



Western
ENERGY SERVICES CORP.

2018 ANNUAL REPORT

WESTERN ENERGY SERVICES CORP.

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Western Energy Services Corp. is an oilfield service company focused on providing superior service to its customers, and sustainable growth for shareholders.

CONTRACT DRILLING SERVICES



Horizon Drilling is Western's Canadian contract drilling division and currently operates a fleet of 49 drilling rigs, making it the fourth largest drilling rig contractor in Canada. Horizon's fleet is one of the newest drilling fleets in the Western Canadian Sedimentary Basin, which allows the company to provide customers with reliability, mobility and advanced technical capabilities.



Stoneham Drilling Corporation is Western's U.S. contract drilling division and currently operates a fleet of six drilling rigs from its base in Williston, North Dakota, servicing the Williston and Powder River Basins, and two drilling rigs from its base in Midland, Texas, servicing the Permian Basin. Similar in design to many of the Canadian based rigs, the U.S. fleet is suited for the current U.S. market which predominantly consists of drilling horizontal wells that are deeper and more technically challenging.

WELL SERVICING



Eagle Well Servicing operates well service rigs in Canada. Western is currently the fifth largest well servicing contractor in Canada based on registered rigs. Eagle operates from five bases located in Alberta and Saskatchewan, allowing Eagle to service wells throughout the Western Canadian Sedimentary Basin. With an industry leading team, Eagle excels when it comes to safe, efficient and functional well servicing.

OILFIELD RENTAL EQUIPMENT SERVICES



Aero Rental Services is Western's oilfield rental equipment division that operates from facilities in Red Deer and Grande Prairie, Alberta. Aero supplies crude oil and natural gas exploration and production companies, as well as other oilfield service companies, with specialized high pressure rental equipment utilized in drilling and completions activities. Aero has followed an organic growth model, allowing it to evolve and adapt its rental equipment mix to the changing needs of its customers.

ANNUAL MEETING

The Annual Meeting of the Shareholders of Western Energy Services Corp. will be held on Thursday, April 25, 2019 at 1:30 pm (MDT).
Location: The Calgary Petroleum Club, Viking Room
319 - 5th Avenue S.W.
Calgary, Alberta T2P 0L5



CEO Report to Shareholders

2019 marks an important milestone for Western. It was 10 years ago that we embarked on our first transaction, as we recapitalized the Company in December 2009, gaining a public entity to support an ambitious growth trajectory. Starting from no oilfield service footprint at the time of recapitalization, we have grown our platform to include 57 drilling rigs, 66 service rigs and a comprehensive array of oilfield rental assets across Canada and the United States.

Western is the product of six acquisitions, 17 new build drilling rigs, 11 new build service rigs, and a consistent drive to improve our operations, equipment and processes, ultimately, providing our customers with superior service. I am proud to say this is the culmination of countless hours of hard work, dedication and sacrifice by our loyal employees over the past 10 years, for which I remain grateful. This continued determination by all of our employees will carry us into our next decade, well positioned to successfully navigate the current industry environment.

Today, we are facing challenges that we certainly did not foresee when we founded Western. These include: the inability for our Canadian exploration and production customers to access markets for their crude oil and natural gas; the inability, caused by regulation, for Canadian companies to build the infrastructure required to secure this market access; the Government of Alberta mandated production cuts in response to untenably low realized crude oil prices as a result of transportation bottlenecks; an evolving regulatory and tax regime that layers on costs in an already difficult Canadian business environment; and, a lack of available capital as investors look to jurisdictions outside of Canada to make investments facing a lesser degree of uncertainty. Each of these factors directly or indirectly impacts Western, making Canada an increasingly difficult place in which to do business. While these issues were not originally on our radar, we are proactively adjusting our business to the constantly changing market.

The Canadian oilpatch is resilient. With time, I am confident that market mechanisms will restore balance, and a more normalized operating environment will emerge. However, we are not sitting idle, waiting and hoping that this market reappears. We continue to manage our business in a prudent manner, maximizing revenue, minimizing cost, strategically deploying our investment capital, and working collaboratively with industry trade associations to improve the conditions facing us. While our Canadian business remains strong, positioned to respond to a recovery in activity, we consistently look to maximize returns on our capital. Not all changes will move the needle, though we are committed, through all levels and facets of the organization, to consistent improvement.

In this light, we have recently expanded our US business. Building upon our success in North Dakota, we have expanded our drilling operations into West Texas. With the repositioning of underutilized assets and parts from our existing inventory in Canada, we have been able to cost effectively enter this region. Texas is the epicenter of North American oilfield activity, with over 500 active drilling rigs. Two rigs is a small percentage of this market, but as we make continued inroads with customers, we expect that our West Texas operating base will be a growth driver for Western. As demand warrants, we will look to increase our presence in the West Texas

region and in other US markets. Though we retain significant leverage to higher activity in Canada, broadly speaking, the US, with its stronger currency, full-year drilling window, and supportive business environment, is currently a better place for an oilfield service company such as Western to conduct business.

Looking back at 2018, we had a number of successes across our company. Our Canadian contract drilling business, Horizon Drilling, achieved leading utilization amongst our peers. We could not achieve this without the right people and equipment to deliver the high-quality offering that drives this demand. Our US contract drilling business, Stoneham Drilling, remained busy, exiting 2018 with six active drilling rigs. Western continues to generate a disproportionate share of active rigs in the Williston Basin relative to our rig count in the region. Our Canadian well servicing business, Eagle Well Servicing, showed consistent improvement gaining incremental market share over the year. I am confident that the progress made by Eagle's leadership team will be maintained. Our rental division, Aero Rental Services, continues to position itself to be the oilfield equipment rental company of choice for some of the most active operators in western Canada. Across the organization, I am pleased that we improved our overall safety performance. Safety remains of the utmost importance to Western and we look to continue this trend. Lastly, we right-sized and extended our credit facilities with a revised covenant package that will provide Western with incremental financial flexibility going forward.

I would like to take this opportunity to thank all of our customers and stakeholders for their continued support. I look forward to building upon our past successes.

Respectfully,



Alex R.N. MacAusland
President and CEO
Western Energy Services Corp.

March 21, 2019

2018 Management Discussion & Analysis

Date: February 13, 2019

The following discussion of the financial condition, changes in financial condition and results of operations of Western Energy Services Corp. (the "Company" or "Western") should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Company for the years ended December 31, 2018 and 2017. This Management Discussion and Analysis ("MD&A") is dated February 13, 2019. All amounts are denominated in Canadian dollars (CDN\$) unless otherwise identified.

Financial Highlights (stated in thousands, except share and per share amounts)	Three months ended December 31			Year ended December 31			
	2018	2017	Change	2018	2017	Change	2016
Revenue	63,133	66,515	(5%)	236,410	238,175	(1%)	124,438
Operating Revenue ⁽¹⁾	57,806	59,255	(2%)	215,818	218,988	(1%)	116,907
Gross Margin ⁽¹⁾	12,677	15,886	(20%)	50,535	58,310	(13%)	25,762
Gross Margin as a percentage of Operating Revenue	22%	27%	(19%)	23%	27%	(15%)	22%
Adjusted EBITDA ⁽¹⁾	7,916	10,067	(21%)	31,616	35,695	(11%)	5,775
Adjusted EBITDA as a percentage of Operating Revenue	14%	17%	(18%)	15%	16%	(6%)	5%
Cash flow from operating activities	5,022	(800)	(728%)	33,231	24,641	35%	16,631
Capital expenditures	6,102	5,912	3%	19,960	18,132	10%	4,719
Net loss	(9,530)	(4,974)	92%	(41,060)	(37,445)	10%	(61,973)
-basic net loss per share	(0.10)	(0.06)	67%	(0.45)	(0.48)	(6%)	(0.84)
-diluted net loss per share	(0.10)	(0.06)	67%	(0.45)	(0.48)	(6%)	(0.84)
Weighted average number of shares							
-basic	92,305,208	88,812,216	4%	92,224,585	77,601,827	19%	73,703,437
-diluted	92,305,208	88,812,216	4%	92,224,585	77,601,827	19%	73,703,437
Outstanding common shares as at period end	92,305,542	92,175,598	-	92,305,542	92,175,598	-	73,795,944
Operating Highlights⁽¹⁾							
Contract Drilling							
<i>Canadian Operations</i>							
Average active rig count	18.1	21.6	(16%)	19.2	20.6	(7%)	10.0
Operating Revenue per Billable Day	19,622	18,807	4%	18,922	17,558 ⁽³⁾	8%	16,984 ⁽⁴⁾
Operating Revenue per Operating Day	21,973	21,100	4%	20,984	19,446 ⁽³⁾	8%	19,058 ⁽⁴⁾
Drilling rig utilization - Billable Days	36%	43%	(16%)	38%	41%	(7%)	20%
Drilling rig utilization - Operating Days	32%	38%	(16%)	35%	37%	(5%)	17%
CAODC industry average utilization - Operating Days ⁽²⁾	28%	28%	-	29%	29%	-	17%
<i>United States Operations</i>							
Average active rig count	4.9	4.0	23%	3.4	3.1	10%	1.4
Operating Revenue per Billable Day (US\$)	19,756	18,038	10%	20,227	19,198	5%	21,805
Operating Revenue per Operating Day (US\$)	22,183	21,265	4%	22,586	22,338	1%	25,166
Drilling rig utilization - Billable Days	79%	75%	5%	57%	61%	(7%)	28%
Drilling rig utilization - Operating Days	71%	63%	13%	51%	52%	(2%)	24%
Production Services							
Average active rig count	18.8	17.0	11%	16.5	17.2	(4%)	12.9
Service rig Operating Revenue per Service Hour	667	708	(6%)	683	673	1%	643
Service rig utilization	28%	26%	9%	25%	26%	(4%)	20%

(1) See "Non-IFRS Measures" on page 21 of this MD&A.

(2) Source: The Canadian Association of Oilwell Drilling Contractors ("CAODC"). The CAODC industry average is based on Operating Days divided by total available days.

(3) Excludes shortfall commitment revenue from take or pay contracts of \$6.4 million for the year ended December 31, 2017.

(4) Excludes shortfall commitment revenue from take or pay contracts of \$1.8 million for the year ended December 31, 2016.

Financial Position at (stated in thousands)	December 31, 2018	December 31, 2017	December 31, 2016
Working capital	15,739	62,866	51,118
Property and equipment	615,395	652,828	708,567
Total assets	667,295	760,504	793,525
Long term debt	222,258	265,219	264,070

Overall Performance and Results of Operations

Western is an oilfield service company focused on three core business lines: contract drilling, well servicing and oilfield rental equipment services. Western provides contract drilling services through its division, Horizon Drilling (“Horizon”) in Canada, and its wholly owned subsidiary, Stoneham Drilling Corporation (“Stoneham”) in the United States (“US”). 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. Non-International Financial Reporting Standards (“Non-IFRS”) measures are defined on page 21 of this MD&A. Abbreviations for standard industry terms are included on page 23 of this MD&A.

Western has a drilling rig fleet of 57 rigs specifically suited for drilling complex horizontal wells. Western is currently the fourth largest drilling contractor in Canada, based on the Canadian Association of Oilwell Drilling Contractors (“CAODC”) registered rigs, with a fleet of 49 rigs operating through Horizon. Of the Canadian fleet, 23 are classified as Cardium class rigs, 19 as Montney class rigs and seven as Duvernay class rigs. As compared to the Cardium class rigs, the Montney class rigs have a larger hookload, while the Duvernay class rigs have the largest hookload allowing the rig to support more drill pipe downhole. Additionally, Western has eight drilling rigs operating through Stoneham in the US, including six Duvernay class rigs. Western is also the fifth largest well servicing company in Canada with a fleet of 66 rigs operating through Eagle. Western’s oilfield rental equipment division, which operates through Aero, provides oilfield rental equipment for hydraulic fracturing services, well completions and production work, coil tubing and drilling services.

Crude oil and natural gas prices impact the cash flow of Western’s customers, which in turn impacts the demand for Western’s services. The following table summarizes average crude oil and natural gas prices, as well as average foreign exchange rates, for the three months ended December 31, 2018 and 2017 and for the years ended December 31, 2018 and 2017.

	Three months ended December 31			Year ended December 31		
	2018	2017	Change	2018	2017	Change
Average crude oil and natural gas prices⁽¹⁾⁽²⁾						
Crude Oil						
West Texas Intermediate (US\$/bbl)	59.32	55.28	7%	64.95	50.81	28%
Western Canadian Select (CDN\$/bbl)	33.91	49.10	(31%)	49.97	49.49	1%
Natural Gas						
30 day Spot AECO (CDN\$/mcf)	1.61	1.67	(4%)	1.53	2.23	(31%)
Average foreign exchange rates⁽²⁾						
US dollar to Canadian dollar	1.32	1.27	4%	1.30	1.30	-

(1) See “Abbreviations” on page 23 of this MD&A.

(2) Source: Bloomberg

West Texas Intermediate (“WTI”) on average improved by 7% and 28% for the three months and year ended December 31, 2018 respectively, compared to the same periods in the prior year. However, pricing on Canadian crude oil collapsed in the fourth quarter of 2018, resulting in record differentials. As a result, the price for Western Canadian Select (“WCS”) decreased by 31% for the three months ended December 31, 2018, as compared to the same period in the prior year, while on a year over year basis WCS improved by only 1%. The United States dollar to Canadian dollar foreign exchange rate remained constant year over year, though the weakening of the Canadian dollar in the fourth quarter of 2018 had a slightly positive effect on the cash flows of Western’s Canadian customers, when selling United States dollar denominated commodities. Natural gas prices declined for both the three months and year ended December 31, 2018, as the 30 day spot AECO price decreased by 4% and 31% respectively, over the same periods of the prior year, however fourth quarter 2018 average AECO prices improved by 28% as compared to the third quarter of 2018.

In the United States, improved market conditions in 2018 led to a corresponding increase in the demand for oilfield services. As reported by Baker Hughes, a GE Company, the average number of active drilling rigs in the United States increased approximately 18% in 2018 as compared to 2017. However, market conditions in Canada did not improve. Higher WTI prices were largely offset by increased differentials on Canadian crude oil, which hit record highs in the fourth quarter of 2018, prior to narrowing upon the announcement of mandatory crude oil production curtailments by the Government of Alberta. This intervention increased market uncertainty, so the higher pricing did not correspond to higher activity. Additionally, the continued industry concerns over market access, increased regulation, and the prevailing customer preference to return cash to shareholders, or pay down debt, rather than grow production have resulted in a decrease in industry activity in Canada. The CAODC reported that for drilling in Canada, the total number of Operating Days in the Western Canadian Sedimentary Basin ("WCSB") decreased by approximately 3% in 2018 as compared to 2017.

