Western
ENERGY SERVICES CORP.

ANNUAL REPORT
2022





COMPANY OVERVIEW

WESTERN ENERGY SERVICES CORP. IS AN ENERGY SERVICE COMPANY FOCUSED ON PROVIDING SUPERIOR SERVICE TO ITS CUSTOMERS, AND SUSTAINABLE GROWTH FOR SHAREHOLDERS

CONTRACT DRILLING SERVICES

Horizon Drilling is Western's Canadian contract drilling division and currently operates a fleet of 48 drilling rigs, making it the fourth largest drilling rig contractor in Canada. Horizon's fleet is one of the newest drilling fleets in the Western Canadian Sedimentary Basin, which allows the company to provide customers with reliability, mobility and advanced technical capabilities.

Stoneham Drilling Corporation is Western's U.S. contract drilling division and currently operates a fleet of five drilling rigs from its base in Williston, North Dakota, servicing the Williston and Powder River Basins, and three drilling rigs from its base in Gardendale, Texas, servicing the Permian Basin. Similar in design to many of the Canadian based rigs, the U.S. fleet is suited for the current U.S. market which predominantly consists of drilling horizontal wells that are deeper and more technically challenging.

WELL SERVICING

Eagle Well Servicing operates well service rigs in Canada. Western is currently the third largest well servicing contractor in Canada based on registered rigs. Eagle operates from four bases located in Alberta, Saskatchewan, and Manitoba, allowing Eagle to service wells throughout the Western Canadian Sedimentary Basin. With an industry leading team, Eagle excels when it comes to safe, efficient and functional well servicing.

RENTAL EQUIPMENT SERVICES

Aero Rental Services is Western's rental equipment division that operates from facilities in Blackfalds and Grande Prairie, Alberta. Aero supplies crude oil and natural gas exploration and production companies, as well as other energy service companies, with specialized high pressure rental equipment utilized in drilling and completions activities. Aero has followed an organic growth model, allowing it to evolve and adapt its rental equipment mix to the changing needs of its customers.

Horizon Drilling – A Western Co.

Eagle Well Servicing – A Western Co.

ANNUAL MEETING

The Annual Meeting of the Shareholders of Western Energy Services Corp. will be held on Wednesday, April 26, 2023 at 1:30 pm (MDT).
Location: Western Energy Services Corp. - Head Office 1700, 215 - 9th Avenue SW, Calgary, Alberta, T2P 1K3

Stoneham Drilling Corporation – A Western Co.

Aero Rental Services – A Western Co.

CEO Report to Shareholders

As the COVID-19 pandemic abated in early 2022, crude oil prices reached levels not seen since 2014 due to the recovery in worldwide demand caused by the easing of government pandemic restrictions and the Russian invasion of Ukraine. Crude oil prices stabilized in the latter half of 2022 but remained high compared to recent history resulting in record cash flow for producers. While energy services activity increased during 2022 in both Canada and United States, activity was tempered as producers remained cautious in allocating their free cash flow to production growth. The industry was also affected by supply chain disruptions, inflationary cost increases and crew labour shortages.

In 2022, after seven years of the global downturn and the COVID-19 pandemic, Western achieved its highest Adjusted EBITDA since 2015. Demand for the Company's services improved over 2022 and Western obtained pricing increases across all divisions. In contract drilling, our Canadian operations expanded outside of drilling for oil and gas to include helium, geothermal and the Company's first lithium well. In the United States, the Company successfully managed a 152% increase in Operating Days in 2022, compared to 2021. Well servicing operated at full capacity, but activity was constrained by industry-wide crew shortages.

As announced on May 18, 2022, with the support of the Company's lenders and significant shareholders, Western completed a comprehensive recapitalization and debt restructuring which significantly strengthened our balance sheet, liquidity and overall financial position, as well as provided funding for upgrades to our drilling rig fleet. The drilling rig upgrades increased the depth capacity of our Montney and Duvernay class telescopic double rigs to match the capacity of many triple rigs with the advantage of faster mobilizations between locations. The upgrades to the rigs include increasing drill pipe racking capacity to 6,000 meters, upgrading 5,000 psi pumping systems to 7,500 psi pumping pressure, and purchasing the latest technology drill pipe.

Following the introduction of our Environmental, Social and Governance standard in 2021, Western took tangible steps in 2022 to deliver on our commitment to the standard. Western became the first drilling and well servicing contractor to be Climate Smart certified by the emissions reduction evaluation firm Radicle Group Inc., a BMO Financial Group Company, identifying a 30% reduction in CO2 intensity per meter drilled in 2021 compared to 2018. For the second consecutive year, Canadian Occupational Safety presented Western with its Five-Star award recognizing companies that lead in protecting workers in the energy and natural resources sector. The Company also entered into a long-term cooperative business relationship with Infinity Metis Corp., the business arm of the McMurray Metis Local 1935 and a wholly owned indigenous business, to identify opportunities for participation in employment, training and procurement in the area surrounding Fort McMurray, Alberta.

To date in 2023, industry demand for drilling and service rigs has improved compared to 2022 and Western has been able to adjust pricing to reflect the rig upgrades, increased demand and inflationary cost increases. The upgraded drilling rigs were all contracted and working in the first quarter of 2023. The Company's well servicing segment has been operating flat out, but capacity continues to be significantly constrained by industry wide crew shortages. In the United States, industry drilling activity has increased substantially over 2022 and six of our seven marketed drilling rigs have seen activity to date.

Many indicators point to improving energy services activity for the remainder of 2023. The Russian invasion of Ukraine highlighted energy affordability and security. Natural gas demand in the near term will continue to be affected by local conditions, but that will evolve as more liquefied natural gas ("LNG") facilities come online and more power generation plants convert from coal to gas. While producers remain committed to capital discipline, the excess cash flow they are generating is accelerating debt reduction programs and we believe the attractive returns from the elevated oil prices will encourage investment in production. The recent agreement between the British Columbia ("BC") government and the Blueberry River First Nations should re-boot activity in northeast BC, which is the best geographic location to match the capability of the Company's newly upgraded rigs. Oil production is less constrained by egress capacity with Enbridge's line 3 pipeline online since October 2021. The coal to gas conversion of all Alberta power plants, due to be complete in 2023, is encouraging drilling for natural gas. Opportunities for drilling in non-oil and gas fields, such as geothermal, helium and lithium are emerging. However, these opportunities will be impacted by the challenges of supply chain disruptions, inflationary cost increases and crew labour shortages expected to persist throughout 2023. Significantly, the recent bank failures that have occurred since March 7, 2023 have introduced additional uncertainty to the global outlook for energy prices. In the span of two weeks, the price of WTI dropped approximately 15%. If oil prices continue to be suppressed it will have a negative impact on energy services activity.

In the medium term, there are several potential positive developments that should increase the demand for Western's services. In Canada, the Transmountain pipeline expansion, adding 590 mbbls/day of oil export capacity, is scheduled to be operational in early 2024. Demand for North American natural gas in the form of LNG exports is expected to continue to grow, driven by global coal to gas power generation conversions and Europe's pivot away from Russian natural gas. In Canada, LNG Canada, fed by the Coastal Gaslink pipeline, expects to initiate exports by the middle of the decade. In the United States three additional LNG plants or expansions are scheduled to come online between 2024 and 2026.

Western is well positioned to capitalize on the continued upswing in drilling and well servicing activity. The recapitalization and debt restructuring have strengthened the Company's financial position and the drilling rig upgrade program has enhanced Western's fleet to be in increased demand at all points in the commodity price cycle. These achievements build on Western's reputation as a safe, professional service company that delivers consistent, predictable and repeatable results.

I would like to thank our stakeholders and customers for their continued support. Finally, I would like to thank our employees for their continued hard work and dedication.

