Western Energy Services Corp.

Condensed Consolidated Financial Statements

June 30, 2021 and 2020

(Unaudited)

Western Energy Services Corp.

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

	Note	June 30, 2021	December 31, 2020
Assets			
Current assets			
Cash and cash equivalents		$ 5,205	$ 19,322
Trade and other receivables		17,290	18,246
Other current assets	5	5,135	5,928
		27,630	43,496
Non current assets			
Property and equipment	6	432,813	452,040
Other non current assets	5	-	89
		$ 460,443	$ 495,625
Liabilities			
Current liabilities			
Trade payables and other current liabilities		$ 23,116	$ 23,138
Current portion of long term debt	7	5,018	4,361
		28,134	27,499
Non current liabilities			
Long term debt	7	225,590	237,633
Deferred taxes		5,764	8,020
		259,488	273,152
Shareholders' equity			
Share capital	8	441,472	441,461
Contributed surplus		15,859	15,678
Retained earnings (deficit)		(279,695)	(260,333)
Accumulated other comprehensive income		21,680	23,996
Non controlling interest		1,639	1,671
		200,955	222,473
		$ 460,443	$ 495,625

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

Western Energy Services Corp.

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

	Note	Three months ended June 30 2021	Three months ended June 30 2020	Six months ended June 30 2021	Six months ended June 30 2020
Revenue		$ 20,386	$ 10,802	$ 57,355	$ 62,567
Expenses					
Operating		15,893	4,611	42,818	44,201
Administrative		2,296	2,155	5,449	5,968
Depreciation	6	10,480	12,245	21,286	25,143
Stock based compensation	9	112	135	180	235
Finance costs	11	4,525	4,474	9,093	9,152
Other items	12	20	(1,681)	(15)	(2,026)
Impairment of property and equipment		-	-	-	11,500
Loss before income taxes		(12,940)	(11,137)	(21,456)	(31,606)
Income tax recovery	13	-	3,095	2,062	8,234
Net loss		(12,940)	(8,042)	(19,394)	(23,372)
Other comprehensive loss [1]					
(Loss) gain on translation of foreign operations		(831)	(2,764)	(1,554)	3,120
Unrealized foreign exchange (loss) gain on net investment in subsidiary		(408)	(3,010)	(762)	76
Comprehensive loss		$ (14,179)	$ (13,816)	$ (21,710)	$ (20,176)
Net loss attributable to:					
Shareholders of the Company		$ (12,880)	$ (7,974)	$ (19,362)	$ (23,312)
Non controlling interest		(60)	(68)	(32)	(60)
Comprehensive loss attributable to:					
Shareholders of the Company		$ (14,119)	$ (13,748)	$ (21,678)	$ (20,116)
Non controlling interest		(60)	(68)	(32)	(60)
Net loss per share:					
Basic		$ (0.14)	$ (0.09)	$ (0.21)	$ (0.26)
Diluted		(0.14)	(0.09)	(0.21)	(0.26)
Weighted average number of shares:					
Basic	10	91,200,629	90,918,814	91,192,715	91,405,800
Diluted	10	91,200,629	90,918,814	91,192,715	91,405,800

(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 condensed consolidated financial statements.

Western Energy Services Corp.

Condensed Consolidated Statements of Changes in Shareholders’ Equity (unaudited)
(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, 2019	$ 441,794	$ 15,459	$ (219,074)	$ 27,157	$ 1,756	$ 267,092
Common shares:						
Issued on vesting of restricted share units	5	(5)	-	-	-	-
Purchased under normal course issuer bid	(478)	-	-	-	-	(478)
Stock based compensation	-	188	-	-	-	188
Comprehensive income (loss)	-	-	(23,312)	3,196	(60)	(20,176)
Balance at June 30, 2020	441,321	15,642	(242,386)	30,353	1,696	246,626
Common shares:						
Issued on vesting of restricted share units	140	(140)	-	-	-	-
Stock based compensation	-	176	-	-	-	176
Distributions to non controlling interest	-	-	-	-	(43)	(43)
Comprehensive income (loss)	-	-	(17,947)	(6,357)	18	(24,286)
Balance at December 31, 2020	441,461	15,678	(260,333)	23,996	1,671	222,473
Common shares:						
Issued for cash on exercise of stock options	9	-	-	-	-	9
Fair value of exercised options	2	(2)	-	-	-	-
Stock based compensation	-	183	-	-	-	183
Comprehensive loss	-	-	(19,362)	(2,316)	(32)	(21,710)
Balance at June 30, 2021	$ 441,472	$ 15,859	$ (279,695)	$ 21,680	$ 1,639	$ 200,955

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

(2) At June 30, 2021 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 condensed consolidated financial statements.