Operational results for the three months ended December 31, 2018 include:

- Fourth quarter Operating Revenue decreased by \$1.5 million to \$57.8 million in 2018 as compared to \$59.3 million in 2017. In the contract drilling segment, Operating Revenue totalled \$44.5 million in the fourth quarter of 2018, a decrease of \$1.4 million (or 3%) as compared to \$45.9 million in the fourth quarter of 2017. In the production services segment, Operating Revenue totalled \$13.3 million for the three months ended December 31, 2018, as compared to \$13.4 million in the three months ended December 31, 2017, a decrease of \$0.1 million (or 1%). While pricing improved in the contract drilling segment and activity was higher for contract drilling in the United States and well servicing in Canada, lower contract drilling activity in Canada, decreased oilfield rental equipment activity, and lower pricing in the production services segment, impacted Operating Revenue as described below:
 - o Drilling rig utilization – Operating Days ("Drilling Rig Utilization") in Canada decreased to 32% in the fourth quarter of 2018 compared to an average of 38% in the same period of the prior year, reflecting a 600 basis points ("bps") reduction. The decrease in activity was mainly attributable to record high differentials on Canadian crude oil realized in the fourth quarter of 2018 and heightened market uncertainty. As a result, customers were quick to delay or cancel their drilling programs in the fourth quarter of 2018. Fourth quarter 2018 Drilling Rig Utilization of 32% represented a premium of 400 bps to the CAODC industry average of 28%, a decrease as compared to the fourth quarter of 2017 when Drilling Rig Utilization of 38% represented a premium of 1,000 bps to the industry average. The decrease in the Company's utilization premium to the industry average in 2018 was a function of a smaller industry rig fleet, as rigs continue to be decommissioned or moved out of the WCSB. Western's market share, represented by the Company's Operating Days as a percentage of the CAODC's total Operating Days in the WCSB, remained consistent at 10% in both the fourth quarter of 2018 and 2017. Pricing continued to increase and resulted in a 4% improvement in Operating Revenue per Billable Day in the fourth quarter of 2018, as compared to the same period in the prior year. The increase in pricing was a result of the Company being successful in steadily raising rates in 2018 prior to demand decreasing in the fourth quarter of 2018;
 - o In the United States, improved WTI prices led to six of the Company's seven drilling rigs operating during the quarter, three of which were working on long term contracts. During the fourth quarter of 2018, the Company purchased one Cardium class drilling rig for its fleet in the United States, which commenced operations in the Permian basin at the end of the fourth quarter. As a result of improved WTI pricing and a larger rig fleet, Operating Days increased by 29% in the fourth quarter of 2018, as compared to the same period in the prior year. As a result, Drilling Rig Utilization improved to 71% in the fourth quarter of 2018, compared to 63% in the same period of the prior year. Operating Revenue per Billable Day for the fourth quarter of 2018 improved by 10% as compared to the fourth quarter of 2017, as the improved commodity price environment led to increased demand and resulted in day rate increases on contracted rigs; and
 - o Service rig utilization was 28% in the fourth quarter of 2018 compared to 26% in the same period of the prior year. The increase is due to continued marketing efforts to broaden the Company's customer base, despite customer programs being impacted significantly by record high crude oil differentials in the fourth quarter of 2018. While utilization improved, service rig Operating Revenue per Service Hour decreased during the fourth quarter of 2018 by 6% as compared to the same period in the prior year, due to changes in the average rig mix. Higher utilization, offset partially by lower pricing, led to well servicing Operating Revenue in the period increasing to \$11.5 million, an improvement of \$0.4 million (or 4%), as compared to the same period in the prior year.
- Fourth quarter Adjusted EBITDA decreased by \$2.2 million (or 21%) to \$7.9 million in 2018 as compared to \$10.1 million in the fourth quarter of 2017. The year over year change in Adjusted EBITDA is due to lower activity in the contract drilling segment in Canada, decreased oilfield rental equipment activity, and decreased well servicing hourly

rates, which was offset partially by improved pricing in the contract drilling segment and higher utilization in the United States and well servicing in Canada.

- Administrative expenses, excluding depreciation and stock based compensation, decreased by \$1.0 million (or 17%) to \$4.8 million, as compared to \$5.8 million in the fourth quarter of 2017, mainly due to lower employee related costs.
- The Company incurred a net loss of \$9.5 million in the fourth quarter of 2018 (\$0.10 per basic common share) as compared to a net loss of \$5.0 million in the same period in 2017 (\$0.06 per basic common share). The change can be attributed to the following:
 - o A \$3.2 million decrease in income tax recovery due to the decrease in the federal corporate tax rates in the United States in 2017 from 35.0% to 21.0%, which resulted in a significant recovery in the prior period;
 - o A \$2.2 million decrease in Adjusted EBITDA, mainly due to lower oilfield rental equipment activity and lower utilization in the contract drilling segment in Canada, offset partially by higher utilization in the United States and in well servicing in Canada; and
 - o A \$0.6 million increase in other items, which include gains and losses on foreign exchange and asset sales.Offsetting the above mentioned items was a \$1.0 million decrease in finance costs, due to lower total debt levels and a lower average interest rate.
- Fourth quarter 2018 capital expenditures of \$6.1 million included \$4.1 million of expansion capital and \$2.0 million of maintenance capital. In total, capital spending in the fourth quarter of 2018 increased by \$0.2 million from the \$5.9 million incurred in the fourth quarter of 2017. The Company incurred expansion capital mainly related to drilling rig upgrades, including the acquisition and upgrade of one Cardium class rig in the Permian Basin, as well as required maintenance capital, in the fourth quarter of 2018.
- On December 12, 2018, the Company completed a number of amendments to its syndicated first lien credit facility (the "Revolving Facility") and its committed operating facility (the "Operating Facility" and together the "Credit Facilities"), including the following:
 - o Extended the maturity of its Credit Facilities to December 17, 2021;
 - o Elected to reduce the commitment under the Revolving Facility from \$70.0 million to \$50.0 million. The commitment under the Operating Facility remains unchanged at \$10.0 million;
 - o The minimum debt service coverage ratio financial covenant was removed; and
 - o A current ratio financial covenant was added whereby Western's current ratio, excluding the current portion of long term debt and accrued interest, must meet or exceed 1.15.

Operational results for the year ended December 31, 2018 include:

- Operating Revenue in 2018 decreased by \$3.2 million (or 1%) to \$215.8 million as compared to \$219.0 million in 2017. However, after normalizing for \$6.4 million of shortfall commitment revenue recognized in the first quarter of 2017, Operating Revenue in 2018 improved by \$3.2 million (or 2%). In the contract drilling segment, Operating Revenue totalled \$165.7 million in 2018, which after normalizing for \$6.4 million of shortfall commitment revenue recognized in 2017, resulted in Operating Revenue improving by \$5.4 million (or 3%). In the production services segment, Operating Revenue totalled \$50.3 million in 2018, as compared to \$52.5 million in 2017, a decrease of \$2.2 million (or 4%). While on a year to date basis activity was lower in Canada, activity in the United States increased and pricing in all divisions improved which impacted Operating Revenue as described below:
 - o Drilling Rig Utilization in Canada for the year ended December 31, 2018 averaged 35%, compared to an average of 37% for the prior year, reflecting a 200 bps decrease. The decrease in activity was due to some of Western's customers deferring or cancelling their drilling plans, particularly in the fourth quarter of 2018, amid high differentials on Canadian crude oil and low natural gas prices. Drilling Rig Utilization of 35% in 2018 represented a premium of 600 bps to the CAODC industry average of 29%, whereas in 2017, Drilling Rig Utilization of 37% represented an 800 bps premium to the industry average. The decrease in the Company's utilization premium to the industry average in 2018 was a function of a smaller industry rig fleet, as rigs continue to be decommissioned or moved out of the WCSB. Western's market share, represented by the Company's Operating Days as a percentage of the CAODC's total Operating Days in the WCSB, remained consistent at 10% in both 2018 and 2017. While utilization decreased during 2018, pricing continued to increase and resulted in an 8% improvement in Operating Revenue per Billable Day in 2018, as compared to 2017. The increase in pricing is a result of the Company being successful in steadily raising rates in 2018 prior to demand decreasing in the fourth quarter of 2018;

- o In the United States, improved WTI prices led to six of the Company's seven drilling rigs operating during the year. Late in the fourth quarter of 2018, the Company added a Cardium class drilling rig to its fleet in the United States, which began work in the Permian basin. As a result of improved WTI pricing and a larger rig fleet, Operating Days increased by 16% in 2018, as compared to 2017. While activity increased, Drilling Rig Utilization decreased marginally to 51% for the year ended December 31, 2018, as compared to 52% in the prior year, due to an increased rig fleet as two Cardium class drilling rigs were added to the fleet, one in late 2017 and the other in late 2018. Operating Revenue per Billable Day in the United States improved by 5% in 2018, as compared to 2017, as the improved commodity price environment led to increased demand and resulted in day rate increases; and
- o Service rig utilization of 25% for the year ended December 31, 2018 compared to 26% in the prior year. Over the last nine months of 2018, well servicing activity improved over the same period of the prior year due to the continued marketing efforts to broaden the Company's customer base. However, on a year over year basis, activity is down due to operating hours being lower in the first quarter of 2018. Hourly rates improved in 2018, increasing by 1% as compared to the prior year, due to changes in the average rig mix and the Company working to increase rates across all areas. Lower utilization, partially offset by improved pricing, led to a \$1.2 million (or 3%) decrease in well servicing Operating Revenue in 2018.
- Adjusted EBITDA for the year ended December 31, 2018 decreased by \$4.1 million (or 11%) to \$31.6 million as compared to \$35.7 million in 2017. However, after normalizing for the \$6.4 million in shortfall commitment revenue recognized in the first quarter of 2017, Adjusted EBITDA improved by \$2.3 million (or 8%) in 2018, as compared to the prior year. The year over year decrease in Adjusted EBITDA is due to lower activity and shortfall commitment revenue in Canada, offset by improved pricing in all divisions and increased activity in the United States.
- Administrative expenses in 2018, excluding depreciation and stock based compensation, decreased by \$3.7 million (or 16%) to \$18.9 million, as compared to \$22.6 million in 2017, mainly due to lower employee related costs.
- The Company incurred a net loss of \$41.1 million in 2018 (\$0.45 per basic common share) as compared to a net loss of \$37.4 million in 2017 (\$0.48 per basic common share). The change can be attributed to the following:
 - o A \$4.1 million decrease in Adjusted EBITDA, mainly due to lower shortfall commitment revenue; and
 - o A \$4.9 million decrease in income tax recovery mainly due to the decrease in the federal corporate tax rates in the United States in 2017 from 35.0% to 21.0%, which resulted in a significant recovery in the prior period.

Offsetting the above mentioned items was:

- o A \$1.5 million positive change in other items, of which \$1.6 million related to transaction costs incurred in the prior period, coupled with gains and losses on foreign exchange and asset sales;
- o A \$2.9 million decrease in finance costs, due to lower total debt levels; and
- o A \$0.8 million decrease in stock based compensation expense.
- Year to date capital expenditures of \$20.0 million included \$11.5 million of expansion capital and \$8.5 million of maintenance capital. In total, capital spending in 2018 increased by \$1.9 million from the \$18.1 million incurred in 2017. The Company incurred expansion capital mainly related to drilling rig upgrades including the purchase and upgrade of one Cardium class rig in the Permian Basin, as well as required maintenance capital in 2018.
- On January 31, 2018, the Company completed the one time draw of \$215.0 million on its 7.25% 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 Facilities were used to redeem the \$265.0 million 7% senior unsecured notes (the "Senior Notes") at their par value of \$265.0 million on February 1, 2018. Annual amortization payments equal to 1% of the original principal amount are payable in quarterly installments, which began on July 1, 2018, with the balance due on January 31, 2023.

Outlook

Currently, 27 of Western's drilling rigs are operating. Six of Western's 57 drilling rigs (or 11%) are under long term take or pay contracts, with three expected to expire in 2019, two expected to expire in 2020 and one expected to expire in 2021. These contracts each typically generate between 250 and 350 Billable Days per year.

Western's capital budget for 2019 remains unchanged and is expected to total \$15 million with \$2 million allocated for expansion capital and \$13 million for maintenance capital. Western believes the 2019 capital budget provides a prudent use of cash resources and will allow it to maintain its premier drilling and well servicing rig fleets, while remaining responsive to customer requirements. Western will continue to manage its operations in a disciplined manner and make required adjustments to its capital program as customer demand changes.

Mandated crude oil production cuts in Alberta and uncertainty surrounding takeaway capacity related to the timing of construction on the Trans Mountain pipeline expansion and the Keystone XL pipeline, have resulted in the announced capital budgets for Western's Canadian customers decreasing year over year in 2019 compared to 2018. As such, activity levels in Canada are expected to decrease in 2019. Controlling fixed costs and maintaining balance sheet flexibility are priorities for the Company, as prices for Western's services remain below historical levels. However, Western's variable cost structure and a prudent capital budget will aid in preserving balance sheet strength. Given the outlook for oilfield services in Canada, Western is proactively looking to deploy existing assets in Canada into more active resource plays in the United States. Early in 2019, Western transferred a Duvernay class drilling rig from Canada to the Permian Basin in the United States, increasing the United States drilling rig fleet to eight rigs. As at December 31, 2018, Western had \$11.9 million drawn on its \$60.0 million Credit Facilities, which mature on December 17, 2021 and currently has \$213.4 million outstanding on its Second Lien Facility, which matures on January 31, 2023.

Oilfield service activity in Canada will be affected by the development of resource plays in Alberta and northeast British Columbia which will be impacted by pipeline construction, environmental regulations, and the level of investment in Canada. Currently, the largest challenges facing the oilfield service industry are limited take away capacity, continued customer spending constraints relative to historical levels, as a result of low natural gas prices and differentials on Canadian crude oil, and the increasing challenge of staffing field crews, particularly in the well servicing division. Western's rig fleet is well positioned to benefit from the recently approved liquefied natural gas project in British Columbia. It is also Western's view that its modern drilling and well servicing rig fleets, reputation, and disciplined cash management provide a competitive advantage which will enable the Company to manage through the current oilfield service environment.

Segmented Information

Western operates in the contract drilling segment in both Canada and the United States as well as in the production services segment in Canada. Contract drilling includes drilling rigs along with related equipment. Production services includes well servicing rigs and related equipment as well as oilfield rental equipment.

