Western Energy Services Corp.

Condensed Consolidated Financial Statements

March 31, 2022 and 2021

(Unaudited)

Western Energy Services Corp.

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

	Note	March 31, 2022	December 31, 2021
Assets			
Current assets			
Cash and cash equivalents		$ 7,926	$ 7,478
Trade and other receivables		33,645	26,464
Other current assets	5	7,114	6,411
		48,685	40,353
Non current assets			
Property and equipment	6	408,194	415,245
Other non current assets	5	347	405
		$ 457,226	$ 456,003
Liabilities			
Current liabilities			
Trade payables and other current liabilities		$ 25,710	$ 24,590
Current portion of long term debt	7	229,035	13,539
		254,745	38,129
Non current liabilities			
Long term debt	7	16,974	226,884
Deferred taxes		3,921	4,490
		275,640	269,503
Shareholders' equity			
Share capital	8	441,699	441,672
Contributed surplus		15,782	15,762
Retained earnings (deficit)		(300,460)	(296,467)
Accumulated other comprehensive income		22,413	23,540
Non controlling interest		2,152	1,993
		181,586	186,500
		$ 457,226	$ 456,003

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 March 31, 2022	Three months ended March 31, 2021
Revenue		$ 50,475	$ 36,969
Expenses			
Operating		36,681	26,925
Administrative		3,403	3,153
Depreciation	6	9,919	10,806
Stock based compensation	9	32	68
Finance costs	11	4,627	4,568
Other items	12	66	(35)
Loss before income taxes		(4,253)	(8,516)
Income tax recovery	13	419	2,062
Net loss		(3,834)	(6,454)
Other comprehensive loss (1)			
Loss on translation of foreign operations		(717)	(723)
Unrealized foreign exchange loss on net investment in subsidiary		(410)	(354)
Comprehensive loss		$ (4,961)	$ (7,531)
Net income (loss) attributable to:			
Shareholders of the Company		$ (3,993)	$ (6,482)
Non controlling interest		159	28
Comprehensive income (loss) attributable to:			
Shareholders of the Company		$ (5,120)	$ (7,559)
Non controlling interest		159	28
Net loss per share:			
Basic		$ (0.04)	$ (0.07)
Diluted		(0.04)	(0.07)
Weighted average number of shares:			
Basic	10	91,736,391	91,184,713
Diluted	10	91,736,391	91,184,713

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

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, 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	-	83	-	-	-	83
Comprehensive loss	-	-	(6,482)	(1,077)	28	(7,531)
Balance at March 31, 2021	441,472	15,759	(266,815)	22,919	1,699	215,034
Common shares:						
Issued on vesting of restricted share units	192	(192)	-	-	-	-
Issued for cash on exercise of stock options	5	-	-	-	-	5
Fair value of exercised options	3	(3)	-	-	-	-
Stock based compensation	-	198	-	-	-	198
Comprehensive (loss) income	-	-	(29,652)	621	294	(28,737)
Balance at December 31, 2021	441,672	15,762	(296,467)	23,540	1,993	186,500
Common shares:						
Issued for cash on exercise of stock options	20	-	-	-	-	20
Fair value of exercised options	7	(7)	-	-	-	-
Stock based compensation	-	27	-	-	-	27
Comprehensive (loss) income	-	-	(3,993)	(1,127)	159	(4,961)
Balance at March 31, 2022	$ 441,699	$ 15,782	$ (300,460)	$ 22,413	$ 2,152	$ 181,586

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

(2) At March 31, 2022 the accumulated other comprehensive income balance consists of the translation of foreign operations and unrealized foreign exchange on the net investment in subsidiary.

Western Energy Services Corp.

