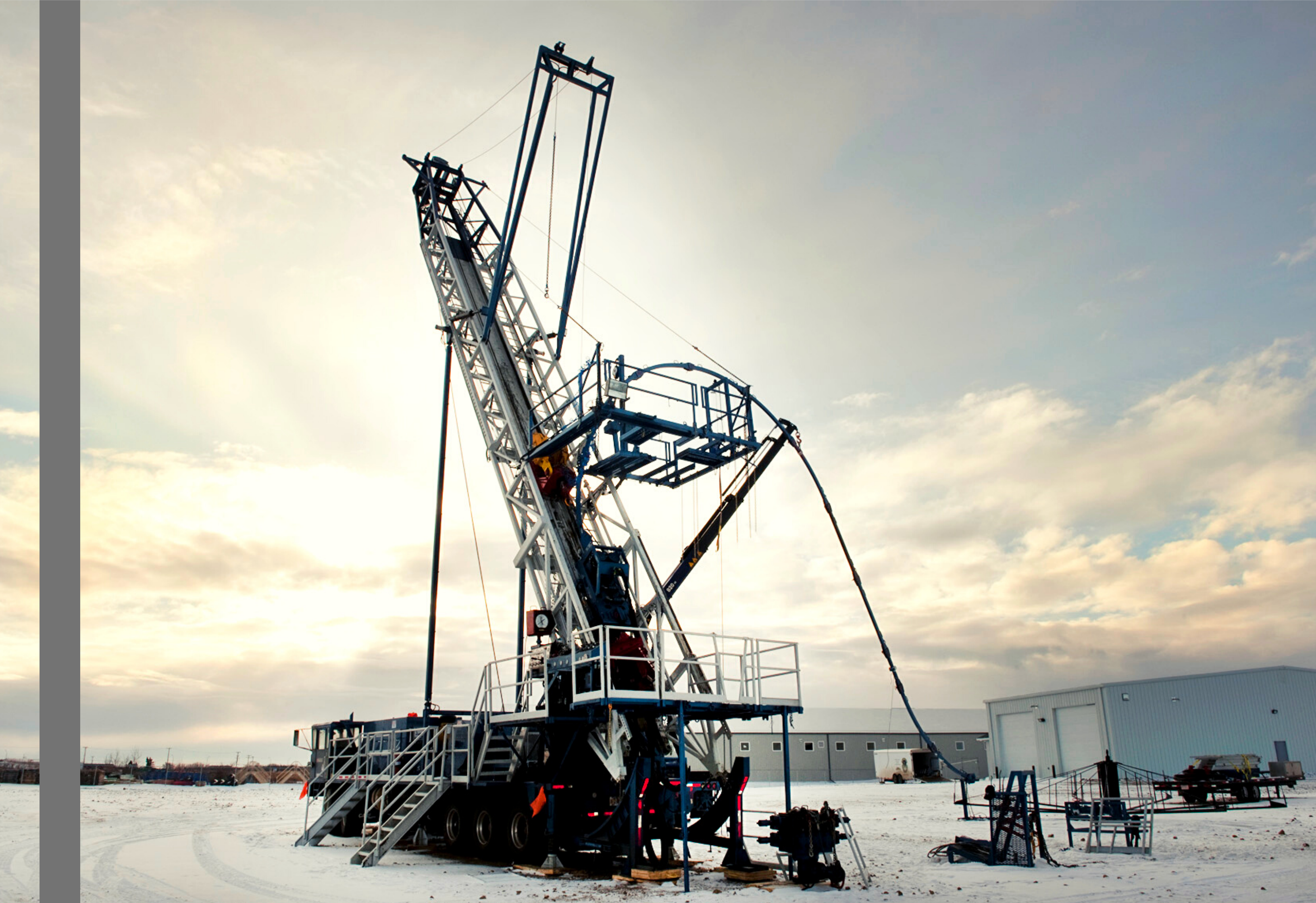
Western

ENERGY SERVICES CORP.

2019 ANNUAL REPORT



Western ENERGY SERVICES CORP.

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

CONTRACT DRILLING SERVICES

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

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

WELL SERVICING

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

OILFIELD RENTAL EQUIPMENT SERVICES

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

ANNUAL MEETING

The Annual Meeting of the Shareholders of Western Energy Services Corp. will be held on Tuesday, April 28, 2020 at 3:30 pm (MDT).
Location: The Calgary Petroleum Club, Viking Room
319 - 5th Avenue S.W. Calgary, Alberta T2P 0L5

CEO Report to Shareholders

The oilfield services industry in Canada has experienced challenges on multiple fronts over the last five years, and in 2019 these challenges continued and intensified. Legal and political obstacles to critical infrastructure projects, lack of pipeline egress, global supply imbalance, mandated production curtailments and operators focused on debt reduction and shareholder returns rather than growth, combined to suppress drilling activity to a level rivalling 2016. In the United States, operators also shifted focus to shareholder returns. Even as oil production continually achieved record levels, drilling activity tailed off after the first quarter of 2019.

While the current environment has increased emphasis on balance sheet preservation and cash flow management, Western is continually looking for cost effective ways to maximize utilization and return on investment. Our measured United States drilling and well servicing expansions that commenced in late 2018 have had an impact. As a result of our initiative to increase our drilling presence in the Permian Basin and increased activity in the Williston and Powder River Basins, Stoneham Drilling revenue and Adjusted EBITDA increased by 31% and 39% respectively. Western Oilfield Services, our California well servicing operation, has gained traction. One rig is working steadily with a major operator and we are performing spot market work with several smaller operators. In Canada, Eagle Well Servicing focused on expanding its geographic and customer base to improve utilization and delivered a 16% increase in service hours over 2018. Horizon Drilling sustained pricing and gross margin percentage levels year over year. Technology and customer needs have not stopped evolving and we are developing and implementing solutions that improve the accuracy and speed of drilling, reduce greenhouse gas emissions, and allow operators to drill longer horizontal wells. These include 7500 PSI mud circulating systems, apps that improve the accuracy and efficiency of horizontal drilling, dual fuel systems, power on demand and top drive torque enhancements. Aero Rental Services has introduced new products and expanded geographically. In 2019 Aero's revenue from the United States grew to 7% of its total. Capital discipline and prudent deployment of expansion capital have become even more important in recent years. Our maintenance capital is scalable and follows activity levels. We are being extremely selective with our limited expansion capital. We have invested in new products, geographical expansion, upgrades and enhancements that improve the utilization of the fleet and increase pricing, matching manageable capital expenditure with a high potential for rapid payback and superior returns.

The foundation of our success remains constant, regardless of the macro environment. Customers choose Western because of our reputation as a safe, professional service company that delivers consistent, predictable and repeatable results. We employ experienced crews, maintain our equipment in top condition and follow superior operational and safety procedures. Our commitment to Health, Safety and Environment is uncompromising with established systems and processes and a vision to drive accident rates toward zero. Across the company safety performance was exceptional in 2019. Our companywide total recordable incident frequency improved 19% over 2018. Horizon Drilling and Eagle Well Servicing worked nine and eight months respectively without a recordable incident. Many safety process improvements were implemented in 2019 and more are planned for 2020.

For 2020 we are expecting that the macro environment for oilfield services will be more difficult than 2019. Recent events have significantly increased uncertainty over the near term. In addition to the economic challenges we faced in 2019, COVID-19 is seriously affecting demand for oil and the collapse of the OPEC+ alliance has disrupted the supply side. Balance sheet preservation and cash flow management remain essential for survival. In 2019, as a result of proactive cost management and capital discipline, we were cash flow neutral, exiting with net debt excluding lease obligations slightly lower than 2018. Net debt has not increased since 2016. In 2019 we took several steps to further reduce our overhead costs that will be fully realized in 2020, and have announced a 2020 capital expenditure budget of $8 million focused primarily on scalable maintenance capital required to support anticipated activity levels.

Further out, we see opportunities. In 2019 we began to see “green shoots”, indicators of progress toward a longer term healthier and sustainable industry. Several oil pipeline projects continue to slowly but resolutely clear hurdles despite persistent opposition. The Government of Alberta is working toward removing curtailments by the end of 2020, however the current market events may impact whether the curtailments are removed. The LNG Canada facility and the Coastal GasLink pipeline are forging ahead. Natural gas pipeline capacity expansions to supply power generation, oilsands and petrochemical sectors in Alberta and connect to the United States Gulf Coast have been announced. These positive indicators will not have a significant impact on 2020 but foreshadow significant potential upside in 2021 and beyond.

Our most important task is to manage through the current challenges and emerge from this downturn positioned to fully participate in the inevitable rebound. I am confident we will succeed.

I would like to thank our stakeholders and customers for their support during these uncertain conditions. Finally, I would like to thank our employees for their contributions and continuing hard work and dedication.

Respectfully,

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

March 16, 2020

Western ENERGY SERVICES CORP.

Q4 2019

2019 Management's Discussion & Analysis

Date: February 27, 2020

The following discussion of the financial condition, changes in financial condition and results of operations of Western Energy Services Corp. (the "Company" or "Western") should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Company for the years ended December 31, 2019 and 2018. This Management's Discussion and Analysis ("MD&A") is dated February 27, 2020. All amounts are denominated in Canadian dollars (CDN$) unless otherwise identified.

Financial Highlights	**Three months ended December 31**			**Year ended December 31**			
(stated in thousands, except share and per share amounts)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**	**2017**
Revenue	45,838	63,133	(27%)	196,408	236,410	(17%)	238,175
Adjusted EBITDA[1]	5,584	7,916	(29%)	24,238	31,616	(23%)	35,695
Adjusted EBITDA as a percentage of revenue	12%	13%	(8%)	12%	13%	(8%)	15%
Cash flow from operating activities	8,921	5,022	78%	31,718	33,231	(5%)	24,641
Additions to property and equipment	2,942	6,102	(52%)	7,968	19,960	(60%)	18,132
Net loss	(52,249)	(9,530)	448%	(81,030)	(41,060)	97%	(37,445)
-basic net loss per share	(0.56)	(0.10)	460%	(0.88)	(0.45)	96%	(0.48)
-diluted net loss per share	(0.56)	(0.10)	460%	(0.88)	(0.45)	96%	(0.48)
Weighted average number of shares							
-basic	92,501,314	92,305,208	-	92,379,902	92,224,585	-	77,601,827
-diluted	92,501,314	92,305,208	-	92,379,902	92,224,585	-	77,601,827
Outstanding common shares as at period end	92,501,314	92,305,542	-	92,501,314	92,305,542	-	92,175,598
Operating Highlights[2]							
Contract Drilling							
Canadian Operations							
Average active rig count	11.4	18.1	(37%)	12.3	19.2	(36%)	20.6
Revenue per Billable Day	22,023	22,474	(2%)	21,383	21,321	-	20,178
Revenue per Operating Day	24,725	25,166	(2%)	23,854	23,644	1%	22,349
Drilling rig utilization - Billable Days	23%	36%	(36%)	25%	38%	(34%)	41%
Drilling rig utilization - Operating Days	21%	32%	(34%)	22%	35%	(37%)	37%
CAODC industry average utilization - Operating Days[3]	23%	28%	(18%)	22%	29%	(24%)	29%
United States Operations							
Average active rig count	2.9	4.9	(41%)	4.4	3.4	29%	3.1
Revenue per Billable Day (US$)	21,979	19,602	12%	20,460 [4]	21,109	(3%)	21,205
Revenue per Operating Day (US$)	26,596	22,011	21%	24,150 [4]	23,571	2%	24,672
Drilling rig utilization - Billable Days	37%	79%	(53%)	56%	57%	(2%)	61%
Drilling rig utilization - Operating Days	30%	71%	(58%)	47%	51%	(8%)	52%
Production Services							
Canadian Operations							
Average active rig count	20.1	18.8	7%	19.1	16.5	16%	17.2
Revenue per Service Hour	680	669	2%	661	686	(4%)	675
Service rig utilization	32%	28%	14%	30%	25%	20%	26%

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

(2) See "Defined Terms" on page 22 of this MD&A.

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

(4) Excludes shortfall commitment revenue from take or pay contracts of US$1.3 million for the year ended December 31, 2019.

Financial Position at (stated in thousands)	December 31, 2019	December 31, 2018	December 31, 2017
Working capital	7,031	15,739	62,866
Property and equipment	511,052	615,395	652,828
Total assets	550,537	667,295	760,504
Long term debt	228,274	222,258	265,219

Overall Performance and Results of Operations

Western is an oilfield service company focused on three core business lines: contract drilling, well servicing and oilfield rental equipment services. Western provides contract drilling services through its division, Horizon Drilling ("Horizon") in Canada, and its wholly owned subsidiary, Stoneham Drilling Corporation ("Stoneham") in the United States ("US"). Western provides well servicing and oilfield rental equipment services in Canada through its wholly owned subsidiary Western Production Services Corp. ("Western Production Services"). Western Production Services' division, Eagle Well Servicing ("Eagle") provides well servicing operations, while its division, Aero Rental Services ("Aero") provides oilfield rental equipment services. Stoneham's division, Western Oilfield Services, provides well servicing operations in the United States. Financial and operating results for Horizon and Stoneham are included in Western's contract drilling segment, while financial and operating results for Eagle, Aero, and Western Oilfield Services are included in Western's production services segment. Non-International Financial Reporting Standards ("Non-IFRS") measures, such as Adjusted EBITDA, are defined on page 21 of this MD&A. Abbreviations for standard industry terms are included on page 22 of this MD&A.

Western has a drilling rig fleet of 57 rigs specifically suited for drilling complex horizontal wells. Western is currently the fourth largest drilling contractor in Canada, based on the Canadian Association of Oilwell Drilling Contractors ("CAODC") registered rigs[1], with a fleet of 49 rigs operating through Horizon. Of the Canadian fleet, 23 are classified as Cardium class rigs, 19 as Montney class rigs and seven as Duvernay class rigs. As compared to the Cardium class rigs, the Montney class rigs have a larger hookload, while the Duvernay class rigs have the largest hookload allowing the rig to support more drill pipe downhole. Additionally, Western has eight drilling rigs operating through Stoneham in the US, including six Duvernay class rigs. Western is also the fifth largest well servicing company in Canada, based on the CAODC registered rigs[2], with a fleet of 63 rigs operating through Eagle. Additionally, Western Oilfield Services has three well servicing rigs operating in the Bakersfield area of California in the US. Western's oilfield rental equipment division, which operates through Aero, provides oilfield rental equipment for hydraulic fracturing services, well completions and production work, coil tubing and drilling services.

