Western Energy Services Corp.

Condensed Consolidated Financial Statements

March 31, 2018 and 2017

(Unaudited)

Western Energy Services Corp.

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

	Note		March 31, 2018		December 31, 2017
Assets					
Current assets					
Cash and cash equivalents		$	2,209	$	48,825
Trade and other receivables			55,141		48,117
Other current assets			5,614		6,429
			62,964		103,371
Non current assets					
Property and equipment	6		643,253		652,828
Other non current assets			678		4,305
		$	706,895	$	760,504
Liabilities					
Current liabilities					
Trade payables and other current liabilities		$	28,666	$	39,891
Current portion of provisions			139		139
Current portion of long term debt	7		398		475
			29,203		40,505
Non current liabilities					
Provisions			1,381		1,415
Long term debt	7		227,401		265,219
Deferred taxes			66,196		67,211
			324,181		374,350
Shareholders' equity					
Share capital	8		441,024		441,019
Contributed surplus			14,873		14,631
Retained earnings (deficit)			(101,900)		(95,834)
Accumulated other comprehensive income			26,577		24,217
Non controlling interest			2,140		2,121
			382,714		386,154
		$	706,895	$	760,504

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

Western Energy Services Corp.

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

	Note	Three months ended March 31, 2018	Three months ended March 31, 2017
Revenue		$ 81,257	$ 84,222
Operating expenses		77,485	76,242
Gross profit		3,772	7,980
Administrative expenses		5,668	6,724
Finance costs	11	5,380	5,412
Other items	12	(87)	1,697
Loss before income taxes		(7,189)	(5,853)
Income tax recovery	13	(1,242)	(1,488)
Net loss		(5,947)	(4,365)
Other comprehensive income (loss) (1)			
(Gain) loss on translation of foreign operations		(1,674)	576
Unrealized foreign exchange (gain) loss on net investment in subsidiary		(686)	419
Comprehensive loss		$ (3,587)	$ (5,360)
Net income (loss) attributable to:			
Shareholders of the Company		$ (6,066)	$ (4,379)
Non controlling interest		119	14
Comprehensive income (loss) attributable to:			
Shareholders of the Company		$ (3,706)	$ (5,374)
Non controlling interest		119	14
Net loss per share:			
Basic		$ (0.06)	$ (0.06)
Diluted		(0.06)	(0.06)
Weighted average number of shares:			
Basic	10	92,177,048	73,795,944
Diluted	10	92,177,048	73,795,944

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

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

Western Energy Services Corp.

Condensed Consolidated Statements of Changes in Shareholders’ Equity (unaudited)
(thousands of Canadian dollars)

	Share capital	Contributed surplus (1)	Retained earnings (deficit)	Accumulated other comprehensive income(2)	Non controlling interest	Total shareholders' equity
Balance at December 31, 2016	$ 418,509	$ 12,666	$ (58,308)	$ 32,258	$ 2,082	$ 407,207
Stock based compensation	-	687	-	-	-	687
Comprehensive income (loss)	-	-	(4,379)	(995)	14	(5,360)
Balance at March 31, 2017	418,509	13,353	(62,687)	31,263	2,096	402,534
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	-	1,094	-	-	-	1,094
Issue of warrants	-	1,080	-	-	-	1,080
Distributions to non controlling interest	-	-	-	-	(42)	(42)
Comprehensive income (loss)	-	-	(33,147)	(7,046)	67	(40,126)
Balance at December 31, 2017	441,019	14,631	(95,834)	24,217	2,121	386,154
Common shares:						
Issued on vesting of restricted share units	5	(5)	-	-	-	-
Stock based compensation	-	247	-	-	-	247
Distributions to non controlling interest	-	-	-	-	(100)	(100)
Comprehensive income (loss)	-	-	(6,066)	2,360	119	(3,587)
Balance at March 31, 2018	$ 441,024	$ 14,873	$ (101,900)	$ 26,577	$ 2,140	$ 382,714

(1) Contributed surplus relates to stock based compensation described in Note 9.

