Western ENERGY SERVICES CORP.

Q4 2023

2023 Management's Discussion and Analysis

Date: February 28, 2024

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, 2023 and 2022. This management's discussion and analysis ("MD&A") is dated February 28, 2024. All amounts are denominated in Canadian dollars (CDN$) unless otherwise identified.

Financial Highlights	**Three months ended December 31**			**Year ended December 31**			
(stated in thousands, except share and per share	**2023**	**2022**	**Change**	**2023**	**2022**	**Change**	**2021**
Revenue	56,255	60,792	(7%)	233,451	200,344	17%	131,678
Adjusted EBITDA[1]	13,370	12,233	9%	47,739	39,921	20%	23,047
Adjusted EBITDA as a percentage of revenue[1]	24%	20%	20%	20%	20%	-	18%
Cash flow from operating activities	6,268	6,502	(4%)	51,353	28,541	80%	16,631
Additions to property and equipment	3,404	7,708	(56%)	22,622	34,228	(34%)	6,866
Net income (loss)	(2,194)	(3,095)	(29%)	(6,885)	29,320	(123%)	(35,812)
-basic and diluted net income (loss) per share	(0.06)	(0.09)	(33%)	(0.20)	1.24	(116%)	(5.36)
Weighted average number of shares							
-basic	33,843,009	33,841,318	-	33,841,864	23,581,155	44%	6,677,829
-diluted	33,843,009	33,841,318	-	33,841,864	23,581,735	44%	6,677,829
Outstanding common shares as at period end	33,843,009	33,841,318	-	33,843,009	33,841,318	-	764,220
Operating Highlights[2]							
Contract Drilling							
Canadian Operations							
Average active rig count	9.1	10.1	(10%)	9.8	8.9	10%	8.6
Operating Days	833	928	(10%)	3,575	3,241	10%	3,124
Revenue per Operating Day[1]	35,211	33,923	4%	33,328	29,698	12%	21,931
Drilling rig utilization	27%	28%	(4%)	29%	24%	21%	18%
CAOEC industry average utilization[3]	36%	40%	(10%)	36%	35%	3%	25%
Average meters drilled per well	6,320	7,412	(15%)	6,757	6,406	5%	5,592
Average Operating Days per well	11.2	14.8	(24%)	12.3	12.8	(4%)	11.8
United States Operations							
Average active rig count	2.5	3.2	(22%)	2.9	2.7	7%	1.1
Operating Days	229	293	(22%)	1,072	976	10%	387
Revenue per Operating Day (US$)[1]	26,530	29,439	(10%)	30,861	25,927	19%	16,615
Drilling rig utilization	36%	40%	(10%)	38%	33%	15%	13%
Average meters drilled per well	5,195	3,001	73%	3,759	3,450	9%	3,305
Average Operating Days per well	17.0	13.7	24%	13.7	11.7	17%	14.8
Production Services							
Average active rig count	24.1	23.7	2%	22.2	25.8	(14%)	25.9
Service Hours	15,712	15,443	2%	57,792	67,077	(14%)	67,323
Revenue per Service Hour[1]	1,017	991	3%	1,027	943	9%	735
Service rig utilization	37%	38%	(3%)	34%	41%	(17%)	41%

(1) See "Non-IFRS Measures and Ratios" on page 17 of this MD&A.

(2) See "Defined Terms" on page 18 of this MD&A.

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

Financial Position at (stated in thousands)	December 31, 2023	December 31, 2022	December 31, 2021
Working capital (1)	20,125	21,923	2,224
Total assets	442,933	475,708	456,003
Long term debt - non current portion	111,174	126,527	226,884

(1) See "Non-IFRS Measures and Ratios" on page 17 of this MD&A.

Non-International Financial Reporting Standards ("Non-IFRS") measures and ratios, such as Adjusted EBITDA (as defined in this MD&A), Adjusted EBITDA as a percentage of revenue, revenue per Operating Day, revenue per Service Hour and Working Capital are defined on page 17 of this MD&A. Other defined terms and abbreviations and definitions for standard industry terms are included on page 18 of this MD&A.

Business Overview

Western is an energy services company that provides contract drilling services in Canada and in the United States ("US") and production services in Canada through its various divisions, its subsidiary, and its first nations relationships.

Contract Drilling

Western markets a fleet of 41 drilling rigs specifically suited for drilling complex horizontal wells across Canada and the US. Western is currently the fourth largest drilling contractor in Canada, based on the Canadian Association of Energy Contractors ("CAOEC") registered drilling rigs[1].

Western's marketed and owned contract drilling rig fleets are comprised of the following:

	As at December 31					
	2023			2022		
Rig class (1)	**Canada**	**US**	**Total**	**Canada**	**US**	**Total**
Cardium	11	-	11	11	1	12
Montney	18	1	19	18	1	19
Duvernay	5	6	11	7	6	13
Total marketed drilling rigs (2)	**34**	**7**	**41**	**36**	**8**	**44**
Total owned drilling rigs	**48**	**7**	**55**	**48**	**8**	**56**

(1) See "Contract Drilling Rig Classifications" on page 18 of this MD&A.

(2) Source: CAOEC Contractor Summary as at February 28, 2024.

Production Services

Production services provides well servicing and oilfield equipment rentals in Canada. Western operates 65 well servicing rigs and is the second largest well servicing company in Canada based on CAOEC registered well servicing rigs[2].

Western's well servicing rig fleet is comprised of the following:

Owned well servicing rigs	As at December 31	
Mast type	**2023**	**2022**
Single	30	30
Double	27	27
Slant	8	8
Total owned well servicing rigs	**65**	**65**

[1] Source: CAOEC Drilling Contractor Summary as at February 28, 2024.

[2] Source: CAOEC Well Servicing Fleet List as at February 28, 2024.

Business Environment

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, 2023 and 2022, and for the years ended December 31, 2023 and 2022.

	Three months ended December 31			Year ended December 31		
	2023	2022	Change	2023	2022	Change
Average crude oil and natural gas prices(1)(2)						
Crude Oil						
West Texas Intermediate (US$/bbl)	78.32	82.64	(5%)	77.63	94.23	(18%)
Western Canadian Select (CDN$/bbl)	76.86	77.39	(1%)	79.53	98.51	(19%)
Natural Gas						
30 day Spot AECO (CDN$/mcf)	2.39	5.43	(56%)	2.74	5.63	(51%)
Average foreign exchange rates(2)						
US dollar to Canadian dollar	1.36	1.36	-	1.35	1.30	4%

(1) See "Abbreviations" on page 18 of this MD&A.

(2) Source: Sproule December 31, 2023, Price Forecast, Historical Prices.

West Texas Intermediate ("WTI") on average decreased by 5% and 18% respectively, for the three months and year ended December 31, 2023, compared to the same periods in the prior year. Pricing on Western Canadian Select ("WCS") crude oil decreased by 1% and 19% respectively, for the three months and year ended December 31, 2023. In 2023, crude oil prices decreased due to global economic concerns including weakening demand for crude oil, the fear of a North American recession and continued high interest rates implemented to manage inflationary factors. Natural gas prices in Canada also declined in 2023 due to lower demand, as well as weather related factors including warmer winter seasons in both North America and Europe, as the 30-day spot AECO price decreased by 56% and 51% respectively, for the three months and year ended December 31, 2023, compared to the same periods of the prior year. Additionally, the US dollar to the Canadian dollar foreign exchange rate for the three months ended December 31, 2023 was consistent with the same period in the prior year, while for the year ended December 31, 2023, the US dollar strengthened by 4% compared to the prior year.

