

Western Energy Services Corp.
Condensed Consolidated Financial Statements
March 31, 2019 and 2018
(Unaudited)

Western Energy Services Corp.

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

	Note	March 31, 2019	December 31, 2018
Assets			
Current assets			
Cash and cash equivalents		\$ 3,045	\$ 3,960
Trade and other receivables		44,588	41,084
Other current assets		6,084	6,468
		53,717	51,512
Non current assets			
Property and equipment	6	609,117	615,395
Other non current assets		283	388
		\$ 663,117	\$ 667,295
Liabilities			
Current liabilities			
Trade payables and other current liabilities		\$ 24,816	\$ 33,718
Current portion of provisions		-	233
Current portion of long term debt	7	4,688	1,822
		29,504	35,773
Non current liabilities			
Provisions		-	1,133
Long term debt	7	238,590	222,258
Deferred taxes		51,275	54,332
		319,369	313,496
Shareholders' equity			
Share capital	8	441,517	441,512
Contributed surplus		15,343	15,142
Retained earnings (deficit)		(145,201)	(136,992)
Accumulated other comprehensive income		30,098	32,152
Non controlling interest		1,991	1,985
		343,748	353,799
		\$ 663,117	\$ 667,295

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, 2019	Three months ended March 31, 2018
Revenue		\$ 65,775	\$ 81,257
Operating expenses		66,027	77,485
Gross profit (loss)		(252)	3,772
Administrative expenses		5,050	5,668
Finance costs	11	4,676	5,380
Other items	12	(378)	(87)
Loss before income taxes		(9,600)	(7,189)
Income tax recovery	13	(2,522)	(1,242)
Net loss		(7,078)	(5,947)
Other comprehensive income (loss) ⁽¹⁾			
Loss (gain) on translation of foreign operations		1,286	(1,674)
Unrealized foreign exchange loss (gain) on net investment in subsidiary		768	(686)
Comprehensive loss		\$ (9,132)	\$ (3,587)
Net income (loss) attributable to:			
Shareholders of the Company		\$ (7,084)	\$ (6,066)
Non controlling interest		6	119
Comprehensive income (loss) attributable to:			
Shareholders of the Company		\$ (9,138)	\$ (3,706)
Non controlling interest		6	119
Net loss per share:			
Basic		\$ (0.08)	\$ (0.06)
Diluted		(0.08)	(0.06)
Weighted average number of shares:			
Basic	10	92,306,835	92,177,048
Diluted	10	92,306,835	92,177,048

(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, 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
Common shares:						
Issued on vesting of restricted share units	488	(488)	-	-	-	-
Stock based compensation	-	757	-	-	-	757
Distributions to non controlling interest	-	-	-	-	(134)	(134)
Comprehensive income (loss)	-	-	(35,092)	5,575	(21)	(29,538)
Balance at December 31, 2018	441,512	15,142	(136,992)	32,152	1,985	353,799
Common shares:						
Issued on vesting of restricted share units	5	(5)	-	-	-	-
Stock based compensation	-	206	-	-	-	206
IFRS 16 adoption (Note 4)	-	-	(1,125)	-	-	(1,125)
Comprehensive income (loss)	-	-	(7,084)	(2,054)	6	(9,132)
Balance at March 31, 2019	\$ 441,517	\$ 15,343	\$ (145,201)	\$ 30,098	\$ 1,991	\$ 343,748

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

(2) At March 31, 2019, 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, 2019	Three months ended March 31, 2018
Operating activities			
Net loss		\$ (7,078)	\$ (5,947)
Adjustments for:			
Depreciation included in operating expenses		15,733	16,391
Depreciation included in administrative expenses		643	259
Non cash stock based compensation included in operating expenses		68	59
Non cash stock based compensation included in administrative expenses		138	188
Finance costs	11	4,676	5,380
Income tax recovery	13	(2,522)	(1,242)
(Gain) loss on sale of assets	12	(431)	104
Other		21	(48)
Change in non cash working capital		(5,360)	(11,280)
Cash flow from operating activities		5,888	3,864
Investing activities			
Additions to property and equipment	6	(2,192)	(4,656)
Proceeds on sale of property and equipment		623	198
Change in non cash working capital		(2,864)	(646)
Cash flow used in investing activities		(4,433)	(5,104)
Financing activities			
Repayment of senior notes	7	-	(265,000)
Issuance of second lien debt	7	-	215,000
Finance costs paid		(8,360)	(10,831)
Repayment of second lien debt	7	(538)	-
Repayment of finance lease obligations	7	(754)	(167)
Draw on revolving credit facility	7	7,000	14,000
Draw on operating credit facility	7	282	1,881
Distributions to non controlling interest		-	(100)
Change in non cash working capital		-	(159)
Cash flow used in financing activities		(2,370)	(45,376)
Decrease in cash and cash equivalents		(915)	(46,616)
Cash and cash equivalents, beginning of period		3,960	48,825
Cash and cash equivalents, end of period		\$ 3,045	\$ 2,209

