





COMPANY OVERVIEW

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 27, 2021 at 1:30 pm (MDT).

Location: Western Energy Services Corp. - Head Office
1700, 215 – 9th Avenue SW, Calgary, Alberta, T2P 1K3





CEO Report to Shareholders

At the beginning of 2020, it looked like we as an industry may be starting to recover after one of the longest downturns in the history of Canadian oilfield services. Well, 2020 could not have turned out any differently than we thought it would. In March 2020, OPEC+ started a price war, flooding the market with excess oil, and then as we are all aware, we were on the doorstep of a worldwide pandemic. Things happened that we have not seen in our lifetime: the world economy shutting down, borders closing and negative oil prices to name a few, along with a tragic death toll due to COVID-19.

2020 put Western to the test and I feel our team came through for our shareholders. We continued strict cost controls, reduced headcount an additional 54%, scaled capital expenditures to the decreased activity and built and implemented COVID-19 protocols to safeguard all employees, which allowed Western to continue providing our customers with the essential services required to supply energy to our country.

Over these last few years, while being careful to protect our balance sheet, we have continued to incur sufficient maintenance capital which ensures we have the ability to recover and return to more normal levels of utilization in our well servicing, drilling and rental divisions. We have also retained our long term, well trained and experienced crews and support staff. These two factors provide Western the ability to re-activate rigs economically and blend new employees into our existing crews without compromising the level of service our customers have come to expect.

Along with servicing and drilling continually deeper and longer horizontal wells for oil, natural gas and natural gas liquids that we now see as normal, Western has drilled some notably different wells. As part of multiple geothermal wells drilled for a Canadian customer's geothermal power project, Western has drilled the first horizontal well in the Deadwood Formation and the deepest vertical well in Saskatchewan's history. Historically, we drilled for helium, uranium, and potash. This highlights Western's ability to deliver on customer specific requirements in all applications, including new and emerging renewable energy and green initiatives.

Looking ahead, we see a much-improved operating environment. As vaccinations make their way through the world population, the economy will return to a more normal state. Pent up demand exists for business travel, vacations and many other services that people are currently doing without. We believe that demand for energy will increase and commodity prices will continue to improve. Already we are seeing more than a handful of exploration and production companies planning to increase their current capital expenditure budgets and Western is ready to provide services to our customers as their needs increase. In the medium term, the takeaway capacity and demand constraints specific to the Canadian market are being addressed with increased certainty around oil and gas pipeline and liquified natural gas projects, rail transport and coal to gas power generation conversions.

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,

A handwritten signature in blue ink, appearing to read "Alex R.N. MacAusland". The signature is fluid and cursive, with a large, sweeping flourish at the end.

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

March 15, 2021

2020 Management's Discussion and Analysis

Date: February 25, 2021

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, 2020 and 2019. This Management's Discussion and Analysis ("MD&A") is dated February 25, 2021. All amounts are denominated in Canadian dollars (CDN\$) unless otherwise identified.

Financial Highlights (stated in thousands, except share and per share amounts)	Three months ended December 31			Year ended December 31			
	2020	2019	Change	2020	2019	Change	2018
Revenue	27,679	45,838	(40%)	103,684	196,408	(47%)	236,410
Adjusted EBITDA ⁽¹⁾	5,610	5,584	-	20,278	24,238	(16%)	31,616
Adjusted EBITDA as a percentage of revenue	20%	12%	67%	20%	12%	67%	13%
Cash flow from operating activities	2,011	8,921	(77%)	27,723	31,718	(13%)	33,231
Additions to property and equipment	1,805	2,942	(39%)	2,788	7,968	(65%)	19,960
Net loss	(7,443)	(52,249)	(86%)	(41,301)	(81,030)	(49%)	(41,060)
-basic net loss per share	(0.08)	(0.56)	(86%)	(0.45)	(0.88)	(49%)	(0.45)
-diluted net loss per share	(0.08)	(0.56)	(86%)	(0.45)	(0.88)	(49%)	(0.45)
Weighted average number of shares							
-basic	91,165,112	92,501,314	(1%)	91,253,521	92,379,902	(1%)	92,224,585
-diluted	91,165,112	92,501,314	(1%)	91,253,521	92,379,902	(1%)	92,224,585
Outstanding common shares as at period end	91,165,112	92,501,314	(1%)	91,165,112	92,501,314	(1%)	92,305,542
Operating Highlights⁽²⁾							
Contract Drilling							
<i>Canadian Operations</i>							
Average active rig count	8.0	11.4	(30%)	6.3	12.3	(49%)	19.2
Revenue per Billable Day	19,130	22,023	(13%)	20,900	21,383	(2%)	21,321
Revenue per Operating Day	20,883	24,725	(16%)	23,417	23,854	(2%)	23,644
Drilling rig utilization - Billable Days	16%	23%	(30%)	13%	25%	(48%)	38%
Drilling rig utilization - Operating Days	15%	21%	(29%)	12%	22%	(45%)	35%
CAODC industry average utilization - Operating Days ⁽³⁾	16%	23%	(30%)	16%	22%	(27%)	29%
<i>United States Operations</i>							
Average active rig count	0.6	2.9	(79%)	0.7	4.4	(84%)	3.4
Revenue per Billable Day (US\$)	11,829	21,979	(46%)	17,983 ⁽⁴⁾	20,460 ⁽⁵⁾	(12%)	21,109
Revenue per Operating Day (US\$)	16,273	26,596	(39%)	22,594 ⁽⁴⁾	24,150 ⁽⁵⁾	(6%)	23,571
Drilling rig utilization - Billable Days	8%	37%	(78%)	9%	56%	(84%)	57%
Drilling rig utilization - Operating Days	6%	30%	(80%)	7%	47%	(85%)	51%
Production Services							
<i>Canadian Operations</i>							
Average active rig count	17.3	20.1	(14%)	14.6	19.1	(24%)	16.5
Revenue per Service Hour	685	680	1%	693	661	5%	686
Service rig utilization	27%	32%	(16%)	23%	30%	(23%)	25%

(1) See "Non-IFRS Measures" on page 20 of this MD&A.

(2) See "Defined Terms" on page 21 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\$5.0 million for the year ended December 31, 2020.

(5) 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, 2020	December 31, 2019	December 31, 2018
Working capital	15,997	7,031	15,739
Property and equipment	452,040	511,052	615,395
Total assets	495,625	550,537	667,295
Long term debt	237,633	228,274	222,258

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 20 of this MD&A. Abbreviations for standard industry terms are included on page 21 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 rigs¹, 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 third largest well servicing company in Canada, based on the CAODC registered rigs², with a fleet of 63 rigs operating through Eagle. Additionally, Western Oilfield Services operates three well servicing rigs 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, abandonment 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, 2020 and 2019 and for the years ended December 31, 2020 and 2019.

	Three months ended December 31			Year ended December 31		
	2020	2019	Change	2020	2019	Change
Average crude oil and natural gas prices⁽¹⁾⁽²⁾						
Crude Oil						
West Texas Intermediate (US\$/bbl)	42.66	56.96	(25%)	39.40	57.02	(31%)
Western Canadian Select (CDN\$/bbl)	43.42	54.29	(20%)	35.59	58.77	(39%)
Natural Gas						
30 day Spot AECO (CDN\$/mcf)	2.58	2.42	7%	2.18	1.76	24%
Average foreign exchange rates⁽²⁾						
US dollar to Canadian dollar	1.30	1.32	(2%)	1.34	1.33	1%

(1) See “Abbreviations” on page 21 of this MD&A.

(2) Source: Sproule December 31, 2020 Price Forecast, Historical Prices.

West Texas Intermediate (“WTI”) on average declined by 25% and 31% for the three months and year ended December 31, 2020 respectively, compared to the same periods in the prior year. Similarly, pricing on Western Canadian Select (“WCS”) crude oil decreased by 20% and 39% for the three months and year ended December 31, 2020 respectively,

¹ Source: CAODC Contractor Summary as at February 25, 2021.

² Source: CAODC Fleet List as at February 25, 2021.

compared to the same periods in the prior year. Crude oil prices in 2020 for both Canada and the US were impacted by the ongoing COVID-19 pandemic. Crude oil prices reached historical lows during 2020 which negatively impacted the demand for the Company's services. However, natural gas prices in Canada strengthened in 2020, as the 30 day spot AECO price improved by 7% and 24% respectively, for the three months and year ended December 31, 2020, compared to the same periods of the prior year. Additionally, the US dollar to the Canadian dollar foreign exchange rate weakened in the fourth quarter of 2020, but for the full year was stronger year over year, compared to the same periods of the prior year, which impacted the cash flows of Western's Canadian customers, when selling US dollar denominated commodities.

In the United States, industry activity decreased in 2020. As reported by Baker Hughes Company³, the number of active drilling rigs in the United States decreased by approximately 56% to 351 rigs at December 31, 2020, as compared to the same period in the prior year. The unprecedented low demand as a result of the COVID-19 pandemic has had a significant impact on industry activity in both the US and in Canada in 2020. Prior to the COVID-19 pandemic, there were also 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 in Canada and the US. The number of active rigs in the Western Canadian Sedimentary Basin ("WCSB") decreased to historical lows in the second quarter of 2020 with only 16 active rigs in mid-June and improved to only 67 active rigs at December 31, 2020, compared to 81 active rigs at December 31, 2019. The CAODC⁴ reported that for drilling in Canada, the total number of Operating Days in the WCSB decreased by approximately 34% in 2020 as compared to 2019.

Operational results for the three months ended December 31, 2020 include:

- Fourth quarter revenue decreased by \$18.1 million (or 40%) to \$27.7 million in 2020 as compared to \$45.8 million in the fourth quarter of 2019. In the contract drilling segment, revenue totalled \$15.3 million in the fourth quarter of 2020, a decrease of \$15.6 million (or 51%) as compared to \$30.9 million in the fourth quarter of 2019. In the production services segment, revenue totalled \$12.5 million for the three months ended December 31, 2020, as compared to \$15.0 million in the same period of the prior year, a decrease of \$2.5 million (or 16%). The ongoing COVID-19 pandemic significantly impacted revenue in the contract drilling and production services segments as described below:
 - The COVID-19 pandemic had a significant impact on customer demand and drilling rig utilization – Operating Days ("Drilling Rig Utilization") in Canada averaged 15% in the fourth quarter of 2020, compared to a Drilling Rig Utilization average of 21% in the same period of the prior year. The decrease in activity in the fourth quarter of 2020 was mainly attributable to the significant decrease in demand, as a result of the COVID-19 pandemic, which resulted in heightened market uncertainty and customers reducing and cancelling their 2020 drilling programs. The CAODC industry average of 16%⁵ for the fourth quarter of 2020 represented a decrease of 700 basis points ("bps") compared to the CAODC industry average of 23% in the fourth quarter of 2019, mainly due to lower demand as a result of the COVID-19 pandemic. However, Western's market share, represented by the Company's Operating Days as a percentage of the CAODC's total Operating Days in the WCSB, improved to 9.0% for the fourth quarter of 2020, as compared to 8.2% in the same period of 2019. Revenue per Billable Day decreased by 13% in the fourth quarter of 2020, as compared to 2019, as current market rates weakened in the period;
 - In the fourth quarter of 2020, Horizon used its modern drilling rig fleet, specialized technology and high torque drill pipe, to successfully drill the deepest lateral well in Saskatchewan's history. As part of multiple geothermal wells drilled by Horizon for a Canadian customer's geothermal power project, Horizon has drilled the first 90 degree horizontal well targeting a geothermal formation, as well as the deepest total vertical depth well in Saskatchewan. These milestones, achieved with Western's industry partners, demonstrates Horizon's oilfield expertise, modern equipment and experienced personnel. This accomplishment highlights the ability to deliver on customer specific requirements in all applications, including new and emerging renewable energy and green initiatives;
 - In the United States, the demand destruction as a result of the COVID-19 pandemic had a significant impact on Drilling Rig Utilization which totalled 6%, as two rigs worked in the fourth quarter of 2020, compared to 30% Drilling Rig Utilization in the fourth quarter of 2019, reflecting an 81% decrease in Operating Days. Revenue per Billable Day for the fourth quarter of 2020 decreased by 46% to US\$11,829, as compared to the same period of the prior year, as current spot market rates weakened in the period; and

³ Source: Baker Hughes Company, 2020 Rig Count monthly press releases.

⁴ Source: CAODC, monthly Contractor Summary.

⁵ Source: CAODC, monthly Contractor Summary.

