Western Energy Services Corp.

Condensed Consolidated Financial Statements

September 30, 2021 and 2020

(Unaudited)

Western Energy Services Corp.

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

	Note	September 30, 2021	December 31, 2020
Assets			
Current assets			
Cash and cash equivalents		$ 2,986	$ 19,322
Trade and other receivables		26,918	18,246
Other current assets	5	4,851	5,928
		34,755	43,496
Non current assets			
Property and equipment	6	426,117	452,040
Other non current assets	5	-	89
		$ 460,872	$ 495,625
Liabilities			
Current liabilities			
Trade payables and other current liabilities		$ 20,549	$ 23,138
Current portion of long term debt	7	13,599	4,361
		34,148	27,499
Non current liabilities			
Long term debt	7	228,263	237,633
Deferred taxes		5,559	8,020
		267,970	273,152
Shareholders' equity			
Share capital	8	441,664	441,461
Contributed surplus		15,729	15,678
Retained earnings (deficit)		(290,380)	(260,333)
Accumulated other comprehensive income		23,962	23,996
Non controlling interest		1,927	1,671
		192,902	222,473
		$ 460,872	$ 495,625

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

Western Energy Services Corp.

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

	Note	Three months ended Sept 30 2021	Three months ended Sept 30 2020	Nine months ended Sept 30 2021	Nine months ended Sept 30 2020
Revenue		$ 32,960	$ 13,438	$ 90,315	$ 76,005
Expenses					
Operating		25,242	9,196	68,060	53,397
Administrative		2,709	1,972	8,158	7,940
Depreciation	6	10,475	11,811	31,761	36,954
Stock based compensation	9	39	84	219	319
Finance costs	11	5,851	4,430	14,944	13,582
Other items	12	(602)	(22)	(617)	(2,048)
Impairment of property and equipment		-	-	-	11,500
Loss before income taxes		(10,754)	(14,033)	(32,210)	(45,639)
Income tax recovery	13	357	3,547	2,419	11,781
Net loss		(10,397)	(10,486)	(29,791)	(33,858)
Other comprehensive income (loss) (1)					
Gain (loss) on translation of foreign operations		1,500	(1,446)	(54)	1,674
Unrealized foreign exchange gain (loss) on net investment in subsidiary		782	(651)	20	(575)
Comprehensive loss		$ (8,115)	$ (12,583)	$ (29,825)	$ (32,759)
Net income (loss) attributable to:					
Shareholders of the Company		$ (10,685)	$ (10,476)	$ (30,047)	$ (33,788)
Non controlling interest		288	(10)	256	(70)
Comprehensive income (loss) attributable to:					
Shareholders of the Company		$ (8,403)	$ (12,573)	$ (30,081)	$ (32,689)
Non controlling interest		288	(10)	256	(70)
Net loss per share:					
Basic		$ (0.11)	$ (0.12)	$ (0.33)	$ (0.37)
Diluted		(0.11)	(0.12)	(0.33)	(0.37)
Weighted average number of shares:					
Basic	10	91,399,672	91,040,679	91,262,459	91,283,205
Diluted	10	91,399,672	91,040,679	91,262,459	91,283,205

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

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

Western Energy Services Corp.

Condensed Consolidated Statements of Changes in Shareholders' Equity (unaudited)
(thousands of Canadian dollars)

	Share capital	Contributed surplus (1)	Retained earnings (deficit)	Accumulated other comprehensive income(2)	Non controlling interest	Total shareholders' equity
Balance at December 31, 2019	$ 441,794	$ 15,459	$ (219,074)	$ 27,157	$ 1,756	$ 267,092
Common shares:						
Issued on vesting of restricted share units	145	(145)	-	-	-	-
Purchased under normal course issuer bid	(478)	-	-	-	-	(478)
Stock based compensation	-	268	-	-	-	268
Distributions to non controlling interest	-	-	-	-	(43)	(43)
Comprehensive (loss) income	-	-	(33,788)	1,099	(70)	(32,759)
Balance at September 30, 2020	441,461	15,582	(252,862)	28,256	1,643	234,080
Stock based compensation	-	96	-	-	-	96
Comprehensive (loss) income	-	-	(7,471)	(4,260)	28	(11,703)
Balance at December 31, 2020	441,461	15,678	(260,333)	23,996	1,671	222,473
Common shares:						
Issued for cash on exercise of stock options	9	-	-	-	-	9
Issued on vesting of restricted share units	192	(192)	-	-	-	-
Fair value of exercised options	2	(2)	-	-	-	-
Stock based compensation	-	245	-	-	-	245
Comprehensive (loss) income	-	-	(30,047)	(34)	256	(29,825)
Balance at September 30, 2021	$ 441,664	$ 15,729	$ (290,380)	$ 23,962	$ 1,927	$ 192,902