Respectfully,

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

March 20, 2023

Western ENERGY SERVICES CORP.

Q4 2022

2022 Management's Discussion and Analysis — Date: February 28, 2023

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, 2022 and 2021. This MD&A is dated February 28, 2023. 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	**2022**	**2021**	**Change**	**2022**	**2021**	**Change**	**2020**
Revenue	60,792	41,363	47%	200,344	131,678	52%	103,684
Adjusted EBITDA (1)	12,233	8,950	37%	39,921	23,047	73%	20,278
Adjusted EBITDA as a percentage of revenue (1)	20%	22%	(9%)	20%	18%	11%	20%
Cash flow from operating activities	6,502	8,236	(21%)	28,541	16,631	72%	27,723
Additions to property and equipment	7,708	2,107	266%	34,228	6,866	399%	2,788
Net income (loss)	(3,095)	(6,021)	(49%)	29,320	(35,812)	(182%)	(41,301)
-basic and diluted net income (loss) per share (2)	(0.09)	(0.90)	(90%)	1.24	(5.36)	(123%)	(6.19)
Weighted average number of shares (2)							
-basic	33,841,318	6,701,745	405%	23,581,155	6,677,829	253%	6,669,111
-diluted	33,841,318	6,701,745	405%	23,581,735	6,677,829	253%	6,669,111
Outstanding common shares as at period end (2)	33,841,318	764,220	4,328%	33,841,318	764,220	4,328%	759,709
Operating Highlights (3)							
Contract Drilling							
Canadian Operations							
Average active rig count	10.1	10.2	(1%)	8.9	8.6	3%	5.6
End of period rig count	36	49	(27%)	36	49	(27%)	49
Operating Days	928	940	(1%)	3,241	3,124	4%	2,064
Revenue per Operating Day	33,923	24,014	41%	29,698	21,931	35%	23,417
Drilling rig utilization	28%	21%	33%	24%	18%	33%	12%
CAOEC industry average utilization (4)	40%	30%	33%	35%	25%	40%	16%
Average meters drilled per well	7,412	5,986	24%	6,406	5,592	15%	4,939
Average Operating Days per well	14.8	11.6	28%	12.8	11.8	8%	12.9
United States Operations							
Average active rig count	3.2	1.1	191%	2.7	1.1	145%	0.6
End of period rig count	8	8	-	8	8	-	8
Operating Days	293	100	193%	976	387	152%	201
Revenue per Operating Day (US$)	29,439	20,092	47%	25,927	16,615	56%	22,594 (5)
Drilling rig utilization	40%	14%	186%	33%	13%	154%	7%
Average meters drilled per well	3,001	3,807	(21%)	3,450	3,305	4%	1,312
Average Operating Days per well	13.7	14.8	(7%)	11.7	14.8	(21%)	11.9
Production Services							
Average active rig count	23.7	29.3	(19%)	25.8	25.9	-	14.6
End of period rig count	65	63	3%	65	63	3%	63
Service Hours	15,443	19,046	(19%)	67,077	67,323	-	53,351
Revenue per Service Hour	991	780	27%	943	735	28%	693
Service rig utilization	38%	46%	(17%)	41%	41%	-	23%

(1) See "Non-IFRS Measures" on page 23 of this MD&A.

(2) On August 2, 2022, the Company's issued and outstanding common shares were consolidated at a ratio of one post consolidation common share for every 120 pre-consolidation common shares (the "Consolidation" as defined and described in this MD&A). The comparative 2021 and 2020 balances have been restated to reflect the Consolidation. The weighted average number of shares have also been restated to reflect the Consolidation and Rights Offering completed, as defined and described in this MD&A.

(3) See "Other Supplemental Financial Measures" on page 23 and "Defined Terms" on page 24 of this MD&A.

(4) 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.

(5) Excludes shortfall commitment revenue from take or pay contracts of US$5.0 million for the year ended December 31, 2020.

Financial Position at (stated in thousands)	December 31, 2022	December 31, 2021	December 31, 2020
Working capital(1)	21,923	2,224	15,997
Total assets	475,708	456,003	495,625
Long term debt	126,527	226,884	237,633

(1) See "Other Supplemental Financial Measures" on page 23 of this MD&A.

Non-International Financial Reporting Standards ("Non-IFRS") measures and ratios, such as Adjusted EBITDA and Adjusted EBITDA as a percentage of revenue, are defined on page 23 of this MD&A, as well as other supplemental financial measures. Other defined terms and abbreviations for standard industry terms are included on page 24 of this MD&A.

Business Overview

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

Contract Drilling

Western markets a fleet of 44 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]. In 2022, Western deregistered 13 drilling rigs with the CAOEC, all of which can be reactivated at a later date.

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

	Year ended December 31					
	2022			2021		
Rig class(1)	Canada	US	Total	Canada	US	Total
Cardium	11	1	12	23	2	25
Montney	18	1	19	19	-	19
Duvernay	7	6	13	7	6	13
Total marketed drilling rigs(2)	**36**	**8**	**44**	**49**	**8**	**57**
Drilling rigs deregistered in the period(3)	13	-	13	-	-	-
Drilling rigs decommissioned in the period(4)	-	(1)	(1)	-	-	-
Drilling rig transfers	(1)	1	-	-	-	-
Total owned drilling rigs	**48**	**8**	**56**	**49**	**8**	**57**
Cardium	23	1	24	23	2	25
Montney	18	1	19	19	-	19
Duvernay	7	6	13	7	6	13
Total owned drilling rigs	**48**	**8**	**56**	**49**	**8**	**57**

(1) See "Defined Terms" on page 24 of this MD&A.

(2) Source: CAOEC Contractor Summary as at February 28, 2023.

(3) Drilling rigs are registered with the CAOEC. A drilling rig can be deregistered if it is not actively being marketed, however these rigs can be reactivated at any time.

(4) A decommissioned drilling rig cannot be reactivated into the Company's fleet as it has been disposed of through an asset sale or write-off.

Production Services

Production services provides well servicing and oilfield equipment rentals in Canada. Western operates 65 well servicing rigs and is the third 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	Year ended December 31	
Mast type	2022	2021
Single	30	29
Double	27	26
Slant	8	8
Total owned well servicing rigs	**65**	**63**

[1] Source: CAOEC Contractor Summary as at February 28, 2023.

[2] Source: CAOEC Fleet List as at February 28, 2023.

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, 2022 and 2021 and for the years ended December 31, 2022 and 2021.

	Three months ended December 31			Year ended December 31		
	2022	2021	Change	2022	2021	Change
Average crude oil and natural gas prices(1)(2)						
Crude Oil						
West Texas Intermediate (US$/bbl)	82.64	77.19	7%	94.23	67.91	39%
Western Canadian Select (CDN$/bbl)	77.39	78.71	(2%)	98.51	68.73	43%
Natural Gas						
30 day Spot AECO (CDN$/mcf)	5.43	4.92	10%	5.63	3.77	49%
Average foreign exchange rates(2)						
US dollar to Canadian dollar	1.36	1.26	8%	1.30	1.25	4%

(1) See "Abbreviations" on page 24 of this MD&A.

(2) Source: Sproule December 31, 2022 Price Forecast, Historical Prices.

West Texas Intermediate ("WTI") on average improved by 7% and 39% for the three months and year ended December 31, 2022, respectively, compared to the same periods in the prior year. Pricing on Western Canadian Select crude oil decreased by 2% for the three months ended December 31, 2022 and increased by 43% for the year ended December 31, 2022, compared to the same periods in the prior year. In 2022, pricing increased due to the war in Ukraine which caused significant price volatility, as well as improved demand for transportation fuels combined with tight supplies of crude oil. Natural gas prices in Canada also strengthened in 2022 due to the same factors, as the 30-day spot AECO price improved by 10% and 49% for the three months and year ended December 31, 2022, respectively, compared to the same periods of the prior year. Additionally, the US dollar to the Canadian dollar foreign exchange rate for the three months and year ended December 31, 2022 strengthened by 8% and 4%, respectively, compared to the same periods of the prior year.