Western Energy Services Corp.

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

		Three months ended June 30		Six months ended June 30	
	Note	**2021**	**2020**	**2021**	**2020**
Operating activities					
Net loss		$ (12,940)	$ (8,042)	$ (19,394)	$ (23,372)
Adjustments for:					
Depreciation	6	10,480	12,245	21,286	25,143
Non cash stock based compensation	9	100	73	183	188
Finance costs	11	4,525	4,474	9,093	9,152
Impairment of property and equipment		-	-	-	11,500
Income tax recovery	13	-	(3,095)	(2,062)	(8,234)
Other		(7)	(215)	(22)	(282)
Change in non cash working capital		7,252	20,292	1,835	13,177
Cash flow from operating activities		9,410	25,732	10,919	27,272
Investing activities					
Additions to property and equipment	6	(2,555)	(258)	(3,428)	(833)
Proceeds on sale of property and equipment		295	428	412	430
Change in non cash working capital		1,266	(847)	297	(2,258)
Cash flow used in investing activities		(994)	(677)	(2,719)	(2,661)
Financing activities					
Share purchase under normal course issuer bid		-	-	-	(478)
Finance costs paid		(480)	(286)	(8,735)	(8,589)
Repayment of second lien debt	7	(537)	(538)	(1,075)	(1,075)
Repayment of lease obligations	7	(764)	(856)	(1,493)	(1,664)
Repayment of credit facilities	7	(8,000)	(24,000)	(11,000)	(12,297)
Issuance costs of HSBC facility	7	-	-	(23)	-
Issue of common shares	8	-	-	9	-
Cash flow used in financing activities		(9,781)	(25,680)	(22,317)	(24,103)
(Decrease) increase in cash and cash equivalents		(1,365)	(625)	(14,117)	508
Cash and cash equivalents, beginning of period		6,570	5,148	19,322	4,015
Cash and cash equivalents, end of period [1]		$ 5,205	$ 4,523	$ 5,205	$ 4,523

[1] At June 30, 2021 and 2020, the Company's cash and cash equivalents consisted of bank accounts with banks within the Company's existing credit facilities

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

1. Reporting entity:

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the head office is 1700, 215 - 9th Avenue SW, Calgary, Alberta. Western is a publicly traded company listed on the Toronto Stock Exchange ("TSX") under the symbol "WRG". These condensed consolidated financial statements as at and for the three and six months ended June 30, 2021 and 2020 (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's, Eagle Well Servicing ("Eagle") provides well servicing, while Aero Rental Services ("Aero") provides oilfield rental equipment services. Stoneham's division, Western Oilfield Services, provides well servicing operations in the United States ("US"). 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:

Statement of compliance:

These Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the years ended December 31, 2020 and 2019. These Financial Statements have been prepared using accounting policies and estimates which are consistent with Note 3 and 4 of the audited annual consolidated financial statements as at December 31, 2020 and for the years ended December 31, 2020 and 2019 as filed on SEDAR at www.sedar.com.

These Financial Statements were approved for issuance by Western's Board of Directors on July 26, 2021.

Functional and presentation currency:

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

Critical accounting estimates and recent developments:

The preparation 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.

The current economic environment and the ongoing COVID-19 pandemic is continuing to impact the Company and the full extent of the impact is unknown, as it will depend on the duration of the pandemic, the successful rollout of COVID-19 vaccines, and its resulting impact on the economy and international markets. The COVID-19 pandemic and volatility of global demand results in uncertainty for the Company, as well as estimates and assumptions used by management to prepare these Financial Statements. Estimates and judgments made by management are subject to a higher degree of volatility in this uncertain time. A full list of critical accounting estimates is included in the Company's annual consolidated Financial Statements for the year ended December 31, 2020. However, the current market conditions have increased the uncertainty specifically relating to, but not limited to, assumptions used in calculating the recoverable amounts of the Company's cash generating units ("CGUs") in its impairment assessment, as well as increased risk of non-payment of trade receivables.