Contract Drilling						
Financial Highlights (stated in thousands)	Three months ended December 31			Year ended December 31		
	2018	2017	Change	2018	2017	Change
Revenue						
Operating Revenue ⁽¹⁾	44,498	45,906	(3%)	165,684	166,660	(1%)
Third party charges	4,660	6,596	(29%)	18,253	16,282	12%
Total revenue	49,158	52,502	(6%)	183,937	182,942	1%
Expenses						
Operating						
Cash operating expenses	38,072	39,677	(4%)	143,076	137,994	4%
Depreciation	13,112	12,991	1%	52,525	51,905	1%
Stock based compensation	47	49	(4%)	352	129	173%
Total operating expenses	51,231	52,717	(3%)	195,953	190,028	3%
Administrative						
Cash administrative expenses	2,337	2,830	(17%)	9,287	11,245	(17%)
Depreciation	60	55	9%	232	251	(8%)
Stock based compensation	9	54	(83%)	89	188	(53%)
Total administrative expenses	2,406	2,939	(18%)	9,608	11,684	(18%)
Gross Margin ⁽¹⁾	11,086	12,825	(14%)	40,861	44,948	(9%)
Gross Margin as a percentage of Operating Revenue	25%	28%	(11%)	25%	27%	(7%)
Adjusted EBITDA ⁽¹⁾	8,749	9,995	(12%)	31,574	33,703	(6%)
Adjusted EBITDA as a percentage of Operating Revenue	20%	22%	(9%)	19%	20%	(5%)
Operating Loss ⁽¹⁾	(4,423)	(3,051)	45%	(21,183)	(18,453)	15%
Capital expenditures	5,680	4,416	29%	17,759	14,959	19%

Operating Highlights

Canadian Operations

Contract drilling rig fleet:

Average active rig count ⁽¹⁾	18.1	21.6	(16%)	19.2	20.6	(7%)
End of period	50	50	-	50	50	-
Operating Revenue per Billable Day ⁽¹⁾	19,622	18,807	4%	18,922	17,558 ⁽³⁾	8%
Operating Revenue per Operating Day ⁽¹⁾	21,973	21,100	4%	20,984	19,446 ⁽³⁾	8%
Operating Days ⁽¹⁾	1,487	1,774	(16%)	6,328	6,801	(7%)
Number of meters drilled	529,707	508,552	4%	2,081,121	1,987,020	5%
Number of wells drilled	124	137	(9%)	506	544	(7%)
Average Operating Days per well	12.0	12.9	(7%)	12.5	12.5	-
Drilling rig utilization - Billable Days ⁽¹⁾	36%	43%	(16%)	38%	41%	(7%)
Drilling rig utilization - Operating Days ⁽¹⁾	32%	38%	(16%)	35%	37%	(5%)
CAODC industry average utilization - Operating Days ⁽¹⁾⁽²⁾	28%	28%	-	29%	29%	-

United States Operations

Contract drilling rig fleet:

Average active rig count ⁽¹⁾	4.9	4.0	23%	3.4	3.1	10%
End of period	7	6	17%	7	6	17%
Operating Revenue per Billable Day (US\$) ⁽¹⁾	19,756	18,038	10%	20,227	19,198	5%
Operating Revenue per Operating Day (US\$) ⁽¹⁾	22,183	21,265	4%	22,586	22,338	1%
Operating Days ⁽¹⁾	403	313	29%	1,121	969	16%
Number of meters drilled	113,979	82,542	38%	343,716	259,918	32%
Number of wells drilled	20	16	25%	64	46	39%
Average Operating Days per well	20.2	19.8	2%	17.5	21.3	(18%)
Drilling rig utilization - Billable Days ⁽¹⁾	79%	75%	5%	57%	61%	(7%)
Drilling rig utilization - Operating Days ⁽¹⁾	71%	63%	13%	51%	52%	(2%)

(1) See "Non-IFRS Measures" on page 21 of this MD&A.

(2) Source: CAODC. The CAODC industry average is based on Operating Days divided by total available days.

(3) Excludes shortfall commitment revenue from take or pay contracts of \$6.4 million for the year ended December 31, 2017.

For the year ended December 31, 2018, Operating Revenue in the contract drilling segment totalled \$165.7 million, a \$1.0 million (or 1%) decrease, as compared to the prior year. Normalizing for \$6.4 million in shortfall commitment revenue in 2017, Operating Revenue in 2018 increased by \$5.4 million (or 3%), as compared to 2017, as increased pricing in both Canada and the United States and higher activity in the United States, was partially offset by lower activity in Canada.

Third party charges per Billable Day in the contract drilling segment increased to approximately \$2,200 in 2018 as compared to approximately \$1,900 in 2017. The increase is mainly due to higher fuel prices and an increased volume of fuel purchased, which is recharged to the customer, as more customers elected to purchase fuel through the Company rather than directly from a third party provider in 2018.

For the year ended December 31, 2018, cash operating expenses per Billable Day, excluding third party charges, increased by 7% to \$15,096, as compared to \$14,054 in the prior year, mainly due higher salaries and related expenses, as well as increased maintenance costs and fixed operating costs being allocated over fewer Billable Days in 2018, as compared to 2017.

Gross Margin per Billable Day, excluding shortfall commitment revenue, improved by 11% for the year ended December 31, 2018, as compared to the prior year, mainly due to improving day rates.

Contract drilling Adjusted EBITDA in 2018 decreased by \$2.1 million to \$31.6 million, as compared to \$33.7 million in 2017. However, after normalizing for \$6.4 million of shortfall commitment revenue recognized in the first quarter of 2017, Adjusted EBITDA for the year ended December 31, 2018 increased by \$4.3 million (or 16%), as compared to the prior year. On a normalized basis, the increase in 2018 is mainly due to increased pricing in both Canada and the United States and higher activity in the United States, partially offset by lower activity in Canada.

Cash administrative expenses for 2018, which exclude depreciation and stock based compensation, totalled \$9.3 million, and were 17% lower than the prior year, mainly due to lower employee related costs.

Depreciation expense in 2018 of \$52.8 million reflects an increase of \$0.6 million over the prior year, mainly due to capital assets added during the period.

Capital expenditures in the contract drilling segment totalled \$17.8 million in 2018 and include \$10.7 million of expansion capital and \$7.1 million of maintenance capital. Contract drilling capital expenditures for the year ended December 31, 2018 represent an increase of \$2.9 million from the \$14.9 million incurred in 2017. The Company incurred expansion capital relating to rig upgrades in 2018, including the purchase and upgrade of one Cardium class rig in the Permian Basin, as well as required maintenance capital.

Canadian Operations

During the first three quarters of 2018, the Company was well positioned for the improved drilling environment; however, record high Canadian crude oil differentials and the mandated production cuts announced by the Government of Alberta weakened demand for contract drilling in the fourth quarter of 2018. As a result, Drilling Rig Utilization in Canada decreased to 35% in 2018 as compared to 37% in the prior year.

Drilling Rig Utilization in Canada of 35% in 2018 reflects a 600 bps premium to the CAODC average of 29%, as compared to an 800 bps premium to the CAODC average in the prior year. The decrease in the Company's premium in 2018 as compared to 2017 was a function of a smaller industry rig fleet, as rigs continue to be decommissioned or moved out of the WCSB. Western's market share, represented by the Company's Operating Days as a percentage of the CAODC's total Operating Days in the WCSB, remained constant at 10% in both 2018 and 2017.

For the year ended December 31, 2018, Operating Revenue per Billable Day in Canada improved by 8% and totalled \$18,922, compared to \$17,558 in 2017. The increase in pricing in 2018 is due to the Company steadily raising rates as the energy industry continued to recover during the first three quarters of 2018 from a multiyear downturn, prior to differentials on Canadian crude oil hitting record highs in the fourth quarter of 2018.

United States Operations

Improved WTI prices led to improved industry demand, including in the Williston basin in North Dakota, where the Company operates six drilling rigs. Active industry drilling rigs in the Williston basin increased by 19% to 56 rigs at December 31, 2018, as compared to 47 rigs at December 31, 2017 per Baker Hughes. The increased demand, coupled with an increased drilling rig fleet led to six of the Company's seven drilling rigs operating during 2018. This resulted in Western's Operating Days in the United States in 2018 increasing by 152 days (or 16%), resulting in Drilling Rig Utilization of 51% compared to 52% in the prior year. The decrease in Drilling Rig Utilization for the year ended December 31, 2018 is mainly due to an increased rig fleet as two Cardium class drilling rigs were added to the fleet, one in the fourth quarter of 2017 and the other in the fourth quarter of 2018. Operating Revenue per Billable Day in 2018 increased by 5% to US\$20,227, as compared to US\$19,198 in 2017, as the improved commodity price environment led to increased demand and resulted in increased day rates in the United States.

Production Services

Financial Highlights (stated in thousands)	Three months ended December 31			Year ended December 31		
	2018	2017	Change	2018	2017	Change
Revenue						
Operating Revenue ⁽¹⁾	13,283	13,362	(1%)	50,345	52,456	(4%)
Third party charges	704	664	6%	2,376	2,905	(18%)
Total revenue	13,987	14,026	-	52,721	55,361	(5%)
Expenses						
Operating						
Cash operating expenses	12,397	10,964	13%	43,048	41,998	3%
Depreciation	3,048	3,248	(6%)	12,571	13,323	(6%)
Stock based compensation	11	17	(35%)	54	131	(59%)
Total operating expenses	15,456	14,229	9%	55,673	55,452	-
Administrative						
Cash administrative expenses	1,383	1,561	(11%)	5,341	6,130	(13%)
Depreciation	75	72	4%	318	309	3%
Stock based compensation	3	30	(90%)	23	109	(79%)
Total administrative expenses	1,461	1,663	(12%)	5,682	6,548	(13%)
Gross Margin ⁽¹⁾	1,590	3,062	(48%)	9,673	13,363	(28%)
Gross margin as a percentage of Operating Revenue	12%	23%	(48%)	19%	25%	(24%)
Adjusted EBITDA ⁽¹⁾	207	1,501	(86%)	4,332	7,233	(40%)
Adjusted EBITDA as a percentage of Operating Revenue	2%	11%	(82%)	9%	14%	(36%)
Operating Loss ⁽¹⁾	(2,916)	(1,819)	60%	(8,557)	(6,399)	34%
Capital expenditures	422	1,338	(68%)	2,201	3,013	(27%)

Operating Highlights

Well servicing rig fleet:						
Average active rig count ⁽¹⁾	18.8	17.0	11%	16.5	17.2	(4%)
End of period	66	66	-	66	66	-
Service rig Operating Revenue per Service Hour ⁽¹⁾	667	708	(6%)	683	673	1%
Service Hours ⁽¹⁾	17,247	15,650	10%	60,337	62,946	(4%)
Service rig utilization ⁽¹⁾	28%	26%	9%	25%	26%	(4%)

(1) See "Non-IFRS Measures" on page 21 of this MD&A.

The Company's production services segment includes Eagle's well servicing fleet as well as Aero's oilfield rental equipment. Operating Revenue in the production services segment for the year ended December 31, 2018, decreased by \$2.2 million (or 4%) to \$50.3 million, compared to \$52.5 million in the prior year. In 2018, Eagle's contribution to Operating Revenue in the production services segment was \$41.2 million compared to \$42.4 million in the prior year, whereas Aero's contribution to Operating Revenue in the production services segment was \$9.1 million compared to \$10.1 million in the prior year. The decrease in Operating Revenue for both Eagle and Aero in 2018, as compared to 2017, is due to reduced industry activity.

Eagle's Service Hours decreased by 4% to 60,337 hours (25% utilization) in 2018, as compared to 62,946 hours (26% utilization) in 2017. Over the last nine months of 2018, well servicing activity improved over the same period of the prior year due to the continued marketing efforts to broaden the Company's customer base. However, on a year over year basis, activity is down due to operating hours being lower in the first quarter of 2018. Service rig Operating Revenue per Service Hour increased by 1% to \$683 in 2018, as compared to \$673 in the prior year, due to changes in the average rig mix.

Adjusted EBITDA decreased by \$2.9 million (or 40%) to \$4.3 million in 2018, compared to \$7.2 million in 2017. The lower Adjusted EBITDA in 2018 was mainly due to lower demand for the Company's oilfield rental equipment and reduced service rig activity.

During the year ended December 31, 2018, cash administrative expenses, which exclude depreciation and stock based compensation, totalled \$5.3 million and were 13% lower than the prior year, mainly due to lower employee related costs.

Depreciation expense for 2018 decreased by 5% to \$12.9 million, as compared to \$13.6 million in 2017, due to certain capital assets being fully depreciated in the year.

During the year ended December 31, 2018, capital expenditures in the production services segment totalled \$2.2 million, as compared to \$3.0 million in the prior year, and included expansion capital of \$0.8 million and maintenance capital of \$1.4 million.

Corporate

(stated in thousands)	Three months ended December 31			Year ended December 31		
	2018	2017	Change	2018	2017	Change
Administrative						
Cash administrative expenses	1,040	1,428	(27%)	4,290	5,240	(18%)
Depreciation	136	157	(13%)	535	653	(18%)
Stock based compensation	84	313	(73%)	660	1,392	(53%)
Total administrative expenses	1,260	1,898	(34%)	5,485	7,285	(25%)
Finance costs	4,603	5,598	(18%)	19,050	21,950	(13%)
Other items	(101)	(700)	(86%)	(99)	1,356	(107%)
Income taxes						
Current tax (recovery) expense	(21)	42	(150%)	(66)	75	(188%)
Deferred tax recovery	(3,620)	(6,884)	(47%)	(13,568)	(18,630)	(27%)
Total income taxes	(3,641)	(6,842)	(47%)	(13,634)	(18,555)	(27%)
Operating Loss ⁽¹⁾	(1,176)	(1,585)	(26%)	(4,825)	(5,893)	(18%)

(1) See "Non-IFRS Measures" on page 21 of this MD&A.

Corporate cash administrative expenses, which exclude depreciation and stock based compensation, decreased by 18% to \$4.3 million, as compared to the prior year, mainly due to lower employee related costs.

Finance costs in 2018 of \$19.1 million were lower by \$2.9 million (or 13%) as compared to 2017, due to the decreased total debt level on the Second Lien Facility, as compared to the previously outstanding Senior Notes. The Company refinanced its \$265.0 million 7% Senior Notes on February 1, 2018 with a combination of cash on hand, available Credit Facilities and the proceeds from the \$215.0 million 7.25% Second Lien Facility draw. The Second Lien Facility was drawn on January 31, 2018 and currently has a principal balance outstanding of \$213.4 million. The Company had an effective interest rate on its borrowings of 8.5% throughout 2018, as compared to 8.3% throughout 2017. The increase in the effective interest rate in 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. On a cash basis, the Company had an effective interest rate on its borrowings of 7.6% throughout 2018, as compared to 8.0% in 2017.

Other items, which relate to gains and losses on the sale of assets and foreign exchange, total a \$0.1 million gain in 2018 as compared to a loss of \$1.4 million in 2017, which included \$1.6 million of transaction costs in the first quarter of 2017 related to an unsuccessful transaction.

For the year ended December 31, 2018, income taxes on a consolidated basis totalled a recovery of \$13.6 million, representing an effective tax rate of 24.9%, as compared to an effective tax rate of 33.1% in 2017. The Company's effective tax rate in 2017 was impacted by a decrease in the federal corporate tax rates in the United States from 35.0% to 21.0%. Normalizing for the impact of the United States tax reform, the Company's effective tax rate in 2017 would have been 26.9%.

Liquidity and Capital Resources

The Company's liquidity needs in the short and long term can be sourced in several ways including: available cash balances, funds from operations, borrowing against the Credit Facilities, new debt instruments, equity issuances and proceeds from the sale of assets. As at December 31, 2018, Western had working capital of \$15.7 million, a decrease of \$47.2 million from December 31, 2017. The decrease in working capital is mainly due to lower cash balances as a portion of the available cash balances on hand at December 31, 2017 was used to repay the Senior Notes on February 1, 2018. Western's consolidated debt balance at December 31, 2018 decreased by \$38.7 million (or 14%) to \$227.6 million, as compared to \$266.3 million at December 31, 2017, due to refinancing the \$265.0 million Senior Notes with the \$215.0 million Second Lien Facility in the first quarter of 2018.

During the year ended December 31, 2018, Western had the following changes to its cash balances, which resulted in a \$44.9 million decrease in cash and cash equivalents in the period:

(stated in thousands)	
Opening balance, at December 31, 2017	48,825
Add:	
Issuance of Second Lien Facility	215,000
Adjusted EBITDA	31,616
Draw on Credit Facilities	11,891
Change in non cash working capital	1,255
Proceeds on sale of property and equipment	659
Deduct:	
Repayment of Senior Notes	(265,000)
Finance costs paid	(18,362)
Additions to property and equipment	(19,960)
Repayment of Second Lien Facility	(1,075)
Repayment of other long term debt	(596)
Other items	(293)
Ending balance, at December 31, 2018	3,960

During the first quarter of 2018, the Company's \$265.0 million 7% Senior Notes were repaid at par on February 1, 2018 by a combination of a single draw on the Company's \$215.0 million 7.25% Second Lien Facility, as well as through cash on hand and the funds available under the Company's Credit Facilities. This refinancing lowered Western's total debt and leverage metrics, decreased Western's cash interest expense on a go forward basis and extended the maturity on all of Western's long term debt.

