Western Energy Services Corp.

Condensed Consolidated Financial Statements

June 30, 2018 and 2017

(Unaudited)

Western Energy Services Corp.

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

	Note		June 30, 2018		December 31, 2017
Assets					
Current assets					
Cash and cash equivalents		$	6,036	$	48,825
Trade and other receivables			24,062		48,117
Other current assets			5,106		6,429
			35,204		103,371
Non current assets					
Property and equipment	7		634,812		652,828
Other non current assets			568		4,305
		$	670,584	$	760,504
Liabilities					
Current liabilities					
Trade payables and other current liabilities		$	25,556	$	39,891
Current portion of provisions			142		139
Current portion of long term debt	8		1,789		475
			27,487		40,505
Non current liabilities					
Provisions			1,337		1,415
Long term debt	8		210,944		265,219
Deferred taxes			61,259		67,211
			301,027		374,350
Shareholders' equity					
Share capital	9		441,035		441,019
Contributed surplus			15,142		14,631
Retained earnings (deficit)			(117,287)		(95,834)
Accumulated other comprehensive income			28,615		24,217
Non controlling interest			2,052		2,121
			369,557		386,154
		$	670,584	$	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 June 30 2018	Three months ended June 30 2017	Six months ended June 30 2018	Six months ended June 30 2017
Revenue		$ 33,141	$ 33,307	$ 114,398	$ 117,529
Operating expenses		44,081	44,128	121,566	120,370
Gross profit		(10,940)	(10,821)	(7,168)	(2,841)
Administrative expenses		5,205	6,418	10,873	13,142
Finance costs	12	4,493	5,419	9,873	10,831
Other items	13	(10)	124	(97)	1,821
Loss before income taxes		(20,628)	(22,782)	(27,817)	(28,635)
Income tax recovery	14	(5,153)	(6,154)	(6,395)	(7,642)
Net loss		(15,475)	(16,628)	(21,422)	(20,993)
Other comprehensive income (loss) [(1)]					
(Gain) loss on translation of foreign operations		(1,296)	1,408	(2,970)	1,984
Unrealized foreign exchange (gain) loss on net investment in subsidiary		(742)	1,053	(1,428)	1,472
Comprehensive loss		$ (13,437)	$ (19,089)	$ (17,024)	$ (24,449)
Net income (loss) attributable to:					
Shareholders of the Company		$ (15,387)	$ (16,584)	$ (21,453)	(20,963)
Non controlling interest		(88)	(44)	31	(30)
Comprehensive income (loss) attributable to:					
Shareholders of the Company		$ (13,349)	$ (19,045)	$ (17,055)	(24,419)
Non controlling interest		(88)	(44)	31	(30)
Net loss per share:					
Basic		$ (0.17)	$ (0.23)	$ (0.23)	$ (0.28)
Diluted		(0.17)	(0.23)	(0.23)	(0.28)
Weighted average number of shares:					
Basic	11	92,178,383	73,797,866	92,177,719	73,796,911
Diluted	11	92,178,383	73,797,866	92,177,719	73,796,911

(1) Other comprehensive income (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
Common shares:						
Issued on vesting of restricted share units	12	(12)	-	-	-	-
Stock based compensation	-	1,382	-	-	-	1,382
Comprehensive loss	-	-	(20,963)	(3,456)	(30)	(24,449)
Balance at June 30, 2017	418,521	14,036	(79,271)	28,802	2,052	384,140
Common shares:						
Issue of common shares (net of issue costs)	21,614	-	-	-	-	21,614
Issued on vesting of restricted share units	884	(884)	-	-	-	-
Stock based compensation	-	399	-	-	-	399
Issue of warrants	-	1,080	-	-	-	1,080
Distributions to non controlling interest	-	-	-	-	(42)	(42)
Comprehensive income (loss)	-	-	(16,563)	(4,585)	111	(21,037)
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	16	(16)	-	-	-	-
Stock based compensation	-	527	-	-	-	527
Distributions to non controlling interest	-	-	-	-	(100)	(100)
Comprehensive income (loss)	-	-	(21,453)	4,398	31	(17,024)
Balance at June 30, 2018	$ 441,035	$ 15,142	$ (117,287)	$ 28,615	$ 2,052	$ 369,557

(1) Contributed surplus relates to stock based compensation described in Note 10.