(2) At March 31, 2018, the accumulated other comprehensive income balance consists of the translation of foreign operations and unrealized foreign exchange on the net investment in subsidiary.

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

Western Energy Services Corp.

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

	Note	Three months ended March 31, 2018	Three months ended March 31, 2017
Operating activities			
Net loss		$ (5,947)	$ (4,365)
Adjustments for:			
Depreciation included in operating expenses		16,391	16,381
Depreciation included in administrative expenses		259	322
Non cash stock based compensation included in operating expenses		59	97
Non cash stock based compensation included in administrative expenses		188	590
Finance costs	11	5,380	5,412
Income tax recovery	13	(1,242)	(1,488)
Other		56	13
Change in non cash working capital		(11,280)	(13,789)
Cash flow from operating activities		3,864	3,173
Investing activities			
Additions to property and equipment	6	(4,656)	(2,436)
Proceeds on sale of property and equipment		198	170
Change in non cash working capital		(646)	(576)
Cash flow used in investing activities		(5,104)	(2,842)
Financing activities			
Repayment of senior notes	7	(265,000)	-
Issuance of second lien debt	7	215,000	-
Advances on revolving credit facility	7	14,000	-
Advances on operating credit facility	7	1,881	-
Finance costs paid		(10,831)	(10,634)
Repayment of other long term debt		(167)	(171)
Distributions to non controlling interest		(100)	-
Change in non cash working capital		(159)	-
Cash flow used in financing activities		(45,376)	(10,805)
Decrease in cash and cash equivalents		(46,616)	(10,474)
Cash and cash equivalents, beginning of period		48,825	44,597
Cash and cash equivalents, end of period		$ 2,209	$ 34,123

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

1. Reporting entity:

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the registered office is 1700, 215 - 9th Avenue SW, Calgary, Alberta. Western is a publicly traded company that is listed on the Toronto Stock Exchange ("TSX") under the symbol "WRG". These condensed consolidated financial statements as at and for the three months ended March 31, 2018 and 2017 (the "Financial Statements") are comprised of Western, its divisions and its wholly owned subsidiaries (together referred to as the "Company"). The Company is an oilfield service company providing contract drilling services through its division, Horizon Drilling ("Horizon") in Canada, and its wholly owned subsidiary, Stoneham Drilling Corporation ("Stoneham") in the United States. Western provides well servicing and oilfield rental equipment services in Canada through its wholly owned subsidiary Western Production Services Corp. ("Western Production Services"). Western Production Services' division, Eagle Well Servicing ("Eagle") provides well servicing operations, while its division, Aero Rental Services ("Aero") provides oilfield rental equipment services. Financial and operating results for Horizon and Stoneham are included in Western's contract drilling segment, while financial and operating results for Eagle and Aero are included in Western's production services segment.

2. Basis of preparation and significant accounting policies:

Statement of compliance:
These Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board. Except for standards adopted in the period as detailed in Note 4, these Financial Statements have been prepared using accounting policies and judgments which are consistent with Notes 3 and 4 of the audited annual consolidated financial statements as at December 31, 2017 and for the years ended December 31, 2017 and 2016 as filed on SEDAR at www.sedar.com and, as such, they should be read in conjunction with the said statements.

These Financial Statements were approved for issuance by Western's Board of Directors on April 25, 2018.

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

3. Seasonality:

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

4. Standards adopted in the period:

As at January 1, 2018, the Company adopted the following standards:

IFRS 15 – Revenue from Contracts with Customers:

Effective January 1, 2018, the Company adopted IFRS 15, Revenue from Contracts with Customers using the modified retrospective approach, which requires the cumulative effect of adopting IFRS 15 to be recognized as at January 1, 2018. Upon adoption of this standard, the Company did not have a cumulative adjustment, with the previous revenue recognition policy being applied consistently under the new standard. The Company's amended revenue recognition policy under IFRS 15 is as follows:

A portion of the Company's revenue is generated from contracts with its customers. Long term contracts, as well as short term contracts, are common in the contract drilling segment, whereas the Company's other operating segments typically do not have long term contracts. In the production services segment, Master Service Agreements may be signed with Western's customers, however there typically is no term commitment for a specific number of service rig hours. Long term contracts are those contracts with a term greater than one year. Segmented disclosures are included in Note 5, disaggregating revenue by geographic area and by operating segment.

