Western Energy Services Corp.

Consolidated Financial Statements

December 31, 2017 and 2016

To the Shareholders of Western Energy Services Corp.:

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of Western Energy Services Corp. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Audit Committee is appointed by the Board of Directors, with all of its members being independent directors. The Audit Committee meets with management, as well as with the external auditors, to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the auditor's report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited independently by Deloitte LLP on behalf of Western Energy Services Corp. in accordance with Canadian generally accepted auditing standards. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements.

"Signed"
Alex R.N. MacAusland
President &
Chief Executive Officer

"Signed"
Jeffrey K. Bowers
Senior Vice President, Finance &
Chief Financial Officer

February 21, 2018

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Western Energy Services Corp.

We have audited the accompanying consolidated financial statements of Western Energy Services Corp., which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of operations and comprehensive income (loss), consolidated statements of changes in shareholders' equity, and the consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Western Energy Services Corp. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
February 21, 2018
Calgary, Alberta

Western Energy Services Corp.

Consolidated Balance Sheets
(thousands of Canadian dollars)

	Note	December 31, 2017	December 31, 2016
Assets			
Current assets			
Cash and cash equivalents		$ 48,825	$ 44,597
Trade and other receivables	6	48,117	34,998
Other current assets	7	6,429	5,253
		103,371	84,848
Non current assets			
Property and equipment	8	652,828	708,567
Other non current assets	7	4,305	110
		$ 760,504	$ 793,525
Liabilities			
Current liabilities			
Trade payables and other current liabilities	9	$ 39,891	$ 32,906
Current portion of provisions	10	139	140
Current portion of long term debt	11	475	684
		40,505	33,730
Non current liabilities			
Provisions	10	1,415	1,534
Long term debt	11	265,219	264,070
Deferred taxes	17	67,211	86,984
		374,350	386,318
Shareholders' equity			
Share capital	12	441,019	418,509
Contributed surplus		14,631	12,666
Retained earnings (deficit)		(95,834)	(58,308)
Accumulated other comprehensive income		24,217	32,258
Non controlling interest		2,121	2,082
		386,154	407,207
		$ 760,504	$ 793,525

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

Approved on behalf of the Board of Directors:

"Signed"
Ronald P. Mathison
Director, Chairman of the Board

"Signed"
Lorne A. Gartner
Director, Chairman of the Audit Committee

Western Energy Services Corp.

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

	Note	Year ended December 31, 2017	Year ended December 31, 2016
Revenue		$ 238,175	$ 124,438
Operating expenses		245,352	157,212
Gross profit (loss)		(7,177)	(32,774)
Administrative expenses		25,517	24,691
Finance costs	15	21,950	22,522
Other items	16	1,356	(1,549)
Loss on asset decommissioning	8	-	5,490
Loss before income taxes		(56,000)	(83,928)
Income tax recovery	17	(18,555)	(21,955)
Net loss		(37,445)	(61,973)
Other comprehensive loss (1)			
Loss on translation of foreign operations		3,977	1,964
Unrealized foreign exchange loss on net investment in subsidiary		4,064	3,572
Comprehensive loss		$ (45,486)	$ (67,509)
Net income (loss) attributable to:			
Shareholders of the Company		$ (37,526)	$ (62,042)
Non controlling interest		81	69
Comprehensive income (loss) attributable to:			
Shareholders of the Company		$ (45,567)	$ (67,578)
Non controlling interest		81	69
Net loss per share:			
Basic		$ (0.48)	$ (0.84)
Diluted		(0.48)	(0.84)
Weighted average number of shares:			
Basic	14	77,601,827	73,703,437
Diluted	14	77,601,827	73,703,437

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

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

Western Energy Services Corp.

Consolidated Statements of Changes in Shareholders' Equity
(thousands of Canadian dollars)

	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	887	(887)	-	-	-	-
Stock based compensation	-	3,405	-	-	-	3,405
Distributions to non controlling interest	-	-	-	-	(385)	(385)
Comprehensive income (loss)	-	-	(62,042)	(5,536)	69	(67,509)
Balance at December 31, 2016	418,509	12,666	(58,308)	32,258	2,082	407,207
Common shares:						
Issue of common shares (net of issue costs)	21,614	-	-	-	-	21,614
Issued on vesting of restricted share units	896	(896)	-	-	-	-
Stock based compensation	-	1,781	-	-	-	1,781
Issue of warrants	-	1,080	-	-	-	1,080
Distributions to non controlling interest	-	-	-	-	(42)	(42)
Comprehensive income (loss)	-	-	(37,526)	(8,041)	81	(45,486)
Balance at December 31, 2017	$ 441,019	$ 14,631	$ (95,834)	$ 24,217	$ 2,121	$ 386,154

(1) Contributed surplus relates to stock based compensation described in Note 13.

(2) At December 31, 2017, the accumulated other comprehensive income balance consists of the translation of foreign operations and unrealized foreign exchange on net investment in subsidiary.

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

Western Energy Services Corp.

Consolidated Statements of Cash Flows

(thousands of Canadian dollars)

	Note	Year ended December 31, 2017	Year ended December 31, 2016
Operating activities			
Net loss		$ (37,445)	$ (61,973)
Adjustments for:			
Depreciation included in operating expenses	8	65,227	57,903
Depreciation included in administrative expenses	8	1,213	1,569
Non cash stock based compensation included in operating expenses	13	215	466
Non cash stock based compensation included in administrative expenses	13	1,566	2,939
Finance costs	15	21,950	22,522
Loss on asset decommissioning	8	-	5,490
Income tax recovery	17	(18,555)	(21,955)
Other		507	985
Income taxes received		1,633	8,278
Change in non cash working capital		(11,670)	407
Cash flow from operating activities		24,641	16,631
Investing activities			
Additions to property and equipment	8	(18,132)	(4,719)
Proceeds on sale of property and equipment		943	549
Change in non cash working capital		2,585	20
Cash flow used in investing activities		(14,604)	(4,150)
Financing activities			
Issue of common shares	12	22,750	-
Share issue costs	12	(1,549)	-
Repayment of long term debt		(680)	(709)
Second lien debt issue costs		(4,323)	-
Finance costs paid		(22,124)	(21,553)
Dividends paid		-	(3,682)
Distributions to non controlling interest		(42)	(385)
Change in non cash working capital		159	-
Cash flow used in financing activities		(5,809)	(26,329)
Increase (decrease) in cash and cash equivalents		4,228	(13,848)
Cash and cash equivalents, beginning of year		44,597	58,445
Cash and cash equivalents, end of year (1)		$ 48,825	$ 44,597

(1) At December 31, 2017 and 2016, the Company's cash and cash equivalents consisted of bank accounts and high interest savings accounts with banks within the Company's existing credit facilities syndicate.

The accompanying notes are an integral part of these 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 consolidated financial statements as at and for the years ended December 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:

(a) Statement of compliance:

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Preparation of these Financial Statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity and areas where assumptions and estimates are significant to these Financial Statements are disclosed in Note 4.

These Financial Statements were approved for issuance by Western's Board of Directors on February 21, 2018.

(b) Basis of measurement:

The consolidated financial statements have been prepared using the historical cost basis except as detailed in the Company's accounting policies in Note 3.

(c) Functional and presentation currency:

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

3. Significant accounting policies:

The significant accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, unless otherwise indicated.

(a) Basis of consolidation:

These Financial Statements include the accounts of Western and its subsidiaries, which are entities over which Western has control. Control exists when Western has the power, directly or indirectly, to direct the relevant activities of an entity so as to obtain benefit from its activities. The financial results of Western's subsidiaries are included in the Financial Statements from the date that control commences until the date that control ceases. The accounting policies of Western's subsidiaries have been aligned with the policies adopted by Western. When Western ceases to control a subsidiary, the financial statements of that subsidiary are de-consolidated.