In both the US and Canada, lower commodity prices reduced industry activity in 2023. As reported by Baker Hughes Company[3], the number of active drilling rigs in the US decreased by approximately 20% to 622 rigs as at December 31, 2023, as compared to 779 rigs at December 31, 2022. In Canada, there were 104 active rigs in the Western Canadian Sedimentary Basin ("WCSB") at December 31, 2023, compared to 121 active rigs as at December 31, 2022, representing a decrease of approximately 14%. The CAOEC[4] reported that for drilling in Canada, the total number of Operating Days in the WCSB for the three months ended December 31, 2023, were 9% lower than the same period in the prior year. Similarly, for the year ended December 31, 2023, the total number of Operating Days in the WCSB in Canada were 2% lower than the prior year.

Overall Performance and Results of Operations

Operational results for the three months ended December 31, 2023, include:

- Fourth quarter revenue decreased by $4.5 million or 7%, to $56.3 million in 2023, as compared to $60.8 million in the fourth quarter of 2022. Contract drilling revenue totalled $37.7 million in the fourth quarter of 2023, which was $5.5 million or 13%, lower than $43.2 million in the fourth quarter of 2022. Production services revenue was $18.6 million for the three months ended December 31, 2023, an increase of $0.8 million or 5%, as compared to $17.8 million in the same period of the prior year. In the fourth quarter of 2023, revenue was negatively impacted by lower activity in contract drilling in Canada and the US due to lower commodity prices, compared to the fourth quarter of 2022 as described below:
  - In Canada, Operating Days of 833 days in the fourth quarter of 2023 were 95 days (or 10%) lower compared to 928 days in the fourth quarter of 2022. This compares to a 9% decrease in CAOEC industry Operating Days in the fourth quarter of 2023, compared to the fourth quarter of 2022. Drilling rig utilization in Canada was 27% in the fourth quarter of 2023, compared to 28% in the same period of the prior year mainly due to customers reducing their capital budgets or deferring their programs into 2024, as a result of lower commodity prices in the fourth quarter.

[3] Source: Baker Hughes Company, 2023 Rig Count monthly press releases.

[4] Source: CAOEC, monthly Contractor Summary.

The CAOEC industry average utilization of 36%[5] for the fourth quarter of 2023 represented a decrease of four percentage points compared to the CAOEC industry average utilization of 40% in the fourth quarter of 2022. Revenue per Operating Day averaged $35,211 in the fourth quarter of 2023, an increase of 4% compared to the same period of the prior year, mainly due to higher pricing, which was offset partially by lower third party charges, such as fuel, as more customers are paying for fuel directly instead of passing fuel charges through Western;

- In the US, drilling rig utilization averaged 36% in the fourth quarter of 2023, compared to 40% in the fourth quarter of 2022, with Operating Days decreasing from 293 days in the fourth quarter of 2022 to 229 days in the fourth quarter of 2023 due to lower industry activity. Average active industry rigs of 622[6] in the fourth quarter of 2023 were 20% lower compared to the fourth quarter of 2022. Revenue per Operating Day for the fourth quarter of 2023 averaged US$26,530, a 10% decrease compared to US$29,439 in the same period of the prior year, mainly due to changes in rig mix as activity was lower for the Company's higher specification rigs which have higher day rates; and
- In Canada, service rig utilization of 37% in the fourth quarter of 2023 was lower than 38% in the same period of the prior year as industry activity decreased. Revenue per Service Hour averaged $1,017 in the fourth quarter of 2023 and was 3% higher than the fourth quarter of 2022, due to improved pricing and inflationary pressures on operating costs, including higher wages that are passed through to the customer.

- The Company incurred a net loss of $2.2 million in the fourth quarter of 2023 ($0.06 net loss per basic common share) as compared to a net loss of $3.1 million in the same period in 2022 ($0.09 net loss per basic common share). The change can mainly be attributed to a $1.2 million increase in Adjusted EBITDA, a $0.3 million decrease in income tax expense, a $0.3 million decrease in stock based compensation expense, and a $0.3 million decrease in finance costs due to a lower total debt balance, which were partially offset by a $0.9 million increase in depreciation expense due to property and equipment additions and a $0.2 million increase in other items. Administrative expenses in the fourth quarter of 2023 were consistent with the fourth quarter of 2022.
- Adjusted EBITDA of $13.4 million in the fourth quarter of 2023 was $1.2 million, or 9%, higher compared to $12.2 million in the fourth quarter of 2022. Adjusted EBITDA in 2023 was higher due to higher industry activity and pricing in production services, higher pricing in the contract drilling segment in the fourth quarter of 2023, as well as lower repairs and maintenance costs, which were offset partially by lower contract drilling activity in the US and Canada, as well as inflationary cost increases.
- Fourth quarter additions to property and equipment of $3.4 million in 2023 compared to $7.7 million in the fourth quarter of 2022, consisting of $0.6 million of expansion capital related to rig upgrades and $2.8 million of maintenance capital. The decrease can mainly be attributable to the Company substantially completing its rig upgrade program in 2022.
- On December 22, 2023, the Company made a $7.0 million voluntary prepayment on its second lien term loan facility with Alberta Investment Management Corporation (the "Second Lien Facility").

Operational results for the year ended December 31, 2023, include:

- During the year ended December 31, 2023, the Company reduced its total debt by $17.0 million (or 13%), primarily through a $7.0 million voluntary repayment on its Second Lien Facility, a $4.1 million voluntary repayment on its HSBC Bank Canada six-year committed term non-revolving facility with the participation of Business Development Canada (the "HSBC Facility") and repayments of its Credit Facilities (as defined in this MD&A).
- Western's drilling rig upgrade program, which was initiated in 2022, has been a success and has generated a substantial portion of revenue for the year ended December 31, 2023. The upgraded rigs have generated higher day rates which contributed to increased revenue for the year ended December 31, 2023.
- Revenue for the year ended December 31, 2023, increased by $33.2 million or 17%, to $233.5 million as compared to $200.3 million for the year ended December 31, 2022. Contract drilling revenue totalled $164.6 million for the year ended December 31, 2023, an increase of $35.1 million or 27%, compared to $129.5 million in the same period of the prior year. Production services revenue was $69.2 million for the year ended December 31, 2023, a decrease of $2.1 million or 3%, as compared to $71.3 million in the same period of the prior year. In 2023, revenue was positively impacted by improved pricing in all divisions, rig upgrades, as well as higher activity in contract drilling, partially offset by lower activity in production services, compared to 2022 as described below:
  - In Canada, Operating Days of 3,575 for the year ended December 31, 2023, were 334 days (or 10%) higher, compared to 3,241 days for the year ended December 31, 2022, resulting in drilling rig utilization of 29% for the year ended

[5] Source: CAOEC, monthly Contractor Summary.

[6] Source: Baker Hughes Company, North America Rotary Rig Count.