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

4. Standards adopted in the period (continued):

IFRS 15 – Revenue from Contracts with Customers (continued):

Similar to revenue on short term or spot market contracts, the Company satisfies its performance obligations related to its contracts as the Company provides its services on a per billable day or hourly basis. As days are worked on the customer's contract, the Company satisfies its performance obligation to the customer and recognizes revenue. The Company has elected to use the practical expedient under IFRS 15, paragraph B16, as the Company invoices its customers on a per day or per hour basis that directly corresponds with the value received by the customer. Revenue is therefore recognized on a per day or per hour basis, for both drilling and rig mobilization days. Should the customer terminate a long term drilling contract early, the Company may be entitled to shortfall commitment revenue on the contract. The Company recognizes shortfall commitment revenue when payment from the customer is certain. At the inception of a contract, an estimate for shortfall commitment revenue is not recognized, as the Company expects the customer to use its services for the full term of the contract. As a result, determining when to recognize shortfall commitment revenue requires judgment to ensure that revenue is recognized when the performance obligation has been satisfied and collectability assured.

IFRS 9 – Financial Instruments:

Effective January 1, 2018, the Company adopted the amendments in IFRS 9, Financial Instruments, including the classification and measurement of financial assets and the expected loss impairment model. The amendments to IFRS 9 are effective for annual periods on or after January 1, 2018 and are 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 did not 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. Note 15 describes the Company's financial instruments and credit risk in detail.

The following table summarizes the 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
Second Lien Facility	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost
Credit Facilities	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost

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

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

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

5. Operating segments (continued):

The following is a summary of the Company's results by operating segment for the three months ended March 31, 2018 and 2017:

Three months ended March 31, 2018	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 64,938	$ 16,438	$ -	$ (119)	$ 81,257
Operating earnings (loss)	355	(385)	(1,508)	-	(1,538)
Finance costs	-	-	5,380	-	5,380
Depreciation	13,166	3,349	135	-	16,650
Additions to property and equipment	3,774	882	-	-	4,656

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

Total assets and liabilities by operating segment are as follows:

As at March 31, 2018	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 565,007	$ 135,999	$ 5,889	$ 706,895
Total liabilities	91,889	27,211	205,081	324,181

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

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

Three months ended March 31, 2018	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ 355	$ (385)	$ (1,508)	$ (1,538)
Add (deduct):				
Stock based compensation	(130)	(15)	(213)	(358)
Finance costs	-	-	(5,380)	(5,380)
Other items	-	-	87	87
Income (loss) before income taxes	$ 225	$ (400)	$ (7,014)	$ (7,189)

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

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

5. Operating segments (continued):

Segmented information by geographic area is as follows:

As at March 31, 2018	Canada	United States	Total
Property and equipment	$ 542,323	$ 100,930	$ 643,253
Total assets	598,708	108,187	706,895

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

	Canada	United States	Total
Revenue - three months ended March 31, 2018	$ 73,252	$ 8,005	$ 81,257
Revenue - three months ended March 31, 2017	78,200	6,022	84,222

Significant Customers:

For the three months ended March 31, 2018, the Company had one significant customer comprising 13.2% of the Company's total revenue. The trade receivable balance outstanding related to this customer was 2.8% of the Company's total trade and other receivables as at March 31, 2018. For the three months ended March 31, 2017, the Company had no customers comprising 10.0% or more of the Company's total revenue.