Inter-company balances and transactions, and any income and expenses arising from inter-company transactions, have been eliminated in these Financial Statements.

A portion of the Company's operations are conducted through arrangements where the Company and a third party each have a 50% interest. Based on the criteria outlined in IFRS 10, Consolidated Financial Statements, the Company determined that, for financial reporting purposes, the Company has control of these arrangements. As a result, the Company fully consolidates the arrangements and has recorded a non controlling interest in equity and net income.

3. Significant accounting policies (continued):

(b) Foreign currency transactions and operations:
The Canadian dollar is Western's functional and presentation currency. Each of the Company's subsidiaries' functional currency is determined individually and items included in the financial statements of each subsidiary are measured using that functional currency. Transactions in foreign currencies are translated to the respective functional currencies of Western and its subsidiaries at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the exchange rate in effect on the balance sheet date with any resulting foreign exchange gain or loss recognized in net income. Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rate in effect on the date of the transaction. Foreign currency gains and losses on transactions are reported on a net basis and recognized in other items within net income.

The Company's foreign operations are conducted through Stoneham, which has a US dollar functional currency. For the purposes of presenting the Financial Statements, the assets and liabilities of this foreign operation are translated to Canadian dollars using exchange rates in effect on the balance sheet date. Income and expenses are translated at the average exchange rate for the period. Exchange differences arising from this translation are recognized in other comprehensive income.

(c) Business combinations:
The Company uses the acquisition method to account for business combinations. The Company measures goodwill as the fair value of the consideration transferred, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a gain on acquisition is recognized immediately in net income.

Goodwill is allocated as of the date of the business combination to the Company's operating segments that are expected to benefit from the business combination and represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which can be no higher than the operating segment level. Goodwill is not amortized and is tested for impairment annually. Additionally, goodwill is reviewed at each reporting date to determine if events or changes in circumstances indicate that the asset might be impaired, in which case an impairment test is performed. Goodwill is measured at cost less accumulated impairment losses.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred and recognized in other items within net income.

(d) Financial instruments:
All financial instruments are measured at fair value upon initial recognition of the transaction. Measurement in subsequent periods is dependent on whether the instrument is classified as a "financial asset or financial liability at fair value through profit or loss", "available-for-sale financial assets", "held-to-maturity investments", "loans and receivables", or "other financial liabilities".

The Company derecognizes a financial asset when the contractual right to the cash flows from the asset expires, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets:

(i) Financial assets at fair value through profit or loss:

Cash and cash equivalents are held for trading within the fair value through profit or loss category. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income.

3. Significant accounting policies (continued):

(d) Financial instruments (continued):

(ii) Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value, adjusted for any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The Company's trade and other receivables are categorized as loans and receivables.

(iii) Available for sale:

From time to time, the Company may have certain equity investments in publicly traded entities. Investments that have a quoted price in an active market are measured at fair value with changes in fair value recognized in other comprehensive income. When the investment is ultimately sold, any gains or losses are recognized in net income and any unrealized gains or losses previously recognized in other comprehensive income are reversed.

The Company has the following non-derivative financial liabilities:

(i) Other financial liabilities:

Trade payables and other current liabilities, finance lease obligations, senior unsecured notes (the "Senior Notes") and credit facilities are classified as "other financial liabilities". Other financial liabilities are recognized initially at fair value, net of any directly attributable transaction costs. Other financial liabilities, including the Senior Notes, are subsequently measured at amortized cost using the effective interest method. Transaction costs incurred with respect to the credit facilities are deferred and amortized using the straight-line method over the term of the facility. The asset is recognized in other assets on the balance sheet while the amortization is included in finance costs within net income. Transaction costs related to undrawn term loans are recognized in deferred charges until the term loan is drawn. Subsequent to drawing on the term loan, transaction costs are netted against the term loan and amortized using the effective interest method. Please refer to Note 24 for additional information on the Company's term loan.

(ii) Equity instruments:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

(e) Cash and cash equivalents:
Cash and cash equivalents are comprised of cash balances and short term investments with original maturities of three months or less.

(f) Embedded derivatives:
Derivatives embedded in other instruments or host contracts are separated from the host contract and accounted for separately when their economic characteristics and risks are not closely related to the host contract. Embedded derivatives are recorded on the balance sheet at their estimated fair value and changes in the fair value are recorded through net income. The asset is recognized in other assets on the balance sheet while changes in the value of the embedded derivatives are included in other items within net income.

(g) Property and equipment:
Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The cost of self-constructed assets includes the cost of materials and direct labour as well as any other costs directly attributable to bringing the assets to a working condition for their intended use.

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

3. Significant accounting policies (continued):

(g) Property and equipment (continued):

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are included in the cost of those assets, until such time as the assets are substantially available for their intended use. All other borrowing costs are recognized in net income in the period incurred.

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. Costs associated with certifications and overhauls of drilling and well servicing rigs are capitalized and depreciated over the anticipated period between certifications, while the carrying amount of a replaced part, previous certification or overhaul is derecognized and recorded as a loss in net income as incurred. The costs of day-to-day servicing of property and equipment (i.e. repairs and maintenance) are recognized in net income as incurred.

Effective April 1, 2016, Western changed the method for depreciating its drilling and well servicing 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 results in idle or underutilized assets being depreciated more quickly in periods of low activity. A summary of depreciation methodologies for the Company's property and equipment as at December 31, 2017 and 2016 is as follows:

	Expected Life	**Residual values**	**Depreciation method**
Buildings	25 years	-	Straight line
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
Ancillary drilling and well servicing equipment	5 to 15 years	-	Straight line
Rental equipment	1 to 30 years	-	Straight line
Shop and office equipment	1 to 10 years	-	Straight line
Vehicles	3 years	20%	Straight line

A summary of depreciation methodologies for the Company's property and equipment prior to April 1, 2016 is as follows:

	Expected Life	**Residual values**	**Depreciation method**
Buildings	25 years	-	Straight line
Drilling rigs and related equipment:			
Drilling rigs	1,600 to 5,000 operating days	10-20%	Unit of production
Drill pipe	1,000 to 1,700 operating days	10%	Unit of production
Major inspections and overhauls	1,000 operating days	-	Unit of production
Well servicing rigs and related equipment	22,000 to 44,000 service hours	10-20%	Unit of production
Ancillary drilling and well servicing equipment	5 to 15 years	-	Straight line
Rental equipment	1 to 30 years	-	Straight line
Shop and office equipment	1 to 10 years	-	Straight line
Vehicles	3 years	20%	Straight line

3. Significant accounting policies (continued):

(g) Property and equipment (continued):

Depreciation is calculated based on the cost of the asset, less its estimated residual value. Depreciation is recognized in net income on a straight line basis over the estimated useful lives of each class of asset. Leased assets are depreciated over the shorter of the lease term and their estimated useful lives unless it is reasonably certain that the Company will obtain ownership at the end of the lease term, in which case, the estimated useful life of the asset is used. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted if appropriate.

An item of property and equipment is derecognized when it is either disposed of or when it is determined that no further economic benefit is expected from the item's future use or disposal and as such is decommissioned. Losses realized on decommissioned assets are recognized in net income upon derecognition. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal, less associated costs of disposal, with the carrying amount of property and equipment, and are recognized in other items within net income.

(h) Inventory:

Inventory is primarily comprised of operating supplies and is measured at the lower of cost and net realizable value. Inventory is charged to operating expenses as items are consumed using the weighted average cost method.

(i) Impairment:

(i) Financial assets:

Financial assets are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates a loss event has occurred after the initial recognition of the asset, and the loss event had a negative effect on the estimated future cash flows of the asset that can be estimated reliably.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is an indication of impairment. If an indication exists, then the asset's carrying amount is assessed for impairment. For goodwill the recoverable amount is estimated each year at the same time, unless there is an indication of impairment.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the business combination.