(2) At June 30, 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 June 30 2018	Three months ended June 30 2017	Six months ended June 30 2018	Six months ended June 30 2017
Operating activities					
Net loss		$ (15,475)	$ (16,628)	$ (21,422)	$ (20,993)
Adjustments for:					
Depreciation included in operating expenses		16,313	16,412	32,704	32,793
Depreciation included in administrative expenses		286	307	545	629
Non cash stock based compensation included in operating expenses		99	99	158	196
Non cash stock based compensation included in administrative expenses		181	596	369	1,186
Finance costs	12	4,493	5,419	9,873	10,831
Income tax recovery	14	(5,153)	(6,154)	(6,395)	(7,642)
Other		(8)	(84)	48	(71)
Change in non cash working capital		25,577	20,692	14,297	6,903
Cash flow from operating activities		26,313	20,659	30,177	23,832
Investing activities					
Additions to property and equipment	7	(5,426)	(3,435)	(10,082)	(5,871)
Proceeds on sale of property and equipment		119	448	317	618
Change in non cash working capital		(895)	1,128	(1,541)	552
Cash flow used in investing activities		(6,202)	(1,859)	(11,306)	(4,701)
Financing activities					
Repayment of senior notes	8	-	-	(265,000)	-
Issuance of second lien debt	8	-	-	215,000	-
Repayment of revolving credit facility	8	(14,000)	-	-	-
Repayment of operating credit facility	8	(1,881)	-	-	-
Finance costs paid		(270)	(64)	(11,101)	(10,698)
Repayment of other long term debt		(133)	(210)	(300)	(381)
Distributions to non controlling interest		-	-	(100)	-
Change in non cash working capital		-	-	(159)	-
Cash flow used in financing activities		(16,284)	(274)	(61,660)	(11,079)
Increase (decrease) in cash and cash equivalents		3,827	18,526	(42,789)	8,052
Cash and cash equivalents, beginning of period		2,209	34,123	48,825	44,597
Cash and cash equivalents, end of period		$ 6,036	$ 52,649	$ 6,036	$ 52,649

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

1. Reporting entity:

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the registered office is 1700, 215 - 9th Avenue SW, Calgary, Alberta. Western is a publicly traded company that is listed on the Toronto Stock Exchange ("TSX") under the symbol "WRG". These condensed consolidated financial statements as at and for the three and six months ended June 30, 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 July 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 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 6, 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):

Similar to revenue on short term or spot market contracts, the Company satisfies its performance obligations related to its long term 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 16 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. New standards and interpretations not yet adopted:

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. The Company has completed its preliminary assessments of 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.

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

5. 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.

6. 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 (loss), as included in internal management reports. Operating earnings (loss) 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 (loss) is calculated as revenue less operating expenses (excluding stock based compensation), and administrative expenses (excluding stock based compensation).

The following is a summary of the Company's results by operating segment for the three and six months ended June 30, 2018 and 2017:

Three months ended June 30, 2018	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 23,522	$ 9,662	$ -	$ (43)	$ 33,141
Operating loss	(11,427)	(3,053)	(1,222)	-	(15,702)
Finance costs	-	-	4,493	-	4,493
Depreciation	13,207	3,264	128	-	16,599
Additions to property and equipment [(1)]	5,371	712	-	-	6,083

Three months ended June 30, 2017	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 25,220	$ 8,095	$ -	$ (8)	$ 33,307
Operating loss	(11,480)	(3,714)	(1,404)	-	(16,598)
Finance costs	-	-	5,419	-	5,419
Depreciation	13,092	3,461	166	-	16,719
Additions to property and equipment [(1)]	3,463	573	1	-	4,037

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

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

6. Operating segments (continued):

Six months ended June 30, 2018	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 88,460	$ 26,100	$ -	$ (162)	$ 114,398
Operating loss	(11,072)	(3,438)	(2,730)	-	(17,240)
Finance costs	-	-	9,873	-	9,873
Depreciation	26,373	6,613	263	-	33,249
Additions to property and equipment (1)	9,145	1,594	-	-	10,739

Six months ended June 30, 2017	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 89,255	$ 28,378	$ -	$ (104)	$ 117,529
Operating loss	(9,009)	(2,711)	(2,956)	-	(14,676)
Finance costs	-	-	10,831	-	10,831
Depreciation	26,133	6,956	333	-	33,422
Additions to property and equipment (1)	5,268	1,204	1	-	6,473

(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 June 30, 2018	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 534,409	$ 127,957	$ 8,218	$ 670,584
Total liabilities	83,511	25,131	192,385	301,027

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

Three months ended June 30, 2018	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (11,427)	$ (3,053)	$ (1,222)	$ (15,702)
Add (deduct):				
Stock based compensation	(169)	(61)	(213)	(443)
Finance costs	-	-	(4,493)	(4,493)
Other items	-	-	10	10
Loss before income taxes	$ (11,596)	$ (3,114)	$ (5,918)	$ (20,628)

Three months ended June 30, 2017	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (11,480)	$ (3,714)	$ (1,404)	$ (16,598)
Deduct:				
Stock based compensation	(76)	(89)	(476)	(641)
Finance costs	-	-	(5,419)	(5,419)
Other items	-	-	(124)	(124)
Loss before income taxes	$ (11,556)	$ (3,803)	$ (7,423)	$ (22,782)