Crude oil and natural gas prices impact the cash flow of Western's customers, which in turn impacts the demand for Western's services. The following table summarizes average crude oil and natural gas prices, as well as average foreign exchange rates, for the three months ended December 31, 2019 and 2018 and for the years ended December 31, 2019 and 2018.

	Three months ended December 31			Year ended December 31		
	2019	2018	Change	2019	2018	Change
Average crude oil and natural gas prices(1)(2)						
Crude Oil						
West Texas Intermediate (US$/bbl)	56.96	58.82	(3%)	57.02	64.76	(12%)
Western Canadian Select (CDN$/bbl)	54.29	36.01	51%	58.77	52.34	12%
Natural Gas						
30 day Spot AECO (CDN$/mcf)	2.42	1.58	53%	1.76	1.50	17%
Average foreign exchange rates(2)						
US dollar to Canadian dollar	1.32	1.32	-	1.33	1.30	2%

(1) See "Abbreviations" on page 22 of this MD&A.

(2) Source: Sproule December 31, 2019 Price Forecast, Historical Prices.

West Texas Intermediate ("WTI") on average declined for the three months and year ended December 31, 2019 respectively, compared to the same periods in the prior year. However, pricing on Western Canadian Select ("WCS") crude oil increased by 51% in the fourth quarter of 2019 and by 12% year over year respectively, compared to the same periods in the prior year, due to improved price differentials as a result of the mandated crude oil production curtailments implemented by the Government of Alberta. Natural gas prices in Canada increased for both the three months and year

[1] Source: CAODC Contractor Summary as at February 27, 2020.

[2] Source: CAODC Fleet List as at February 27, 2020.

ended December 31, 2019, as the 30 day spot AECO price increased by 53% and 17% respectively, over the same periods of the prior year. The US dollar to the Canadian dollar foreign exchange rate remained constant quarter over quarter, though weakened for the year ended December 31, 2019 which had a slightly positive effect on the cash flows of Western's Canadian customers, when selling US dollar denominated commodities.

In the United States, industry activity has decreased in 2019, particularly in the fourth quarter. As reported by Baker Hughes Company[3], the number of active drilling rigs in the United States decreased year over year by approximately 26%. Likewise, in Canada, market conditions have deteriorated despite improved year to date prices for Canadian crude oil and natural gas. The mandated crude oil production curtailments implemented by the Government of Alberta and continued industry concerns over market access, increased regulation, and the prevailing customer preference to return cash to shareholders, or pay down debt, rather than grow production have resulted in a decrease in industry activity in Canada. The CAODC[4] reported that for drilling in Canada, the total number of Operating Days in the Western Canadian Sedimentary Basin ("WCSB") decreased by approximately 30% in 2019 as compared to 2018, as a result of a 13% decrease in the industry rig count year over year.

Operational results for the three months ended December 31, 2019 include:

- Fourth quarter revenue decreased by $17.3 million to $45.8 million in 2019 as compared to $63.1 million in 2018. In the contract drilling segment, revenue totalled $30.9 million in the fourth quarter of 2019, a decrease of $18.3 million (or 37%) as compared to $49.2 million in the fourth quarter of 2018. In the production services segment, revenue totalled $15.0 million for the three months ended December 31, 2019, as compared to $14.0 million for the three months ended December 31, 2018, an increase of $1.0 million (or 7%). While contract drilling day rates were higher in the United States and activity was higher for well servicing in Canada, lower contract drilling and oilfield rental equipment activity in Canada impacted revenue as described below:
    - Drilling rig utilization – Operating Days ("Drilling Rig Utilization") in Canada decreased to 21% in the fourth quarter of 2019 compared to an average of 32% in the same period of the prior year, reflecting a 1,100 basis points ("bps") reduction. The decrease in activity was mainly attributable to mandated crude oil production curtailments in Alberta due to pipeline constraints, coupled with continued market uncertainty and as a result, customers reduced or cancelled their 2019 drilling programs. Fourth quarter 2019 Drilling Rig Utilization of 21% represented a discount of 200 bps to the CAODC industry average of 23%[5], a decrease as compared to the fourth quarter of 2018 when Drilling Rig Utilization of 32% was 400 bps higher than the industry average. The decrease in the Company's utilization as compared to the industry average in 2019 was a function of a smaller industry rig fleet, as older rigs continue to be decommissioned and higher specification rigs continue to move out of the WCSB. Western's market share, represented by the Company's Operating Days as a percentage of the CAODC's total Operating Days in the WCSB, decreased to 8.2% in the fourth quarter of 2019, as compared to 9.6% in the fourth quarter of 2018. Revenue per Billable Day decreased by 2% in the fourth quarter of 2019, as compared to the same period in the prior year, due to changes in the average rig mix and lower third party revenue as less fuel was purchased on behalf of the Company's customers;
    - In the United States, six of the Company's eight drilling rigs worked during the quarter, two of which were operating on term contracts. Drilling Rig Utilization was 30% in the fourth quarter of 2019, compared to 71% in the fourth quarter of 2018, reflecting a 44% decrease in Operating Days. Revenue per Billable Day for the fourth quarter of 2019 improved by 12%, mainly due to a higher proportion of Operating Days related to the Company's high specification Duvernay class rigs in the Williston Basin in North Dakota, compared to the rigs working in the Permian Basin in Texas which worked at lower average day rates, while operating at a significantly lower cost; and
    - In Canada, service rig utilization was 32% in the fourth quarter of 2019 compared to 28% in the same period of the prior year. The increase is due to continued efforts by management to improve activity with existing customers and broaden the Company's customer base, despite continued market uncertainty and mandated crude oil production curtailments in Alberta. Revenue per Service Hour increased during the fourth quarter of 2019 by 2%, as compared to the same period in the prior year, due to changes in the average rig mix. Higher utilization and pricing, led to well servicing revenue in the period increasing to $12.6 million, an improvement of $1.0 million (or 9%), as compared to the same period in the prior year.

[3] Source: Baker Hughes Company, 2019 Rig Count monthly press releases.

[4] Source: CAODC, monthly Contractor Summary.

[5] Source: CAODC, monthly Contractor Summary.

- Administrative expenses decreased by $0.6 million (or 12%) to $4.2 million in the fourth quarter of 2019, as compared to $4.8 million in the fourth quarter of 2018, mainly due to lower rent expense as a result of the adoption of IFRS 16.
- The Company incurred a net loss of $52.2 million in the fourth quarter of 2019 ($0.56 per basic common share) as compared to a net loss of $9.5 million in the same period in 2018 ($0.10 per basic common share). The change can mainly be attributed to a property and equipment impairment loss of $54.0 million and a $2.3 million decrease in Adjusted EBITDA, offset partially by a $12.2 million increase in income tax recovery and a $1.6 million decrease in depreciation expense due to certain assets being fully depreciated in the period.
- Fourth quarter Adjusted EBITDA decreased by $2.3 million (or 29%) to $5.6 million in 2019 as compared to $7.9 million in the fourth quarter of 2018. The year over year change in Adjusted EBITDA is due to lower contract drilling in Canada and the United States, lower oilfield rental equipment activity in Canada, $1.0 million of restructuring costs related to severance as the Company continues to monitor and align its costs with lower activity levels, offset partially by increased pricing in the United States and higher well servicing activity in Canada.
- As a result of continued market uncertainty and the related outlook for current and future oilfield services activity and pricing, the Company completed an impairment test for each of its cash generating units ("CGU") as at December 31, 2019. Based on the results of these tests, it was determined that property and equipment in the Company's contract drilling and oilfield rentals CGUs was impaired by $49.0 million and $5.0 million respectively.
- Fourth quarter 2019 additions to property and equipment of $2.9 million included $1.2 million related to expansion capital and $1.7 million of maintenance capital. In total, additions to property and equipment in the fourth quarter of 2019 decreased by $3.2 million (or 52%) from the $6.1 million incurred in the fourth quarter of 2018.
- Subsequent to December 31, 2019, on January 6, 2020, the Company announced a normal course issuer bid (the "Bid"), which has been filed with and accepted by the Toronto Stock Exchange. Pursuant to the Bid, Western may purchase for cancellation up to 5,200,000 common shares of the Company. The Bid commenced on January 14, 2020 and will terminate the earlier of: (i) January 13, 2021; and (ii) the date on which the maximum number of common shares are purchased pursuant to the Bid. 1,571,000 common shares for a total cost of approximately $0.5 million have been repurchased since the commencement of the Bid.

Operational results for the year ended December 31, 2019 include:

- Revenue in 2019 decreased by $40.0 million (or 17%) to $196.4 million as compared to $236.4 million in 2018. In the contract drilling segment, revenue totalled $140.8 million in 2019, including US$1.3 million of shortfall commitment revenue, and reflects a decrease of $43.1 million (or 23%) as compared to $183.9 million in 2018. In the production services segment, revenue totalled $55.9 million in 2019, as compared to $52.7 million in 2018, an increase of $3.2 million (or 6%). Activity was higher for well servicing in Canada; whereas lower contract drilling and oilfield rental equipment activity in Canada and lower activity in the United States impacted revenue as described below:
    - Drilling Rig Utilization in Canada for the year ended December 31, 2019 decreased to 22%, compared to an average of 35% for the prior year, reflecting a 1,300 bps reduction. The decrease in activity was mainly attributable to mandated crude oil production curtailments in Alberta due to pipeline constraints, coupled with heightened market uncertainty and as a result, customers reduced or cancelled their 2019 drilling programs. Drilling Rig Utilization of 22% in 2019 was consistent with the CAODC industry average of 22%[6], whereas in 2018, Drilling Rig Utilization of 35% represented a 600 bps premium to the CAODC industry average. The decrease in the Company's utilization premium to the industry average in 2019 was a function of a smaller industry rig fleet, as older rigs continue to be decommissioned and higher specification rigs continue to move out of the WCSB. Western's market share, represented by the Company's Operating Days as a percentage of the CAODC's total Operating Days in the WCSB, was 8.9% in 2019, as compared to 9.8% in 2018. Despite lower activity, revenue per Billable Day in 2019 was consistent with the prior year, due to rates on all rig classes remaining relatively constant, coupled with changes in the average rig mix;
    - In the United States, seven of the Company's eight drilling rigs worked in 2019, three of which were operating on term contracts. Additionally, US$1.3 million in shortfall commitment revenue was recognized in 2019. During the fourth quarter of 2018, the Company purchased one Cardium class drilling rig for its fleet in the United States, which commenced operations in the Permian basin. Additionally, a Duvernay class rig from the Canadian fleet was deployed to the Permian Basin in the first quarter of 2019. As a result of a larger and more geographically diversified rig fleet in 2019, Operating Days increased by 21%, as compared to 2018. However, Drilling Rig

[6] Source: CAODC, monthly Contractor Summary.

Utilization decreased to 47% for the year ended December 31, 2019, compared to 51% in the prior year due to activity slowing in the United States. While day rates on the Company's high specification Duvernay class rigs remained constant in the Williston Basin in North Dakota, revenue per Billable Day for the year ended December 31, 2019 decreased by 3% as the rigs working in the Permian Basin in Texas worked at lower average day rates, while operating at a significantly lower cost and worked a higher proportion of Operating Days in 2019 than 2018; and

  - In Canada, service rig utilization was 30% for the year ended December 31, 2019 compared to 25% in the prior year. The increase is due to continued efforts by management to improve activity with existing customers and broaden the Company's customer base, despite customer programs being impacted by continued market uncertainty, wet weather in certain areas and mandated crude oil production curtailments in Alberta. While utilization improved, revenue per Service Hour decreased in 2019 by 4%, compared to 2018 due to pricing pressure in certain operating areas. Higher utilization, offset partially by lower pricing, led to well servicing revenue in the period increasing to $46.2 million, an improvement of $4.8 million (or 12%), as compared to the prior year.

- Administrative expenses in 2019 decreased by $2.2 million (or 12%) to $16.7 million, as compared to $18.9 million in 2018, mainly due to lower rent expense as a result of the adoption of IFRS 16, coupled with lower employee related costs due to lower headcount, offset partially by severance costs described previously.
- The Company incurred a net loss of $81.0 million in 2019 ($0.88 per basic common share) as compared to a net loss of $41.1 million in 2018 ($0.45 per basic common share). The change can be attributed to:
  - A $17.2 million increase in income tax recovery due to an increased loss before income taxes in the period due to the impairment of property and equipment and the decrease in the Alberta corporate tax rate substantively enacted in the second quarter of 2019;
  - A $3.0 million decrease in depreciation expense due to certain assets being fully depreciated in the period;
  - A $0.6 million decrease in stock based compensation expense mainly due to the Company's lower share price;
  - A $0.4 million decrease in finance costs, mainly due to $0.6 million of non-cash accretion expense recognized in the prior year related to the early redemption of the Company's senior notes; and
  - A $0.3 million change in other items, which include gains and losses on foreign exchange and asset sales.