Western's Credit Facilities, which have a limit of \$60.0 million, mature on December 17, 2021. Western's cash from operations and available Credit Facilities are expected to be sufficient to cover Western's financial obligations, including working capital requirements and the 2019 capital budget. 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 on 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 eligible investment grade accounts receivable; plus
- 75% of eligible 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 December 31, 2018, the borrowing base calculation was not applicable as less than \$40.0 million was drawn on the Company's Credit Facilities and the net book value of Western'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. Consolidated EBITDA, as defined by the Credit Facilities agreement, differs from Adjusted EBITDA as defined under Non-IFRS Measures on page 21 of this MD&A, by including certain items such as realized foreign exchange gains or losses.

The Credit Facilities are secured by the assets of Western and its subsidiaries. A summary of the Company's financial covenants as at December 31, 2018 is as follows:

December 31, 2018	Covenants⁽¹⁾
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio	3.0:1.0 or less
Maximum Consolidated Debt to Consolidated Capitalization Ratio	0.6:1.0 or less
Minimum Current Ratio	1.15:1.0 or more

(1) See covenant definitions in Note 11 of the December 31, 2018 consolidated financial statements.

At December 31, 2018, Western is in compliance with all covenants related to its Credit Facilities.

For the years ended December 31, 2018 and 2017, the Company had no customers comprising 10.0% or more of the Company's total revenue. The Company's significant customers may change from period to period.

Review of Fourth Quarter 2018 Results
Selected Financial Information

Financial Highlights (stated in thousands, except share and per share amounts)	Three months ended December 31		
	2018	2017	Change
Total Revenue	63,133	66,515	(5%)
Operating Revenue	57,806	59,255	(2%)
Gross Margin ⁽¹⁾	12,677	15,886	(20%)
Gross Margin as a percentage of Operating Revenue	22%	27%	(19%)
Adjusted EBITDA ⁽¹⁾	7,916	10,067	(21%)
Adjusted EBITDA as a percentage of Operating Revenue	14%	17%	(18%)
Cash flow from operating activities	5,022	(800)	(728%)
Capital expenditures	6,102	5,912	3%
Net loss	(9,530)	(4,974)	92%
-basic net loss per share	(0.10)	(0.06)	67%
-diluted net loss per share	(0.10)	(0.06)	67%
Weighted average number of shares			
-basic	92,305,208	88,812,216	4%
-diluted	92,305,208	88,812,216	4%
Outstanding common shares as at period end	92,305,542	92,175,598	-
Operating Highlights			
Contract Drilling			
<i>Canadian Operations</i>			
Contract drilling rig fleet:			
Average active rig count ⁽¹⁾	18.1	21.6	(16%)
End of period	50	50	-
Operating Revenue per Billable Day ⁽¹⁾	19,622	18,807	4%
Operating Revenue per Operating Day ⁽¹⁾	21,973	21,100	4%
Operating Days ⁽¹⁾	1,487	1,774	(16%)
Number of meters drilled	529,707	508,552	4%
Number of wells drilled	124	137	(9%)
Average Operating Days per well	12.0	12.9	(7%)
Drilling rig utilization - Billable Days ⁽¹⁾	36%	43%	(16%)
Drilling rig utilization - Operating Days ⁽¹⁾	32%	38%	(16%)
CAODC industry average utilization rate ⁽²⁾	28%	28%	-
<i>United States Operations</i>			
Contract drilling rig fleet:			
Average active rig count ⁽¹⁾	4.9	4.0	23%
End of period	7	6	17%
Operating Revenue per Billable Day ⁽¹⁾	19,756	18,038	10%
Operating Revenue per Operating Day (US\$) ⁽¹⁾	22,183	21,265	4%
Operating Days ⁽¹⁾	403	313	29%
Number of meters drilled	113,979	82,542	38%
Number of wells drilled	20	16	25%
Average Operating Days per well	20.2	19.8	2%
Drilling rig utilization - Billable Days ⁽¹⁾	79%	75%	5%
Drilling rig utilization - Operating Days ⁽¹⁾	71%	63%	13%
Production Services			
Well servicing rig fleet:			
Average active rig count ⁽¹⁾	18.8	17.0	11%
End of period	66	66	-
Service rig Operating Revenue per Service Hour ⁽¹⁾	667	708	(6%)
Service Hours ⁽¹⁾	17,247	15,650	10%
Service rig utilization ⁽¹⁾	28%	26%	9%

(1) See "Non-IFRS Measures" on page 21 of this MD&A.

(2) Source: CAODC. The CAODC industry average is based on Operating Days divided by total available days.

Review of Fourth Quarter 2018 Results

Consolidated

Fourth quarter Operating Revenue decreased by \$1.5 million (or 2%) to \$57.8 million in 2018 as compared to \$59.3 million in the same period of the prior year. Adjusted EBITDA decreased by \$2.2 million (or 21%) to \$7.9 million in the fourth quarter of 2018, as compared to \$10.1 million in the fourth quarter of 2017. The decrease in consolidated Operating Revenue and Adjusted EBITDA is mainly a result of lower utilization in the contract drilling segment in Canada and decreased oilfield rental equipment activity in the production services segment, offset partially by higher utilization in the United States and increased well servicing activity.

Contract Drilling

During the fourth quarter of 2018, Operating Revenue in the contract drilling segment totalled \$44.5 million, a \$1.4 million decrease (or 3%), as compared to the same period of the prior year. The fourth quarter of 2018 was impacted by lower industry activity in Canada as Canadian crude oil differentials widened significantly, while improved market conditions in the United States led to higher year over year activity. Pricing in both Canada and the United States in the fourth quarter of 2018 continued to improve, as compared to the same period in the prior year.

For the three months ended December 31, 2018, third party charges per Billable Day in the contract drilling segment decreased to approximately \$2,200, as compared to approximately \$2,700 in the same period of the prior year. The decrease is mainly due to higher trucking costs incurred in the fourth quarter of 2017.

For the three months ended December 31, 2018, cash operating expenses per Billable Day in the contract drilling segment, excluding third party charges, increased by 13% to \$15,777, as compared to \$14,018 in the same period of the prior year. The increase is mainly due to higher salaries and related expenses, as well as increased maintenance costs and fixed operating costs being allocated over fewer Billable Days in 2018, as compared to 2017.

Gross Margin per Billable Day decreased for the three months ended December 31, 2018 by 4%, as compared to the same period of the prior year, mainly due to the decrease in activity in the fourth quarter of 2018 resulting in fixed operating costs being allocated over fewer billable days.

Contract drilling Adjusted EBITDA for the three months ended December 31, 2018 decreased by \$1.2 million to \$8.8 million, as compared to \$10.0 million in the same period of the prior year. The decrease is mainly due to lower activity in Canada, offset partially by higher day rates in both Canada and the United States and increased activity in the United States.

For the three months ended December 31, 2018, cash administrative expenses, which exclude depreciation and stock based compensation, totalled \$2.3 million and were 17% lower than the same period of the prior year, mainly due to lower employee related costs.

Depreciation expense for the quarter ended December 31, 2018 totalled \$13.2 million and reflects an increase of \$0.2 million over the same period of the prior year, mainly due to capital assets added during 2018.

Capital expenditures in the contract drilling segment totalled \$5.7 million in the fourth quarter of 2018 and include \$4.0 million of expansion capital and \$1.7 million of maintenance capital. Contract drilling capital expenditures represent an increase of \$1.3 million from the \$4.4 million incurred in the three months ended December 31, 2017. The Company incurred expansion capital relating to rig upgrades in 2018, including the purchase and upgrade of one Cardium class rig in the Permian Basin, as well as required maintenance capital.

Canadian Operations

Canadian crude oil differentials increased significantly during the fourth quarter of 2018 and resulted in a decrease in the absolute price for Canadian crude oil despite the price of WTI increasing. As a result, during the three months ended December 31, 2018, Operating Days decreased by 16% and Drilling Rig Utilization in Canada declined to 32% as compared to 38% in the same period of the prior year. The decrease in activity is attributable to some of Western's customers deferring their drilling plans amid record high differentials on Canadian crude oil and low natural gas prices.

Drilling Rig Utilization in Canada of 32% in the fourth quarter of 2018 reflects a 400 bps premium to the CAODC average of 28%, as compared to a 1,000 bps premium to the CAODC average of 28% in the fourth quarter of 2017. The decrease in the Company's premium to the CAODC average for the three months ended December 31, 2018 was due to a smaller industry rig fleet, as rigs continue to be decommissioned or moved out of the WCSB. Western's market share, represented by the Company's Operating Days as a percentage of the CAODC's total Operating Days in the WCSB, remained consistent at 10% in both the fourth quarter of 2018 and 2017.

Operating Revenue per Billable Day in Canada improved by 4% and totalled \$19,622, compared to \$18,807 in the same period of the prior year. The increase in pricing year over year was due to the Company being successful in steadily raising rates in 2018 prior to demand decreasing in the fourth quarter of 2018.

United States Operations

Improved WTI prices and an increased drilling rig fleet led to six of the Company's seven drilling rigs operating during the three months ended December 31, 2018. This resulted in Western's Operating Days in the United States, in the fourth quarter of 2018, increasing by 90 days (or 29%) which resulted in Drilling Rig Utilization of 71%, compared to 63% in the same period of the prior year. Operating Revenue per Billable Day improved by 10% in the fourth quarter of 2018 to total US\$19,756 as compared to US\$18,038 in the fourth quarter of 2017, as the improved commodity price environment led to increased demand and resulted in day rate increases in the United States.

Production Services

Operating Revenue for the quarter ended December 31, 2018 decreased by \$0.1 million (or 1%) to \$13.3 million, compared to \$13.4 million in the same period of the prior year. In the fourth quarter of 2018, Eagle's contribution to Operating Revenue in the production services segment improved by 4% to \$11.5 million compared to \$11.1 million in the prior year, whereas Aero's contribution to Operating Revenue in the production services segment decreased by 22% to \$1.8 million in the fourth quarter of 2018 compared to \$2.3 million in the same period of the prior year. The increase in Operating Revenue for Eagle for the three months ended December 31, 2018, as compared to the same period in the prior year, is due to improved activity offset partially by lower hourly rates, whereas Aero's Operating Revenue decreased for the three months ended December 31, 2018 due to weaker demand.

Eagle's Service Hours increased by 10% to 17,247 hours (28% utilization) in the fourth quarter of 2018, as compared to 15,650 hours (26% utilization) in the same period of the prior year. The increase in Service Hours for the three month period ended December 31, 2018 is mainly due to continued marketing efforts to broaden the Company's customer base, despite customer programs being impacted significantly by high crude oil differentials. Service rig Operating Revenue per Service Hour decreased by 6% to \$667 for the three months ended December 31, 2018, as compared to the same period in the prior year, due to changes in the average rig mix.

Adjusted EBITDA decreased in the fourth quarter of 2018 by \$1.3 million (or 86%) to \$0.2 million, compared to \$1.5 million in the same period of the prior year. The lower Adjusted EBITDA for the quarter ended December 31, 2018 was mainly due to reduced demand for Aero's oilfield rental equipment.

Cash administrative expenses, which exclude depreciation and stock based compensation, totalled \$1.4 million in the fourth quarter of 2018 and were 11% lower than the same period in the prior year, mainly due to lower employee related costs.

Depreciation expense in the fourth quarter of 2018 decreased by 6% to \$3.1 million, as compared to \$3.3 million in the same period of the prior year, due to certain capital assets being fully depreciated in the period.

During the three months ended December 31, 2018, capital expenditures in the production services segment totalled \$0.4 million, as compared to \$1.3 million for the three months ended December 31, 2017, and included expansion capital of \$0.1 million and maintenance capital of \$0.3 million.

Corporate

Corporate cash administrative expenses, which exclude depreciation and stock based compensation, for the three months ended December 31, 2018 decreased by 27%, as compared to the same period in the prior year and totalled \$1.0 million, mainly due to lower employee related costs.

Finance costs for the three months ended December 31, 2018, were lower than the same period of the prior year, due to the decreased total debt level and lower interest rate on the Second Lien Facility, as compared to the previously outstanding Senior Notes. The Company had an effective interest rate on its borrowings of 8.1% for the three months ended December 31, 2018, as compared to 8.4% in the same period of the prior year.

Other items for the three months ended December 31, 2018 total a gain of \$0.1 million, as compared to a gain of \$0.7 million in the same period of the prior year, and include gains and losses on foreign exchange and asset sales.

For the fourth quarter of 2018, income taxes on a consolidated basis totalled a recovery of \$3.6 million, representing an effective tax rate of 27.6%, as compared to an effective tax rate of 57.9% in the fourth quarter of 2017. The effective tax rate in the fourth quarter of 2017 was impacted by the decrease in the federal corporate tax rate in the United States from 35.0% to 21.0%. Normalizing for the United States tax reform, the Company's fourth quarter 2017 effective tax rate would have been 26.0%.

Summary of Quarterly Results

In addition to other market factors, quarterly results of Western are markedly affected by weather patterns throughout its operating areas. Historically, the first quarter of the calendar year is very active, followed by a much slower second quarter due to what is known in the Canadian oilfield service industry as “spring breakup”, where due to the spring thaw, provincial and county road bans restrict movement of heavy equipment. As a result of this, the variation of Western’s results on a quarterly basis, particularly between the first and second quarters, can be significant quarter over quarter independent of other demand factors. The following is a summary of selected financial information of the Company for the last eight completed quarters:

Three months ended (stated in thousands, except per share amounts)	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017
Revenue	63,133	58,879	33,141	81,257	66,515	54,131	33,307	84,222
Operating Revenue ⁽¹⁾	57,806	54,071	30,976	72,965	59,255	51,111	30,469	78,153
Gross Margin ⁽¹⁾	12,677	12,025	5,562	20,271	15,886	12,299	5,667	24,458
Adjusted EBITDA ⁽¹⁾	7,916	7,691	897	15,112	10,067	6,882	121	18,625
Cash flow from operating activities	5,022	(1,968)	26,313	3,864	(800)	1,609	20,659	3,173
Net loss	(9,530)	(10,108)	(15,475)	(5,947)	(4,974)	(11,478)	(16,628)	(4,365)
per share - basic	(0.10)	(0.11)	(0.17)	(0.06)	(0.06)	(0.16)	(0.23)	(0.06)
per share - diluted	(0.10)	(0.11)	(0.17)	(0.06)	(0.06)	(0.16)	(0.23)	(0.06)
Total assets	667,295	669,079	670,584	706,895	760,504	737,385	758,278	785,040
Long term debt	222,258	222,564	210,944	227,401	265,219	264,958	264,702	264,150

(1) See "Non-IFRS Measures" on page 21 of this MD&A.

Revenue and Adjusted EBITDA, which were impacted by lower commodity prices throughout the last eight quarters, began to recover in 2017. In 2017 and through to the third quarter of 2018, after normalizing for shortfall commitment revenue, Revenue and Adjusted EBITDA in each quarter increased, as compared to the same quarter in the prior year, due to improving market conditions. However, the fourth quarter of 2018 was impacted by record high differentials on Canadian crude oil and market uncertainty related to the construction of pipelines, resulting in customers delaying their drilling programs, which had a negative impact on Western’s Revenue and Adjusted EBITDA.

Net loss is impacted by the seasonal nature of the oilfield service industry in Canada. A net loss has been incurred throughout the last eight quarters, due to the prolonged decline in crude oil and natural gas prices.