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

6. Operating segments (continued):

Six months ended June 30, 2018	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (11,072)	$ (3,438)	$ (2,730)	$ (17,240)
Add (deduct):				
Stock based compensation	(299)	(76)	(426)	(801)
Finance costs	-	-	(9,873)	(9,873)
Other items	-	-	97	97
Loss before income taxes	$ (11,371)	$ (3,514)	$ (12,932)	$ (27,817)

Six months ended June 30, 2017	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (9,009)	$ (2,711)	$ (2,956)	$ (14,676)
Deduct:				
Stock based compensation	(171)	(169)	(967)	(1,307)
Finance costs	-	-	(10,831)	(10,831)
Other items	-	-	(1,821)	(1,821)
Loss before income taxes	$ (9,180)	$ (2,880)	$ (16,575)	$ (28,635)

Segmented information by geographic area is as follows:

As at June 30, 2018	Canada	United States	Total
Property and equipment	$ 531,100	$ 103,712	$ 634,812
Total assets	560,918	109,666	670,584

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 June 30, 2018	$ 27,271	$ 5,870	$ 33,141
Revenue - three months ended June 30, 2017	25,433	7,874	33,307
Revenue - six months ended June 30, 2018	100,523	13,875	114,398
Revenue - six months ended June 30, 2017	103,633	13,896	117,529

Significant Customers:

For the three months ended June 30, 2018, the Company had three significant customers comprising 14.9%, 12.2% and 10.3% respectively, of the Company's total revenue. The trade receivable balance outstanding related to these customers was 10.3%, 10.9% and 10.2% respectively, of the Company's total trade and other receivables as at June 30, 2018. For the six months ended June 30, 2018, the Company had no customers comprising 10.0% or more of the Company's total revenue.

For the three months ended June 30, 2017, the Company had two significant customers comprising 15.9% and 11.4% respectively, of the Company's total revenue. For the six months ended June 30, 2017, the Company had no customers comprising 10.0% or more of the Company's total revenue.

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

7. 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	-	-	8,541	1,270	271	-	10,082
Finance lease additions	-	-	-	-	-	657	657
Disposals	-	-	(3,630)	(273)	(477)	(411)	(4,791)
Foreign exchange adjustment	-	-	7,418	-	31	16	7,465
Balance at June 30, 2018	$ 5,089	$ 4,396	$ 793,165	$ 203,867	$ 12,549	$ 3,719	$ 1,022,785
Accumulated depreciation:							
Balance at December 31, 2017	$ -	$ 1,218	$ 264,960	$ 79,671	$ 9,098	$ 1,597	$ 356,544
Depreciation for the period	-	101	26,172	6,335	440	201	$ 33,249
Disposals	-	-	(3,344)	(154)	(477)	(352)	$ (4,327)
Foreign exchange adjustment	-	-	2,466	-	30	11	$ 2,507
Balance at June 30, 2018	$ -	$ 1,319	$ 290,254	$ 85,852	$ 9,091	$ 1,457	$ 387,973
Carrying amounts:							
At December 31, 2017	$ 5,089	$ 3,178	$ 515,876	$ 123,199	$ 3,626	$ 1,860	$ 652,828
At June 30, 2018	$ 5,089	$ 3,077	$ 502,911	$ 118,015	$ 3,458	$ 2,262	$ 634,812

8. Long term debt:

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

	June 30, 2018	December 31, 2017
Current:		
Second Lien Facility	$ 2,150	$ -
Other long term debt (1)	512	475
Less: unamortized issue costs	(873)	-
Total current portion of long term debt	1,789	475
Non current:		
Second Lien Facility	212,850	-
Senior Notes	-	265,000
Other long term debt (1)	1,183	788
Less: unamortized issue costs	(3,089)	(569)
Total non current portion of long term debt	210,944	265,219
Total long term debt	$ 212,733	$ 265,694

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

Credit Facilities:

At June 30, 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 lender approval.

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

8. Long term debt (continued):

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 June 30, 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 June 30, 2018, the Revolving Facility and Operating Facility were undrawn.

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

	Covenant	June 30, 2018
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)	1.25:1.0 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 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 1.25 as at June 30, 2018, 1.5 as at September 30, 2018 and December 31, 2018 and 2.0 thereafter.

As at June 30, 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 June 30, 2018, $215.0 million 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.

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

9. 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	3,683		16
Balance at June 30, 2018	92,179,281	$	441,035

There were no dividends declared during the three and six months ended June 30, 2018 and 2017.