December 31, 2023, compared to 24% for the year ended December 31, 2022. This compares to a 2% decrease in CAOEC Operating Days for the year ended December 31, 2023, compared to the year ended December 31, 2022. The CAOEC industry average utilization of 36%[7] for the year ended December 31, 2023, represented an increase of one percentage point compared to the CAOEC industry average utilization of 35% for the year ended December 31, 2022. Revenue per Operating Day averaged $33,328 for the year ended December 31, 2023, an increase of 12% compared to the prior year, mainly due to rig upgrades, market driven increased pricing, and inflationary pressures on operating costs, including higher wages that are passed through to the customer;

  - In the US, drilling rig utilization averaged 38% for the year ended December 31, 2023, compared to 33% in the prior year, with Operating Days improving by 96 days from 976 days in 2022 to 1,072 days in 2023. Average active industry rigs of 687[8] in 2023 were 5% lower than the average for the year ended December 31, 2022 as US industry activity weakened in 2023. Revenue per Operating Day for the year ended December 31, 2023 averaged US$30,861, a 19% increase compared to US$25,927 for the year ended December 31, 2022, mainly due to improved spot market pricing in the Williston Basin; and
  - In Canada, service rig utilization of 34% for the year ended December 31, 2023 was lower than 41% in prior year as industry activity decreased, mainly due to the completion of the funding for the Federal site rehabilitation program, several customers waiting on the restoration of power in areas impacted by wildfires and lower commodity prices. Revenue per Service Hour averaged $1,027 for the year ended December 31, 2023 and was 9% higher than the prior year, due to improved pricing and inflationary pressures on operating costs, including higher wages that are passed through to the customer.

- Administrative expenses increased by $2.4 million or 17%, to $16.3 million for the year ended December 31, 2023, as compared to $13.9 million in the prior year, due to higher employee related costs along with inflationary costs and higher professional fees.
- The Company generated a net loss of $6.9 million for the year ended December 31, 2023 ($0.20 net loss per basic common share) as compared to net income of $29.3 million in the prior year ($1.24 net income per basic common share). The change can mainly be attributed to the $49.4 million gain on debt forgiveness in 2022 (see *"Segmented Information – Corporate"*), a $7.8 million increase in Adjusted EBITDA, a $4.3 million decrease in income tax expense, a $3.0 million decrease in finance costs due to the lower total debt balance and a $0.9 million decrease in other items, offset partially by a $0.8 million increase in stock based compensation expense and a $2.1 million increase in depreciation expense due to property and equipment additions.
- Adjusted EBITDA of $47.7 million for the year ended December 31, 2023 was $7.8 million, or 20%, higher compared to $39.9 million in the prior year. Adjusted EBITDA was higher due to improved contract drilling activity in Canada and the US in the first half of 2023, higher pricing across all divisions, and US$0.6 million of shortfall commitment revenue, which was offset partially by lower activity in the third and fourth quarters of 2023, one-time costs of $0.5 million related to reactivating certain drilling rigs, inflationary cost increases and $1.8 million lower government subsidies received in 2023 compared to 2022.
- Year to date 2023 additions to property and equipment of $22.6 million compared to $34.2 million in the prior year, consisting of $7.4 million of expansion capital and $15.2 million of maintenance capital. The decrease year over year can mainly be attributable to the Company substantially completing its rig upgrade program in 2022.

[7] Source: CAOEC, monthly Contractor Summary.

[8] Source: Baker Hughes Company, North America Rotary Rig Count.

Outlook

In 2023, crude oil prices were impacted in the short term by the fear of a North American recession, concerns surrounding demand from a weak global economy, continued uncertainty concerning the ongoing war in Ukraine and by the Israel-Palestine conflict in the Middle East. Events such as these contribute to the volatility of commodity prices and the precise duration and extent of the adverse impacts of the current macroeconomic environment on Western's customers, operations, business and global economic activity, remains uncertain at this time. Additionally, the threatened shutdown and relocation of a portion of the Enbridge Line 5 pipeline, the delays and construction challenges on the Trans Mountain pipeline expansion, and the recent challenge of the Blueberry River First Nations agreement in British Columbia by the Treaty 8 nations have contributed to continued uncertainty regarding takeaway capacity and resource development. However, despite the recent technical issues with the Trans Mountain pipeline expansion, as of the date of this MD&A, the pipeline is estimated to be 95% complete with an anticipated in-service date in the second quarter of 2024. The Trans Mountain pipeline, in addition to the Coastal Gaslink pipeline project which was mechanically complete in November 2023, and the LNG Canada liquefied natural gas project in British Columbia now more than 85% complete and expected to be online in 2025, may contribute to increased industry activity. Controlling fixed costs, maintaining balance sheet strength and flexibility, repaying debt and managing through a volatile market are priorities for the Company, as prices and demand for Western's services continue to improve.

As previously announced, Western's board of directors has approved a capital budget for 2024 of $23 million, comprised of $8 million of expansion capital and $15 million of maintenance capital. The 2024 capital budget includes approximately $3 million of committed expenditures from 2023 that will carry forward into 2024. Western will continue to manage its costs in a disciplined manner and make required adjustments to its capital program as customer demand changes. Currently, 14 of Western's drilling rigs and 25 of Western's well servicing rigs are operating.

As at December 31, 2023, Western had $5 million drawn on its $45 million senior secured credit facilities (the "Credit Facilities") and $6 million outstanding on its HSBC Facility, which matures on December 31, 2026. As at December 31, 2023, Western had $99 million outstanding on its Second Lien Facility, which matures on May 18, 2026. In 2023, Western reduced its total debt by $17 million and will continue to focus its efforts on debt reduction in 2024.

Energy service activity in Canada will be affected by volatile commodity prices, the continued development of resource plays in Alberta and northeast British Columbia, continued pipeline construction to increase takeaway capacity, environmental regulations, and the level of investment in Canada. With Western's recent drilling rig upgrade program substantially complete, the Company is well positioned to be the contractor of choice to supply drilling rigs in a tightening market. Western is also active with three fit for purpose drilling rigs in the Clearwater formation in northern Alberta. In the short term, the largest challenges facing the energy service industry are weak commodity prices, a lack of qualified field personnel and the restrained growth in customer drilling activity due to their continuing preference to return cash to shareholders through share buybacks, increased dividends and repayment of debt, rather than grow production. If commodity prices stabilize for an extended period and as customers strengthen their balance sheets by reducing debt levels, we expect that drilling activity will increase. In the medium term, Western's rig fleet is well positioned to benefit from the increased drilling and production services activity generated by the LNG Canada liquefied natural gas project and the Trans Mountain pipeline expansion. The total rig fleet in the WCSB has decreased from 441 drilling rigs at December 31, 2022 to 383 drilling rigs as of February 28, 2024, representing a decrease of 58 drilling rigs, or 13% which reduces the supply of drilling rigs for such projects. Western is an experienced deep horizontal driller in Canada, with an average well length of 6,757 meters drilled per well and an average of 12.3 operating days to drill per well for the year ended December 31, 2023. It remains Western's view that its upgraded drilling rigs and modern well servicing rigs, reputation for quality and capacity of the Company's rig fleet, and disciplined cash management provides Western with a competitive advantage.