  Offsetting the above mentioned items were the $54.0 million impairment loss on property and equipment and a $7.4 million decrease in Adjusted EBITDA.
- Adjusted EBITDA for the year ended December 31, 2019 decreased by $7.4 million (or 23%) to $24.2 million as compared to $31.6 million for the year ended December 31, 2018. The year over year change is mainly due to lower Adjusted EBITDA in Canadian contract drilling, coupled with $1.9 million related to restructuring costs related to severance as the Company continues to monitor and adjust its costs based on lower activity levels, lower rent expense as a result of the adoption of IFRS 16, and $1.4 million in costs related to establishing well servicing operations for Western Oilfield Services in the United States, which was offset partially by shortfall commitment revenue.
- As a result of continued market uncertainty and the related outlook for current and future oilfield services activity and pricing, the Company completed an impairment test for each of its CGUs as at December 31, 2019. Based on the results of these tests, it was determined that property and equipment in the Company's contract drilling and oilfield rentals CGUs were impaired by $49.0 million and $5.0 million respectively.
- Year to date additions to property and equipment of $8.0 million included $2.6 million of expansion capital and $5.4 million of maintenance capital. In total, additions to property and equipment for 2019 decreased by $12.0 million (or 60%) from the $20.0 million incurred in 2018. The Company incurred expansion capital mainly related to drilling rig upgrades, as well as required maintenance capital in 2019.
- On January 1, 2019, the Company adopted IFRS 16, Leases, using the modified retrospective method. The adoption of IFRS 16 resulted in an increase in long term debt of $12.8 million, an increase in property and equipment of $10.1 million, a decrease in provisions of $1.4 million, a decrease in the deferred tax liability of $0.4 million, a decrease in other assets of $0.1 million, and a net decrease in retained earnings of $1.1 million. For the three months and year ended December 31, 2019, the impact of IFRS 16 on Adjusted EBITDA was an increase of $0.8 million and $3.3 million respectively, whereas the impact on net loss was less than $0.1 million in each respective period, as increased Adjusted EBITDA was offset by higher depreciation expense and finance costs.

Outlook

Currently, 15 of Western's drilling rigs are operating. Three of Western's 57 drilling rigs (or 5%) are under term take or pay contracts, with two expected to expire in 2020 and one expected to expire in 2021. These contracts each typically generate between 250 and 350 Billable Days per year.

Due to decreased activity levels, Western's capital budget for 2020 is expected to total approximately $8 million, with $1 million allocated for expansion capital and $7 million for maintenance capital. Western believes the 2020 capital budget provides a prudent use of cash resources and will allow it to maintain its premier drilling and well servicing rig fleets, while remaining responsive to customer requirements. Western will continue to manage its operations in a disciplined manner and make required adjustments to its capital program as customer demand changes.

Mandated crude oil production cuts in Alberta and uncertainty surrounding takeaway capacity related to the timing of construction on the Trans Mountain pipeline expansion and the Keystone XL pipeline, as well as the in service date of the Enbridge Line 3 pipeline replacement, have resulted in 2020 capital budgets for Western's Canadian customers decreasing year over year. As such, year over year activity levels in Canada are expected to be consistent with 2019 levels. Controlling fixed costs and maintaining balance sheet flexibility are priorities for the Company, as prices and demand for Western's services remain below historical levels. Going forward, Western's variable cost structure and a prudent capital budget will aid in preserving balance sheet strength.

As at December 31, 2019, Western had $12.3 million drawn on its $60.0 million credit facilities, consisting of its $50.0 million syndicated first lien credit facility (the "Revolving Facility") and its $10.0 million committed operating facility (the "Operating Facility" and together the "Credit Facilities"), which mature on December 17, 2021. Western currently has $211.2 million outstanding on its Second Lien Facility, which matures on January 31, 2023.

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

Review of the Year Ended December 31, 2019 Results

Segmented Information

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

Contract Drilling

Financial Highlights	Three months ended December 31			Year ended December 31		
(stated in thousands)	2019	2018	Change	2019	2018	Change
Revenue	30,901	49,158	(37%)	140,771	183,937	(23%)
Expenses						
Operating	23,576	38,071	(38%)	107,913	143,075	(25%)
Administrative	2,167	2,338	(7%)	8,590	9,288	(8%)
Adjusted EBITDA[1]	5,158	8,749	(41%)	24,268	31,574	(23%)
Adjusted EBITDA as a percentage of revenue	17%	18%	(6%)	17%	17%	-
Depreciation	11,065	13,172	(16%)	48,027	52,757	(9%)
Operating Loss	(5,907)	(4,423)	34%	(23,759)	(21,183)	12%
Stock based compensation	55	56	(2%)	170	441	(61%)
Loss before income taxes and impairment	(5,962)	(4,479)	33%	(23,929)	(21,624)	11%
Additions to property and equipment	1,619	5,442	(70%)	5,128	17,478	(71%)

Operating Highlights						
Canadian Operations						
Contract drilling rig fleet:						
Average active rig count[2]	11.4	18.1	(37%)	12.3	19.2	(36%)
End of period	49	50	(2%)	49	50	(2%)
Revenue per Billable Day[2]	22,023	22,474	(2%)	21,383	21,321	-
Revenue per Operating Day[2]	24,725	25,166	(2%)	23,854	23,644	1%
Operating Days[2]	932	1,487	(37%)	4,012	6,328	(37%)
Number of meters drilled	334,382	529,707	(37%)	1,383,001	2,081,121	(34%)
Number of wells drilled	77	124	(38%)	328	506	(35%)
Average Operating Days per well	12.1	12.0	1%	12.2	12.5	(2%)
Drilling rig utilization - Billable Days[2]	23%	36%	(36%)	25%	38%	(34%)
Drilling rig utilization - Operating Days[2]	21%	32%	(34%)	22%	35%	(37%)
CAODC industry average utilization - Operating Days[2][3]	23%	28%	(18%)	22%	29%	(24%)
United States Operations						
Contract drilling rig fleet:						
Average active rig count[2]	2.9	4.9	(41%)	4.4	3.4	29%
End of period	8	7	14%	8	7	14%
Revenue per Billable Day (US$)[2]	21,979	19,602	12%	20,460 [4]	21,109	(3%)
Revenue per Operating Day (US$)[2]	26,596	22,011	21%	24,150 [4]	23,571	2%
Operating Days[2]	224	403	(44%)	1,352	1,121	21%
Number of meters drilled	61,173	113,979	(46%)	371,171	343,716	8%
Number of wells drilled	15	20	(25%)	89	64	39%
Average Operating Days per well	14.9	20.2	(26%)	15.2	17.5	(13%)
Drilling rig utilization - Billable Days[2]	37%	79%	(53%)	56%	57%	(2%)
Drilling rig utilization - Operating Days[2]	30%	71%	(58%)	47%	51%	(8%)

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

(2) See "Defined Terms" on page 22 of this MD&A.

(3) Source: CAODC monthly Contractor Summary. The CAODC industry average is based on Operating Days divided by total available drilling days.

(4) Excludes shortfall commitment revenue from take or pay contracts of US$1.3 million for the year ended December 31, 2019.

For the year ended December 31, 2019, revenue for the contract drilling segment totalled $140.8 million, including US$1.3 million of shortfall commitment revenue, which was a $43.1 million decrease (or 23%), as compared to the prior year. Revenue for the year ended December 31, 2019 was impacted by lower industry activity in Canada as customers reduced their drilling programs due to the mandated Government of Alberta production curtailments and market uncertainty; however, a larger and more geographically diverse rig fleet in the United States led to higher year over year activity. While pricing in Canada was consistent with 2018, pricing in the United States decreased by 3% in 2019 compared to 2018, mainly due to changes in the average rig mix, as the rigs working in the Permian Basin in Texas worked at lower average day rates, while operating at a significantly lower cost.

For the year ended December 31, 2019, operating expenses per Billable Day, which include third party charges, increased by 3%, as compared to the prior year. The increase is mainly attributed to fixed operating costs being allocated over fewer Billable Days in 2019 compared to 2018.

Administrative expenses for 2019 totalled $8.6 million and were 8% lower than the prior year, mainly due to lower rent expense as a result of the adoption of IFRS 16, as well as lower employee related costs, offset partially by restructuring costs.

Contract drilling incurred a loss before income taxes and impairment of $23.9 million in 2019, compared to a loss before income taxes of $21.6 million in 2018. The change can be attributed to a $7.3 million decrease in Adjusted EBITDA, which was partially offset by a $4.8 million decrease in depreciation expense and a $0.2 million decrease in stock based compensation.

Contract drilling Adjusted EBITDA of $24.3 million in 2019 decreased by $7.3 million (or 23%), as compared to $31.6 million in 2018. The decrease in 2019 is mainly due to lower activity in Canada, which was partially offset by increased Operating Days in the United States year over year, as well as shortfall commitment revenue recognized in 2019.

Depreciation expense in 2019 totalled $48.0 million and reflects a decrease of $4.8 million (or 9%) over the prior year, mainly due to certain assets being fully depreciated in the period.

Additions to property and equipment in the contract drilling segment were significantly lower year over year and totalled $5.1 million in 2019. Additions to property and equipment include $1.8 million of expansion capital relating to rig upgrades and $3.3 million of required maintenance capital.

As a result of continued market uncertainty and the related outlook for current and future oilfield services activity and pricing, the Company recorded a $49.0 million impairment loss in the contract drilling segment in the fourth quarter of 2019.

Canadian Operations

While the price for Canadian crude oil and natural gas improved in 2019, activity in the WCSB declined as most customers reduced their drilling programs, largely due to economic factors such as the crude oil production curtailments mandated by the Government of Alberta. As a result, Operating Days decreased by 37% in 2019 and Drilling Rig Utilization in Canada declined to 22% as compared to 35% in 2018.

Drilling Rig Utilization in Canada of 22% in 2019 is consistent with the CAODC average, as compared to a 600 bps premium in the prior year. The decrease in the Company's premium to the CAODC average for 2019 was due to a smaller industry rig fleet, as older rigs continue to be decommissioned and higher specification rigs continue to move out of the WCSB. Western's market share, represented by the Company's Operating Days as a percentage of the CAODC's total Operating Days in the WCSB, decreased to 8.9% in 2019, as compared to 9.8% in 2018.

For the year ended December 31, 2019, revenue per Billable Day in Canada totalled $21,383 and was consistent with $21,321 in the prior year, as rates on all rig classes have remained relatively constant despite decreased activity in the industry.

United States Operations

A larger drilling rig fleet, with seven of the Company's eight drilling rigs operating in 2019, resulted in Western's Operating Days in the United States increasing by 231 days (or 21%) for the year ended December 31, 2019. However, Drilling Rig Utilization of 47% in 2019, compared to 51% in 2018, mainly due to lower activity in the Permian Basin in the United States in the fourth quarter of 2019.

For the year ended December 31, 2019, revenue per Billable Day decreased by 3% to US$20,460 as compared to US$21,109 in the prior year. While day rates on the Company's high specification Duvernay class rigs remained constant in the Williston Basin in North Dakota, revenue per Billable Day declined in 2019, as the rigs working in the Permian Basin in Texas, worked at lower average day rates, while operating at a significantly lower cost.

Production Services						
Financial Highlights	**Three months ended December 31**				**Year ended December 31**	
(stated in thousands)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Revenue	14,997	13,987	7%	55,874	52,721	6%
Expenses						
Operating	12,531	12,397	1%	47,773	43,048	11%
Administrative	1,215	1,383	(12%)	4,801	5,341	(10%)
Adjusted EBITDA[(1)]	1,251	207	504%	3,300	4,332	(24%)
Adjusted EBITDA as a percentage of revenue	8%	1%	700%	6%	8%	(25%)
Depreciation	3,287	3,123	5%	13,240	12,889	3%
Operating Loss	(2,036)	(2,916)	(30%)	(9,940)	(8,557)	16%
Stock based compensation	29	13	123%	88	76	16%
Loss before income taxes and impairment	(2,065)	(2,929)	(29%)	(10,028)	(8,633)	16%
Additions to property and equipment	1,270	660	92%	2,385	2,439	(2%)

Operating Highlights						
Canadian well servicing rig fleet:						
Average active rig count[(2)]	20.1	18.8	7%	19.1	16.5	16%
End of period	63	66	(5%)	63	66	(5%)
Revenue per Service Hour[(2)]	680	669	2%	661	686	(4%)
Service Hours[(2)]	18,494	17,247	7%	69,882	60,337	16%
Service rig utilization [(2)]	32%	28%	14%	30%	25%	20%

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

(2) See "Defined Terms" on page 22 of this MD&A.

The Company's production services segment includes Eagle's well servicing fleet and Aero's oilfield rental equipment in Canada, as well as Western Oilfield Services' well servicing fleet in the United States. Revenue in the production services segment for the year ended December 31, 2019 increased by $3.2 million (or 6%) to $55.9 million, compared to $52.7 million in the prior year. In 2019, Eagle's contribution to revenue in the production services segment increased to $46.2 million compared to $41.4 million in the prior year, whereas Aero's contribution to revenue in the production services segment decreased to $9.3 million compared to $11.3 million in the prior year. The increase in revenue for Eagle for the year ended December 31, 2019, as compared to the prior year, is due to higher activity and reflects an increased market share due to continued efforts by management to improve activity with existing customers and broaden the Company's customer base, despite customer programs being impacted by wet weather in certain areas in the third quarter of 2019, mandated production curtailments in Alberta due to pipeline constraints, and continued market uncertainty. The decrease in Aero's revenue in 2019, as compared to 2018, is mainly due to lower industry activity. Operations commenced in Western Oilfield Services in the United States in 2019, with the first well servicing hours worked near the end of the second quarter of 2019.

Eagle's Service Hours improved by 16% to 69,882 hours (30% utilization) in 2019, as compared to 60,337 hours (25% utilization) in 2018. The improvement in Eagle's Service Hours is mainly due to the continued efforts by management to increase market share. While utilization improved, revenue per Service Hour decreased by 4% to $661 in 2019, as compared to $686 in the prior year, due to changes in the average rig mix.

During the year ended December 31, 2019, administrative expenses totalled $4.8 million and were 10% lower than the prior year, mainly due to lower rent expense due to the impact of adopting IFRS 16, as well as lower employee related expenses.

For the year ended December 31, 2019, production services incurred a loss before income taxes and impairment of $10.0 million, compared to a loss before income taxes of $8.6 million in 2018 mainly due to a $1.0 million decrease in Adjusted EBITDA and a $0.3 million increase in depreciation expense.

Adjusted EBITDA decreased in 2019 by $1.0 million to $3.3 million, compared to $4.3 million in 2018. While revenue increased by 6%, the lower Adjusted EBITDA for the year ended December 31, 2019 was due to higher operating costs related to repairs and maintenance, partially due to reactivating rigs, coupled with $1.4 million related to establishing well servicing operations in the Bakersfield area of California, offset partially by lower rent expense due to the adoption of IFRS 16.