- In Canada, service rig utilization was 27% in the fourth quarter of 2020 compared to 32% in the same period of the prior year, mainly due to the demand destruction caused by the COVID-19 pandemic. Revenue per Service Hour in the fourth quarter of 2020 was steady, improving by 1% compared to the fourth quarter of 2019. Lower utilization led to well servicing revenue totalling \$10.9 million in the fourth quarter of 2020, a decrease of \$1.7 million (or 13%), as compared to the same period in the prior year.
- Administrative expenses decreased by \$1.6 million (or 38%) to \$2.6 million in the fourth quarter of 2020, as compared to \$4.2 million in the fourth quarter of 2019, mainly due to lower employee related costs as a result of temporary headcount reductions, a focus on cost management, as well as the Canada Emergency Wage Subsidy (“CEWS”) from the Government of Canada due to the COVID-19 pandemic.
- The Company incurred a net loss of \$7.4 million in the fourth quarter of 2020 (\$0.08 per basic common share) as compared to a net loss of \$52.2 million in the same period in 2019 (\$0.56 per basic common share). The change can mainly be attributed to the 2019 impairment of \$54.0 million, a \$3.5 million decrease in depreciation expense due to certain assets being fully depreciated in the period, as well as the impact to depreciation of asset impairments in previous quarters and a \$0.3 million decrease in finance costs, offset partially by a \$13.0 million decrease in income tax recovery.
- Fourth quarter Adjusted EBITDA in 2020 was consistent with the same period of the prior year and totalled \$5.6 million. Adjusted EBITDA was unchanged as lower contract drilling activity in Canada and the United States, and lower oilfield rental equipment and well servicing activity in Canada, was offset by the CEWS of \$3.6 million and temporary headcount reductions.
- Fourth quarter 2020 additions to property and equipment of \$1.8 million includes \$0.3 million of expansion capital and \$1.5 million of maintenance capital. In total, additions to property and equipment in the fourth quarter of 2020 decreased by \$1.1 million (or 39%) from the \$2.9 million incurred in the fourth quarter of 2019.
- As a result of continued market uncertainty, low commodity prices, unprecedented demand destruction due to the COVID-19 pandemic 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, 2020. Based on the results of the test, it was determined there was no impairment to property and equipment in the Company’s contract drilling, well servicing or oilfield rental equipment CGUs.
- On December 31, 2020, the Company announced an extension of the maturity of Western’s syndicated revolving first lien credit facility (the “Revolving Facility”) and its committed operating facility (the “Operating Facility” and together the “Credit Facilities”) from December 17, 2021 to July 1, 2022. The total commitments under the Revolving and Operating Facilities are unchanged totaling \$50.0 million and \$10.0 million, respectively. Western and its lenders have agreed to make some other changes to the Credit Facilities, including adjustments to its financial covenants as described on page 14 under “Liquidity and Capital Resources”. In conjunction with the amended Credit Facility, Western has entered into an agreement with HSBC Bank Canada (“HSBC”) for a \$12.5 million six-year committed term non-revolving facility with the participation of BDC (the “HSBC Facility”) under BDC’s Business Credit Availability Program (“BCAP”). The BCAP program was implemented to help small and medium sized companies, directly impacted by the COVID-19 pandemic with additional liquidity to cover operating costs. The HSBC Facility bears interest at a floating rate and matures on December 31, 2026. The HSBC Facility was fully funded on December 31, 2020. Western used a portion of the proceeds to fund its January 2021 interest and principal payments under its second lien secured term loan with Alberta Investment Management Corporation (“AIMCo”) and the remaining funds will be used for future interest and principal payments to AIMCo.

Operational results for the year ended December 31, 2020 include:

- Revenue in 2020 decreased by \$92.7 million to \$103.7 million (or 47%) compared to \$196.4 million in 2019. In the contract drilling segment, revenue totalled \$62.0 million in 2020, a decrease of \$78.8 million (or 56%) as compared to \$140.8 million in 2019 and included US\$5.0 million of shortfall commitment revenue. In the production services segment, revenue totalled \$42.1 million in 2020, as compared to \$55.9 million in 2019, a decrease of \$13.8 million (or 25%). While contract drilling day rates were steady in Canada, activity was lower in all divisions and contract drilling day rates decreased in the US, which impacted revenue as described below:
 - Drilling Rig Utilization in Canada for the year ended December 31, 2020 decreased to 12% compared to an average of 22% for the prior year. The decrease in activity in 2020 was mainly attributable to the significant decrease in crude oil prices in the latter part of the first quarter, as a result of the COVID-19 pandemic, which resulted in heightened market uncertainty and customers reducing and cancelling their 2020 drilling programs.

Drilling Rig Utilization of 12% in 2020 represented a discount of 400 bps to the CAODC industry average of 16%⁶, a decrease as compared to Drilling Rig Utilization of 22% in 2019, which was consistent with the industry average. The decrease in the Company's utilization as compared to the industry average in 2020 was due to the COVID-19 pandemic decreasing demand. 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 7.0% for the year ended December 31, 2020, as compared to 8.9% in 2019;

- In the United States, three of the Company's eight drilling rigs worked during 2020, one of which operated on a term contract. Drilling Rig Utilization decreased to 7% in 2020, compared to 47% in 2019, reflecting an 85% decrease in Operating Days. Revenue per Billable Day for the year ended December 31, 2020 was 12% lower than the same period of the prior year, mainly due to changes in the average rig mix as the higher day rates on the Company's high specification AC 1500 HP class rigs in the Williston Basin in North Dakota were offset by the rigs working in the Permian Basin in Texas, which worked at lower average day rates, while operating at a significantly lower cost. Additionally, US\$5.0 million of shortfall commitment revenue was recognized in 2020, compared to US\$1.3 million in 2019; and
- In Canada, service rig utilization was 23% for the year ended December 31, 2020 compared to 30% in the prior year. The decrease is due to continued market uncertainty including historic low commodity prices and demand destruction due to the COVID-19 pandemic in 2020. Revenue per Service Hour improved in 2020 by 5%, as compared to the prior year, due to changes in customer mix. Lower utilization, offset partially by higher pricing, led to well servicing revenue in the period decreasing by \$9.2 million (or 20%) to \$37.0 million, as compared to \$46.2 million in the prior year.
- Administrative expenses in 2020 decreased by \$6.2 million (or 37%) to \$10.5 million, as compared to \$16.7 million in 2019, mainly due to lower employee related costs as a result of temporary headcount reductions, the CEWS from the Government of Canada and overall cost control measures implemented by management.
- As a result of continued market uncertainty, low commodity prices, unprecedented demand destruction due to the COVID-19 pandemic and the related outlook for current and future oilfield services activity and pricing, the Company recognized impairments of \$9.5 million and \$2.0 million respectively, in the Company's contract drilling and oilfield equipment rentals CGUs in the first quarter of 2020. As described previously, no impairment was recognized during the second, third or fourth quarters of 2020.
- The Company incurred a net loss of \$41.3 million in 2020 (\$0.45 per basic common share) as compared to a net loss of \$81.0 million in 2019 (\$0.88 per basic common share). The change can mainly be attributed to the prior year impairment loss of \$54.0 million, the current year impairment loss of \$11.5 million, a \$3.9 million decrease in Adjusted EBITDA, and a \$16.2 million decrease in income tax recovery, offset partially by a \$14.9 million decrease in depreciation expense due to certain assets being fully depreciated in the period as well as the impact to depreciation of asset impairments in previous quarters, a \$1.6 million change in other items mainly due to foreign exchange gains, and a \$0.7 million decrease in finance costs.
- Adjusted EBITDA for the year ended December 31, 2020, decreased by \$3.9 million (or 16%) to \$20.3 million as compared to \$24.2 million for the year ended December 31, 2019. The year over year change in Adjusted EBITDA is due to lower contract drilling activity in Canada and the United States, and lower well servicing and oilfield rental equipment activity in Canada, offset partially by US\$5.0 million of shortfall commitment revenue, lower administrative expenses and the CEWS of \$8.2 million.
- Year to date additions to property and equipment in 2020 of \$2.8 million included \$0.5 million related to expansion capital and \$2.3 million of maintenance capital. In total, additions to property and equipment for the year ended December 31, 2020 decreased by \$5.2 million (or 65%) from the \$8.0 million incurred in 2019.
- On January 6, 2020, the Company announced a normal course issuer bid (the "Bid"), which was filed with and accepted by the Toronto Stock Exchange. Pursuant to the Bid, Western could purchase for cancellation up to 5,200,000 common shares of the Company. The Bid commenced on January 14, 2020 and terminated on January 13, 2021. For the year ended December 31, 2020, 1,584,000 common shares for a total cost of \$0.5 million were repurchased under the Bid.
- On August 7, 2020, the Company entered into a US\$1.8 million promissory loan through the US paycheck protection program ("PPP"). The promissory loan has an interest rate of 1% per annum and matures on July 23, 2025. A portion of the PPP loan may be forgiven subject to certain conditions, if the proceeds are used for US payroll and other

⁶ Source: CAODC, monthly Contractor Summary.

specific operating costs prior to January 1, 2021, as outlined by US Treasury guidelines. Management estimates that a portion of the promissory loan will be forgiven if all conditions are met and has recognized US\$0.2 million as at December 31, 2020 in operating expenses related to loan forgiveness.

- On October 17, 2020, the Company's 7,099,547 outstanding warrants expired unexercised.

Outlook

Currently, 16 of Western's drilling rigs and 37 of Western's well servicing rigs are operating. With the 15 drilling rigs currently working in Canada, Western's Canadian market share has improved to approximately 9.4% of total drilling rigs working. One of Western's 57 drilling rigs is under a term take or pay contract, which is expected to expire in 2021. These contracts each typically generate between 250 and 350 Billable Days per year.

Due to decreased activity levels as a result of the unprecedented demand destruction and low commodity price environment associated with the COVID-19 pandemic, Western's capital budget for 2021 is expected to total approximately \$6 million, which is expected to be comprised of maintenance capital, of which \$4 million is budgeted for the contract drilling segment and \$2 million is budgeted for the production services segment. Western believes the 2021 capital budget provides a prudent use of cash resources to manage its balance sheet. Western will continue to manage its operations in a disciplined manner and make required adjustments to its capital program as customer demand changes.

The significant decrease in crude oil prices in 2020 resulting from the COVID-19 pandemic and international price war has caused increased uncertainty in global markets. Low crude oil demand associated with the COVID-19 pandemic continues to have a significant impact on Western's customers. Additionally, uncertainty surrounding the timing of COVID-19 vaccine distribution impacts demand in the near term. The precise duration and extent of the adverse impacts of the current macroeconomic environment and the COVID-19 pandemic on Western's customers, operations, business and global economic activity remains highly uncertain at this time. Additionally, the January 2021 executive order by the President of the United States cancelling the permit that had allowed construction of the Keystone XL pipeline, the uncertain timing of completion of construction on the Trans Mountain pipeline expansion, as well as uncertainty regarding the in service date of the Enbridge Line 3 pipeline replacement have all resulted in continued uncertainty regarding takeaway capacity. However, activity levels in Canada and the United States in 2021 are expected to be marginally higher than 2020 levels. Controlling fixed costs, maintaining balance sheet flexibility and managing through the unprecedented market downturn are priorities for the Company, as prices and demand for Western's services remain below historical levels. Western continues to identify further opportunities to streamline its support structure and implement additional cost control measures. Going forward, Western expects that its variable cost structure, and prudent capital budget, will aid in preserving its balance sheet.

As at December 31, 2020, Western had \$11.0 million drawn on its \$60.0 million Credit Facilities which mature on July 1, 2022 and \$12.5 million drawn on its HSBC Facility which matures December 31, 2026. Western currently has \$209.1 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. In the short term, the largest challenges facing the oilfield service industry are ongoing liquidity concerns as a result of the reduced customer spending caused by the demand destruction from the COVID-19 pandemic and limited takeaway capacity. In the medium term, Western's rig fleet is well positioned to benefit from the LNG Canada liquefied natural gas project now under construction in British Columbia. It remains 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 challenging oilfield service environment.