Review of Results for the Year Ended December 31, 2023

Segmented Information

Contract Drilling

Financial Highlights	Three months ended December 31			Year ended December 31		
(stated in thousands)	2023	2022	Change	2023	2022	Change
Revenue	37,688	43,212	(13%)	164,628	129,521	27%
Expenses						
Operating	26,462	32,676	(19%)	122,993	98,753	25%
Administrative	1,974	1,891	4%	7,720	6,189	25%
Adjusted EBITDA[(1)]	9,252	8,645	7%	33,915	24,579	38%
Adjusted EBITDA as a percentage of revenue[(1)]	25%	20%	25%	21%	19%	11%
Depreciation	8,621	7,721	12%	31,393	29,189	8%
Operating earnings (loss)	631	924	(32%)	2,522	(4,610)	155%
Stock based compensation	152	218	(30%)	721	502	44%
Income (loss) before income taxes	479	706	(32%)	1,801	(5,112)	135%

(1) See "Non-IFRS Measures and Ratios" on page 17 of this MD&A.

For the year ended December 31, 2023, contract drilling revenue totalled $164.6 million, a $35.1 million, or 27%, increase as compared to the year ended December 31, 2022. Contract drilling revenue for the year ended December 31, 2023, improved due to higher pricing and increased activity in Canada and the US, as a result of improved demand and an improved spot market in the first half of 2023. See "*Canadian Operations*" and "*United States Operations*" below.

For the year ended December 31, 2023, administrative expenses totalled $7.7 million and were $1.5 million, or 25%, higher than the prior year mainly due to inflationary pressures on all employee related costs.

For the year ended December 31, 2023, contract drilling generated income before income taxes of $1.8 million, compared to a loss before income taxes of $5.1 million in the prior year, an increase of $6.9 million. The change for the year ended December 31, 2023, can be attributed to a $9.3 million increase in Adjusted EBITDA which was partially offset by a $2.2 million increase in depreciation expense due to property and equipment additions.

For the year ended December 31, 2023, contract drilling Adjusted EBITDA of $33.9 million was $9.3 million, or 38%, higher than $24.6 million in the prior year, mainly due to improved pricing and higher contract drilling activity in the first half of 2023, which was offset partially by lower contract drilling activity in the third and fourth quarters of 2023, $1.4 million lower government subsidies received in 2023 compared to 2022 and inflationary pressures on all costs.

Depreciation expense for the year ended December 31, 2023 totalled $31.4 million and reflects an increase of $2.2 million over the same period of the prior year, mainly due to the completion of the capital spending related to the rig upgrade program.

Canadian Operations

The price for WCS decreased by 19% during the year ended December 31, 2023, from an average of $98.51/bbl in 2022 to an average of $79.53/bbl for 2023. However, Operating Days for the year ended December 31, 2023 of 3,575 days were 10% higher than 3,241 days in the prior year, compared to a 2% decline in industry operating days, resulting in drilling rig utilization in Canada of 29% in 2023, compared to 24% in 2022. Higher utilization for the year ended December 31, 2023, was due in part to the rig upgrade program and to prolonged cold weather conditions which delayed the start of spring break up in 2023 and allowed the Company's rigs to run longer into the second quarter, than the same period of 2022. Offsetting this higher utilization was the negative impact of wildfires, and wet weather across Western Canada, which caused customers to shut-in operations in the short term and reduced the Company's Operating Days by approximately 8% in the second quarter of 2023, as well as weakening commodity prices in the third and fourth quarters of 2023.

Western's Canadian drilling rig upgrade program, which was initiated in 2022, has been a success and has generated a substantial portion of revenue for the year ended December 31, 2023. Additionally, the upgraded rigs have generated higher day rates which contributed to higher revenue for the year ended December 31, 2023.

For the year ended December 31, 2023, revenue per Operating Day improved by 12% averaging $33,328, compared to $29,698 in the prior year, mainly due to upgrades made to the rigs and inflationary pressures on operating costs, including higher wages that are passed through to the customer.

United States Operations

WTI prices decreased 18% from an average of US$94.23/bbl in the year ended December 31, 2022 to US$77.63/bbl in the year ended December 31, 2023. For the year ended December 31, 2023, Operating Days in the US increased by 10% to 1,072 days compared to 976 days in the prior year, which resulted in drilling rig utilization of 38% in 2023, compared to 33% in 2022, due to stronger contract drilling activity in the first and second quarters of 2023.

For the year ended December 31, 2023, revenue per Operating Day increased by 19% as compared to the prior year, from an average of US$25,927 in 2022 to an average of US$30,861 in 2023, due to improved spot market rates.

Production Services

Financial Highlights	**Three months ended December 31**			**Year ended December 31**		
(stated in thousands)	**2023**	**2022**	**Change**	**2023**	**2022**	**Change**
Revenue	18,641	17,771	5%	69,205	71,278	(3%)
Expenses						
Operating	12,645	12,286	3%	46,851	48,262	(3%)
Administrative	1,043	1,150	(9%)	4,598	4,312	7%
Adjusted EBITDA[(1)]	4,953	4,335	14%	17,756	18,704	(5%)
Adjusted EBITDA as a percentage of revenue[(1)]	27%	24%	13%	26%	26%	-
Depreciation	2,233	2,308	(3%)	8,941	9,252	(3%)
Operating earnings (loss)	2,720	2,027	34%	8,815	9,452	(7%)
Stock based compensation	5	73	(93%)	183	186	(2%)
Income (loss) before income taxes	2,715	1,954	39%	8,632	9,266	(7%)

(1) See "Non-IFRS Measures and Ratios" on page 17 of this MD&A.

For the year ended December 31, 2023, production services revenue decreased by $2.1 million, or 3%, to $69.2 million, compared to the year ended December 31, 2022. The decrease in production services revenue for the year ended December 31, 2023, was due to lower production services activity as the funding for the Federal site rehabilitation program ended in 2023, offset partially by higher hourly rates in well servicing as well as higher rentals revenue.

For the year ended December 31, 2023, Service Hours of 57,792 (34% utilization) were 14% lower than the prior year of 67,077 (41% utilization) mainly due to lower production services activity. For the year ended December 31, 2023, revenue per Service Hour averaged $1,027 and was 9% higher than the prior year due to inflationary pressures on operating costs, including higher wages that are passed through to the customer.

For the year ended December 31, 2023, administrative expenses totalled $4.6 million and were $0.3 million, or 7%, higher than the prior year of $4.3 million. The increase for the year ended December 31, 2023 was due to inflationary pressures on all employee related costs.

For the year ended December 31, 2023, production services earned income before income taxes of $8.6 million, compared to income before income taxes of $9.3 million in the prior year, mainly due to a $0.9 million decrease in Adjusted EBITDA.

Adjusted EBITDA decreased for the year ended December 31, 2023, by $0.9 million, or 5%, to $17.8 million, compared to $18.7 million in the prior year, due to lower production services activity, which was partially offset by higher hourly rates resulting from inflationary pressure on costs, such as higher wages that are passed through to the customer, and higher rentals activity.

Depreciation expense for the year ended December 31, 2023 was 3% lower than the prior year, as additions to property and equipment were offset by certain assets being fully depreciated in the period.