In the United States, industry activity improved in the fourth quarter of 2022. As reported by Baker Hughes Company[3], the number of active drilling rigs in the United States increased by approximately 33% to 779 rigs as at December 31, 2022, as compared to 586 rigs at December 31, 2021. There were 121 active rigs in the Western Canadian Sedimentary Basin ("WCSB") at December 31, 2022, compared to 73 active rigs as at December 31, 2021. The CAOEC[4] reported that for drilling in Canada, the total number of Operating Days in the WCSB increased by approximately 21% for the three months ended December 31, 2022, compared to the same period in the prior year. For the year ended December 31, 2022, the total number of Operating Days in the WCSB was 34% higher than the same period of the prior year. Despite improved commodity prices, there remains continued service industry concerns over the prevailing customer preference to return cash to shareholders through share buyback programs and dividends, or pay down debt, rather than grow production through the drill bit thereby limiting industry drilling activity.

Overall Performance and Results of Operations

Operational results for the three months ended December 31, 2022, include:

- Fourth quarter revenue increased by $19.4 million or 47%, to $60.8 million in 2022 as compared to $41.4 million in the fourth quarter of 2021. Contract drilling revenue totalled $43.2 million in the fourth quarter of 2022, an increase of $18.1 million or 72%, compared to $25.1 million in the fourth quarter of 2021. Production services revenue was $17.8 million for the three months ended December 31, 2022, an increase of $1.4 million or 8%, as compared to $16.4 million in the same period of the prior year. In the fourth quarter of 2022, revenue was positively impacted by improved pricing compared to the fourth quarter of 2021 as described below:
  - In Canada, Operating Days of 928 days in the fourth quarter of 2022 were down 12 (or 1%) compared to 940 days in the fourth quarter of 2021, resulting in drilling rig utilization of 28% in the fourth quarter of 2022 compared to 21% in the same period of the prior year. In 2022, the Company deregistered 13 drilling rigs, all of which can be reactivated at a later date, which increased the drilling rig utilization percentage. The CAOEC industry average

[3] Source: Baker Hughes Company, 2022 Rig Count monthly press releases.

[4] Source: CAOEC, monthly Contractor Summary.

utilization of 40%[5] for the fourth quarter of 2022 represented an increase of 1,000 basis points ("bps") compared to the CAOEC industry average utilization of 30% in the fourth quarter of 2021. Revenue per Operating Day averaged $33,923 in the fourth quarter of 2022, an increase of 41% compared to the same period of the prior year, mainly due to improved pricing, rig upgrades, and inflationary pressures on operating costs, including higher CAOEC industry wages and fuel charges that are passed through to the customer;

  - In the United States, drilling rig utilization averaged 40% in the fourth quarter of 2022, compared to 14% in the fourth quarter of 2021, with Operating Days improving from 100 days in the fourth quarter of 2021 to 293 days in the same period of 2022. Average active industry rigs of 760 in the fourth quarter of 2022 were 36% higher compared to the fourth quarter of 2021. Revenue per Operating Day for the fourth quarter of 2022 averaged US$29,439, a 47% increase compared to US$20,092 in the same period of the prior year, mainly due to improved pricing and changes in rig mix, as there was more activity with the Company's higher spec rigs which command higher day rates; and
  - In Canada, service rig utilization of 38% in the fourth quarter of 2022 was lower than 46% in the same period of the prior year, mainly due to very cold weather in December 2022, which caused some customers to defer their capital programs into 2023. Revenue per Service Hour averaged $991 in the fourth quarter of 2022 and was 27% higher than the fourth quarter of 2021, due to improved pricing and inflationary pressures on operating costs, including higher CAOEC industry wages and fuel charges that are passed through to the customer.

- Administrative expenses increased by $1.3 million or 52%, to $3.8 million in the fourth quarter of 2022, as compared to $2.5 million in the fourth quarter of 2021, due to higher employee related costs along with inflationary cost increases associated with improved industry activity.
- The Company generated a net loss of $3.1 million in the fourth quarter of 2022 ($0.09 net loss per basic common share) as compared to a net loss of $6.0 million in the same period in 2021 ($0.90 net loss per basic common share). The change can mainly be attributed to a $3.2 million increase in Adjusted EBITDA, a $1.7 million decrease in finance costs due to the lower total debt balance, offset partially by a $0.9 million increase in income tax expense, a $0.8 million increase in stock based compensation expense, a $0.2 million increase in the loss on asset disposals and a $0.2 million increase in depreciation expense due to property and equipment additions.
- Adjusted EBITDA of $12.2 million in the fourth quarter of 2022 was $3.2 million, or 36%, higher compared to $9.0 million in the fourth quarter of 2021. Adjusted EBITDA was higher due to improved activity in the US and higher pricing in Canada and in the US, and $1.0 million related to the receipt of the Employee Retention Credit in the US ("ERC") which was offset by one-time costs of $1.6 million related to reactivating certain drilling rigs.
- Fourth quarter additions to property and equipment of $7.7 million in 2022 compared to $2.1 million in the fourth quarter of 2021, consisting of $6.0 million of expansion capital and $1.7 million of maintenance capital, as the Company continued its rig upgrade program initiated in 2022.

Operational results for the year ended December 31, 2022, include:

- Revenue for the year ended December 31, 2022 increased by $68.6 million or 52%, to $200.3 million as compared to $131.7 million for the year ended December 31, 2021. In the contract drilling segment, revenue totalled $129.5 million for the year ended December 31, 2022, an increase of $52.7 million or 69%, compared to $76.8 million in the same period in 2021. In the production services segment, revenue totalled $71.3 million for the year ended December 31, 2022, as compared to $55.5 million in the same period of the prior year, an increase of $15.8 million or 28%. Revenue was positively impacted by improved pricing in 2022, compared to 2021 as described below:
  - In Canada, there were 3,241 Operating Days for the year ended December 31, 2022, compared to 3,124 Operating Days for the year ended December 31, 2021, resulting in drilling rig utilization of 24% in 2022, compared to 18% in 2021. In 2022, the Company deregistered 13 drilling rigs, all of which can be reactivated at a later date, which increased the drilling rig utilization percentage. The CAOEC industry average utilization of 35%[6] for the year ended December 31, 2022 represented an increase of 1,000 bps compared to the CAOEC industry average of 25% for the year ended December 31, 2021. Revenue per Operating Day averaged $29,698 for the year ended December 31, 2022, an increase of 35% compared to the prior year, mainly due to improved pricing, rig upgrades, and inflationary pressures on operating costs, including higher CAOEC industry wages and fuel charges that are passed through to the customer;

[5] Source: CAOEC, monthly Contractor Summary.

[6] Source: CAOEC, monthly Contractor Summary.