Total assets over the last eight quarters have been impacted by depreciation expense exceeding capital additions as capital spending has been reduced during the downturn in crude oil and natural gas prices.

Commitments

In the normal course of business the Company incurs commitments related to its contractual obligations. The expected maturities of the Company’s contractual obligations as at December 31, 2018 are as follows:

(stated in thousands)	2019	2020	2021	2022	2023	Thereafter	Total
Second Lien Facility	2,150	2,150	2,150	2,150	205,325	-	213,925
Second Lien Facility interest	15,448	15,376	15,179	15,105	7,473	-	68,581
Trade payables and other current liabilities ⁽¹⁾	25,946	-	-	-	-	-	25,946
Operating leases	4,707	4,407	3,390	3,078	2,752	2,773	21,107
Revolving Facility	-	-	11,000	-	-	-	11,000
Purchase commitments	1,924	-	-	-	-	-	1,924
Operating Facility	-	-	891	-	-	-	891
Other long term debt	661	838	454	-	-	-	1,953
Total	50,836	22,771	33,064	20,333	215,550	2,773	345,327

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

Second Lien Facility and interest:

The Company pays interest on the Second Lien Facility semi-annually on January 1 and July 1. The Second Lien Facility is due January 31, 2023.

Trade payables and other current liabilities:

The Company has recorded trade payables for amounts due to third parties which are expected to be paid within one year.

Operating leases:

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

Purchase commitments:

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

Other long term debt:

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

There have been no material changes in the contractual obligations, other than in the normal course of business, subsequent to December 31, 2018.

Outstanding Share Data

	February 13, 2019	December 31, 2018	December 31, 2017
Common shares outstanding	92,307,042	92,305,542	92,175,598
Warrants	7,099,546	7,099,546	7,099,546
Stock options outstanding	7,763,634	8,313,537	6,475,613
Restricted share units outstanding - equity settled	534,110	543,997	191,420

Off Balance Sheet Arrangements

As at December 31, 2018, Western had no off balance sheet arrangements in place.

Transactions with Related Parties

During the years ended December 31, 2018 and 2017, the Company had no transactions with related parties.

Financial Instruments

Fair Values

All financial instruments are measured at fair value upon initial recognition of the transaction. Measurement in subsequent periods is dependent on whether the instrument is classified as “amortized cost”, “fair value through profit or loss”, or “fair value through other comprehensive income”.

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

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

The Company has the following financial assets and liabilities recognized at amortized cost:

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

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

Trade payables and other current liabilities, finance lease obligations, the Second Lien Facility and Credit Facilities are classified under the amortized cost category. Financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Financial liabilities, including the Second Lien Facility, are subsequently measured at amortized cost using the effective interest method. Transaction costs incurred with respect to the Credit Facilities are deferred and amortized using the straight line method over the term of the facility. The asset is recognized in other assets on the balance sheet while the amortization is included in finance costs within net income. Transaction costs related to undrawn term loans are recognized in deferred charges until the term loan is drawn. Subsequent to drawing on the term loan, transaction costs are netted against the term loan and amortized using the effective interest method.

Credit Risk

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

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.

Interest Rate Risk

The Company is exposed to interest rate risk on debt subject to floating interest rates, such as the Company's Credit Facilities. Other long term debt, such as the Second Lien Facility and the Company's finance leases have fixed interest rates, however they are subject to interest rate fluctuations relating to refinancing as required.

Foreign Exchange Risk

The Company is exposed to foreign exchange fluctuations in relation to its US dollar capital expenditures and US operations. The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary. From time to time the Company may use forward foreign currency contracts to hedge against these fluctuations.

Liquidity Risk

Liquidity risk is the exposure of the Company to the risk of not being able to meet its financial obligations as they become due. To manage liquidity risk, the Company forecasts operational results and capital spending on a regular basis. Variances between actual results and forecast are continually monitored to assess the Company's ability to meet its financial obligations.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

The President and Chief Executive Officer ("CEO") and Senior Vice President, Finance, Chief Financial Officer & Corporate Secretary ("CFO") of Western are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") for the Company.

DC&P is designed to provide reasonable assurance that material information relating to the Company is made known to the CEO and CFO by others, particularly in the period in which the annual filings are being prepared, and that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified in securities legislation, and includes controls and procedures designed to ensure that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

In accordance with the requirements of National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings", an evaluation of the effectiveness of DC&P and ICFR was carried out under the supervision of the CEO and CFO at December 31, 2018. This evaluation was based on the framework established in the Internal Control – Integrated Framework (2013) issued in May 2013 by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, the CEO and CFO have concluded that the Company's DC&P and ICFR are effectively designed and operating as intended.

The Company's management, including the CEO and CFO, does not expect that the Company's DC&P and ICFR will prevent or detect all misstatements or instances of fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues, misstatements or instances of fraud, if any, within the Company have been detected.

There have been no changes to the Company's ICFR that occurred during the most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

Critical Accounting Estimates

This MD&A of the Company's financial condition and results of operations is based on the consolidated financial statements for the year ended December 31, 2018, which were prepared in accordance with IFRS. The presentation of these financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. These estimates and judgments are based on historical experience and on various assumptions that are believed to be reasonable under the circumstances. Anticipating future events cannot occur with absolute certainty, therefore these estimates may change as new events occur, more experience is acquired and as the Company's operating environment changes. The Company's critical accounting estimates relate to business combinations, impairment, property and equipment, income taxes, stock based compensation, and the Company's allowance for doubtful accounts.

The accounting estimates believed to be the most difficult, subjective or require complex judgments and which are the most critical to the reporting of results of operations and financial positions of the Company are as follows:

Impairment

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

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

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

If indicators conclude that the asset is no longer impaired, the Company will reverse impairment losses on assets only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Impairment losses on goodwill are not reversed. Similar to determining if an impairment exists, judgment is required in assessing if a reversal of an impairment loss is required.

Property and equipment

Property and equipment is depreciated over the estimated useful life of the asset while factoring in an asset's estimated residual value as determined by management. All estimates of useful lives and residual values are set out in Note 3 (f) of the December 31, 2018 annual consolidated financial statements. Assessing the reasonableness of the estimated useful life, residual value and the appropriate depreciation methodology requires judgment and is based on management's experience and knowledge of the industry. Additionally, when determining whether to decommission an asset, future utilization and economic conditions are considered based on management's experience and knowledge of the industry and requires management's judgement.

Income taxes

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

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

Stock based compensation

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

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

Allowance for doubtful accounts

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

Business Risks

For a comprehensive listing of the Company's business risks please see the most recent Annual Information Form for the year ended December 31, 2018 as filed on SEDAR at www.sedar.com. Certain of the Company's primary business risks as at December 31, 2018 are as follows:

- The Company's business relies on the crude oil and natural gas exploration and production industry which is subject to a number of risks including general economic conditions, fluctuations in demand and supply of crude oil and natural gas production, fluctuations in commodity prices, competition and increases in operating costs. In addition, changes may occur in government regulations, including regulations relating to foreign acquisitions, prices, taxes, royalties, land tenure, allowable production, importing and exporting of crude oil and natural gas and environmental protection for the crude oil and natural gas industry as a whole. Risks impacting the crude oil and natural gas exploration and production industry, including the ability of crude oil and natural gas companies to accumulate capital or variations in their exploration and development budgets, may also affect the Company's business. The exact impact of these risks cannot be accurately predicted.
- If a low commodity price environment persists, the demand for the Company's equipment and services will remain lower than normal and the Company's utilization rates and revenue will continue to be adversely affected during such time. In addition, lower utilization and revenue could result in the Company not being in compliance with certain covenants in its Credit Facilities, which in turn could restrict the Company's ability to access its Credit Facilities, pay distributions and incur additional debt in the future.
- The Company may find it necessary in the future to obtain additional debt or equity to support ongoing operations, to refinance debt, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available when needed or on terms acceptable to the Company.
- The Company's exploration and production customers' facilities and other operations emit greenhouse gases which requires them to comply with legislation in those provinces and states where they operate. Over the past

few years, both Federal and Provincial governments have implemented carbon levies on greenhouse gas emissions. The direct or indirect costs of these new greenhouse gas emission reduction regulations, as well as regulations which may be adopted in these or other jurisdictions in the future, may have a material adverse effect on the Company's business, financial condition and results of operations and cash flows, as well as impacting the Company's customers' operations. See the Company's Annual Information Form for the year ended December 31, 2018 for more detail on this risk.

- In addition to global economic events and uncertainty, the capacity within North America to ship commodities to market introduces uncertainties in levels of activity and pricing for crude oil and natural gas production.
- The Company is vulnerable to market prices. Fixed costs, including costs associated with operations, interest, leases, and labour costs account for a significant portion of the Company's expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, or other factors could significantly affect its financial results.
- Competition among oilfield service companies offering related services is significant. Some competitors are larger and have greater revenue than the Company and overall greater financial resources. The Company's ability to generate revenue depends on its ability to attract and win contracts and to perform services.
- Currently, the Company is focused on providing services in the WCSB as well as certain limited geographic areas in the United States, which may expose the Company to more extreme market fluctuations relating to factors such as weather and general economic conditions which may be more extreme than the broader industry conditions.
- The success of the Company is dependent upon the efforts and abilities of its management team. The loss of any member of the management team could have a material adverse effect upon the business and prospects of the Company.
- Safety is a key factor customers consider when selecting an oilfield service company. A decline in the Company's safety performance could result in reduced demand for the Company's services which could have a material adverse effect on the Company's business and financial results.
- The Company's operations are subject to many hazards inherent in the oilfield service industry, such as blowouts, explosions, damaged or lost drilling, well servicing and oilfield rental equipment or damage or loss from inclement weather, which could result in business interruption, casualty losses, damage or destruction of equipment, suspension of operations, environmental damage or damage to property. This could have a material adverse effect on the Company's business and financial results.
- During the prolonged downturn many oilfield service workers left the industry and, therefore, as activity has increased it has been difficult for the Company to attract and retain field crews. This could have a material adverse effect on the Company's business and financial results.
- The Company's business is subject to the operating risks inherent to the oilfield service industry. On occasion, substantial liabilities to third parties may be incurred. The Company will have the benefit of insurance maintained by it and industry standard contracts, however, it may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.
- The ability of the Company to make payments, dividends or enter into certain transactions will be subject to the applicable laws and contractual restrictions in the instruments governing its indebtedness, including the Credit Facilities and the Second Lien Facility.
- The oilfield service industry has experienced a high degree of invention and innovation. It is possible that new technology will be developed which will compete with the Company's products and services.
- A portion of the operations of the Company are in the United States which subject the Company to currency fluctuations and different tax and regulatory laws.
- The loss of a significant customer or customers, or any decrease in services provided or prices charged to a significant customer or customers could have a material adverse effect on the Company's business and financial results.
- The Company's business is subject to credit risk primarily from credit exposure to customers, with a concentration of credit risk with customers in the crude oil and natural gas industry.
- The Company relies on various information systems to manage its business. If these systems were compromised as a result of a successful cyber-attack, this could have a material adverse effect on the Company business and financial results.

Non-IFRS Measures

Western uses certain measures in this MD&A which do not have any standardized meaning as prescribed by IFRS. These measures, which are derived from information reported in the consolidated financial statements, may not be comparable to similar measures presented by other reporting issuers. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Company. These Non-IFRS measures are identified and defined as follows:

Operating Revenue

Management believes that Operating Revenue is a useful supplemental measure as it provides an indication of the revenue generated by Western's principal operating activities, excluding flow through third party charges such as rig fuel, which at the customer's request may be paid for initially by Western, then recharged in its entirety to Western's customers. The closest IFRS measure would be revenue.

Gross Margin

Management believes that Gross Margin is a useful supplemental measure as it provides an indication of the results generated by Western's principal operating activities prior to considering administrative expenses, depreciation and amortization, stock based compensation, how those activities are financed, the impact of foreign exchange, how the results are taxed, how funds are invested, and how non-cash items and one-time gains and losses affect results. The closest IFRS measure would be net income.

The following table provides a reconciliation of revenue under IFRS, as disclosed in the consolidated statements of operations and comprehensive income, to Operating Revenue and Gross Margin:

(stated in thousands)	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Operating Revenue				
Drilling	44,498	45,906	165,684	166,660
Production services	13,283	13,362	50,345	52,456
Less: inter-company eliminations	25	(13)	(211)	(128)
	57,806	59,255	215,818	218,988
Third party charges	5,364	7,260	20,629	19,187
Less: inter-company eliminations	(37)	-	(37)	-
Revenue	63,133	66,515	236,410	238,175
Less: operating expenses	(66,675)	(66,933)	(251,378)	(245,352)
Add:				
Depreciation - operating	16,161	16,238	65,097	65,227
Stock based compensation - operating	58	66	406	260
Gross Margin	12,677	15,886	50,535	58,310

Adjusted EBITDA

Management believes that earnings before interest and finance costs, taxes, depreciation and amortization, other non-cash items and one-time gains and losses ("Adjusted EBITDA") is a useful supplemental measure as it provides an indication of the results generated by the Company's principal operating segments similar to Gross Margin but also factors in the cash administrative expenses incurred in the period. The closest IFRS measure would be net income.

Operating Earnings (Loss)

Management believes that Operating Earnings (Loss) is a useful supplemental measure as it provides an indication of the results generated by the Company's principal operating segments similar to Adjusted EBITDA but also factors in the depreciation expense incurred in the period. The closest IFRS measure would be net income.

The following table provides a reconciliation of net loss under IFRS, as disclosed in the consolidated statements of operations and comprehensive income, to earnings before interest and finance costs, taxes, depreciation and amortization (“EBITDA”), Adjusted EBITDA and Operating Loss:

(stated in thousands)	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Net loss	(9,530)	(4,974)	(41,060)	(37,445)
Add:				
Finance costs	4,603	5,598	19,050	21,950
Income tax recovery	(3,641)	(6,842)	(13,634)	(18,555)
Depreciation - operating	16,161	16,238	65,097	65,227
Depreciation - administrative	270	284	1,084	1,213
EBITDA	7,863	10,304	30,537	32,390
Add:				
Stock based compensation - operating	58	66	406	260
Stock based compensation - administrative	96	397	772	1,689
Other items	(101)	(700)	(99)	1,356
Adjusted EBITDA	7,916	10,067	31,616	35,695
Subtract:				
Depreciation - operating	(16,161)	(16,238)	(65,097)	(65,227)
Depreciation - administrative	(270)	(284)	(1,084)	(1,213)
Operating Loss	(8,515)	(6,455)	(34,565)	(30,745)

Net Debt

Management believes that Net Debt is a useful supplemental measure as it provides an indication of the Company’s total debt after incorporating cash and cash equivalents. The closest IFRS measure would be long term debt.

The following table provides a reconciliation of long term debt under IFRS, as disclosed in the consolidated balance sheets to Net Debt:

(stated in thousands)	December 31, 2018	December 31, 2017
Long term debt	222,258	265,219
Current portion of long term debt	1,822	475
Less: cash and cash equivalents	(3,960)	(48,825)
Net Debt	220,120	216,869

Defined Terms:

Average active rig count (contract drilling): Calculated as drilling rig utilization – Billable Days multiplied by the average number of drilling rigs in the Company’s fleet for the period.

Average active rig count (production services): Calculated as service rig utilization multiplied by the average number of service rigs in the Company’s fleet for the period.

Billable Days: Defined as Operating Days plus rig mobilization days.