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

(2) At September 30, 2021 the accumulated other comprehensive income balance consists of the translation of foreign operations and unrealized foreign exchange on the net investment in subsidiary.

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

Western Energy Services Corp.

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

		Three months ended Sept 30		Nine months ended Sept 30	
	Note	**2021**	**2020**	**2021**	**2020**
Operating activities					
Net loss		$ (10,397)	$ (10,486)	$ (29,791)	$ (33,858)
Adjustments for:					
Depreciation	6	10,475	11,811	31,761	36,954
Non cash stock based compensation	9	62	80	245	268
Finance costs	11	5,851	4,430	14,944	13,582
Impairment of property and equipment		-	-	-	11,500
Income tax recovery	13	(357)	(3,547)	(2,419)	(11,781)
Other		(594)	(37)	(616)	(319)
Income taxes paid		-	(32)	-	(32)
Change in non cash working capital		(7,564)	(3,779)	(5,729)	9,398
Cash flow (used in) from operating activities		(2,524)	(1,560)	8,395	25,712
Investing activities					
Additions to property and equipment	6	(1,331)	(150)	(4,759)	(983)
Proceeds on sale of property and equipment		553	75	965	505
Change in non cash working capital		(698)	(52)	(401)	(2,310)
Cash flow used in investing activities		(1,476)	(127)	(4,195)	(2,788)
Financing activities					
Share purchase under normal course issuer bid		-	-	-	(478)
Finance costs paid		(5,305)	(7,874)	(14,040)	(16,463)
Repayment of second lien debt	7	(538)	(538)	(1,613)	(1,613)
Repayment of lease obligations	7	(769)	(754)	(2,262)	(2,418)
Draw on (repayment of) credit facilities	7	8,393	11,000	(2,607)	(1,297)
Proceeds from US paycheck protection plan	7	-	2,314	-	2,314
Issuance costs of HSBC facility	7	-	-	(23)	-
Issue of common shares	8	-	-	9	-
Distributions to non controlling interest		-	(43)	-	(43)
Cash flow from (used in) financing activities		1,781	4,105	(20,536)	(19,998)
(Decrease) increase in cash and cash equivalents		(2,219)	2,418	(16,336)	2,926
Cash and cash equivalents, beginning of period		5,205	4,523	19,322	4,015
Cash and cash equivalents, end of period [1]		$ 2,986	$ 6,941	$ 2,986	$ 6,941

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

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

1. Reporting entity:

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the head office is 1700, 215 - 9th Avenue SW, Calgary, Alberta. Western is a publicly traded company listed on the Toronto Stock Exchange ("TSX") under the symbol "WRG". These condensed consolidated financial statements as at and for the three and nine months ended September 30, 2021 and 2020 (the "Financial Statements") are comprised of Western, its divisions and its wholly owned subsidiaries (together referred to as the "Company"). The Company is an oilfield service company providing contract drilling services through its division, Horizon Drilling ("Horizon") in Canada, and its wholly owned subsidiary, Stoneham Drilling Corporation ("Stoneham") in the United States. Western provides well servicing and oilfield rental equipment services in Canada through its wholly owned subsidiary Western Production Services Corp. ("Western Production Services"). Western Production Services' division, Eagle Well Servicing ("Eagle") provides well servicing, while Aero Rental Services ("Aero") provides oilfield rental equipment services. Financial and operating results for Horizon and Stoneham are included in the contract drilling segment, while financial and operating results for Eagle and Aero are included in the production services segment.

