Western Energy Services Corp.

Condensed Consolidated Financial Statements

September 30, 2015 and 2014

(Unaudited)

Western Energy Services Corp.

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

	Note	September 30, 2015	December 31, 2014
Assets			
Current assets			
Cash and cash equivalents		$ 56,554	$ 62,662
Trade and other receivables		40,483	89,817
Other current assets		5,164	6,344
		102,201	158,823
Non current assets			
Property and equipment	5	843,670	827,306
Goodwill	6	-	69,607
Other non current assets		1,266	1,382
		$ 947,137	$ 1,057,118
Liabilities			
Current liabilities			
Trade payables and other current liabilities		$ 23,969	$ 73,671
Dividends payable		5,526	5,615
Current portion of provisions		139	139
Current portion of long term debt	7	832	1,062
		30,466	80,487
Non current liabilities			
Provisions		1,710	1,819
Long term debt	7	264,219	264,165
Deferred taxes		124,916	109,444
		421,311	455,915
Shareholders' equity			
Share capital	8	417,702	423,633
Contributed surplus		9,108	6,815
Retained earnings		62,528	153,544
Accumulated other comprehensive income		34,191	15,125
Non controlling interest		2,297	2,086
		525,826	601,203
		$ 947,137	$ 1,057,118

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 (Unaudited)
(thousands of Canadian dollars except share and per share amounts)

	Note	Three months ended Sept 30 2015	Three months ended Sept 30 2014	Nine months ended Sept 30 2015	Nine months ended Sept 30 2014
Revenue		$ 46,959	$ 125,225	$ 184,846	$ 368,622
Operating expenses		41,684	90,891	141,869	265,079
Gross profit		5,275	34,334	42,977	103,543
Administrative expenses		7,649	9,154	23,584	26,133
Finance costs	11	5,508	5,155	15,029	15,885
Other items		(75)	(218)	(1,488)	384
Impairment of goodwill	6	71,256	-	71,256	-
Income (loss) before income taxes		(79,063)	20,243	(65,404)	61,141
Income tax (recovery) expense	12	(2,247)	5,525	8,725	16,527
Net (loss) income		(76,816)	14,718	(74,129)	44,614
Other comprehensive income [(1)]					
Gain on translation of foreign operations		(5,163)	(2,437)	(10,297)	(2,559)
Unrealized foreign exchange gain on net investment in subsidiary		(3,311)	(2,141)	(8,769)	(2,042)
Comprehensive income		$ (68,342)	$ 19,296	$ (55,063)	$ 49,215
Net (loss) income attributable to:					
Shareholders of the Company		$ (76,873)	$ 14,651	$ (74,306)	$ 44,442
Non controlling interest		57	67	177	172
Comprehensive income attributable to:					
Shareholders of the Company		$ (68,399)	$ 19,229	$ (55,240)	$ 49,043
Non controlling interest		57	67	177	172
Net (loss) income per share:					
Basic		$ (1.04)	$ 0.20	$ (1.00)	$ 0.60
Diluted		(1.04)	0.19	(1.00)	0.59
Weighted average number of shares:					
Basic	10	74,044,832	74,849,483	74,434,833	74,232,921
Diluted	10	74,044,832	75,742,044	74,434,833	75,641,911

(1) Other comprehensive income 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 Statement of Changes in Shareholders' Equity (Unaudited)
(thousands of Canadian dollars)