6. Property and equipment:

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

	Land	Buildings	Contract drilling equipment	Production services equipment	Office and shop equipment	Vehicles under finance leases	Total
Cost:							
Balance at December 31, 2017	$ 5,089	$ 4,396	$ 780,836	$ 202,870	$ 12,724	$ 3,457	$ 1,009,372
Additions	-	-	3,690	767	199	-	4,656
Disposals	-	-	(2,813)	(253)	(477)	(155)	(3,698)
Foreign exchange adjustment	-	-	4,062	-	17	8	4,087
Balance at March 31, 2018	$ 5,089	$ 4,396	$ 785,775	$ 203,384	$ 12,463	$ 3,310	$ 1,014,417
Accumulated depreciation:							
Balance at December 31, 2017	$ -	$ 1,218	$ 264,960	$ 79,671	$ 9,098	$ 1,597	$ 356,544
Depreciation for the period	-	50	13,072	3,228	217	83	$ 16,650
Disposals	-	-	(2,657)	(142)	(477)	(120)	$ (3,396)
Foreign exchange adjustment	-	-	1,343	-	17	6	$ 1,366
Balance at March 31, 2018	$ -	$ 1,268	$ 276,718	$ 82,757	$ 8,855	$ 1,566	$ 371,164
Carrying amounts:							
At December 31, 2017	$ 5,089	$ 3,178	$ 515,876	$ 123,199	$ 3,626	$ 1,860	$ 652,828
At March 31, 2018	$ 5,089	$ 3,128	$ 509,057	$ 120,627	$ 3,608	$ 1,744	$ 643,253

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

7. Long term debt:

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

	March 31, 2018	December 31, 2017
Current:		
Other long term debt – current portion [1]	$ 398	$ 475
Total current portion of long term debt	398	475
Non current:		
Second Lien Facility	215,000	-
Revolving Facility	14,000	-
Operating Facility	1,881	-
Senior Notes	-	265,000
Other long term debt – non current portion [1]	699	788
Less: unamortized issue costs	(4,179)	(569)
Total non current portion of long term debt	227,401	265,219
Total long term debt	$ 227,799	$ 265,694

[1] Other long term debt relates to finance lease obligations.

Credit Facilities:

At March 31, 2018, Western's credit facility 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") which mature on December 17, 2020. In addition to the $80.0 million of available credit under the 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 are 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.

As at March 31, 2018, the borrowing base calculation was not applicable as the Company had less than $40.0 million drawn on its Credit Facilities and the net book value of Western's property and equipment was greater than $400.0 million.

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

The Credit Facilities are secured by the assets of Western and its subsidiaries. As at March 31, 2018, $14.0 million and $1.9 million has been drawn from the Revolving Facility and Operating Facility, respectively.

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

7. Long term debt (continued):

Credit Facilities (continued):

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

	Covenant	March 31, 2018
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio (1)(2)	3.0:1.0 or less	0.45:1.0
Maximum Consolidated Debt to Consolidated Capitalization Ratio (3)(4)	0.6:1.0 or less	0.37:1.0
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 outstanding principal on unsecured debt, including the Second Lien Facility.

(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. When applicable, the ratio must meet or exceed 1.0 as at 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 March 31, 2018, the Company was in compliance with all covenants related to its Credit Facilities.

Second Lien Facility:

On January 31, 2018, the Company completed a one time draw of $215.0 million on its second lien secured term loan facility ("the 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. 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. At March 31, 2018, $215.0 million is outstanding on the Second Lien Facility.

Senior Notes:

Prior to the draw of the Second Lien Facility on January 31, 2018, the Company had $265.0 million 7⅞% senior unsecured notes (the "Senior Notes") outstanding which were redeemed on February 1, 2018 at their par value.

8. 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, 2017	92,175,598	$	441,019
Issued on vesting of restricted share units	1,500		5
Balance at March 31, 2018	92,177,098	$	441,024

There were no dividends declared during the three months ended March 31, 2018 and 2017.

9. 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.