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

	Note	Three months ended March 31, 2022	Three months ended March 31, 2021
Operating activities			
Net loss		$ (3,834)	$ (6,454)
Adjustments for:			
Depreciation	6	9,919	10,806
Non cash stock based compensation	9	27	83
Finance costs	11	4,627	4,568
Income tax recovery	13	(419)	(2,062)
Other		40	(43)
Income taxes paid		-	28
Change in non cash working capital		(3,899)	(5,417)
Cash flow from operating activities		6,461	1,509
Investing activities			
Additions to property and equipment	6	(4,094)	(873)
Proceeds on sale of property and equipment		16	117
Repayment of promissory note	5	53	-
Change in non cash working capital		905	(969)
Cash flow used in investing activities		(3,120)	(1,725)
Financing activities			
Finance costs paid		(511)	(8,255)
Repayment of second lien debt	7	(538)	(538)
Repayment of lease obligations	7	(551)	(729)
Repayment of credit facilities	7	(1,000)	(3,000)
Repayment of HSBC facility	7	(313)	-
Issuance costs of HSBC facility	7	-	(23)
Issue of common shares	8	20	9
Cash flow used in financing activities		(2,893)	(12,536)
Increase (decrease) in cash and cash equivalents		448	(12,752)
Cash and cash equivalents, beginning of period		7,478	19,322
Cash and cash equivalents, end of period		$ 7,926	$ 6,570

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 March 31, 2022 and for the three months ended March 31, 2022 and 2021 (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, while Aero Rental Services ("Aero") provides oilfield rental equipment services. Financial and operating results for Horizon and Stoneham are included in the contract drilling segment, while financial and operating results for Eagle and Aero are included in the 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, 2021 and 2020. 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, 2021 and for the years ended December 31, 2021 and 2020 as filed on SEDAR at www.sedar.com.

These Financial Statements were approved for issuance by Western's Board of Directors on May 5, 2022.

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 ongoing 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, 2021. 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 months ended March 31, 2022, the Company recorded nil (three months ended March 31, 2021: $3.2 million) related to the CEWS from the Government of Canada. The CEWS program ended in October 2021. The CEWS related to operating and administrative expenses and were recognized as a reduction of these expenses as follows:

	Three months ended March 31, 2022	Three months ended March 31, 2021
Operating	$ -	$ 2,956
Administrative	-	314
Total CEWS	$ -	$ 3,270

Canada Emergency Rent Subsidy ("CERS"):

For the three months ended March 31, 2022, the Company recorded nil (three months ended March 31, 2021: $0.2 million) related to the CERS from the Government of Canada. The CERS related 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 CERS program ended in October 2021. The Company recognized a reduction of operating expenses and a reduction of depreciation expense related to IFRS 16 related assets as follows:

	Three months ended March 31, 2022	Three months ended March 31, 2021
Operating	$ -	$ 102
Depreciation	-	106
Total CERS	$ -	$ 208

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 provides energy services primarily to oil and natural gas exploration companies through its contract drilling and production services segments in both Canada and the United States. Contract drilling includes drilling rigs along with related ancillary equipment. Production services includes well servicing rigs and related equipment, as well as oilfield rental equipment.

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 months ended March 31, 2022 and 2021:

Three months ended March 31, 2022	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 30,976	$ 19,586	$ -	$ (87)	$ 50,475
Operating earnings (loss)	(951)	2,766	(1,343)	-	472
Finance costs	-	-	4,627	-	4,627
Depreciation	7,201	2,297	421	-	9,919
Additions to property and equipment	3,474	620	-	-	4,094

Three months ended March 31, 2021	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 20,297	$ 16,878	$ -	$ (206)	$ 36,969
Operating earnings (loss)	(3,959)	1,699	(1,655)	-	(3,915)
Finance costs	-	-	4,568	-	4,568
Depreciation	7,808	2,560	438	-	10,806
Additions to property and equipment	720	153	-	-	873

Total assets and liabilities by operating segment are as follows:

As at March 31, 2022	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 351,640	$ 94,376	$ 11,210	$ 457,226
Total liabilities	51,237	23,127	201,276	275,640

As at December 31, 2021	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 350,919	$ 94,441	$ 10,643	$ 456,003
Total liabilities	49,925	20,147	199,431	269,503

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

Three months ended March 31, 2022	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ (951)	$ 2,766	$ (1,343)	$ 472
Deduct:				
Stock based compensation	-	(13)	(19)	(32)
Finance costs	-	-	(4,627)	(4,627)
Other items	-	-	(66)	(66)
Income (loss) before income taxes	$ (951)	$ 2,753	$ (6,055)	$ (4,253)

Three months ended March 31, 2021	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ (3,959)	$ 1,699	$ (1,655)	$ (3,915)
Add (deduct):				
Stock based compensation	(21)	(18)	(29)	(68)
Finance costs	-	-	(4,568)	(4,568)
Other items	-	-	35	35
Income (loss) before income taxes	$ (3,980)	$ 1,681	$ (6,217)	$ (8,516)