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

2. Basis of preparation and significant accounting policies (continued):

Canada Emergency Wage Subsidy ("CEWS"):

For the three and six months ended June 30, 2021, the Company has recorded $3.3 million and $6.6 million respectively, (three and six months ended June 30, 2020: $1.6 million) related to the CEWS from the Government of Canada. The CEWS relates to operating and administrative expenses in the period and have been recognized as a reduction of these expenses as follows:

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Operating	$ 2,829	$ 1,011	$ 5,785	$ 1,011
Administrative	480	605	794	605
Total CEWS	$ 3,309	$ 1,616	$ 6,579	$ 1,616

Canada Emergency Rent Subsidy ("CERS"):

For the three and six months ended June 30, 2021, the Company has recorded $0.4 million and $0.6 million respectively, (three and six months ended June 30, 2020: nil) related to the CERS from the Government of Canada. The CERS relates to eligible expenses such as rent and operating costs for the Company's leased properties, some of which had been capitalized as assets under IFRS 16, Leases. The Company has recognized a reduction of operating expenses and a reduction of depreciation expense related to IFRS 16 related assets as follows:

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Operating	$ 200	$ -	$ 324	$ -
Depreciation	195	-	301	-
Total CERS	$ 395	$ -	$ 625	$ -

3. Seasonality:

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

4. Operating segments:

The Company operates in the 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.

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.

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

4. Operating segments (continued):

The following is a summary of the Company's results by operating segment for the three and six months ended June 30, 2021 and 2020:

Three months ended June 30, 2021	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 11,942	$ 8,559	$ -	$ (115)	$ 20,386
Operating loss	(6,534)	(926)	(823)	-	(8,283)
Finance costs	-	-	4,525	-	4,525
Depreciation	7,671	2,433	376	-	10,480
Additions to property and equipment	1,730	824	1	-	2,555

Three months ended June 30, 2020	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 7,094	$ 3,754	$ -	$ (46)	$ 10,802
Operating loss	(4,637)	(2,461)	(1,111)	-	(8,209)
Finance costs	-	-	4,474	-	4,474
Depreciation	8,877	2,880	488	-	12,245
Additions to property and equipment	140	118	-	-	258

Six months ended June 30, 2021	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 32,239	$ 25,437	$ -	$ (321)	$ 57,355
Operating earnings (loss)	(10,493)	773	(2,478)	-	(12,198)
Finance costs	-	-	9,093	-	9,093
Depreciation	15,479	4,993	814	-	21,286
Additions to property and equipment	2,450	977	1	-	3,428

Six months ended June 30, 2020	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 41,310	$ 21,436	$ -	$ (179)	$ 62,567
Operating loss	(7,689)	(2,515)	(2,541)	-	(12,745)
Finance costs	-	-	9,152	-	9,152
Impairment of property and equipment	9,500	2,000	-	-	11,500
Depreciation	18,271	5,885	987	-	25,143
Additions to property and equipment	520	287	26	-	833

Total assets and liabilities by operating segment are as follows:

As at June 30, 2021	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 356,712	$ 95,124	$ 8,607	$ 460,443
Total liabilities	51,772	19,283	188,433	259,488

As at December 31, 2020	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 372,247	$ 99,172	$ 24,206	$ 495,625
Total liabilities	51,595	18,350	203,207	273,152

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

4. Operating segments (continued):

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

Three months ended June 30, 2021	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (6,534)	$ (926)	$ (823)	$ (8,283)
Deduct:				
Stock based compensation	(37)	(23)	(52)	(112)
Finance costs	-	-	(4,525)	(4,525)
Other items	-	-	(20)	(20)
Loss before income taxes	$ (6,571)	$ (949)	$ (5,420)	$ (12,940)

Three months ended June 30, 2020	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (4,637)	$ (2,461)	$ (1,111)	$ (8,209)
Add (deduct):				
Stock based compensation	(29)	(39)	(67)	(135)
Finance costs	-	-	(4,474)	(4,474)
Other items	-	-	1,681	1,681
Loss before income taxes	$ (4,666)	$ (2,500)	$ (3,971)	$ (11,137)