  - In the United States, drilling rig utilization averaged 33% for the year ended December 31, 2022, compared to 13% in the prior year, with Operating Days improving from 387 days in 2021 to 976 days in 2022. Average active industry drilling rigs of 723 in 2022 were 56% higher compared to 2021. Revenue per Operating Day for the year ended December 31, 2022 averaged US$25,927, a 56% increase compared to US$16,615 for the year ended December 31, 2021. The increases in pricing and activity were mainly due to improved market conditions and changes in rig mix, as there was more activity with the Company's higher spec rigs which command higher day rates; and
  - In Canada, service rig utilization of 41% for the year ended December 31, 2022 was consistent with the prior year, as overall activity improved, but was constrained by field crew shortages across the industry and very cold weather in the first and fourth quarters of 2022. Revenue per Service Hour averaged $943 for the year ended December 31, 2022 and was 28% higher than the prior year, as a result of improved market conditions which led to higher hourly rates, due to inflationary pressures on operating costs, including higher CAOEC industry wages and fuel charges that are passed through to the customer. Higher pricing led to production services revenue totaling $71.3 million for the year ended December 31, 2022, an increase of $15.8 million or 28%, as compared to the prior year.
- Administrative expenses increased by $3.2 million or 30%, to $13.9 million for the year ended December 31, 2022, as compared to $10.7 million in the prior year, due to lower receipts related to government subsidy programs, as both the Canada Emergency Wage Subsidy and Canada Emergency Rent Subsidy programs ended in 2021 and were replaced with smaller government subsidy programs.
- Net income of $29.3 million for the year ended December 31, 2022 ($1.24 net income per basic common share) compared to a net loss of $35.8 million in the prior year ($5.36 net loss per basic common share). The change can mainly be attributed to a $49.4 million gain on debt forgiveness related to the Restructuring Transaction described below, a $16.9 million increase in Adjusted EBITDA, a $5.3 million decrease in finance costs, and a $1.9 million decrease in depreciation expense due to certain assets being fully depreciated in the period, offset partially by a $6.3 million increase in income tax expense.
- Adjusted EBITDA of $39.9 million for the year ended December 31, 2022 was $16.9 million, or 73%, higher compared to $23.0 million in the prior year. Adjusted EBITDA was higher due to improved activity in the US and higher pricing in Canada and the US, offset partially by $6.9 million lower receipts related to COVID-19 related government subsidies, as both the Canada Emergency Wage Subsidy and Canada Emergency Rent Subsidy programs ended in 2021, and $2.0 million in one-time startup costs associated with reactivating certain rigs in the Company's US rig fleet.
- Year to date 2022 additions to property and equipment of $34.2 million compared to $6.9 million in the same period of 2021, consisting of $28.1 million of expansion capital and $6.1 million of maintenance capital, as the Company initiated its rig upgrade program in 2022.
- On May 18, 2022, Western completed a recapitalization and debt restructuring transaction to restructure a portion of its outstanding debt and raise new capital (the "Restructuring Transaction").
  - As part of the Restructuring Transaction, Western completed a rights offering to holders of its common shares on April 19, 2022 to subscribe for additional common shares (the "Rights Offering"), resulting in the issuance of an aggregate of 16,407,229 (1,968,867,475 pre-consolidation) common shares in the capital of the Company at a price of $1.92 per share for aggregate gross proceeds of approximately $31.5 million.
  - $100.0 million of the principal amount owing to Alberta Investment Management Corporation ("AIMCo"), the lender under Western's second lien term loan facility (the "Second Lien Facility"), was converted into 16,666,667 (2,000,000,000 pre-consolidation) common shares at a conversion price of $6.00 per common share (the "Debt Exchange"), resulting in AIMCo holding approximately 49.7% of the common shares following closing of the Restructuring Transaction. In addition, $10.0 million of the proceeds from the Rights Offering was paid by Western to AIMCo to further reduce the principal amount outstanding under the Second Lien Facility, with the remaining $21.5 million of the proceeds, net of expenses of the Restructuring Transaction, used to upgrade the Company's drilling rig fleet.
  - Concurrent with the Debt Exchange and the repayment of $10.0 million of the principal amount of the Second Lien Facility, the Second Lien Facility was amended to provide for an extension of the maturity of the remaining principal amount of the Second Lien Facility from January 31, 2023 to May 18, 2026; and an increase in the interest rate from 7.25% to 8.5%.
  - In addition, the senior secured credit facilities (the "Credit Facilities") of the Company were amended, including amendments to (a) extend the maturity of the Credit Facilities from July 1, 2022 to May 18, 2025, (b) reduce the amount available under the Credit Facilities from $60.0 million to $45.0 million, and (c) revise certain financial covenants.

Details on the Restructuring Transaction are contained in Western's short form prospectus dated April 11, 2022 and related documents filed under Western's SEDAR profile on www.sedar.com.

- On June 13, 2022, Western was the first drilling and well servicing contractor to become Climate Smart certified by the emissions reduction evaluation firm Radicle Group Inc. ("Radicle") a BMO Financial Group company. As part of Western's journey through Radicle's intensive Climate Smart greenhouse gas ("GHG") inventory training and certification process, the Company has taken on the challenge of documenting, reporting, and creating an action plan to reduce its climate footprint.

  Using 2018 as its base year, Western completed four annual organizational GHG inventories, which account for direct operating emissions (Scope 1), indirect emissions from purchased electricity (Scope 2) and indirect emissions not counted in the previous scopes (Scope 3) to be Climate Smart certified through to 2021. As contract drilling is part of its core business, Western believes that annual meters drilled is a key operating metric and as an intensity metric, tonnes of CO_2 per meter drilled (tCO_2/m) can be used to measure the Company's environmental value. Through the certification process, Western identified a 30% reduction in CO_2 intensity per meter drilled in 2021 compared to 2018 base year, due to regularly increasing operational productivity and the commitment to retrofitting alternative fuel technology on our rigs. The Company's 44% increase in meters drilled per day since 2018, fuel efficient rig design, and the continuous adoption of dual fuel technology are tangible ways that Western continues to help its customers meet their Scope 1 reduction targets. The Company remains committed to advancing its environmental, social, and governance reporting and providing solutions that are impactful to our stakeholders and the environment.

- On August 2, 2022, Western completed a share consolidation of the Company's issued and outstanding common shares (the "Consolidation") at a ratio of one post-consolidation common share for every 120 pre-consolidation common shares. The Consolidation reduced the number of issued and outstanding common shares of the Company from 4,060,663,214 common shares to 33,838,886 common shares, and proportionate adjustments were made to the Company's outstanding restricted share units, options and the weighted average number of shares.

Outlook

In 2022, crude oil prices reached their highest levels since 2014, due to recovering demand as governments eased COVID-19 restrictions, the initiation of the Russian invasion of Ukraine and ongoing supply constraints. Uncertainty still persists concerning the ongoing war in Ukraine causing further volatility in crude oil prices and tight supply. The precise duration and extent of the adverse impacts of the current macroeconomic environment, including the war in Ukraine and potential COVID-19 variants on Western's customers, operations, business and global economic activity, remains uncertain at this time. Additionally, the delayed timing of completion of construction on the Trans Mountain pipeline expansion, now expected to start filling with oil in late 2023 with full operation expected in 2024, and the threatened shutdown of Enbridge Line 5, have contributed to continued uncertainty regarding takeaway capacity. Controlling fixed costs, maintaining balance sheet strength and flexibility and managing through a post-pandemic market are priorities for the Company, as prices and demand for Western's services continue to improve.

Due to anticipated improved activity in 2023, as previously announced, Western's board of directors has approved a capital budget for 2023 of $30 million, comprised of $9 million of expansion capital and $21 million of maintenance capital. The 2023 capital budget includes approximately $7 million of committed expenditures from 2022 that will carry forward into 2023. Substantially all of the net proceeds from the Rights Offering are being used to upgrade the Company's drilling rig fleet which will drive further improvements in both utilization and pricing through all industry cycles. Western will continue to manage its costs in a disciplined manner and make required adjustments to its capital program as customer demand changes. Currently, 24 of Western's drilling rigs and 21 of Western's well servicing rigs are operating.