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

4. Operating segments (continued):

Segmented information by geographic area is as follows:

As at March 31, 2022	Canada	United States	Total
Property and equipment	$ 325,043	$ 83,151	$ 408,194
Total assets	369,884	87,342	457,226

As at December 31, 2021	Canada	United States	Total
Property and equipment	$ 329,550	$ 85,695	$ 415,245
Total assets	366,223	89,780	456,003

	Canada	United States	Total
Revenue - three months ended March 31, 2022	$ 48,006	$ 2,469	$ 50,475
Revenue - three months ended March 31, 2021	35,894	1,075	36,969

Revenue from contracts:

For the three months ended March 31, 2022, the Company's revenue from long term and short term contracts in the contract drilling segment totaled nil and $31.0 million respectively (for the three months ended March 31, 2021: $0.4 million and $19.9 million respectively).

For the three months ended March 31, 2022, the Company had no revenue from long term contracts in the production services segment (for the three months ended March 31, 2021: nil).

Significant customers:

For the three months ended March 31, 2022, the Company had one customer comprising 10.1% of the Company's total revenue. The trade receivable balance outstanding related to this customer was 8.8% of the Company's total trade and other receivables as at March 31, 2022. For the three months ended March 31, 2021, the Company had one customer comprising 13.0% of the Company's total revenue.

5. Other assets:

The Company's other assets as at March 31, 2022 and December 31, 2021 are as follows:

	March 31, 2022	December 31, 2021
Current:		
Prepaid expenses	$ 1,718	$ 2,098
Inventory	3,767	3,595
Deposits	456	407
Promissory note [1]	208	211
Deferred charges	965	100
Total current portion of other assets	7,114	6,411
Non current:		
Promissory note - long term [1]	347	405
Total non current portion of other assets	347	405
Total other assets	$ 7,461	$ 6,816

[1] At March 31, 2022, the Company held a three year promissory note related to an asset sale of US$0.5 million (December 31, 2021: US$0.5 million), payable in equal monthly payments until expiry on November 14, 2024.

(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, 2021	$ 5,089	$ 4,396	$ 800,198	$ 199,682	$ 12,713	$ 13,019	$ 1,035,097
Additions to property and equipment	-	-	3,474	620	-	-	4,094
Disposals	-	-	-	(60)	(12)	(1,000)	(1,072)
Foreign exchange adjustment	-	-	(2,511)	-	20	(12)	(2,503)
Balance at March 31, 2022	$ 5,089	$ 4,396	$ 801,161	$ 200,242	$ 12,721	$ 12,007	$ 1,035,616
Accumulated depreciation:							
Balance at December 31, 2021	$ -	$ 2,970	$ 475,787	$ 123,034	$ 11,568	$ 6,493	$ 619,852
Depreciation	-	34	7,127	2,167	139	452	9,919
Disposals	-	-	-	(60)	(8)	(989)	(1,057)
Foreign exchange adjustment	-	-	(1,302)	-	20	(10)	(1,292)
Balance at March 31, 2022	$ -	$ 3,004	$ 481,612	$ 125,141	$ 11,719	$ 5,946	$ 627,422
Carrying amounts:							
At December 31, 2021	$ 5,089	$ 1,426	$ 324,411	$ 76,648	$ 1,145	$ 6,526	$ 415,245
At March 31, 2022	$ 5,089	$ 1,392	$ 319,549	$ 75,101	$ 1,002	$ 6,061	$ 408,194

Impairment:

As at March 31, 2022, the Company reviewed for indicators of impairment since its last test. 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.

	March 31, 2022	December 31, 2021
Current:		
Second Lien Facility	$ 218,497	$ 2,150
HSBC Facility	1,250	1,250
Lease obligations (1)	2,414	2,444
Revolving Facility	7,000	8,000
PPP Loan	644	608
Less: unamortized issue costs	(770)	(913)
Total current portion of long term debt	229,035	13,539
Non current:		
Second Lien Facility	-	209,112
HSBC Facility	10,938	11,250
PPP Loan	1,542	1,610
Lease obligations (1)	4,663	5,176
Less: unamortized issue costs	(169)	(264)
Total non current portion of long term debt	16,974	226,884
Total long term debt	$ 246,009	$ 240,423

(1) Lease obligations include leases capitalized under IFRS 16. During the three months ended March 31, 2022 and 2021, the Company expensed less than $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 March 31, 2022, 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.