Six months ended June 30, 2021	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ (10,493)	$ 773	$ (2,478)	$ (12,198)
Add (deduct):				
Stock based compensation	(58)	(41)	(81)	(180)
Finance costs	-	-	(9,093)	(9,093)
Other items	-	-	15	15
(Loss) income before income taxes	$ (10,551)	$ 732	$ (11,637)	$ (21,456)

Six months ended June 30, 2020	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (7,689)	$ (2,515)	$ (2,541)	$ (12,745)
Add (deduct):				
Stock based compensation	(60)	(55)	(120)	(235)
Finance costs	-	-	(9,152)	(9,152)
Other items	-	-	2,026	2,026
Impairment of property and equipment	(9,500)	(2,000)	-	(11,500)
Loss before income taxes	$ (17,249)	$ (4,570)	$ (9,787)	$ (31,606)

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

4. Operating segments (continued):

Segmented information by geographic area is as follows:

As at June 30, 2021	Canada	United States	Total
Property and equipment	$ 343,387	$ 89,426	$ 432,813
Total assets	366,200	94,243	460,443

As at December 31, 2020	Canada	United States	Total
Property and equipment	$ 356,139	$ 95,901	$ 452,040
Total assets	395,118	100,507	495,625

	Canada	United States	Total
Revenue - three months ended June 30, 2021	$ 17,660	$ 2,726	$ 20,386
Revenue - three months ended June 30, 2020	3,871	6,931	10,802
Revenue - six months ended June 30, 2021	53,554	3,801	57,355
Revenue - six months ended June 30, 2020	50,561	12,006	62,567

Revenue from contracts:

For the three months ended June 30, 2021, the Company’s revenue from long term and short term contracts in the contract drilling segment totaled $2.0 million and $9.9 million respectively (for the three months ended June 30, 2020: $6.8 million and $0.3 million respectively). For the six months ended June 30, 2021, the Company’s revenue from long and short term contracts in the drilling segment totaled $2.4 million and $29.8 million respectively (for the six months ended June 30, 2020: $13.2 million and $28.1 million respectively).

For the three and six months ended June 30, 2021, the Company had no revenue from long term contracts in the production services segment (for the three and six months ended June 30, 2020: nil).

Significant customers:

For the three months ended June 30, 2021, the Company had one customer who comprised 10.2% of the Company’s total revenue. For the six months ended June 30, 2021, the Company had a different customer who comprised 10.7% of the Company’s total revenue. The trade receivable balance outstanding related to each customer was 11.3% and 4.3% respectively, of the Company’s total trade and other receivables as at June 30, 2021.

For the three and six months ended June 30, 2020, the Company had one customer comprising 62.2% and 15.4% respectively, of the Company’s total revenue.

5. Other assets:

The Company’s other assets as at June 30, 2021 and December 31, 2020 are as follows:

	June 30, 2021	December 31, 2020
Current:		
Prepaid expenses	$ 1,240	$ 2,327
Inventory	3,309	3,069
Deposits	386	355
Deferred charges	200	177
Total current portion of other assets	5,135	5,928
Non current:		
Deferred charges	-	89
Total non current portion of other assets	-	89
Total other assets	$ 5,135	$ 6,017

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

6. Property and equipment:

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

	Land	Buildings	Contract drilling equipment	Production services equipment	Office and shop equipment	Finance lease assets	Total
Cost:							
Balance at December 31, 2020	$ 5,089	$ 4,396	$ 798,687	$ 204,320	$ 13,085	$ 13,621	$ 1,039,198
Additions to property and equipment	-	-	2,442	836	150	-	3,428
Lease additions	-	-	-	-	-	1,798	1,798
Disposals	-	-	(121)	(953)	(364)	(2,330)	(3,768)
Foreign exchange adjustment	-	-	(4,596)	(109)	(23)	(34)	(4,762)
Balance at June 30, 2021	$ 5,089	$ 4,396	$ 796,412	$ 204,094	$ 12,848	$ 13,055	$ 1,035,894
Accumulated depreciation:							
Balance at December 31, 2020	$ -	$ 2,836	$ 448,556	$ 117,600	$ 11,372	$ 6,794	$ 587,158
Depreciation(1)	-	67	15,288	4,701	421	1,110	21,587
Disposals	-	-	(121)	(759)	(363)	(2,179)	(3,422)
Foreign exchange adjustment	-	-	(2,148)	(50)	(23)	(21)	(2,242)
Balance at June 30, 2021	$ -	$ 2,903	$ 461,575	$ 121,492	$ 11,407	$ 5,704	$ 603,081
Carrying amounts:							
At December 31, 2020	$ 5,089	$ 1,560	$ 350,131	$ 86,720	$ 1,713	$ 6,827	$ 452,040
At June 30, 2021	$ 5,089	$ 1,493	$ 334,837	$ 82,602	$ 1,441	$ 7,351	$ 432,813

(1) Excludes a credit to depreciation expense of $0.3 million associated with the CERS as described in Note 2.