As at December 31, 2022, Western had $7.0 million drawn on its $45.0 million Credit Facilities. As described previously, the Company amended the terms of its Credit Facilities in 2022, including extending the maturity date and amending its financial covenants. Western currently has $11.0 million outstanding on its HSBC Bank Canada six-year committed term non-revolving facility with the participation of Business Development Canada (the "HSBC Facility"), which matures on December 31, 2026. Western currently has $107.1 million outstanding on its Second Lien Facility. As previously announced on May 18, 2022, the Company closed its Rights Offering and the Restructuring Transaction, resulting in reduced debt levels, as well as the extension of the maturity date of the Second Lien Facility and the Credit Facilities. The Restructuring Transaction resulted in a $100.0 million decrease in the principal amount owing under the Second Lien Facility, resulting from the Debt Exchange and the repayment of $10.0 million of the principal amount of the Second Lien Facility using proceeds from the Rights Offering, which is expected to reduce the Company's finance costs on a go forward basis. The remaining net proceeds from the Rights Offering are being invested in capital upgrades on its drilling rig fleet.

Energy service activity in Canada will be affected by the continued development of resource plays in Alberta and northeast British Columbia which will be impacted by continued pipeline construction, environmental regulations, and the level of investment in Canada. However, the January 2023 announcement that the government of British Columbia and the Blueberry River First Nations reached an agreement (the "Blueberry Agreement") which provides a framework for how resource development may continue within the Blueberry River First Nations claim area, including the restoration and future development of land, water and natural resources, is expected to have a positive impact on the energy industry. Given the recent developments with the Blueberry Agreement in northeastern British Columbia, there is an increased demand for Montney and Duvernay class rigs and with Western's recent drilling rig upgrade program almost complete, the Company is well positioned to be the contractor 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 a lack of qualified field personnel and the restrained growth in customer drilling activity due to the continuing preference to return cash to shareholders through share buybacks, increased dividends and repayment of debt, rather than grow production. If commodity prices remain high for an extended period and as customers strengthen their balance sheets and satisfy shareholders, we expect that drilling activity will continue to increase. In the medium term, Western's rig fleet is well positioned to benefit from the LNG Canada liquefied natural gas project now under construction in British Columbia. Western is an experienced deep and long driller in Canada, with an average well length of 6,406 meters drilled per well and an average of 12.8 operating days to drill per well in 2022. 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, 2022

Segmented Information

Contract Drilling

Financial Highlights	**Three months ended December 31**			**Year ended December 31**		
(stated in thousands)	**2022**	**2021**	**Change**	**2022**	**2021**	**Change**
Revenue	43,212	25,079	72%	129,521	76,778	69%
Expenses						
Operating	32,676	18,033	81%	98,753	58,883	68%
Administrative	1,891	1,500	26%	6,189	5,096	21%
Adjusted EBITDA(1)	8,645	5,546	56%	24,579	12,799	92%
Adjusted EBITDA as a percentage of revenue(1)	20%	22%	(9%)	19%	17%	12%
Depreciation	7,721	7,483	3%	29,189	30,663	(5%)
Operating earnings (loss)	924	(1,937)	148%	(4,610)	(17,864)	74%
Stock based compensation	218	7	3,014%	502	69	628%
Income (loss) before income taxes	706	(1,944)	136%	(5,112)	(17,933)	71%

(1) See "Non-IFRS Measures" on page 23 of this MD&A.

For the year ended December 31, 2022, contract drilling revenue totalled $129.5 million, a $52.7 million, or 69%, increase as compared to the year ended December 31, 2021. Revenue for the year ended December 31, 2022, improved due to higher pricing in Canada and the US, and higher activity in the US as a result of improved demand and an improved spot market. See "*Canadian Operations*" and "*United States Operations*" below.

For the year ended December 31, 2022, administrative expenses totalled $6.2 million and were $1.1 million, or 21%, higher than the prior year, mainly due to the lower COVID-19 related government subsidies received as well as inflationary pressures on all costs.

For the year ended December 31, 2022, contract drilling incurred a loss before income taxes of $5.1 million, compared to a loss before income taxes of $17.9 million in the prior year. The change for the year ended December 31, 2022, can be attributed to an $11.8 million increase in Adjusted EBITDA and a $1.5 million decrease in depreciation expense.

For the year ended December 31, 2022, contract drilling Adjusted EBITDA of $24.6 million was $11.8 million, or 92%, higher than $12.8 million in the prior year, mainly due to improved pricing and activity, as well as the receipt of the ERC, which was partially offset by $2.0 million of one-time costs associated with reactivating rigs in the US and by inflationary pressures on operating costs. See "*Canadian Operations*" and "*United States Operations*" below.

Depreciation expense for the year ended December 31, 2022 totalled $29.2 million and reflects a decrease of $1.5 million over the prior year, mainly due to assets being fully depreciated in the year, which were only partially offset by additions to property and equipment in 2022.

Canadian Operations

The price for Canadian crude oil increased in 2022 from an average of $68.73/bbl for the year ended December 31, 2021 to $98.51/bbl for the year ended December 31, 2022, which improved demand for the Company's drilling rigs. Operating Days of 3,241 days for the year ended December 31, 2022 were 4% higher than 3,124 days in the prior year, resulting in drilling rig utilization in Canada of 24%, compared to 18% in the prior year. In 2022, the Company deregistered 13 drilling rigs, all of which can be reactivated at a later date, which increased the drilling rig utilization for the year ended December 31, 2022. Higher utilization for the year ended December 31, 2022 was due to higher commodity prices resulting from the lifting of government restrictions which assisted with the economic recovery, as well as the ongoing war in Ukraine.

For the year ended December 31, 2022, revenue per Operating Day improved by 35% averaging $29,698 compared to $21,931 in the prior year, mainly due to improved market conditions in 2022, upgrades made to the rigs, and inflationary pressures on operating costs, including higher CAOEC industry wages and fuel charges that are passed through to the customer.

United States Operations

WTI prices improved from an average of US$67.91/bbl in the year ended December 31, 2021 to US$94.23/bbl in the year ended December 31, 2022, resulting in improved activity in the United States. For the year ended December 31, 2022, Operating Days in the United States increased by 152% to 976 days compared to 387 days for the year ended December 31, 2021, which resulted in drilling rig utilization of 33% in 2022, compared to 13% in 2021.

For the year ended December 31, 2022, revenue per Operating Day increased by 56% as compared to the same period of the prior year, from an average of US$16,615 in 2021 to an average of US$25,927 in 2022. For the year ended December 31, 2022, the higher revenue per Operating Day is due to improved spot market rates and changes in rig mix, as there was more activity with the Company's higher spec rigs which command higher day rates.

Production Services

Financial Highlights	**Three months ended December 31**			**Year ended December 31**		
(stated in thousands)	**2022**	**2021**	**Change**	**2022**	**2021**	**Change**
Revenue	17,771	16,414	8%	71,278	55,522	28%
Expenses						
Operating	12,286	11,987	2%	48,262	39,689	22%
Administrative	1,150	869	32%	4,312	3,194	35%
Adjusted EBITDA(1)	4,335	3,558	22%	18,704	12,639	48%
Adjusted EBITDA as a percentage of revenue(1)	24%	22%	9%	26%	23%	13%
Depreciation	2,308	2,379	(3%)	9,252	9,810	(6%)
Operating earnings	2,027	1,179	72%	9,452	2,829	234%
Stock based compensation	73	7	943%	186	47	296%
Income before income taxes	1,954	1,172	67%	9,266	2,782	233%

(1) See "Non-IFRS Measures" on page 23 of this MD&A.

For the year ended December 31, 2022, production services revenue increased by $15.8 million, or 28%, to $71.3 million, compared to $55.5 million in the prior year. The increase in production services revenue for the year ended December 31, 2022, as compared to the prior year, is due to higher commodity prices which resulted in improved demand and drove higher hourly rates.

