

Notice to Reader

These consolidated financial statements are being refiled to correct a typographical error included in the independent auditor's report issued on February 13, 2019. Specifically, to remove wording that was inadvertently included at the beginning of the independent auditor's report. No other changes have been made to the consolidated financial statements. This notice does not form a part of the consolidated financial statements.

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)

	Note	Year ended December 31, 2018	Year ended December 31, 2017
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:

Year ended December 31, 2018	Contract		Production		Total
	Drilling	Services	Corporate		
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	Contract		Production		Total
	Drilling	Services	Corporate		
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

	Canada	United States	Total
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

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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	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	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		Year ended	
	December 31, 2018		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.

Notes to the consolidated financial statements

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

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.

Notes to the consolidated financial statements

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

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		Due prior to December 31				
	amount	2019	2020	2021	2022	2023	Thereafter
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.

Notes to the consolidated financial statements

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

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.

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(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