10. 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, 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 stock options:

	Stock options outstanding		Weighted average exercise price
Balance at December 31, 2017	6,475,613	$	5.17
Granted	38,820		1.12
Forfeited	(334,944)		4.59
Expired	(499,368)		6.88
Balance at June 30, 2018	5,680,121	$	5.02

For the three and six months ended June 30, 2018 and 2017, no stock options were cancelled. The average fair value of the stock options granted for the three and six months ended June 30, 2018 was $0.30 and $0.33 per stock option (for the three and six months ended June 30, 2017: $0.63 and $0.80 per stock option). As at June 30, 2018, Western had 3,141,153 (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	3,000	15,143	18,143
Vested	(3,683)	(11,455)	(15,138)
Forfeited	(3,000)	(78,518)	(81,518)
Balance at June 30, 2018	187,737	1,147,063	1,334,800

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

10. Stock based compensation (continued):

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

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Stock options	$ 208	$ 478	$ 394	$ 957
Restricted share units – equity settled grants	72	217	133	425
Total equity settled stock based compensation expense	280	695	527	1,382
Restricted share units – cash settled grants	163	(54)	274	(75)
Total stock based compensation expense	$ 443	$ 641	$ 801	$ 1,307

Warrants:

As at June 30, 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.

11. Earnings per share:

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

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Issued common shares, beginning of period	92,177,098	73,795,944	92,175,598	73,795,944
Weighted average number of common shares issued	1,285	1,922	2,121	967
Weighted average number of common shares (basic)	92,178,383	73,797,866	92,177,719	73,796,911
Dilutive effect of equity securities	-	-	-	-
Weighted average number of common shares (diluted)	92,178,383	73,797,866	92,177,719	73,796,911

For the three and six months ended June 30, 2018, 5,680,121 stock options (three and six months ended June 30, 2017: 6,099,375 stock options), 187,737 equity settled RSUs (three and six months ended June 30, 2017: 411,835 equity settled RSUs) and 7,099,546 warrants (three and six months ended June 30, 2017: nil) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

12. Finance costs:

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

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Interest expense on long term debt	$ 4,158	$ 5,337	$ 8,764	$ 10,644
Amortization of debt financing fees	347	157	619	312
Accretion expense on Senior Notes	-	-	569	-
Interest income	(12)	(75)	(79)	(125)
Total finance costs	$ 4,493	$ 5,419	$ 9,873	$ 10,831

The Company had an effective interest rate of 8.3% and 8.8% on its borrowings for the three and six months ended June 30, 2018 (three and six months ended June 30, 2017: 8.2%). The increase in the effective interest rate for the six months ended June 30, 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.

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

13. Other items:

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

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Transaction costs	$ -	$ -	$ -	$ 1,597
Loss (gain) on sale of fixed assets	43	(54)	147	(12)
Realized foreign exchange (gain) loss	(43)	172	(220)	223
Unrealized foreign exchange (gain) loss	(10)	6	(24)	13
Total other items	$ (10)	$ 124	$ (97)	$ 1,821

14. Income taxes:

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

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Current tax recovery	$ (45)	$ -	$ (45)	$ -
Deferred tax recovery	(5,108)	(6,154)	(6,350)	(7,642)
Total income tax recovery	$ (5,153)	$ (6,154)	$ (6,395)	$ (7,642)

As at June 30, 2018, the Company has gross loss carry-forwards equal to approximately $156.5 million in Canada, which will expire between 2035 and 2038. In the United States, the Company has approximately US$48.3 million gross loss carry forwards which expire between 2028 and 2036.

15. 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 June 30		Six months ended June 30	
	2018	2017	2018	2017
Depreciation of property and equipment (Note 7)	$ 16,599	$ 16,719	$ 33,249	$ 33,422
Employee benefits: salaries and benefits	20,397	20,738	62,287	63,025
Employee benefits: stock based compensation (Note 10)	443	641	801	1,307
Repairs and maintenance	3,366	3,199	9,140	9,032
Third party charges	2,165	2,838	10,457	8,907

16. 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, and long term debt instruments such as the Credit Facilities, the Second Lien Facility, and finance lease obligations. 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.

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

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

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.

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 June 30, 2018 and December 31, 2017 is as follows:

	Note	June 30, 2018	December 31, 2017
Second Lien Facility	8	$ 215,000	$ -
Senior Notes	8	-	265,000
Other long term debt	8	1,695	1,263
Total debt		216,695	266,263
Shareholders' equity		369,557	386,154
Less: cash and cash equivalents		(6,036)	(48,825)
Total capitalization		$ 580,216	$ 603,592

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

17. Commitments:

As at June 30, 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)	19,107	-	-	-	-	-	19,107
Operating leases	2,087	3,894	3,641	2,757	2,436	5,075	19,890
Purchase commitments	2,756	-	-	-	-	-	2,756
Other long term debt	329	515	699	301	-	-	1,844
Total	$ 31,803	$ 22,062	$ 21,880	$ 20,400	$ 19,622	$ 219,144	$ 334,911

(1) Trade payables and other current liabilities exclude interest accrued as at June 30, 2018 on the Second Lien Facility.