2. Basis of preparation and significant accounting policies:

Statement of compliance:

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

These Financial Statements were approved for issuance by Western's Board of Directors on October 25, 2021.

Functional and presentation currency:

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

Critical accounting estimates and recent developments:

The preparation of these Financial Statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

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

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

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

Canada Emergency Wage Subsidy ("CEWS"):

For the three and nine months ended September 30, 2021, the Company has recorded $1.9 million and $8.5 million respectively, (three and nine months ended September 30, 2020: $2.9 million and $4.6 million) related to the CEWS from the Government of Canada. The CEWS relates to operating and administrative expenses in the period and have been recognized as a reduction of these expenses as follows:

	Three months ended Sept 30		Nine months ended Sept 30	
	2021	2020	2021	2020
Operating	$ 1,687	$ 2,397	$ 7,472	$ 3,408
Administrative	224	541	1,018	1,146
Total CEWS	$ 1,911	$ 2,938	$ 8,490	$ 4,554

Canada Emergency Rent Subsidy ("CERS"):

For the three and nine months ended September 30, 2021, the Company has recorded $0.2 million and $0.8 million respectively, (three and nine months ended September 30, 2020: nil) related to the CERS from the Government of Canada. The CERS relates to eligible expenses such as rent and operating costs for the Company's leased properties, some of which had been capitalized as assets under IFRS 16, Leases. The Company has recognized a reduction of operating expenses and a reduction of depreciation expense related to IFRS 16 related assets as follows:

	Three months ended Sept 30		Nine months ended Sept 30	
	2021	2020	2021	2020
Operating	$ 85	$ -	$ 409	$ -
Depreciation	65	-	366	-
Total CERS	$ 150	$ -	$ 775	$ -

3. Seasonality:

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

4. Operating segments:

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

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

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

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

4. Operating segments (continued):

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

Three months ended September 30, 2021	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 19,460	$ 13,671	$ -	$ (171)	$ 32,960
Operating earnings (loss)	(5,434)	877	(909)	-	(5,466)
Finance costs	-	-	5,851	-	5,851
Depreciation	7,701	2,438	336	-	10,475
Additions to property and equipment	1,080	251	-	-	1,331

Three months ended September 30, 2020	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 5,416	$ 8,087	$ -	$ (65)	$ 13,438
Operating loss	(8,363)	(164)	(1,014)	-	(9,541)
Finance costs	-	-	4,430	-	4,430
Depreciation	8,458	2,866	487	-	11,811
Additions to property and equipment	62	79	9	-	150

Nine months ended September 30, 2021	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 51,699	$ 39,108	$ -	$ (492)	$ 90,315
Operating earnings (loss)	(15,927)	1,650	(3,387)	-	(17,664)
Finance costs	-	-	14,944	-	14,944
Depreciation	23,180	7,431	1,150	-	31,761
Additions to property and equipment	3,530	1,228	1	-	4,759

Nine months ended September 30, 2020	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 46,726	$ 29,523	$ -	$ (244)	$ 76,005
Operating loss	(16,052)	(2,679)	(3,555)	-	(22,286)
Finance costs	-	-	13,582	-	13,582
Impairment of property and equipment	9,500	2,000	-	-	11,500
Depreciation	26,729	8,751	1,474	-	36,954
Additions to property and equipment	582	366	35	-	983

Total assets and liabilities by operating segment are as follows:

As at September 30, 2021	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 358,504	$ 96,237	$ 6,131	$ 460,872
Total liabilities	51,649	19,849	196,472	267,970

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

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

4. Operating segments (continued):

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

Three months ended September 30, 2021	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ (5,434)	$ 877	$ (909)	$ (5,466)
Add (deduct):				
Stock based compensation	(4)	1	(36)	(39)
Finance costs	-	-	(5,851)	(5,851)
Other items	-	-	602	602
(Loss) income before income taxes	$ (5,438)	$ 878	$ (6,194)	$ (10,754)

