207
		$ 737,385	$ 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 Sept 30 2017	Three months ended Sept 30 2016	Nine months ended Sept 30 2017	Nine months ended Sept 30 2016
Revenue		$ 54,131	$ 32,485	$ 171,660	$ 79,312
Operating expenses		58,049	43,601	178,419	103,904
Gross profit (loss)		(3,918)	(11,116)	(6,759)	(24,592)
Administrative expenses		5,875	5,926	19,017	18,841
Finance costs	10	5,521	5,708	16,352	17,044
Other items	11	235	266	2,056	(1,466)
Loss on asset decommissioning		-	-	-	5,225
Loss before income taxes		(15,549)	(23,016)	(44,184)	(64,236)
Income tax recovery	12	(4,071)	(6,043)	(11,713)	(16,772)
Net loss		(11,478)	(16,973)	(32,471)	(47,464)
Other comprehensive loss (1)					
Loss (gain) on translation of foreign operations		2,186	(907)	4,170	3,356
Unrealized foreign exchange loss (gain) on net investment in subsidiary		1,626	(654)	3,098	4,587
Comprehensive loss		$ (15,290)	$ (15,412)	$ (39,739)	$ (55,407)
Net income (loss) attributable to:					
Shareholders of the Company		$ (11,569)	$ (16,945)	$ (32,532)	$ (47,516)
Non controlling interest		91	(28)	61	52
Comprehensive income (loss) attributable to:					
Shareholders of the Company		$ (15,381)	$ (15,384)	$ (39,800)	$ (55,459)
Non controlling interest		91	(28)	61	52
Net loss per share:					
Basic		$ (0.16)	$ (0.23)	$ (0.44)	$ (0.64)
Diluted		(0.16)	(0.23)	(0.44)	(0.64)
Weighted average number of shares:					
Basic	9	73,877,203	73,722,144	73,823,970	73,672,389
Diluted	9	73,877,203	73,722,144	73,823,970	73,672,389

(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
Common shares:						
Issued on vesting of restricted share units	884	(884)	-	-	-	-
Stock based compensation	-	2,972	-	-	-	2,972
Distributions to non controlling interest	-	-	-	-	(374)	(374)
Comprehensive income (loss)	-	-	(47,516)	(7,943)	52	(55,407)
Balance at September 30, 2016	418,506	12,236	(43,782)	29,851	2,076	418,887
Common shares:						
Issued on vesting of restricted share units	3	(3)	-	-	-	-
Stock based compensation	-	433	-	-	-	433
Distributions to non controlling interest	-	-	-	-	(11)	(11)
Comprehensive income (loss)	-	-	(14,526)	2,407	17	(12,102)
Balance at December 31, 2016	418,509	12,666	(58,308)	32,258	2,082	407,207
Common shares:						
Issued on vesting of restricted share units	894	(894)	-	-	-	-
Stock based compensation	-	1,521	-	-	-	1,521
Distributions to non controlling interest	-	-	-	-	(42)	(42)
Comprehensive loss	-	-	(32,532)	(7,268)	61	(39,739)
Balance at September 30, 2017	$ 419,403	$ 13,293	$ (90,840)	$ 24,990	$ 2,101	$ 368,947

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

(2) At September 30, 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 Sept 30 2017	Three months ended Sept 30 2016	Nine months ended Sept 30 2017	Nine months ended Sept 30 2016
Operating activities					
Net loss		$ (11,478)	$ (16,973)	$ (32,471)	$ (47,464)
Adjustments for:					
Depreciation included in operating expenses		16,196	16,712	48,989	41,352
Depreciation included in administrative expenses		300	378	929	1,204
Non cash stock based compensation included in operating expenses		18	94	214	410
Non cash stock based compensation included in administrative expenses		121	764	1,307	2,562
Finance costs	10	5,521	5,708	16,352	17,044
Loss on asset decommissioning		-	-	-	5,225
Income tax recovery	12	(4,071)	(6,043)	(11,713)	(16,772)
Other		(58)	316	(129)	971
Income taxes received		1,685	6,919	1,685	8,255
Change in non cash working capital		(6,625)	(6,966)	278	5,171
Cash flow from operating activities		1,609	909	25,441	17,958
Investing activities					
Additions to property and equipment	5	(6,349)	(651)	(12,220)	(1,995)
Proceeds on sale of property and equipment		175	101	793	522
Changes in non cash working capital		2,140	61	2,692	(1,783)
Cash flow used in investing activities		(4,034)	(489)	(8,735)	(3,256)
Financing activities					
Repayment of long term debt		(157)	(173)	(538)	(570)
Finance costs paid		(10,449)	(10,481)	(21,147)	(21,505)
Dividends paid		-	-	-	(3,682)
Distributions to non controlling interest		(42)	(147)	(42)	(374)
Cash flow used in financing activities		(10,648)	(10,801)	(21,727)	(26,131)
Decrease in cash and cash equivalents		(13,073)	(10,381)	(5,021)	(11,429)
Cash and cash equivalents, beginning of period		52,649	57,397	44,597	58,445
Cash and cash equivalents, end of period		$ 39,576	$ 47,016	$ 39,576	$ 47,016