Corporate

(stated in thousands)	Three months ended December 31 2023	2022	Change	Year ended December 31 2023	2022	Change
Expenses						
Administrative	835	747	12%	3,932	3,362	17%
Depreciation	479	415	15%	1,830	1,655	11%
Operating loss	(1,314)	(1,162)	(13%)	(5,762)	(5,017)	(15%)
Stock based compensation	392	559	(30%)	1,857	1,297	43%
Finance costs	2,687	2,988	(10%)	11,397	14,416	(21%)
Gain on debt forgiveness	-	-	-	-	(49,357)	(100%)
Other items	1,447	1,223	18%	(315)	603	(152%)
Income tax expense (recovery)	(452)	(177)	155%	(1,383)	2,858	148%

For the year ended December 31, 2023, corporate administrative expenses totalled $3.9 million and were $0.5 million, or 17%, higher than the prior year due to inflationary pressure on all employee related costs and higher professional fees.

For the year ended December 31, 2023, finance costs of $11.4 million were $3.0 million lower than the prior year mainly due to lower total debt levels, largely due to the Company's debt restructuring transaction completed in May 2022 (the "Restructuring Transaction") which reduced the Company's total debt outstanding, as well Western's focus on debt reduction, where the Company reduced its total debt by $17.0 million in 2023. Finance costs in 2023 represented an effective interest rate of 8.6%, compared to 8.0% in the prior year. The higher effective interest rate for the year ended December 31, 2023 was due to the Bank of Canada increasing its benchmark interest rate, which impacted the Company's floating interest rate debt.

There was no gain on debt forgiveness during the year ended December 31, 2023, compared to a gain on debt forgiveness of $49.4 million in the prior year. As part of the Restructuring Transaction in 2022, the Company realized a one-time $49.4 million gain on debt forgiveness, which represented the difference between the value of debt forgiveness and the fair value of the share capital issued upon the conversion of $100.0 million of the principal amount owing to Alberta Investment Management Corporation, the lender under Western's Second Lien Facility, into 16,666,667 (2,000,000,000 pre-consolidation) common shares of the Company at a conversion price of $6.00 per common share.

Other items, which relate to foreign exchange gains and losses and the sale of assets, totalled a gain of $0.3 million for the year ended December 31, 2023, compared to a loss of $0.6 million in the prior year.

For the year ended December 31, 2023, the consolidated income tax recovery totalled $1.4 million, representing an effective tax rate of 16.7%, as compared to an effective tax rate of 8.9% in the prior year. The Company had no cash taxes payable for the years ended December 31, 2023 and 2022.

Review of Fourth Quarter 2023 Results

Selected Financial Information

Financial Highlights	**Three months ended December 31**		
(stated in thousands, except share and per share amounts)	**2023**	**2022**	**Change**
Revenue	56,255	60,792	(7%)
Adjusted EBITDA[1]	13,370	12,233	9%
Adjusted EBITDA as a percentage of revenue[1]	24%	20%	20%
Cash flow from operating activities	6,268	6,502	(4%)
Additions to property and equipment	3,404	7,708	(56%)
Net income (loss)	(2,194)	(3,095)	(29%)
-basic and diluted net income (loss) per share	(0.06)	(0.09)	(33%)
Weighted average number of shares			
-basic and diluted	33,843,009	33,841,318	-
Outstanding common shares as at period end	33,843,009	33,841,318	-
Operating Highlights[2]			
Contract Drilling			
Canadian Operations			
Average active rig count	9.1	10.1	(10%)
Operating Days	833	928	(10%)
Revenue per Operating Day	35,211	33,923	4%
Drilling rig utilization	27%	28%	(4%)
CAOEC industry average utilization[3]	36%	40%	(10%)
Average meters drilled per well	6,320	7,412	(15%)
Average operating days per well	11.2	14.8	(24%)
United States Operations			
Average active rig count	2.5	3.2	(22%)
Operating Days	229	293	(22%)
Revenue per Operating Day (US$)	26,530	29,439	(10%)
Drilling rig utilization	36%	40%	(10%)
Average meters drilled per well	5,195	3,001	73%
Average operating days per well	17.0	13.7	24%
Production Services			
Average active rig count	24.1	23.7	2%
Service Hours	15,712	15,443	2%
Revenue per Service Hour	1,017	991	3%
Service rig utilization	37%	38%	(3%)

(1) See "Non-IFRS Measures and Ratios" on page 17 of this MD&A.

(2) See "Defined Terms" on page 18 of this MD&A.

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

Review of Fourth Quarter 2023 Results

Consolidated

In the fourth quarter of 2023 revenue decreased by $4.5 million, or 7%, to $56.3 million as compared to $60.8 million in the same period of the prior year. The decrease in consolidated revenue is mainly a result of lower drilling activity and pricing in the US, compared to 2022. Adjusted EBITDA of $13.4 million in the fourth quarter of 2023 was $1.2 million, or 9%, higher than the fourth quarter of 2022, due to higher pricing in Canadian contract drilling, lower operating expenses in contract drilling and higher pricing in production services, which was offset partially by the lower activity in contract drilling.

Contract Drilling

During the fourth quarter of 2023, contract drilling revenue totalled $37.7 million, a $5.5 million, or 13%, decrease as compared to the same period in the prior year. Contract drilling revenue for the three months ended December 31, 2023, was lower due to lower activity as customers cancelled their drilling programs or deferred them into 2024. See *"Canadian Operations"* and *"United States Operations"* below.

Contract drilling earned income before income taxes of $0.5 million in the fourth quarter of 2023, a decrease of $0.2 million, or 32%, compared to income before income taxes of $0.7 million in the fourth quarter of 2022, as higher Adjusted EBITDA in 2023 was offset by higher depreciation expense due to property and equipment additions, while administrative expenses were consistent with the same period of the prior year.

Contract drilling Adjusted EBITDA of $9.3 million in the fourth quarter of 2023 was $0.7 million, or 7%, higher than $8.6 million in the same period of the prior year due to lower operating costs and higher pricing in Canada, which were partially offset by lower drilling activity in Canada and the US.

Depreciation expense for the three months ended December 31, 2023 totalled $8.6 million and reflects an increase of $0.9 million over the same period of the prior year, mainly due to the completion of the capital spending related to the rig upgrade program.

Canadian Operations

The price for WCS decreased by 1% from an average of $77.39/bbl in the fourth quarter of 2022, to an average of $76.86/bbl in the fourth quarter of 2023. Operating Days of 833 days in the fourth quarter of 2023 were 10% lower than 928 days in the same period of the prior year, compared to a 9% decrease in industry Operating Days. Drilling rig utilization in Canada was 27% in the fourth quarter of 2023, compared to 28% in the same period of the prior year.

For the three months ended December 31, 2023, revenue per Operating Day increased by 4%, as compared to the same period of the prior year, from an average of $33,923 to $35,211, mainly due to upgrades made to the rigs, and inflationary pressures on operating costs, including higher wages that are passed through to the customer.

United States Operations

WTI prices decreased by 5%, from an average of US$82.64/bbl in the fourth quarter of 2022 to an average of US$78.32/bbl in the fourth quarter of 2023. Lower WTI prices in the fourth quarter of 2023, resulted in Operating Days in the US decreasing by 22% to 229 days, compared to 293 days in the same period of the prior year, which resulted in drilling utilization of 36% in the fourth quarter of 2023 compared to 40% in the fourth quarter of 2022.

