Western Energy Services Corp.

Condensed Consolidated Financial Statements

March 31, 2016 and 2015

(Unaudited)

Western Energy Services Corp.

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

	Note	March 31, 2016	December 31, 2015
Assets			
Current assets			
Cash and cash equivalents		$ 49,852	$ 58,445
Trade and other receivables		27,550	38,438
Other current assets		5,442	5,177
		82,844	102,060
Non current assets			
Property and equipment	5	759,205	773,647
Other non current assets		443	901
		$ 842,492	$ 876,608
Liabilities			
Current liabilities			
Trade payables and other current liabilities		$ 13,845	$ 26,793
Dividends payable		-	3,682
Current portion of provisions		145	145
Current portion of long term debt	6	709	761
		14,699	31,381
Non current liabilities			
Provisions		1,637	1,674
Long term debt	6	264,118	264,155
Deferred taxes		104,755	107,702
		385,209	404,912
Shareholders' equity			
Share capital	7	417,622	417,622
Contributed surplus		11,230	10,148
Retained earnings		(2,697)	3,734
Accumulated other comprehensive income		28,845	37,794
Non controlling interest		2,283	2,398
		457,283	471,696
		$ 842,492	$ 876,608

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

Western Energy Services Corp.

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

	Note	Three months ended March 31, 2016	Three months ended March 31, 2015
Revenue		$ 33,937	$ 105,850
Operating expenses		32,489	71,475
Gross profit		1,448	34,375
Administrative expenses		6,854	8,495
Finance costs	10	5,538	4,758
Other items	11	(2,130)	(594)
Income (loss) before income taxes		(8,814)	21,716
Income tax (recovery) expense	12	(2,495)	6,422
Net (loss) income		(6,319)	15,294
Other comprehensive income [(1)]			
Loss (gain) on translation of foreign operations		3,937	(6,176)
Unrealized foreign exchange loss (gain) on net investment in subsidiary		5,012	(6,154)
Comprehensive (loss) income		$ (15,268)	$ 27,624
Net (loss) income attributable to:			
Shareholders of the Company		$ (6,431)	$ 15,158
Non controlling interest		112	136
Comprehensive (loss) income attributable to:			
Shareholders of the Company		$ (15,380)	$ 27,488
Non controlling interest		112	136
Net (loss) income per share:			
Basic		$ (0.09)	$ 0.20
Diluted		(0.09)	0.20
Weighted average number of shares:			
Basic	9	73,646,292	74,686,828
Diluted	9	73,646,292	74,702,482

(1) Other comprehensive income includes items that may be subsequently reclassified into profit and loss.

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

Western Energy Services Corp.

Condensed Consolidated Statement of Changes in Shareholders' Equity (Unaudited)
(thousands of Canadian dollars)

	Share capital	Contributed surplus (1)	Retained earnings	Accumulated other comprehensive income(2)	Non controlling interest	Total shareholders' equity
Balance at December 31, 2014	$ 423,633	$ 6,815	$ 153,544	$ 15,125	$ 2,086	$ 601,203
Common shares:						
Issued for cash on exercise of stock options	90	-	-	-	-	90
Purchased under normal course issuer bid	(1,602)	-	-	-	-	(1,602)
Fair value of exercised options	37	(37)	-	-	-	-
Stock based compensation	-	839	-	-	-	839
Dividends declared	-	-	(5,593)	-	-	(5,593)
Contributions from non controlling interest	-	-	-	-	197	197
Comprehensive income	-	-	15,158	12,330	136	27,624
Balance at March 31, 2015	422,158	7,617	163,109	27,455	2,419	622,758
Common shares:						
Issued for cash on exercise of stock options	64	-	-	-	-	64
Issued on vesting of restricted share units	471	(471)	-	-	-	-
Purchased under normal course issuer bid	(5,089)	(28)	-	-	-	(5,117)
Fair value of exercised options	18	(18)	-	-	-	-
Stock based compensation	-	3,048	-	-	-	3,048
Dividends declared	-	-	(14,800)	-	-	(14,800)
Distributions to non controlling interest	-	-	-	-	(163)	(163)
Comprehensive income (loss)	-	-	(144,575)	10,339	142	(134,094)
Balance at December 31, 2015	417,622	10,148	3,734	37,794	2,398	471,696
Stock based compensation	-	1,082	-	-	-	1,082
Distributions to non controlling interest	-	-	-	-	(227)	(227)
Comprehensive income (loss)	-	-	(6,431)	(8,949)	112	(15,268)
Balance at March 31, 2016	$ 417,622	$ 11,230	$ (2,697)	$ 28,845	$ 2,283	$ 457,283

(1) Contributed surplus relates to stock based compensation described in Note 8.