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

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 and nine months ended September 30, 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 October 25, 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, as the spring thaw and wet conditions create weight restrictions on roads, 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 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 & 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).

(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 and nine months ended September 30, 2017 and 2016:

Three months ended September 30, 2017	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 41,185	$ 12,957	$ -	$ (11)	$ 54,131
Operating loss	(6,393)	(1,869)	(1,352)	-	(9,614)
Finance costs	-	-	5,521	-	5,521
Depreciation	12,977	3,356	163	-	16,496
Additions to property and equipment (1)	5,733	872	-	-	6,605

Three months ended September 30, 2016	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 21,400	$ 11,090	$ -	$ (5)	$ 32,485
Operating loss	(12,773)	(2,667)	(754)	-	(16,194)
Finance costs	-	-	5,708	-	5,708
Depreciation	13,236	3,646	208	-	17,090
Additions to property and equipment (1)	446	205	-	-	651

Nine months ended September 30, 2017	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 130,440	$ 41,335	$ -	$ (115)	$ 171,660
Operating loss	(15,402)	(4,580)	(4,308)	-	(24,290)
Finance costs	-	-	16,352	-	16,352
Depreciation	39,110	10,312	496	-	49,918
Additions to property and equipment (1)	11,001	2,076	1	-	13,078

Nine months ended September 30, 2016	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 52,327	$ 27,003	$ -	$ (18)	$ 79,312
Operating loss	(28,237)	(9,366)	(2,684)	-	(40,287)
Finance costs	-	-	17,044	-	17,044
Depreciation	32,458	9,455	643	-	42,556
Additions to property and equipment (1)	996	998	1	-	1,995

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

Total assets and liabilities by operating segment are as follows:

As at September 30, 2017	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 566,440	$ 136,701	$ 34,244	$ 737,385
Total liabilities	93,875	27,286	247,277	368,438

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

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

4. Operating segments (continued):

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

Three months ended September 30, 2017	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (6,393)	$ (1,869)	$ (1,352)	$ (9,614)
Add (deduct):				
Stock based compensation	(43)	(24)	(112)	(179)
Finance costs	-	-	(5,521)	(5,521)
Other items	-	-	(235)	(235)
Loss before income taxes	$ (6,436)	$ (1,893)	$ (7,220)	$ (15,549)

Three months ended September 30, 2016	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (12,773)	$ (2,667)	$ (754)	$ (16,194)
Add (deduct):				
Stock based compensation	(100)	(109)	(639)	(848)
Finance costs	-	-	(5,708)	(5,708)
Other items	-	-	(266)	(266)
Loss before income taxes	$ (12,873)	$ (2,776)	$ (7,367)	$ (23,016)

Nine months ended September 30, 2017	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (15,402)	$ (4,580)	$ (4,308)	$ (24,290)
Add (deduct):				
Stock based compensation	(214)	(193)	(1,079)	(1,486)
Finance costs	-	-	(16,352)	(16,352)
Other items	-	-	(2,056)	(2,056)
Loss before income taxes	$ (15,616)	$ (4,773)	$ (23,795)	$ (44,184)

Nine months ended September 30, 2016	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (28,237)	$ (9,366)	$ (2,684)	$ (40,287)
Add (deduct):				
Stock based compensation	(447)	(537)	(2,162)	(3,146)
Finance costs	-	-	(17,044)	(17,044)
Other items	-	-	1,466	1,466
Loss on asset decommissioning	(5,225)	-	-	(5,225)
Loss before income taxes	$ (33,909)	$ (9,903)	$ (20,424)	$ (64,236)