Drilling rig utilization – Operating Days (or “Drilling Rig Utilization”): Calculated based on Operating Days divided by total available days.

Drilling rig utilization – Billable Days: Calculated based on Billable Days divided by total available days.

Operating Days: Defined as contract drilling days, calculated on a spud to rig release basis.

Service Hours: Defined as well servicing hours completed.

Service rig utilization: Calculated based on Service Hours divided by available hours, being 10 hours per day, per well servicing rig, 365 days per year.

Contract Drilling Rig Classifications:

Cardium class rig: Defined as any contract drilling rig which has a total hookload less than or equal to 399,999 lbs (or 177,999 daN).

Montney class rig: Defined as any contract drilling rig which has a total hookload between 400,000 lbs (or 178,000 daN) and 499,999 lbs (or 221,999 daN).

Duvernay class rig: Defined as any contract drilling rig which has a total hookload equal to or greater than 500,000 lbs (or 222,000 daN).

Abbreviations:

- Barrel (“bbl”);
- Basis point (“bps”): A 1% change equals 100 basis points and a 0.01% change is equal to one basis point;
- Canadian Association of Oilwell Drilling Contractors (“CAODC”);
- DecaNewton (“daN”);
- International Financial Reporting Standards (“IFRS”);
- Pounds (“lbs”);
- Thousand cubic feet (“mcf”);
- Western Canadian Sedimentary Basin (“WCSB”);
- Western Canadian Select (“WCS”); and
- West Texas Intermediate (“WTI”).

Forward-Looking Statements and Information

This MD&A contains certain statements or disclosures relating to Western that are based on the expectations of Western as well as assumptions made by and information currently available to Western which may constitute forward-looking information under applicable securities laws. All information and statements contained herein that are not clearly historical in nature constitute forward-looking information, and words and phrases such as “may”, “will”, “should”, “could”, “expect”, “intend”, “propose”, “anticipate”, “believe”, “estimate”, “plan”, “predict”, “potential”, “continue”, “working to”, or the negative of these terms or other comparable terminology are generally intended to identify forward-looking information. Such information represents the Company’s internal projections, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital expenditures, anticipated future debt levels and revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information.

In particular, forward-looking information in this MD&A includes, but is not limited to, statements relating to commodity pricing; the future demand for and utilization of the Company’s services and equipment; the pricing for the Company’s services and equipment; the terms of existing and future drilling contracts in Canada and the US and the revenue resulting therefrom (including the number of Operating Days typically generated from the Company’s contracts); the Company’s expansion and maintenance capital plans for 2019; the Company’s liquidity needs including the ability of current capital resources to cover Western’s financial obligations and the 2019 capital budget; the use and availability of the Company’s Credit Facilities; pricing for Western’s services and impact on Adjusted EBITDA; the Company’s ability to maintain certain covenants under its Credit Facilities; the future declaration of dividends; expectations as to the increase in crude oil transportation capacity through pipeline development; expectations as to the benefits of the proposed liquefied natural gas expansion in British Columbia; the future deployment of rigs; the potential impact of changes to environmental laws and regulations and the price on carbon emissions; the expectation of continued investment in the Canadian crude oil and natural gas industry; the development of Alberta and British Columbia resource plays; expectations relating to producer spending and activity levels for oilfield services, and the Company’s ability to find and maintain enough field crew members; and forward-looking statements under the headings “Disclosure Controls and Procedures and Internal Controls Over Financial Reporting” and “Critical Accounting Estimates”.

The material assumptions in making the forward-looking statements in this MD&A include, but are not limited to, assumptions relating to: demand levels and pricing for oilfield services; demand for crude oil and natural gas and the price and volatility of crude oil and natural gas; pressures on commodity pricing; the continued business relationships between the Company and its significant customers; the Company’s competitive advantage; crude oil transport and pipeline approval and development; the Company’s ability to finance its operations; the effects of seasonal and weather conditions on operations and facilities; the competitive environment to which the various business segments are, or may be, exposed in all aspects of their business and the Company’s competitive position therein; the ability of the Company’s various business segments to access equipment (including spare parts and new technologies); changes in laws or regulations; currency exchange fluctuations; the ability of the Company to attract and retain skilled labour and qualified management; the ability to retain and attract significant customers; the ability to maintain a satisfactory safety record; and general business, economic and market conditions.

Although Western believes that the expectations and assumptions on which such forward-looking statements and information are based on are reasonable, undue reliance should not be placed on the forward-looking statements and information as Western cannot give any assurance that they will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risk that recent improvements in commodity pricing may not continue, and other general industry, economic, market and business conditions. Readers are cautioned that the foregoing list of risks, uncertainties and assumptions are not exhaustive. Additional information on these and other risk factors that could affect Western's operations and financial results are discussed under the heading "Risk Factors" in Western's Annual Information Form which may be accessed through the SEDAR website at www.sedar.com. The forward-looking statements and information contained in this MD&A are made as of the date hereof and Western does not undertake any obligation to update publicly or revise any forward-looking statements and information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Additional data

The Annual Information Form containing additional information relating to the Company is filed on SEDAR at www.sedar.com.

Western Energy Services Corp.
Consolidated Financial Statements
December 31, 2018 and 2017

To the Shareholders of Western Energy Services Corp.:

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

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

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

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

"Signed"

Alex R.N. MacAusland

President &
Chief Executive Officer

"Signed"

Jeffrey K. Bowers

Senior Vice President, Finance,
Chief Financial Officer & Corporate Secretary

February 13, 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Western Energy Services Corp.

Opinion

We have audited the consolidated financial statements of Western Energy Services Corp. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of operations and comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is David Langlois.

/s/Deloitte LLP

Chartered Professional Accountants

Calgary, Alberta

February 13, 2019

Western Energy Services Corp.

Consolidated Balance Sheets
(thousands of Canadian dollars)

	Note	December 31, 2018	December 31, 2017
Assets			
Current assets			
Cash and cash equivalents		\$ 3,960	\$ 48,825
Trade and other receivables	6	41,084	48,117
Other current assets	7	6,468	6,429
		51,512	103,371
Non current assets			
Property and equipment	8	615,395	652,828
Other non current assets	7	388	4,305
		\$ 667,295	\$ 760,504
Liabilities			
Current liabilities			
Trade payables and other current liabilities	9	\$ 33,718	\$ 39,891
Current portion of provisions	10	233	139
Current portion of long term debt	11	1,822	475
		35,773	40,505
Non current liabilities			
Provisions	10	1,133	1,415
Long term debt	11	222,258	265,219
Deferred taxes	17	54,332	67,211
		313,496	374,350
Shareholders' equity			
Share capital	12	441,512	441,019
Contributed surplus		15,142	14,631
Retained earnings (deficit)		(136,992)	(95,834)
Accumulated other comprehensive income		32,152	24,217
Non controlling interest		1,985	2,121
		353,799	386,154
		\$ 667,295	\$ 760,504

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

Approved on behalf of the Board of Directors:

“Signed”
Ronald P. Mathison
Director, Chairman of the Board

“Signed”
John R. Rooney
Director, Chairman of the Audit Committee

Western Energy Services Corp.

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

	Note	Year ended December 31, 2018	Year ended December 31, 2017
Revenue	\$	236,410	\$ 238,175
Operating expenses		251,378	245,352
Gross profit		(14,968)	(7,177)
Administrative expenses		20,775	25,517
Finance costs	15	19,050	21,950
Other items	16	(99)	1,356
Loss before income taxes		(54,694)	(56,000)
Income tax recovery	17	(13,634)	(18,555)
Net loss		(41,060)	(37,445)
Other comprehensive income (loss) ⁽¹⁾			
(Gain) loss on translation of foreign operations		(5,204)	3,977
Unrealized foreign exchange (gain) loss on net investment in subsidiary		(2,731)	4,064
Comprehensive loss	\$	(33,125)	\$ (45,486)
Net income (loss) attributable to:			
Shareholders of the Company	\$	(41,158)	\$ (37,526)
Non controlling interest		98	81
Comprehensive income (loss) attributable to:			
Shareholders of the Company	\$	(33,223)	\$ (45,567)
Non controlling interest		98	81
Net loss per share:			
Basic	\$	(0.45)	\$ (0.48)
Diluted		(0.45)	(0.48)
Weighted average number of shares:			
Basic	14	92,224,585	77,601,827
Diluted	14	92,224,585	77,601,827

(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 consolidated financial statements.

Western Energy Services Corp.

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

	Share capital	Contributed surplus ⁽¹⁾	Retained earnings (deficit)	Accumulated other comprehensive income ⁽²⁾	Non controlling interest	Total shareholders' equity
Balance at December 31, 2016	\$ 418,509	\$ 12,666	\$ (58,308)	\$ 32,258	\$ 2,082	\$ 407,207
Common shares:						
Issue of common shares (net of issue costs)	21,614	-	-	-	-	21,614
Issued on vesting of restricted share units	896	(896)	-	-	-	-
Stock based compensation	-	1,781	-	-	-	1,781
Issue of warrants	-	1,080	-	-	-	1,080
Distributions to non controlling interest	-	-	-	-	(42)	(42)
Comprehensive income (loss)	-	-	(37,526)	(8,041)	81	(45,486)
Balance at December 31, 2017	441,019	14,631	(95,834)	24,217	2,121	386,154
Common shares:						
Issued on vesting of restricted share units	493	(493)	-	-	-	-
Stock based compensation	-	1,004	-	-	-	1,004
Distributions to non controlling interest	-	-	-	-	(234)	(234)
Comprehensive income (loss)	-	-	(41,158)	7,935	98	(33,125)
Balance at December 31, 2018	\$ 441,512	\$ 15,142	\$ (136,992)	\$ 32,152	\$ 1,985	\$ 353,799

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

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

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

Western Energy Services Corp.

Consolidated Statements of Cash Flows
(thousands of Canadian dollars)

		Year ended December 31, 2018	Year ended December 31, 2017
	Note		
Operating activities			
Net loss		\$ (41,060)	\$ (37,445)
Adjustments for:			
Depreciation included in operating expenses	8	65,097	65,227
Depreciation included in administrative expenses	8	1,084	1,213
Non cash stock based compensation included in operating expenses	13	323	215
Non cash stock based compensation included in administrative expenses	13	681	1,566
Finance costs	15	19,050	21,950
Income tax recovery	17	(13,634)	(18,555)
Other		16	507
Income taxes received		-	1,633
Change in non cash working capital		1,583	(11,670)
Cash flow from operating activities		33,140	24,641
Investing activities			
Additions to property and equipment	8	(19,960)	(18,132)
Proceeds on sale of property and equipment		659	943
Change in non cash working capital		(169)	2,585
Cash flow used in investing activities		(19,470)	(14,604)
Financing activities			
Repayment of senior notes	11	(265,000)	-
Issuance of second lien debt	11	215,000	-
Second lien debt issue costs		-	(4,323)
Issue of common shares	12	-	22,750
Share issue costs	12	-	(1,549)
Finance costs paid		(18,362)	(22,124)
Repayment of second lien debt		(1,075)	-
Repayment of other long term debt		(596)	(680)
Draw on revolving credit facility	11	11,000	-
Draw on operating credit facility	11	891	-
Distributions to non controlling interest		(234)	(42)
Change in non cash working capital		(159)	159
Cash flow used in financing activities		(58,535)	(5,809)
Increase (decrease) in cash and cash equivalents		(44,865)	4,228
Cash and cash equivalents, beginning of year		48,825	44,597
Cash and cash equivalents, end of year ⁽¹⁾		\$ 3,960	\$ 48,825

⁽¹⁾ At December 31, 2018 and 2017, the Company's cash and cash equivalents consisted of bank accounts and high interest savings accounts with banks within the Company's existing credit facilities syndicate.

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

Western Energy Services Corp.

Notes to the consolidated financial statements

(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 consolidated financial statements as at and for the years ended December 31, 2018 and 2017 (the "Financial Statements") are comprised of Western, its divisions and its wholly owned subsidiaries (together referred to as the "Company"). The Company is an oilfield service company providing contract drilling services through its division, Horizon Drilling ("Horizon") in Canada, and its wholly owned subsidiary, Stoneham Drilling Corporation ("Stoneham") in the United States. Western provides well servicing and oilfield rental equipment services in Canada through its wholly owned subsidiary Western Production Services Corp. ("Western Production Services"). Western Production Services' division, Eagle Well Servicing ("Eagle") provides well servicing operations, while its division, Aero Rental Services ("Aero") provides oilfield rental equipment services. Financial and operating results for Horizon and Stoneham are included in Western's contract drilling segment, while financial and operating results for Eagle and Aero are included in Western's production services segment.

2. Basis of preparation and significant accounting policies:

(a) Statement of compliance:

These Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS").

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

These Financial Statements were approved for issuance by Western's Board of Directors on February 13, 2019.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

3. Significant accounting policies:

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

(a) Basis of consolidation:

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

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

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

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

(b) Foreign currency transactions and operations:

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

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

(c) Business combinations:

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

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

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

(d) Financial instruments:

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 Company's IFRS 9 adoption is described in Note 3(q).

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.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (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.

(e) Cash and cash equivalents:

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

(f) Property and equipment:

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

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

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

The Company's property and equipment is depreciated on a straight line basis. A summary of the expected life and residual values for the Company's property and equipment as at December 31, 2018 and 2017 is as follows:

	Expected Life	Residual values
Buildings	25 years	-
Drilling rigs and related equipment:		
Drilling rigs	8 to 25 years	10%
Drill pipe	5 to 8 years	-
Major inspections and overhauls	3 to 5 years	-
Well servicing rigs and related equipment	12 to 25 years	10%
Ancillary drilling and well servicing equipment	5 to 15 years	-
Rental equipment	1 to 30 years	-
Shop and office equipment	1 to 10 years	-
Vehicles	3 years	20%

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

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

(g) Inventory:

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

(h) Impairment:

(i) Financial assets:

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

(ii) Non-financial assets:

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

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

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

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

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

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

(i) Employee benefits:

(i) Short-term employee benefits:

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

(ii) Stock based compensation awards:

Stock based compensation expense relates to stock options as well as cash and equity settled restricted share units ("RSUs"). The grant date fair values of stock option and equity settled RSUs granted are recognized as an expense, with a corresponding increase in contributed surplus in equity, over the vesting period.

The amount recognized as an expense is based on the estimate of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. Upon exercise of stock options, the consideration paid by the holder is included in share capital and the related contributed surplus associated with the stock options exercised is reclassified into share capital. Upon vesting of equity settled RSUs, the related contributed surplus associated with the RSU is reclassified into share capital.

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

(j) Provisions:

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

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

(k) Revenue:

Effective January 1, 2018, the Company adopted IFRS 15, Revenue from Contracts with Customers. The Company's IFRS 15 adoption is described in Note 3(q).

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 an initial term greater than one year. Segmented disclosures are included in Note 5, disaggregating revenue by geographic area and by operating segment.

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.

(l) Leased assets and payments:

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. Leases which result in the Company assuming substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition of a finance lease, the leased asset and corresponding liability are measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments under the lease agreement. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Payments made under finance leases are apportioned between finance expense and the reduction of the outstanding liability. Finance expense is allocated to each period during the lease term using the effective interest rate method.

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

(m) Finance income and finance costs:

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

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

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

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

(n) Income tax:

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

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

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

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

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

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

(o) Earnings per share:

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

(p) Operating segment reporting:

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

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

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

(q) Standards adopted in the year:

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 described in Note 3(k).

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 19 describes the Company's credit risk in detail.