Review of the Year Ended December 31, 2020 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 (stated in thousands)	Three months ended December 31			Year ended December 31		
	2020	2019	Change	2020	2019	Change
Revenue	15,265	30,901	(51%)	61,992	140,771	(56%)
Expenses						
Operating	11,503	23,576	(51%)	43,782	107,913	(59%)
Administrative	617	2,167	(72%)	4,388	8,590	(49%)
Adjusted EBITDA ⁽¹⁾	3,145	5,158	(39%)	13,822	24,268	(43%)
Adjusted EBITDA as a percentage of revenue	21%	17%	24%	22%	17%	29%
Depreciation	8,179	11,065	(26%)	34,908	48,027	(27%)
Operating loss	(5,034)	(5,907)	(15%)	(21,086)	(23,759)	(11%)
Stock based compensation	48	55	(13%)	121	170	(29%)
Loss before income taxes and impairment	(5,082)	(5,962)	(15%)	(21,207)	(23,929)	(11%)
Additions to property and equipment	1,456	1,619	(10%)	2,038	5,128	(60%)

Operating Highlights

Canadian Operations

Contract drilling rig fleet:

Average active rig count ⁽²⁾	8.0	11.4	(30%)	6.3	12.3	(49%)
End of period	49	49	-	49	49	-
Revenue per Billable Day ⁽²⁾	19,130	22,023	(13%)	20,900	21,383	(2%)
Revenue per Operating Day ⁽²⁾	20,883	24,725	(16%)	23,417	23,854	(2%)
Operating Days ⁽²⁾	675	932	(28%)	2,064	4,012	(49%)
Number of meters drilled	315,604	334,382	(6%)	789,023	1,383,001	(43%)
Number of wells drilled	51	77	(34%)	160	328	(51%)
Average Operating Days per well	13.2	12.1	9%	12.9	12.2	6%
Drilling rig utilization - Billable Days ⁽²⁾	16%	23%	(30%)	13%	25%	(48%)
Drilling rig utilization - Operating Days ⁽²⁾	15%	21%	(29%)	12%	22%	(45%)
CAODC industry average utilization - Operating Days ⁽²⁾⁽³⁾	16%	23%	(30%)	16%	22%	(27%)

United States Operations

Contract drilling rig fleet:

Average active rig count ⁽²⁾	0.6	2.9	(79%)	0.7	4.4	(84%)
End of period	8	8	-	8	8	-
Revenue per Billable Day (US\$) ⁽²⁾	11,829	21,979	(46%)	17,983 ⁽⁴⁾	20,460 ⁽⁵⁾	(12%)
Revenue per Operating Day (US\$) ⁽²⁾	16,273	26,596	(39%)	22,594 ⁽⁴⁾	24,150 ⁽⁵⁾	(6%)
Operating Days ⁽²⁾	43	224	(81%)	201	1,352	(85%)
Number of meters drilled	5,630	61,173	(91%)	62,486	371,171	(83%)
Number of wells drilled	4	15	(73%)	17	89	(81%)
Average Operating Days per well	10.8	14.9	(28%)	11.8	15.2	(22%)
Drilling rig utilization - Billable Days ⁽²⁾	8%	37%	(78%)	9%	56%	(84%)
Drilling rig utilization - Operating Days ⁽²⁾	6%	30%	(80%)	7%	47%	(85%)

(1) See "Non-IFRS Measures" on page 20 of this MD&A.

(2) See "Defined Terms" on page 21 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\$5.0 million for the year ended December 31, 2020.

(5) 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, 2020, revenue in the contract drilling segment totalled \$62.0 million, a \$78.8 million (or 56%) decrease as compared to the prior year and included US\$5.0 million of shortfall commitment revenue. Revenue in 2020 was impacted by lower industry activity in Canada and the United States as customers reduced their drilling programs due to the low commodity prices, as a result of the demand destruction from the COVID-19 pandemic.

Administrative expenses for 2020 totalled \$4.4 million and were \$4.2 million lower than the prior year mainly due to lower employee related costs as well as the receipt of the CEWS from the Government of Canada due to the COVID-19 pandemic.

For the year ended December 31, 2020, contract drilling incurred a loss before income taxes and impairment of \$21.2 million, compared to a loss before income taxes and impairment of \$23.9 million in the prior year. The change for 2020 can be attributed to a \$10.5 million decrease in Adjusted EBITDA, which was partially offset by a \$13.1 million decrease in depreciation expense.

Contract drilling Adjusted EBITDA of \$13.8 million in 2020 decreased by \$10.5 million, compared to \$24.3 million in 2019, mainly due to the significant decrease in activity, offset partially by a US\$3.7 million increase in shortfall commitment revenue.

Depreciation expense in 2020 totalled \$34.9 million and reflects a decrease of \$13.1 million over the prior year, mainly due to certain assets being fully depreciated in the period as well as the impact of asset impairments in previous quarters.

Additions to property and equipment of \$2.0 million in 2020 were significantly lower year over year as a result of reduced activity and consisted of \$0.4 million of expansion capital and \$1.6 million of maintenance capital.

As a result of continued market uncertainty, low commodity prices, unprecedented demand destruction due to the COVID-19 pandemic and the related outlook for current and future oilfield services activity and pricing, the Company recorded a \$9.5 million impairment in the contract drilling segment in the first quarter of 2020. There was no impairment recognized in the contract drilling segment in the second, third or fourth quarters of 2020.

Canadian Operations

The price for Canadian crude oil declined significantly during 2020, which resulted in activity in the WCSB decreasing as most customers reduced their drilling programs, largely due to economic factors such as the extremely low crude oil demand caused by the COVID-19 pandemic, coupled with the international price war in early 2020. As a result, Operating Days in 2020 decreased by 49% resulting in Drilling Rig Utilization in Canada of 12%, as compared 22% in the prior year.

Drilling Rig Utilization in Canada of 12% in 2020 reflects a 400 bps discount to the CAODC industry average of 16%⁷, as compared to being consistent with the CAODC industry average of 22% in 2019. The decrease in the Company's Drilling Rig Utilization compared to the CAODC average for the year ended December 31, 2020 was due to Western's customers cancelling their drilling programs as a result of extremely low crude oil demand. 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 7.0% for 2020 as compared to 8.9% in 2019.

For the year ended December 31, 2020, Revenue per Billable Day decreased by 2% to \$20,900, compared to \$21,383 in the prior year, mainly due to lower spot market rates particularly in the fourth quarter of 2020, as rates were steady throughout the first three quarters of 2020.

United States Operations

WTI prices in 2020 were significantly lower than 2019 and drove activity lower in the United States. This resulted in Western's Operating Days in the United States decreasing for the year ended December 31, 2020 by 1,151 days (or 85%) as compared to the prior year, which resulted in Drilling Rig Utilization of 7% in 2020, compared to 47% in 2019.

For the year ended December 31, 2020, Revenue per Billable Day decreased by 12% due to lower spot market rates, as well as changes in the average rig mix with a higher proportion of billable days in the Permian Basin, which has lower day rates and lower operating costs than the Williston Basin.

⁷ Source: CAODC, monthly Contractor Summary.

Production Services

Financial Highlights (stated in thousands)	Three months ended December 31			Year ended December 31		
	2020	2019	Change	2020	2019	Change
Revenue	12,543	14,997	(16%)	42,066	55,874	(25%)
Expenses						
Operating	8,108	12,531	(35%)	29,471	47,773	(38%)
Administrative	652	1,215	(46%)	2,740	4,801	(43%)
Adjusted EBITDA ⁽¹⁾	3,783	1,251	202%	9,855	3,300	199%
Adjusted EBITDA as a percentage of revenue	30%	8%	275%	23%	6%	283%
Depreciation	2,717	3,287	(17%)	11,468	13,240	(13%)
Operating income (loss)	1,066	(2,036)	(152%)	(1,613)	(9,940)	(84%)
Stock based compensation	33	29	14%	106	88	20%
Income (loss) before income taxes and impairment	1,033	(2,065)	(150%)	(1,719)	(10,028)	(83%)
Additions to property and equipment	336	1,270	(74%)	702	2,385	(71%)

Operating Highlights

Canadian well servicing rig fleet:						
Average active rig count ⁽²⁾	17.3	20.1	(14%)	14.6	19.1	(24%)
End of period	63	63	-	63	63	-
Revenue per Service Hour ⁽²⁾	685	680	1%	693	661	5%
Service Hours ⁽²⁾	15,924	18,494	(14%)	53,351	69,882	(24%)
Service rig utilization ⁽²⁾	27%	32%	(16%)	23%	30%	(23%)

(1) See "Non-IFRS Measures" on page 20 of this MD&A.

(2) See "Defined Terms" on page 21 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. For the year ended December 31, 2020, revenue in the production services segment decreased by \$13.8 million (or 25%) to \$42.1 million, compared to \$55.9 million in 2019. In 2020, Eagle's revenue decreased to \$37.0 million compared to \$46.2 million in the prior year, whereas Aero's revenue decreased to \$4.0 million, compared to \$9.3 million in the prior year. The decrease in revenue for Eagle and Aero for the year ended December 31, 2020, as compared to the prior year, is due to continued market uncertainty from demand destruction related to the COVID-19 pandemic.

Eagle's Service Hours decreased by 24% to 53,351 hours (23% utilization) in 2020, as compared to 69,882 hours (30% utilization) in 2019, mainly due to the demand destruction from the COVID-19 pandemic. Revenue per Service Hour improved by 5% to \$693 in 2020, compared to \$661 in 2019 due to changes in customer mix.

During the year ended December 31, 2020, administrative expenses totalled \$2.7 million and were 43% lower than the prior year, mainly due to lower employee related expenses as a result of a focus on cost management, as well as the CEWS from the Government of Canada recognized in 2020.

For the year ended December 31, 2020, production services incurred a loss before income taxes and impairment of \$1.6 million, compared to a loss before income taxes and impairment of \$10.0 million in 2019, mainly due to a \$6.6 million increase in Adjusted EBITDA and a \$1.7 million decrease in depreciation expense.

Adjusted EBITDA increased in 2020 by \$6.6 million to \$9.9 million, compared to \$3.3 million in 2019. The higher Adjusted EBITDA for the year ended December 31, 2020 was due to a focus on cost management in Eagle and the receipt of the CEWS.

Depreciation expense for 2020 was 13% lower than 2019 mainly due to certain assets being fully depreciated in the year, as well as the impact of asset impairments in previous quarters.

Additions to property and equipment in the production services segment totalled \$0.7 million in 2020, as compared to \$2.4 million in 2019 and included \$0.1 million of expansion capital and \$0.6 million of maintenance capital.

As a result of continued market uncertainty, low commodity prices, unprecedented demand destruction due to the COVID-19 pandemic and the related outlook for current and future oilfield services activity and pricing, the Company recorded a \$2.0 million impairment loss in the production services segment in the first quarter of 2020. There was no impairment recognized in the production services segment in the second, third or fourth quarters of 2020.

Corporate

(stated in thousands)	Three months ended December 31			Year ended December 31		
	2020	2019	Change	2020	2019	Change
Expenses						
Administrative	1,318	824	60%	3,399	3,329	2%
Depreciation	418	497	(16%)	1,892	1,901	-
Operating loss	(1,736)	(1,321)	31%	(5,291)	(5,230)	1%
Stock based compensation	49	43	14%	222	328	(32%)
Finance costs	4,381	4,645	(6%)	17,963	18,697	(4%)
Other items	56	(1)	(5,700%)	(1,992)	(410)	386%
Income tax recovery	(2,828)	(15,786)	(82%)	(14,609)	(30,772)	(53%)
Additions to property and equipment	13	53	(75%)	48	455	(89%)

Corporate administrative expenses for the year ended December 31, 2020 totalled \$3.3 million and were consistent with the prior year and included the CEWS from the Government of Canada implemented in the second quarter of 2020.

Finance costs in 2020 of \$18.0 million were \$0.7 million (or 4%) lower than 2019, and represented an effective interest rate of 7.7%, as compared to 7.9% in the prior year.

Other items, which relate to foreign exchange gains realized on the sale of US denominated dollars, in addition to the sale of assets, total \$2.0 million for 2020. For the year ended December 31, 2020, other items were higher than the prior year due to the sale of US denominated dollars in the second quarter of 2020.

For the year ended December 31, 2020, consolidated income tax recovery was \$14.6 million, representing an effective tax rate of 26.1%, as compared to an effective tax rate of 27.5% in 2019. The decrease in the effective tax rate for the year ended December 31, 2020 is mainly due to the decrease in the Alberta corporate tax rate substantively enacted in the second quarter of 2019.

Review of Fourth Quarter 2020 Results
Selected Financial Information

Financial Highlights (stated in thousands, except share and per share amounts)	Three months ended December 31		
	2020	2019	Change
Total Revenue	27,679	45,838	(40%)
Adjusted EBITDA ⁽¹⁾	5,610	5,584	-
Adjusted EBITDA as a percentage of revenue	20%	12%	67%
Cash flow from operating activities	2,011	8,921	(77%)
Additions to property and equipment	1,805	2,942	(39%)
Net loss	(7,443)	(52,249)	(86%)
-basic net loss per share	(0.08)	(0.56)	(86%)
-diluted net loss per share	(0.08)	(0.56)	(86%)
Weighted average number of shares			
-basic	91,165,112	92,501,314	(1%)
-diluted	91,165,112	92,501,314	(1%)
Outstanding common shares as at period end	91,165,112	92,501,314	(1%)
Operating Highlights			
Contract Drilling			
<i>Canadian Operations</i>			
Contract drilling rig fleet:			
Average active rig count ⁽²⁾	8.0	11.4	(30%)
End of period	49	49	-
Revenue per Billable Day ⁽²⁾	19,130	22,023	(13%)
Revenue per Operating Day ⁽²⁾	20,883	24,725	(16%)
Operating Days ⁽²⁾	675	932	(28%)
Number of meters drilled	315,604	334,382	(6%)
Number of wells drilled	51	77	(34%)
Average Operating Days per well	13.2	12.1	9%
Drilling rig utilization - Billable Days ⁽²⁾	16%	23%	(30%)
Drilling rig utilization - Operating Days ⁽²⁾	15%	21%	(29%)
CAODC industry average utilization rate ⁽³⁾	16%	23%	(30%)
<i>United States Operations</i>			
Contract drilling rig fleet:			
Average active rig count ⁽²⁾	0.6	2.9	(79%)
End of period	8	8	-
Revenue per Billable Day ⁽²⁾	11,829	21,979	(46%)
Revenue per Operating Day (US\$) ⁽²⁾	16,273	26,596	(39%)
Operating Days ⁽²⁾	43	224	(81%)
Number of meters drilled	5,630	61,173	(91%)
Number of wells drilled	4	15	(73%)
Average Operating Days per well	10.8	14.9	(28%)
Drilling rig utilization - Billable Days ⁽²⁾	8%	37%	(78%)
Drilling rig utilization - Operating Days ⁽²⁾	6%	30%	(80%)
Production Services			
Canadian well servicing rig fleet:			
Average active rig count ⁽²⁾	17.3	20.1	(14%)
End of period	63	63	-
Revenue per Service Hour ⁽²⁾	685	680	1%
Service Hours ⁽²⁾	15,924	18,494	(14%)
Service rig utilization ⁽²⁾	27%	32%	(16%)

(1) See "Non-IFRS Measures" on page 20 of this MD&A.