(2) At March 31, 2016, the accumulated other comprehensive income balance consists of the translation of foreign operations and unrealized foreign exchange on net investment in subsidiary.

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

Western Energy Services Corp.

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

	Note	Three months ended March 31, 2016	Three months ended March 31, 2015
Operating activities			
Net (loss) income		$ (6,319)	$ 15,294
Adjustments for:			
Depreciation included in operating expenses		7,311	13,365
Depreciation included in administrative expenses		420	429
Non cash stock based compensation included in operating expenses		143	90
Non cash stock based compensation included in administrative expenses		939	749
Income taxes	12	(2,495)	6,422
Finance costs	10	5,538	4,758
Other		317	(69)
Cash generated from operating activities		5,854	41,038
Income taxes paid		(1,710)	(8,460)
Change in non cash working capital		4,460	6,759
Cash flow from operating activities		8,604	39,337
Investing activities			
Additions to property and equipment	5	(921)	(17,863)
Proceeds on sale of property and equipment		362	233
Changes in non cash working capital		(1,846)	(5,872)
Cash flow used in investing activities		(2,405)	(23,502)
Financing activities			
Issue of common shares		-	90
Shares purchased under normal course issuer bid		-	(1,602)
Repayment of long term debt		(234)	(236)
Finance costs paid		(10,649)	(9,989)
Dividends paid		(3,682)	(5,615)
Contributions from (distributions to) non controlling interest		(227)	197
Cash flow used in financing activities		(14,792)	(17,155)
Decrease in cash and cash equivalents		(8,593)	(1,320)
Cash and cash equivalents, beginning of period		58,445	62,662
Cash and cash equivalents, end of period		$ 49,852	$ 61,342
Cash and cash equivalents:			
Bank accounts		$ 4,456	$ 15,342
Short term investments		45,396	46,000
		$ 49,852	$ 61,342

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

1. **Reporting entity:**

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the registered office is 1700, 215 - 9th Avenue SW, Calgary, Alberta. Western is a publicly traded company that is listed on the Toronto Stock Exchange ("TSX") under the symbol "WRG". These condensed consolidated financial statements as at March 31, 2016 and for the three months ended March 31, 2016 and 2015 (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. On December 28, 2015, Western wound up its partnership, Western Energy Services Partnership (the "Partnership") and rolled all of the Partnership's assets into IROC Drilling and Production Services Corp., which changed its name to Western Production Services Corp. ("Western Production Services"). As a result, Western now provides well servicing operations in Canada through Western Production Services' division, Eagle Well Servicing ("Eagle") and oilfield rental equipment services in Canada through Western Production Services' division, Aero Rental Services ("Aero"). Financial and operating results for Horizon and Stoneham are included in Western's contract drilling segment, while financial and operating results for Eagle and Aero are included in Western's production services segment.

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

Statement of compliance:

These Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board. These Financial Statements have been prepared using accounting policies and judgments which are consistent with Notes 3 and 4 of the audited annual consolidated financial statements as at December 31, 2015 and for the years ended December 31, 2015 and 2014 as filed on SEDAR at www.sedar.com and, as such, they should be read in conjunction with the said statements.

These Financial Statements were approved for issuance by Western's Board of Directors on April 28, 2016.

3. **Seasonality:**

The Company's operations are often weather dependent, which has a seasonal effect. During the first quarter, the environment in the field is conducive to oilfield activities including frozen conditions allowing oil and gas companies to move heavy equipment to otherwise inaccessible areas and the resulting demand for services, such as those provided by the Company, is typically high. The second quarter is normally a slower period in Canada due to the spring thaw and wet conditions creating weight restrictions on roads and reducing the mobility of heavy equipment, which slows activity levels in the industry. The third and fourth quarters are usually representative of average activity levels. Therefore, interim periods may not be representative of the results expected for the full year of operation due to seasonality.

4. **Operating segments:**

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

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

Information regarding the results of the segments is included below. Performance is measured based on operating earnings, as included in internal management reports. Operating earnings is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Operating earnings is calculated as revenue less operating expenses (excluding stock based compensation) and administrative expenses (excluding stock based compensation).