The following table summarizes the changes to the Company's financial asset and liability classifications:

Financial Asset / Liability	IAS 39		IFRS 9	
	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

The Company's financial instruments policy under IFRS 9 is as described in Note 3(d).

(r) 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 assessments of IFRS 16. The adoption of IFRS 16 will have an impact on the Financial Statements, as the Company currently has long term office leases that are classified as operating leases, with monthly rent payments recorded through the consolidated statements of operations and comprehensive income.

Under IFRS 16, the Company's office leases will become finance leases, with the present value of the future lease payments used to estimate the value of the right of use assets and lease obligations. Western currently estimates the value of its right of use assets to be approximately \$10.0 million with a corresponding net increase in liabilities of approximately \$11.4 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 assets and the lease obligations. Additionally, Western will be required to disclose the depreciation relating to the right of use assets and interest relating to the lease obligations 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.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

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

4. Critical accounting estimates:

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

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

(a) Impairment:

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

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

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

If indicators conclude that the asset is no longer impaired, the Company will reverse impairment losses on assets only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Impairment losses on goodwill are not reversed. Similar to determining if an impairment exists, judgment is required in assessing if a reversal of an impairment loss is required.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

4. Critical accounting estimates (continued):

(b) Property and equipment:

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

(c) Income taxes:

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

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

(d) Stock based compensation:

The fair value of stock options, equity settled RSUs, and warrants are measured using a Black Scholes option pricing model. Measurement inputs include the common share price on the grant date, the exercise price of the instrument, the expected common share price volatility, the weighted average expected life of the instruments, the expected dividends and the risk-free interest rate. Service and non-market performance conditions are not taken into account in determining fair value. The stock based compensation recognized is also determined based on management's grant date estimate of the forfeitures that are expected to occur over the life of the stock options and equity settled RSUs.

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

(e) Allowance for doubtful accounts:

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

Western Energy Services Corp.

Notes to the consolidated financial statements

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

5. Operating segments:

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

The Company's 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 years ended December 31, 2018 and 2017:

Year ended December 31, 2018	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	\$ 183,937	\$ 52,721	\$ -	\$ (248)	\$ 236,410
Operating loss	(21,183)	(8,557)	(4,825)	-	(34,565)
Finance costs	-	-	19,050	-	19,050
Depreciation	52,757	12,889	535	-	66,181
Additions to property and equipment ⁽¹⁾	18,292	2,768	-	-	21,060

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

(1) Additions include the purchase of property and equipment and finance lease additions (See Note 8).

Total assets and liabilities by operating segment are as follows:

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

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

Western Energy Services Corp.

Notes to the consolidated financial statements

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

5. Operating segments (continued):

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

	Contract Drilling	Production Services	Corporate	Total
Year ended December 31, 2018				
Operating loss	\$ (21,183)	\$ (8,557)	\$ (4,825)	\$ (34,565)
Deduct:				
Stock based compensation	(441)	(76)	(661)	(1,178)
Finance costs	-	-	(19,050)	(19,050)
Other items	-	-	99	99
Loss before income taxes	\$ (21,624)	\$ (8,633)	\$ (24,437)	\$ (54,694)
Year ended December 31, 2017				
Operating loss	\$ (18,453)	\$ (6,399)	\$ (5,893)	\$ (30,745)
Deduct:				
Stock based compensation	(318)	(239)	(1,392)	(1,949)
Finance costs	-	-	(21,950)	(21,950)
Other items	-	-	(1,356)	(1,356)
Loss before income taxes	\$ (18,771)	\$ (6,638)	\$ (30,591)	\$ (56,000)

Segmented information by geographic area is as follows:

As at December 31, 2018	Canada	United States	Total
Property and equipment	\$ 504,657	\$ 110,738	\$ 615,395
Total assets	545,968	121,327	667,295
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
Revenue - year ended December 31, 2018	\$ 201,857	\$ 34,553	\$ 236,410
Revenue - year ended December 31, 2017	207,230	30,945	238,175

Significant Customers:

For the years ended December 31, 2018 and 2017, the Company had no customers comprising 10.0% or more of the Company's total revenue.

6. Trade and other receivables:

The Company's trade and other receivables as at December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Trade receivables	\$ 31,646	\$ 39,055
Accrued trade receivables	8,811	8,870
Other receivables	660	219
Allowance for doubtful accounts	(33)	(27)
Total	\$ 41,084	\$ 48,117

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

Western Energy Services Corp.

Notes to the consolidated financial statements

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

7. Other Assets:

The Company's other assets as at December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Current:		
Prepaid expenses	\$ 2,541	\$ 1,925
Inventory	3,059	2,712
Deposits	402	492
Deferred charges	466	1,300
Total current portion of other assets	6,468	6,429
Non current:		
Deferred charges	388	4,305
Total non current portion of other assets	388	4,305
Total other assets	\$ 6,856	\$ 10,734

8. Property and equipment:

The following table summarizes the Company's property and equipment as at December 31, 2018 and 2017:

	Land	Buildings	Contract drilling equipment	Production services equipment	Office and shop equipment	Vehicles under finance leases	Total
Cost:							
Balance at December 31, 2016	\$ 5,089	\$ 4,205	\$ 779,649	\$ 201,481	\$ 12,488	\$ 3,160	\$ 1,006,072
Additions	-	191	14,746	2,916	279	-	18,132
Finance lease additions	-	-	-	-	-	1,105	1,105
Disposals	-	-	(3,576)	(1,527)	-	(789)	(5,892)
Foreign exchange adjustment	-	-	(9,983)	-	(43)	(19)	(10,045)
Balance at December 31, 2017	\$ 5,089	\$ 4,396	\$ 780,836	\$ 202,870	\$ 12,724	\$ 3,457	\$ 1,009,372
Additions	-	-	17,382	2,368	210	-	19,960
Finance lease additions	-	-	-	-	-	1,100	1,100
Disposals	-	-	(5,507)	(1,350)	(477)	(679)	(8,013)
Foreign exchange adjustment	-	-	13,342	-	56	33	13,431
Balance at December 31, 2018	\$ 5,089	\$ 4,396	\$ 806,053	\$ 203,888	\$ 12,513	\$ 3,911	\$ 1,035,850
Accumulated depreciation:							
Balance at December 31, 2016	\$ -	\$ 1,021	\$ 218,781	\$ 67,800	\$ 8,110	\$ 1,793	\$ 297,505
Depreciation for the year	-	197	51,730	13,080	1,030	403	66,440
Disposals	-	-	(2,553)	(1,209)	-	(584)	(4,346)
Foreign exchange adjustment	-	-	(2,998)	-	(42)	(15)	(3,055)
Balance at December 31, 2017	\$ -	\$ 1,218	\$ 264,960	\$ 79,671	\$ 9,098	\$ 1,597	\$ 356,544
Depreciation for the year	-	201	52,304	12,330	890	456	66,181
Disposals	-	-	(5,110)	(891)	(477)	(555)	(7,033)
Foreign exchange adjustment	-	-	4,694	-	54	15	4,763
Balance at December 31, 2018	\$ -	\$ 1,419	\$ 316,848	\$ 91,110	\$ 9,565	\$ 1,513	\$ 420,455
Carrying amounts:							
At December 31, 2017	\$ 5,089	\$ 3,178	\$ 515,876	\$ 123,199	\$ 3,626	\$ 1,860	\$ 652,828
At December 31, 2018	\$ 5,089	\$ 2,977	\$ 489,205	\$ 112,778	\$ 2,948	\$ 2,398	\$ 615,395

Assets under construction:

Included in property and equipment at December 31, 2018 are assets under construction of \$1.2 million (December 31, 2017: \$2.0 million) which includes ancillary drilling and well servicing equipment.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

8. Property and equipment (continued):

Impairment:

As at December 31, 2018, the Company identified impairment indicators related to the prolonged commodity price downturn and the Company's market capitalization being less than the carrying amount of its net assets, and as such performed an impairment analysis on each of its CGUs. These CGUs are based on contract drilling rigs, well servicing rigs and oilfield rental equipment within the Company's contract drilling and production services segments.

As at December 31, 2018, the recoverable amounts allocated to these CGUs were determined from a cash flow projection based on historical results, recent industry conditions and the Company's most recent 2019 forecast. Cash flow projections for 2020 to 2023 have assumed an increase in activity to historical levels. Cash flow projections thereafter are calculated using an inflationary growth rate. For the purposes of completing the impairment analysis on the contract drilling CGU, assumptions were made relating to average contract drilling utilization, which range from approximately 40% to 50% per year. For the purposes of completing the impairment analysis on the well servicing CGU, assumptions were made relating to average well servicing utilization, which range from approximately 35% to 45% per year.

The forecasted cash flows are based on management's best estimates of asset utilization, pricing for available equipment, costs to maintain that equipment and an after tax discount rate of 12.0% per annum. The results of the tests indicated no impairment of property and equipment at December 31, 2018.

9. Trade payable and other current liabilities:

Trade payables and current liabilities as at December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Trade payables	\$ 18,952	\$ 21,304
Accrued trade payables and expenses	14,766	18,587
Total	\$ 33,718	\$ 39,891

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

10. Provisions:

As at December 31, 2018 and 2017, the Company has recognized a provision for the deferral of office lease inducements received, which are amortized on a straight-line basis over the life of the contract. The following table summarizes Western's lease inducements:

	Lease inducements
Balance at December 31, 2016	\$ 1,674
Provisions used during the year	(120)
Balance at December 31, 2017	1,554
Provisions used during the year	(188)
Balance at December 31, 2018	\$ 1,366

The following table summarizes the balance sheet classification of the Company's provisions as at December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Current	\$ 233	\$ 139
Non current	1,133	1,415
Total	\$ 1,366	\$ 1,554

Western Energy Services Corp.

Notes to the consolidated financial statements

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

11. Long term debt:

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

	December 31, 2018	December 31, 2017
Current:		
Second Lien Facility	\$ 2,150	\$ -
Other long term debt ⁽¹⁾	542	475
Less: unamortized issue costs	(870)	-
Total current portion of long term debt	1,822	475
Non current:		
Second Lien Facility	211,775	-
Revolving Facility	11,000	-
Operating Facility	891	-
Senior Notes	-	265,000
Other long term debt ⁽¹⁾	1,242	788
Less: unamortized issue costs	(2,650)	(569)
Total non current portion of long term debt	222,258	265,219
Total long term debt	\$ 224,080	\$ 265,694

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

Credit Facilities:

On December 12, 2018, the Company amended the terms, extended the maturity of the syndicated revolving credit facility (the "Revolving Facility") and the committed operating facility (the "Operating Facility" and together the "Credit Facilities") to December 17, 2021 and elected to reduce the commitment under the Revolving Facility from \$70.0 million to \$50.0 million. The commitment under the Operating Facility remains unchanged at \$10.0 million.

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 December 31, 2018, the borrowing base calculation was not applicable as the Company had less than \$40.0 million drawn on its Credit Facilities and the net book value of 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. As at December 31, 2018, \$11.0 million and \$0.9 million was drawn on the Revolving Facility and Operating Facility respectively.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

11. Long term debt (continued):

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

	Covenant	December 31, 2018
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio ⁽¹⁾⁽²⁾	3.0:1.0 or less	0.31:1.0
Maximum Consolidated Debt to Consolidated Capitalization Ratio ⁽³⁾⁽⁴⁾	0.6:1.0 or less	0.38:1.0
Minimum Current Ratio ⁽⁵⁾	1.15:1.0 or more	1.97:1.0

(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) 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 December 31, 2018 and 2017, 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 which began on July 1, 2018, with the balance due on January 31, 2023. At December 31, 2018, \$213.9 million was 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 7% senior unsecured notes (the "Senior Notes") outstanding which were redeemed on February 1, 2018 at their par value.

12. Share capital:

The Company is authorized to issue an unlimited number of common shares. The following table summarizes Western's common shares:

	Issued and outstanding shares	Amount
Balance at December 31, 2016	73,795,944	\$ 418,509
Issued on vesting of restricted share units	179,654	896
Issued for cash - October 17, 2017	18,200,000	22,750
Issuance costs, net of deferred tax	-	(1,136)
Balance at December 31, 2017	92,175,598	441,019
Issued on vesting of restricted share units	129,944	493
Balance at December 31, 2018	92,305,542	\$ 441,512

There were no dividends declared during the years ended December 31, 2018 and 2017.

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

Western Energy Services Corp.

Notes to the consolidated financial statements

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

13. Stock based compensation:

Stock options:

The Company's stock option plan provides for stock options to be issued to directors, officers, employees and consultants of the Company so that they may participate in the growth and development of Western. Subject to the specific provisions of the stock option plan, eligibility, vesting period, terms of the options and the number of options granted are to be determined by the Board of Directors at the time of grant. The stock option plan allows the Board of Directors to issue up to 10% of the Company's outstanding common shares as stock options, 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, 2016	6,153,886	\$ 6.23
Granted	1,422,111	1.40
Forfeited	(705,981)	5.67
Expired	(394,403)	7.22
Balance at December 31, 2017	6,475,613	5.17
Granted	2,906,040	0.87
Forfeited	(431,248)	4.62
Expired	(636,868)	6.98
Balance at December 31, 2018	8,313,537	\$ 3.55

For the years ended December 31, 2018 and 2017, no stock options were cancelled. The average fair value of the stock options granted in 2018 was \$0.25 per stock option (2017: \$0.38 per stock option).

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

As at December 31, 2018 Exercise Price (\$/share)	Number of options outstanding	Weighted average contractual life remaining (years)	Number of options exercisable
0.86-1.00	2,792,260	4.59	-
1.01-2.50	1,269,251	3.66	413,336
2.51-4.50	1,172,591	2.64	753,677
4.51-6.50	1,617,858	1.61	1,617,858
6.51-8.50	507,000	0.26	507,000
8.51-11.14	954,577	0.61	954,577
	8,313,537	2.87	4,246,448

As at December 31, 2018, the Company had 4,246,448 (December 31, 2017: 3,789,666) exercisable stock options outstanding at a weighted average exercise price equal to \$5.82 (December 31, 2017: \$6.92) per stock option.

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

	Year ended December 31, 2018	Year ended December 31, 2017
Risk-free interest rate	2%	1%
Average forfeiture rate	20%	16%
Average expected life	2.0 years	2.0 years
Maximum life	5.0 years	5.0 years
Average vesting period	2.0 years	2.0 years
Expected dividend	0%	0%
Expected share price volatility	51%	49%

Western Energy Services Corp.

Notes to the consolidated financial statements

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

13. Stock based compensation (continued):

Restricted share unit plan:

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, 2016	410,311	318,265	728,576
Granted	6,200	1,122,807	1,129,007
Vested	(179,654)	(127,598)	(307,252)
Forfeited	(45,437)	(91,581)	(137,018)
Balance at December 31, 2017	191,420	1,221,893	1,413,313
Granted	495,110	407,022	902,132
Vested	(129,944)	(416,635)	(546,579)
Forfeited	(12,589)	(157,805)	(170,394)
Balance at December 31, 2018	543,997	1,054,475	1,598,472

The estimated fair value of the equity settled RSUs granted during the year ended December 31, 2018 was \$0.4 million (December 31, 2017: less than \$0.1 million) and will be recognized as an expense over the vesting period of the RSUs.