	Note	Share capital	Contributed surplus [(1)]	Retained earnings	Accumulated other comprehensive income[(2)]	Non controlling interest	Total shareholders' equity
Balance at December 31, 2013		$ 411,143	$ 6,088	$ 139,721	$ 5,171	$ 1,302	$ 563,425
Common shares:							
Issued for cash on exercise of stock options	8	9,307	-	-	-	-	9,307
Issued for cash on exercise of warrants	8	227	-	-	-	-	227
Fair value of exercised options and warrants	8	2,898	(2,898)	-	-	-	-
Stock based compensation		-	2,276	-	-	-	2,276
Dividends declared		-	-	(16,761)	-	-	(16,761)
Distributions from non controlling interest		-	-	-	-	(168)	(168)
Comprehensive income		-	-	44,442	4,601	172	49,215
Balance at September 30, 2014		423,575	5,466	167,402	9,772	1,306	607,521
Common shares:							
Issued for cash on exercise of stock options	8	153	-	-	-	-	153
Purchased under normal course issuer bid	8	(127)	-	-	-	-	(127)
Fair value of exercised options and warrants	8	32	(32)	-	-	-	-
Stock based compensation		-	1,381	-	-	-	1,381
Dividends declared		-	-	(5,615)	-	-	(5,615)
Contributions from non controlling interest		-	-	-	-	701	701
Comprehensive income (loss)		-	-	(8,243)	5,353	79	(2,811)
Balance at December 31, 2014		$ 423,633	$ 6,815	$ 153,544	$ 15,125	$ 2,086	$ 601,203
Common shares:							
Issued for cash on exercise of stock options	8	154	-	-	-	-	154
Issued on vesting of restricted share units	8	470	(470)	-	-	-	-
Purchased under normal course issuer bid	8	(6,610)	(28)	-	-	-	(6,638)
Fair value of exercised options	8	55	(55)	-	-	-	-
Stock based compensation		-	2,846	-	-	-	2,846
Dividends declared		-	-	(16,710)	-	-	(16,710)
Contributions from non controlling interest		-	-	-	-	34	34
Comprehensive income (loss)		-	-	(74,306)	19,066	177	(55,063)
Balance at September 30, 2015		$ 417,702	$ 9,108	$ 62,528	$ 34,191	$ 2,297	$ 525,826

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

(2) At September 30, 2015, the accumulated other comprehensive income balance consists of the translation of foreign operations and unrealized foreign exchange on net investment in subsidiary.

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

Western Energy Services Corp.

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

		Three months ended Sept 30		Nine months ended Sept 30	
	Note	**2015**	**2014**	**2015**	**2014**
Operating activities					
Net (loss) income		$ (76,816)	$ 14,718	$ (74,129)	$ 44,614
Adjustments for:					
Depreciation included in operating expenses		8,791	16,042	29,040	45,251
Depreciation included in administrative expenses		464	448	1,378	1,332
Non cash stock based compensation included in operating expenses	9	157	194	398	611
Non cash stock based compensation included in administrative expenses	9	932	829	2,448	1,665
Loss (gain) on sale of assets		28	52	(154)	(85)
Impairment of goodwill	6	71,256	-	71,256	-
Income taxes	12	(2,247)	5,525	8,725	16,527
Unrealized foreign exchange (gain) loss		-	(122)	3	(36)
Finance costs	11	5,508	5,155	15,029	15,885
Other		785	(37)	(127)	670
Cash generated from operating activities		8,858	42,804	53,867	126,434
Income taxes paid		-	(169)	(8,402)	(538)
Change in non cash working capital		(9,388)	(19,660)	34,351	7,625
Cash flow (used in) from operating activities		(530)	22,975	79,816	133,521
Investing activities					
Additions to property and equipment	5	(4,752)	(31,144)	(30,303)	(77,533)
Proceeds on sale of property and equipment		119	614	646	1,324
Changes in non cash working capital		(1,570)	(5,645)	(13,005)	(6,409)
Cash flow used in investing activities		(6,203)	(36,175)	(42,662)	(82,618)
Financing activities					
Issue of common shares	8	-	617	154	9,534
Shares purchased under normal course issuer bid	8	(4,143)	-	(6,638)	-
Repayment of long term debt		(313)	(313)	(777)	(723)
Finance costs paid		(10,238)	(9,932)	(19,236)	(19,234)
Dividends paid		(5,591)	(5,609)	(16,799)	(16,650)
Contributions from (distributions to) non controlling interest		-	-	34	(168)
Cash flow used in financing activities		(20,285)	(15,237)	(43,262)	(27,241)
Increase (decrease) in cash and cash equivalents		(27,018)	(28,437)	(6,108)	23,662
Cash and cash equivalents, beginning of period		83,572	69,488	62,662	17,389
Cash and cash equivalents, end of period		$ 56,554	$ 41,051	$ 56,554	$ 41,051
Cash and cash equivalents:					
Bank accounts		$ 10,542	$ 8,551	$ 10,542	$ 8,551
Short term investments		46,012	32,500	46,012	32,500
		$ 56,554	$ 41,051	$ 56,554	$ 41,051

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 September 30, 2015 and for the three and nine months ended September 30, 2015 and 2014 (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 operations through Western Energy Services Partnership's (the "Partnership") division, Eagle Well Servicing ("Eagle") and oilfield rental equipment services through the Partnership's division, Aero Rental Services ("Aero"). Financial and operating results for Horizon and Stoneham are included in Western's contract drilling segment, while financial and operating results for Eagle and Aero are included in Western's production services segment.