(2) See "Defined Terms" on page 21 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 2020 Results

Consolidated

Fourth quarter 2020 revenue decreased by \$18.1 million (or 40%) to \$27.7 million as compared to \$45.8 million in the same period of the prior year. The decrease in consolidated revenue is mainly a result of lower activity across all operating segments due to the demand destruction caused by the COVID-19 pandemic. Adjusted EBITDA of \$5.6 million was consistent with the fourth quarter of 2019, as lower activity across all operating segments was offset partially by the CEWS of \$3.6 million and a focus on cost management.

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, 2020. Based on the results of these tests, it was determined that property and equipment in the Company's contract drilling, well servicing and oilfield rental equipment CGUs was not impaired at December 31, 2020.

Contract Drilling

During the fourth quarter of 2020, revenue in the contract drilling segment totalled \$15.3 million, a \$15.6 million decrease (or 51%), as compared to the same period of the prior year. Revenue for the three months ended December 31, 2020 was impacted by lower industry activity in Canada and the United States as customers reduced their drilling programs due to the low commodity prices, as a result of demand destruction from the COVID-19 pandemic. Pricing in both Canada and the United States decreased in the fourth quarter of 2020, decreasing by 13% and 46% respectively, due to current market rates weakening.

In the fourth quarter of 2020, Horizon used its modern drilling rig fleet, specialized technology and high torque drill pipe, to successfully drill the deepest lateral well in Saskatchewan's history. As part of multiple geothermal wells drilled by Horizon for a Canadian customer's geothermal power project, Horizon has drilled the first 90 degree horizontal well targeting a geothermal formation, as well as the deepest total vertical depth well in Saskatchewan. These milestones, achieved with Western's industry partners, demonstrates Horizon's oilfield expertise, modern equipment and experienced personnel. This accomplishment highlights the ability to deliver on customer specific requirements in all applications, including new and emerging renewable energy and green initiatives.

For the three months ended December 31, 2020, administrative expenses totalled \$0.6 million and were 72% lower than the same period of the prior year, mainly due to lower employee related costs as well as the CEWS from the Government of Canada due to the COVID-19 pandemic.

Contract drilling incurred a loss before income taxes and impairment of \$5.1 million in the fourth quarter of 2020, compared to a loss before income taxes and impairment of \$6.0 million in the same period of the prior year. The change can be attributed to a \$2.1 million decrease in Adjusted EBITDA, which was partially offset by a \$2.9 million decrease in depreciation expense.

Adjusted EBITDA in the contract drilling segment for the three months ended December 31, 2020 decreased by \$2.1 million to \$3.1 million, as compared to \$5.2 million for the same period in the prior year. The decrease for the fourth quarter of 2020 is mainly due to lower industry activity in Canada and the United States due to the COVID-19 pandemic.

Depreciation expense for the quarter ended December 31, 2020 totalled \$8.2 million and reflects a decrease of \$2.9 million over the same period of the prior year, mainly due to certain assets being fully depreciated in the period, as well as the impact of asset impairments in previous quarters.

Additions to property and equipment were 10% lower year over year and totalled \$1.5 million in the fourth quarter of 2020. Additions to property and equipment in the fourth quarter of 2020 consisted of \$0.3 million of expansion capital and \$1.2 million of maintenance capital. The Company incurred expansion capital related to rig upgrades in the fourth quarter of 2020, as well as required maintenance capital.

Canadian Operations

In the fourth quarter of 2020, activity in the WCSB declined compared to the same period of the prior year, due to ongoing low demand from the COVID-19 pandemic. As a result, during the three months ended December 31, 2020, Operating Days decreased by 28% and Drilling Rig Utilization in Canada declined to 15% as compared to 21% in the same period of the prior year.

Drilling Rig Utilization in Canada of 15% in the fourth quarter of 2020 reflects a 100 bps discount to the CAODC average of 16%, as compared to a 200 bps discount to the CAODC average of 23% in the fourth quarter of 2019. Western's market share, represented by the Company's Operating Days as a percentage of the CAODC's total Operating Days in the WCSB, improved to 9.0% for the three months ended December 31, 2020 as compared to 8.2% in the same period of the prior year.

Revenue per billable day for the quarter ended December 31, decreased by 13% to \$19,130, compared to \$22,023 in the same period of the prior year, due to current market rates weakening.

United States Operations

Lower industry activity in the United States due to the ongoing COVID-19 pandemic, resulted in Western's Operating Days in the United States for the fourth quarter of 2020 decreasing by 181 days (or 81%) which resulted in Drilling Rig Utilization of 6%, compared to 30% in the same period of the prior year.

Revenue per Billable Day decreased in the three months ended December 31, 2020 by 46% to US\$11,829, as compared to US\$21,979 in the same period of the prior year. Revenue per Billable Day for the fourth quarter of 2020 decreased mainly due to a lower spot market rates in 2020, as compared to 2019 when rigs were contracted at much higher day rates.

Production Services

Revenue in the production services segment for the quarter ended December 31, 2020 decreased by \$2.5 million (or 16%) to \$12.5 million, compared to \$15.0 million in the same period of the prior year. In the fourth quarter of 2020, Eagle's revenue decreased to \$10.9 million compared to \$12.6 million in the prior year, whereas Aero's decreased to \$1.3 million compared to \$2.1 million in the same period of the prior year. The decrease in revenue for Eagle and Aero for the three months ended December 31, 2020, as compared to the same period in the prior year, is due to lower industry activity as a result of the ongoing COVID-19 pandemic.

Eagle's Service Hours decreased by 14% to 15,924 hours (27% utilization) in the fourth quarter of 2020, as compared to 18,494 hours (32% utilization) in the same period of the prior year. The decrease in Eagle's Service Hours is mainly due to the ongoing COVID-19 pandemic which has decreased industry demand. Revenue per Service Hour improved by 1% to \$685 for the three months ended December 31, 2020, as compared to the same period in the prior year, due to changes in the average customer mix.

During the three months ended December 31, 2020, administrative expenses totalled \$0.7 million and were 46% lower than the same period in the prior year, mainly due to lower employee related expenses, as well as the CEWS.

Production services incurred income before income taxes and impairment of \$1.0 million in the fourth quarter of 2020, compared to a loss before income taxes of \$2.1 million in the same period of 2019. The change can be attributed to a \$2.5 million increase in Adjusted EBITDA, offset by a \$0.6 million increase in depreciation expense.

Adjusted EBITDA increased in the fourth quarter of 2020 by \$2.5 million to \$3.8 million, compared to \$1.3 million in the fourth quarter of 2019. The higher Adjusted EBITDA for the three months ended December 31, 2020 was due to lower operating and administrative expenses due to cost saving measures implemented in 2020, as well as the CEWS.

Depreciation expense for the three months ended December 31, 2020 was 17% lower than the same period of the prior year, mainly due to certain assets being fully depreciated in the period, as well as the impact of asset impairments in previous quarters.

Additions to property and equipment totalled \$0.3 million in the fourth quarter of 2020, as compared to \$1.3 million in the same period of the prior year and consisted of maintenance capital.

Corporate

Corporate administrative expenses for the three months ended December 31, 2020 increased by \$0.5 million as compared to the same period in the prior year due to fewer costs allocated to Western's operating segments and higher employee related costs, which were offset partially by the CEWS recognized in the quarter and a focus on cost control measures.

Finance costs of \$4.4 million for the quarter ended December 31, 2020, were \$0.2 million (or 6%) lower than the same period in the prior year and represented an effective interest rate of 7.4%, as compared to 7.8% in the same period of the prior year.

Other items, which relate to gains and losses on the sale of assets and foreign exchange for the three months ended December 31, 2020, were negligible and consistent with the same period of the prior year.

For the fourth quarter of 2020, consolidated income tax recovery was \$2.8 million, representing an effective tax rate of 27.5%, as compared to an effective tax rate of 23.2% in the fourth quarter of 2019. The lower effective tax rate in the fourth quarter of 2019 was mainly due to the decrease in the Alberta corporate tax rate substantively enacted in the second quarter of 2019.

Liquidity and Capital Resources

The Company's liquidity requirements 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, 2020, Western had working capital of \$16.0 million, an increase of \$9.0 million from December 31, 2019 due to the \$12.5 million proceeds received from the HSBC Facility on December 31, 2020. Western's debt at December 31, 2020 increased by \$8.3 million (or 3%) to \$244.0 million, as compared to \$235.8 million at December 31, 2019, mainly due to the draw on the HSBC Facility of \$12.5 million and the PPP loan of US\$1.8 million, which were partially offset by repayments of finance lease obligations, the Second Lien Facility, and the Credit Facilities.

During the year ended December 31, 2020, Western had the following changes to its cash balances, which resulted in a \$15.3 million increase in cash and cash equivalents for the year:

Cash and cash equivalents (stated in thousands)	
Opening balance, at December 31, 2019	4,015
Add:	
Adjusted EBITDA ⁽¹⁾	20,278
Net proceeds from HSBC Facility	12,375
Change in non cash working capital	5,092
Proceeds from PPP loan	2,314
Realized foreign exchange gain	1,700
Proceeds on sale of property and equipment	549
Deduct:	
Finance costs paid	(16,959)
Repayment of other long term debt	(3,169)
Additions to property and equipment	(2,788)
Repayment of Second Lien debt	(2,150)
Repayment of Credit Facilities	(1,297)
Shares repurchased under normal course issuer bid	(478)
Other items	(160)
Ending balance, at December 31, 2020	19,322

(1) See "Non-IFRS Measures" on page 20 of this MD&A.

Western's Credit Facilities, which have a maximum available amount of \$60.0 million, mature on July 1, 2022. As at December 31, 2020, \$11.0 million was drawn on the Company's Credit Facilities and \$12.5 million was drawn on the HSBC Facility. 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 2021 capital budget. Advances under the Credit Facilities are limited by the Company's borrowing base.

Under the amended Credit Facility, the borrowing base is calculated monthly and is determined as follows:

- 85% of eligible investment grade accounts receivable; plus
- 75% of eligible non-investment grade accounts receivable; plus
- The lessor of:
 - (i) 66 2/3% of the total Credit Facilities;
 - (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 December 31, 2020, the Company was in compliance with its borrowing base requirement, as its \$11.0 million Credit Facility draw was less than the maximum amount calculated under the borrowing base.

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 20 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.

In conjunction with the Credit Facility extension, Western and its lenders agreed to make some other changes to the Credit Facilities, including the following adjustments to its financial covenants:

- The Company has obtained covenant relief for the third and fourth quarters of 2021 whereby:
 - the consolidated senior debt to consolidated EBITDA covenant is waived;
 - a minimum liquidity of \$5.0 million is required;
 - the maximum consolidated debt to consolidated capitalization covenant has been increased to 0.65x from 0.60x;
 - a maximum consolidated senior debt to consolidated capitalization ratio of 0.10x has been added; and
- Annual capital expenditures for 2021 cannot exceed \$10.0 million.

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, 2020 is as follows:

December 31, 2020	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 10 of the December 31, 2020 consolidated financial statements.

At December 31, 2020, Western is in compliance with all covenants related to its Credit Facilities. The adoption of IFRS 16 in 2019 did not have an impact on the Company's Credit Facility covenants.

For the years ended December 31, 2020 and 2019, the Company had no customers who comprised more than 10.0% of the Company's total revenue. The Company's significant customers may change from period to period.