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

	Year ended December 31, 2018	Year ended December 31, 2017
Risk-free interest rate	2%	1%
Average forfeiture rate	20%	10%
Average expected life	2.0 years	2.0 years
Maximum life	3.0 years	3.0 years
Average vesting period	2.0 Years	2.0 years
Expected dividend	0%	0%
Expected share price volatility	51%	47%

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

	Year ended December 31, 2018	Year ended December 31, 2017
Stock options	\$ 739	\$ 1,267
Restricted share units – equity settled grants	265	514
Total equity settled stock based compensation expense	1,004	1,781
Restricted share units – cash settled grants	174	168
Total stock based compensation expense	\$ 1,178	\$ 1,949

The outstanding liability related to cash settled RSUs at December 31, 2018 was \$0.2 million (December 31, 2017: \$0.4 million).

Western Energy Services Corp.

Notes to the consolidated financial statements

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

13. Stock based compensation (continued):

Warrants:

As at December 31, 2018 and 2017, 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. The accounting fair value of the warrants as at the grant date was calculated in accordance with a Black Scholes option pricing model using a risk free interest rate of 1.5%, a forfeiture rate of nil, an average expected life of 1.5 years, an expected dividend of nil, and an expected share price volatility of 50%. The fair value of the Company's warrants at October 17, 2017, when granted, was approximately \$1.1 million.

14. Earnings per share:

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

	Year ended December 31, 2018	Year ended December 31, 2017
Issued common shares, beginning of period	92,175,598	73,795,944
Weighted average number of common shares issued	48,987	3,805,883
Weighted average number of common shares (basic)	92,224,585	77,601,827
Dilutive effect of equity securities	-	-
Weighted average number of common shares (diluted)	92,224,585	77,601,827

For the year ended December 31, 2018, 8,313,537 stock options (December 31, 2017: 6,475,613 stock options), 543,997 equity settled RSUs (December 31, 2017: 191,420 equity settled RSUs) and 7,099,546 warrants (December 31, 2017: 7,099,546) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

15. Finance costs:

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

	Year ended December 31, 2018	Year ended December 31, 2017
Interest expense on long term debt	\$ 17,230	\$ 20,987
Amortization of debt financing fees	539	794
Accretion expense on Second Lien Facility	803	-
Accretion expense on Senior Notes	569	519
Interest income	(91)	(350)
Total finance costs	\$ 19,050	\$ 21,950

The Company had an effective interest rate of 8.5% on its borrowings for the year ended December 31, 2018 (December 31, 2017: 8.3%).

16. Other items:

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

	Year ended December 31, 2018	Year ended December 31, 2017
Transaction costs	\$ -	\$ 1,597
Loss on sale of fixed assets	321	603
Realized foreign exchange gain	(306)	(868)
Unrealized foreign exchange (gain) loss	(114)	24
Total other items	\$ (99)	\$ 1,356

Western Energy Services Corp.

Notes to the consolidated financial statements

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

17. Income taxes:

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

	Year ended December 31, 2018	Year ended December 31, 2017
Current tax (recovery) expense	\$ (66)	\$ 75
Deferred tax recovery	(13,568)	(18,630)
Total income tax recovery	\$ (13,634)	\$ (18,555)

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

	Year ended December 31, 2018	Year ended December 31, 2017
Share issue costs	\$ -	\$ 413

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

	Year ended December 31, 2018	Year ended December 31, 2017
Loss before income taxes	\$ (54,694)	\$ (56,000)
Federal and provincial statutory rates	27.0% (14,767)	27.0% (15,120)
Income (loss) taxed at higher rates	2	86
Stock based compensation	262	902
Non controlling interest	(27)	(22)
Non-deductible expenses	259	(563)
Change in effective tax rate on temporary differences	(131)	(3,319)
Change in estimate	-	67
Return to provision adjustment	887	(613)
Other	(119)	27
Total income taxes	\$ (13,634)	\$ (18,555)

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

	December 31, 2018	December 31, 2017
Property and equipment	\$ (123,961)	\$ (125,427)
Deferred charges and accruals	(56)	(423)
Provisions	364	414
Long term debt	(60)	(39)
Share issue costs	285	379
Other tax pools	1,493	1,245
Tax loss carry forwards	67,603	56,640
Net deferred tax liabilities	\$ (54,332)	\$ (67,211)

Western Energy Services Corp.

Notes to the consolidated financial statements

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

17. Income taxes (continued):

Movements of the Company's temporary differences for the year ended December 31, 2018 are as follows:

	Balance Dec 31, 2017	Recognized in equity	Recognized in net income (loss)	Impact of foreign exchange	Balance Dec 31, 2018
Property and equipment	\$ (125,427)	\$ -	\$ 3,709	\$ (2,243)	\$ (123,961)
Deferred charges and accruals	(423)	-	361	6	(56)
Provisions	414	-	(50)	-	364
Long term debt	(39)	-	(21)	-	(60)
Share issue costs	379	-	(94)	-	285
Other tax pools	1,245	-	190	58	1,493
Tax loss carry forwards	56,640	-	9,473	1,490	67,603
Net deferred tax liabilities	\$ (67,211)	\$ -	\$ 13,568	\$ (689)	\$ (54,332)

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

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

As at December 31, 2018, the Company has loss carry forwards equal to approximately \$181.1 million in Canada, which will expire between 2035 and 2038. In the United States, the Company has approximately US\$51.7 million loss carry forwards which expire between 2028 and 2036.

18. Costs by nature:

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

	Year ended December 31, 2018	Year ended December 31, 2017
Depreciation of property and equipment (Note 8)	\$ 66,181	\$ 66,440
Employee benefits: salaries and benefits	128,549	128,252
Employee benefits: stock based compensation (Note 13)	1,178	1,949
Repairs and maintenance	21,253	19,166
Third party charges	20,592	19,187

Western Energy Services Corp.

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19. Financial risk management:

Interest rate risk:

The Company is exposed to interest rate risk on certain debt instruments, such as the Operating Facility and Revolving Facility, to the extent the prime interest rate changes and/or the Company's interest rate margin changes. For the Credit Facilities, a one percent change in interest rates would have had a less than \$0.1 million impact on interest expense for the year ended December 31, 2018 (2017: \$nil as there was no balance outstanding on the Credit Facilities during the year ended December 31, 2017). Other long term debt, such as the Second Lien Facility and the Company's finance leases, have fixed interest rates, however they are subject to interest rate fluctuations relating to refinancing as required.

Foreign exchange risk:

The Company is exposed to foreign currency fluctuations in relation to its United States dollar capital expenditures and international operations. From time to time, the Company may use forward foreign currency contracts to hedge against these fluctuations. At December 31, 2018, portions of the Company's cash balances, trade and other receivables, trade payables and other current liabilities were denominated in United States dollars and subject to foreign exchange fluctuations which are recorded within net income. In addition, Stoneham, Western's United States subsidiary, is subject to foreign currency translation adjustments upon consolidation, which is recorded separately within other comprehensive income. For the year ended December 31, 2018, the increase or decrease in net income and other comprehensive income for each one percent change in foreign exchange rates between the Canadian and United States dollars is estimated to be \$0.2 million and \$0.4 million, respectively (December 31, 2017: \$0.2 million and \$0.6 million, respectively).

Credit risk:

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

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.

At December 31, 2018, less than 1% of the Company's trade receivables were more than 90 days old. The Company believes the unimpaired amounts greater than 90 days old are still collectible based on historic payment behavior and an analysis of the underlying customers' ability to pay.

Western Energy Services Corp.

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19. Financial risk management (continued):

The table below provides an analysis of the Company's trade and other receivables as at December 31, 2018 and 2017:

	December 31, 2018		December 31, 2017	
Trade receivables:				
Current	\$	15,143	\$	26,248
Outstanding for 31 to 60 days		12,400		9,558
Outstanding for 61 to 90 days		3,836		3,193
Outstanding for over 90 days		267		56
Accrued trade receivables		8,811		8,870
Other receivables		660		219
Allowance for doubtful accounts		(33)		(27)
Total	\$	41,084	\$	48,117

Impairment losses:

The allowance for doubtful accounts in respect of trade and other receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered unrecoverable and are written off against the financial asset directly. For the year ended December 31, 2018, the Company impaired less than \$0.1 million in trade receivables (December 31, 2017: less than \$0.1 million).

Liquidity risk:

Liquidity risk is the exposure of the Company to the risk of not being able to meet its financial obligations as they become due. The Company manages liquidity risk through management of its capital structure, monitoring and reviewing actual and forecasted cash flows and the effect on bank covenants, and maintaining unused credit facilities where possible to ensure there are available cash resources to meet the Company's liquidity needs. The Company's cash and cash equivalents, cash flow from operating activities, existing Credit Facilities, and the Second Lien Facility are expected to be greater than anticipated capital expenditures and the contractual maturities of the Company's financial liabilities. This expectation could be adversely affected by a material negative change in the oilfield service industry, which in turn could lead to covenant breaches on the Company's Credit Facilities, which if not amended or waived, could limit, in part, or in whole, the Company's access to the Credit Facilities and the Second Lien Facility.

The table below provides an analysis of the expected maturities of the Company's outstanding obligations at December 31, 2018:

	Total amount	2019	Due prior to December 31					2023	Thereafter
			2020	2021	2022				
Financial liabilities:									
Operating Facility	\$ 891	\$ -	\$ -	\$ 891	\$ -	\$ -	\$ -	\$ -	-
Trade payables and other current liabilities	33,718	33,718	-	-	-	-	-	-	-
Revolving Facility	11,000	-	-	11,000	-	-	-	-	-
Second Lien Facility	213,925	2,150	2,150	2,150	2,150	205,325	-	-	-
Other long term debt	1,784	542	810	432	-	-	-	-	-
Total	\$ 261,318	\$ 36,410	\$ 2,960	\$ 14,473	\$ 2,150	\$ 205,325	\$ -	\$ -	-

Market risk:

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

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

Western Energy Services Corp.

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19. Financial risk management (continued):

Capital management:

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

	Note	December 31, 2018	December 31, 2017
Second Lien Facility	11	\$ 213,925	\$ -
Revolving Facility	11	11,000	-
Operating Facility	11	891	-
Senior Notes	11	-	265,000
Other long term debt	11	1,784	1,263
Total debt		227,600	266,263
Shareholders' equity		353,799	386,154
Less: cash and cash equivalents		(3,960)	(48,825)
Total capitalization		\$ 577,439	\$ 603,592

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

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

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

As at December 31, 2018, the Company had \$48.1 million in undrawn credit under its Credit Facilities and was in compliance with all debt covenants (see Note 11).

20. Commitments:

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

	2019	2020	2021	2022	2023	Thereafter	Total
Second Lien Facility	\$ 2,150	\$ 2,150	\$ 2,150	\$ 2,150	\$ 205,325	\$ -	\$ 213,925
Second Lien Facility interest	15,448	15,376	15,179	15,105	7,473	-	68,581
Trade payables and other current liabilities ⁽¹⁾	25,946	-	-	-	-	-	25,946
Operating leases	4,707	4,407	3,390	3,078	2,752	2,773	21,107
Revolving Facility	-	-	11,000	-	-	-	11,000
Purchase commitments	1,924	-	-	-	-	-	1,924
Operating Facility	-	-	891	-	-	-	891
Other long term debt	661	838	454	-	-	-	1,953
Total	\$ 50,836	\$ 22,771	\$ 33,064	\$ 20,333	\$ 215,550	\$ 2,773	\$ 345,327

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

Second Lien Facility and interest:

The Company pays interest on the Second Lien Facility semi-annually on January 1 and July 1. The Second Lien Facility is due January 31, 2023.

Trade payables and other current liabilities:

The Company has recorded trade payables for amounts due to third parties which are expected to be paid within one year.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

20. Commitments (continued):

Operating leases:

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

Purchase commitments:

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

Other long term debt:

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

21. Related party transactions:

During the years ended December 31, 2018 and 2017, the Company had no transactions with related parties. At December 31, 2018, there are no significant balances outstanding in trade and other receivables with related parties (December 31, 2017: \$nil).

22. Key management personnel:

Key management personnel are comprised of the Company's Board of Directors and Executive Management. The following table summarizes expenses related to key management personnel:

	Year ended	
	December 31, 2018	December 31, 2017
Short-term employee benefits	\$ 1,977	\$ 1,963
Stock based compensation ⁽¹⁾	322	743
	<u>\$ 2,299</u>	<u>\$ 2,706</u>

(1) The total fair value of stock options and RSUs granted to key management personnel for the year ended December 31, 2018 was equal to \$0.3 million (December 31, 2017: \$0.4 million), which is being recognized in net income (loss) over the stock option's and RSU's vesting period.

23. Subsidiaries

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

	Country of incorporation	Ownership interest (%)	
		December 31, 2018	December 31, 2017
Stoneham Drilling Corporation	USA	100	100
Western Production Services Corp.	Canada	100	100

CORPORATE INFORMATION

DIRECTORS

Donald D. Copeland^{[1][2][3]} Victoria, British Columbia

Lorne A. Gartner^{[1][2][3]} Calgary, Alberta

Alex R.N. MacAusland^[3] Calgary, Alberta

Ronald P. Mathison Calgary, Alberta

John R. Rooney^{[1][2][3]} Calgary, Alberta

¹ Member of the Audit Committee

² Member of the Corporate Governance and Compensation Committee

³ Member of the Health, Safety and Environment Committee

OFFICERS

Ronald P. Mathison, Chairman of the Board

Alex R.N. MacAusland, President and Chief Executive Officer

Jeffrey K. Bowers, Sr. Vice President, Finance, Chief Financial Officer and Corporate Secretary

Rick M. Harrison, Sr. Vice President, Western Field Services and Special Projects

Darcy D. Reinboldt, Sr. Vice President, Operations

David G. Trann, Vice President, Finance

Peter J. Balkwill, Vice President, Operations Finance

AUDITOR

Deloitte LLP Calgary, Alberta

LEAD BANK

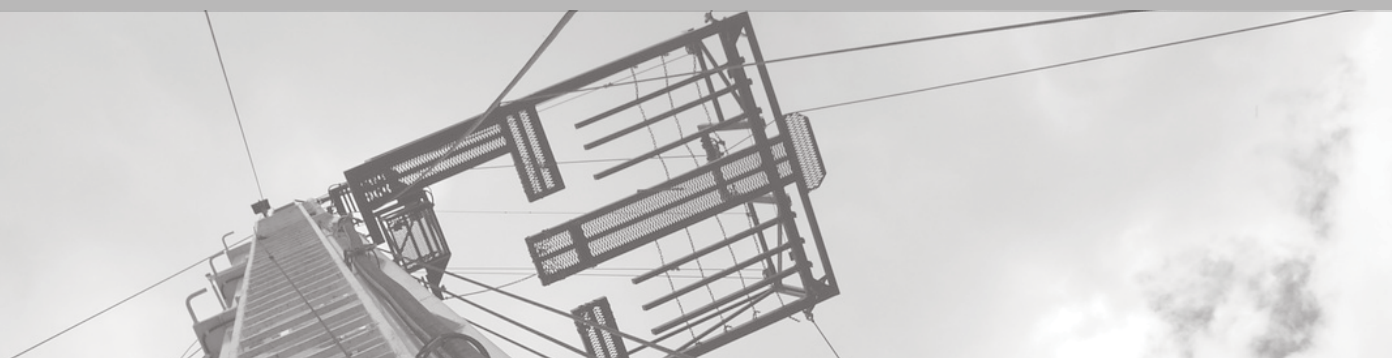
HSBC Bank Canada

STOCK EXCHANGE LISTING

Toronto Stock Exchange Symbol: WRG

TRANSFER AGENT

Computershare Calgary, Alberta





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