Three months ended September 30, 2020	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (8,363)	$ (164)	$ (1,014)	$ (9,541)
Add (deduct):				
Stock based compensation	(13)	(18)	(53)	(84)
Finance costs	-	-	(4,430)	(4,430)
Other items	-	-	22	22
Loss before income taxes	$ (8,376)	$ (182)	$ (5,475)	$ (14,033)

Nine months ended September 30, 2021	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ (15,927)	$ 1,650	$ (3,387)	$ (17,664)
Add (deduct):				
Stock based compensation	(62)	(40)	(117)	(219)
Finance costs	-	-	(14,944)	(14,944)
Other items	-	-	617	617
(Loss) income before income taxes	$ (15,989)	$ 1,610	$ (17,831)	$ (32,210)

Nine months ended September 30, 2020	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (16,052)	$ (2,679)	$ (3,555)	$ (22,286)
Add (deduct):				
Stock based compensation	(73)	(73)	(173)	(319)
Finance costs	-	-	(13,582)	(13,582)
Other items	-	-	2,048	2,048
Impairment of property and equipment	(9,500)	(2,000)	-	(11,500)
Loss before income taxes	$ (25,625)	$ (4,752)	$ (15,262)	$ (45,639)

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

4. Operating segments (continued):

Segmented information by geographic area is as follows:

As at September 30, 2021	Canada	United States	Total
Property and equipment	$ 336,001	$ 90,116	$ 426,117
Total assets	365,903	94,969	460,872

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

	Canada	United States	Total
Revenue - three months ended September 30, 2021	$ 30,812	$ 2,148	$ 32,960
Revenue - three months ended September 30, 2020	12,507	931	13,438
Revenue - nine months ended September 30, 2021	84,366	5,949	90,315
Revenue - nine months ended September 30, 2020	63,068	12,937	76,005

Revenue from contracts:

For the three months ended September 30, 2021, the Company's revenue from long term and short term contracts in the contract drilling segment totaled nil and $19.5 million respectively (for the three months ended September 30, 2020: $1.4 million and $4.0 million respectively). For the nine months ended September 30, 2021, the Company's revenue from long and short term contracts in the drilling segment totaled $2.5 million and $49.2 million respectively (for the nine months ended September 30, 2020: $14.7 million and $32.0 million respectively).

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

Significant customers:

For the three and nine months ended September 30, 2021, the Company had no significant customers comprising 10.0% or more of the Company's total revenue.

For the three months ended September 30, 2020, the Company had two customers comprising 12.5% and 11.3% respectively, of the Company's total revenue. For the nine months ended September 30, 2020 the Company had one customer comprising 12.7% of the Company's total revenue.

5. Other assets:

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

	September 30, 2021	December 31, 2020
Current:		
Prepaid expenses	$ 942	$ 2,327
Inventory	3,350	3,069
Deposits	409	355
Deferred charges	150	177
Total current portion of other assets	4,851	5,928
Non current:		
Deferred charges	-	89
Total non current portion of other assets	-	89
Total other assets	$ 4,851	$ 6,017

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

6. Property and equipment:

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

	Land	Buildings	Contract drilling equipment	Production services equipment	Office and shop equipment	Finance lease assets	Total
Cost:							
Balance at December 31, 2020	$ 5,089	$ 4,396	$ 798,687	$ 204,320	$ 13,085	$ 13,621	$ 1,039,198
Additions to property and equipment	-	-	3,522	1,087	150	-	4,759
Lease additions	-	-	-	-	-	1,789	1,789
Disposals	-	-	(283)	(1,616)	(409)	(2,330)	(4,638)
Foreign exchange adjustment	-	-	126	12	(6)	(10)	122
Balance at September 30, 2021	$ 5,089	$ 4,396	$ 802,052	$ 203,803	$ 12,820	$ 13,070	$ 1,041,230
Accumulated depreciation:							
Balance at December 31, 2020	$ -	$ 2,836	$ 448,556	$ 117,600	$ 11,372	$ 6,794	$ 587,158
Depreciation[1]	-	101	22,914	7,017	570	1,569	32,171
Disposals	-	-	(283)	(1,396)	(409)	(2,287)	(4,375)
Foreign exchange adjustment	-	-	158	11	(6)	(4)	159
Balance at September 30, 2021	$ -	$ 2,937	$ 471,345	$ 123,232	$ 11,527	$ 6,072	$ 615,113
Carrying amounts:							
At December 31, 2020	$ 5,089	$ 1,560	$ 350,131	$ 86,720	$ 1,713	$ 6,827	$ 452,040
At September 30, 2021	$ 5,089	$ 1,459	$ 330,707	$ 80,571	$ 1,293	$ 6,998	$ 426,117