An impairment loss is recognized in net income if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing fair value less costs to sell, the Company must estimate the price that would be received to sell the asset or CGU less any incremental costs directly attributable to the disposal. In assessing value in use, the estimated cash flows are discounted to their present value using an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

3. Significant accounting policies (continued):

(i) Impairment (continued):

(ii) Non-financial assets (continued):

An impairment loss in respect of goodwill is not reversed. In respect of assets other than goodwill, impairment losses recognized in prior periods are assessed at each reporting date for indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and the decrease in impairment loss can be objectively related to an event occurring after the impairment was recognized. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Such reversal is recognized in net income.

(j) Employee benefits:

(i) Short-term employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Stock based compensation awards:

Stock based compensation expense relates to stock options as well as cash and equity settled restricted share units (“RSUs”). The grant date fair values of stock option and equity settled RSUs granted are recognized as an expense, with a corresponding increase in contributed surplus in equity, over the vesting period. The amount recognized as an expense is based on the estimate of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. Upon exercise of stock options, the consideration paid by the holder is included in share capital and the related contributed surplus associated with the stock options exercised is reclassed into share capital. Upon vesting of equity settled RSUs, the related contributed surplus associated with the RSU is reclassified into share capital.

For cash settled RSUs, the fair value of the RSUs is recognized as stock based compensation expense, with a corresponding increase in accrued liabilities over the vesting period. The amount recognized as an expense is based on the estimate of the number of RSUs expected to vest. Cash settled RSUs are measured at their fair value at each reporting period on a mark-to-market basis. Upon vesting of the cash settled RSUs, the liability is reduced by the cash payout.

(k) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost within net income. Also, a provision is recognized if an inducement or incentive is associated with a lease, such as a free rent period on an office lease or cash payments received for leasehold improvements. Lease inducements received are recognized as a reduction to the total lease expense, over the term of the lease.

(l) Revenue:

The Company’s services are sold based upon purchase orders or contracts with customers that include fixed or determinable prices based upon daily or hourly rates and recoverable costs. Revenue is recognized when there is persuasive evidence that an arrangement exists, the service has been provided, the rate is fixed or determinable, and collection of the amounts billed to the customer is reasonably assured. The Company considers persuasive evidence to exist when a formal contract is signed or customer acceptance is obtained. Contract terms do not include a provision for significant post-service delivery obligations. Revenue from contracts of long or medium terms are recorded using the percentage-of-completion method, as services are provided, and collection is reasonably assured.

3. Significant accounting policies (continued):

(m) Leased assets and payments:

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. Leases which result in the Company assuming substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition of a finance lease, the leased asset and corresponding liability are measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments under the lease agreement. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Payments made under finance leases are apportioned between finance expense and the reduction of the outstanding liability. Finance expense is allocated to each period during the lease term using the effective interest rate method.

Leases that are not classified as finance leases are considered operating leases. Payments made under operating leases are recognized in net income on a straight line basis over the term of the lease.

(n) Finance income and finance costs:

Finance income comprises interest income on cash and cash equivalent balances. Interest income is recognized as it accrues in net income.

Finance costs comprise interest expense on borrowings, costs associated with securing debt instruments, and unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition or construction of a qualifying asset are recognized in net income when incurred.

Warrants issued in conjunction with long term debt financings are included in deferred charges at their grant date fair value and amortized over the life of the warrant as a finance cost.

(o) Income tax:

Income tax expense is comprised of current and deferred income taxes. Income tax is recognized in net income and other comprehensive income except to the extent that it relates to items recognized in equity on the consolidated balance sheet.

Current income tax is calculated using tax rates which are enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions on the basis of amounts expected to be paid to taxation authorities.

Deferred income taxes are recognized, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the respective entity's financial statements.

Deferred income taxes are determined using tax rates which are enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities are recognized for all taxable temporary differences, except for temporary differences that arise from goodwill which are not deductible for tax purposes.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible balances can be utilized. All deferred tax assets are analyzed at each reporting period and reduced to the extent that it is no longer probable that the asset will be recovered.

3. Significant accounting policies (continued):

(p) Earnings per share:

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the Company's net income or loss by the weighted average number of common shares outstanding during the reporting period. Diluted EPS is determined by adjusting the Company's net income or loss and the weighted average number of common shares outstanding for the effects of all potentially dilutive common shares, which comprise equity settled RSUs, in-the-money stock options and outstanding warrants. Diluted EPS is calculated using the treasury stock method where the deemed proceeds from the exercise of stock options or warrants and the associated unrecognized stock based compensation expense are considered to be used to reacquire common shares at the average common share price for the reporting period. The average market value of Western's common shares for purposes of calculating the dilutive effect of stock options is based on quoted market prices for the period during which the options were outstanding in the reporting period.

(q) Operating segment reporting:

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other operating segments. All operating segments' results are reviewed regularly by the Company's President & Chief Executive Officer and Senior Vice President, Finance & Chief Financial Officer ("Executive Management"), to make decisions about resources to be allocated to the operating segment and assess its performance.

Operating segment results that are reported to Executive Management include items directly attributable to an operating segment as well as those that can be allocated on a reasonable basis. The Company's operating segments are defined in Note 5.

(r) Standards adopted in the year:

The Company did not adopt any new or revised accounting standards for the years ended December 31, 2017 and 2016.

(s) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2017, and have not been applied in preparing these Financial Statements. The following new standards have not been adopted which may impact the Company in the future:

- IFRS 15, Revenue from Contracts with Customers, was issued in May 2014 and replaces the previous guidance on revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The standard provides a single principles based five step model to be applied to all contracts with customers. The Company has completed its preliminary assessments of IFRS 15 and its impact on the Financial Statements. Under IFRS 15, Western anticipates that its contracts with customers in the contract drilling segment will be impacted by the new standard. The Company expects that these contracts will be classified either as short term contracts, such as spot market contracts with expiries of less than a year, or long term committed contracts, with expiries greater than one year. It is anticipated that short term contracts will be accounted for under IFRS 15, based on specific performance obligations contained within the contracts, whereas long term contracts will be accounted for as operating leases by the lessor under IFRS 16, Leases. The company expects to apply the practical expedient per IFRS 15, paragraph B16, which enables the Company to recognize revenue as the related revenue is invoiced. As Western currently invoices on a per day basis, Western anticipates no significant impact on revenue recognition by applying the practical expedient.

  The Company does not expect any significant changes to its Financial Statements, other than more detailed revenue disclosures including, but not limited to, the different categories of revenue by contract classification, as well as additional disclosures on the determination of contract classification and contract balances outstanding. It is not expected that IFRS 15 will have a significant impact on the production services segment.

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

3. Significant accounting policies (continued):

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

- IFRS 9, Financial Instruments, was amended in July 2014 with respect to its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted and shall be applied retrospectively. The standard now includes three categories for financial assets, as compared to five categories under IAS 39, including amortized cost, fair value through profit or loss, and fair value through other comprehensive income. IFRS 9 removes the loans and receivables and held for trading categories previously included under IAS 39. For financial liabilities, most of the requirements from IAS 39 were included in IFRS 9 and are not expected to impact the Company's financial liabilities. Additionally, IFRS 9 also includes a greater emphasis on the Company's credit risk and how the Company's credit losses are determined.