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

4. Operating segments (continued):

Segmented information by geographic area is as follows:

As at September 30, 2017	Canada	United States	Total
Property and equipment	$ 567,577	$ 95,965	$ 663,542
Total assets	628,072	109,313	737,385

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 September 30, 2017	$ 46,559	$ 7,572	$ 54,131
Revenue - three months ended September 30, 2016	28,264	4,221	32,485
Revenue - nine months ended September 30, 2017	150,192	21,468	171,660
Revenue - nine months ended September 30, 2016	68,758	10,554	79,312

Significant Customers:

For the three months ended September 30, 2017 the Company had one significant customer comprising 10.5% of the Company's total revenue. The trade receivable balance outstanding related to this customer was 3.5% of the Company's total trade and other receivables as at September 30, 2017. For the nine months ended September 30, 2017 the Company had no customers comprising 10.0% or more of the Company's total revenue.

For the three months ended September 30, 2016 the Company had one significant customer comprising 11.4% of the Company's total revenue. For the nine months ended September 30, 2016 the Company also had one significant customer comprising 11.8% 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	-	191	10,342	1,581	106	-	12,220
Finance lease additions	-	-	-	-	-	858	858
Disposals	-	-	(1,854)	(742)	-	(717)	(3,313)
Foreign exchange adjustment	-	-	(10,538)	-	(46)	(21)	(10,605)
Balance at September 30, 2017	$ 5,089	$ 4,396	$ 777,599	$ 202,320	$ 12,548	$ 3,280	$ 1,005,232
Accumulated depreciation:							
Balance at December 31, 2016	$ -	$ 1,021	$ 218,781	$ 67,800	$ 8,110	$ 1,793	$ 297,505
Depreciation for the period	-	146	38,775	9,932	799	266	49,918
Disposals	-	-	(1,384)	(665)	-	(522)	(2,571)
Foreign exchange adjustment	-	-	(3,101)	-	(45)	(16)	(3,162)
Balance at September 30, 2017	$ -	$ 1,167	$ 253,071	$ 77,067	$ 8,864	$ 1,521	$ 341,690
Carrying amounts:							
At December 31, 2016	$ 5,089	$ 3,184	$ 560,868	$ 133,681	$ 4,378	$ 1,367	$ 708,567
At September 30, 2017	$ 5,089	$ 3,229	$ 524,528	$ 125,253	$ 3,684	$ 1,759	$ 663,542

(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.

	September 30, 2017	December 31, 2016
Current:		
Other long term debt – current portion [1]	$ 500	$ 684
Total current portion of long term debt	500	684
Non current:		
Senior Notes	265,000	265,000
Less: net unamortized premium and issue costs on Senior Notes	(700)	(1,088)
Other long term debt – non current portion [1]	658	158
Total non current portion of long term debt	264,958	264,070
Total long term debt	$ 265,458	$ 264,754

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

Credit facilities:

At September 30, 2017, Western's credit facilities consisted of 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"). On October 17, 2017, the Company amended the terms, extended the maturity of the Credit Facilities to December 17, 2020 and increased the amount available under the Revolving Facility from $50.0 million to $70.0 million. The $10.0 million Operating Facility remains unchanged. In addition to the $80.0 million of available credit under the revised Credit Facilities, Western has access to an accordion feature whereby an incremental $50.0 million of borrowing would become available, subject to the approval of the lenders.

Additionally, advances under the Credit Facilities will be limited by the Company's borrowing base. The borrowing base is applicable when the Debt Service Coverage ratio is less than 2.0 and either (i) more than $40.0 million is drawn under the Credit Facilities or (ii) the net book value of Western's property and equipment is less than $500.0 million. 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 $50.0 million.