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 quarter over quarter, particularly between the first and second quarters, can be significant 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, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019
Revenue	27,679	13,438	10,802	51,765	45,838	47,067	37,728	65,775
Adjusted EBITDA ⁽¹⁾	5,610	2,270	4,036	8,361	5,584	4,968	2,438	11,248
Cash flow from (used in) operating activities	2,011	(1,560)	25,732	1,539	8,921	(592)	17,501	5,888
Net loss	(7,443)	(10,486)	(8,042)	(15,331)	(52,249)	(11,575)	(10,128)	(7,078)
per share - basic	(0.08)	(0.12)	(0.09)	(0.17)	(0.56)	(0.13)	(0.11)	(0.08)
per share - diluted	(0.08)	(0.12)	(0.09)	(0.17)	(0.56)	(0.13)	(0.11)	(0.08)
Total assets	495,625	488,470	494,493	542,131	550,537	617,943	626,890	663,117
Long term debt	237,633	226,719	214,255	239,118	228,274	232,722	223,363	238,590

(1) See "Non-IFRS Measures" on page 20 of this MD&A.

Revenue and Adjusted EBITDA were impacted by low commodity prices and market uncertainty throughout the last eight quarters. Mandated crude oil production cuts in Alberta in 2019 and uncertainty surrounding takeaway capacity throughout 2019 reduced overall activity in the industry. The unprecedented decrease in the price of crude oil in the first quarter of 2020, as well as the demand destruction from the ongoing COVID-19 pandemic throughout 2020 had a significant impact on industry activity and resulted in customers reducing or cancelling 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, resulting in reduced demand. The Company recognized an impairment loss on property and equipment of \$54.0 million in the fourth quarter of 2019 and \$11.5 million in the first quarter of 2020.

With the exception of the fourth quarter of 2019 and the first quarter of 2020, which included impairment losses on property and equipment, total assets over the last eight quarters have been primarily 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, 2020 are as follows:

(stated in thousands)	2021	2022	2023	2024	2025	Thereafter	Total
Second Lien Facility	2,150	2,150	205,325	-	-	-	209,625
Second Lien Facility interest	15,179	15,105	7,473	-	-	-	37,757
HSBC Facility	-	1,250	1,250	1,250	1,250	7,500	12,500
HSBC Facility interest	806	769	688	610	527	447	3,847
Revolving Facility	-	11,000	-	-	-	-	11,000
Trade payables and other current liabilities ⁽¹⁾	15,507	-	-	-	-	-	15,507
Operating commitments ⁽²⁾	1,705	716	688	688	57	-	3,854
PPP loan	238	571	571	571	344	-	2,295
Lease obligations ⁽³⁾	3,271	2,457	2,039	1,759	146	-	9,672
Total	38,856	34,018	218,034	4,878	2,324	7,947	306,057

(1) Trade payables and other current liabilities exclude the Company's interest accrued as at December 31, 2020 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.

HSBC Facility and interest:

The Company pays interest on the HSBC Facility monthly, with principal payments commencing January 1, 2022. The HSBC Facility matures on December 31, 2026.

Revolving Facility:

The Company's Revolving Facility matures on July 1, 2022.

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.

PPP loan:

The Company has a US\$1.8 million PPP loan obtained as part of the COVID-19 relief efforts in the US. The promissory loan has an interest rate of 1% per annum, will be repaid in equal monthly payments over its five year term and matures on July 23, 2025. A portion of the PPP loan may be forgiven if the proceeds are used to support US payroll and other specific operating costs as outlined by US Treasury guidelines. As at December 31, 2020, the Company recognized US\$0.2 million of loan forgiveness as a reduction of operating expenses.

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, 2020.

Outstanding Share Data

	February 25, 2021	December 31, 2020	December 31, 2019
Common shares outstanding	91,182,359	91,165,112	92,501,314
Warrants ⁽¹⁾	-	-	7,099,546
Stock options outstanding	7,082,384	7,464,687	7,326,530
Restricted share units outstanding - equity settled	1,211,449	1,244,159	646,247

(1) On October 17, 2020, the Company's warrants expired unexercised.

Off Balance Sheet Arrangements

As at December 31, 2020, Western had no off balance sheet arrangements in place.

Transactions with Related Parties

During the years ended December 31, 2020 and 2019, the Company had no transactions with related parties.

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 year ended December 31, 2020, the COVID-19 pandemic and related decrease in global demand for crude oil, coupled with the international price war have had a significant 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 continuously reviews individual customer trade receivables taking into consideration payment history and aging of the trade receivables to monitor collectability.

In accordance with IFRS 9, Financial Instruments, the Company reviews 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. 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 low 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. Subsequent to December 31, 2020, the Company has collected approximately 71% of its outstanding trade and other receivables as at December 31, 2020.

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, 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 the significant decrease in global demand of crude oil as a result of the COVID-19 pandemic.

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, 2020. 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.

Critical Accounting Estimates and Recent Developments

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, 2020, which were prepared in accordance with IFRS. In March 2020, the World Health Organization declared a global pandemic as a result of the COVID-19 outbreak, which led to demand destruction worldwide as countries implemented emergency measures such as lockdowns, to prevent the spread of the COVID-19 virus. The significant decrease in global demand for crude oil, coupled with an international price war in the first half of 2020, resulted in historical lows and increased volatility in crude oil prices.

The current economic environment and the ongoing pandemic will continue to impact the Company and the full extent of the impact is currently unknown, as it will depend on the duration of the COVID-19 pandemic, the timing of COVID-19 vaccines being distributed and its resulting impact on international markets. The pandemic and reduction in global demand results in uncertainty for the Company, as well as estimates and assumptions used by management to prepare the consolidated 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 CGUs in its impairment assessment, as well as increased risk of non-payment of accounts receivable. Actual results may differ from the estimates used in preparing the consolidated financial statements.

As a result of the demand destruction and volatility in crude oil prices, the Company recognized an impairment of \$9.5 million in its contract drilling CGU and \$2.0 million in its oilfield rental equipment CGU in the first quarter of 2020, as further detailed in Note 8 of the consolidated financial statements for the year ended December 31, 2020. There was no impairment recognized in the second, third or fourth quarters of 2020.

Government Grants:

In response to the COVID-19 pandemic and emergency measures, such as lockdowns, governments have established various programs to assist companies through this period of uncertainty. Management has determined that the Company qualifies for certain programs and recognizes such government grants when there is reasonable assurance the grant will be received. For the three months and year ended December 31, 2020, the company has recorded \$3.6 million and \$8.2 million respectively, related to the CEWS from the Government of Canada. Under IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, the Company may recognize the CEWS as either other income or as a reduction of the expenses related to the grant. The CEWS relates to operating and administrative expenses and has been recognized as a reduction of these expenses by \$3.2 million and \$0.4 million respectively, for the three months ended December 31, 2020. For the year ended December 31, 2020, the CEWS has reduced operating and administrative expenses by \$6.6 million and \$1.6 million respectively, in the consolidated statement of operations.

Additionally, management has determined that the Company qualifies for the Canada Emergency Rent Subsidy ("CERS"). 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. For the three months and year ended December 31, 2020, the Company has recognized a reduction of operating expenses of \$0.1 million and a reduction of depreciation expense of \$0.2 million related to IFRS 16 related assets.

US Paycheck Protection Plan (“PPP”):

During the third quarter of 2020, the Company received US\$1.8 million related to a PPP loan implemented by the US Government as part of their COVID-19 relief efforts. The PPP loan will be used to cover eligible US expenses, including payroll, utility costs, and other specific operating costs, in the period in which they are incurred. The Company expects that a portion of the PPP loan may be forgiven if all conditions of the loan are met. Interest on the PPP loan will accrue at 1% per annum. The PPP loan may be prepaid without penalties by the Company any time prior to maturity on July 23, 2025. Approximately US\$0.2 million of loan forgiveness has been recognized in the consolidated statement of operations for the year ended December 31, 2020.

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, 2020 as filed under the Company’s SEDAR profile at www.sedar.com. Certain of the Company’s primary business risks as at December 31, 2020 are as follows:

- The significant decrease in crude oil prices in 2020 and low crude oil demand associated with the COVID-19 pandemic is having a significant impact on Western’s customers. The precise duration and extent of the adverse impacts of the current macroeconomic environment and the COVID-19 pandemic on Western’s customers, operations, business and global economic activity remains highly uncertain at this time.
- 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 as a result of the COVID-19 pandemic, 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 due to the international price war and the COVID-19 pandemic, 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. Given the current macroeconomic environment due to the international price war and the COVID-19 pandemic, there is no assurance that Western will be able to refinance any or all of its Credit Facilities and Second Lien Facility at their maturity dates on acceptable terms.
- 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 that 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. The impact of COVID-19 on industry conditions and financial and capital markets may make identifying and completing new financing opportunities more challenging. 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 and impairment, 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:

(stated in thousands)	Three months ended December 31		Year ended December 31	
	2020	2019	2020	2019
Net loss	(7,443)	(52,249)	(41,301)	(81,030)
Income tax recovery	(2,828)	(15,786)	(14,609)	(30,772)
Loss before income taxes	(10,271)	(68,035)	(55,910)	(111,802)
Add (deduct):				
Depreciation	11,314	14,848	48,268	63,167
Stock based compensation	130	127	449	586
Finance costs	4,381	4,645	17,963	18,697
Other items	56	(1)	(1,992)	(410)
Impairment of property and equipment	-	54,000	11,500	54,000
Adjusted EBITDA	5,610	5,584	20,278	24,238

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:

- Alternating current ("AC");
- 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");
- Horsepower ("HP");
- 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 the Company’s services and equipment, in particular, in light of the low commodity price environment associated with the international price war and the COVID-19 pandemic; the potential impact of the ongoing COVID-19 pandemic on the oil and gas industry in Canada and the United States; 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 maintenance capital plans for 2021 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 2021 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; the potential forgiveness of a portion of the Company’s PPP loan; expectations as to the increase in crude oil transportation capacity through pipeline development; expectations as to the benefits of the LNG Canada natural gas project 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; maturities of the Company’s contractual obligations with third parties; 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; 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: 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, pipeline and LNG export facility 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); assumptions with respect to global economic conditions and the accuracy of the Company’s market outlook expectations for 2021 and in the future; the Company’s expectations regarding the impacts, direct and indirect, of the COVID-19 pandemic on our business, customers, business partners, employees, supply chain, other stakeholders and the overall economy; 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 the low commodity price environment will be sustained for an indefinite period, the impact of the COVID-19 pandemic and the resulting effects on economic conditions, restrictions imposed by public health authorities or governments, fiscal and monetary responses by governments and financial institutions and disruptions to global supply chains 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, 2020 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, 2020 and 2019

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 25, 2021

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, 2020 and 2019, 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, 2020 and 2019, 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.

Key Audit Matters

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the financial statements for the year ended December 31, 2020. The matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Property and equipment - Impairment - Refer to Notes 3(h), 4(a) and 8 to the financial statements

Key Audit Matter Description

The Company identified indicators of impairment for the contract drilling, well servicing and oilfield rental cash generating units ("CGUs") as a result of the prolonged commodity price downturn and the Company's market capitalization being less than the carrying amount of its net assets. When there is an indicator of impairment, the recoverable amount of the CGU is estimated to determine the amount of impairment, if any. The recoverable amount for property and equipment is the higher of fair value less costs to sell ("FVLCS") and value in use. The Company used FVLCS which has been derived from their discounted forecast cash flow model. Arriving at the estimated future cash flows involves significant judgments, estimates and assumptions, including those associated with the future revenues and the discount rate. As at March 31, 2020, it was determined that the recoverable amounts of the contract drilling and oilfield rental CGUs was lower than their carrying values, causing the Company to recognize impairment losses. As at December 31, 2020, there were no additional impairment losses recognized relating to the recoverable amount of the Company's CGUs.

While there are several assumptions that go into determining the recoverable amount, the judgments with the highest degree of subjectivity in the valuation model are the future revenues and discount rate. Auditing the assumptions surrounding the future

revenues and discount rate required a high degree of subjectivity in applying audit procedures and in evaluating the results of those procedures. This resulted in an increased extent of audit effort, including the involvement of fair value specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to the future revenues and discount rate used to determine the recoverable amount of the CGU's included the following, among others:

- Evaluated management's ability to accurately forecast future revenues by comparing actual results to management's historical forecasts;
- Evaluated the reasonableness of future revenues by comparing the forecasts to actual revenues; and internal communications to management and the Board of Directors.
- With the assistance of fair value specialists, evaluated the future revenues and discount rate by:
 - Testing the underlying source information in the determination of discount rate and developing a range of independent estimates and comparing this range to the discount rate selected by management.
 - Testing future revenues by understanding the changes in the forecast from the previous year and assessed if the estimated revenue was consistent with previous results and observable industry data and publications.

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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is David Langlois.

Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
February 25, 2021

Western Energy Services Corp.