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

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

1. Reporting entity:

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the head 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, 2019 and 2018 (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. Stoneham's division, Western Oilfield Services, provides well servicing operations in the United States. Financial and operating results for Horizon and Stoneham are included in Western's contract drilling segment, while financial and operating results for Eagle, Aero, and Western Oilfield Services 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. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the years ended December 31, 2018 and 2017. Except for standards adopted in the period as detailed in Note 4, these Financial Statements have been prepared using accounting policies and estimates which are consistent with Notes 3 and 4 of the audited annual consolidated financial statements as at December 31, 2018 and for the years ended December 31, 2018 and 2017 as filed on SEDAR at www.sedar.com.

These Financial Statements were approved for issuance by Western's Board of Directors on April 24, 2019.

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, 2019, the Company adopted the following standard:

IFRS 16 – Leases:

Effective January 1, 2019, the Company adopted IFRS 16, Leases, which removes the distinction between operating and finance leases and requires the Company to recognize a right of use asset ("finance lease asset") and lease liability ("finance lease obligation") at the start of all leases, except for short term leases, defined as leases with a term of less than one year, as well as leases where the underlying asset is of low value.

The Company elected to apply the practical expedients in IFRS 16 related to short term leases, as well as leases where the underlying asset is of low value. Lease payments related to these leases are expensed on a straight line basis over the lease term and included in the consolidated statement of profit or loss. The expense related to short term and low value leases is disclosed in Note 7.

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

4. Standards adopted in the period (continued):

The Company used the modified retrospective method upon adoption, which requires the cumulative effective of adopting IFRS 16 to be recognized as an adjustment to the opening balance of retained earnings. The prior year balances were not adjusted.

The following table shows the impact of adopting IFRS 16 on the Company's balance sheet:

	December 31, 2018	IFRS 16 Impact	January 1, 2019
Assets			
Current assets			
Cash	\$ 3,960	\$ -	\$ 3,960
Trade and other receivables	41,084	-	41,084
Other current assets	6,468	(122)	6,346
	51,512	(122)	51,390
Non current assets			
Property and equipment	615,395	10,080	625,475
Other non current assets	388	-	388
	\$ 667,295	\$ 9,958	\$ 677,253
Liabilities			
Current liabilities			
Trade payables and other current liabilities	\$ 33,718	\$ -	\$ 33,718
Current portion of provisions	233	(233)	-
Current portion of long term debt	1,822	2,807	4,629
	35,773	2,574	38,347
Non current liabilities			
Provisions	1,133	(1,133)	-
Long term debt	222,258	10,018	232,276
Deferred taxes	54,332	(376)	53,956
	313,496	11,083	324,579
Shareholders' equity			
Share capital	441,512	-	441,512
Contributed surplus	15,142	-	15,142
Retained earnings (deficit)	(136,992)	(1,125)	(138,117)
Accumulated other comprehensive income	32,152	-	32,152
Non controlling interest	1,985	-	1,985
	353,799	(1,125)	352,674
	\$ 667,295	\$ 9,958	\$ 677,253

The following table shows the impact of adopting IFRS 16 on the Company's statement of operations and comprehensive income for the three months ended March 31, 2019:

	Three months ended March 31, 2019
Incremental interest on long term debt	\$ 188
Incremental depreciation on leased assets	630
Reduced operating and administrative expenses	(859)
Net impact of adopting IFRS 16	\$ (41)

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

4. Standards adopted in the period (continued):

The Company's finance lease assets and finance lease obligations policy under IFRS 16 is as follows:

Finance lease assets:

The Company has lease agreements for items including office space, vehicles, shops and office equipment which qualify as leased assets under IFRS 16. The Company's vehicle leases were capitalized under the previous lease standard, IAS 17, as leased assets.