  Western has completed its assessments of IFRS 9 and does not expect significant changes to its current methodologies for accounting for its financial instruments, however does expect additional financial statement disclosures under the new standard, including the changes in financial instrument classifications as well as expanded disclosure on the Company's credit risk. The following table summarizes the expected changes to the Company's financial asset and liability classifications:

	IAS 39		IFRS 9	
Financial Asset / Liability	**Classification**	**Measurement**	**Classification**	**Measurement**
Cash and cash equivalents	Held for trading	Fair value	Amortized cost	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost	Amortized cost	Amortized cost
Trade payables and other current liabilities	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost
Finance lease obligations	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost
Senior Notes	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost
Credit Facilities	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost

- IFRS 2, Share Based Payments, was amended in June 2016, clarifying how to account for certain types of share based payment transactions, including the accounting for the effects of vesting and non vesting conditions on the measurement of cash settled share based payments, accounting for share based payment transactions with a net settlement feature for withholding tax obligations, and accounting for modifications to the terms and conditions of a share based payment that changes the classification of the share based payment transaction from cash settled to equity settled. The IFRS 2 amendments are effective for annual periods beginning on or after January 1, 2018. The Company has evaluated the change in the standard and there is no material impact from the amendment.

- IFRS 16, Leases, was issued in January 2016 and replaces the previous guidance on leases. This standard provides a single recognition and measurement model to be applied to leases, with required recognition of assets and liabilities for most leases. This standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if the Company is also applying IFRS 15, Revenue from Contracts with Customers. The Company has completed its preliminary assessments of IFRS 16 and does not anticipate early adopting IFRS 16. The adoption of IFRS 16 is expected to have an impact on the Financial Statements, as the Company currently has a long term office lease that is classified as an operating lease, with monthly rent payments recorded through administrative expenses. Under IFRS 16, Western's office lease will become a finance lease, with the present value of the future lease payments used to estimate the value of the right of use asset and lease obligation. Western currently estimates the value of the right of use asset to be approximately $6.2 million with a corresponding net liability of approximately $7.1 million as at January 1, 2019. IFRS 16 will result in additional disclosure in Western's notes to the Financial Statements, relating to the right of use asset and the lease obligation. Additionally, Western will be required to disclose the depreciation relating to the right of use asset and interest relating to the lease obligation separately in the notes to the Financial Statements. Western expects that IFRS 16 will not have a significant impact on Western's other short term operating leases, such as office equipment.

3. Significant accounting policies (continued):

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

Additionally, Western anticipates that its long term drilling contracts will be classified as operating leases under IFRS 16. The Company does not expect any significant changes to its Financial Statements as the current treatment for its long term drilling contracts is consistent with IFRS 16 guidance. However, the Company does anticipate more detailed note disclosures in its Financial Statements relating to its long term drilling contracts.

4. Critical accounting estimates:

The preparation of the Financial Statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies (described in Note 3) and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

A number of the Company's accounting policies and disclosures require key assumptions concerning the future and other estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities or disclosures within the next fiscal year. Where applicable, further information about the assumptions made is disclosed in the notes specific to that asset or liability. The critical accounting estimates and judgments set out below have been applied consistently to all periods presented in these Financial Statements.

(a) Impairment:

An evaluation of whether or not an asset is impaired involves consideration of whether indicators of impairment exist. Factors which could indicate impairment exists include: significant underperformance of an asset relative to historical or projected operating results, significant changes in the manner in which an asset is used or in the Company's overall business strategy, the carrying amount of the net assets of the entity being more than its market capitalization or significant negative industry or economic trends. In some cases, these events are clear. However, in many cases, a clearly identifiable event indicating possible impairment does not occur. Instead, a series of individually insignificant events occur over a period of time leading to an indication that an asset may be impaired. Events can occur in these situations that may not be known until a date subsequent to their occurrence. Management continually monitors the Company's operating segments, the markets, and the business environment, and makes judgments and assessments about conditions and events in order to conclude whether a possible impairment exists.

When there is an indicator of impairment and at a minimum annually in the case of goodwill, the recoverable amount of the asset is estimated to determine the amount of impairment, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The determination of CGUs is based on management judgement.

The recoverable amount for property and equipment is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, the Company must estimate the price that would be received to sell the asset or CGU less any incremental costs directly attributable to the disposal. In assessing value in use, the estimated cash flows are discounted to their present value using an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Arriving at the estimated future cash flows involves significant judgments, estimates and assumptions, including those associated with the future cash flows of the CGU, determination of the CGU and discount rates.

4. Critical accounting estimates (continued):

(b) Property and equipment:

Property and equipment is depreciated over the estimated useful life of the asset while factoring in an asset's estimated residual value as determined by management. All estimates of useful lives and residual values are set out in Note 3 (g). Assessing the reasonableness of the estimated useful life, residual value and the appropriate depreciation methodology requires judgment and is based on management's experience and knowledge of the industry. Additionally, when determining to decommission an asset, future utilization and economic conditions are considered based on management's experience and knowledge of the industry and requires management's judgement.

(c) Income taxes:

Preparation of the Financial Statements involves determining an estimate of, or provision for, income taxes in each of the jurisdictions in which the Company operates. The process also involves making an estimate of taxes currently payable and taxes expected to be payable or recoverable in future periods, referred to as deferred taxes. Deferred taxes result from the effects of temporary differences due to items that are treated differently for tax and accounting purposes. The tax effects of these differences are reflected in the consolidated balance sheet as deferred tax assets and liabilities.

An assessment must also be made to determine the likelihood that the Company's future taxable income will be sufficient to permit the recovery of deferred income tax assets. To the extent that such recovery is not probable, recognized deferred tax assets must be reduced. Judgment is required in determining the provision for income taxes and recognition of deferred tax assets and liabilities. Management must also exercise judgment in its assessment of continually changing tax interpretations, regulations and legislation, to ensure deferred tax assets and liabilities are complete and fairly presented. The effects of differing assessments and applications could be material.

(d) Stock based compensation:

The fair value of stock options, equity settled RSUs, and warrants are measured using a Black Scholes option pricing model. Measurement inputs include the common share price on the grant date, the exercise price of the instrument, the expected common share price volatility, the weighted average expected life of the instruments, the expected dividends and the risk-free interest rate. Service and non-market performance conditions are not taken into account in determining fair value.

The stock based compensation recognized is also determined based on management's grant date estimate of the forfeitures that are expected to occur over the life of the stock options and equity settled RSUs. Cash settled RSUs outstanding are fair valued using a mark-to-market calculation based on the Company's closing common share price at the end of the period. The number of stock options and RSUs that actually vest could differ from the estimated number of awards expected to vest and any differences between the actual and estimated forfeitures are recognized prospectively as they occur.

(e) Non-derivative financial liabilities:

As detailed in Note 3 (d), the Company records its financial instruments at fair value on inception with changes in fair value recorded when required by the Company's classification of such instruments.

Calculation of the fair value of the Company's financial instruments is complex and requires judgment around the selection of market inputs and is based on many variables including but not limited to credit spreads and interest rate spreads which are factors outside management's control.

The fair value of non-derivative financial liabilities for disclosure purposes is calculated based on the present value of future principal and interest payments, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

(f) Allowance for doubtful accounts:

The Company reviews its outstanding accounts receivable balances on at least a monthly basis to determine collectability. Accounts receivable balances are also reviewed as circumstances change in the economy and/or a customer's credit worthiness changes. An allowance for doubtful accounts is recorded if an account is considered uncollectible. Note 19 details further information on the Company's allowance for doubtful accounts.

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

5. 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.

The Company's 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), administrative expenses (excluding stock based compensation) and depreciation expense.