2. **Basis of preparation and significant accounting policies:**

Statement of compliance:

These Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board. These Financial Statements have been prepared using accounting policies and judgments which are consistent with Notes 3 and 4 of the audited annual consolidated financial statements as at December 31, 2014 and for the years ended December 31, 2014 and 2013 as filed on SEDAR at www.sedar.com and, as such, they should be read in conjunction with the said statements.

These Financial Statements were approved for issuance by Western's Board of Directors on October 29, 2015.

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 oil and gas companies to move heavy equipment to otherwise inaccessible areas and the resulting demand for services, such as those provided by the Company, is high. The second quarter is normally a slower period in Canada due to the spring thaw and wet conditions creating weight restrictions on roads and reducing the mobility of heavy equipment, which slows activity levels in the industry. The third and fourth quarters are usually representative of average activity levels. Therefore, interim periods may not be representative of the results expected for the full year of operation due to seasonality.

4. **Operating segments:**

The Company operates in the Canadian and United States oilfield service industry through its contract drilling and production services segments. Contract drilling includes drilling rigs along with related ancillary equipment and provides services to 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 oil and natural gas exploration and production companies and in the case of oilfield rental equipment, to other oilfield service companies as well.

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

Information regarding the results of the 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 segments relative to other entities that operate within these industries. Operating earnings is calculated as revenue less operating expenses (excluding stock based compensation), administrative expenses (excluding stock based compensation) and depreciation expense.

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

4. Operating segments (continued):

The following is a summary of the Company's results by segment for the three and nine months ended September 30, 2015 and 2014:

Three months ended September 30, 2015	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 32,772	$ 14,206	$ -	$ (19)	$ 46,959
Operating earnings (loss)	623	(694)	(1,104)	-	(1,175)
Finance costs	-	-	5,508	-	5,508
Depreciation	6,301	2,690	264	-	9,255
Additions to property and equipment (1)	3,201	1,481	70	-	4,752

Three months ended September 30, 2014	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 92,249	$ 33,214	$ -	$ (238)	$ 125,225
Operating earnings (loss)	21,681	6,302	(1,691)	-	26,292
Finance costs	-	-	5,155	-	5,155
Depreciation	12,237	3,969	284	-	16,490
Additions to property and equipment (1)	26,620	4,957	159	-	31,736

Nine months ended September 30, 2015	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 129,487	$ 55,631	$ -	$ (272)	$ 184,846
Operating earnings (loss)	23,700	3,237	(4,383)	-	22,554
Finance costs	-	-	15,029	-	15,029
Depreciation	20,739	8,884	795	-	30,418
Additions to property and equipment (1)	24,277	6,124	105	-	30,506

Nine months ended September 30, 2014	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 273,832	$ 96,036	$ -	$ (1,246)	$ 368,622
Operating earnings (loss)	68,233	16,141	(4,599)	-	79,775
Finance costs	-	-	15,885	-	15,885
Depreciation	34,147	11,595	841	-	46,583
Additions to property and equipment (1)	67,975	8,090	220	-	76,285

(1) Additions include the purchase of property and equipment, finance lease additions and property and equipment acquired through business acquisitions.