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

4. Operating segments (continued):

The following is a summary of the Company's results by segment for the three months ended March 31, 2016 and 2015:

Three months ended March 31, 2016	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 23,325	$ 10,622	$ -	$ (10)	$ 33,937
Operating earnings (loss)	(1,502)	(1,542)	(1,323)	-	(4,367)
Finance costs	-	-	5,538	-	5,538
Depreciation	5,422	2,088	221	-	7,731
Additions to property and equipment (1)	314	606	1	-	921

Three months ended March 31, 2015	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 79,112	$ 26,960	$ -	$ (222)	$ 105,850
Operating earnings (loss)	24,538	4,112	(1,807)	-	26,843
Finance costs	-	-	4,758	-	4,758
Depreciation	10,179	3,370	245	-	13,794
Additions to property and equipment (1)	15,029	2,910	25	-	17,964

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

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

As at March 31, 2016	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 625,117	$ 154,152	$ 63,223	$ 842,492
Total liabilities	99,167	28,933	257,109	385,209

As at December 31, 2015	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 654,285	$ 158,432	$ 63,891	$ 876,608
Total liabilities	104,260	32,423	268,229	404,912

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

Three months ended March 31, 2016	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ (1,502)	$ (1,542)	$ (1,323)	$ (4,367)
Add (deduct):				
Stock based compensation	(119)	(172)	(748)	(1,039)
Finance costs	-	-	(5,538)	(5,538)
Other items	-	-	2,130	2,130
Loss before income taxes	$ (1,621)	$ (1,714)	$ (5,479)	$ (8,814)

Three months ended March 31, 2015	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ 24,538	$ 4,112	$ (1,807)	$ 26,843
Deduct:				
Stock based compensation	(217)	(90)	(656)	(963)
Finance costs	-	-	(4,758)	(4,758)
Other items	-	-	594	594
Income (loss) before income taxes	$ 24,321	$ 4,022	$ (6,627)	$ 21,716

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

4. Operating segments (continued):

Segmented information by geographic area is as follows:

As at March 31, 2016	Canada	United States	Total
Property and equipment	$ 647,471	$ 111,734	$ 759,205
Total assets	725,351	117,141	842,492

As at December 31, 2015	Canada	United States	Total
Property and equipment	$ 644,510	$ 129,137	$ 773,647
Total assets	742,824	133,784	876,608

	Canada	United States	Total
Revenue - three months ended March 31, 2016	$ 30,492	$ 3,445	$ 33,937
Revenue - three months ended March 31, 2015	91,766	14,084	105,850

Significant Customers:

For the three months ended March 31, 2016 the Company had two significant customers comprising 11.9% and 10.2% respectively, of the Company’s total revenue. For the three months ended March 31, 2015, the Company had one customer comprising 11.7% of the Company’s total revenue. As at March 31, 2016, there was no trade receivable balance owing relating to one of the significant customers, while the other significant customer’s trade receivable balance was 6.7% of the Company’s total trade and other receivables balance.

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

5. Property and Equipment:

The following table summarizes the Company's property and equipment:

	Land	Buildings	Contract drilling equipment	Production services equipment	Office and shop equipment	Vehicles under finance leases	Total
Cost:							
Balance at December 31, 2014	$ 5,089	$ 4,048	$ 779,921	$ 196,564	$ 12,540	$ 3,840	$ 1,002,002
Additions	-	157	26,224	6,918	263	-	33,562
Finance lease additions	-	-	-	-	-	203	203
Loss on asset decommissioning	-	-	(40,020)	(198)	-	-	(40,218)
Disposals	-	-	(1,438)	(1,066)	(308)	(483)	(3,295)
Foreign exchange adjustment	-	-	25,994	-	109	71	26,174
Balance at December 31, 2015	$ 5,089	$ 4,205	$ 790,681	$ 202,218	$ 12,604	$ 3,631	$ 1,018,428
Additions	-	-	314	291	316	-	921
Disposals	-	-	(254)	(293)	(9)	(221)	(777)
Foreign exchange adjustment	-	-	(11,914)	-	(42)	(157)	(12,113)
Balance at March 31, 2016	$ 5,089	$ 4,205	$ 778,827	$ 202,216	$ 12,869	$ 3,253	$ 1,006,459
Accumulated depreciation:							
Balance at December 31, 2014	$ -	$ 637	$ 143,807	$ 23,918	$ 5,261	$ 1,073	$ 174,696
Depreciation for the period	-	189	25,930	10,632	1,929	787	39,467
Loss on asset decommissioning	-	-	(13,538)	(82)	-	-	(13,620)
Impairment on property and equipment	-	-	18,997	22,865	-	-	41,862
Disposals	-	-	(1,174)	(665)	(273)	(390)	(2,502)
Foreign exchange adjustment	-	-	4,771	-	75	32	4,878
Balance at December 31, 2015	$ -	$ 826	$ 178,793	$ 56,668	$ 6,992	$ 1,502	$ 244,781
Depreciation for the period	-	48	5,259	1,864	391	169	7,731
Disposals	-	-	(127)	(207)	(7)	(143)	(484)
Foreign exchange adjustment	-	-	(4,637)	-	(34)	(103)	(4,774)
Balance at March 31, 2016	$ -	$ 874	$ 179,288	$ 58,325	$ 7,342	$ 1,425	$ 247,254
Carrying amounts:							
At December 31, 2015	$ 5,089	$ 3,379	$ 611,888	$ 145,550	$ 5,612	$ 2,129	$ 773,647
At March 31, 2016	$ 5,089	$ 3,331	$ 599,539	$ 143,891	$ 5,527	$ 1,828	$ 759,205