Consolidated Balance Sheets
(thousands of Canadian dollars)

	Note	December 31, 2020	December 31, 2019
Assets			
Current assets			
Cash and cash equivalents		\$ 19,322	\$ 4,015
Trade and other receivables	6	18,246	29,494
Other current assets	7	5,928	5,918
		43,496	39,427
Non current assets			
Property and equipment	8	452,040	511,052
Other non current assets	7	89	58
		\$ 495,625	\$ 550,537
Liabilities			
Current liabilities			
Trade payables and other current liabilities	9	\$ 23,138	\$ 27,520
Current portion of long term debt	10	4,361	4,876
		27,499	32,396
Non current liabilities			
Long term debt	10	237,633	228,274
Deferred taxes	16	8,020	22,775
		273,152	283,445
Shareholders' equity			
Share capital	11	441,461	441,794
Contributed surplus		15,678	15,459
Retained earnings (deficit)		(260,333)	(219,074)
Accumulated other comprehensive income		23,996	27,157
Non controlling interest		1,671	1,756
		222,473	267,092
		\$ 495,625	\$ 550,537

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, 2020	Year ended December 31, 2019
Revenue		\$ 103,684	\$ 196,408
Expenses			
Operating		72,879	155,450
Administrative		10,527	16,720
Depreciation	8	48,268	63,167
Stock based compensation	12	449	586
Finance costs	14	17,963	18,697
Other items	15	(1,992)	(410)
Impairment of property and equipment	8	11,500	54,000
Loss before income taxes		(55,910)	(111,802)
Income tax recovery	16	14,609	30,772
Net loss		(41,301)	(81,030)
Other comprehensive loss ⁽¹⁾			
Loss on translation of foreign operations		(1,214)	(3,195)
Unrealized foreign exchange loss on net investment in subsidiary		(1,947)	(1,800)
Comprehensive loss		\$ (44,462)	\$ (86,025)
Net loss attributable to:			
Shareholders of the Company		\$ (41,259)	\$ (80,957)
Non controlling interest		(42)	(73)
Comprehensive loss attributable to:			
Shareholders of the Company		\$ (44,420)	\$ (85,952)
Non controlling interest		(42)	(73)
Net loss per share:			
Basic		\$ (0.45)	\$ (0.88)
Diluted		(0.45)	(0.88)
Weighted average number of shares:			
Basic	13	91,253,521	92,379,902
Diluted	13	91,253,521	92,379,902

(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, 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	-	-	(1,125)	-	-	(1,125)
Distributions to non controlling interest	-	-	-	-	(156)	(156)
Comprehensive 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
Common shares:						
Issued on vesting of restricted share units	145	(145)	-	-	-	-
Purchased under normal course issuer bid	(478)	-	-	-	-	(478)
Stock based compensation	-	364	-	-	-	364
Distributions to non controlling interest	-	-	-	-	(43)	(43)
Comprehensive loss	-	-	(41,259)	(3,161)	(42)	(44,462)
Balance at December 31, 2020	\$ 441,461	\$ 15,678	\$ (260,333)	\$ 23,996	\$ 1,671	\$ 222,473

(1) Contributed surplus relates to stock based compensation described in Note 12.

(2) At December 31, 2020, 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, 2020	Year ended December 31, 2019
Operating activities			
Net loss		\$ (41,301)	\$ (81,030)
Adjustments for:			
Depreciation	8	48,268	63,167
Non cash stock based compensation	12	364	599
Finance costs	14	17,963	18,697
Impairment of property and equipment	8	11,500	54,000
Income tax recovery	16	(14,609)	(30,772)
Other		(292)	(348)
Income taxes paid		(32)	-
Change in non cash working capital		5,862	7,405
Cash flow from operating activities		27,723	31,718
Investing activities			
Additions to property and equipment	8	(2,788)	(7,968)
Proceeds on sale of property and equipment		549	941
Change in non cash working capital		(770)	(1,933)
Cash flow used in investing activities		(3,009)	(8,960)
Financing activities			
Share purchase under normal course issuer bid	11	(478)	-
Finance costs paid		(16,959)	(17,400)
Repayment of second lien debt	10	(2,150)	(2,150)
Repayment of other long term debt	10	(3,169)	(3,403)
(Repayment of) draw on credit facilities	10	(1,297)	406
Proceeds from US paycheck protection plan	10	2,314	-
Net proceeds from HSBC facility	10	12,375	-
Distributions to non controlling interest		(43)	(156)
Cash flow used in financing activities		(9,407)	(22,703)
Increase in cash and cash equivalents		15,307	55
Cash and cash equivalents, beginning of year		4,015	3,960
Cash and cash equivalents, end of year ⁽¹⁾		\$ 19,322	\$ 4,015

⁽¹⁾ At December 31, 2020 and 2019, the Company's cash and cash equivalents consisted of bank accounts with banks within the Company's existing credit facilities syndicate, as well as \$1.0 million (US\$0.8 million) of restricted cash in 2020 (2019: nil) related to the US paycheck protection program (note 10).

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

Western Energy Services Corp.

Notes to the consolidated financial statements

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

1. Reporting entity:

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the head office is 1700, 215 - 9th Avenue SW, Calgary, Alberta. Western is a publicly traded company that is listed on the Toronto Stock Exchange ("TSX") under the symbol "WRG". These consolidated financial statements as at and for the years ended December 31, 2020 and 2019 (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 ("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:

(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 25, 2021.

(b) Basis of measurement:

The consolidated financial statements have been prepared using the historical cost basis except as detailed in the Company's accounting policies in Note 3.

(c) Functional and presentation currency:

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

3. Significant accounting policies:

The significant accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, unless otherwise indicated.

(a) Basis of consolidation:

These Financial Statements include the accounts of Western and its subsidiaries, which are entities over which Western has control. Control exists when Western has the power, directly or indirectly, to direct the relevant activities of an entity so as to obtain benefit from its activities. The financial results of Western's subsidiaries are included in the Financial Statements from the date that control commences until the date that control ceases. The accounting policies of Western's subsidiaries have been aligned with the policies adopted by Western. When Western ceases to control a subsidiary, the financial statements of that subsidiary are de-consolidated.

Inter-company balances and transactions, and any income and expenses arising from inter-company transactions, have been eliminated in these Financial Statements.

A portion of the Company's operations are conducted through arrangements where the Company and a third party each have a 50% interest. Based on the criteria outlined in IFRS 10, Consolidated Financial Statements, the Company determined that, for financial reporting purposes, the Company has control of these arrangements. As a result, the Company fully consolidates the arrangements and has recorded a non-controlling interest in equity and net income (loss).

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

(b) Foreign currency transactions and operations:

The Canadian dollar is Western's functional and presentation currency. Each of the Company's subsidiaries' functional currency is determined individually and items included in the financial statements of each subsidiary are measured using that functional currency. Transactions in foreign currencies are translated to the respective functional currencies of Western and its subsidiaries at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the exchange rate in effect on the balance sheet date with any resulting foreign exchange gain or loss recognized in net income (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).

(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).

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

The Company's 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, the HSBC 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 and the HSBC 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:

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment.

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.

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.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

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, 2020 and 2019 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 evidence that they are impaired. A financial asset is impaired if evidence indicates a loss event has occurred after the initial recognition of the asset, and the loss event had a negative effect on the estimated future cash flows of the asset that can be estimated reliably.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is an indication of impairment. If an indication exists, then the asset's carrying amount is assessed for impairment.

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

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

The 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.

Impairments recognized in prior periods are assessed at each reporting date for indications that the impairment has decreased or no longer exists. An impairment is reversed if there has been a change in the estimates used to determine the recoverable amount and the decrease in impairment can be objectively related to an event occurring after the impairment was recognized. An impairment 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 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 reclassified into share capital. Upon vesting of equity settled RSUs, the related contributed surplus associated with the RSU is reclassified into share capital.

For cash settled RSUs, the fair value of the RSUs is recognized as stock based compensation expense, with a corresponding increase in accrued liabilities over the vesting period. The amount recognized as an expense is based on the estimate of the number of RSUs expected to vest. Cash settled RSUs are measured at their fair value at each reporting period on a mark-to-market basis. Upon vesting of the cash settled RSUs, the liability is reduced by the cash payout.

(j) 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.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

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.

(k) 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, Leases.

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:

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.

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.

(l) 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.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

(m) 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.

(n) 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 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.

(o) 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.

(p) Government grants:

In response to the COVID-19 pandemic and emergency measures, such as lockdowns, governments have established various programs to assist companies through this period of uncertainty. Management has determined that the Company qualifies for certain programs and recognizes such government grants when there is reasonable assurance the grant will be received. Under IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, the Company may recognize grant amounts as either other income or as a reduction of the expenses related to the grant.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

Canada Emergency Wage Subsidy ("CEWS"):

For the year ended December 31, 2020, the company has recorded \$8.2 million (December 31, 2019: nil) related to the CEWS from the Government of Canada. The CEWS relates to operating and administrative expenses for the year ended December 31, 2020 and has been recognized as a reduction of these expenses by \$6.6 million (December 31, 2019: nil) and \$1.6 million (December 31, 2019: nil) respectively.

Canada Emergency Rent Subsidy ("CERS"):

For the year ended December 31, 2020, the company has recorded \$0.3 million (December 31, 2019: 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. For the year ended December 31, 2020, the Company has recognized a reduction of operating expenses of \$0.1 million (December 31, 2019: nil) and a reduction of depreciation expense of \$0.2 million (December 31, 2019: nil) related to IFRS 16 related assets.

US Paycheck Protection Plan ("PPP"):

During the third quarter of 2020, the Company received US\$1.8 million related to a PPP loan implemented by the US Government as part of their COVID-19 relief efforts. The PPP loan is being used to cover eligible US expenses, including payroll, utility costs, and other specific operating costs, in the period in which they are incurred. The Company expects that a portion of the PPP loan may be forgiven if all conditions of the loan are met. Interest on the PPP loan will accrue at 1% per annum. The PPP loan may be prepaid without penalties by the Company any time prior to maturity on July 23, 2025. For the year ended December 31, 2020, the Company has recognized US\$0.3 million (December 31, 2019: nil) related to PPP loan forgiveness, as a reduction of operating expenses.

(q) New interpretations and amendments not yet adopted:

A number of interpretations are not yet effective for the year ended December 31, 2020, 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, 2021. The Company does not expect these changes to have a significant impact on its financial statements.

IFRS 3 - Business combinations, amends certain recognition and measurement principal exceptions applied to assets and liabilities acquired under the acquisition method. The amendments, which focus on the treatment of contingent liabilities and assets, specify both the particular items for which exceptions are provided and the nature of those exceptions.

IFRS 9 - Financial Instruments, has been amended to specify the net fees considered during the assessment of a financial liability as a result of a substantial change in terms. The definition of fees has been updated to include any fees paid, net of any fees received, between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

IAS 1 - Presentation of Financial Statements, has been amended to clarify the requirements for the presentation of liabilities in the statement of financial position. This amendment specifies that for an entity to classify a liability as current, it cannot have the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period.

IAS 16 - Property, Plant and Equipment, has been amended to clarify directly attributable costs associated with the measurement and recognition of an asset as property plant and equipment. In addition, IAS 16 has added guidance regarding the treatment of inventory produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management.

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, has been amended to specify which costs an entity includes in determining the cost of fulfilling a contract for the purposes of assessing whether the contract is onerous. In doing this an entity should consider all costs that relate directly to the contract, which include both the incremental costs of fulfilling the contract and an allocation of other costs that relate directly to fulfilling the contract.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

4. Critical accounting estimates:

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.

In March 2020, the World Health Organization declared a global pandemic as a result of the COVID-19 outbreak, which led to demand destruction worldwide as countries implemented emergency measures such as lockdowns, to prevent the spread of the COVID-19 virus. The significant decrease in global demand for crude oil, coupled with an international price war, resulted in historical lows and increased volatility in crude oil prices. The current economic environment and the ongoing 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 COVID-19 pandemic, the timing of COVID-19 vaccines being distributed and its resulting impact on the economy and international markets. The pandemic and reduction in global demand results in uncertainty for the Company, as well as estimates and assumptions used by management to prepare these Financial Statements. 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 CGUs in its impairment assessment, as well as increased risk of non-payment of trade receivables.

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 there are indications of impairment.

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 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 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.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

4. Critical accounting estimates (continued):

If indicators conclude that the asset is no longer impaired, the Company will reverse impairments 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 is required.

(c) 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.

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.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

5. Operating segments (continued):

The following is a summary of the Company's results by operating segment for the years ended December 31, 2020 and 2019:

Year ended December 31, 2020	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	\$ 61,992	\$ 42,066	\$ -	\$ (374)	\$ 103,684
Operating loss	(21,086)	(1,613)	(5,291)	-	(27,990)
Finance costs	-	-	17,963	-	17,963
Impairment of property and equipment	9,500	2,000	-	-	11,500
Depreciation	34,908	11,468	1,892	-	48,268
Additions to property and equipment	2,038	702	48	-	2,788

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

Total assets and liabilities by operating segment are as follows:

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

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

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

Year ended December 31, 2020	Contract Drilling	Production Services	Corporate	Total
Operating loss	\$ (21,086)	\$ (1,613)	\$ (5,291)	\$ (27,990)
Add (deduct):				
Stock based compensation	(121)	(106)	(222)	(449)
Finance costs	-	-	(17,963)	(17,963)
Other items	-	-	1,992	1,992
Impairment of property and equipment	(9,500)	(2,000)	-	(11,500)
Loss before income taxes	\$ (30,707)	\$ (3,719)	\$ (21,484)	\$ (55,910)

Year ended December 31, 2019	Contract Drilling	Production Services	Corporate	Total
Operating loss	\$ (23,759)	\$ (9,940)	\$ (5,230)	\$ (38,929)
Add (deduct):				
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)

Western Energy Services Corp.