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

4. Operating segments (continued):

Goodwill	Contract Drilling	Production Services	Total
Balance at December 31, 2014	$ 57,378	$ 12,229	$ 69,607
Foreign exchange adjustment	1,649	-	1,649
Impairment of goodwill	(59,027)	(12,229)	(71,256)
Balance at September 30, 2015	$ -	$ -	$ -

Total assets and liabilities of the reportable segments are as follows:

As at September 30, 2015	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 703,565	$ 181,701	$ 61,871	$ 947,137
Total liabilities	120,024	38,650	262,637	421,311

As at September 30, 2014	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 751,989	$ 233,255	$ 55,729	$ 1,040,973
Total liabilities	123,852	40,726	268,874	433,452

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

Three months ended September 30, 2015	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ 623	$ (694)	$ (1,104)	$ (1,175)
Add (deduct):				
Stock based compensation	(269)	(190)	(740)	(1,199)
Finance costs	-	-	(5,508)	(5,508)
Other items	-	-	75	75
Impairment of goodwill	(59,027)	(12,229)	-	(71,256)
Loss before income taxes	$ (58,673)	$ (13,113)	$ (7,277)	$ (79,063)

Three months ended September 30, 2014	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ 21,681	$ 6,302	$ (1,691)	$ 26,292
Add (deduct):				
Stock based compensation	(279)	(210)	(623)	(1,112)
Finance costs	-	-	(5,155)	(5,155)
Other items	-	-	218	218
Income (loss) before income taxes	$ 21,402	$ 6,092	$ (7,251)	$ 20,243

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

4. Operating segments (continued):

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

Nine months ended September 30, 2015	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ 23,700	$ 3,237	$ (4,383)	$ 22,554
Add (deduct):				
Stock based compensation	(716)	(521)	(1,924)	(3,161)
Finance costs	-	-	(15,029)	(15,029)
Other items	-	-	1,488	1,488
Impairment of goodwill	(59,027)	(12,229)	-	(71,256)
Loss before income taxes	$ (36,043)	$ (9,513)	$ (19,848)	$ (65,404)

Nine months ended September 30, 2014	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ 68,233	$ 16,141	$ (4,599)	$ 79,775
Deduct:				
Stock based compensation	(661)	(521)	(1,183)	(2,365)
Finance costs	-	-	(15,885)	(15,885)
Other items	-	-	(384)	(384)
Income (loss) before income taxes	$ 67,572	$ 15,620	$ (22,051)	$ 61,141

Segmented information by geographic area is as follows:

As at and for the period ended September 30, 2015	Canada	United States	Total
Revenue: three months ended	$ 43,255	$ 3,704	$ 46,959
Revenue: nine months ended	160,461	24,385	184,846
Property and equipment	718,116	125,554	843,670
Total assets	808,055	139,082	947,137

As at and for the period ended September 30, 2014	Canada	United States	Total
Revenue: three months ended	$ 111,814	$ 13,411	$ 125,225
Revenue: nine months ended	332,566	36,056	368,622
Property and equipment	706,220	110,605	816,825
Total assets	919,237	121,736	1,040,973

Significant Customers:

For the three months ended September 30, 2015, the Company had two customers comprising 12.0% and 10.1% respectively, of the Company's total revenue. The trade receivable balance relating to these customers as at September 30, 2015 represented 8.6% and 6.8% respectively, of the Company's total trade and other receivables. These two customers are publicly traded companies with market capitalizations each in excess of $20 billion at September 30, 2015. One of these previously mentioned customers was also a significant customer for the nine months ended September 30, 2015, comprising 11.8% of the Company's total revenue.

For the three and nine months ended September 30, 2014, the Company had one significant customer comprising 12.8% and 13.5% respectively, of the Company's total revenue.

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

5. 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, 2014	$ 5,089	$ 4,048	$ 779,921	$ 196,564	$ 12,540	$ 3,840	$ 1,002,002
Additions	-	78	24,323	5,678	224	-	30,303
Finance lease additions	-	-	-	-	-	203	203
Disposals	-	-	(1,229)	(767)	(48)	(254)	(2,298)
Foreign exchange adjustment	-	-	19,927	-	85	56	20,068
Balance at September 30, 2015	$ 5,089	$ 4,126	$ 822,942	$ 201,475	$ 12,801	$ 3,845	$ 1,050,278
Accumulated depreciation:							
Balance at December 31, 2014	$ -	$ 637	$ 143,807	$ 23,918	$ 5,261	$ 1,073	$ 174,696
Depreciation for the period	-	143	20,147	8,193	1,329	606	30,418
Disposals	-	-	(1,078)	(494)	(13)	(221)	(1,806)
Foreign exchange adjustment	-	-	3,221	-	56	23	3,300
Balance at September 30, 2015	$ -	$ 780	$ 166,097	$ 31,617	$ 6,633	$ 1,481	$ 206,608
Carrying amounts:							
At December 31, 2014	$ 5,089	$ 3,411	$ 636,114	$ 172,646	$ 7,279	$ 2,767	$ 827,306
At September 30, 2015	$ 5,089	$ 3,346	$ 656,845	$ 169,858	$ 6,168	$ 2,364	$ 843,670