For the three months ended December 31, 2023, revenue per Operating Day decreased by 10% as compared to the same period of the prior year, from an average of US$29,439 in 2022 to an average of US$26,530 in 2023. For the three months ended December 31, 2023, the lower revenue per Operating Day was due to changes in rig mix, as there was less activity with the Company's higher spec rigs which command higher day rates.

Production Services

For the quarter ended December 31, 2023, production services revenue increased by $0.8 million, or 5%, to $18.6 million, compared to $17.8 million in the same period of 2022. The increase for the quarter ended December 31, 2023, compared to the same period of the prior year, can be attributed to higher activity and pricing in the Company's well servicing division, as well as higher rental activity.

Service Hours increased by 2% to 15,712 hours (37% utilization) in the fourth quarter of 2023, compared to 15,443 hours (38% utilization) in the fourth quarter of 2022. For the three months ended December 31, 2023, revenue per Service Hour averaged $1,017 and was 3% higher than the same period of the prior year due to inflationary pressures on operating costs, including higher wages that are passed through to the customer.

For the fourth quarter of 2023, production services earned income before income taxes of $2.7 million, compared to income before income taxes of $2.0 million in the same period of the prior year, mainly due to a $0.7 million increase in Adjusted EBITDA.

Adjusted EBITDA increased in the fourth quarter of 2023 by $0.7 million, or 14%, to $5.0 million, compared to $4.3 million in the same period of the prior year mainly due to higher well servicing and rentals activity during the quarter, as well as higher pricing.

Depreciation expense for the three months ended December 31, 2023 was 3% lower than the same period of the prior year, as additions to property and equipment were offset by certain assets being fully depreciated in the period.

Corporate

Finance costs in the fourth quarter of 2023 of $2.7 million were $0.3 million lower than the same period of the prior year, largely due to the Company's Restructuring Transaction which reduced the Company's debt levels, as well as a focus on the Company's debt reduction strategy, and represented an effective interest rate of 8.6%, which was consistent with the same period of the prior year. The higher effective interest rate for the fourth quarter of 2023 was due to the Bank of Canada increasing its benchmark interest rate, which impacted the Company's floating interest rate debt.

Other items, which relate to foreign exchange gains and losses and the sale of assets, totalled a loss of $1.4 million for the fourth quarter of 2023, compared to a loss of $1.2 million in the same period of the prior year.

For the fourth quarter of 2023, the consolidated income tax recovery totalled $0.5 million, representing an effective tax rate of 17.1%, as compared to an effective tax rate of 5.4% in the same period of 2022. The Company had no cash taxes payable for the three months ended December 31, 2023, and 2022.

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, 2023, Western had working capital of $20.1 million compared to working capital of $21.9 million as at December 31, 2022. Western's total debt at December 31, 2023 decreased by $17.0 million, or 13%, to $116.4 million, compared to $133.4 million at December 31, 2022, primarily due to repayments of its Second Lien Facility of $8.1 million, including a $7.0 million voluntary repayment on December 22, 2023, and a $5.3 million repayment of its HSBC Facility, including a voluntary repayment of $4.1 million on September 29, 2023 which represented all committed monthly principal amounts owing until its maturity on December 31, 2026.

During the year ended December 31, 2023, Western had the following changes to its cash balances, which resulted in a $3.0 million decrease in cash and cash equivalents in the year:

Cash and cash equivalents (stated in thousands)	
Opening balance, at December 31, 2022	8,878
Add:	
Adjusted EBITDA[1]	47,739
Proceeds on sale of property and equipment	1,368
Other items	1,230
Repayment of promissory note	225
Deduct:	
Additions to property and equipment	(22,622)
Finance costs paid	(10,796)
Principal repayment of Second Lien debt	(8,080)
Principal repayment of HSBC Facility	(5,313)
Principal repayment of lease obligations	(2,659)
Change in non cash working capital	(2,040)
Repayment of Credit Facilities	(2,000)
Ending balance, at December 31, 2023	**5,930**

(1) See "Non-IFRS Measures and Ratios" on page 17 of this MD&A.

The Credit Facilities, which have a maximum available amount of $45.0 million, mature on May 18, 2025. As at December 31, 2023, $5.0 million was drawn on the Credit Facilities and $5.9 million was drawn on the HSBC Facility. Cash flow from operations and available Credit Facilities are expected to be sufficient to cover Western's financial obligations, including working capital requirements and the 2024 capital budget.

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 and Ratios on page 17 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 Leases. Copies of Western's Credit Facilities are available under the Company's SEDAR+ profile at www.sedarplus.ca.

The Credit Facilities are secured by the assets of Western and its subsidiary. A summary of the Company's financial covenants as at December 31, 2023 is as follows:

December 31, 2023	Covenants [1]
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio	3.0:1.0 or less
Maximum Consolidated Debt to Consolidated Capitalization Ratio	0.5:1.0 or less
Minimum Debt Service Coverage Ratio	1.15:1.0 or greater

(1) See covenant definitions in Note 10 of the December 31, 2023 consolidated financial statements.

At December 31, 2023, Western was in compliance with all covenants related to its Credit Facilities.

Summary of Quarterly Results

In addition to other market factors, Western's quarterly results 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, 2023	Sep 30, 2023	June 30, 2023	Mar 31, 2023	Dec 31, 2022	Sep 30, 2022	June 30, 2022	Mar 31, 2022
Revenue	56,255	55,003	42,954	79,239	60,792	58,483	30,594	50,475
Adjusted EBITDA [1]	13,370	11,033	4,140	19,196	12,233	14,799	2,498	10,391
Cash flow from operating activities	6,268	13,267	25,373	6,445	6,502	6,854	8,724	6,461
Net income (loss)	(2,194)	(1,267)	(7,845)	4,421	(3,095)	818	35,431	(3,834)
per share - basic and diluted [2]	(0.06)	(0.04)	(0.23)	0.13	(0.09)	0.02	1.81	(0.57)
Total assets	442,933	453,980	456,746	483,532	475,708	475,651	458,196	457,226
Long term debt - non current portion	111,174	114,107	118,109	129,853	126,527	127,639	121,776	233,321

(1) See "Non-IFRS Measures and Ratios" on page 17 of this MD&A.

(2) Basic and diluted net income (loss) per share for the three months ended June 30, 2022 and earlier, have been restated to reflect the Consolidation and the 2022 rights offering, described further in the December 31, 2022 consolidated financial statements.

Revenue and Adjusted EBITDA were impacted by commodity prices and market uncertainty throughout the last eight quarters. The demand destruction resulting from the COVID-19 pandemic that started in 2020 and continued throughout 2021 had a significant impact on industry activity. However, crude oil prices began to recover in 2021 and continued to stabilize throughout 2022, resulting in improvements in pricing and activity throughout the industry. 2023 was impacted by a significant decrease in commodity prices, the fear of a North American recession, concerns surrounding demand for crude oil due to weak global economic data, as well as the ongoing war in Ukraine and the Israel-Palestine conflict in the Middle East.

Excluding the gain on debt forgiveness in the second quarter of 2022, the third quarter of 2022 was the first time the Company generated positive net income in a quarter since the first quarter of 2015.