Impairment:

As at June 30, 2021, the Company reviewed for indicators of impairment since its last test which was performed on December 31, 2020. Based on this review it was determined that there were no additional indicators of impairment since the last test performed. The Company continually monitors its budgets and forecasts and performs its impairment test based on these projections. Since the last impairment test was performed there have been no material revisions to this forecast.

7. Long term debt:

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

	June 30, 2021	December 31, 2020
Current:		
Second Lien Facility	$ 2,150	$ 2,150
HSBC Facility	625	-
Lease obligations (1)	2,673	2,843
PPP Loan	487	227
Less: unamortized issue costs	(917)	(859)
Total current portion of long term debt	5,018	4,361
Non current:		
Second Lien Facility	206,400	207,475
HSBC Facility	11,875	12,500
Revolving Facility	-	11,000
PPP Loan	1,682	2,001
Lease obligations (1)	6,343	5,858
Less: unamortized issue costs	(710)	(1,201)
Total non current portion of long term debt	225,590	237,633
Total long term debt	$ 230,608	$ 241,994

(1) During the three and six months ended June 30, 2021 and 2020, the Company expensed $0.1 million, related to leases of low value assets or leases with a term of less than one year.

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

7. Long term debt (continued):

Credit Facilities:

At June 30, 2021, 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 July 1, 2022.

Advances under the Credit Facilities are limited by the Company's borrowing base. Under the Credit Facility, the borrowing base is determined as follows:

- 85% of investment grade accounts receivable; plus
- 75% of non-investment grade accounts receivable; plus
- The lessor of:
  - (i) 66 2/3% of the total Credit Facilities; or
  - (ii) 25% of the net book value of property and equipment; or
  - (iii) 40% of appraised net orderly liquidation value of property and equipment.

As at June 30, 2021, the Company was in compliance with its borrowing base requirement as no amounts were drawn on its Credit Facility.

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 June 30, 2021, no amounts (December 31, 2020: $11.0 million) were drawn on the Credit Facilities.

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

	Covenant	June 30, 2021
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio (1)(2)	3.0:1.0 or less	0.0:1.0
Maximum Consolidated Debt to Consolidated Capitalization Ratio (3)(4)	0.6:1.0 or less	0.52:1.0
Minimum Current Ratio (5)	1.15:1.0 or more	1.51:1.0

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

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

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

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

(5) Current Ratio in the Credit Facilities is defined as the ratio of current assets to current liabilities as reported on the consolidated balance sheet, where current liabilities exclude accrued interest and the current portion of the Credit Facilities.

As at June 30, 2021, the Company was in compliance with all covenants related to its Credit Facilities.

Second Lien Facility:

At June 30, 2021, the Company had $208.6 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 or the next applicable business day. 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.

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

7. Long term debt (continued):

HSBC Facility:

At June 30, 2021, the Company had $12.5 million outstanding related to its committed term non-revolving facility (the "HSBC Facility"). The HSBC Facility bears interest at a floating rate that is payable monthly. Principal amounts are payable monthly beginning January 2022, with the balance due upon maturity on December 31, 2026.

US Paycheck Protection Program ("PPP"):

At June 30, 2021, the Company had US$1.8 million outstanding related to the PPP loan. Interest and principal is payable over the term of the loan, at a rate of 1% per annum, with the balance due upon maturity on July 23, 2025.

8. Share capital:

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

	Issued and outstanding shares		Amount
Balance at December 31, 2020	91,165,112	$	441,461
Issued for cash on exercise of stock options	36,497		9
Fair value of exercised stock options	-		2
Balance at June 30, 2021	91,201,609	$	441,472

There were no dividends declared during the three and six months ended June 30, 2021 and 2020.