(1) Excludes a credit to depreciation expense of $0.4 million associated with the CERS as described in Note 2.

Impairment:

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

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

7. Long term debt:

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

	September 30, 2021	December 31, 2020
Current:		
Second Lien Facility	$ 2,150	$ 2,150
HSBC Facility	937	-
Lease obligations (1)	2,499	2,843
Revolving Facility	8,000	-
Operating Facility	393	-
PPP Loan	535	227
Less: unamortized issue costs	(915)	(859)
Total current portion of long term debt	13,599	4,361
Non current:		
Second Lien Facility	209,649	207,475
HSBC Facility	11,563	12,500
Revolving Facility	-	11,000
PPP Loan	1,695	2,001
Lease obligations (1)	5,837	5,858
Less: unamortized issue costs	(481)	(1,201)
Total non current portion of long term debt	228,263	237,633
Total long term debt	$ 241,862	$ 241,994

(1) During the three and nine months ended September 30, 2021, the Company expensed $0.1 million and $0.2 million respectively, (three and nine months ended September 30, 2020: less than $0.1 million) related to leases of low value assets or leases with a term of less than one year.

Credit Facilities:

At September 30, 2021, the Company's credit facilities consisted of a $50.0 million syndicated revolving credit facility (the "Revolving Facility") and a $10.0 million committed operating facility (the "Operating Facility" and together the "Credit Facilities") which mature on July 1, 2022.

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

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

As at September 30, 2021, the Company was in compliance with its borrowing base requirement.

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.

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

7. Long term debt (continued):

In conjunction with the Credit Facility extension announced on December 31, 2020, Western and its lenders made 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 Company's Credit Facilities are subject to the following financial covenants:

	Covenant	September 30, 2021
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio (1)(2)	3.0:1.0 or less	Waived
Maximum Consolidated Debt to Consolidated Capitalization Ratio (3)(4)	0.65:1.0 or less	0.54:1.0
Maximum Consolidated Senior Debt to Consolidated Capitalization Ratio (1)(4)	0.10:1.0 or less	0.01:1.0
Minimum Current Ratio (5)	1.15:1.0 or more	1.78:1.0
Minimum Liquidity (6)	$5.0 million or more	$54.6 million

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

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

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

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

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

(6) Liquidity in the Credit Facilities is defined as the total capacity of the Credit Facilities less the outstanding balance on the Credit Facilities plus cash.

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

Second Lien Facility:

At September 30, 2021, the Company had $211.8 million outstanding on the second lien secured term loan facility (the "Second Lien Facility"). Interest is payable semi-annually, at a rate of 7.25% per annum, on January 1 and July 1 each year or the next applicable business day. Amortization payments equal to 1% of the initial principal amount of $215.0 million are payable annually, in quarterly installments, with the balance due on January 31, 2023. On July 2, 2021 the Company made a payment in kind ("PIK") of $3.8 million related to its semi-annual interest payment on its Second Lien Facility. The PIK was added to the principal amount of the Company's Second Lien Facility.