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 March 31, 2022, the Company's Credit Facilities are subject to the following financial covenants:

	Covenant	March 31, 2022
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)	0.60:1.0 or less	0.56:1.0
Minimum Current Ratio (5)	1.15:1.0 or more	2.05:1.0

(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 the Second Lien Facility, accrued interest and the current portion of the Credit Facilities.

As at March 31, 2022, the Company was in compliance with all covenants related to its Credit Facilities.

Subsequent to December 31, 2021, the Company agreed to amend its Credit Facilities, including the maturity date, the amount available under the Credit Facilities and certain financial covenants. Such proposed amendments are described in Note 18.

Second Lien Facility:

At March 31, 2022, the Company had $218.5 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. On March 22, 2022, the Company made a payment in kind ("PIK") of $7.8 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.

On March 22, 2022, as described in Note 18, the Company announced it had entered into a debt restructuring agreement (the "Debt Restructuring Agreement") which provides for the conversion of $100.0 million of principal owing under the Second Lien Facility into common shares of the Company, subject to the satisfaction of certain conditions including the completion of a rights offering, a portion of the proceeds from which will be used to repay an additional $10.0 million of principal owing under the Second Lien Facility.

HSBC Facility:

At March 31, 2022, the Company had $12.2 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 and began January 2022, with the balance due upon maturity on December 31, 2026.

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

7. Long term debt (continued):

US Paycheck Protection Program ("PPP"):

At March 31, 2022, 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, 2021	91,706,457	$	441,672
Issued for cash on exercise of stock options	81,551		20
Fair value of exercised stock options	-		7
Balance at March 31, 2022	91,788,008	$	441,699

There were no dividends declared during the three months ended March 31, 2022 and 2021.

On March 22, 2022, the Company announced that it entered into the Debt Restructuring Agreement, as described in Note 18. Under the Debt Restructuring Agreement the Company will convert $100.0 million of the principal amount outstanding under the Second Lien Facility into common shares of the Company subject to the satisfaction of certain conditions. As one of the conditions under the Debt Restructuring Agreement, the Company is conducting a rights offering to its shareholders for aggregate proceeds of $31.5 million. The terms and conditions of the rights offering are set out in the Company's final prospectus dated April 11, 2022, which is filed under its SEDAR profile at www.sedar.com.

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, 2021	5,924,431	$	0.55
Exercised	(81,551)		0.25
Forfeited	(209,910)		0.53
Expired	(46,950)		3.10
Balance at March 31, 2022	5,586,020	$	0.54

For the three months ended March 31, 2022 and 2021, no stock options were cancelled. There were no options granted for the three months ended March 31, 2022. The average fair value of the stock options granted for the three months ended March 31, 2021 was $0.18 per stock option. As at March 31, 2022, Western had 3,749,809 (December 31, 2021: 3,950,800) exercisable stock options outstanding at a weighted average exercise price equal to $0.67 (December 31, 2021: $0.70) 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, 2021	608,534	56,269	664,803
Forfeited	(23,682)	(1,657)	(25,339)
Balance at March 31, 2022	584,852	54,612	639,464

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

	Three months ended March 31, 2022	Three months ended March 31, 2021
Stock options	$ 14	$ 39
Restricted share units – equity settled grants	13	44
Total equity settled stock based compensation expense	27	83
Restricted share units – cash settled grants	5	(15)
Total stock based compensation expense	$ 32	$ 68

10. Earnings per share:

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

	Three months ended March 31, 2022	Three months ended March 31, 2021
Issued common shares, beginning of period	91,706,457	91,165,112
Weighted average number of common shares issued	29,934	19,601
Weighted average number of common shares (basic)	91,736,391	91,184,713
Dilutive effect of equity securities	-	-
Weighted average number of common shares (diluted)	91,736,391	91,184,713

For the three months ended March 31, 2022, 5,586,020 stock options (three months ended March 31, 2021: 6,948,414 stock options) and 584,852 equity settled RSUs (three months ended March 31, 2021: 1,211,449 equity settled RSUs), 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 March 31, 2022	Three months ended March 31, 2021
Interest expense on long term debt	$ 4,352	$ 4,293
Amortization of debt financing fees	50	48
Accretion expense on Second Lien Facility	211	212
Accretion expense on HSBC Facility	15	15
Interest income	(1)	-
Total finance costs	$ 4,627	$ 4,568

The Company had an effective interest rate on its borrowings of 7.4% for the three months ended March 31, 2022 (three months ended March 31, 2021: 7.4%).