For the year ended December 31, 2022, Service Hours of 67,077 (41% utilization) were slightly lower than the prior year of 67,323 hours (41% utilization). While Service Hours for the year ended December 31, 2022 were positively impacted by improved market conditions, they were largely offset by crew shortages, unseasonably cold weather in the first and fourth quarters of 2022 which resulted in customers deferring their capital programs into 2023. For the year ended December 31, 2022, revenue per Service Hour averaged $943 and was 28% higher than the prior year due to improved market conditions, as well as inflationary pressures on operating costs, including higher CAOEC industry wages and fuel charges that are passed through to the customer.

For the year ended December 31, 2022, administrative expenses totalled $4.3 million and were 35% higher than the prior year of $3.2 million. The increase is due to lower COVID-19 related government subsidies received by the Company in 2022, as well as inflationary pressures on all costs.

For the year ended December 31, 2022, production services earned income before income taxes of $9.3 million, compared to income before income taxes of $2.8 million in the prior year, mainly due to a $6.1 million increase in Adjusted EBITDA and a $0.5 million decrease in depreciation expense.

Adjusted EBITDA increased for the year ended December 31, 2022, by $6.1 million, or 48%, to $18.7 million, compared to $12.6 million in the prior year. The higher Adjusted EBITDA for the year ended December 31, 2022, was due to improved market conditions and higher hourly rates resulting from inflationary pressure on costs, such as crew wages and fuel surcharges.

Depreciation expense for the year ended December 31, 2022 was 6% lower than the prior year mainly due to assets that were fully depreciated in the period.

Corporate

	Three months ended December 31			**Year ended December 31**		
(stated in thousands)	**2022**	**2021**	**Change**	**2022**	**2021**	**Change**
Expenses						
Administrative	747	154	385%	3,362	2,391	41%
Depreciation	415	401	3%	1,655	1,551	7%
Operating loss	(1,162)	(555)	(109%)	(5,017)	(3,942)	(27%)
Stock based compensation	559	20	2,695%	1,297	137	847%
Finance costs	2,988	4,720	(37%)	14,416	19,664	(27%)
Gain on debt forgiveness	-	-	-	(49,357)	-	(100%)
Other items	1,223	992	23%	603	375	61%
Income tax (recovery) expense	(177)	(1,038)	(83%)	2,858	(3,457)	(183%)

For the year ended December 31, 2022, corporate administrative expenses totalled $3.4 million and were $1.0 million, or 41%, higher than the prior year, mainly due to lower COVID-19 related government subsidies received by the Company, higher employee related costs and inflationary pressure on all costs.

For the year ended December 31, 2022, finance costs of $14.4 million were $5.3 million lower than the year ended December 31, 2021, largely due to the Restructuring Transaction which reduced the Company's debt levels, and represented an effective interest rate of 8.0%, compared to 7.8% in the same period of the prior year.

During the year ended December 31, 2022, Western incurred a one-time gain on debt forgiveness of $49.4 million, which represented the difference between the value of debt forgiveness and the fair value of the share capital issued upon the Debt Exchange, net of amortized issue costs.

Other items, which relate to foreign exchange gains and losses and the sale of assets, totalled a loss of $0.6 million for the year ended December 31, 2022, compared to a loss of $0.4 million in 2021.

For the year ended December 31, 2022, the consolidated income tax expense totalled $2.9 million, representing an effective tax rate of 8.9%, as compared to an effective tax rate of 8.8% in the year ended December 31, 2021. The Company had no cash taxes payable for the year ended December 31, 2022.

Review of Fourth Quarter 2022 Results

Selected Financial Information

Financial Highlights	**Three months ended December 31**		
(stated in thousands, except share and per share amounts)	**2022**	**2021**	**Change**
Revenue	60,792	41,363	47%
Adjusted EBITDA[(1)]	12,233	8,950	37%
Adjusted EBITDA as a percentage of revenue[(1)]	20%	22%	(9%)
Cash flow from operating activities	6,502	8,236	(21%)
Additions to property and equipment	7,708	2,107	266%
Net loss	(3,095)	(6,021)	(49%)
-basic and diluted net loss per share[(2)]	(0.09)	(0.90)	(90%)
Weighted average number of shares[(2)]			
-basic	33,841,318	6,701,745	405%
-diluted	33,841,318	6,701,745	405%
Outstanding common shares as at period end[(2)]	33,841,318	764,220	4,328%
Operating Highlights[(3)]			
Contract Drilling			
Canadian Operations			
Average active rig count	10.1	10.2	(1%)
End of period rig count	36	49	(27%)
Operating Days	928	940	(1%)
Revenue per Operating Day	33,923	24,014	41%
Drilling rig utilization	28%	21%	33%
CAOEC industry average utilization[(4)]	40%	30%	33%
Average meters drilled per well	7,412	5,986	24%
Average operating days per well	14.8	11.6	28%
United States Operations			
Average active rig count	3.2	1.1	191%
End of period rig count	8	8	-
Operating Days	293	100	193%
Revenue per Operating Day (US$)	29,439	20,092	47%
Drilling rig utilization	40%	14%	186%
Average meters drilled per well	3,001	3,807	(21%)
Average operating days per well	13.7	14.8	(7%)
Production Services			
Average active rig count	23.7	29.3	(19%)
End of period rig count	65	63	3%
Service Hours	15,443	19,046	(19%)
Revenue per Service Hour	991	780	27%
Service rig utilization	38%	46%	(17%)

(1) See "Non-IFRS Measures" on page 23 of this MD&A.

(2) The comparative 2021 balances have been restated to reflect the Consolidation and Rights Offering defined and described previously.

(3) See "Other Supplemental Financial Measures" on page 23 and "Defined Terms" on page 24 of this MD&A.

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

Review of Fourth Quarter 2022 Results

Consolidated

Fourth quarter 2022 revenue increased by $19.4 million or 47%, to $60.8 million as compared to $41.4 million in the same period of the prior year. The increase in consolidated revenue is mainly a result of higher activity and pricing in the US, and higher pricing in Canada compared to 2021, which was impacted by reduced demand from the COVID-19 pandemic. Adjusted EBITDA of $12.2 million in the fourth quarter of 2022 was $3.2 million (or 37%) higher than the fourth quarter of 2021, mainly due to the higher pricing mentioned previously.

Contract Drilling

During the fourth quarter of 2022, contract drilling revenue totalled $43.2 million, an $18.1 million, or 72%, increase as compared to same period in the prior year. Contract drilling revenue for the three months ended December 31, 2022, was higher due to higher day rates as a result of an improved spot market. See "*Canadian Operations*" and "*United States Operations*" below.

Administrative expenses for the fourth quarter of 2022 totalled $1.9 million and were $0.4 million, or 26%, higher than the same period of the prior year due to inflationary pressures on all costs.

Contract drilling generated income before income taxes of $0.7 million in the fourth quarter of 2022, compared to a loss before income taxes of $1.9 million in the same period of the prior year, due to a $3.1 million increase in Adjusted EBITDA, which was partially offset by a $0.2 million increase in depreciation expense and higher stock based compensation expense.

Contract drilling Adjusted EBITDA of $8.6 million in the fourth quarter of 2022 was $3.1 million, or 56%, higher than $5.5 million in the same period of the prior year, mainly due to higher day rates in 2022, partially offset by inflationary pressures on operating costs and $1.6 million of one-time costs associated with reactivating certain rigs. See "*Canadian Operations*" and "*United States Operations*" below.

Depreciation expense for the three months ended December 31, 2022 totalled $7.7 million and reflects an increase of $0.2 million over the same period of the prior year, mainly due to additions to property and equipment in 2022.