Notes to the consolidated financial statements

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

5. Operating segments (continued):

Segmented information by geographic area is as follows:

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
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
Revenue - year ended December 31, 2020	\$ 89,412	\$ 14,272	\$ 103,684
Revenue - year ended December 31, 2019	150,196	46,212	196,408

Revenue from contracts:

For the year ended December 31, 2020, the Company's revenue from long term and short term contracts in the contract drilling segment totaled \$15.6 million and \$46.4 million respectively (year ended December 31, 2019: \$44.8 million and \$96.0 million, respectively).

For the years ended December 31, 2020 and 2019, the Company had no revenue from long term contracts in the production services segment.

Significant customers:

For the years ended December 31, 2020 and 2019, 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, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Trade receivables	\$ 15,134	\$ 25,700
Accrued trade receivables	2,001	3,318
Other receivables	2,389	531
Allowance for doubtful accounts	(1,278)	(55)
Total	\$ 18,246	\$ 29,494

The Company's exposure to credit risk related to trade and other receivables is disclosed in Note 18.

7. Other Assets:

The Company's other assets as at December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Current:		
Prepaid expenses	\$ 2,327	\$ 2,093
Inventory	3,069	3,108
Deposits	355	387
Deferred charges	177	330
Total current portion of other assets	5,928	5,918
Non current:		
Deferred charges	89	58
Total non current portion of other assets	89	58
Total other assets	\$ 6,017	\$ 5,976

Western Energy Services Corp.

Notes to the consolidated financial statements

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

8. Property and equipment:

The following table summarizes the Company's property and equipment as at December 31, 2020 and 2019:

	Land	Buildings	Contract drilling equipment	Production services equipment	Office and shop equipment	Finance lease assets	Total
Cost:							
Balance at December 31, 2018	\$ 5,089	\$ 4,396	\$ 806,053	\$ 203,888	\$ 12,513	\$ 3,911	\$ 1,035,850
Additions	-	-	5,126	2,247	595	-	7,968
Lease additions	-	-	-	-	-	573	573
Adoption of IFRS 16	-	-	-	-	-	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
Additions to property and equipment	-	-	2,019	702	67	-	2,788
Finance lease additions	-	-	-	-	-	189	189
Disposals	-	-	(174)	(567)	(19)	(808)	(1,568)
Foreign exchange adjustment	-	-	(3,485)	(83)	(16)	(17)	(3,601)
Balance at December 31, 2020	\$ 5,089	\$ 4,396	\$ 798,687	\$ 204,320	\$ 13,085	\$ 13,621	\$ 1,039,198
Accumulated depreciation:							
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 on 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
Depreciation ⁽¹⁾	-	134	34,395	10,131	922	2,907	48,489
Impairment on property and equipment	-	-	9,500	2,000	-	-	11,500
Disposals	-	-	(142)	(497)	(19)	(547)	(1,205)
Foreign exchange adjustment	-	-	(1,875)	(46)	(17)	(26)	(1,964)
Balance at December 31, 2020	\$ -	\$ 2,836	\$ 448,556	\$ 117,600	\$ 11,372	\$ 6,794	\$ 587,158
Carrying amounts:							
At December 31, 2019	\$ 5,089	\$ 1,694	\$ 393,649	\$ 98,256	\$ 2,567	\$ 9,797	\$ 511,052
At December 31, 2020	\$ 5,089	\$ 1,560	\$ 350,131	\$ 86,720	\$ 1,713	\$ 6,827	\$ 452,040

(1) Excludes a credit to depreciation expense of \$0.2 million associated with the CERS as described in Note 3 (p).

Assets under construction:

Included in property and equipment at December 31, 2020 are assets under construction of \$0.6 million (December 31, 2019: \$0.6 million) which includes ancillary drilling and well servicing equipment.

Impairment Testing:

As at March 31, 2020 impairment indicators were identified related to the volatility of crude oil prices and uncertainty of demand as a result of the COVID-19 pandemic, as well as the carrying amount of the Company's net assets being greater than its market capitalization. As such, the Company 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 operating segments.

As at March 31, 2020, 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 assumed a gradual increase in activity, however remained below historical levels. Cash flow projections thereafter were 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 ranged from approximately 12% to 60% 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 19% to 55% per year.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

8. Property and equipment (continued):

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

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 13.0% per annum.

As at March 31, 2020 the results of the tests performed indicated an impairment of property and equipment of \$11.5 million, with \$9.5 million and \$2.0 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 impairments recorded in the first quarter of 2020, were due to the significant decrease in demand and volatile economic conditions associated with the COVID-19 pandemic and international price war, which resulted in significant reductions or cancellations to the capital spending plans for Western's customers, and a reduced outlook for oilfield service activity.

As at December 31, 2020, impairment indicators were identified related to the volatility of crude oil prices and uncertainty of demand as a result of the COVID-19 pandemic and the related vaccine rollout, as well as the carrying amount of the Company's net assets being greater than its market capitalization. As such, the Company performed an impairment analysis on each of its CGUs at December 31, 2020.

As at December 31, 2020, the recoverable amounts allocated to the 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 2021 forecast. Cash flow projections for 2022 to 2025 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 18% 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 26% to 46% per year.

Cash flow projections are based on the average remaining economic life of the contract drilling and well servicing CGUs, which range from 6 to 14 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 no further impairment of property and equipment related to the contract drilling, well servicing, or oilfield rental equipment CGUs at December 31, 2020.

The following table summarizes the impairment impact of changes to the most sensitive inputs by CGU as at December 31, 2020. 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:

Cash Generating Unit	Total Impairment (in \$000s)			
	0.5% Increase in Discount Rate	0.5% Decrease in Discount Rate	5% Decrease in Cash Flows	5% Increase in Cash Flows
Contract drilling	\$ 4,300	\$ -	\$ 13,300	\$ -
Well servicing	100	-	2,200	-
Oilfield rental equipment	-	-	400	-
Total	\$ 4,400	\$ -	\$ 15,900	\$ -

Western Energy Services Corp.

Notes to the consolidated financial statements

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

8. Property and equipment (continued):

Year ended December 31, 2019:

As at December 31, 2019, the Company identified impairment indicators related to the prolonged commodity price downturn and the carrying amount of the Company's net assets being greater than its market capitalization, and as such performed an impairment analysis on each of its CGUs. These CGUs were 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 assumed an increase in activity, however remained below historical levels. Cash flow projections thereafter were 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 were based on the average remaining economic life of the CGUs ranging from 7 to 15 years. Salvage values were based on management's best estimate, range between 0% and 20%, and include costs of disposal of 2%.

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 13.0% per annum.

The results of the tests indicated an impairment of property and equipment at December 31, 2019 of \$54.0 million, 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 were due to the continued market uncertainty which resulted in reductions to the capital spending plans for Western's customers, and 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 was \$375.4 million, \$84.3 million, and \$13.9 million respectively, as at December 31, 2019.

The most sensitive inputs to the model were the discount rate and the future cash flows. The impairment test's sensitivity to these inputs was 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.

9. Trade payable and other current liabilities:

Trade payables and current liabilities as at December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Trade payables	\$ 8,948	\$ 11,086
Accrued trade payables and expenses	14,190	16,434
Total	\$ 23,138	\$ 27,520

The Company's exposure to foreign exchange and liquidity risk related to trade payables and other current liabilities is disclosed in Note 18.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

10. Long term debt:

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

	December 31, 2020	December 31, 2019
Current:		
Second Lien Facility	\$ 2,150	\$ 2,150
Lease obligations ⁽¹⁾	2,843	3,593
PPP Loan	227	-
Less: unamortized issue costs	(859)	(867)
Total current portion of long term debt	4,361	4,876
Non current:		
Second Lien Facility	207,475	209,625
HSBC Facility	12,500	-
Revolving Facility	11,000	12,000
Operating Facility	-	297
PPP Loan	2,001	-
Lease obligations ⁽¹⁾	5,858	8,135
Less: unamortized issue costs	(1,201)	(1,783)
Total non current portion of long term debt	237,633	228,274
Total long term debt	\$ 241,994	\$ 233,150

(1) Lease obligations include leases capitalized under IFRS 16. During the year ended December 31, 2020, the Company expensed \$0.1 million (year ended December 31, 2019: \$0.1 million), related to leases of low value assets or leases with a term of less than one year.

Credit Facilities:

On December 31, 2020, the Company amended the terms and extended the maturity of the \$50.0 million syndicated revolving credit facility (the "Revolving Facility") and the \$10.0 million committed operating facility (the "Operating Facility" and together the "Credit Facilities") to July 1, 2022.

Advances under the Credit Facilities are limited by the Company's borrowing base. Under the amended 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;
 - (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 December 31, 2020, the Company was in compliance with its borrowing base requirement, as its \$11.0 million Credit Facility draw was less than the maximum amount calculated under the borrowing base.

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, 2020, \$11.0 million (December 31, 2019: \$12.3 million) was drawn on the Credit Facilities.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

10. Long term debt (continued):

In conjunction with the Credit Facility extension, Western and its lenders agreed to make some other changes to the Credit Facilities, including the following adjustments to its financial covenants:

- The Company has obtained covenant relief for the third and fourth quarters of 2021 whereby:
 - the consolidated senior debt to consolidated EBITDA covenant is waived;
 - a minimum liquidity of \$5.0 million is required;
 - a maximum consolidated senior debt to consolidated capitalization ratio of 0.10x has been added; and
- Annual capital expenditures for 2021 cannot exceed \$10.0 million.

The Company's Credit Facilities are subject to the following financial covenants at December 31, 2020:

	Covenant	December 31, 2020
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	0.49:1.0
Minimum Current Ratio ⁽⁵⁾	1.15:1.0 or more	2.49:1.0

(1) 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.

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

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

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

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

As at December 31, 2020 and 2019, the Company was in compliance with all covenants related to its Credit Facilities.

Second Lien Facility:

At December 31, 2020, the Company had \$209.6 million (December 31, 2019: \$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.

HSBC Facility:

In conjunction with the amended Credit Facilities on December 31, 2020, Western entered into an agreement with HSBC Bank Canada ("HSBC") for a \$12.5 million committed term non-revolving facility (the "HSBC Facility") with the participation of Business Development Bank of Canada ("BDC") under BDC's Business Credit Availability Program ("BCAP"). The BCAP program was implemented to help small and medium sized companies, directly impacted by the COVID-19 pandemic, by providing additional liquidity to cover operating costs. The HSBC Facility was fully funded on December 31, 2020 and bears interest at a floating rate. Principal amounts are payable monthly beginning January 2022, with the balance due upon maturity on December 31, 2026. The Company used the proceeds to fund its January 2021 interest and principal payments under the Second Lien Facility, and the remaining funds will be used for future interest and principal payments to Alberta Investment Management Corporation.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

10. Long term debt (continued):

PPP Loan:

At December 31, 2020, the Company had \$2.2 million (December 31, 2019: nil) outstanding related to the US paycheck protection program ("PPP"). 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. The PPP loan may be forgiven subject to certain conditions if the proceeds are used for US payroll, utility costs and other specific operating costs incurred, within twenty four weeks of funding, as outlined by US Treasury guidelines. Management estimates that a portion of the loan will be forgiven if all conditions are met. For the year ended December 31, 2020, the Company recognized US\$0.3 million related to PPP loan forgiveness, as a reduction of operating expenses.

11. 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, 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
Issued on vesting of restricted share units	247,798		145
Shares purchased under normal course issuer bid	(1,584,000)		(478)
Balance at December 31, 2020	91,165,112	\$	441,461

There were no dividends declared during the years ended December 31, 2020 and 2019.

12. 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, 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
Granted	2,484,600		0.26
Forfeited	(1,161,785)		1.62
Expired	(1,184,658)		5.16
Balance at December 31, 2020	7,464,687	\$	0.82

For the years ended December 31, 2020 and 2019, no stock options were cancelled. The average fair value of the stock options granted in 2020 was \$0.10 per stock option (2019: \$0.08 per stock option).

Western Energy Services Corp.