9. Stock based compensation:

Stock options:

The Company's stock option plan provides for stock options to be issued to directors, officers, employees and consultants of the Company so that they may participate in the growth and development of Western. Subject to the specific provisions of the stock option plan, eligibility, vesting period, terms of the options and the number of options granted are to be determined by the Board of Directors at the time of grant. The stock option plan allows the Board of Directors to issue up to 10% of the Company's outstanding common shares as stock options, 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, 2020	7,464,687	$	0.82
Granted	42,590		0.47
Exercised	(36,497)		0.24
Forfeited	(636,711)		0.83
Expired	(3,400)		3.68
Balance at June 30, 2021	6,830,669	$	0.82

For the three and six months ended June 30, 2021 and 2020, no stock options were cancelled. The average fair value of the stock options granted for the three and six months ended June 30, 2021 was $0.14 and $0.18 per stock option (for the three and six months ended June 30, 2020: $0.07 and $0.09 per stock option). As at June 30, 2021, Western had 2,988,481 (December 31, 2020: 3,302,108) exercisable stock options outstanding at a weighted average exercise price equal to $1.43 (December 31, 2020: $1.42) per stock option.

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

9. Stock based compensation (continued):

Restricted share unit plan:

The Company's restricted share unit ("RSU") plan provides RSUs to be issued to directors, officers, employees and consultants of the Company so that they may participate in the growth and development of Western. Subject to the specific provisions of the RSU plan, eligibility, vesting period, terms of the RSUs and the number of RSUs granted are to be determined by the Board of Directors at the time of the grant. The RSU plan allows the Board of Directors to issue up to 5% of the Company's outstanding common shares as equity settled RSUs, provided that, when combined, the maximum number of common shares reserved for issuance under all stock based compensation arrangements of the Company does not exceed 10% of the Company's outstanding common shares.

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

	Equity settled	Cash settled	Total
Balance at December 31, 2020	1,244,159	263,682	1,507,841
Granted	7,820	-	7,820
Vested	-	(4,531)	(4,531)
Forfeited	(81,730)	(51,440)	(133,170)
Balance at June 30, 2021	1,170,249	207,711	1,377,960

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

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Stock options	$ 54	$ 36	$ 93	$ 113
Restricted share units – equity settled grants	46	37	90	75
Total equity settled stock based compensation expense	100	73	183	188
Restricted share units – cash settled grants	12	62	(3)	47
Total stock based compensation expense	$ 112	$ 135	$ 180	$ 235

10. Earnings per share:

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

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Issued common shares, beginning of period	91,200,072	92,501,314	91,165,112	92,501,314
Weighted average number of common shares issued (repurchased)	557	(1,582,500)	27,603	(1,095,514)
Weighted average number of common shares (basic)	91,200,629	90,918,814	91,192,715	91,405,800
Dilutive effect of equity securities	-	-	-	-
Weighted average number of common shares (diluted)	91,200,629	90,918,814	91,192,715	91,405,800

For the three and six months ended June 30, 2021, 6,830,669 stock options (three and six months ended June 30, 2020: 6,722,837 stock options), 1,170,249 equity settled RSUs (three and six months ended June 30, 2020: 627,210 equity settled RSUs) and nil warrants (for the three and six months ended June 30, 2020: 7,099,546 warrants) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

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

11. Finance costs:

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

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Interest expense on long term debt	$ 4,256	$ 4,154	$ 8,549	$ 8,513
Amortization of debt financing fees	48	105	96	210
Accretion expense on Second Lien Facility	215	216	427	432
Accretion expense on HSBC Facility	16	-	31	-
Interest income	(10)	(1)	(10)	(3)
Total finance costs	$ 4,525	$ 4,474	$ 9,093	$ 9,152

The Company had an effective interest rate on its borrowings of 7.4% for both the three and six months ended June 30, 2021 (three and six months ended June 30, 2020: 7.9% and 7.8%).