The following is a summary of the Company's results by operating segment for the years ended December 31, 2017 and 2016:

Year ended December 31, 2017	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 182,942	$ 55,361	$ -	$ (128)	$ 238,175
Operating loss	(18,453)	(6,399)	(5,893)	-	(30,745)
Finance costs	-	-	21,950	-	21,950
Depreciation	52,156	13,631	653	-	66,440
Additions to property and equipment [(1)]	15,512	3,565	160	-	19,237

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

Year ended December 31, 2016	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 84,054	$ 40,428	$ -	$ (44)	$ 124,438
Operating loss	(38,899)	(11,273)	(3,525)	-	(53,697)
Finance costs	-	-	22,522	-	22,522
Loss on asset decommissioning	5,225	265	-	-	5,490
Depreciation	45,646	12,977	849	-	59,472
Additions to property and equipment [(1)]	3,154	1,564	1	-	4,719

(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 December 31, 2017	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 568,218	$ 136,100	$ 56,186	$ 760,504
Total liabilities	95,182	27,613	251,555	374,350

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)

5. Operating segments (continued):

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

Year ended December 31, 2017	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (18,453)	$ (6,399)	$ (5,893)	$ (30,745)
Deduct:				
Stock based compensation	(318)	(239)	(1,392)	(1,949)
Finance costs	-	-	(21,950)	(21,950)
Other items	-	-	(1,356)	(1,356)
Loss before income taxes	$ (18,771)	$ (6,638)	$ (30,591)	$ (56,000)

Year ended December 31, 2016	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (38,899)	$ (11,273)	$ (3,525)	$ (53,697)
Add (deduct):				
Stock based compensation	(633)	(598)	(2,537)	(3,768)
Finance costs	-	-	(22,522)	(22,522)
Other items	-	-	1,549	1,549
Loss on asset decommissioning	(5,225)	(265)	-	(5,490)
Loss before income taxes	$ (44,757)	$ (12,136)	$ (27,035)	$ (83,928)

Segmented information by geographic area is as follows:

As at December 31, 2017	Canada	United States	Total
Property and equipment	$ 554,006	$ 98,822	$ 652,828
Total assets	652,935	107,569	760,504

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 - year ended December 31, 2017	$ 207,230	$ 30,945	$ 238,175
Revenue - year ended December 31, 2016	109,588	14,850	124,438

Significant Customers:

For the year ended December 31, 2017 the Company had no significant customers comprising 10.0% or more of the Company's total revenue. For the year ended December 31, 2016, the Company had one significant customer comprising 10.0% of the Company's total revenue.

6. Trade and other receivables:

The Company's trade and other receivables as at December 31, 2017 and 2016 are as follows:

	December 31, 2017	December 31, 2016
Trade receivables	$ 39,055	$ 23,508
Accrued trade receivables	8,870	9,375
Income tax receivable	-	1,685
Other receivables	219	453
Allowance for doubtful accounts	(27)	(23)
Total	$ 48,117	$ 34,998

The Company's exposure to credit risk related to trade and other receivables is disclosed in Note 19.

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

7. Other Assets:

The Company's other assets as at December 31, 2017 and 2016 are as follows:

	December 31, 2017	December 31, 2016
Current:		
Prepaid expenses	$ 1,925	$ 1,899
Inventory	2,712	2,770
Deposits	492	475
Deferred charges	1,300	109
Total current portion of other assets	6,429	5,253
Non current:		
Deferred charges	4,305	110
Total non current portion of other assets	4,305	110
Total other assets	$ 10,734	$ 5,363

8. Property and Equipment:

The following table summarizes the Company's property and equipment as at December 31, 2017 and 2016:

	Land	Buildings	Contract drilling equipment	Production services equipment	Office and shop equipment	Vehicles under finance leases	Total
Cost:							
Balance at December 31, 2015	$ 5,089	$ 4,205	$ 790,681	$ 202,218	$ 12,604	$ 3,631	$ 1,018,428
Additions	-	-	3,132	1,304	283	-	4,719
Loss on asset decommissioning	-	-	(6,507)	(300)	(351)	-	(7,158)
Disposals	-	-	(617)	(1,741)	(28)	(323)	(2,709)
Foreign exchange adjustment	-	-	(7,040)	-	(20)	(148)	(7,208)
Balance at December 31, 2016	$ 5,089	$ 4,205	$ 779,649	$ 201,481	$ 12,488	$ 3,160	$ 1,006,072
Additions	-	191	14,746	2,916	279	-	18,132
Finance lease additions	-	-	-	-	-	1,105	1,105
Disposals	-	-	(3,576)	(1,527)	-	(789)	(5,892)
Foreign exchange adjustment	-	-	(9,983)	-	(43)	(19)	(10,045)
Balance at December 31, 2017	$ 5,089	$ 4,396	$ 780,836	$ 202,870	$ 12,724	$ 3,457	$ 1,009,372
Accumulated depreciation:							
Balance at December 31, 2015	$ -	$ 826	$ 178,793	$ 56,668	$ 6,992	$ 1,502	$ 244,781
Depreciation for the year	-	195	45,018	12,210	1,470	579	59,472
Loss on asset decommissioning	-	-	(1,282)	(71)	(315)	-	(1,668)
Disposals	-	-	(359)	(1,007)	(23)	(191)	(1,580)
Foreign exchange adjustment	-	-	(3,389)	-	(14)	(97)	(3,500)
Balance at December 31, 2016	$ -	$ 1,021	$ 218,781	$ 67,800	$ 8,110	$ 1,793	$ 297,505
Depreciation for the year	-	197	51,730	13,080	1,030	403	66,440
Disposals	-	-	(2,553)	(1,209)	-	(584)	(4,346)
Foreign exchange adjustment	-	-	(2,998)	-	(42)	(15)	(3,055)
Balance at December 31, 2017	$ -	$ 1,218	$ 264,960	$ 79,671	$ 9,098	$ 1,597	$ 356,544
Carrying amounts:							
At December 31, 2016	$ 5,089	$ 3,184	$ 560,868	$ 133,681	$ 4,378	$ 1,367	$ 708,567
At December 31, 2017	$ 5,089	$ 3,178	$ 515,876	$ 123,199	$ 3,626	$ 1,860	$ 652,828

Assets under construction:

Included in property and equipment at December 31, 2017 are assets under construction of $2.0 million (December 31, 2016: $2.3 million) which includes ancillary drilling and well servicing equipment.

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

8. Property and Equipment (continued):

Impairment:

As at December 31, 2017, the Company identified impairment indicators related to the prolonged commodity price downturn and the Company's market capitalization being less than the carrying amount of its net assets, and as such performed an impairment analysis on each of its CGUs. These CGUs are based on contract drilling rigs, well servicing rigs and oilfield rental equipment within the Company's contract drilling and production services segments.

As at December 31, 2017, the recoverable amounts allocated to these CGUs were determined based on a value in use cash flow projection based on historical results, recent industry conditions and the Company's most recent 2018 forecast. Cash flow projections for 2019 to 2022 have assumed a gradual increase in activity to historical levels. Cash flow projections thereafter are determined based on a terminal value calculated using a 2% per annum growth rate. For the purposes of completing the impairment analysis on the contract drilling CGU, assumptions were made relating to average contract drilling utilization, which range from approximately 40% to 50% per year. For the purposes of completing the impairment analysis on the well servicing CGU, assumptions were made relating to average well servicing utilization, which range from approximately 30% to 35% per year.

The forecasted cash flows are based on management's best estimates of asset utilization, pricing for available equipment, costs to maintain that equipment and an after tax discount rate of 12.0% per annum. The results of the tests indicated no impairment of property and equipment at December 31, 2017.

The most sensitive inputs to the model are the discount rate and the growth rate. The impairment test's sensitivity to these inputs is as follows: All else being equal, a 0.5% increase in the discount rate would not have changed the results of the impairment tests. All else being equal, a 5% decrease in cash flows would not have changed the results of the impairment tests.