Depreciation expense for 2019 was 3% higher than 2018, mainly due to leases capitalized with the adoption of IFRS 16 which resulted in increased depreciation expense for the year.

Additions to property and equipment in the production services segment totalled $2.4 million in 2019, and included $0.7 million of expansion capital and maintenance capital of $1.7 million, consistent with $2.4 million in the prior year.

As a result of continued market uncertainty and the related outlook for current and future oilfield services activity and pricing, the Company recorded a $5.0 million impairment loss in the production services segment in the fourth quarter of 2019.

Corporate

	Three months ended December 31			Year ended December 31		
(stated in thousands)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Expenses						
Administrative	824	1,040	(21%)	3,329	4,290	(22%)
Depreciation	497	136	265%	1,901	535	255%
Operating Loss	(1,321)	(1,176)	12%	(5,230)	(4,825)	8%
Stock based compensation	43	85	(49%)	328	661	(50%)
Finance costs	4,645	4,603	1%	18,697	19,050	(2%)
Other items	(1)	(101)	(99%)	(410)	(99)	314%
Income tax recovery	(15,786)	(3,641)	334%	(30,772)	(13,634)	126%
Additions to property and equipment	53	-	100%	455	43	958%

Corporate administrative expenses for the year ended December 31, 2019 decreased by 22%, as compared to the prior year and totalled $3.3 million. The decrease for 2019 is mainly due to lower employee related costs and lower rent expense as a result of the adoption of IFRS 16, offset partially by restructuring costs.

Finance costs in 2019 of $18.7 million were lower by $0.4 million (or 2%), as compared to 2018 and represented an effective interest rate of 7.9%, as compared to 8.5% in 2018. The decrease for the year ended December 31, 2019 is mainly due to the inclusion of $0.6 million of non-cash accretion expense related to the early redemption of the Company's senior notes in 2018, offset partially by a higher average long term debt balance outstanding in 2019.

Other items, which relate to gains and losses on the sale of assets and foreign exchange, total a gain of $0.4 million for 2019, as compared to a gain of $0.1 million in 2018.

For the year ended December 31, 2019, income taxes on a consolidated basis totalled a recovery of $30.8 million, representing an effective tax rate of 27.5%, as compared to an effective tax rate of 24.9% in 2018. The increase in the effective tax rate for 2019, as compared to the prior year, is mainly due to the decrease in the Alberta corporate tax rate substantively enacted in the second quarter of 2019. Normalizing for this change, the effective tax rate for the year ended December 31, 2019 would have been approximately 23.7%.

Liquidity and Capital Resources

The Company's liquidity needs in the short and long term can be sourced in several ways including: available cash balances, funds from operations, borrowing against the Credit Facilities, new debt instruments, equity issuances and proceeds from the sale of assets. As at December 31, 2019, Western had working capital of $7.0 million, a decrease of $8.7 million from December 31, 2018. Western's consolidated debt balance at December 31, 2019 increased by $8.2 million (or 4%) to $235.8 million, as compared to $227.6 million at December 31, 2018, mainly due to the implementation of IFRS 16, Leases, which added $12.8 million to long term debt, offset partially by repayments on the Second Lien and other long term debt during 2019.

During the year ended December 31, 2019, Western had the following changes to its cash balances, which resulted in no significant change in cash and cash equivalents for the year:

Cash and cash equivalents (stated in thousands)	
Opening balance, at December 31, 2018	3,960
Add:	
Adjusted EBITDA[1]	24,238
Net draw on Credit Facilities	406
Change in non cash working capital	5,472
Proceeds on sale of property and equipment	941
Deduct:	
Finance costs paid	(17,400)
Additions to property and equipment	(7,968)
Repayment of Second Lien debt	(2,150)
Repayment of lease obligations	(3,403)
Other items	(81)
Ending balance, at December 31, 2019	**4,015**

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

Western's Credit Facilities, which have a limit of $60.0 million, mature on December 17, 2021. Western's cash from operations and available Credit Facilities are expected to be sufficient to cover Western's financial obligations, including working capital requirements and the 2020 capital budget. Advances under the Credit Facilities are limited by the Company's borrowing base. The borrowing base is applicable when either (i) more than $40.0 million is drawn on the Credit Facilities or (ii) the net book value of Western's property and equipment is less than $300.0 million.

The borrowing base is determined as follows:

- 85% of eligible investment grade accounts receivable; plus
- 75% of eligible non-investment grade accounts receivable; plus
- 25% of the net book value of property and equipment to a maximum of $40.0 million.

As at December 31, 2019, the borrowing base calculation was not applicable as less than $40.0 million was drawn on the Company's Credit Facilities and the net book value of Western's property and equipment was greater than $300.0 million.

Amounts borrowed under the Credit Facilities bear interest at the bank's Canadian prime rate or the banker's acceptance rate plus an applicable margin depending, in each case, on the ratio of Consolidated Debt to Consolidated EBITDA as defined by the Credit Facilities agreement. Consolidated EBITDA, as defined by the Credit Facilities agreement, differs from Adjusted EBITDA as defined under Non-IFRS Measures on page 21 of this MD&A, by including certain items such as realized foreign exchange gains or losses and cash payments made on leases capitalized under IFRS 16.

The Credit Facilities are secured by the assets of Western and its subsidiaries. A summary of the Company's financial covenants as at December 31, 2019 is as follows:

December 31, 2019	**Covenants[1]**
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio	3.0:1.0 or less
Maximum Consolidated Debt to Consolidated Capitalization Ratio	0.6:1.0 or less
Minimum Current Ratio	1.15:1.0 or more

(1) See covenant definitions in Note 11 of the December 31, 2019 consolidated financial statements.

At December 31, 2019, Western is in compliance with all covenants related to its Credit Facilities. The adoption of IFRS 16 did not have an impact on the Company's Credit Facility covenants.

For the years ended December 31, 2019 and 2018, the Company had no customers comprising 10.0% or more of the Company's total revenue. The Company's significant customers may change from period to period.

Review of Fourth Quarter 2019 Results

Selected Financial Information

Financial Highlights	**Three months ended December 31**		
(stated in thousands, except share and per share amounts)	**2019**	**2018**	**Change**
Total Revenue	45,838	63,133	(27%)
Adjusted EBITDA[(1)]	5,584	7,916	(29%)
Adjusted EBITDA as a percentage of revenue	12%	13%	(8%)
Cash flow from operating activities	8,921	5,022	78%
Additions to property and equipment	2,942	6,102	(52%)
Net loss	(52,249)	(9,530)	448%
-basic net loss per share	(0.56)	(0.10)	460%
-diluted net loss per share	(0.56)	(0.10)	460%
Weighted average number of shares			
-basic	92,501,314	92,305,208	-
-diluted	92,501,314	92,305,208	-
Outstanding common shares as at period end	92,501,314	92,305,542	-

Operating Highlights			
Contract Drilling			
Canadian Operations			
Contract drilling rig fleet:			
Average active rig count[(2)]	11.4	18.1	(37%)
End of period	49	50	(2%)
Revenue per Billable Day[(2)]	22,023	22,474	(2%)
Revenue per Operating Day[(2)]	24,725	25,166	(2%)
Operating Days[(2)]	932	1,487	(37%)
Number of meters drilled	334,382	529,707	(37%)
Number of wells drilled	77	124	(38%)
Average Operating Days per well	12.1	12.0	1%
Drilling rig utilization - Billable Days[(2)]	23%	36%	(36%)
Drilling rig utilization - Operating Days[(2)]	21%	32%	(34%)
CAODC industry average utilization rate[(3)]	23%	28%	(18%)
United States Operations			
Contract drilling rig fleet:			
Average active rig count[(2)]	2.9	4.9	(41%)
End of period	8	7	14%
Revenue per Billable Day[(2)]	21,979	19,602	12%
Revenue per Operating Day (US$)[(2)]	26,596	22,011	21%
Operating Days[(2)]	224	403	(44%)
Number of meters drilled	61,173	113,979	(46%)
Number of wells drilled	15	20	(25%)
Average Operating Days per well	14.9	20.2	(26%)
Drilling rig utilization - Billable Days[(2)]	37%	79%	(53%)
Drilling rig utilization - Operating Days[(2)]	30%	71%	(58%)
Production Services			
Canadian well servicing rig fleet:			
Average active rig count[(2)]	20.1	18.8	7%
End of period	63	66	(5%)
Revenue per Service Hour[(2)]	680	669	2%
Service Hours[(2)]	18,494	17,247	7%
Service rig utilization[(2)]	32%	28%	14%

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

(2) See "Defined Terms" on page 22 of this MD&A.

(3) Source: CAODC monthly Contractor Summary. The CAODC industry average is based on Operating Days divided by total available drilling days.

Review of Fourth Quarter 2019 Results

Consolidated

Fourth quarter 2019 revenue decreased by $17.3 million (or 27%) to $45.8 million as compared to $63.1 million in the same period of the prior year. Adjusted EBITDA decreased by $2.3 million (or 29%) to $5.6 million in the fourth quarter of 2019, as compared to $7.9 million in the fourth quarter of 2018. The decrease in consolidated revenue and Adjusted EBITDA is mainly a result of lower utilization in the contract drilling segment and decreased oilfield rental equipment activity in the production services segment, offset partially by increased well servicing activity and higher day rates in the United States.

As a result of continued market uncertainty and the related outlook for current and future oilfield services activity and pricing, the Company completed an impairment test for each of its CGUs as at December 31, 2019. Based on the results of these tests, it was determined that property and equipment in the Company's contract drilling and oilfield rentals CGUs was impaired by $49.0 million and $5.0 million respectively.

Contract Drilling

During the fourth quarter of 2019, revenue in the contract drilling segment totalled $45.8 million, a $17.3 million decrease (or 27%), as compared to the same period of the prior year. Revenue for the three months ended December 31, 2019 was impacted by lower industry activity in Canada as customers reduced their drilling programs due to the mandated Government of Alberta production curtailments and market uncertainty; additionally, activity in the United States slowed in the fourth quarter of 2019 as customers provided returns to shareholders through dividends and share buybacks, versus growth. While pricing in Canada was steady decreasing by 2% in the fourth quarter of 2019, pricing in the United States increased by 12%, as compared to the fourth quarter of 2018 due to changes in the average rig mix.

For the three months ended December 31, 2019, operating expenses per Billable Day, which include third party charges, decreased by 1%, as compared to the same period in the prior year. The decrease is mainly attributed to lower costs associated with reactivating rigs in the fourth quarter of 2019, offset partially by fixed costs being allocated over fewer Billable Days in 2019.

For the three months ended December 31, 2019, administrative expenses totalled $2.2 million and were 7% lower than the same period of the prior year, mainly due to lower rent expense as a result of the adoption of IFRS 16, as well as lower employee related costs.

Contract drilling incurred a loss before income taxes and impairment of $6.0 million in the fourth quarter of 2019, compared to a loss before income taxes of $4.5 million in the same period of the prior year. The change can be attributed to a $3.5 million decrease in Adjusted EBITDA, which was partially offset by a $2.1 million decrease in depreciation expense.

Adjusted EBITDA in the contract drilling segment for the three months ended December 31, 2019 decreased by $3.5 million to $5.2 million, as compared to $8.7 million for the same period in the prior year. The decrease for the fourth quarter of 2019 is mainly due to lower activity in Canada and the United States.

Depreciation expense for the quarter ended December 31, 2019 totalled $11.1 million and reflects a decrease of $2.1 million over the same period of the prior year, mainly due to certain assets being fully depreciated in the period.

Additions to property and equipment in the contract drilling segment were significantly lower year over year and totalled $1.6 million in the fourth quarter of 2019. Additions to property and equipment in the fourth quarter of 2019 consisted of $0.8 million of expansion capital and $0.8 of maintenance capital. The Company incurred expansion capital related to rig upgrades in the fourth quarter of 2019, as well as required maintenance capital.

As a result of continued market uncertainty and the related outlook for current and future oilfield services activity and pricing, the Company recorded a $49.0 million impairment loss in the contract drilling segment in the fourth quarter of 2019.

Canadian Operations

While the price for Canadian crude oil and natural gas improved during the fourth quarter of 2019, activity in the WCSB declined as most customers reduced their drilling programs, largely due to economic factors such as the crude oil production curtailments mandated by the Government of Alberta. As a result, during the three months ended December 31, 2019, Operating Days decreased by 37% and Drilling Rig Utilization in Canada declined to 21% as compared to 32% in the same period of the prior year.

Drilling Rig Utilization in Canada of 21% in the fourth quarter of 2019 reflects a 200 bps discount to the CAODC average of 23%, as compared to a 400 bps premium to the CAODC average of 28% in the fourth quarter of 2018. The decrease in the Company's premium to the CAODC average for the three months ended December 31, 2019 was due to a smaller industry

rig fleet, as older rigs continue to be decommissioned and higher specification rigs continue to move out of the WCSB. Western's market share, represented by the Company's Operating Days as a percentage of the CAODC's total Operating Days in the WCSB, decreased to 8.2% for the three months ended December 31, 2019 respectively, as compared to 9.6%, in the same period of the prior year.

Pricing for the quarter ended December 31, 2019 was consistent with the same period of the prior year. For the fourth quarter of 2019, revenue per Billable Day in Canada decreased by 2% and totalled $22,023, compared to $22,474 in the same period of the prior year rates, due to rates on all rig classes remaining relatively constant, coupled with changes in the average rig mix.

United States Operations

Lower WTI prices in the fourth quarter of 2019 and lower industry activity in the United States, resulted in Western's Operating Days in the United States decreasing for the three months ended December 31, 2019. For the fourth quarter of 2019, Operating Days decreased by 179 days (or 44%) which resulted in Drilling Rig Utilization of 30%, compared to 71% in the same period of the prior year.

While activity was lower in the fourth quarter of 2019, revenue per Billable Day improved in the three months ended December 31, 2019 by 12% to US$21,979, as compared to US$19,602 in the same period of the prior year. Revenue per Billable Day for the fourth quarter of 2019 increased mainly due to a higher proportion of Operating Days related to the Company's high specification Duvernay class rigs in the Williston Basin in North Dakota, compared to the rigs working in the Permian Basin in Texas, which worked at lower average day rates, while operating at a significantly lower cost.