Included in property and equipment at September 30, 2015 are assets under construction of $2.5 million (December 31, 2014: $36.8 million).

As indicators of impairment existed at September 30, 2015, an impairment test was completed. Management reviewed the carrying value of property and equipment and determined that the recoverable amount of property and equipment exceeds the carrying value. As such, no impairment of property and equipment existed at September 30, 2015.

6. Goodwill:

	Goodwill
Balance at December 31, 2014	$ 69,607
Foreign exchange adjustment	1,649
Impairment of goodwill	(71,256)
Balance at September 30, 2015	$ -

The determination of cash generating units ("CGUs") is based on management's judgment regarding shared equipment, geographic proximity and materiality. The Company currently has three CGUs consisting of contract drilling, well servicing and oilfield rental equipment.

The following summarizes the goodwill allocated to each CGU:

	September 30, 2015	December 31, 2014
CGU:		
Contract drilling	$ -	$ 57,378
Well servicing	-	-
Oilfield rental equipment	-	12,229
Total goodwill allocated	$ -	$ 69,607

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

6. Goodwill (continued):

As at September 30, 2015, the Company identified impairment indicators related to the prolonged commodity price downturn and as such, performed an impairment analysis. For impairment testing purposes, goodwill has been allocated to the Company's cash-generating units that are expected to benefit from the synergies of the business combinations which resulted in the initial recognition of the goodwill. These cash-generating units are based on contract drilling rigs, well servicing rigs and oilfield rental equipment within the Company's contract drilling and production services segments.

The recoverable amounts of goodwill allocated to these cash-generating units was determined based on a value in use calculation which uses cash flow projections based on historical results and incorporates the Company's most recent 2015 and 2016 internal forecasts. For the purposes of completing the impairment analysis on the contract drilling CGU, assumptions were made relating to average contract drilling utilization. These rates range from 30% to 60% per year. Management has reflected that the current downturn in the oilfield service industry will continue through 2016. Cash flow projections for 2017 to 2020 have assumed a gradual recovery to historical activity levels. Cash flow projections thereafter have been extrapolated based on a 2% per annum growth rate. The forecasted cash flows are based on management's best estimates of future pricing, asset utilization, rates for available equipment, costs to maintain that equipment and a pre-tax discount rate of 14% (December 31, 2014: 14%) per annum.

The results of the tests indicated a goodwill impairment at September 30, 2015 of $71.3 million, with $59.1 million related to the contract drilling CGU and $12.2 million related to the oilfield rental equipment CGU. This impairment represented the total amount of goodwill allocated to each CGU. The goodwill impairment is due to the declining commodity price environment, which has resulted in reductions to the capital spending plans for Western's customers, and has resulted in a reduced outlook for oilfield service activity. The recoverable amount of the contract drilling and oilfield equipment rental CGUs is $664.0 million and $32.6 million respectively, as at September 30, 2015.

7. Long term debt:

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

	September 30, 2015	December 31, 2014
Current:		
Other long term debt - current portion (1)	$ 832	$ 1,062
Total current portion of long term debt	832	1,062
Non current:		
Senior Notes	265,000	265,000
Less: net unamortized premium and issue costs on Senior Notes	(1,737)	(2,122)
Other long term debt - non current portion (1)	956	1,287
Total non current portion of long term debt	264,219	264,165
Total long term debt	$ 265,051	$ 265,227

(1) At September 30, 2015, other long term debt consists of finance lease obligations.