As at December 31, 2016, the Company identified impairment indicators related to the prolonged commodity price downturn and as such performed an impairment analysis on each of its CGUs. The recoverable amounts allocated to these CGUs as at December 31, 2016 were determined based on a discounted cash flow calculation which used cash flow projections based on historical results and incorporated the Company's most recent 2017 forecast. For the purposes of completing the impairment analysis on the contract drilling CGU, assumptions were made relating to average contract drilling utilization. These rates ranged from 30% to 55% per year. For the purposes of completing the impairment analysis on the well servicing CGU, assumptions were made relating to average well servicing utilization. These rates ranged from 30% to 50% per year. The forecasted cash flows were based on management's best estimates of asset utilization, pricing for available equipment, costs to maintain that equipment and an after tax discount rate of 12.5% per annum. The results of the tests indicated no impairment of property and equipment at December 31, 2016.

During the year ended December 31, 2017, the Company evaluated its property and equipment and decommissioned $nil (December 31, 2016 - $5.5 million) of equipment for which it was determined that no further economic benefit would be realized.

9. Trade payable and other current liabilities:

Trade payables and current liabilities as at December 31, 2017 and 2016 are as follows:

	December 31, 2017	December 31, 2016
Trade payables	$ 21,304	$ 13,976
Accrued trade payables and expenses	18,587	18,930
Total	$ 39,891	$ 32,906

The Company's exposure to foreign exchange and liquidity risk related to trade payables and other current liabilities is disclosed in Note 19.

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

10. Provisions:

As at December 31, 2017 and 2016, the Company has recognized a provision for the deferral of office lease inducements received, which are amortized on a straight-line basis over the life of the contract. The following table summarizes Western's lease inducements:

	Lease inducements
Balance at December 31, 2015	$ 1,819
Provisions used during the year	(145)
Balance at December 31, 2016	1,674
Provisions used during the year	(120)
Balance at December 31, 2017	$ 1,554

The following table summarizes the balance sheet classification of the Company's provisions as at December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
Current	$ 139	$ 140
Non current	1,415	1,534
	$ 1,554	$ 1,674

11. Long term debt:

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

	December 31, 2017	December 31, 2016
Current:		
Other long term debt – current portion [(1)]	$ 475	$ 684
Total current portion of long term debt	475	684
Non current:		
Senior Notes	265,000	265,000
Less: net unamortized premium and issue costs on Senior Notes	(569)	(1,088)
Other long term debt – non current portion [(1)]	788	158
Total non current portion of long term debt	265,219	264,070
Total long term debt	$ 265,694	$ 264,754

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

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. At December 31, 2017, Western's credit facilities consisted of a $70.0 million syndicated revolving credit facility (the "Revolving Facility") and a $10.0 million committed operating facility (the "Operating Facility" and together the "Credit Facilities"). 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.

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 $400.0 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.

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

11. Long term debt (continued):

Credit facilities (continued):

The Credit Facilities are secured by the assets of Western and its subsidiaries. As at December 31, 2017, the Revolving Facility and the Operating Facility were undrawn.

The Company's Credit Facilities are subject to the following financial covenants:

	Covenant	Dec 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 Debt Service Coverage Ratio (5)	1.0:1.0 or more	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) Debt Service Coverage Ratio is defined as the ratio of Consolidated EBITDA, as previously defined, divided by the sum of interest expense on a twelve month trailing basis, including capitalized interest, and scheduled long term debt principal repayments for the next twelve months. 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 $400.0 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.

As at December 31, 2017 and 2016, the Company was in compliance with all covenants related to its Credit Facilities.

Senior Notes:

As at December 31, 2017 the Company had $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. The Senior Notes were repaid subsequent to December 31, 2017. Please refer to Note 24 for additional details.

At December 31, 2017, the fair value of the Senior Notes was approximately $267.8 million (December 31, 2016: $249.4 million).

Second Lien Facility:

On October 17, 2017 the Company completed 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 was available in a single draw and was used to repay a portion of the Company's outstanding Senior Notes subsequent to December 31, 2017. Interest is 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 are payable annually in quarterly installments beginning on July 1, 2018, with the balance due on January 31, 2023.

Please refer to Note 24 for additional information on long term debt changes subsequent to December 31, 2017.

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

12. 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, 2015	73,646,292	$	417,622
Issued on vesting of restricted share units	149,652		887
Balance at December 31, 2016	73,795,944		418,509
Issued on vesting of restricted share units	179,654		896
Issued for cash - October 17, 2017	18,200,000		22,750
Issuance costs, net of deferred tax	-		(1,136)
Balance at December 31, 2017	92,175,598	$	441,019

During the years ended December 31, 2017 and 2016, no dividends were declared. The Company had no dividends payable as at December 31, 2017 and 2016.

On October 17, 2017, the Company closed a private placement of 9.1 million common shares at a price of $1.25 per common share, for aggregate gross proceeds of $11.4 million, as well as a bought deal offering of 9.1 million common shares at a price of $1.25 per common share, for aggregate gross proceeds of $11.4 million.

13. 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, 2015	6,058,906	$	7.10
Granted	1,453,362		3.26
Forfeited	(1,067,283)		6.69
Expired	(291,099)		7.92
Balance at December 31, 2016	6,153,886		6.23
Granted	1,422,111		1.40
Forfeited	(705,981)		5.67
Expired	(394,403)		7.22
Balance at December 31, 2017	6,475,613	$	5.17

For the years ended December 31, 2017 and 2016, no stock options were cancelled. The average fair value of the stock options granted in 2017 was $0.38 per stock option (2016: $0.82 per stock option).

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

13. Stock based compensation (continued):

Stock Options (continued):

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

As at December 31, 2017 Exercise Price ($/share)	Number of options outstanding	Weighted average contractual life remaining (years)	Number of options exercisable
1.20-2.50	1,310,178	4.62	15,984
2.51-4.50	1,210,514	3.64	389,179
4.51-6.50	1,714,592	2.61	1,166,507
6.51-8.50	1,218,868	0.80	1,196,535
8.51-11.14	1,021,461	1.61	1,021,461
	6,475,613	2.71	3,789,666

As at December 31, 2017, Western had 3,789,666 (December 31, 2016: 2,951,043) exercisable stock options outstanding at a weighted average exercise price equal to $6.92 (December 31, 2016: $7.49) per stock option.

The accounting fair value of the stock options as at the date of grant is calculated in accordance with a Black Scholes option pricing model using the following average inputs:

	Year ended December 31, 2017	Year ended December 31, 2016
Risk-free interest rate	1%	1%
Average forfeiture rate	16%	15%
Average expected life	2.0 years	2.0 years
Maximum life	5.0 years	5.0 years
Average vesting period	2.0 years	2.0 years
Expected dividend	0%	0%
Expected share price volatility	49%	46%

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, 2015	410,269	349,235	759,504
Granted	182,554	187,437	369,991
Issued as a result of dividends	6,540	5,556	12,096
Vested	(149,652)	(108,478)	(258,130)
Forfeited	(39,400)	(115,485)	(154,885)
Balance at December 31, 2016	410,311	318,265	728,576
Granted	6,200	1,122,807	1,129,007
Vested	(179,654)	(127,598)	(307,252)
Forfeited	(45,437)	(91,581)	(137,018)
Balance at December 31, 2017	191,420	1,221,893	1,413,313

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

13. Stock based compensation (continued):

Restricted share unit plan (continued):

The estimated fair value of the equity settled RSUs granted during the year ended December 31, 2017 was less than $0.1 million (December 31, 2016: $0.5 million) and will be recognized as an expense over the vesting period of the RSUs.