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 March 31, 2022	Three months ended March 31, 2021
Gain on sale of fixed assets	$ (1)	$ (60)
Realized foreign exchange loss	26	8
Unrealized foreign exchange gain	41	17
Total other items	$ 66	$ (35)

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 March 31, 2022	Three months ended March 31, 2021
Current tax expense	$ -	$ 13
Deferred tax recovery	(419)	(2,075)
Total income tax recovery	$ (419)	$ (2,062)

For the three months ended March 31, 2022, the Company did not recognize a deferred tax asset of $1.3 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 March 31, 2022, the Company has loss carry forwards in Canada equal to approximately $267.1 million, of which $30.9 million are unrecognized, which will expire between 2035 and 2042. In the United States, the Company has approximately US$50.9 million loss carry forwards, some of which expire between 2028 and 2038, and others that have an indefinite expiry.

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

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 March 31, 2022	Three months ended March 31, 2021
Employee salaries and benefits (1)	$ 23,572	$ 16,935
Repairs and maintenance	4,093	3,504
Third party charges	2,820	1,397

(1) For the three months ended March 31, 2022, no CEWS was included as the program ended in October 2021 (three months ended March 31, 2021: $3.2 million) as described in Note 2.

15. Capital management:

The overall capitalization of the Company at March 31, 2022 and December 31, 2021 is as follows:

	Note	March 31, 2022	December 31, 2021
Second Lien Facility	7	$ 218,497	$ 211,262
HSBC Facility	7	12,188	12,500
Revolving Facility	7	7,000	8,000
PPP Loan	7	2,186	2,218
Finance lease obligations	7	7,077	7,620
Total debt		246,948	241,600
Shareholders' equity		181,586	186,500
Less: cash and cash equivalents		(7,926)	(7,478)
Total capitalization		$ 420,608	$ 420,622

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 amount 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 months ended March 31, 2022, the ongoing COVID-19 pandemic, and the related volatility in global demand for crude oil as a result of the war in Ukraine, 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 collectability taking into consideration payment history and aging of the trade receivables.

In accordance with IFRS 9, Financial Instruments, the Company evaluates the collectability of its trade and other receivables and its allowance for doubtful accounts at each reporting date. 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 reviews its historical credit losses as part of its impairment assessment. The Company has had low 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 an impairment loss allowance on all outstanding trade and other receivables.

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

16. 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, the Rights Offering, the Credit Facilities, the HSBC Facility, 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.

As previously announced on March 22, 2022, and described in Note 18, Western entered into the Restructuring Transaction, which upon closing will impact the Company's financial liabilities and capital structure.

17. Commitments:

As at March 31, 2022, the Company has commitments which require payments based on the maturity terms as follows:

	2022	2023	2024	2025	2026	Thereafter	Total
Second Lien Facility	$ 1,613	$ 216,884	$ -	$ -	$ -	$ -	$ 218,497
Second Lien Facility interest	7,768	7,893	-	-	-	-	15,661
Trade payables and other current liabilities (1)	22,011	-	-	-	-	-	22,011
HSBC Facility	938	1,250	1,250	1,250	7,500	-	12,188
HSBC Facility interest	769	688	610	527	447	-	3,041
Lease obligations (2)	2,266	2,723	2,257	637	357	-	8,240
Revolving Facility	7,000	-	-	-	-	-	7,000
Operating commitments (3)	7,915	745	744	60	-	-	9,464
PPP Loan	506	674	674	408	-	-	2,262
Total	$ 50,786	$ 230,857	$ 5,535	$ 2,882	$ 8,304	$ -	$ 298,364

(1) Trade payables and other current liabilities exclude interest accrued as at March 31, 2022 on the Second Lien Facility and HSBC Facility which is stated separately.