At the inception of an arrangement, the Company determines whether such an arrangement is or contains a finance lease under IFRS 16. An agreement which results in the Company having the right to control the use of an asset over a period of time with set payments is considered a finance lease. Finance lease assets are capitalized at the date the lease commences and are comprised of the initial lease liability, less any lease incentives received. Depreciation is calculated based on the initial cost of the asset and recognized in net income on a straight line basis over the estimated useful life of the lease. The finance lease assets are included in property and equipment on the consolidated balance sheet and segregated in Note 6.

Finance lease obligations:

The adoption of IFRS 16 requires the Company to make judgments that affect the valuation of finance lease obligations and the corresponding finance lease assets, including whether a contract falls within the scope of IFRS 16, the term of the lease, and determining the interest rate used for discounting future cash flows. The finance lease obligations, and the corresponding finance lease assets, at inception of the agreement are measured at the present value of the fixed lease payments, discounted using the Company's incremental borrowing rate at the inception of the agreement. As at January 1, 2019, the date of transition, the Company's incremental borrowing rate was based on the terms of its Credit Facilities. Payments made related to the finance lease obligations are allocated between finance costs and the reduction of the outstanding finance lease obligations. The finance lease obligations are included in Note 7.

Finance costs are allocated to each period during the lease term using the effective interest rate method. Lease modifications, where the scope increases in exchange for additional corresponding consideration, are accounted for as a separate lease. The lease term includes the non-cancellable period of the lease agreement and periods covered by any option to renew, where it is reasonably certain that the option will be exercised.

The following reconciliation includes the Company's operating lease commitments at December 31, 2018, compared to the Company's finance lease obligations as at the date of transition of January 1, 2019:

	<u>January 1, 2019</u>
Operating lease commitments at December 31, 2018	\$ 21,107
Current leases with a lease term of less than one year	(68)
Office operating costs and building amenities	(5,966)
Other	(74)
Gross lease liabilities at January 1, 2019	14,999
Effect of discounting	(2,174)
Finance lease obligations at January 1, 2019	\$ 12,825

Revenue from contracts:

In addition to being a lessee as described previously, the Company is also a lessor with respect to some of its drilling rig contracts. The Company has short term and long term drilling rig contracts, with short term contracts being less than one year and long term contracts being greater than one year. Western has elected to use the practical expedient under IFRS 16.5 for its short term drilling contracts, which scopes out contracts less than one year. For its long term drilling contracts, the Company is considered a lessor. As such, the Company has segregated its revenue in Note 5 of the consolidated financial statements between revenue from short term contracts and revenue from long term contracts.

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

5. Operating segments:

The Company operates in the oilfield service industry through its contract drilling segment and through its production services segment in both Canada and the United States. 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 & Corporate Secretary ("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 months ended March 31, 2019 and 2018:

Three months ended March 31, 2019	Contract		Production		Inter-segment		Total
	Drilling	Services	Corporate	Elimination			
Revenue	\$ 49,442	\$ 16,430	\$ -	\$ (97)	\$	\$	65,775
Operating loss	(2,155)	(1,516)	(1,457)	-	-	-	(5,128)
Finance costs	-	-	4,676	-	-	-	4,676
Depreciation	12,598	3,329	449	-	-	-	16,376
Additions to property and equipment ⁽¹⁾	2,198	3,003	7,259	-	-	-	12,460

Three months ended March 31, 2018	Contract		Production		Inter-segment		Total
	Drilling	Services	Corporate	Elimination			
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 ⁽¹⁾	3,774	882	-	-	-	-	4,656

(1) Additions include the purchase of property and equipment and finance lease additions, including leases capitalized on the adoption of IFRS 16 (See Notes 4 and 6).