12. Other items:

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

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
(Gain) loss on sale of fixed assets	$ (6)	$ (284)	$ (66)	$ (234)
Realized foreign exchange loss (gain)	14	(1,466)	22	(1,744)
Unrealized foreign exchange loss (gain)	12	69	29	(48)
Total other items	$ 20	$ (1,681)	$ (15)	$ (2,026)

13. Income taxes:

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

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Current tax expense	$ -	$ -	$ 13	$ -
Deferred tax recovery	-	(3,095)	(2,075)	(8,234)
Total income tax recovery	$ -	$ (3,095)	$ (2,062)	$ (8,234)

During the three and six months ended June 30, 2021, the Company recognized a valuation allowance of $3.1 million related to unrecognized loss carry forwards. Loss carry forwards are only recognized as deferred tax assets when it is probable that taxable profits will be available against which the deductible balance can be utilized. As at June 30, 2021, the Company has loss carry forwards in Canada equal to approximately $258.9 million, of which $12.9 million are unrecognized, which will expire between 2035 and 2041. In the United States, the Company has approximately US$49.8 million loss carry forwards, some of which expire between 2028 and 2037, and others that have an indefinite expiry.

14. Costs by nature:

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

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Employee salaries and benefits (1)	$ 9,363	$ 3,443	$ 26,298	$ 32,420
Repairs and maintenance	2,715	356	6,219	4,108
Third party charges	866	223	2,263	3,668

(1) For the three and six months ended June 30, 2021, employee salaries and benefits includes CEWS of $3.3 million and $6.6 million repectively (for the three and six months ended June 30, 2020: $1.6 million), as described in Note 2.

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

15. Capital management:

The overall capitalization of the Company at June 30, 2021 and December 31, 2020 is as follows:

	Note	June 30, 2021	December 31, 2020
Second Lien Facility	7	$ 208,550	$ 209,625
HSBC Facility	7	12,500	12,500
Revolving Facility	7	-	11,000
PPP Loan	7	2,169	2,228
Finance lease obligations	7	9,016	8,701
Total debt		232,235	244,054
Shareholders' equity		200,956	222,473
Less: cash and cash equivalents		(5,205)	(19,322)
Total capitalization		$ 427,986	$ 447,205

16. Financial risk management:

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 industry credit risk. For the three and six months ended June 30, 2021, the ongoing COVID-19 pandemic, government restrictions, the success of the COVID-19 vaccine rollout, and the related volatility in global demand for crude oil, have had an impact on commodity prices. These factors are expected to have an impact on companies and their related credit risk. The Company's practice is to manage credit risk by performing a thorough analysis of the credit worthiness of new customers before credit terms are offered.

Additionally, the Company continually evaluates individual customer trade receivables for impairment taking into consideration payment history and aging of the trade receivables to monitor collectability.

In accordance with IFRS 9, Financial Instruments, the Company evaluates the recoverability 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. 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 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.

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 the volatility in global demand of crude oil as a result of the ongoing COVID-19 pandemic.

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17. Commitments:

As at June 30, 2021, the Company has commitments which require payments based on the maturity terms as follows:

	2021	2022	2023	2024	2025	Thereafter	Total
Second Lien Facility[1]	$ 1,075	$ 2,150	$ 209,112	$ -	$ -	$ -	$ 212,337
Second Lien Facility interest[1]	4,746	15,381	8,812	-	-	-	28,939
HSBC Facility	-	1,250	1,250	1,250	1,250	7,500	12,500
HSBC Facility interest	406	769	688	610	527	447	3,447
Trade payables and other current liabilities[2]	15,732	-	-	-	-	-	15,732
Operating commitments[3]	1,907	716	688	687	57	-	4,055
PPP Loan	230	552	552	552	333	-	2,219
Lease obligations [4]	1,756	2,907	2,545	2,265	635	357	10,465
Total	$ 25,852	$ 23,725	$ 223,647	$ 5,364	$ 2,802	$ 8,304	$ 289,694

(1) Second Lien Facility and Second Lien Facility interest includes a $3.8 million payment in kind made by the Company on July 2, 2021, as part of its semi-annual interest payment and further described in Note 18.

(2) Trade payables and other current liabilities exclude interest accrued as at June 30, 2021 on the Second Lien Facility which is stated separately.

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

(4) Lease obligations represent the gross lease commitments to be paid over the term of the Company's outstanding long term leases.

18. Subsequent Event:

Subsequent to June 30, 2021, on July 2, 2021, the Company made a payment in kind ("PIK") of $3.8 million related to its semi-annual interest payment on its Second Lien Facility. The PIK was added to the principal amount of the Company's Second Lien Facility. Accrued interest as at June 30, 2021 of $4.7 million was paid in cash on July 2, 2021.