The accounting fair value of the equity settled RSUs as at the grant date is calculated in accordance with a Black Scholes option pricing model using the following average inputs:

	Year ended December 31, 2017	Year ended December 31, 2016
Risk-free interest rate	1%	1%
Average forfeiture rate	10%	7%
Average expected life	2.0 years	2.0 years
Maximum life	3.0 years	3.0 years
Average vesting period	2.0 years	2.0 years
Expected dividend	0%	0%
Expected share price volatility	47%	46%

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

	Year ended December 31, 2017	Year ended December 31, 2016
Stock options	$ 1,267	$ 2,429
Restricted share units – equity settled grants	514	976
Total equity settled stock based compensation expense	1,781	3,405
Restricted share units – cash settled grants	168	363
Total stock based compensation expense	$ 1,949	$ 3,768

The outstanding liability related to cash settled RSUs at December 31, 2017 was $0.4 million (December 31, 2016: $0.4 million).

Warrants:

On October 17, 2017, in conjunction with the closing of the Second Lien Facility, Western issued 7,099,546 warrants to AIMCo. Each warrant will entitle AIMCo to acquire one common share at an exercise price of $1.77 per common share at any time prior to October 17, 2020, after which they expire.

The accounting fair value of the warrants as at the grant date is calculated in accordance with a Black Scholes option pricing model using a risk free rate of 1.5%, a forfeiture rate of nil, an average expected life of 1.5 years, an expected dividend of nil, and an expected share price volatility of 50%. The fair value of the Company's warrants at grant date was approximately $1.1 million.

14. Earnings per share:

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

	Year ended December 31, 2017	Year ended December 31, 2016
Issued common shares, beginning of period	73,795,944	73,646,292
Weighted average number of common shares issued	3,805,883	57,145
Weighted average number of common shares (basic)	77,601,827	73,703,437
Dilutive effect of equity securities	-	-
Weighted average number of common shares (diluted)	77,601,827	73,703,437

For the year ended December 31, 2017, 6,475,613 stock options (December 31, 2016: 6,153,886 stock options), 191,420 equity settled RSUs (December 31, 2016: 410,311 equity settled RSUs) and 7,099,546 warrants (December 31, 2016: nil) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

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

15. Finance costs:

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

	Year ended December 31, 2017	Year ended December 31, 2016
Interest expense on long term debt	$ 21,506	$ 21,679
Amortization of debt financing fees and provisions	794	984
Interest income	(350)	(141)
Total finance costs	$ 21,950	$ 22,522

The Company had an effective interest rate of 8.3% on its borrowings for the year ended December 31, 2017 (December 31, 2016: 8.5%).

16. Other items:

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

	Year ended December 31, 2017	Year ended December 31, 2016
Transaction costs	$ 1,597	$ -
Loss on sale of fixed assets	603	580
Mark-to-market loss on fair value of derivatives	-	552
Realized foreign exchange gain	(868)	(2,678)
Unrealized foreign exchange loss (gain)	24	(3)
Total other items	$ 1,356	$ (1,549)

17. Income taxes:

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

	Year ended December 31, 2017	Year ended December 31, 2016
Current tax expense (recovery)	$ 75	$ (1,708)
Deferred tax recovery	(18,630)	(20,247)
Total income tax recovery	$ (18,555)	$ (21,955)

The following table summarizes the income taxes recognized directly into equity, related to the share issuance in 2017:

	Year ended December 31, 2017	Year ended December 31, 2016
Share issue costs	$ 413	$ -

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

17. Income taxes (continued):

The following provides a reconciliation of loss before income taxes to total income taxes recognized in the consolidated statements of operations and comprehensive income (loss):

		Year ended December 31, 2017		Year ended December 31, 2016
Loss before income taxes		$ (56,000)		$ (83,928)
Federal and provincial statutory rates	27.0%	(15,120)	26.7%	(22,438)
Income (loss) taxed at higher rates		86		(408)
Stock based compensation		902		893
Non controlling interest		(22)		(19)
Non-deductible expenses		(563)		258
Change in effective tax rate on temporary differences		(3,319)		(165)
Change in estimate		67		-
Return to provision adjustment		(613)		(37)
Other		27		(39)
Total income taxes		$ (18,555)		$ (21,955)

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

	December 31, 2017	December 31, 2016
Property and equipment	$ (125,427)	$ (141,226)
Deferred charges and accruals	(423)	65
Provisions	414	446
Long term debt	(39)	(210)
Share issue costs	379	-
Other tax pools	1,245	1,159
Tax loss carry-forwards	56,640	52,782
Net deferred tax liabilities	$ (67,211)	$ (86,984)

Movements of the Company's temporary differences for the year ended December 31, 2017 are as follows:

	Balance Dec 31, 2016	Recognized in equity	Recognized in net income (loss)	Impact of foreign exchange	Balance Dec 31, 2017
Property and equipment	$ (141,226)	$ -	$ 13,568	$ 2,231	$ (125,427)
Deferred charges and accruals	65	-	(486)	(2)	(423)
Provisions	446	-	(32)	-	414
Long term debt	(210)	-	171	-	(39)
Share issue costs	-	413	(34)	-	379
Other tax pools	1,159	-	94	(8)	1,245
Tax loss carry-forwards	52,782	-	5,349	(1,491)	56,640
Net deferred tax liabilities	$ (86,984)	$ 413	$ 18,630	$ 730	$ (67,211)

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

17. Income taxes (continued):

Movements of the Company's temporary differences for the year ended December 31, 2016 are as follows:

	Balance Dec 31, 2015	Recognized in equity	Recognized in net income (loss)	Impact of foreign exchange	Balance Dec 31, 2016
Property and equipment	$ (139,075)	$ -	$ (3,428)	$ 1,277	$ (141,226)
Other assets	(148)	-	148	-	-
Deferred charges and accruals	(20)	-	86	(1)	65
Provisions	483	-	(37)	-	446
Long term debt	59	-	(269)	-	(210)
Other tax pools	1,114	-	67	(22)	1,159
Tax loss carry-forwards	29,885	-	23,680	(783)	52,782
Net deferred tax liabilities	$ (107,702)	$ -	$ 20,247	$ 471	$ (86,984)

As at December 31, 2017, the Company has gross loss carry-forwards equal to approximately $147.6 million in Canada, which will expire between 2035 and 2037. In the United States, the Company has approximately US$49.2 million gross loss carry forwards which expire between 2028 and 2036.

18. Costs by nature:

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

	Year ended December 31, 2017	Year ended December 31, 2016
Depreciation of property and equipment (Note 8)	$ 66,440	$ 59,472
Employee benefits: salaries and benefits	128,252	76,087
Employee benefits: stock based compensation (Note 13)	1,949	3,768
Repairs and maintenance	19,166	8,707
Third party charges	19,187	7,531

19. 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 and long term debt instruments such as the Credit Facilities and the Senior Notes. Cash and cash equivalents are carried at fair value. The carrying amounts of trade and other receivables, trade payables, and other current liabilities approximate their fair values due to their short term nature. The Credit Facilities bear interest at rates that approximate market rates and therefore their carrying values approximate fair values. The Senior Notes are recorded at their amortized cost. Fair value disclosure of the Senior Notes is based on their trading price on December 31, 2017.

Interest rate risk:

The Company is exposed to interest rate risk on certain debt instruments, such as the Operating Facility and Revolving Facility, to the extent the prime interest rate changes and/or the Company's interest rate margin changes. For the Credit Facilities, a one percent change in interest rates would have had a $nil impact on interest expense for the years ended December 31, 2017 and 2016 as there was no balance outstanding on the Credit Facilities during the years ended December 31, 2017 and 2016. Other long term debt, such as the Senior Notes and the Company's finance leases, have fixed interest rates, however they are subject to interest rate fluctuations relating to refinancing as required.