Credit facilities:

On December 18, 2014, the Company amended its credit facilities to increase its revolving credit facility (the "Revolving Facility") to $175.0 million, from $125.0 million previously, with a maturity date extension to December 17, 2018 and increased the Company's operating demand revolving loan (the "Operating Facility") to $20.0 million, from $10.0 million previously. The syndicate of banks providing the Revolving Facility was also expanded as a result of these amendments. The Revolving Facility requires interest to be paid monthly with no scheduled principal repayments unless the Revolving Facility is not extended by the maturity date. The Operating Facility principal balance is due on demand with interest paid monthly.

Amounts borrowed under the Operating and Revolving 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 relevant agreement. The credit facilities are secured by the assets of Western and its subsidiaries. As at September 30, 2015, the Company had $175.0 million in available credit under the Revolving Facility and $20.0 million under the Operating Facility.

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

7. Long term debt (continued):

The Company's credit facilities are subject to the following financial covenants:

	Covenant
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio (1)(2)(3)	2.5:1.0 or less
Maximum Consolidated Debt to Consolidated Capitalization Ratio (4)	0.6:1.0 or less
Minimum Consolidated EBITDA to Consolidated Interest Expense Ratio (3)(5)	2.0:1.0 or more

(1) In the event of a material acquisition during any fiscal quarter, the ratio shall increase by 0.50 until (and including) the end of the second full fiscal quarter after the material acquisition.
(2) Consolidated Senior Debt in the credit facilities is defined as indebtedness under the Revolving Facility, Operating Facility and finance leases; reduced by cash on hand in excess of $20 million.
(3) Consolidated EBITDA in the credit facilities is defined 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 Capitalization in the credit facilities is defined as the aggregate of Consolidated Debt and total shareholders` equity as shown on the consolidated balance sheet.
(5) Consolidated Interest Expense in the credit facilities is defined as all interest accrued or payable on outstanding debt, including capitalized interest and imputed interest with respect to finance lease obligations and is presented in the financial statements under finance costs (Note 11).

As at September 30, 2015 and December 31, 2014, the Company was in compliance with all covenants related to its credit facilities.

Senior Notes:

The Company has $265.0 million 7⅞% senior unsecured notes (the "Senior Notes") outstanding which are due on January 30, 2019. The Senior Notes contain certain early redemption options under which the Company has the option to redeem all or a portion of the Senior Notes at various redemption prices, which include the principal amount plus accrued and unpaid interest, if any, to the applicable redemption date. Interest is payable semi-annually on January 30 and July 30. The Senior Notes are unsecured, ranking equal in right of payment to all existing and future unsecured indebtedness, and have been guaranteed by the Company's current and future subsidiaries. The Senior Notes indenture contains certain restrictions relating to items such as making restricted payments and incurring additional debt.

At September 30, 2015, the fair value of the Senior Notes was approximately $254.4 million (December 31, 2014: $250.4 million).

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, 2013	73,386,191	$	411,143
Issued for cash on exercise of stock options	1,394,976		9,460
Issued for cash on exercise of warrants	108,261		227
Shares purchased under normal course issuer bid	(23,400)		(127)
Fair value of exercised stock options and warrants	-		2,930
Balance at December 31, 2014	74,866,028		423,633
Issued for cash on exercise of stock options	26,800		154
Issued on vesting of restricted share units	50,658		470
Shares purchased under normal course issuer bid	(1,258,200)		(6,610)
Fair value of exercised stock options	-		55
Balance at September 30, 2015	73,685,286	$	417,702

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

8. Share capital (continued):

During the three and nine months ended September 30, 2015, the Company declared dividends of $5.5 million and $16.7 million respectively. During the three and nine months ended September 30, 2014, $5.6 million and $16.8 million in dividends were declared, respectively, and for the year ended December 31, 2014, $22.4 million in dividends were declared. The Company had dividends payable of $5.5 million as at September 30, 2015 (December 31, 2014: $5.6 million).

On December 15, 2014, Western initiated a normal course issuer bid (the "NCIB"), which has been filed with and accepted by the TSX. Pursuant to the NCIB, Western may purchase for cancellation up to 5,550,000 common shares of the Company. The NCIB commenced on December 17, 2014 and will terminate on the earlier of: (i) December 16, 2015; and (ii) the date on which the maximum number of Common Shares are purchased pursuant to the NCIB. For the three and nine months ended September 30, 2015, 801,300 and 1,258,200 common shares for a total cost of $4.1 million and $6.6 million respectively, were repurchased, cancelled, and charged to share capital or contributed surplus, as applicable. As at October 29, 2015, since the NCIB was initiated, 1,307,700 common shares for a total cost of $6.8 million have been repurchased, cancelled, and charged to share capital, or contributed surplus, as applicable.