HSBC Facility:

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

US Paycheck Protection Program ("PPP"):

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

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

8. Share capital:

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

	Issued and outstanding shares		Amount
Balance at December 31, 2020	91,165,112	$	441,461
Issued on vesting of restricted share units	478,573		192
Issued for cash on exercise of stock options	36,497		9
Fair value of exercised stock options	-		2
Balance at September 30, 2021	91,680,182	$	441,664

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

9. Stock based compensation:

Stock options:

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

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

	Stock options outstanding		Weighted average exercise price
Balance at December 31, 2020	7,464,687	$	0.82
Granted	43,620		0.47
Exercised	(36,497)		0.24
Forfeited	(685,329)		0.80
Expired	(658,833)		3.30
Balance at September 30, 2021	6,127,648	$	0.56

For the three and nine months ended September 30, 2021 and 2020, no stock options were cancelled. The average fair value of the stock options granted for the three and nine months ended September 30, 2021 was $0.18 per stock option (for the three and nine months ended September 30, 2020: $0.10 per stock option). As at September 30, 2021, Western had 4,102,769 (December 31, 2020: 3,302,108) exercisable stock options outstanding at a weighted average exercise price equal to $0.71 (December 31, 2020: $1.42) per stock option.

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.

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

9. Stock based compensation (continued):

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

	Equity settled	Cash settled	Total
Balance at December 31, 2020	1,244,159	263,682	1,507,841
Granted	11,140	-	11,140
Vested	(478,572)	(135,011)	(613,583)
Forfeited	(143,803)	(61,753)	(205,556)
Balance at September 30, 2021	632,924	66,918	699,842

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2021	2020	2021	2020
Stock options	$ 39	$ 50	$ 132	$ 163
Restricted share units – equity settled grants	23	30	113	105
Total equity settled stock based compensation expense	62	80	245	268
Restricted share units – cash settled grants	(23)	4	(26)	51
Total stock based compensation expense	$ 39	$ 84	$ 219	$ 319

10. Earnings per share:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2021	2020	2021	2020
Issued common shares, beginning of period	91,201,609	90,918,814	91,165,112	92,501,314
Weighted average number of common shares issued (repurchased)	198,063	121,865	97,347	(1,218,109)
Weighted average number of common shares (basic)	91,399,672	91,040,679	91,262,459	91,283,205
Dilutive effect of equity securities	-	-	-	-
Weighted average number of common shares (diluted)	91,399,672	91,040,679	91,262,459	91,283,205

For the three and nine months ended September 30, 2021, 6,127,648 stock options (three and nine months ended September 30, 2020: 7,761,585 stock options), 632,924 equity settled RSUs (three and nine months ended September 30, 2020: 1,266,203 equity settled RSUs) and nil warrants (for the three and nine months ended September 30, 2020: 7,099,546 warrants) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

11. Finance costs:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2021	2020	2021	2020
Interest expense on long term debt	$ 5,575	$ 4,107	$ 14,124	$ 12,620
Amortization of debt financing fees	50	105	146	315
Accretion expense on Second Lien Facility	216	218	643	650
Accretion expense on HSBC Facility	15	-	46	-
Interest income	(5)	-	(15)	(3)
Total finance costs	$ 5,851	$ 4,430	$ 14,944	$ 13,582

The Company had an effective interest rate on its borrowings of 9.2% and 8.0% for the three and nine months ended September 30, 2021 respectively (three and nine months ended September 30, 2020: 7.9% and 7.8%).

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

12. Other items:

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

	Three months ended Sept 30 2021	Three months ended Sept 30 2020	Nine months ended Sept 30 2021	Nine months ended Sept 30 2020
Gain on sale of fixed assets	$ (528)	$ (41)	$ (594)	$ (275)
Realized foreign exchange (gain) loss	(9)	15	13	(1,729)
Unrealized foreign exchange (gain) loss	(65)	4	(36)	(44)
Total other items	$ (602)	$ (22)	$ (617)	$ (2,048)

13. Income taxes:

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

	Three months ended Sept 30 2021	Three months ended Sept 30 2020	Nine months ended Sept 30 2021	Nine months ended Sept 30 2020
Current tax expense	$ -	$ 31	$ 13	$ 31
Deferred tax recovery	(357)	(3,578)	(2,432)	(11,812)
Total income tax recovery	$ (357)	$ (3,547)	$ (2,419)	$ (11,781)

During the three and nine months ended September 30, 2021, the Company did not recognize a deferred tax asset of $2.3 million and $5.4 million respectively, related to unrecognized loss carry forwards. Loss carry forwards are only recognized as deferred tax assets when it is probable that taxable profits will be available against which the deductible balance can be utilized. As at September 30, 2021, the Company has loss carry forwards in Canada equal to approximately $265.1 million, of which $22.5 million are unrecognized, which will expire between 2035 and 2041. In the United States, the Company has approximately US$50.2 million loss carry forwards, some of which expire between 2028 and 2037, and others that have an indefinite expiry.