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, 2023 are as follows:

(stated in thousands)	2024	2025	2026	2027	2028	Thereafter	Total
Trade payables and other current liabilities [1]	22,018	-	-	-	-	-	22,018
Operating commitments [2]	2,986	63	-	-	-	-	3,049
Second Lien Facility principal	1,080	1,080	97,181	-	-	-	99,341
Second Lien Facility interest	8,713	8,341	6,854	-	-	-	23,908
HSBC Facility principal	-	-	5,938	-	-	-	5,938
HSBC Facility interest	508	389	270	-	-	-	1,167
Lease obligations [3]	2,895	1,235	809	265	8	-	5,212
Revolving Facility	-	5,000	-	-	-	-	5,000
PPP Loan	1,067	771	-	-	-	-	1,838
Total	**39,267**	**16,879**	**111,052**	**265**	**8**	-	**167,471**

(1) Trade payables and other current liabilities exclude interest accrued as at December 31, 2023 on the Second Lien Facility and the HSBC Facility which are stated separately.

(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.

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.

Second Lien Facility principal and interest:

The Company pays principal quarterly and interest semi-annually on January 1 and July 1. The Company's Second Lien Facility matures on May 18, 2026. On December 22, 2023, the Company made a lump sum repayment of $7.0 million, thereby reducing the total due on maturity.

HSBC Facility principal and interest:

The Company pays interest on the HSBC Facility monthly, which matures on December 31, 2026. On September 29, 2023, the Company made a lump sum repayment of $4.1 million of all committed monthly principal amounts owing on its HSBC Facility to its maturity on December 31, 2026.

Lease obligations:

The Company has long term debt relating to leased vehicles, as well as office and equipment leases. These leases run for terms greater than one year.

PPP loan:

The Company has a US Paycheck Protection Program ("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 the term of the loan and matures on August 7, 2025.

Western expects to source funds required for the above commitments from cash flow from operations and available Credit Facilities.

Outstanding Share Data

	February 28, 2024	December 31, 2023	December 31, 2022
Common shares outstanding	33,843,015	33,843,009	33,841,318
Stock options outstanding	2,951,761	3,052,700	3,109,490
Restricted share units outstanding - equity settled	7	13	1,731

Off Balance Sheet Arrangements

As at December 31, 2023, Western had no off balance sheet arrangements in place.

Financial Risk Management

Interest Risk

The Company is exposed to interest rate risk on certain debt instruments, such as the Credit Facilities 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 and the HSBC Facility, a one percent change in interest rates would have had a $0.1 million impact on interest expense for the year ended December 31, 2023 (December 31, 2022: $0.2 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.

Inflation Risk

The general rate of inflation impacts the economies and business environments in which Western operates. Increased inflation and any economic conditions resulting from governmental attempts to reduce inflation, such as the imposition of higher interest rates, could negatively impact Western's borrowing costs, which could, in turn, have a material adverse effect on Western's cash flow and ability to service obligations under the Credit Facilities, HSBC Facility and the Second Lien Facility.

Foreign Exchange Risk

The Company is exposed to foreign currency fluctuations in relation to its US dollar capital expenditures and operations. At December 31, 2023, 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, 2023, 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 less than $0.1 million and $0.6 million, respectively (December 31, 2022: less than $0.1 million and $0.6 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 amount of the financial assets which reflects management's assessment of the credit risk.

The Company's trade receivables are with customers in the energy industry and are subject to industry credit risk. For the year ended December 31, 2023, the volatility in global demand for crude oil related to the war in Ukraine and the Israel-Palestine conflict in the Middle East, as well as the economic volatility as countries navigate in a post-pandemic environment, have had an impact on commodity prices which have an effect on the Company's customers. 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 creditworthiness of new customers before credit terms are offered.

Additionally, the Company continually evaluates individual customer trade receivables for collectability considering payment history and aging of the trade receivables.

In accordance with IFRS 9, Financial Instruments, the Company evaluates the collectability of its trade and other receivables and its allowance for doubtful accounts at each reporting date. The Company records an allowance for doubtful accounts if an account is determined to be uncollectable. The allowance for doubtful accounts could materially change due to fluctuations in the financial position of the Company's customers.

The Company reviews its historical credit losses as part of its impairment assessment. The Company has had low historical impairment losses on its trade receivables, due in part to its credit management processes. As such, the Company assesses impairment losses on an individual customer account basis, rather than recognizing an impairment loss on all outstanding trade and other receivables. Subsequent to December 31, 2023, the Company has collected approximately 72% of its trade and other receivables that were outstanding at December 31, 2023.

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 from operating activities, the Credit Facilities, the HSBC Facility, and the Second Lien Facility are expected to be greater than anticipated capital expenditures and the contractual maturities of the Company's financial liabilities. This expectation could be adversely affected by a material negative change in the energy 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 Second Lien Facility.

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, 2023. 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. Based on this evaluation, the CEO and CFO have concluded that the Company's ICFR are effective, and its DC&P are designed and operating effectively.

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

The accounting policies used in preparing the Company's consolidated financial statements for the year ended December 31, 2023, are described in Note 2 of the Company's audited consolidated financial statements for the years ended December 31, 2023 and 2022. There were no new accounting standards or amendments to existing standards adopted in the year ended December 31, 2023 that are expected to have a material impact on the Company's financial statements.

This MD&A of the Company's financial condition and results of operations is based on the consolidated financial statements as at and for the year ended December 31, 2023, which were prepared in accordance with IFRS. Conformity with IFRS requires management to make judgments, estimates and assumptions that are based on the facts, circumstances, and estimates at the date of the consolidated financial statements and affect the application of certain accounting policies and the reported amount of assets, liabilities, income and expenses.

The current economic environment and volatility in global demand for commodities results in uncertainty for the Company, which management took into consideration when applying judgments to estimates and assumptions in the consolidated financial statements. A full list of critical accounting estimates is included in the Company's audited consolidated financial statements for the year ended December 31, 2023. Actual results may differ from the estimates used in preparing the consolidated financial statements.

Business Risks

Management has identified the primary risk factors that could potentially have a material impact on the financial results and operations of Western. Western's primary risk factors are included in the Company's annual information form ("AIF") for the year ended December 31, 2023 which is available under the Company's SEDAR+ profile at www.sedarplus.ca. Copies of the AIF may also be obtained on request without charge from Western by emailing ir@wesc.ca or through Western's website at www.wesc.ca.

Non-IFRS Measures and Ratios

Western uses certain financial measures in this MD&A which do not have any standardized meaning as prescribed by IFRS. These measures and ratios, 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 and ratios have been described and presented in this MD&A to provide shareholders and potential investors with additional information regarding the Company. The non-IFRS measures and ratios used in this MD&A are identified and defined as follows:

Adjusted EBITDA and Adjusted EBITDA as a Percentage of Revenue

Adjusted 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 non-GAAP financial measure as it is used by management and other stakeholders, including current and potential investors, to analyze the Company's principal business activities, prior to consideration of how Western's activities are financed and the impact of foreign exchange, income taxes and depreciation. 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 income (loss) for consolidated results and on a segmented basis, income (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.