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 September 30, 2017, 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):

Credit facilities (continued):

Accompanying the amendment of the Credit Facilities was a revised covenant package. A summary of the Company's financial covenants as at September 30, 2017 is as follows:

	Previous Covenant	Revised Covenant	Sept 30, 2017
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio (1)(2)	3.0:1.0 or less	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	0.6:1.0 or less	0.38:1.0
Minimum Consolidated EBITDA to Consolidated Interest Expense Ratio (5)	Waived	Removed	Not applicable
Minimum Debt Service Coverage Ratio (6)	Not applicable	1.0:1.0 or more	Not applicable
Minimum Current Ratio (7)	1.15:1.0 or more	Removed	Not applicable

(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 the outstanding principal on both the second lien secured term loan and 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. The interest coverage ratio prior to the credit facility amendments was waived at September 30, 2017. The financial covenant was removed in the revised Credit Facilities.
(6) Debt Service Coverage Ratio is defined as the ratio of Consolidated EBITDA, as previously defined, to the sum of interest expense including capitalized interest and scheduled long term debt principal repayments. The ratio is only applicable when $40.0 million or more is drawn on the Credit Facilities or the net book value of Western's property and equipment is less than $500.0 million. The ratio must meet or exceed 1.0 as at and prior to March 31, 2018, 1.25 as at June 30, 2018, 1.5 as at September 30, 2018 and December 31, 2018 and 2.0 thereafter.
(7) 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. The financial covenant was removed in the revised Credit Facilities.

As at September 30, 2017, the Company was in compliance with all covenants related to its revised 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 September 30, 2017, the fair value of the Senior Notes was approximately $269.6 million (December 31, 2016: $249.4 million).

See Note 16 for additional information on long term debt changes subsequent to September 30, 2017.

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
Issued on vesting of restricted share units	178,650	894
Balance at September 30, 2017	73,974,594	$ 419,403

There were no dividends declared during the three and nine months ended September 30, 2017 and 2016.

See Note 16 for additional information on changes to share capital subsequent to September 30, 2017.

(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	1,358,821	1.41
Forfeited	(518,595)	6.00
Expired	(166,070)	7.68
Balance at September 30, 2017	6,828,042	$ 5.25

For the three and nine months ended September 30, 2017, no stock options were cancelled. As at September 30, 2017, Western had 4,051,163 (December 31, 2016: 2,951,043) exercisable stock options outstanding at a weighted average exercise price equal to $6.95 (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 5% 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	1,083,001	1,089,201
Exercised	(178,648)	(121,327)	(299,975)
Forfeited	(37,056)	(55,369)	(92,425)
Balance at September 30, 2017	200,807	1,224,570	1,425,377

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2017	2016	2017	2016
Stock options	$ 114	$ 635	$ 1,071	$ 2,176
Restricted share units – equity settled grants	25	223	450	796
Total equity settled stock based compensation expense	139	858	1,521	2,972
Restricted share units – cash settled grants	40	(10)	(35)	174
Total stock based compensation expense	$ 179	$ 848	$ 1,486	$ 3,146

(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 Sept 30		Nine months ended Sept 30	
	2017	2016	2017	2016
Issued common shares, beginning of period	73,795,944	73,648,484	73,795,944	73,646,292
Weighted average number of common shares issued	81,259	73,660	28,026	26,097
Weighted average number of common shares (basic)	73,877,203	73,722,144	73,823,970	73,672,389
Dilutive effect of equity securities	-	-	-	-
Weighted average number of common shares (diluted)	73,877,203	73,722,144	73,823,970	73,672,389

For the three and nine months ended September 30, 2017, 6,828,042 stock options (three and nine months ended September 30, 2016: 6,855,154 stock options) and 200,807 RSUs (three and nine months ended September 30, 2016: 427,349 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 Sept 30		Nine months ended Sept 30	
	2017	2016	2017	2016
Interest expense on long term debt	$ 5,441	$ 5,623	$ 16,085	$ 16,454
Amortization of debt financing fees and provisions	158	157	470	826
Interest income	(78)	(72)	(203)	(236)
Total finance costs	$ 5,521	$ 5,708	$ 16,352	$ 17,044

The Company had an effective interest rate of 8.3% on its borrowings for the three and nine months ended September 30, 2017 (three months and nine months ended September 30, 2016: 8.6%).

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 Sept 30		Nine months ended Sept 30	
	2017	2016	2017	2016
Transaction costs	$ -	$ -	$ 1,597	$ -
Realized foreign exchange loss (gain)	278	(86)	501	(2,545)
Loss (gain) on sale of fixed assets	(39)	352	(51)	522
Unrealized foreign exchange loss (gain)	(4)	-	9	5
Mark-to-market loss on fair value of derivatives	-	-	-	552
Total other items	$ 235	$ 266	$ 2,056	$ (1,466)

During nine months ended September 30, 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 Sept 30		Nine months ended Sept 30	
	2017	2016	2017	2016
Current tax expense (recovery)	$ 33	$ (370)	$ 33	$ (1,197)
Deferred tax recovery	(4,104)	(5,673)	(11,746)	(15,575)
Total income tax recovery	$ (4,071)	$ (6,043)	$ (11,713)	$ (16,772)

As at September 30, 2017, the Company has gross loss carry-forwards equal to approximately $127.7 million in Canada, which will expire between 2035 and 2037. In the United States, the Company has approximately US$50.6 million gross loss carry forwards which expire between 2028 and 2036.