Total assets and liabilities by operating segment are as follows:

As at March 31, 2019	Contract		Production		Corporate	Total
	Drilling	Services	Corporate	Total		
Total assets	524,343	127,182	11,592			663,117
Total liabilities	81,005	27,802	210,562			319,369

As at December 31, 2018	Contract		Production		Corporate	Total
	Drilling	Services	Corporate	Total		
Total assets	\$ 537,236	\$ 124,101	\$ 5,958	\$	\$	667,295
Total liabilities	85,826	24,875	202,795			313,496

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

5. Operating segments (continued):

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

	Contract		Production		
	Drilling	Services	Corporate		Total
Three months ended March 31, 2019					
Operating loss	\$ (2,155)	\$ (1,516)	\$ (1,457)	\$	(5,128)
Add (deduct):					
Stock based compensation	(45)	(21)	(108)		(174)
Finance costs	-	-	(4,676)		(4,676)
Other items	-	-	378		378
Loss before income taxes	\$ (2,200)	\$ (1,537)	\$ (5,863)	\$	(9,600)
Three months ended March 31, 2018					
Operating income (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)

Segmented information by geographic area is as follows:

	Canada		United States		Total
As at March 31, 2019					
Property and equipment	\$ 491,808	\$ 117,309	\$		609,117
Total assets	534,090	129,027			663,117
As at December 31, 2018					
Property and equipment	\$ 504,657	\$ 110,738	\$		615,395
Total assets	545,968	121,327			667,295
Revenue - three months ended March 31, 2019	\$ 52,529	\$ 13,246	\$		65,775
Revenue - three months ended March 31, 2018	73,252	8,005			81,257

Revenue from contracts:

For the three months ended March 31, 2019, the Company's revenue from long term and short term contracts in the contract drilling segment totaled \$14.4 million and \$35.0 million respectively. For the three months ended March 31, 2019, the Company had no revenue from long term contracts in the production services segment.

Significant customers:

For the three months ended March 31, 2019, the Company had no customers comprising 10.0% or more of the Company's total revenue. For the three months ended March 31, 2018, the Company had one significant customer comprising 13.2% of the Company's total revenue.

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

6. 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	Finance lease assets	Total
Cost:							
Balance at December 31, 2018	\$ 5,089	\$ 4,396	\$ 806,053	\$ 203,888	\$ 12,513	\$ 3,911	\$ 1,035,850
Additions	-	-	1,881	233	78	-	2,192
Finance lease additions	-	-	-	-	-	188	188
Adoption of IFRS 16 (Note 4)	-	-	-	-	-	10,080	10,080
Disposals	-	-	(738)	(420)	(3)	(141)	(1,302)
Foreign exchange adjustment	-	-	(3,444)	-	(15)	(14)	(3,473)
Balance at March 31, 2019	\$ 5,089	\$ 4,396	\$ 803,752	\$ 203,701	\$ 12,573	\$ 14,024	\$ 1,043,535
Accumulated depreciation:							
Balance at December 31, 2018	\$ -	\$ 1,419	\$ 316,848	\$ 91,110	\$ 9,565	\$ 1,513	\$ 420,455
Depreciation for the period	-	50	12,421	2,920	209	776	16,376
Disposals	-	-	(580)	(415)	(3)	(112)	(1,110)
Foreign exchange adjustment	-	-	(1,286)	-	(14)	(3)	(1,303)
Balance at March 31, 2019	\$ -	\$ 1,469	\$ 327,403	\$ 93,615	\$ 9,757	\$ 2,174	\$ 434,418
Carrying amounts:							
At December 31, 2018	\$ 5,089	\$ 2,977	\$ 489,205	\$ 112,778	\$ 2,948	\$ 2,398	\$ 615,395
At March 31, 2019	\$ 5,089	\$ 2,927	\$ 476,349	\$ 110,086	\$ 2,816	\$ 11,850	\$ 609,117

7. Long term debt:

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

	March 31, 2019	December 31, 2018
Current:		
Second Lien Facility	\$ 2,150	\$ 2,150
Finance lease obligations ⁽¹⁾	3,409	542
Less: unamortized issue costs	(871)	(870)
Total current portion of long term debt	4,688	1,822
Non current:		
Second Lien Facility	211,238	211,775
Revolving Facility	18,000	11,000
Operating Facility	1,173	891
Finance lease obligations ⁽¹⁾	10,613	1,242
Less: unamortized issue costs	(2,434)	(2,650)
Total non current portion of long term debt	238,590	222,258
Total long term debt	\$ 243,278	\$ 224,080

(1) Finance lease obligations include leases capitalized under IFRS 16 (See Note 4). During the three months ended March 31, 2019, the Company expensed less than \$0.1 million related to leases of low values assets or leases with a term of less than one year.