Adjusted EBITDA as a percentage of revenue is a non-IFRS financial ratio which is calculated by dividing Adjusted EBITDA by revenue for the relevant period. Adjusted EBITDA as a percentage of revenue is a useful financial measure as it is used by management and other stakeholders, including current and potential investors, to analyze the profitability of the Company's principal operating segments.

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

	Three months ended December 31		Year ended December 31	
(stated in thousands)	**2023**	**2022**	**2023**	**2022**
Net income (loss)	**(2,194)**	**(3,095)**	**(6,885)**	**29,320**
Income tax expense (recovery)	(452)	(177)	(1,383)	2,858
Income (loss) before income taxes	**(2,646)**	**(3,272)**	**(8,268)**	**32,178**
Add (deduct):				
Gain on debt forgiveness	-	-	-	(49,357)
Depreciation	11,333	10,444	42,164	40,096
Stock based compensation	549	850	2,761	1,985
Finance costs	2,687	2,988	11,397	14,416
Other items	1,447	1,223	(315)	603
Adjusted EBITDA	**13,370**	**12,233**	**47,739**	**39,921**

Revenue per Operating Day

This non-IFRS measure is calculated as drilling revenue for both Canada and the US respectively, divided by Operating Days in Canada and the US respectively. This calculation represents the average day rate by country, charged to Western's customers.

Revenue per Service Hour

This non-IFRS measure is calculated as well servicing revenue divided by Service Hours. This calculation represents the average hourly rate charged to Western's customers.

Working Capital

This non-IFRS measure is calculated as current assets less current liabilities as disclosed in the Company's consolidated financial statements.

Defined Terms

Average active rig count (contract drilling): Calculated as drilling rig utilization 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.

Average meters drilled per well: Defined as total meters drilled divided by the number of wells completed in the period.

Average Operating Days per well: Defined as total Operating Days divided by the number of wells completed in the period.

Drilling rig utilization: Calculated based on Operating 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 as total Service Hours divided by 217 hours per month per rig multiplied by the average rig count for the period as defined by the CAOEC industry standard.

Contract Drilling Rig Classifications

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

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

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

Abbreviations

- Barrel ("bbl");
- Canadian Association of Energy Contractors ("CAOEC");
- DecaNewton ("daN");
- International Financial Reporting Standards ("IFRS");
- Pounds ("lbs");
- Thousand cubic feet ("mcf");
- Western Canadian Sedimentary Basin ("WCSB");
- Western Canadian Select ("WCS"); and
- West Texas Intermediate ("WTI").

Forward-Looking Statements and Information

This MD&A contains certain forward-looking statements and forward-looking information (collectively, "forward-looking information") within the meaning of applicable Canadian securities laws, as well as other information based on Western's current expectations, estimates, projections and assumptions based on information available as of the date hereof. 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", 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 forward-looking 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: the business of Western, industry, market and economic conditions and any anticipated effects on Western; commodity pricing; the future demand for the Company's services and equipment; the effect of inflation and commodity prices on energy service activity; expectations with respect to customer spending; the success of Western's drilling rig upgrade program; the potential impact of the current conflicts in Ukraine and the Middle East on crude oil prices; the Company's capital budget for 2024 including the allocation of such budget; Western's plans for managing its capital program; the energy service industry and global economic activity; expectations with respect to the Trans Mountain pipeline expansion, including the impact of construction

delays and other challenges; the potential shutdown and relocation of the Enbridge Line 5 pipeline; expectations with respect to the Coastal GasLink pipeline project and LNG Canada facility; the impact of any challenge to the Blueberry River First Nations decision; challenges facing the energy service industry; expectations regarding future drilling and well servicing activity; the Company's focus on debt reduction; the Company's liquidity needs including the ability of current capital resources to cover Western's financial obligations; expectations with respect to capital budgeting and capital expenditures; the use, availability and sufficiency of the Company's Credit Facilities; the Company's ability to maintain certain covenants under its Credit Facilities; the repayment of the Company's debt, including the source of funds required to repay such debt; maturities of the Company's contractual obligations with third parties; the impact of changes in interest rates and foreign exchange rates; estimates with respect to foreign exchange rates; factors affecting companies with credit risk; the expectation of continued investment in the Canadian crude oil and natural gas industry; the development of Alberta and British Columbia resource plays; expectations relating to activity levels for oilfield services; the Company's ability to maintain a competitive advantage, including the factors and practices anticipated to produce and sustain such advantage; and forward-looking information contained under the headings "*Disclosure Controls and Procedures and Internal Controls Over Financial Reporting*", "*Business Risks*", "*Financial Risk Management"* and "*Critical Accounting Estimates and Recent Developments*".

The material assumptions that could cause results or events to differ from current expectations reflected in the forward-looking information 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 impact of inflation; the continued business relationships between the Company and its significant customers; crude oil transport, pipeline and LNG export facility approval and development; that all required regulatory and environmental approvals can be obtained on the necessary terms and in a timely manner, as required by the Company; liquidity and 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); global economic conditions and the accuracy of the Company's market outlook expectations for 2024 and in the future; the impact, direct and indirect, of epidemics, pandemics, other public health crisis and geopolitical events, including the conflicts in Ukraine and the Middle East, on Western's 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; that any required commercial agreements can be reached; that there are no unforeseen events preventing the performance of contracts and general business, economic and market conditions.

Although Western believes that the expectations and assumptions on which such forward-looking information is based on are reasonable, undue reliance should not be placed on the forward-looking information as Western cannot give any assurance that such will prove to be correct. By its nature, forward-looking information is subject to 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, volatility in market prices for crude oil and natural gas and the effect of this volatility on the demand for oilfield services generally; reduced exploration and development activities by customers and the effect of such reduced activities on Western's services and products; political, industry, market, economic, and environmental conditions in Canada, the US, and globally; supply and demand for oilfield services relating to contract drilling, well servicing and oilfield rental equipment services; the proximity, capacity and accessibility of crude oil and natural gas pipelines and processing facilities; liabilities and risks inherent in oil and natural gas operations, including environmental liabilities and risks; changes to laws, regulations and policies; the ongoing geopolitical events in Eastern Europe and the Middle East and the duration and impact thereof; fluctuations in foreign exchange or interest rates; failure of counterparties to perform or comply with their obligations under contracts; regional competition and the increase in new or upgraded rigs; the Company's ability to attract and retain skilled labour; Western's ability to obtain debt or equity financing and to fund capital operating and other expenditures and obligations; the potential need to issue additional debt or equity and the potential resulting dilution of shareholders; uncertainties in weather and temperature affecting the duration of the service periods and the activities that can be completed; the Company's ability to comply with the covenants under the Credit Facilities, HSBC Facility and the Second Lien Facility and the restrictions on its operations and activities if it is not compliant with such covenants; Western's ability to protect itself from "cyber-attacks" which could compromise its information systems and critical infrastructure; 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 headings "*Business Risks*" herein and "*Risk Factors*" in Western's AIF for the year ended December 31, 2023, which is available under the Company's SEDAR+ profile at www.sedarplus.ca.

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. Any forward-looking statements contained herein are expressly qualified by this cautionary statement.

Additional data

Additional information relating to Western, including the Company's AIF, is available under the Company's profile on SEDAR+ at www.sedarplus.ca.