14. Costs by nature:

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

	Three months ended Sept 30 2021	Three months ended Sept 30 2020	Nine months ended Sept 30 2021	Nine months ended Sept 30 2020
Employee salaries and benefits (1)	$ 15,530	$ 6,069	$ 41,828	$ 38,489
Repairs and maintenance	3,242	1,098	9,461	5,206
Third party charges	1,648	641	3,911	4,309

(1) For the three and nine months ended September 30, 2021, employee salaries and benefits includes CEWS of $1.9 million and $8.5 million repectively (for the three and nine months ended September 30, 2020: $2.9 million and $4.6 million respectively), as described in Note 2.

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

15. Capital management:

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

	Note	September 30, 2021	December 31, 2020
Second Lien Facility	7	$ 211,799	$ 209,625
HSBC Facility	7	12,500	12,500
Revolving Facility	7	8,000	11,000
Operating Facility	7	393	-
PPP Loan	7	2,230	2,228
Finance lease obligations	7	8,336	8,701
Total debt		243,258	244,054
Shareholders' equity		192,902	222,473
Less: cash and cash equivalents		(2,986)	(19,322)
Total capitalization		$ 433,174	$ 447,205

16. Financial risk management:

Credit risk:

Credit risk arises from cash and cash equivalents held with banks and financial institutions, as well as credit exposure to customers in the form of outstanding trade and other receivables. The maximum exposure to credit risk is equal to the carrying amount of the financial assets which reflects management's assessment of the credit risk.

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

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

In accordance with IFRS 9, Financial Instruments, the Company evaluates the recoverability of its trade and other receivables at each reporting period and its allowance for expected future credit losses. The Company records an allowance for doubtful accounts if an account is determined to be uncollectible. The allowance for doubtful accounts could materially change as a result of fluctuations in the financial position of the Company's customers.

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

Liquidity risk:

Liquidity risk is the exposure of the Company to the risk of not being able to meet its financial obligations as they become due. The Company manages liquidity risk through management of its capital structure, monitoring and reviewing actual and forecasted cash flows and the effect on bank covenants, and maintaining unused credit facilities where possible to ensure there are available cash resources to meet the Company's liquidity needs. The Company's cash and cash equivalents, cash flow from operating activities, existing Credit Facilities, and the Second Lien Facility are expected to be greater than anticipated capital expenditures and the contractual maturities of the Company's financial liabilities. This expectation could be adversely affected by the volatility in global demand of crude oil as a result of the ongoing COVID-19 pandemic.

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

17. Commitments:

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

	2021	2022	2023	2024	2025	Thereafter	Total
Second Lien Facility	$ 538	$ 2,150	$ 209,111	$ -	$ -	$ -	$ 211,799
Second Lien Facility interest	-	15,381	7,611	-	-	-	22,992
Trade payables and other current liabilities (1)	16,645	-	-	-	-	-	16,645
HSBC Facility	-	1,250	1,250	1,250	1,250	7,500	12,500
Lease obligations (2)	836	2,955	2,736	2,265	635	357	9,784
Revolving Facility	-	8,000	-	-	-	-	8,000
Operating commitments (3)	2,769	802	688	688	57	-	5,004
HSBC Facility interest	274	769	688	610	527	447	3,315
PPP Loan	101	607	607	607	364	-	2,286
Operating Facility	-	393	-	-	-	-	393
Total	$ 21,163	$ 32,307	$ 222,691	$ 5,420	$ 2,833	$ 8,304	$ 292,718

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

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

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