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

7. Long term debt (continued):

Credit Facilities:

At March 31, 2019, the Company's credit facility consisted of a \$50.0 million syndicated revolving credit facility (the "Revolving Facility") and a \$10.0 million committed operating facility (the "Operating Facility" and together the "Credit Facilities") which mature on December 17, 2021.

Advances under the Credit Facilities are limited by the Company's borrowing base. The borrowing base is applicable when 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 \$300.0 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 \$40.0 million.

As at March 31, 2019, 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 the Company's property and equipment was greater than \$300.0 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 the Company and its subsidiaries.

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

	Covenant ⁽¹⁾	March 31, 2019
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio ⁽²⁾⁽³⁾	3.0:1.0 or less	0.67:1.0
Maximum Consolidated Debt to Consolidated Capitalization Ratio ⁽⁴⁾⁽⁵⁾	0.6:1.0 or less	0.40:1.0
Minimum Current Ratio ⁽⁶⁾	1.15:1.0 or more	2.56:1.0

(1) The Company's covenant calculations use IFRS in effect as at December 31, 2018 and therefore, at March 31, 2019, exclude the impact of adopting IFRS 16, Leases.

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

(3) 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.

(4) Consolidated Debt in the Credit Facilities is defined as Consolidated Senior Debt plus outstanding principal on unsecured debt, including the Second Lien Facility.

(5) 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.

(6) Current Ratio is defined as the ratio of current assets to current liabilities as reported on the consolidated balance sheet, where current liabilities exclude the current portion of long term debt and accrued interest.

As at March 31, 2019, the Company was in compliance with all covenants related to its Credit Facilities. The adoption of IFRS 16 did not have an impact on the Company's Credit Facility covenants.

Second Lien Facility:

At March 31, 2019, the Company had \$213.4 million outstanding on the second lien secured term loan facility (the "Second Lien Facility"). 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 initial principal amount of \$215.0 million are payable annually, in quarterly installments, with the balance due on January 31, 2023.

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

8. 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, 2018	92,305,542	\$	441,512
Issued on vesting of restricted share units	1,500		5
Balance at March 31, 2019	92,307,042	\$	441,517

There were no dividends declared during the three months ended March 31, 2019 and 2018.

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, 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 the Company's outstanding stock options:

	Stock options outstanding		Weighted average exercise price
Balance at December 31, 2018	8,313,537	\$	3.55
Granted	34,360		0.45
Forfeited	(235,820)		2.17
Expired	(455,000)		7.83
Balance at March 31, 2019	7,657,077	\$	3.33

For the three months ended March 31, 2019 and 2018, no stock options were cancelled. The average fair value of the stock options granted for the three months ended March 31, 2019 was \$0.14 per stock option (for the three months ended March 31, 2018: \$0.38 per stock option). As at March 31, 2019, Western had 3,740,902 (December 31, 2018: 4,246,448) exercisable stock options outstanding at a weighted average exercise price equal to \$5.58 (December 31, 2018: \$5.82) 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 the Company's outstanding RSUs:

	Equity settled	Cash settled	Total
Balance at December 31, 2018	543,997	1,054,475	1,598,472
Granted	-	24,700	24,700
Vested	(1,500)	(8,517)	(10,017)
Forfeited	(8,387)	(50,522)	(58,909)
Balance at March 31, 2019	534,110	1,020,136	1,554,246

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

9. 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 March 31, 2019	Three months ended March 31, 2018
Stock options	\$ 134	\$ 186
Restricted share units – equity settled grants	72	61
Total equity settled stock based compensation expense	206	247
Restricted share units – cash settled grants	(32)	111
Total stock based compensation expense	\$ 174	\$ 358

Warrants:

As at March 31, 2019, Western had 7,099,546 warrants outstanding (December 31, 2018: 7,099,546). 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.