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.

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

	Stock options outstanding	Weighted average exercise price
Balance at December 31, 2013	4,425,598	$ 7.02
Granted	2,495,566	9.46
Exercised	(1,394,976)	6.78
Forfeited	(432,216)	7.62
Balance at December 31, 2014	5,093,972	8.23
Granted	2,436,831	5.10
Exercised	(26,800)	5.75
Forfeited	(862,977)	8.27
Expired	(177,601)	5.75
Balance at September 30, 2015	6,463,425	$ 7.12

For the three and nine months ended September 30, 2015, no stock options were cancelled under the plan. As at September 30, 2015, Western had 2,062,350 (December 31, 2014: 1,204,091) exercisable stock options outstanding at a weighted average exercise price equal to $7.97 (December 31, 2014: $7.12) per stock option.

Restricted share unit plan:

In August 2014, the Company implemented a restricted share unit ("RSU") plan for eligible directors, officers, employees and consultants of the Company so that they may participate in the growth and development of Western. The TSX has accepted the adoption of the RSU plan and the RSUs granted thereunder. The RSU plan received shareholder approval on May 7, 2015 at the Company's annual general meeting. Under the terms of the RSU plan, the RSUs awarded will vest in three equal portions on the first, second and third anniversary of the grant date and will be settled in equity or cash at the discretion of the Board of Directors.

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

9. Stock based compensation (continued):

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 grant. The RSU plan allows the Board of Directors to issue up to 1% of the Company's outstanding common shares as RSUs, provided that, when combined, the maximum number of common shares reserved for issuance under all other 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, 2013	-	-	-
Granted	176,351	136,444	312,795
Issued as a result of dividends	3,987	2,822	6,809
Forfeited	(3,000)	(12,267)	(15,267)
Balance at December 31, 2014	177,338	126,999	304,337
Granted	326,845	312,951	639,796
Issued as a result of dividends	5,978	4,573	10,551
Vested	(50,658)	(37,536)	(88,194)
Forfeited	(34,291)	(55,015)	(89,306)
Balance at September 30, 2015	425,212	351,972	777,184

Stock based compensation expense is comprised of the following:

	Three months ended Sept 30		Nine months ended Sept 30	
	2015	2014	2015	2014
Stock options	$ 829	$ 935	$ 2,214	$ 2,188
Restricted share units - equity settled grants	260	88	632	88
Total equity settled stock based compensation expense	1,089	1,023	2,846	2,276
Restricted share units - cash settled grants	110	89	315	89
Total stock based compensation expense	$ 1,199	$ 1,112	$ 3,161	$ 2,365

10. Earnings per share:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2015	2014	2015	2014
Issued common shares, beginning of period	74,435,928	74,780,175	74,866,028	73,386,191
Net effect of shares issued (purchased under the NCIB)	(391,096)	69,308	(431,195)	846,730
Weighted average number of common shares (basic)	74,044,832	74,849,483	74,434,833	74,232,921
Dilutive effect of equity securities	-	892,561	-	1,408,990
Weighted average number of common shares (diluted)	74,044,832	75,742,044	74,434,833	75,641,911

For the three and nine months ended September 30, 2015, 6,463,425 stock options (three and nine months ended September 30, 2014: 1,726,123) and 425,212 RSUs (three and nine months ended September 30, 2014: 143,751) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

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

11. Finance costs:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2015	2014	2015	2014
Interest expense on long term debt	$ 5,509	$ 5,466	$ 16,350	$ 16,169
Amortization of debt financing fees and provisions	130	166	390	498
Interest income	(53)	(107)	(277)	(229)
Total finance costs before capitalized interest	5,586	5,525	16,463	16,438
Capitalized interest	(78)	(370)	(1,434)	(553)
Total finance costs	$ 5,508	$ 5,155	$ 15,029	$ 15,885

The Company had an effective interest rate of 8.4% on its borrowings for the three and nine months ended September 30, 2015 (three and nine months ended September 30, 2014: 8.4%).