Notes to the consolidated financial statements

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

12. Stock based compensation (continued):

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

As at December 31, 2020 Exercise Price (\$/share)	Number of options outstanding	Weighted average contractual life remaining (years)	Number of options exercisable
0.20-0.25	1,601,510	3.64	534,018
0.26-0.29	2,463,615	4.65	-
0.30-1.00	1,815,400	2.59	1,204,895
1.01-2.00	795,271	1.71	774,304
2.01-3.68	788,891	0.65	788,891
	7,464,687	3.19	3,302,108

As at December 31, 2020, the Company had 3,302,108 (December 31, 2019: 3,591,607) exercisable stock options outstanding at a weighted average exercise price equal to \$1.42 (December 31, 2019: \$3.14) 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, 2020	Year ended December 31, 2019
Risk-free interest rate	0.3%	1.4%
Average forfeiture rate	23.7%	21.9%
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	-	-
Expected share price volatility	71.6%	60.8%

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, 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
Granted	915,430	8,780	924,210
Vested	(247,797)	(459,419)	(707,216)
Forfeited	(69,721)	(104,351)	(174,072)
Balance at December 31, 2020	1,244,159	263,682	1,507,841

The estimated fair value of the equity settled RSUs granted during the year ended December 31, 2020 was \$0.2 million (December 31, 2019: \$0.1 million) and will be recognized as an expense over the vesting period of the RSUs.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

12. Stock based compensation (continued):

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, 2020	Year ended December 31, 2019
Risk-free interest rate	0.3%	1.4%
Average forfeiture rate	15.3%	11.9%
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	-	-
Expected share price volatility	71.6%	60.9%

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

	Year ended December 31, 2020	Year ended December 31, 2019
Stock options	\$ 212	\$ 389
Restricted share units – equity settled grants	152	210
Total equity settled stock based compensation expense	364	599
Restricted share units – cash settled grants	85	(13)
Total stock based compensation expense	\$ 449	\$ 586

The outstanding liability related to cash settled RSUs at December 31, 2020 was \$0.1 million (December 31, 2019: \$0.1 million).

Warrants:

As at December 31, 2020, Western had no warrants outstanding (December 31, 2019: 7,099,546) as all warrants expired unexercised on October 17, 2020. Each warrant entitled 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. 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.

13. Earnings per share:

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

	Year ended December 31, 2020	Year ended December 31, 2019
Issued common shares, beginning of period	92,501,314	92,305,542
Weighted average number of common shares issued	94,013	74,360
Weighted average number of common shares repurchased	(1,341,806)	-
Weighted average number of common shares (basic)	91,253,521	92,379,902
Dilutive effect of equity securities	-	-
Weighted average number of common shares (diluted)	91,253,521	92,379,902

For the year ended December 31, 2020, 7,464,687 stock options (December 31, 2019: 7,326,530 stock options), 1,244,159 equity settled RSUs (December 31, 2019: 646,247 equity settled RSUs) and nil warrants (December 31, 2019: 7,099,546) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

14. Finance costs:

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

	Year ended	
	December 31, 2020	December 31, 2019
Interest expense on long term debt	\$ 16,752	\$ 17,377
Amortization of debt financing fees	348	466
Accretion expense on Second Lien Facility	867	870
Interest income	(4)	(16)
Total finance costs	\$ 17,963	\$ 18,697

The Company had an effective interest rate of 7.7% on its borrowings for the year ended December 31, 2020 (December 31, 2019: 7.9%).

15. Other items:

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

	Year ended	
	December 31, 2020	December 31, 2019
Gain on sale of fixed assets	\$ (289)	\$ (520)
Realized foreign exchange gain	(1,700)	(33)
Unrealized foreign exchange (gain) loss	(3)	143
Total other items	\$ (1,992)	\$ (410)

16. Income taxes:

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

	Year ended	
	December 31, 2020	December 31, 2019
Current tax expense (recovery)	\$ 4	\$ (29)
Deferred tax recovery	(14,613)	(30,743)
Total income tax recovery	\$ (14,609)	\$ (30,772)

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, 2020	December 31, 2019
Loss before income taxes	\$ (55,910)	\$ (111,802)
Federal and provincial statutory rates	24.1% (13,474)	23.8% (26,609)
Income (loss) taxed at higher rates	(87)	96
Stock based compensation	83	135
Non controlling interest	10	17
Non-deductible expenses	(209)	207
Change in effective tax rate on temporary differences	(1,002)	(4,685)
Return to provision adjustment	46	40
Other	24	27
Total income taxes	\$ (14,609)	\$ (30,772)

Western Energy Services Corp.

Notes to the consolidated financial statements

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

16. Income taxes (continued):

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

	December 31, 2020	December 31, 2019
Property and equipment	\$ (87,530)	\$ (96,441)
Deferred charges and accruals	23	(16)
Long term debt	1,816	2,503
Share issue costs	85	168
Other tax pools	1,238	1,172
Tax loss carry forwards	76,348	69,839
Net deferred tax liabilities	\$ (8,020)	\$ (22,775)

Movements of the Company's temporary differences for the year ended December 31, 2020 are as follows:

	Balance Dec 31, 2019	Recognized in equity	Recognized in net income (loss)	Impact of foreign exchange	Balance Dec 31, 2020
Property and equipment	\$ (96,441)	\$ -	\$ 8,477	\$ 434	\$ (87,530)
Deferred charges and accruals	(16)	-	39	-	23
Long term debt	2,503	-	(687)	-	1,816
Share issue costs	168	-	(83)	-	85
Other tax pools	1,172	-	72	(6)	1,238
Tax loss carry forwards	69,839	-	6,795	(286)	76,348
Net deferred tax liabilities	\$ (22,775)	\$ -	\$ 14,613	\$ 142	\$ (8,020)

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

	Balance Dec 31, 2018	Recognized in equity	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)

As at December 31, 2020, the Company has loss carry forwards equal to approximately \$250.9 million in Canada, which will expire between 2035 and 2040. In the United States, the Company has approximately US\$48.7 million loss carry forwards which expire between 2028 and 2039.

17. 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, 2020	Year ended December 31, 2019
Employee salaries and benefits ⁽¹⁾	\$ 51,934	\$ 111,479
Repairs and maintenance	8,041	19,285
Third party charges	5,805	12,315

(1) Includes the Canada Emergency Wage Subsidy of \$8.2 million and eligible PPP loan forgiveness of US\$0.3 million as described in Note 3 (p).

Western Energy Services Corp.

Notes to the consolidated financial statements

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

18. Financial risk management:

Interest rate risk:

The Company is exposed to interest rate risk on certain debt instruments, such as the Credit Facility and the HSBC 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, 2020 (December 31, 2019: \$0.1 million). Other long term debt, such as the Second Lien Facility, PPP loan 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 currency fluctuations in relation to its US 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, 2020, portions of the Company's cash balances, trade and other receivables, trade payables and other current liabilities were denominated in US dollars and subject to foreign exchange fluctuations which are recorded within net income (loss). In addition, Stoneham, Western's US 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, 2020, the increase or decrease in net income (loss) and other comprehensive income (loss) for each one percent change in foreign exchange rates between the Canada and US dollar is estimated to be \$0.1 million and \$0.3 million, respectively (December 31, 2019: \$0.1 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 low 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. Subsequent to December 31, 2020, the Company has collected 71% of its trade and other receivables that were outstanding at December 31, 2020.

At December 31, 2020, approximately 8% of the Company's trade receivables were more than 90 days old. The Company believes the unimpaired amounts greater than 90 days old are still collectible based on historic payment behavior and an analysis of the underlying customers' ability to pay.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

18. Financial risk management (continued):

The table below provides an analysis of the Company's trade and other receivables as at December 31, 2020 and 2019:

	December 31, 2020		December 31, 2019	
Trade receivables:				
Current	\$	9,330	\$	14,352
Outstanding for 31 to 60 days		4,512		8,364
Outstanding for 61 to 90 days		59		2,216
Outstanding for over 90 days		1,233		768
Accrued trade receivables		2,001		3,318
Other receivables		2,389		531
Allowance for doubtful accounts		(1,278)		(55)
Total	\$	18,246	\$	29,494

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, 2020, the Company impaired \$1.3 million in trade receivables (December 31, 2019: less than \$0.1 million).

Liquidity risk:

Liquidity risk is the exposure of the Company to the risk of not being able to meet its financial obligations as they become due. The Company manages liquidity risk through management of its capital structure, monitoring and reviewing actual and forecasted cash flows and the effect on bank covenants, and maintaining unused credit facilities where possible to ensure there are available cash resources to meet the Company's liquidity needs. The Company's cash and cash equivalents, cash flow from operating activities, existing Credit Facilities, 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.

The table below provides an analysis of the expected maturities of the Company's outstanding obligations at December 31, 2020:

	Total		Due prior to December 31				
	amount	2021	2022	2023	2024	2025	Thereafter
Financial liabilities:							
Trade payables and other current liabilities	\$ 23,138	\$ 23,138	\$ -	\$ -	\$ -	\$ -	\$ -
Revolving Facility	11,000	-	11,000	-	-	-	-
HSBC Facility	12,500	-	1,250	1,250	1,250	1,250	7,500
Second Lien Facility	209,625	2,150	2,150	205,325	-	-	-
Lease obligations	8,701	2,843	2,163	1,860	1,690	145	-
PPP Loan	2,228	227	548	554	559	340	-
Total	\$ 267,192	\$ 28,358	\$ 17,111	\$ 208,989	\$ 3,499	\$ 1,735	\$ 7,500

Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing returns.

The Company may use derivatives and also incur financial liabilities in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors. The Company does not apply hedge accounting in order to manage volatility within the statements of operations and comprehensive income (loss).

Western Energy Services Corp.

Notes to the consolidated financial statements

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

18. Financial risk management (continued):

Capital management:

The overall capitalization of the Company at December 31, 2020 and December 31, 2019 is as follows:

	Note	December 31, 2020	December 31, 2019
Second Lien Facility	10	\$ 209,625	\$ 211,775
HSBC Facility	10	12,500	-
Revolving Facility	10	11,000	12,000
Operating Facility	10	-	297
PPP Loan	10	2,228	-
Finance lease obligations	10	8,701	11,728
Total debt		244,054	235,800
Shareholders' equity		222,473	267,092
Less: cash and cash equivalents		(19,322)	(4,015)
Total capitalization		\$ 447,205	\$ 498,877

Management is focused on several objectives while managing the capital structure of the Company, specifically:

- 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;
- 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
- 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.

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, 2020, the Company had \$49.0 million in undrawn credit under its Credit Facilities and was in compliance with all debt covenants (see Note 10).

19. Commitments:

As at December 31, 2020, the Company has commitments which require payments based on the maturity terms as follows:

	2021	2022	2023	2024	2025	Thereafter	Total
Second Lien Facility	\$ 2,150	\$ 2,150	\$ 205,325	\$ -	\$ -	\$ -	\$ 209,625
Second Lien Facility interest	15,179	15,105	7,473	-	-	-	37,757
HSBC Facility	-	1,250	1,250	1,250	1,250	7,500	12,500
HSBC Facility interest	806	769	688	610	527	447	3,847
Revolving Facility	-	11,000	-	-	-	-	11,000
Trade payables and other current liabilities ⁽¹⁾	15,507	-	-	-	-	-	15,507
Operating commitments ⁽²⁾	1,705	716	688	688	57	-	3,854
PPP Loan	238	571	571	571	344	-	2,295
Lease obligations ⁽³⁾	3,271	2,457	2,039	1,759	146	-	9,672
Total	\$ 38,856	\$ 34,018	\$ 218,034	\$ 4,878	\$ 2,324	\$ 7,947	\$ 306,057

(1) Trade payables and other current liabilities exclude the Company's interest accrued as at December 31, 2020 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.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

19. Commitments (continued):

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.

HSBC Facility and interest:

The Company pays interest and principal on the HSBC Lien Facility monthly, with principal payments beginning January 2022. The HSBC Facility is due December 31, 2026.

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.

PPP Loan:

The Company pays interest and principal on the PPP loan over the term of the loan. The PPP loan is due July 23, 2025.

Lease obligations:

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

20. Related party transactions:

During the years ended December 31, 2020 and 2019, the Company had no transactions with related parties. At December 31, 2020, there are no balances outstanding in trade and other receivables with related parties (December 31, 2019: \$nil).

21. 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, 2020	December 31, 2019
Short-term employee benefits	\$ 1,801	\$ 1,805
Stock based compensation ⁽¹⁾	138	211
	<u>\$ 1,940</u>	<u>\$ 2,016</u>

(1) The total fair value of stock options and RSUs granted to key management personnel for the year ended December 31, 2020 was \$0.2 million (December 31, 2019: less than \$0.1 million), which is being recognized in net income (loss) over the stock option's and RSU's vesting period.

22. Subsidiaries:

Details of the Company's material wholly owned subsidiaries and partnerships at the end of the reporting periods are as follows:

	Country of incorporation	Ownership interest (%)	
		December 31, 2020	December 31, 2019
Stoneham Drilling Corporation	USA	100	100
Western Production Services Corp.	Canada	100	100



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

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:
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