10. Earnings per share:

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

	Three months ended March 31, 2019	Three months ended March 31, 2018
Issued common shares, beginning of period	92,305,542	92,175,598
Weighted average number of common shares issued	1,293	1,450
Weighted average number of common shares (basic)	92,306,835	92,177,048
Dilutive effect of equity securities	-	-
Weighted average number of common shares (diluted)	92,306,835	92,177,048

For the three months ended March 31, 2019, 7,657,077 stock options (three months ended March 31, 2018: 6,240,316 stock options), 534,110 equity settled RSUs (three months ended March 31, 2018: 189,920 equity settled RSUs) and 7,099,546 warrants (three months ended March 31, 2018: 7,099,546 warrants) 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, 2019	Three months ended March 31, 2018
Interest expense on long term debt ⁽¹⁾	\$ 4,347	\$ 4,462
Amortization of debt financing fees	117	272
Accretion expense on Second Lien Facility	215	144
Accretion expense on senior notes	-	569
Interest income	(3)	(67)
Total finance costs	\$ 4,676	\$ 5,380

(1) Interest expense on long term debt includes \$0.2 million of interest expense related to finance lease obligations.

The Company had an effective interest rate of 8.0% on its borrowings for the three months ended March 31, 2019 (three months ended March 31, 2018: 9.2%).

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

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, 2019	Three months ended March 31, 2018
(Gain) loss on sale of fixed assets	\$ (431)	\$ 104
Realized foreign exchange loss (gain)	30	(177)
Unrealized foreign exchange loss (gain)	23	(14)
Total other items	\$ (378)	\$ (87)

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, 2019	Three months ended March 31, 2018
Current tax recovery	\$ -	\$ -
Deferred tax recovery	(2,522)	(1,242)
Total income tax recovery	\$ (2,522)	\$ (1,242)

As at March 31, 2019, the Company has loss carry-forwards equal to approximately \$183.0 million in Canada, which will expire between 2035 and 2039. In the United States, the Company has approximately US\$52.0 million in loss carry forwards which expire between 2028 and 2039.

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, 2019	Three months ended March 31, 2018
Depreciation of property and equipment (Note 6)	\$ 16,376	\$ 16,650
Employee benefits: salaries and benefits	36,025	41,890
Employee benefits: stock based compensation (Note 9)	174	358
Repairs and maintenance	5,607	5,774
Third party charges	4,002	8,292

15. Capital management:

The overall capitalization of the Company at March 31, 2019 and December 31, 2018 is as follows:

	Note	March 31, 2019	December 31, 2018
Second Lien Facility	7	\$ 213,388	\$ 213,925
Revolving Facility	7	18,000	11,000
Operating Facility	7	1,173	891
Finance lease obligations	7	14,022	1,784
Total debt		246,583	227,600
Shareholders' equity		343,748	353,799
Less: cash and cash equivalents		(3,045)	(3,960)
Total capitalization		\$ 587,286	\$ 577,439

Western Energy Services Corp.

Notes to the condensed consolidated financial statements (unaudited)

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

16. Commitments:

As at March 31, 2019, the Company has commitments which require payments based on the maturity terms as follows:

	2019	2020	2021	2022	2023	Thereafter	Total
Second Lien Facility	\$ 1,613	\$ 2,150	\$ 2,150	\$ 2,150	\$ 205,325	\$ -	\$ 213,388
Second Lien Facility interest	7,662	15,376	15,179	15,105	7,473	-	60,795
Trade payables and other current liabilities ⁽¹⁾	21,043	-	-	-	-	-	21,043
Operating commitments ⁽²⁾	3,004	882	843	841	816	884	7,270
Revolving Facility	-	-	18,000	-	-	-	18,000
Operating Facility	-	-	1,173	-	-	-	1,173
Finance lease obligations ⁽³⁾	3,273	4,250	2,954	2,146	1,792	1,860	16,275
Total	\$ 36,595	\$ 22,658	\$ 40,299	\$ 20,242	\$ 215,406	\$ 2,744	\$ 337,944

(1) Trade payables and other current liabilities exclude the Company's interest accrued as at March 31, 2019 on the Second Lien Facility.

(2) Operating commitments include purchase commitments, short term operating leases, and operating expenses associated with long term leases.

(3) Finance lease obligations represent the gross lease commitments to be paid over the term of the Company's outstanding long term leases and include those leases capitalized under IFRS 16 (See Note 4).