12. Income taxes:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2015	2014	2015	2014
Current tax (recovery) expense	$ (2,269)	$ 1,987	$ (6,040)	$ 5,788
Deferred tax expense	22	3,538	14,765	10,739
Total income tax (recovery) expense	$ (2,247)	$ 5,525	$ 8,725	$ 16,527

In June 2015, the Alberta corporate tax rate was increased to 12% from 10% previously. As a result, the Company’s deferred tax liability increased by $6.0 million, with a corresponding increase to deferred tax expense for the nine months ended September 30, 2015. This tax rate increase received Royal Assent on June 29, 2015.

As at September 30, 2015, the Company has gross loss carry forwards equal to approximately $31.1 million in Canada, which expire between 2026 and 2035. In the United States, the Company has approximately US$46.4 million gross loss carry forwards which expire between 2028 and 2034.

13. Costs by nature:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2015	2014	2015	2014
Depreciation of property and equipment (Note 5)	$ 9,255	$ 16,490	$ 30,418	$ 46,583
Employee benefits: salaries and benefits	25,653	53,569	89,799	156,454
Employee benefits: stock based compensation (Note 9)	1,199	1,112	3,161	2,365
Repairs and maintenance	2,746	8,286	8,248	20,814
Third party charges	2,609	7,265	8,819	23,683

14. Financial risk management and financial instruments:

The Company’s financial instruments include cash and cash equivalents, trade and other receivables, trade payables and other current liabilities, derivatives and long term debt instruments such as the credit facilities and the Senior Notes. Cash and cash equivalents and derivatives are carried at fair value. The carrying amounts of trade and other receivables, trade payables, and other current liabilities approximate their fair values due to their short term nature. The credit facilities bear interest at rates that approximate market rates and therefore their carrying values approximate fair values. The Senior Notes are recorded at their amortized cost. Fair value disclosure of the Senior Notes is based on their trading price on September 30, 2015.

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

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

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2014.

Financial assets and liabilities recorded at fair value in the condensed consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

Hierarchical levels based on the amount of subjectivity associated with the inputs in the fair value determination of these assets and liabilities are as follows:

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

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

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

The Company's cash and cash equivalents balance, derivatives and Senior Notes are the only financial assets or liabilities measured using fair value. The Company's cash and cash equivalents are categorized as Level I as there are quoted prices in an active market for these instruments. The estimated fair value of derivatives and the Senior Notes is based on Level II inputs as the inputs are directly observable through correlation with market data.

Capital management:

The capital structure of the Company at September 30, 2015 and December 31, 2014 is as follows:

	Note	September 30, 2015	December 31, 2014
Other long term debt	7	$ 1,788	$ 2,349
Senior Notes	7	265,000	265,000
Total debt		266,788	267,349
Shareholders' equity		525,826	601,203
Less: cash and cash equivalents		(56,554)	(62,662)
Total capitalization		$ 736,060	$ 805,890

15. Commitments:

As at September 30, 2015, the Company has total commitments which require payments based on the maturity terms as follows:

	2015	2016	2017	2018	2019	Thereafter	Total
Senior Notes	$ -	$ -	$ -	$ -	$ 265,000	$ -	$ 265,000
Senior Notes interest	-	20,869	20,869	20,869	10,434	-	73,041
Trade payables and other current liabilities	23,969	-	-	-	-	-	23,969
Dividends payable	5,526	-	-	-	-	-	5,526
Operating leases	1,138	3,722	2,870	2,715	2,667	12,149	25,261
Purchase commitments	2,125	-	-	-	-	-	2,125
Other long term debt	278	908	626	71	-	-	1,883
Total	$ 33,036	$ 25,499	$ 24,365	$ 23,655	$ 278,101	$ 12,149	$ 396,805

16. Subsequent event:

On October 29, 2015, the Board of Directors of Western declared a quarterly dividend of $0.05 per share, payable on January 14, 2016, to shareholders of record at the close of business on December 31, 2015. The dividends will be eligible dividends for Canadian income tax purposes.