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

6. Long term debt:

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

	March 31, 2016	December 31, 2015
Current:		
Other long term debt – current portion [1]	$ 709	$ 761
Total current portion of long term debt	709	761
Non current:		
Senior Notes	265,000	265,000
Less: net unamortized premium and issue costs on Senior Notes	(1,478)	(1,607)
Other long term debt – non current portion [1]	596	762
Total non current portion of long term debt	264,118	264,155
Total long term debt	$ 264,827	$ 264,916

(1) At March 31, 2016 and December 31, 2015, other long term debt consists of finance lease obligations.

Credit facilities:

At March 31, 2016, Western's credit facilities consisted of a $175.0 million revolving credit facility, with a maturity date of December 17, 2018 and a $20.0 million operating demand revolving loan. On April 27, 2016, the Company elected to reduce its syndicated revolving credit facility (the "Revolving Facility") from $175.0 million to $40.0 million and reduced its previously uncommitted operating demand revolving loan of $20.0 million to a committed operating facility (the "Operating Facility") totaling $10.0 million. In addition to the $50.0 million of available credit under the Revolving Facility and Operating Facility (the "Credit Facilities"), Western has access to an accordion feature whereby an incremental $60.0 million of borrowing would become available, subject to the approval of the lenders. The Credit Facilities include a covenant relief period from January 1, 2016 to December 31, 2017. During the covenant relief period, there are restrictions on exercising the accordion and on certain payments made by the Company, including dividends, normal course issuer bid purchases and capital expenditures in excess of Western's approved budget. The Credit Facilities maturity date of December 17, 2018 remains unchanged.

Additionally, advances under the Credit Facilities will be limited by the Company's borrowing base. 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, with a seasonal increase to $50.0 million each quarter ending June 30).

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 Revolving Facility agreement.

The Credit Facilities are secured by the assets of Western and its subsidiaries. As at March 31, 2016, the Revolving Facility and the Operating Facility were undrawn.

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

6. Long term debt (continued):

Accompanying the reduction of the Credit Facilities was a revised covenant package. A summary of the previous and revised financial covenants is as follows:

	Previous Covenant	Revised Covenant	Revised Covenant Ratio as at March 31, 2016
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio (1)(2)(3)	2.5:1.0 or less	4.0:1.0 or less	0.00:1.0
Maximum Consolidated Debt to Consolidated Capitalization Ratio (4)(5)	0.6:1.0 or less	0.6:1.0 or less	0.32:1.0
Minimum Consolidated EBITDA to Consolidated Interest Expense Ratio (3)(6)	2.0:1.0 or more	Not applicable	Not applicable
Minimum Current Ratio (7)	Not applicable	1.15:1.0 or more	5.92:1.0

(1) Consolidated Senior Debt to Consolidated EBITDA reduces to 3.0:1.0 or less subsequent to January 1, 2018.

(2) Consolidated Senior Debt in the amended Credit Facilities is defined as indebtedness under the Revolving Facility, Operating Facility and finance leases; reduced by all cash on hand.

(3) Consolidated EBITDA in the Credit Facilities is defined on a trailing twelve month basis as consolidated net income (loss), plus interest, income taxes, depreciation and amortization and any other non-cash items or extraordinary or non-recurring losses, less gains on sale of property and equipment and any other non-cash items or extraordinary or non-recurring gains that are included in the calculation of consolidated net income.