Production Services

Revenue in the production services segment for the quarter ended December 31, 2019 increased by $1.0 million (or 7%) to $15.0 million, compared to $14.0 million in the same period of the prior year. In the fourth quarter of 2019, Eagle's contribution to revenue in the production services segment increased to $12.6 million compared to $11.5 million in the prior year, whereas Aero's contribution to revenue in the production services segment decreased to $2.1 million compared to $2.5 million in the same period of the prior year. The increase in revenue for Eagle for the three months ended December 31, 2019, as compared to the same period in the prior year, is due to higher activity and reflects an increased market share due to continued efforts by management to improve activity with existing customers and broaden the Company's customer base, despite continued market uncertainty and mandated production curtailments in Alberta. The decrease in Aero's revenue for the three months ended December 31, 2019, as compared to the same period in the prior year, is mainly due to lower industry activity. Operations commenced in Western Oilfield Services in the United States in 2019, with the first well servicing hours worked near the end of the second quarter of 2019.

Eagle's Service Hours improved by 7% to 18,494 hours (32% utilization) in the fourth quarter of 2019, as compared to 17,247 hours (28% utilization) in the same period of the prior year. The improvement in Eagle's Service Hours is mainly due to the continued efforts by management to increase market share. Revenue per Service Hour improved by 2% to $680 for the three months ended December 31, 2019, as compared to the same period in the prior year, due to changes in the average rig mix.

During the three months ended December 31, 2019, administrative expenses totalled $1.2 million and were 12% lower than the same period in the prior year, mainly due to lower rent expense due to the impact of adopting IFRS 16, as well as lower employee related expenses.

Production services incurred a loss before income taxes and impairment of $2.1 million in the fourth quarter of 2019, compared to a loss before income taxes of $2.9 million in the same period of 2018. The change can be attributed to a $1.0 million increase in Adjusted EBITDA, offset by a $0.2 million increase in depreciation expense.

Adjusted EBITDA increased in the fourth quarter of 2019 by $1.0 million to $1.2 million, compared to $0.2 million in the fourth quarter of 2018. The higher Adjusted EBITDA for the three months ended December 31, 2019 was due to improved margins in Aero and lower administrative expenses relating to the impact of adopting IFRS 16.

Depreciation expense for the three months ended December 31, 2019 was 5% higher than the same period of the prior year, mainly due to leases capitalized with the adoption of IFRS 16 which resulted in increased depreciation expense in the period.

Additions to property and equipment in the production services segment totalled $1.3 million in the fourth quarter of 2019, as compared to $0.4 million in the same period of the prior year, and included $0.5 million of expansion capital and $0.8 million of maintenance capital.

As a result of continued market uncertainty and the related outlook for current and future oilfield services activity and pricing, the Company recorded a $5.0 million impairment loss in the production services segment in the fourth quarter of 2019.

Corporate

Corporate administrative expenses for the three months ended December 31, 2019 decreased by 21%, as compared to the same period in the prior year and totalled $0.8 million. The decrease for the three months ended December 31, 2019 is mainly due to lower employee related costs and lower rent expense as a result of the adoption of IFRS 16, offset partially by restructuring costs.

Finance costs of $4.6 million for the quarter ended December 31, 2019, were consistent with the same period in the prior year and represented an effective interest rate of 7.8%, as compared to 8.1% in the same period of the prior year.

Other items, which relate to gains and losses on the sale of assets and foreign exchange, total a negligible gain for the three months ended December 31, 2019 as compared to a loss of $0.1 million in the same period of the prior year.

For the fourth quarter of 2019, income taxes on a consolidated basis totalled a recovery of $15.8 million, representing an effective tax rate of 23.2%, as compared to an effective tax rate of 27.6% in the fourth quarter of 2018. The lower effective tax rate for the three months ended December 31, 2019, as compared to the same period of the prior year, is mainly due to the decrease in the Alberta corporate tax rate substantively enacted in the second quarter of 2019.

Summary of Quarterly Results

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

The following is a summary of selected financial information of the Company for the last eight completed quarters:

Three months ended (stated in thousands, except per share amounts)	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018
Revenue	45,838	47,067	37,728	65,775	63,133	58,879	33,141	81,257
Adjusted EBITDA[(1)]	5,584	4,968	2,438	11,248	7,916	7,691	897	15,112
Cash flow from operating activities	8,921	(592)	17,501	5,888	5,022	(1,968)	26,313	3,864
Net loss	(52,249)	(11,575)	(10,128)	(7,078)	(9,530)	(10,108)	(15,475)	(5,947)
per share - basic	(0.56)	(0.13)	(0.11)	(0.08)	(0.10)	(0.11)	(0.17)	(0.06)
per share - diluted	(0.56)	(0.13)	(0.11)	(0.08)	(0.10)	(0.11)	(0.17)	(0.06)
Total assets	550,537	617,943	626,890	663,117	667,295	669,079	670,584	706,895
Long term debt	228,274	232,722	223,363	238,590	222,258	222,564	210,944	227,401

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

Revenue and Adjusted EBITDA, which were impacted by lower commodity prices and market uncertainty throughout the last eight quarters, was highest in the first quarter of 2018. However, market uncertainty continued throughout 2018 and the fourth quarter of 2018 was impacted by record high differentials on Canadian crude oil. Mandated crude oil production cuts in Alberta in 2019 and uncertainty surrounding takeaway capacity throughout 2019, impacted industry activity and resulted in customers reducing or delaying their drilling programs, which had a negative impact on Western’s Revenue and Adjusted EBITDA.

Net loss is impacted by the seasonal nature of the oilfield service industry in Canada. A net loss has been incurred throughout the last eight quarters due to the prolonged decline in crude oil and natural gas prices. The Company recognized an impairment loss on property and equipment of $54.0 million in the fourth quarter of 2019.

With the exception of the fourth quarter of 2019, which included impairment losses on property and equipment, total assets over the last eight quarters have been impacted by depreciation expense exceeding additions to property and equipment as capital spending has been reduced during the downturn in crude oil and natural gas prices.

Commitments

In the normal course of business the Company incurs commitments related to its contractual obligations. The expected maturities of the Company's contractual obligations as at December 31, 2019 are as follows:

(stated in thousands)	2020	2021	2022	2023	2024	Thereafter	Total
Second Lien Facility	2,150	2,150	2,150	205,325	-	-	211,775
Second Lien Facility interest	15,376	15,179	15,105	7,473	-	-	53,133
Trade payables and other current liabilities (1)	19,812	-	-	-	-	-	19,812
Operating commitments (2)	1,408	712	710	685	685	57	4,257
Revolving Facility	-	12,000	-	-	-	-	12,000
Operating Facility	-	297	-	-	-	-	297
Lease obligations (3)	4,269	3,064	2,319	1,840	1,743	145	13,380
Total	43,015	33,402	20,284	215,323	2,428	202	314,654

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

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

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

Second Lien Facility and interest:

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

Trade payables and other current liabilities:

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

Operating commitments:

The Company has agreements in place to purchase certain capital and other operational items with third parties, as well as short term leases with a term of less than one year, and operating expenses associated with long term leases.

Lease obligations:

The Company has other long term debt relating to leased vehicles, as well as office and equipment leases, classified as lease obligations under IFRS 16, which was adopted January 1, 2019. These leases run for terms greater than one year.

There have been no material changes in the contractual obligations, other than in the normal course of business, subsequent to December 31, 2019.

Outstanding Share Data

	February 27, 2020	December 31, 2019	December 31, 2018
Common shares outstanding	90,931,814	92,501,314	92,305,542
Warrants	7,099,546	7,099,546	7,099,546
Stock options outstanding	7,325,490	7,326,530	8,313,537
Restricted share units outstanding - equity settled	644,747	646,247	543,997

Off Balance Sheet Arrangements

As at December 31, 2019, Western had no off balance sheet arrangements in place.

Transactions with Related Parties

During the years ended December 31, 2019 and 2018, the Company had no transactions with related parties.

Financial Instruments

Fair Values

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

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

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

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

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

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

Trade payables and other current liabilities, 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.

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 thorough 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.

In accordance with IFRS 9, Financial Instruments, the Company reviews impairment of its trade and other receivables at each reporting period and its allowance for expected future credit losses. The Company records an allowance for doubtful accounts if an account is determined to be uncollectible. Provisions recorded by the Company are reviewed regularly to determine if any balances should be written off. The allowance for doubtful accounts could materially change as a result of fluctuations in the financial position of the Company's customers.

The Company completes a detailed review of its historical credit losses as part of its impairment assessment. The Company has had minimal historical impairment losses on its trade and other receivables, due in part to its credit management processes. As such, the Company assesses impairment losses on an individual customer account basis, rather than recognize a loss allowance on all outstanding trade and other receivables.

Interest Rate Risk

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

Foreign Exchange Risk

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

Liquidity Risk

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

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

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

DC&P is designed to provide reasonable assurance that material information relating to the Company is made known to the CEO and CFO by others, particularly in the period in which the annual filings are being prepared, and that information

required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified in securities legislation, and includes controls and procedures designed to ensure that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

In accordance with the requirements of National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings", an evaluation of the effectiveness of DC&P and ICFR was carried out under the supervision of the CEO and CFO at December 31, 2019. This evaluation was based on the framework established in the Internal Control – Integrated Framework (2013) issued in May 2013 by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, the CEO and CFO have concluded that the Company's DC&P and ICFR are effectively designed and operating as intended.

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

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

Change in Accounting Policy

On January 1, 2019, the Company adopted IFRS 16, Leases, using the modified retrospective method. The adoption of IFRS 16 resulted in an increase in long term debt of $12.8 million, an increase in property and equipment of $10.1 million, a decrease in provisions of $1.4 million, a decrease in the deferred tax liability of $0.4 million, a decrease in other assets of $0.1 million, and a net decrease in retained earnings of $1.1 million. For the three months and year ended December 31, 2019, the impact of IFRS 16 on Adjusted EBITDA was an increase of $0.8 million and $3.3 million respectively, whereas the impact on net loss was less than $0.1 million in each respective period, as increased Adjusted EBITDA was offset by higher depreciation and finance costs. There have been no other changes in the Company's accounting policies. The adoption of IFRS 16 is disclosed in Note 3 of the consolidated financial statements as at and for the year ended December 31, 2019.

Reclassification of depreciation and stock based compensation

Beginning in the third quarter of 2019, the Company reclassified specific expenses to better align the expenses with management's review of the performance and disclosure of its operating segments. Depreciation and stock based compensation expenses were previously grouped with operating and administrative expenses. The Company has reclassified these costs in the consolidated statement of operations and comprehensive income. Historical results were reclassified to match the current period presentation. The reclassification did not impact operating loss, loss before income taxes, net loss, Adjusted EBITDA or earnings per share. Management believes the reclassifications described above, now align the nature of the costs presented with the assessment of performance of each operating segment. The reclassification of depreciation and stock based compensation is detailed in Note 2 of the consolidated financial statements for the year ended December 31, 2019.

Critical Accounting Estimates

This MD&A of the Company's financial condition and results of operations is based on the consolidated financial statements for the year ended December 31, 2019, which were prepared in accordance with IFRS. The presentation of these financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. These estimates and judgments are based on historical experience and on various assumptions that are believed to be reasonable under the circumstances. Future events cannot be anticipated with absolute certainty, therefore these estimates may change as new events occur, more experience is acquired and as the Company's operating environment changes. The Company's critical accounting estimates relate to impairment, property and equipment, income taxes, stock based compensation, and the Company's allowance for doubtful accounts.

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

Impairment

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

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

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

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

Property and equipment

Property and equipment is depreciated over the estimated useful life of the asset to the asset's estimated residual value as determined by management. All estimates of useful lives and residual values are set out in Note 3 (f) of the December 31, 2019 annual consolidated financial statements. Assessing the reasonableness of the estimated useful life, residual value and the appropriate depreciation methodology requires judgment and is based on management's experience and knowledge of the industry. Additionally, when determining whether to decommission an asset, future utilization and economic conditions are considered based on management's experience and knowledge of the industry and requires management's judgment.

Income taxes

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

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

Business Risks

For a comprehensive listing of the Company's business risks please see the most recent annual information form ("AIF") for the year ended December 31, 2019 as filed under the Company's SEDAR profile at www.sedar.com. Certain of the Company's primary business risks as at December 31, 2019 are as follows:

- The Company's business relies on the crude oil and natural gas exploration and production industry which is subject to a number of risks including general economic conditions, fluctuations in demand and supply of crude oil and natural gas production, fluctuations in commodity prices, competition and increases in operating costs. In addition, changes may occur in government regulations, including regulations relating to foreign acquisitions, prices, taxes, royalties, land tenure, allowable production, importing and exporting of crude oil and natural gas and environmental protection for the crude oil and natural gas industry as a whole. Risks impacting the crude oil and natural gas exploration and production industry, including the ability of crude oil and natural gas companies to accumulate capital or variations in their exploration and development budgets, may also affect the Company's business. The impact of these risks cannot be accurately predicted.
- If a low commodity price environment persists, the demand for the Company's equipment and services will remain lower than normal and the Company's utilization rates and revenue will be adversely affected during such time. In addition, lower utilization and revenue could result in the Company not being in compliance with certain covenants in its Credit Facilities, which in turn could restrict the Company's ability to access its Credit Facilities, pay distributions and incur additional debt in the future.
- Competition among oilfield service companies offering related services is significant. Some competitors are larger and have greater revenue than the Company and overall greater financial resources. The Company's ability to generate revenue depends on its ability to attract and win contracts and to perform services.
- The ability of the Company to make payments, dividends or enter into certain transactions will be subject to the applicable laws and contractual restrictions in the instruments governing its indebtedness, including the Credit Facilities and the Second Lien Facility.
- In addition to global economic events and uncertainty, the capacity within North America to ship commodities to market introduces uncertainties in levels of activity and pricing for crude oil and natural gas production.
- The Company's business is subject to credit risk primarily from credit exposure to customers, with a concentration of credit risk with customers in the crude oil and natural gas industry.
- The Company's operations are subject to many hazards inherent in the oilfield service industry, such as blowouts, explosions, damaged or lost drilling, well servicing and oilfield rental equipment or damage or loss from inclement weather, which could result in business interruption, casualty losses, damage or destruction of equipment, suspension of operations, environmental damage or damage to property. This could have a material adverse effect on the Company's business and financial results.
- The Company's exploration and production customers' facilities and other operations emit greenhouse gases which requires them to comply with legislation in those provinces and states where they operate. Over the past few years, both Federal and Provincial governments have implemented carbon levies on greenhouse gas emissions. The direct or indirect costs of these new greenhouse gas emission reduction regulations, as well as regulations which may be adopted in these or other jurisdictions in the future, may have a material adverse effect on the Company's business, financial condition and results of operations and cash flows, as well as impacting the Company's customers' operations.
- Safety is a key factor customers consider when selecting an oilfield service company. A decline in the Company's safety performance could result in reduced demand for the Company's services which could have a material adverse effect on the Company's business and financial results.
- Currently, the Company is focused on providing services in the WCSB as well as certain limited geographic areas in the United States, which may expose the Company to more extreme market fluctuations relating to factors such as weather and general economic conditions which may be more extreme than the broader industry conditions.
- A portion of the operations of the Company are in the United States which subject the Company to currency fluctuations and different tax and regulatory laws.
- The Company may find it necessary in the future to obtain additional debt or equity to support ongoing operations, to refinance debt, to undertake additions to property and equipment or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available when needed or on terms acceptable to the Company.