(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 Sept 30		Nine months ended Sept 30	
	2017	2016	2017	2016
Depreciation of property and equipment (Note 5)	$ 16,496	$ 17,090	$ 49,918	$ 42,556
Employee benefits: salaries and benefits	31,372	20,585	94,396	50,450
Employee benefits: stock based compensation (Note 8)	179	848	1,486	3,146
Repairs and maintenance	4,304	2,267	13,336	4,853
Third party charges	3,020	1,820	11,927	4,054

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 September 30, 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 September 30, 2017 and December 31, 2016 is as follows:

	Note	September 30, 2017	December 31, 2016
Other long term debt	6	$ 1,158	$ 842
Senior Notes	6	265,000	265,000
Total debt		266,158	265,842
Shareholders' equity		368,947	407,207
Less: cash and cash equivalents		(39,576)	(44,597)
Total capitalization		$ 595,529	$ 628,452

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

15. Commitments:

As at September 30, 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	-	20,869	10,520	-	-	-	31,389
Trade payables and other current liabilities (1)	23,392	-	-	-	-	-	23,392
Operating leases	1,038	3,998	3,802	3,604	2,781	7,701	22,924
Purchase commitments	2,495	-	-	-	-	-	2,495
Other long term debt	231	422	241	362	-	-	1,256
Total	$ 27,156	$ 25,289	$ 279,563	$ 3,966	$ 2,781	$ 7,701	$ 346,456

(1) Trade payables and other current liabilities exclude interest accrued as at September 30, 2017 on the Senior Notes.

16. Subsequent Event:

Subsequent to September 30, 2017, on October 17, 2017 the Company closed the following financing transactions:

- A lending agreement with Alberta Investment Management Corporation ("AIMCo") providing for a $215.0 million second lien secured term loan facility (the "Second Lien Facility"). The Second Lien Facility is available in a single draw which will be used to repay a portion of the Company's outstanding 7 ⅞% senior unsecured notes (the "Senior Notes"). Interest will be payable semi-annually, at a rate of 7.25% per annum, on January 1 and July 1 each year. Amortization payments equal to 1% of the principal amount will be payable annually in quarterly installments beginning on July 1, 2018, with the balance due on maturity, five years from the draw date. In conjunction with the Second Lien Facility, Western has issued to AIMco approximately 7.1 million warrants to purchase common shares of Western, at an exercise price of $1.77 per common share, which have a three year life and expire on October 17, 2020;
- A private placement with AIMCo (the "Private Placement") of 9.1 million common shares of Western at a price of $1.25 per common share, for aggregate gross proceeds of $11.4 million;
- A bought deal offering of common shares of Western with a syndicate of underwriters (the "Bought Deal") where the underwriters purchased 9.1 million common shares of Western at a price of $1.25 per common share, for aggregate gross proceeds of $11.4 million; and
- Completed a number of amendments to its Credit Facilities, including the following:
  - Extended the maturity of its Credit Facilities to December 17, 2020;
  - Increased the limit of the Revolving Facility from $50.0 million to $70.0 million, while the $10.0 million Operating Facility limit remains unchanged;
  - The interest coverage and current ratio covenants have been permanently removed;
  - A debt service coverage ratio has been added, which is calculated based on EBITDA, as defined in the Credit Facilities agreement, divided by the sum of interest expense and scheduled long term debt principal repayments. The covenant will only be tested when the outstanding principal under the Credit Facilities exceeds $40.0 million or net book value of property and equipment is less than $500.00 million. If applicable, the debt service coverage ratio must meet or exceed 1.0 as at and prior to March 31, 2018, 1.25 as at June 30, 2018, 1.5 as at September 30, 2018 and December 31, 2018, and 2.0 thereafter; and
  - The Revolving Facility will continue to include an accordion feature, whereby an incremental $50.0 million of borrowing would be available, subject to the approval of the lenders.