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

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

18. Subsequent events:

On March 22, 2022, Western announced it had entered into agreements to restructure a portion of its outstanding debt and raise new capital (the "Restructuring Transaction"). Pursuant to the Restructuring Transaction, Western entered into a Debt Restructuring Agreement with Alberta Investment Management Corporation ("AIMCo"), the lender under its Second Lien Facility. Under the Debt Restructuring Agreement, subject to the completion of the other components of the Restructuring Transaction and the satisfaction of certain other conditions, the Company will convert $100.0 million of the principal amount outstanding under the Second Lien Facility into common shares at a conversion price of $0.05 per share (the "Debt Exchange"). On completion of the Debt Exchange, the Second Lien Facility will be amended to, among other things, extend its maturity date from January 31, 2023 to the fourth anniversary of the closing date of the Debt Exchange.

Completion of the Debt Exchange is subject to a number of conditions, including the completion of the Rights Offering as described below, receipt of approval of the Debt Exchange and other components of the Restructuring Transaction by the TSX, there being no material adverse change to the Company, completion of definitive amendments to the Second Lien Facility and Credit Facilities substantially on the terms specified in the Debt Restructuring Agreement and other customary closing conditions.

18. Subsequent events (continued):

In addition, as a condition to the completion of the Debt Exchange, the Company is conducting a rights offering of common shares to all of its shareholders to raise proceeds of $31.5 million (the "Rights Offering"). Under the Rights Offering, shareholders of record as of April 19, 2022, have the right to acquire for each common share held on the record date, 21.4488803374 additional common shares at a price of $0.016 per share. G2S2 Capital Inc. ("G2S2"), G2S2's subsidiary Armco Alberta Inc. ("Armco"), Ronald P. Mathison and Matco Investments ("Matco"), currently the Company's largest shareholders, have entered into a standby purchase agreement with the Company wherein they have agreed to exercise in full their basic subscription privilege in the Rights Offering and, in the case of each of Armco and Matco, to acquire any shares offered under the Rights Offering and not purchased by other shareholders. On March 30, 2022, Western filed its preliminary prospectus and on April 11, 2022, filed its final prospectus related to the Rights Offering. The terms and conditions of the Rights Offering are set out in the final prospectus which can be found under the Company's profile on www.sedar.com.

Under the terms of the Debt Restructuring Agreement, the Company and AIMCo will enter into a registration rights agreement (the "Registration Rights Agreement") and the Company, AIMCo, G2S2, Armco, Matco and Mr. Mathison will enter into an investor rights agreement (the "Investor Rights Agreement"). Pursuant to the Registration Rights Agreement, AIMCo will be provided distribution rights allowing AIMCo to cause the Company to file a prospectus to facilitate the sale of its common shares in a public offering, or to allow it to participate in a public offering of common shares by the Company, in each case subject to certain customary restrictions and limitations. The Registration Rights Agreement will terminate when AIMCo and its affiliates or other permitted transferees beneficially own, in the aggregate, less than 10% of the then outstanding common shares. Pursuant to the Investor Rights Agreement, AIMCo will be entitled to appoint two nominees for election as directors of the Company, provided the shareholdings of AIMCo and its affiliates in the Company are 30% or greater.

In connection with the Restructuring Transaction, Western and two of the lenders under its Credit Facilities agreed to make certain amendments to the Credit Facilities upon completion of the Restructuring Transaction, including extending the maturity to three years from closing, reducing the amount available under its Revolving Facility from $50.0 million to $35.0 million, with no changes to the $10.0 million Operating Facility, and amending its financial covenants. Revisions to certain financial covenants include:

(i) a reduction of the debt to capitalization ratio from 0.6:1.0 or less to 0.5:1.0 or less;

(ii) a new requirement for trailing twelve months EBITDA of $19.3 million in the first quarter of 2022 and $16.4 million in each of the second and third quarters of 2022 if the Credit Facilities are drawn above $25.0 million during such fiscal quarter or the net book value of property, plant and equipment drops below $250.0 million for the prior fiscal quarter;

(iii) a new debt service coverage ratio of 1.1x in the fourth quarter of 2022 and 1.15x thereafter if the Credit Facilities are drawn above $25.0 million during such fiscal quarter or the net book value of property, plant and equipment drops below $250.0 million for the prior fiscal quarter;

(iv) the removal of the current ratio, minimum liquidity requirement and senior debt to capitalization ratio; and

(v) the payment of interest on the Second Lien Facility from the use of the proceeds of the Credit Facilities will be allowed.