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

(5) Consolidated Capitalization in the Credit Facilities is defined as the aggregate of Consolidated Debt and total shareholders` equity as reported on the consolidated balance sheet.

(6) Consolidated Interest Expense under the previous Credit Facilities was defined on a trailing twelve month basis as all interest accrued or payable on outstanding debt, including capitalized interest and imputed interest with respect to finance lease obligations and is presented in the financial statements under finance costs (Note 10). The Consolidated EBITDA to Consolidated Interest Expense ratio has been permanently removed under the amended Credit Facilities.

(7) Current Ratio in the amended Credit Facilities is defined as current assets, including cash, divided by current liabilities, excluding any current portion of long term debt.

At March 31, 2016 the Company was in compliance with all debt covenants under its revised Credit Facilities.

Senior Notes:

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

At March 31, 2016, the fair value of the Senior Notes was approximately $228.6 million (December 31, 2015: $245.5 million).

7. 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, 2014	74,866,028	$ 423,633
Issued for cash on exercise of stock options	26,800	154
Issued on vesting of restricted share units	50,764	471
Shares purchased under normal course issuer bid	(1,297,300)	(6,691)
Fair value of exercised stock options	-	55
Balance at December 31, 2015 and March 31, 2016	73,646,292	$ 417,622

During the three months ended March 31, 2016, no dividends were declared (three months ended March 31, 2015: $5.6 million).

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

8. Stock based compensation:

Stock options:

The Company's stock option plan provides for stock options to be issued to directors, officers, employees and consultants of the Company so that they may participate in the growth and development of Western. Subject to the specific provisions of the stock option plan, eligibility, vesting period, terms of the options and the number of options granted are to be determined by the Board of Directors at the time of grant. The stock option plan allows the Board of Directors to issue up to 10% of the Company's outstanding common shares as stock options.

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

	Stock options outstanding	Weighted average exercise price
Balance at December 31, 2014	5,093,972	$ 8.23
Granted	2,509,831	5.10
Exercised	(26,800)	5.75
Forfeited	(1,307,994)	7.91
Expired	(210,103)	5.74
Balance at December 31, 2015	6,058,906	7.10
Granted	6,100	3.68
Forfeited	(104,597)	7.15
Expired	(10,000)	6.70
Balance at March 31, 2016	5,950,409	$ 7.10

For the three months ended March 31, 2016, no stock options were cancelled under the plan. As at March 31, 2016, Western had 2,158,734 (December 31, 2015: 1,966,647) exercisable stock options outstanding at a weighted average exercise price equal to $7.95 (December 31, 2015: $7.98) per stock option.

Restricted share unit plan:

The Company's restricted share unit ("RSU") plan provides for 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 grant. The RSU plan allows the Board of Directors to issue up to 1% 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 other stock based compensation arrangements of the Company does not exceed 10% of the Company's outstanding common shares.

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

	Equity settled	Cash settled	Total
Balance at December 31, 2014	177,338	126,999	304,337
Granted	328,845	322,151	650,996
Issued as a result of dividends	11,627	9,333	20,960
Vested	(50,764)	(38,931)	(89,695)
Forfeited	(56,777)	(70,317)	(127,094)
Balance at December 31, 2015	410,269	349,235	759,504
Granted	-	18,940	18,940
Issued as a result of dividends	6,540	5,556	12,096
Vested	-	(2,149)	(2,149)
Forfeited	(6,408)	(37,150)	(43,558)
Balance at March 31, 2016	410,401	334,432	744,833

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

8. Stock based compensation (continued):

Stock based compensation recognized in the condensed consolidated statement of operations and comprehensive income is comprised of the following:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Stock options	$ 800	$ 640
Restricted share units – equity settled grants	282	199
Total equity settled stock based compensation expense	1,082	839
Restricted share units – cash settled grants	(43)	124
Total stock based compensation expense	$ 1,039	$ 963

9. Earnings per share:

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

	Three months ended March 31, 2016	Three months ended March 31, 2015
Issued common shares, beginning of period	73,646,292	74,866,028
Shares issued	-	1,931
Shares purchased under normal course issuer bid	-	(181,131)
Weighted average number of common shares (basic)	73,646,292	74,686,828
Dilutive effect of equity securities	-	15,654
Weighted average number of common shares (diluted)	73,646,292	74,702,482

For the three months ended March 31, 2016, 5,950,409 stock options (three months ended March 31, 2015: 4,385,465) and 410,401 RSUs (three months ended March 31, 2015: 161,336) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

10. Finance costs:

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

	Three months ended March 31, 2016	Three months ended March 31, 2015
Interest expense on long term debt	$ 5,486	$ 5,385
Amortization of debt financing fees and provisions	129	129
Interest income	(77)	(97)
Total finance costs before capitalized interest	5,538	5,417
Capitalized interest	-	(659)
Total finance costs	$ 5,538	$ 4,758

The Company had an effective interest rate of 8.4% on its borrowings for the three months ended March 31, 2016 (three months ended March 31, 2015: 8.4%).