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

9. Stock based compensation (continued):

Stock options (continued):

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

	Stock options outstanding	Weighted average exercise price
Balance at December 31, 2017	6,475,613	$ 5.17
Granted	13,320	1.26
Forfeited	(215,284)	6.49
Expired	(33,333)	7.44
Balance at March 31, 2018	6,240,316	$ 5.10

For the three months ended March 31, 2018 and 2017, no stock options were cancelled. The average fair value of the stock options granted for the three months ended March 31, 2018 was $0.38 per stock option (for the three months ended March 31, 2017: $0.80 per stock option). As at March 31, 2018, Western had 3,577,700 (December 31, 2017: 3,789,666) exercisable stock options outstanding at a weighted average exercise price equal to $6.90 (December 31, 2017: $6.92) per stock option.

Restricted share unit plan:

The Company's restricted share unit ("RSU") plan provides RSUs to be issued to directors, officers, employees and consultants of the Company so that they may participate in the growth and development of Western. Subject to the specific provisions of the RSU plan, eligibility, vesting period, terms of the RSUs and the number of RSUs granted are to be determined by the Board of Directors at the time of the grant. The RSU plan allows the Board of Directors to issue up to 5% of the Company's outstanding common shares as equity settled RSUs, provided that, when combined, the maximum number of common shares reserved for issuance under all stock based compensation arrangements of the Company does not exceed 10% of the Company's outstanding common shares.

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

	Equity settled	Cash settled	Total
Balance at December 31, 2017	191,420	1,221,893	1,413,313
Granted	-	10,643	10,643
Vested	(1,500)	(7,529)	(9,029)
Forfeited	-	(12,743)	(12,743)
Balance at March 31, 2018	189,920	1,212,264	1,402,184

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

	Three months ended March 31, 2018	Three months ended March 31, 2017
Stock options	$ 186	$ 479
Restricted share units – equity settled grants	61	208
Total equity settled stock based compensation expense	247	687
Restricted share units – cash settled grants	111	(21)
Total stock based compensation expense	$ 358	$ 666

Warrants:

As at March 31, 2018, Western had 7,099,546 warrants outstanding. Each warrant will entitle the holder 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.

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

10. Earnings per share:

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

	Three months ended March 31, 2018	Three months ended March 31, 2017
Issued common shares, beginning of period	92,175,598	73,795,944
Weighted average number of common shares issued	1,450	-
Weighted average number of common shares (basic)	92,177,048	73,795,944
Dilutive effect of equity securities	-	-
Weighted average number of common shares (diluted)	92,177,048	73,795,944

For the three months ended March 31, 2018, 6,240,316 stock options (three months ended March 31, 2017: 6,196,798 stock options), 189,920 equity settled RSUs (three months ended March 31, 2017: 415,717 equity settled RSUs) and 7,099,546 warrants (three months ended March 31, 2017: nil) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

11. Finance costs:

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

	Three months ended March 31, 2018	Three months ended March 31, 2017
Interest expense on long term debt	$ 4,606	$ 5,307
Amortization of debt financing fees and provisions	272	27
Accretion expense on Senior Notes	569	128
Interest income	(67)	(50)
Total finance costs	$ 5,380	$ 5,412

The Company had an effective interest rate of 9.2% on its borrowings for the three months ended March 31, 2018 (three months ended March 31, 2017: 8.3%). The increase in the effective interest rate for the three months ended March 31, 2018 is due to $0.6 million in non-cash accretion expense related to the early redemption of the Senior Notes on February 1, 2018.

12. Other items:

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

	Three months ended March 31, 2018	Three months ended March 31, 2017
Transaction costs	$ -	$ 1,597
Loss on sale of fixed assets	104	42
Realized foreign exchange (gain) loss	(177)	51
Unrealized foreign exchange (gain) loss	(14)	7
Total other items	$ (87)	$ 1,697

13. Income taxes:

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

	Three months ended March 31, 2018	Three months ended March 31, 2017
Current tax recovery	$ -	$ -
Deferred tax recovery	(1,242)	(1,488)
Total income tax recovery	$ (1,242)	$ (1,488)

As at March 31, 2018, the Company has gross loss carry-forwards equal to approximately $144.8 million in Canada, which will expire between 2035 and 2038. In the United States, the Company has approximately US$48.8 million gross loss carry forwards which expire between 2028 and 2036.