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

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

Foreign exchange risk:

The Company is exposed to foreign currency fluctuations in relation to its United States dollar capital expenditures and international operations. From time to time, the Company may use forward foreign currency contracts to hedge against these fluctuations. At December 31, 2017, portions of the Company's cash balances, trade payables and accrued liabilities were denominated in United States dollars and subject to foreign exchange fluctuations which are recorded within net income. In addition, Stoneham, Western's United States subsidiary, is subject to foreign currency translation adjustments upon consolidation, which is recorded separately within other comprehensive income. For the year ended December 31, 2017, the increase or decrease in net income and other comprehensive income for each one percent change in foreign exchange rates between the Canadian and United States dollars is estimated to be $0.2 million and $0.6 million, respectively (December 31, 2016: $0.2 million and $0.5 million, respectively).

Credit risk:

Credit risk arises from cash and cash equivalents held with banks and financial institutions, as well as credit exposure to customers in the form of outstanding trade and other receivables. The maximum exposure to credit risk is equal to the carrying value of the financial assets which reflects management's assessment of the credit risk.

At December 31, 2017, less that 1% of the Company's trade receivables were more than 90 days old. The Company believes the unimpaired amounts greater than 90 days old are still collectible based on historic payment behavior and an analysis of the underlying customers' ability to pay.

The table below provides an analysis of the Company's trade and other receivables as at December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
Trade receivables:		
Current	$ 26,248	$ 14,931
Outstanding for 31 to 60 days	9,558	6,219
Outstanding for 61 to 90 days	3,193	2,261
Outstanding for over 90 days	56	97
Accrued trade receivables	8,870	9,375
Other receivables	219	453
Income tax receivable	-	1,685
Allowance for doubtful accounts	(27)	(23)
Total	$ 48,117	$ 34,998

Impairment losses:

The allowance for doubtful accounts in respect of trade and other receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered unrecoverable and are written off against the financial asset directly. For the year ended December 31, 2017, the Company impaired less than $0.1 million in trade receivables (December 31, 2016: less than $0.1 million).

Liquidity risk:

Liquidity risk is the exposure of the Company to the risk of not being able to meet its financial obligations as they become due. The Company manages liquidity risk through management of its capital structure, monitoring and reviewing actual and forecasted cash flows and the effect on bank covenants, and maintaining unused credit facilities where possible to ensure there are available cash resources to meet the Company's liquidity needs.

The Company's cash and cash equivalents, cash flow from operating activities, existing Credit Facilities, and the Second Lien Facility are expected to be greater than anticipated capital expenditures and the contractual maturities of the Company's financial liabilities. This expectation could be adversely affected by a material negative change in the oilfield service industry, which in turn could lead to covenant breaches on the Company's Credit Facilities, which if not amended or waived, could limit, in part, or in whole, the Company's access to the Credit Facilities and the Second Lien Facility.

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

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

Liquidity risk (continued):

The table below provides an analysis of the expected maturities of the Company's outstanding obligations at December 31, 2017:

	Total amount	Due prior to December 31 2018	2019	2020	2021	2022	Thereafter
Financial liabilities:							
Trade and other current liabilities	$ 39,891	$ 39,891	$ -	$ -	$ -	$ -	$ -
Senior Notes	265,000	-	265,000	-	-	-	-
Other long-term debt	1,263	475	788	-	-	-	-
Total	$ 306,154	$ 40,366	$ 265,788	$ -	$ -	$ -	$ -

Cash flows included in the maturity analysis may occur significantly earlier, or at significantly different amounts. Details of other operating commitments are disclosed in Note 20. Please refer to Note 24 for additional information regarding the repayment of the Senior Notes subsequent to December 31, 2017.

Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing returns.

The Company may use derivatives and also incur financial liabilities in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors. The Company does not apply hedge accounting in order to manage volatility within the statements of operations and comprehensive income (loss).

Fair value:

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

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

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

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

The Company's cash and cash equivalents balance is the only financial asset 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.

Capital management:

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

	Note	December 31, 2017	December 31, 2016
Other long term debt	11	$ 1,263	$ 842
Senior Notes	11	265,000	265,000
Total debt		266,263	265,842
Shareholders' equity		386,154	407,207
Less: cash and cash equivalents		(48,825)	(44,597)
Total capitalization		$ 603,592	$ 628,452

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

19. Financial risk management and financial instruments (continued):
Capital management (continued):

Management is focused on several objectives while managing the capital structure of the Company, specifically:

- Ensuring the Company has the financing capacity to continue to execute on opportunities to increase overall market share through strategic acquisitions or organic growth that add value for the Company's shareholders;
- Maintaining a strong capital base to ensure that investor, creditor and market confidence are secured;
- Maintaining balance sheet strength, ensuring the Company's strategic objectives are met, while retaining an appropriate amount of leverage; and
- Safeguarding the entity's ability to continue as a going concern, such that it continues to provide returns for shareholders and benefits for other stakeholders.

The Company manages its capital structure based on current economic conditions, the risk characteristics of the underlying assets, and planned capital requirements within guidelines approved by its Board of Directors. Total capitalization is maintained or adjusted by drawing on existing debt facilities, issuing new debt or equity securities when opportunities are identified and through the disposition of underperforming assets to reduce debt when required.

As at December 31, 2017, the Company had $80.0 million in undrawn credit under its Credit Facilities and was in compliance with all debt covenants (see Note 11). Please refer to Note 24 for changes to the Company's total debt, subsequent to December 31, 2017.

20. Commitments:
As at December 31, 2017, the Company has commitments which require payments based on the maturity terms as follows:

	2018	2019	2020	2021	2022	Thereafter	Total
Senior Notes	$ -	$ 265,000	$ -	$ -	$ -	$ -	$ 265,000
Senior Notes interest	20,869	10,520	-	-	-	-	31,389
Trade payables and other current liabilities[(1)]	31,029	-	-	-	-	-	31,029
Operating leases	3,691	3,461	3,261	2,435	2,151	4,482	19,481
Purchase commitments	2,873	-	-	-	-	-	2,873
Other long term debt	484	308	499	-	-	-	1,291
Total	$ 58,946	$ 279,289	$ 3,760	$ 2,435	$ 2,151	$ 4,482	$ 351,063

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

Senior Notes and interest:
The Company pays interest on the Senior Notes semi-annually on January 30 and July 30. The Senior Notes are due January 30, 2019.

Trade payables and other current liabilities:
The Company has recorded trade payables for amounts due to third parties which are expected to be paid within one year.

Operating leases:
The Company has offices and oilfield service equipment under operating leases. The leases typically run for a period of one to ten years, typically with an option to renew the lease after that date.

Purchase commitments:
The Company has agreements in place to purchase certain capital and other operational items with third parties.

Other long term debt:
The Company has other long term debt relating to leased vehicles.

21. Related party transactions:
During the years ended December 31, 2017 and 2016, the Company had no transactions with related parties. At December 31, 2017, there are no significant balances outstanding in trade and other receivables with related parties (December 31, 2016: $nil).

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

22. Key management personnel:

The following table summarizes expenses related to key management personnel:

	Year ended December 31, 2017	Year ended December 31, 2016
Short-term employee benefits	$ 1,963	$ 1,315
Stock based compensation [1]	743	1,131
	$ 2,706	$ 2,446

(1) The total fair value of stock options and RSUs granted to key management personnel for the year ended December 31, 2017 was equal to $0.4 million (December 31, 2016: $0.5 million), which is being recognized in net income (loss) over the stock option's and RSU's vesting period.

23. Subsidiaries

Details of the Company's material wholly owned subsidiaries and partnerships at the end of the reporting periods are as follows:

		Ownership interest (%)	
	Country of incorporation	December 31, 2017	December 31, 2016
Stoneham Drilling Corporation	USA	100	100
Western Production Services Corp.	Canada	100	100

24. Subsequent Event:

Subsequent to December 31, 2017, on January 31, 2018 the Company completed the one time draw of $215.0 million on its Second Lien Facility. The proceeds from the Second Lien Facility draw, along with cash on hand and funds available under the Credit Facility were used to redeem the Senior Notes at their par value of $265.0 million on February 1, 2018.