11. Other items:

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

	Three months ended March 31, 2016	Three months ended March 31, 2015
Realized foreign exchange gain	$ (2,485)	$ (560)
Mark-to-market loss on fair value of derivatives	413	-
Gain on sale of fixed assets	(69)	(52)
Unrealized foreign exchange loss	11	18
Total other items	$ (2,130)	$ (594)

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

12. Income taxes:

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

	Three months ended March 31, 2016	Three months ended March 31, 2015
Current tax recovery	$ (419)	$ (1,485)
Deferred tax (recovery) expense	(2,076)	7,907
Total income tax (recovery) expense	$ (2,495)	$ 6,422

As at March 31, 2016, the Company has gross loss carry-forwards equal to approximately $19.0 million in Canada, which will expire by 2036. In the United States, the Company has approximately US$50.0 million gross loss carry forwards which expire between 2028 and 2036.

13. Costs by nature:

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

	Three months ended March 31, 2016	Three months ended March 31, 2015
Depreciation of property and equipment (Note 5)	$ 7,731	$ 13,794
Employee benefits: salaries and benefits	20,662	45,705
Employee benefits: stock based compensation (Note 8)	1,039	963
Repairs and maintenance	1,576	3,673
Third party charges	1,737	4,892

14. Financial risk management and financial instruments:

The Company's financial instruments include cash and cash equivalents, trade and other receivables, trade payables and other current liabilities, derivatives and long term debt instruments such as the Credit Facilities and the Senior Notes. Cash and cash equivalents and derivatives are carried at fair value. The carrying amounts of trade and other receivables, trade payables, and other current liabilities approximate their fair values due to their short term nature. The Credit Facilities bear interest at rates that approximate market rates and therefore their carrying values approximate fair values. The Senior Notes are recorded at their amortized cost. Fair value disclosure of the Senior Notes is based on their trading price on March 31, 2016.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2015.

Financial assets and liabilities recorded at fair value in the condensed consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels based on the amount of subjectivity associated with the inputs in the fair value determination of these assets and liabilities are as follows:

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

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

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

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

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

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

Capital management:

The overall capitalization of the Company at March 31, 2016 and December 31, 2015 is as follows:

	Note	March 31, 2016	December 31, 2015
Other long term debt	6	$ 1,305	$ 1,523
Senior Notes	6	265,000	265,000
Total debt		266,305	266,523
Shareholders' equity		457,283	471,696
Less: cash and cash equivalents		(49,852)	(58,445)
Total capitalization		$ 673,736	$ 679,774

15. Commitments:

As at March 31, 2016, the Company has total commitments which require payments based on the maturity terms as follows:

	2016	2017	2018	2019	2020	Thereafter	Total
Senior Notes	$ -	$ -	$ -	$ 265,000	$ -	$ -	$ 265,000
Senior Notes interest	10,349	20,869	20,869	10,519	-	-	62,606
Trade payables and other current liabilities(1)	10,300	-	-	-	-	-	10,300
Operating leases	3,238	3,877	3,706	3,550	3,525	10,632	28,528
Purchase commitments	157	-	-	-	-	-	157
Other long term debt	571	711	84	-	-	-	1,366
Total	$ 24,615	$ 25,457	$ 24,659	$ 279,069	$ 3,525	$ 10,632	$ 367,957

(1) Trade payables and other current liabilities exclude interest accrued as at March 31, 2016 on the Senior Notes.

16. Subsequent event:

On April 27, 2016, the Company elected to reduce its syndicated Revolving Facility from $175.0 million to $40.0 million and has reduced its previously uncommitted operating demand revolving loan of $20.0 million to a committed Operating Facility totaling $10.0 million. Accompanying the reduction of the Credit Facilities was a revised covenant package. Terms of the revised Credit Facilities are described in detail in Note 6.