- The Company is vulnerable to market prices. Fixed costs, including costs associated with operations, interest, leases, and labour costs account for a significant portion of the Company's expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, or other factors could significantly affect its financial results.
- The oilfield service industry has experienced a high degree of invention and innovation. It is possible that new technology will be developed which will compete with the Company's products and services.
- The Company's business is subject to the operating risks inherent to the oilfield service industry. On occasion, substantial liabilities to third parties may be incurred. The Company will have the benefit of insurance maintained by it and industry standard contracts, however, it may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.
- The success of the Company is dependent upon the efforts and abilities of its management team. The loss of any member of the management team could have a material adverse effect upon the business and prospects of the Company.
- During the prolonged downturn many oilfield service workers left the industry and, therefore, as activity has increased it has been difficult for the Company to attract and retain field crews. This could have a material adverse effect on the Company's business and financial results.
- The loss of a significant customer or customers, or any decrease in services provided or prices charged to a significant customer or customers could have a material adverse effect on the Company's business and financial results.
- The Company relies on various information systems to manage its business. If these systems were compromised as a result of a successful cyber-attack, this could have a material adverse effect on the Company business and financial results.

Non-IFRS Measures

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

Adjusted EBITDA

Earnings before interest and finance costs, taxes, depreciation and amortization, other non-cash items and one-time gains and losses ("Adjusted EBITDA") is a useful supplemental measure as it is used by management and other stakeholders, including current and potential investors, to analyze the Company's principal business activities. Adjusted EBITDA provides an indication of the results generated by the Company's principal operating segments, which assists management in monitoring current and forecasting future operations, as certain non-core items such as interest and finance costs, taxes, depreciation and amortization, and other non-cash items and one-time gains and losses are removed. The closest IFRS measure would be net loss for consolidated results and on a segmented basis, loss before income taxes, as the Company manages its income tax position on a legal entity basis, which can differ from its operating segments.

The following table provides a reconciliation of net loss, as disclosed in the consolidated statements of operations and comprehensive income, to Adjusted EBITDA:

	Three months ended December 31		**Year ended December 31**	
(stated in thousands)	**2019**	**2018**	**2019**	**2018**
Net loss	**(52,249)**	**(9,530)**	**(81,030)**	**(41,060)**
Income tax recovery	(15,786)	(3,641)	(30,772)	(13,634)
Loss before income taxes	**(68,035)**	**(13,171)**	**(111,802)**	**(54,694)**
Add (deduct):				
Depreciation	14,848	16,431	63,167	66,181
Stock based compensation	127	154	586	1,178
Finance costs	4,645	4,603	18,697	19,050
Other items	(1)	(101)	(410)	(99)
Impairment of property and equipment	54,000	-	54,000	-
Adjusted EBITDA	**5,584**	**7,916**	**24,238**	**31,616**

Defined Terms:

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

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

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

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

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

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

Service Hours: Defined as well servicing hours completed.

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

Contract Drilling Rig Classifications:

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

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

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

Abbreviations:

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

Forward-Looking Statements and Information

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

In particular, forward-looking information in this MD&A includes, but is not limited to, statements relating to commodity pricing; the future demand for and utilization of the Company's services and equipment; the pricing for the Company's services and equipment; the terms of existing and future drilling contracts in Canada and the US and the revenue resulting therefrom (including the number of Billable Days typically generated from such contracts and expected expiration dates of such contracts); the Company's expansion and maintenance capital plans for 2020 and its ability to make changes thereto

in response to customer demands; the Company's liquidity needs including the ability of current capital resources to cover Western's financial obligations, working capital requirements and the 2020 capital budget; the use, availability and sufficiency of the Company's Credit Facilities; pricing for Western's services and impact on Adjusted EBITDA; the Company's ability to maintain certain covenants under its Credit Facilities; the future declaration of dividends; expectations as to the increase in crude oil transportation capacity through pipeline development; expectations as to the benefits of the liquefied natural gas expansion in British Columbia on the Company and its rig fleet; the future deployment or retirement of rigs and other existing assets; the potential impact of changes to laws, governmental and environmental regulations, and the price on carbon emissions; the expectation of continued investment in the Canadian crude oil and natural gas industry; the development of Alberta and British Columbia resource plays; expectations relating to producer spending and activity levels for oilfield services; the Company's approach to management of its budget and operations; the Company's ability to maintain a competitive advantage to enable it to manage the current oilfield service environment; the Company's ability to find and maintain enough field crew members; the amount and timing of purchases of common shares under the Bid; and forward-looking statements under the headings "Disclosure Controls and Procedures and Internal Controls Over Financial Reporting", "Business Risks" and "Critical Accounting Estimates".

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

Although Western believes that the expectations and assumptions on which such forward-looking statements and information are based on are reasonable, undue reliance should not be placed on the forward-looking statements and information as Western cannot give any assurance that they will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risk that recent improvements in commodity pricing may not continue, and other general industry, economic, market and business conditions. Readers are cautioned that the foregoing list of risks, uncertainties and assumptions are not exhaustive. Additional information on these and other risk factors that could affect Western's operations and financial results are discussed under the heading "Business Risks" herein and "Risk Factors" in Western's AIF for the year ended December 31, 2019 which may be accessed through the SEDAR website at www.sedar.com. The forward-looking statements and information contained in this MD&A are made as of the date hereof and Western does not undertake any obligation to update publicly or revise any forward-looking statements and information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Additional data

The AIF containing additional information relating to the Company is filed under the Company's SEDAR profile at www.sedar.com.

Western Energy Services Corp.
Consolidated Financial Statements
December 31, 2019 and 2018

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.

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 27, 2020

Deloitte.

Deloitte LLP
700, 850 2 Street SW
Calgary, AB T2P 0R8
Canada

Tel: 403-267-1700
Fax: 587-774-5379
www.deloitte.ca

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, 2019 and 2018, 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, 2019 and 2018, 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.

Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
February 27, 2020

Western Energy Services Corp.
Consolidated Balance Sheets
(thousands of Canadian dollars)

	Note	December 31, 2019	December 31, 2018
Assets			
Current assets			
Cash and cash equivalents		$ 4,015	$ 3,960
Trade and other receivables	6	29,494	41,084
Other current assets	7	5,918	6,468
		39,427	51,512
Non current assets			
Property and equipment	8	511,052	615,395
Other non current assets	7	58	388
		$ 550,537	$ 667,295
Liabilities			
Current liabilities			
Trade payables and other current liabilities	9	$ 27,520	$ 33,718
Current portion of provisions	10	-	233
Current portion of long term debt	11	4,876	1,822
		32,396	35,773
Non current liabilities			
Provisions	10	-	1,133
Long term debt	11	228,274	222,258
Deferred taxes	17	22,775	54,332
		283,445	313,496
Shareholders' equity			
Share capital	12	441,794	441,512
Contributed surplus		15,459	15,142
Retained earnings (deficit)		(219,074)	(136,992)
Accumulated other comprehensive income		27,157	32,152
Non controlling interest		1,756	1,985
		267,092	353,799
		$ 550,537	$ 667,295

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, 2019	Year ended December 31, 2018
Revenue		$ 196,408	$ 236,410
Expenses			
Operating		155,450	185,875
Administrative		16,720	18,919
Depreciation	8	63,167	66,181
Stock based compensation	13	586	1,178
Finance costs	15	18,697	19,050
Other items	16	(410)	(99)
Impairment of property and equipment	8	54,000	-
Loss before income taxes		(111,802)	(54,694)
Income tax recovery	17	(30,772)	(13,634)
Net loss		(81,030)	(41,060)
Other comprehensive income (loss) [(1)]			
Loss (gain) on translation of foreign operations		3,195	(5,204)
Unrealized foreign exchange loss (gain) on net investment in subsidiary		1,800	(2,731)
Comprehensive loss		$ (86,025)	$ (33,125)
Net income (loss) attributable to:			
Shareholders of the Company		$ (80,957)	$ (41,158)
Non controlling interest		(73)	98
Comprehensive income (loss) attributable to:			
Shareholders of the Company		$ (85,952)	$ (33,223)
Non controlling interest		(73)	98
Net loss per share:			
Basic		$ (0.88)	$ (0.45)
Diluted		(0.88)	(0.45)
Weighted average number of shares:			
Basic	14	92,379,902	92,224,585
Diluted	14	92,379,902	92,224,585

(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, 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
Common shares:						
Issued on vesting of restricted share units	282	(282)	-	-	-	-
Stock based compensation	-	599	-	-	-	599
IFRS 16 adoption (Note 3)	-	-	(1,125)	-	-	(1,125)
Distributions to non controlling interest	-	-	-	-	(156)	(156)
Comprehensive income (loss)	-	-	(80,957)	(4,995)	(73)	(86,025)
Balance at December 31, 2019	$ 441,794	$ 15,459	$ (219,074)	$ 27,157	$ 1,756	$ 267,092

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

(2) At December 31, 2019, the accumulated other comprehensive income balance consists of the translation of foreign operations and unrealized foreign exchange on the net investment in subsidiary.

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

Western Energy Services Corp.

Consolidated Statements of Cash Flows
(thousands of Canadian dollars)

	Note	Year ended December 31, 2019	Year ended December 31, 2018
Operating activities			
Net loss		$ (81,030)	$ (41,060)
Adjustments for:			
Depreciation	8	63,167	66,181
Non cash stock based compensation	13	599	1,004
Finance costs	15	18,697	19,050
Impairment of property and equipment	8	54,000	-
Income tax recovery	17	(30,772)	(13,634)
Other		(348)	16
Change in non cash working capital		7,405	1,583
Cash flow from operating activities		31,718	33,140
Investing activities			
Additions to property and equipment	8	(7,968)	(19,960)
Proceeds on sale of property and equipment		941	659
Change in non cash working capital		(1,933)	(169)
Cash flow used in investing activities		(8,960)	(19,470)
Financing activities			
Repayment of senior notes		-	(265,000)
Issuance of second lien debt	11	-	215,000
Finance costs paid		(17,400)	(18,362)
Repayment of second lien debt		(2,150)	(1,075)
Repayment of other long term debt		(3,403)	(596)
Draw on revolving credit facility	11	1,000	11,000
(Repayment of) draw on operating credit facility	11	(594)	891
Distributions to non controlling interest		(156)	(234)
Change in non cash working capital		-	(159)
Cash flow used in financing activities		(22,703)	(58,535)
Increase (decrease) in cash and cash equivalents		55	(44,865)
Cash and cash equivalents, beginning of year		3,960	48,825
Cash and cash equivalents, end of year [(1)]		$ 4,015	$ 3,960

[(1)] At December 31, 2019 and 2018, 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.

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, 2019 and 2018 (the "Financial Statements") are comprised of Western, its divisions and its wholly owned subsidiaries (together referred to as the "Company"). The Company is an oilfield service company providing contract drilling services through its division, Horizon Drilling ("Horizon") in Canada, and its wholly owned subsidiary, Stoneham Drilling Corporation ("Stoneham") in the United States. Western provides well servicing and oilfield rental equipment services in Canada through its wholly owned subsidiary Western Production Services Corp. ("Western Production Services"). Western Production Services' division, Eagle Well Servicing ("Eagle") provides well servicing operations, while its division, Aero Rental Services ("Aero") provides oilfield rental equipment services. Stoneham's division, Western Oilfield Services, provides well servicing operations in the United States. Financial and operating results for Horizon and Stoneham are included in Western's contract drilling segment, while financial and operating results for Eagle, Aero, and Western Oilfield Services are included in Western's production services segment.

2. Basis of preparation and significant accounting policies:

(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 judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment 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 27, 2020.

(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.

(d) Reclassification of depreciation and stock based compensation:

Beginning in the third quarter of 2019, the Company reclassified specific expenses to better align the expenses with management's review of the performance and disclosure of its operating segments. Depreciation and stock based compensation expenses were previously grouped with operating and administrative expenses. The Company has reclassified these costs in the consolidated statements of operations and comprehensive income (loss). Historical results were reclassified to match the current period presentation. The reclassification did not impact operating income (loss), income (loss) before income taxes, net income (loss) or earnings (loss) per share. Management believes the reclassifications described above, now align the nature of the costs presented with the assessment of performance of each operating segment.

The following table shows the impact of the reclassification on the Company's statement of operations and comprehensive income (loss) for the year ended December 31, 2018:

	Year ended December 31, 2018	
	Before Reclassification	After Reclassification
Expenses		
Operating	$ 251,378	$ 185,875
Administrative	20,775	18,919
Depreciation	-	66,181
Stock based compensation	-	1,178
Total	$ 272,153	$ 272,153

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 (loss).

(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 (loss). 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 (loss).

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 (loss).

(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 (loss).

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 (loss).