Canadian Operations

The price for Canadian crude oil decreased by 2% in the fourth quarter of 2022 from an average of $78.71/bbl for the quarter ended December 31, 2021 to $77.39/bbl for the quarter ended December 31, 2022. Operating Days of 928 days for the three months ended December 31, 2022 were 1% lower than 940 days in the same period of the prior year, resulting in drilling rig utilization of 28% in Canada, compared to 21% in the same period of the prior year. In 2022, the Company deregistered 13 drilling rigs, all of which can be reactivated at a later date, which increased the drilling rig utilization percentage for the three months ended December 31, 2022. Lower utilization for the three months ended December 31, 2022 was due to some customers deferring their capital programs into the first quarter of 2023.

For the three months ended December 31, 2022, revenue per Operating Day improved by 41% averaging $33,923 compared to $24,014 in the same period of the prior year, mainly due to improved market conditions in 2022, upgrades made to the rigs, and inflationary pressures on operating costs, including higher CAOEC industry wages and fuel charges that are passed through to the customer.

United States Operations

WTI prices improved from an average of US$77.19/bbl in the three months ended December 31, 2021 to US$82.64/bbl in the three months ended December 31, 2022, resulting in improved activity in the United States. This resulted in Western's Operating Days in the United States increasing by 193% to 293 days for the three months ended December 31, 2022, compared to 100 days in the same period of the prior year, which resulted in drilling rig utilization of 40% in the fourth quarter of 2022 compared to 14% in the same period for 2021.

For the three months ended December 31, 2022, revenue per Operating Day increased by 47% as compared to the same period of the prior year, from an average of US$20,092 in 2021 to an average of US$29,439 in 2022. For the three months ended December 31, 2022, the higher revenue per Operating Day is due to improved spot market rates and changes in rig mix, as there was more activity with the Company's higher spec rigs which command higher day rates.

Production Services

For the quarter ended December 31, 2022, production services revenue increased by $1.4 million or 8%, to $17.8 million, compared to $16.4 million in the same period of 2021. The increase in production services revenue for the three months ended December 31, 2022, as compared to the same period of the prior year, is due to higher hourly rates.

Service Hours decreased by 19% to 15,443 hours (38% utilization) in the fourth quarter of 2022, compared to 19,046 hours (46% utilization) in the fourth quarter of 2021. The decrease in Service Hours for the three months ended December 31, 2022, was due to cold weather in the fourth quarter of 2022, resulting in certain customers delaying their capital programs into the first quarter of 2023, as well as ongoing crew shortages. For the three months ended December 31, 2022, revenue per Service Hour averaged $991 and was 27% higher than the same period of the prior year due to improved market conditions, as well as inflationary pressures on operating costs, including higher CAOEC industry wages and fuel charges that are passed through to the customer.

For the three months ended December 31, 2022, administrative expenses totalled $1.2 million and were 32% higher than the same period of the prior year of $0.9 million. The increase for the three months ended December 31, 2022 is due to inflationary pressures on all costs.

For the fourth quarter of 2022, production services earned income before income taxes of $2.0 million, compared to income before income taxes of $1.2 million in the same period of the prior year, mainly due to a $0.7 million increase in Adjusted EBITDA in the fourth quarter of 2022.

Adjusted EBITDA increased for the three months ended December 31, 2022, by $0.7 million, or 22%, to $4.3 million, compared to $3.6 million in the same period of the prior year. The higher Adjusted EBITDA for the three months ended December 31, 2022 was due to improved market conditions and higher hourly rates resulting from inflationary pressure on all costs, such as crew wages and fuel surcharges.

Depreciation expense for the three months ended December 31, 2022 was 3% lower than the same period of the prior year mainly due to assets that were fully depreciated in the period.

Corporate

Corporate administrative expenses for the quarter ended December 31, 2022 totalled $0.7 million and were $0.5 million higher than the same period in the prior year mainly due to higher employee related costs as well as inflationary pressure on all costs.

Finance costs in the fourth quarter of 2022 of $3.0 million were $1.7 million lower than the same period in 2021 and represented an effective interest rate of 8.6% which was higher than 7.4% in the same period of the prior year due to the Bank of Canada increasing its benchmark interest rate, which impacted the Company's floating interest rate debt, despite a lower overall debt balance compared to 2021.

Other items, which relate to foreign exchange gains and losses and the sale of assets, totalled $1.2 million for the three months ended December 31, 2022, compared to $1.0 million in the same period of 2021.

For the fourth quarter of 2022, the consolidated income tax recovery totalled $0.2 million, representing an effective tax rate of 5.4%, as compared to an effective tax rate of 14.7% in the same period of 2021 when the Company did not recognize deferred tax assets in the period. The Company had no cash taxes payable in 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, 2022, Western had working capital of $21.9 million compared to working capital of $2.2 million as at December 31, 2021 mainly due to higher pricing in the fourth quarter of 2022, compared to the same period in the prior year. Western's total debt at December 31, 2022 decreased by $108.2 million to $133.4 million, compared to $241.6 million at December 31, 2021, mainly due to the debt forgiveness as part of the Debt Exchange and repayment of $10.0 million of the principal amount of the Second Lien Facility as part of the Restructuring Transaction.

During the year ended December 31, 2022, Western had the following changes to its cash balances, which resulted in a $1.4 million increase in cash and cash equivalents in the year:

Cash and cash equivalents (stated in thousands)	
Opening balance, at December 31, 2021	7,478
Add:	
Adjusted EBITDA[1]	39,921
Proceeds from rights offering	31,502
Proceeds on sale of property and equipment	416
Other items	252
Deduct:	
Additions to property and equipment	(34,228)
Repayment of Second Lien debt	(11,615)
Finance costs paid	(9,286)
Change in non cash working capital	(6,376)
Debt and share issuance costs	(4,068)
Repayment of lease obligations	(2,494)
Repayment of the HSBC Facility	(1,250)
Repayment of Credit Facilities	(1,000)
Distributions to non controlling interest	(374)
Ending balance, at December 31, 2022	**8,878**

(1) See "Non-IFRS Measures" on page 23 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, 2022, $7.0 million was drawn on the Credit Facilities and $11.3 million was drawn on the HSBC Facility. As described previously, subsequent to December 31, 2021, the Company amended the terms of its Credit Facilities, which included extending the maturity date and amending certain financial covenants. Cash flow from operations, available Credit Facilities and proceeds from the Rights Offering are expected to be sufficient to cover Western's financial obligations, including working capital requirements and the 2023 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 on page 23 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.sedar.com.

The Credit Facilities are secured by the assets of Western and its subsidiaries. A summary of the Company's financial covenants as at December 31, 2022 is as follows:

December 31, 2022	**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	1.10 or more

(1) See covenant definitions in Note 10 of the December 31, 2022 consolidated financial statements.

At December 31, 2022, Western was in compliance with all covenants related to its Credit Facilities.

For the year ended December 31, 2022 and 2021, the Company had no customers comprising more than 10.0% of the Company's total revenue. The Company's significant customers may change from period to period.

Summary of Quarterly Results

In addition to other market factors, 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, 2022	Sep 30, 2022	June 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021
Revenue	60,792	58,483	30,594	50,475	41,363	32,960	20,386	36,969
Adjusted EBITDA(1)	12,233	14,799	2,498	10,391	8,950	5,009	2,197	6,891
Cash flow from (used in) operating activities	6,502	6,854	8,724	6,461	8,236	(2,524)	9,410	1,509
Net income (loss)	(3,095)	818	35,431	(3,834)	(6,021)	(10,397)	(12,940)	(6,454)
per share - basic and diluted(2)	(0.09)	0.02	1.81	(0.57)	(0.90)	(1.56)	(1.94)	(0.97)
Total assets	475,708	475,651	458,196	457,226	456,003	460,872	460,443	478,527
Long term debt	126,527	127,639	121,776	233,321	226,884	228,263	225,590	233,418

(1) See "Non-IFRS Measures" on page 23 of this MD&A.