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

14. Costs by nature:

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

	Three months ended March 31, 2018	Three months ended March 31, 2017
Depreciation of property and equipment (Note 6)	$ 16,650	$ 16,703
Employee benefits: salaries and benefits	41,890	42,287
Employee benefits: stock based compensation (Note 9)	358	666
Repairs and maintenance	5,774	5,833
Third party charges	8,292	6,069

15. Financial risk management and financial instruments:

Effective January 1, 2018, the Company adopted the amendments to IFRS 9, Financial Instruments. All of the Company's financial instruments are now measured at amortized cost, including cash and cash equivalents, trade and other receivables, trade payables and other current liabilities, other long term debt including finance lease obligations and long term debt instruments such as the Credit Facilities and the Second Lien Facility. The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2017.

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 "amortized cost", "fair value through profit or loss" or "fair value through other comprehensive income".

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 from 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 financial assets and liabilities recognized at amortized cost:

Cash and cash equivalents are initially recognized at fair value and are subsequently measured at amortized cost with changes therein recognized in net income.

The Company's trade and other receivables are classified under the amortized cost category and 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, trade and other receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Trade payables and other current liabilities, finance lease obligations, the Second Lien Facility and Credit Facilities are classified under the amortized cost category. Financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Financial liabilities, including the Second Lien Facility, 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.

Credit risk:

The Company's trade receivables are with customers in the crude oil and natural gas industry and are subject to normal industry credit risk. The Company's practice is to manage credit risk by performing a detailed analysis of the credit worthiness of new customers before the Company's standard payment terms are offered. Additionally, the Company continuously reviews individual customer trade receivables, taking into consideration payment history and the aging of the trade receivable to monitor collectability.

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

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

Credit risk (continued):

Under IFRS 9, Financial Instruments, the Company is required to review impairment of its trade and other receivables at each reporting period and to review its loss allowance for expected future credit losses. The Company records an allowance for doubtful accounts if an account is determined to be uncollectible. Any provisions recorded by the Company are reviewed regularly to determine if any of the balances provided for should be written off. The allowance for doubtful accounts could materially change as a result of fluctuations in the financial position of the Company's customers.

The Company completes a detailed review of its historical credit losses as part of its impairment assessment. The Company has had minimal historical impairment losses on its trade and other receivables, due in part to its credit management processes. As such, the Company assesses impairment losses on an individual customer account basis, rather than recognize a loss allowance on all outstanding trade and other receivables.

Capital management:

The overall capitalization of the Company at March 31, 2018 and December 31, 2017 is as follows:

	Note	March 31, 2018	December 31, 2017
Second Lien Facility	7	$ 215,000	$ -
Revolving Facility	7	14,000	-
Operating Facility	7	1,881	-
Senior Notes	7	-	265,000
Other long term debt	7	1,097	1,263
Total debt		231,978	266,263
Shareholders' equity		382,714	386,154
Less: cash and cash equivalents		(2,209)	(48,825)
Total capitalization		$ 612,483	$ 603,592

16. Commitments:

As at March 31, 2018, the Company has commitments which require payments based on the maturity terms as follows:

	2018	2019	2020	2021	2022	Thereafter	Total
Second Lien Facility	$ 1,075	$ 2,150	$ 2,150	$ 2,150	$ 2,150	$ 205,325	$ 215,000
Second Lien Facility interest	6,449	15,503	15,390	15,192	15,036	8,744	76,314
Trade payables and other current liabilities(1)	26,104	-	-	-	-	-	26,104
Operating leases	2,859	3,568	3,354	2,472	2,151	4,482	18,886
Revolving Facility	-	-	14,000	-	-	-	14,000
Purchase commitments	4,027	-	-	-	-	-	4,027
Operating Facility	-	-	1,881	-	-	-	1,881
Other long term debt	312	315	497	-	-	-	1,124
Total	$ 40,826	$ 21,536	$ 37,272	$ 19,814	$ 19,337	$ 218,551	$ 357,336

(1) Trade payables and other current liabilities exclude interest accrued as at March 31, 2018 on the Second Lien Facility.