3. Significant accounting policies (continued):

(d) Financial instruments:

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

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

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

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

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

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, 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 (loss). 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 (loss) in the period incurred.

3. Significant accounting policies (continued):

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 (loss) as incurred. The costs of day-to-day servicing of property and equipment (i.e. repairs and maintenance) are recognized in net income (loss) as incurred.

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, 2019 and 2018 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 (loss) 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 (loss) 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 (loss).

(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.

3. Significant accounting policies (continued):

(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 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"). An impairment loss is recognized in net income (loss) if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

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.

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 (loss).

(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 reclassed 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.

3. Significant accounting policies (continued):

(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 (loss). As at December 31, 2018, the Company had provisions related to an inducement or incentive associated with a lease which was received for leasehold improvements. As described in Note 3 (q), the Company adopted IFRS 16, Leases, and as such removed the provisions previously recognized under the previous lease standards.

(k) Revenue:

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) Lease assets and obligations:

Lease assets:

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

At the inception of an arrangement, the Company determines whether such an arrangement is or contains a lease under IFRS 16. An agreement which results in the Company having the right to control the use of an asset over a period of time with set payments is considered a lease. Lease assets, or right of use assets, are capitalized at the date the lease commences and are comprised of the initial lease liability, less any lease incentives received. Depreciation is calculated based on the initial cost of the asset and recognized in net income (loss) on a straight line basis over the estimated useful life of the lease. The lease assets are included in property and equipment on the consolidated balance sheets and segregated in Note 8.

Lease obligations:

The adoption of IFRS 16 requires the Company to make judgments that affect the valuation of lease obligations and the corresponding lease assets, including whether a contract falls within the scope of IFRS 16, the term of the lease, and determining the interest rate used for discounting future cash flows. The lease obligations, and the corresponding lease assets, at inception of the agreement are measured at the present value of the fixed lease payments, discounted using the Company's incremental borrowing rate at the inception of the agreement.

3. Significant accounting policies (continued):

As described in Note 3 (q), as at January 1, 2019, the date of transition, the Company's incremental borrowing rate was based on the terms of its Credit Facilities. Payments made related to the lease obligations are allocated between finance costs and the reduction of the outstanding lease obligations. The lease obligations are included in Note 11.

Finance costs are allocated to each period during the lease term using the effective interest rate method. Lease modifications, where the scope increases in exchange for additional corresponding consideration, are accounted for as a separate lease. For a lease modification that is not a separate lease or where the increase in consideration is not correlated with a change in the scope of the lease, at the effective date of the lease modification, the Company will remeasure the lease liability using the Company's incremental borrowing rate, with a corresponding adjustment to the right of use asset. The lease term includes the non-cancellable period of the lease agreement and periods covered by any option to renew, where it is reasonably certain that the option will be exercised.

(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 (loss).

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 (loss) 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.

(n) Income tax:

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

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.

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.

3. Significant accounting policies (continued):

(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 (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 (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.

(q) Standards adopted in the year:

As at January 1, 2019, the Company adopted the following standards:

IFRS 16 – Leases:

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

The Company elected to apply the practical expedients in IFRS 16 related to short term leases, as well as leases where the underlying asset is of low value. Lease payments related to these leases are expensed on a straight line basis over the lease term and included in the consolidated statements of operations and comprehensive income (loss). The expense related to short term and low value leases is disclosed in Note 11.

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

The Company’s lease assets and lease obligations policy under IFRS 16 is described in further detail in Note 3 (l).

3. Significant accounting policies (continued):

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

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

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

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

The following table shows the impact of adopting IFRS 16 on the Company's statements of operations and comprehensive income (loss):

	Year ended December 31, 2019
Incremental interest on long term debt	$ 692
Incremental depreciation on leased assets	2,523
Reduced operating and administrative expenses	(3,273)
Net impact of adopting IFRS 16	$ (58)

3. Significant accounting policies (continued):

(r) New interpretations and amendments not yet adopted:

A number of interpretations are not yet effective for the year ended December 31, 2019, and have not been applied in preparing these Financial Statements. The following new interpretations and amendments have been issued, but are not yet effective until financial years beginning on or after January 1, 2020, and may impact the Company in the future:

IAS 12 and IFRIC 23, Income Taxes – IAS 12 currently provides guidance on current and deferred tax assets and liabilities, however uncertainty may exist on how tax law applies to certain transactions. IFRIC 23 provides guidance on how to address this uncertainty related to tax treatments that may have an impact on the Company's current or deferred tax assets and liabilities.

IAS 1, Presentation of Financial Statements – IAS 1 has amended the definition of material to "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The previous definition of material from IAS 1 was "omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors – IAS 8 amended the definition of material to reflect the changes outlined above under IAS 1.

IFRS 3, Business Combinations – The definition of a business has been amended in IFRS 3 to be "an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities." The previous definition under IFRS 3 was "an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants."

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.

4. Critical accounting estimates (continued):

When there is an indicator of impairment, 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 judgment.

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.

(b) Property and equipment:

Property and equipment is depreciated over the estimated useful life of the asset to the 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 judgment.

(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 sheets 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.

5. Operating segments:

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

5. Operating segments (continued):

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, administrative expenses, and depreciation.

The following is a summary of the Company's results by operating segment for the years ended December 31, 2019 and 2018:

Year ended December 31, 2019	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 140,771	$ 55,874	$ -	$ (237)	$ 196,408
Operating loss	(23,759)	(9,940)	(5,230)	-	(38,929)
Finance costs	-	-	18,697	-	18,697
Impairment of property and equipment	49,000	5,000	-	-	54,000
Depreciation	48,026	13,240	1,901	-	63,167
Additions to property and equipment	5,128	2,385	455	-	7,968

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	17,478	2,439	43	-	19,960

Total assets and liabilities by operating segment are as follows:

As at December 31, 2019	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 427,074	$ 111,897	$ 11,566	$ 550,537
Total liabilities	61,403	21,114	200,928	283,445

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

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

Year ended December 31, 2019	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (23,759)	$ (9,940)	$ (5,230)	$ (38,929)
(Deduct) add:				
Stock based compensation	(170)	(88)	(328)	(586)
Finance costs	-	-	(18,697)	(18,697)
Other items	-	-	410	410
Impairment of property and equipment	(49,000)	(5,000)	-	(54,000)
Loss before income taxes	$ (72,929)	$ (15,028)	$ (23,845)	$ (111,802)

5. Operating segments (continued):

Year ended December 31, 2018	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (21,183)	$ (8,557)	$ (4,825)	$ (34,565)
(Deduct) add:				
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)

Segmented information by geographic area is as follows:

As at December 31, 2019	Canada	United States	Total
Property and equipment	$ 404,473	$ 106,579	$ 511,052
Total assets	435,312	115,225	550,537

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

	Canada	United States	Total
Revenue - year ended December 31, 2019	$ 150,196	$ 46,212	$ 196,408
Revenue - year ended December 31, 2018	201,857	34,553	236,410

Revenue from contracts:
For the year ended December 31, 2019, the Company’s revenue from long term and short term contracts in the contract drilling segment totaled $44.8 million and $96.0 million, respectively (year ended December 31, 2018: $41.4 million and $142.5 million, respectively).

For the years ended December 31, 2019 and 2018, the Company had no revenue from long term contracts in the production services segment.

Significant customers:
For the years ended December 31, 2019 and 2018, 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, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
Trade receivables	$ 25,700	$ 31,646
Accrued trade receivables	3,318	8,811
Other receivables	531	660
Allowance for doubtful accounts	(55)	(33)
Total	$ 29,494	$ 41,084

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

7. Other Assets:

The Company's other assets as at December 31, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
Current:		
Prepaid expenses	$ 2,093	$ 2,541
Inventory	3,108	3,059
Deposits	387	402
Deferred charges	330	466
Total current portion of other assets	5,918	6,468
Non current:		
Deferred charges	58	388
Total non current portion of other assets	58	388
Total other assets	$ 5,976	$ 6,856

8. Property and equipment:

The following table summarizes the Company's property and equipment as at December 31, 2019 and 2018:

	Land	Buildings	Contract drilling equipment	Production services equipment	Office and shop equipment	Lease assets	Total
Cost:							
Balance at December 31, 2017	$ 5,089	$ 4,396	$ 780,836	$ 202,870	$ 12,724	$ 3,457	$ 1,009,372
Additions to property and equipment	-	-	17,382	2,368	210	-	19,960
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
Additions to property and equipment	-	-	5,126	2,247	595	-	7,968
Lease additions	-	-	-	-	-	573	573
Adoption of IFRS 16 (Note 3)	-	-	-	-	-	10,080	10,080
Disposals	-	-	(2,323)	(1,667)	(18)	(240)	(4,248)
Foreign exchange adjustment	-	-	(8,529)	(200)	(37)	(67)	(8,833)
Balance at December 31, 2019	$ 5,089	$ 4,396	$ 800,327	$ 204,268	$ 13,053	$ 14,257	$ 1,041,390
Accumulated depreciation:							
Balance at December 31, 2017	$ -	$ 1,218	$ 264,960	$ 79,671	$ 9,098	$ 1,597	$ 356,544
Depreciation	-	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
Depreciation	-	201	47,326	11,527	973	3,140	63,167
Impairment of property and equipment	-	1,082	47,918	5,000	-	-	54,000
Disposals	-	-	(2,085)	(1,548)	(18)	(176)	(3,827)
Foreign exchange adjustment	-	-	(3,329)	(77)	(34)	(17)	(3,457)
Balance at December 31, 2019	$ -	$ 2,702	$ 406,678	$ 106,012	$ 10,486	$ 4,460	$ 530,338
Carrying amounts:							
At December 31, 2018	$ 5,089	$ 2,977	$ 489,205	$ 112,778	$ 2,948	$ 2,398	$ 615,395
At December 31, 2019	$ 5,089	$ 1,694	$ 393,649	$ 98,256	$ 2,567	$ 9,797	$ 511,052

Assets under construction:

Included in property and equipment at December 31, 2019 are assets under construction of $0.6 million (December 31, 2018: $1.2 million) which includes ancillary drilling and well servicing equipment.

8. Property and equipment (continued):

Impairment:

As at December 31, 2019, 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, 2019, the recoverable amounts allocated to these CGUs were determined from a fair value less costs to sell cash flow projection based on historical results, recent industry conditions and the Company's most recent 2020 forecast. Cash flow projections for 2021 to 2024 have assumed an increase in activity, however remain below historical levels. Cash flow projections thereafter are calculated using a 2% 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 27% to 46% 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 34% to 55% per year.

Cash flow projections are based on the average remaining economic life of the CGUs ranging from 7 to 15 years. Salvage values have been based on management's best estimate, range between 0% and 20%, and include costs of disposal of 2%.

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 13.0% per annum.

The results of the tests indicated an impairment of property and equipment at December 31, 2019 of $54.0 million (December 31, 2018: nil), with $49.0 million and $5.0 million related to the contract drilling and oilfield rental equipment CGUs respectively. There was no impairment in the well servicing CGU. The property and equipment impairment losses are due to the continued market uncertainty which has resulted in reductions to the capital spending plans for Western's customers, and has resulted in a reduced outlook for oilfield service activity. Based on the fair value less costs to sell calculation, the after tax recoverable amount of the contract drilling, well servicing and oilfield rental equipment CGUs is $375.4 million, $84.3 million, and $13.9 million respectively, as at December 31, 2019.

The most sensitive inputs to the model are the discount rate and the future cash flows. The impairment test's sensitivity to these inputs is as follows: All else being equal, a 0.5% increase in the discount rate would have led to additional impairment losses of $10.8 million for the contract drilling CGU and $0.2 million for the oilfield rental equipment CGU. All else being equal, a 5% decrease in cash flows would have led to additional impairment losses of $20.6 million for the contract drilling CGU and $0.9 million for the oilfield rental equipment CGU. All else being equal, a 0.5% decrease in the discount rate would have led to a decrease in the impairment losses of $11.5 million for the contract drilling CGU and $0.3 million for the oilfield rental equipment CGU. All else being equal, a 5% increase in cash flows would have led to a decrease in the impairment losses of $20.3 million for the contract drilling CGU and $1.0 million for the oilfield rental equipment CGU. There was no impairment in the well servicing CGU and no impact from the above sensitivities.

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 were 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 fair value less costs to sell 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 assumed an increase in activity to historical levels. Cash flow projections thereafter were 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 ranged 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 ranged from approximately 35% to 45% per year.

8. Property and equipment (continued):

The forecasted cash flows were 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, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
Trade payables	$ 11,086	$ 18,952
Accrued trade payables and expenses	16,434	14,766
Total	$ 27,520	$ 33,718

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, the Company recognized a provision for the deferral of office lease inducements received, which was amortized on a straight-line basis over the life of the contract. Upon adoption of IFRS 16 on January 1, 2019 as described in Note 3 (q), the Company's provisions related to its office lease inducements were removed. As such, the company had no provisions recognized as at December 31, 2019. The following table summarizes the change in Western's lease inducements:

	Lease inducements
Balance at December 31, 2017	$ 1,554
Provisions used during the year	(188)
Balance at December 31, 2018	1,366
Provisions removed upon adoption of IFRS 16 (Note 3)	(1,366)
Balance at December 31, 2019	$ -

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

	December 31, 2018
Current	$ 233
Non current	1,133
	$ 1,366

11. Long term debt:

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

	December 31, 2019	December 31, 2018
Current:		
Second Lien Facility	$ 2,150	$ 2,150
Lease obligations [(1)]	3,593	542
Less: unamortized issue costs	(867)	(870)
Total current portion of long term debt	4,876	1,822
Non current:		
Second Lien Facility	209,625	211,775
Revolving Facility	12,000	11,000
Operating Facility	297	891
Lease obligations [(1)]	8,135	1,242
Less: unamortized issue costs	(1,783)	(2,650)
Total non current portion of long term debt	228,274	222,258
Total long term debt	$ 233,150	$ 224,080

(1) Lease obligations include leases capitalized under IFRS 16 (See Note 3). During the year ended December 31, 2019, the Company expensed $0.1 million related to leases of low value assets or leases with a term of less than one year.

11. Long term debt (continued):

Credit Facilities:

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

Advances under the Credit Facilities are limited by the Company's borrowing base. The borrowing base is applicable when either (i) more than $40.0 million is drawn under the Credit Facilities or (ii) the net book value of Western's property and equipment is less than $300.0 million. The borrowing base is determined as follows:

- 85% of investment grade accounts receivable; plus
- 75% of non-investment grade accounts receivable; plus
- 25% of the net book value of property and equipment to a maximum of $40.0 million.

As at December 31, 2019, the borrowing base calculation was not applicable as the Company had less than $40.0 million drawn on its Credit Facilities and the net book value of the Company's property and equipment was greater than $300.0 million.

Amounts borrowed under the Credit Facilities bear interest at the bank's Canadian prime rate, 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, 2019, $12.0 million and $0.3 million was drawn on the Revolving Facility and Operating Facility respectively.

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

	Covenant [1]	December 31, 2019
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio [2][3]	3.0:1.0 or less	0.46:1.0
Maximum Consolidated Debt to Consolidated Capitalization Ratio [4][5]	0.6:1.0 or less	0.45:1.0
Minimum Current Ratio [6]	1.15:1.0 or more	2.0:1.0

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

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

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

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

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

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

As at December 31, 2019 and 2018, the Company was in compliance with all covenants related to its Credit Facilities. The adoption of IFRS 16 did not have an impact on the Company's Credit Facility covenants.

Second Lien Facility:

At December 31, 2019, the Company had $211.8 million outstanding on the second lien secured term loan facility (the "Second Lien Facility"). Interest is payable semi-annually, at a rate of 7.25% per annum, on January 1 and July 1 each year. Amortization payments equal to 1% of the initial principal amount of $215.0 million are payable annually, in quarterly installments, with the balance due on January 31, 2023.

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, 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
Issued on vesting of restricted share units	195,772		282
Balance at December 31, 2019	92,501,314	$	441,794

There were no dividends declared during the years ended December 31, 2019 and 2018.

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, 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
Granted	2,221,410		0.24
Forfeited	(1,832,840)		2.03
Expired	(1,375,577)		9.36
Balance at December 31, 2019	7,326,530	$	1.84

For the years ended December 31, 2019 and 2018, no stock options were cancelled. The average fair value of the stock options granted in 2019 was $0.08 per stock option (2018: $0.25 per stock option).

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

As at December 31, 2019 Exercise Price ($/share)	Number of options outstanding	Weighted average contractual life remaining (years)	Number of options exercisable
0.22-0.85	1,932,810	4.63	-
0.86-1.00	2,156,460	3.59	718,819
1.01-2.50	963,411	2.68	626,290
2.51-4.50	934,691	1.65	907,340
4.51-6.50	1,272,158	0.62	1,272,158
6.51-6.54	67,000	0.26	67,000
	7,326,530	2.95	3,591,607

13. Stock based compensation (continued):

As at December 31, 2019, the Company had 3,591,607 (December 31, 2018: 4,246,448) exercisable stock options outstanding at a weighted average exercise price equal to $3.14 (December 31, 2018: $5.82) 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, 2019	Year ended December 31, 2018
Risk-free interest rate	1%	2%
Average forfeiture rate	22%	20%
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	61%	51%

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, 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
Granted	408,495	388,670	797,165
Vested	(195,771)	(429,277)	(625,048)
Forfeited	(110,474)	(195,196)	(305,670)
Balance at December 31, 2019	646,247	818,672	1,464,919

The estimated fair value of the equity settled RSUs granted during the year ended December 31, 2019 was $0.1 million (December 31, 2018: $0.4 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, 2019	Year ended December 31, 2018
Risk-free interest rate	1%	2%
Average forfeiture rate	12%	20%
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	61%	51%

13. Stock based compensation (continued):

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

	Year ended December 31, 2019	Year ended December 31, 2018
Stock options	$ 389	$ 739
Restricted share units – equity settled grants	210	265
Total equity settled stock based compensation expense	599	1,004
Restricted share units – cash settled grants	(13)	174
Total stock based compensation expense	$ 586	$ 1,178

The outstanding liability related to cash settled RSUs at December 31, 2019 was $0.1 million (December 31, 2018: $0.2 million).

Warrants:

As at December 31, 2019 and 2018, Western had 7,099,546 warrants outstanding. Each warrant entitles 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, 2019	Year ended December 31, 2018
Issued common shares, beginning of period	92,305,542	92,175,598
Weighted average number of common shares issued	74,360	48,987
Weighted average number of common shares (basic)	92,379,902	92,224,585
Dilutive effect of equity securities	-	-
Weighted average number of common shares (diluted)	92,379,902	92,224,585

For the year ended December 31, 2019, 7,326,530 stock options (December 31, 2018: 8,313,537 stock options), 646,247 equity settled RSUs (December 31, 2018: 543,997 equity settled RSUs) and 7,099,546 warrants (December 31, 2018: 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, 2019	Year ended December 31, 2018
Interest expense on long term debt	$ 17,377	$ 17,230
Amortization of debt financing fees	466	539
Accretion expense on Second Lien Facility	870	803
Accretion expense on senior notes	-	569
Interest income	(16)	(91)
Total finance costs	$ 18,697	$ 19,050

The Company had an effective interest rate of 7.9% on its borrowings for the year ended December 31, 2019 (December 31, 2018: 8.5%).

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, 2019	Year ended December 31, 2018
(Gain) loss on sale of fixed assets	$ (520)	$ 321
Realized foreign exchange gain	(33)	(306)
Unrealized foreign exchange loss (gain)	143	(114)
Total other items	$ (410)	$ (99)

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, 2019	Year ended December 31, 2018
Current tax recovery	$ (29)	$ (66)
Deferred tax recovery	(30,743)	(13,568)
Total income tax recovery	$ (30,772)	$ (13,634)

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

		Year ended December 31, 2019		Year ended December 31, 2018
Loss before income taxes		$ (111,802)		$ (54,694)
Federal and provincial statutory rates	23.8%	(26,609)	27.0%	(14,767)
Income (loss) taxed at higher rates		96		2
Stock based compensation		135		262
Non controlling interest		17		(27)
Non-deductible expenses		207		259
Change in effective tax rate on temporary differences		(4,685)		(131)
Return to provision adjustment		40		887
Other		27		(119)
Total income taxes		$ (30,772)		$ (13,634)

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

	December 31, 2019	December 31, 2018
Property and equipment	$ (96,441)	$ (123,961)
Deferred charges and accruals	(16)	(56)
Provisions	-	364
Long term debt	2,503	(60)
Share issue costs	168	285
Other tax pools	1,172	1,493
Tax loss carry forwards	69,839	67,603
Net deferred tax liabilities	$ (22,775)	$ (54,332)

17. Income taxes (continued):

Movements of the Company's temporary differences for the year ended December 31, 2019 are as follows:

	Balance Dec 31, 2018	Recognized in equity (1)	Recognized in net income (loss)	Impact of foreign exchange	Balance Dec 31, 2019
Property and equipment	$ (123,961)	$ -	$ 26,171	$ 1,349	$ (96,441)
Deferred charges and accruals	(56)	-	43	(3)	(16)
Provisions	364	-	(364)	-	-
Long term debt	(60)	-	2,563	-	2,503
Share issue costs	285	-	(117)	-	168
Other tax pools	1,493	376	(672)	(25)	1,172
Tax loss carry forwards	67,603	-	3,119	(883)	69,839
Net deferred tax liabilities	$ (54,332)	$ 376	$ 30,743	$ 438	$ (22,775)

(1) Relates to IFRS 16 adoption (Note 3).

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)

As at December 31, 2019, the Company has loss carry forwards equal to approximately $220.6 million in Canada, which will expire between 2035 and 2039. In the United States, the Company has approximately US$50.2 million loss carry forwards which expire between 2028 and 2038.

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, 2019	Year ended December 31, 2018
Employee salaries and benefits	$ 111,479	$ 128,549
Repairs and maintenance	19,285	21,253
Third party charges	12,315	20,592

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 $0.1 million impact on interest expense for the year ended December 31, 2019 (December 31, 2018: less than $0.1 million). Other long term debt, such as the Second Lien Facility and the Company's lease obligations, have fixed interest rates, however they are subject to interest rate fluctuations relating to refinancing.

19. Financial risk management (continued):

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, 2019, 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 (loss). 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 (loss). For the year ended December 31, 2019, the increase or decrease in net income (loss) and other comprehensive income (loss) for each one percent change in foreign exchange rates between the Canadian and United States dollars is estimated to be $0.1 million and $0.4 million, respectively (December 31, 2018: $0.2 million and $0.4 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 thorough 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 receivables to monitor collectability.

In accordance with IFRS 9, Financial Instruments, the Company reviews impairment of its trade and other receivables at each reporting period and its allowance for expected future credit losses. The Company records an allowance for doubtful accounts if an account is determined to be uncollectible. Provisions recorded by the Company are reviewed regularly to determine if any balances 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, 2019, less than 3% 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.

The table below provides an analysis of the Company's trade and other receivables as at December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Trade receivables:		
Current	$ 14,352	$ 15,143
Outstanding for 31 to 60 days	8,364	12,400
Outstanding for 61 to 90 days	2,216	3,836
Outstanding for over 90 days	768	267
Accrued trade receivables	3,318	8,811
Other receivables	531	660
Allowance for doubtful accounts	(55)	(33)
Total	$ 29,494	$ 41,084

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, 2019, the Company impaired less than $0.1 million in trade receivables (December 31, 2018: less than $0.1 million).

19. Financial risk management (continued):

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, 2019:

	Total amount	Due prior to December 31 2020	2021	2022	2023	2024	Thereafter
Financial liabilities:							
Operating Facility	$ 297	$ -	$ 297	$ -	$ -	$ -	$ -
Trade payables and other current liabilities	27,520	27,520	-	-	-	-	-
Revolving Facility	12,000	-	12,000	-	-	-	-
Second Lien Facility	211,775	2,150	2,150	2,150	205,325	-	-
Lease obligations	11,728	3,593	2,676	2,014	1,648	1,655	142
Total	$ 263,320	$ 33,263	$ 17,123	$ 4,164	$ 206,973	$ 1,655	$ 142

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).

Capital management:

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

	Note	December 31, 2019	December 31, 2018
Second Lien Facility	11	$ 211,775	$ 213,925
Revolving Facility	11	12,000	11,000
Operating Facility	11	297	891
Lease obligations	11	11,728	1,784
Total debt		235,800	227,600
Shareholders' equity		267,092	353,799
Less: cash and cash equivalents		(4,015)	(3,960)
Total capitalization		$ 498,877	$ 577,439

19. Financial risk management (continued):

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, 2019, the Company had $47.7 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, 2019, the Company has commitments which require payments based on the maturity terms as follows:

	2020	2021	2022	2023	2024	Thereafter	Total
Second Lien Facility	$ 2,150	$ 2,150	$ 2,150	$ 205,325	$ -	$ -	$ 211,775
Second Lien Facility interest	15,376	15,179	15,105	7,473	-	-	53,133
Trade payables and other current liabilities[(1)]	19,812	-	-	-	-	-	19,812
Operating commitments[(2)]	1,408	712	710	685	685	57	4,257
Revolving Facility	-	12,000	-	-	-	-	12,000
Operating Facility	-	297	-	-	-	-	297
Lease obligations [(3)]	4,269	3,064	2,319	1,840	1,743	145	13,380
Total	$ 43,015	$ 33,402	$ 20,284	$ 215,323	$ 2,428	$ 202	$ 314,654

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

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

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

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

Trade payables and other current liabilities:
The Company has recorded trade payables for amounts due to third parties which are expected to be paid within one year.

Operating commitments:
The Company has agreements in place to purchase certain capital and other operational items with third parties, as well as short term leases with a term of less than one year, and operating expenses associated with long term leases.

Lease obligations:
The Company has lease obligations relating to leased vehicles and facility leases.

21. Related party transactions:

During the years ended December 31, 2019 and 2018, the Company had no transactions with related parties. At December 31, 2019, there are no balances outstanding in trade and other receivables with related parties (December 31, 2018: $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, 2019	Year ended December 31, 2018
Short-term employee benefits	$ 1,805	$ 1,977
Stock based compensation [(1)]	211	322
	$ 2,016	$ 2,299

(1) The total fair value of stock options and RSUs granted to key management personnel for the year ended December 31, 2019 was less than $0.1 million (December 31, 2018: $0.3 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:

		Ownership interest (%)	
	Country of incorporation	December 31, 2019	December 31, 2018
Stoneham Drilling Corporation	USA	100	100
Western Production Services Corp.	Canada	100	100

24. Subsequent event:

Subsequent to December 31, 2019, on January 6, 2020, the Company announced a normal course issuer bid (the "Bid"), which has been filed with and accepted by the Toronto Stock Exchange. Pursuant to the Bid, Western may purchase for cancellation up to 5,200,000 common shares of the Company. The Bid commenced on January 14, 2020 and will terminate the earlier of: (i) January 13, 2021; and (ii) the date on which the maximum number of common shares are purchased pursuant to the Bid. 1,571,000 common shares for a total cost of approximately $0.5 million have been repurchased since the commencement of the Bid.

Western ENERGY SERVICES CORP.

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CORPORATE INFORMATION

DIRECTORS

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

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

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

Ronald P. Mathison
Calgary, Alberta

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

1 Member of the Audit Committee
2 Member of the Corporate Governance and Compensation Committee
3 Member of the Health, Safety and Environment Committee

OFFICERS

Ronald P. Mathison
Chairman of the Board

Alex R.N. MacAusland
President and
Chief Executive Officer

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

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

Peter J. Balkwill
Vice President, Finance

Dan Lundstrom
Vice President, HSE

AUDITOR
Deloitte LLP Calgary, Alberta

LEAD BANK
HSBC Bank Canada

STOCK EXCHANGE LISTING
Toronto Stock Exchange Symbol: WRG

TRANSFER AGENT
Computershare Calgary, Alberta

1700, 215 - 9th Avenue SW Calgary, AB T2P 1K3
Telephone: (403) 984-5916
www.wesc.ca