(2) Basic and diluted net income (loss) per share has been restated to reflect the Consolidation and Rights Offering defined and described previously.

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 and resulted in customers reducing or cancelling their drilling programs, which had a negative impact on Western's revenue and Adjusted EBITDA. However, crude oil prices began to recover in 2021 and continued to increase in 2022, resulting in improvements in pricing and activity throughout the industry.

A net loss was incurred from 2021 until the second quarter of 2022 due to the prolonged decline in crude oil and natural gas prices in 2021, resulting in reduced demand. However, commodity prices began to improve in the latter part of 2021 and continued to increase further in 2022, resulting in higher pricing. 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, 2022 are as follows:

(stated in thousands)	2023	2024	2025	2026	2027	Thereafter	Total
Second Lien Facility	1,080	1,080	1,080	104,180	-	-	107,420
Second Lien Facility interest	9,094	9,027	8,936	7,348	-	-	34,405
Trade payables and other current liabilities (1)	29,923	-	-	-	-	-	29,923
HSBC Facility	1,250	1,250	1,250	7,500	-	-	11,250
HSBC Facility interest	929	822	711	602	-	-	3,064
Lease obligations (2)	2,795	2,296	675	389	4	-	6,159
Revolving Facility	-	-	7,000	-	-	-	7,000
Operating commitments (3)	6,234	757	61	-	-	-	7,052
PPP Loan	946	946	569	-	-	-	2,461
Total	52,251	16,178	20,282	120,019	4	-	208,734

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

Second Lien Facility and interest:

The Company pays interest on the Second Lien Facility semi-annually on January 1 and July 1. The Company amended the terms of the Second Lien Facility on May 18, 2022 as described previously and the Second Lien Facility is due May 18, 2026. See "*Overall Performance and Results of Operations*".

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.

HSBC Facility and interest:

The Company pays interest on the HSBC Facility monthly, and principal payments commenced January 1, 2022. The HSBC Facility matures 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.

Credit Facilities:

The Company's Credit Facilities mature on May 18, 2025. The Company amended the Credit Facilities on May 18, 2022 as described previously. See "*Overall Performance and Results of Operations*".

Operating commitments:

The Company has agreements in place to purchase certain capital and other operational items with third parties, as well as short term leases with a term of less than one year, and operating expenses associated with long term leases.

PPP loan:

The Company has a US$1.8 million 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 its five year term and matures on July 23, 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, 2023	December 31, 2022	December 31, 2021
Common shares outstanding	33,841,324	33,841,318	764,220
Stock options outstanding	3,109,476	3,109,490	49,373
Restricted share units outstanding - equity settled	1,725	1,731	4,949

On August 2, 2022, the Company's issued and outstanding common shares were consolidated at a ratio of one post consolidation common share for every 120 pre-consolidation common shares as described previously. The comparative 2021 balances have been restated to reflect the Consolidation.

Off Balance Sheet Arrangements

As at December 31, 2022, 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, a one percent change in interest rates would have had a $0.2 million impact on interest expense for the year ended December 31, 2022 (December 31, 2021: $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 international operations. From time to time, the Company may use forward foreign currency contracts to hedge against these fluctuations. At December 31, 2022, 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, 2022, 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, 2021: $0.1 million and $0.3 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 crude oil and natural gas industry and are subject to industry credit risk. For the year ended December 31, 2022, the volatility in global demand for crude oil related to the war in Ukraine and 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 credit worthiness 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, 2022, the Company has collected 64% of its trade and other receivables that were outstanding at December 31, 2022.

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.

As at December 31, 2022, liquidity was sufficient as Western had $8.9 million in cash and cash equivalents and had access to the undrawn balance on its Credit Facilities of $38.0 million. All of the Company's long term debt instruments mature in 2025 and 2026 (see Note 10 of the consolidated financial statements).

This assessment 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, 2022. 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, 2022 are described in Note 3 of the audited consolidated financial statements and accompanying notes of the Company for the years ended December 31, 2022 and 2021. There were no new accounting standards or amendments to existing standards adopted in the year ended December 31, 2022 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 for the year ended December 31, 2022, 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 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 annual consolidated financial statements for the year ended December 31, 2022. Actual results may differ from the estimates used in preparing the consolidated financial statements.

Government Grants:

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

For the three months and year ended December 31, 2022, the Company recognized $1.1 million and $2.2 million respectively, under various COVID-19 relief programs in Canada and the United States. These subsidies were recognized as a reduction of operating expenses of $1.1 million for the three months ended December 31, 2022 and a reduction of operating and administrative expenses by $2.1 million and $0.1 million respectively, for the year ended December 31, 2022. For the three months and year ended December 31, 2021, the Company recognized $0.1 million and $9.4 million, respectively related to government subsidies. These subsidies were recognized as a reduction of operating, administrative and depreciation expense of $0.1 million, for the three months ended December 31, 2021 and $8.0 million, $1.0 million and $0.4 million respectively, for the year ended December 31, 2021.

Business Risks

For a comprehensive listing of the Company's business risks please see the most recent annual information form ("AIF") for the year ended December 31, 2022, as filed under the Company's SEDAR profile at www.sedar.com.

Certain of the Company's primary business risks as at December 31, 2022 are as follows:

- The Company's business relies on the crude oil and natural gas exploration and production industry which is subject to a number of risks including general economic conditions, fluctuations in demand and supply of crude oil and natural gas production, fluctuations in commodity prices, competition and increases in operating costs. In addition, changes may occur in government regulations, including regulations relating to foreign acquisitions, prices, taxes, royalties, land tenure, allowable production, importing and exporting of crude oil and natural gas and environmental protection for the crude oil and natural gas industry as a whole. Risks impacting the crude oil and natural gas exploration and production industry, including the ability of crude oil and natural gas companies to accumulate capital or variations in their exploration and development budgets, may also affect the Company's business. The impact of these risks cannot be accurately predicted. If there is a return to a low commodity price environment due to factors outside the Company's control, the demand for the Company's equipment and services will remain lower than normal and the Company's utilization rates and revenue will be adversely affected during such time. Lower utilization and revenue could result in the Company not being in compliance with certain covenants in its Credit Facilities, which in turn could restrict the Company's ability to access its Credit Facilities, pay distributions, repay indebtedness at maturity and incur additional debt in the future.

- The contract drilling, well servicing and equipment rental equipment business is highly competitive. The Company competes with a substantial number of companies in each of its business lines. The Company's ability to generate revenue and earnings depends primarily upon its ability to win bids in competitive bidding processes and to perform awarded projects within estimated times and costs. There can be no assurance that such competitors will not substantially increase the resources devoted to the development and marketing of products and services that compete with those of the Company or that new competitors will not enter the various markets in which the Company is active. Reduced levels of activity in the crude oil and natural gas industry can intensify competition and result in lower revenue to the Company.
- During the prolonged downturn many oilfield service workers left the industry and, therefore, as activity has increased it has been difficult for the Company to attract and retain field crews. The success of the Company is dependent on its key personnel and the Company may have difficulty finding enough qualified personnel to meet its needs. This could limit the Company's growth and may have a material adverse effect on the Company's business and financial results.
- The contract drilling, well servicing and oilfield rental equipment industries have historically been cyclical and each have experienced periods of low demand, excess supply, and lowering rates, followed by periods of high demand, short supply and increasing rates. Periods of excess supply of drilling rigs, well servicing rigs or oilfield rental equipment intensify the competition in the industry and often result in drilling rigs or oilfield equipment being idle which may have an adverse effect on the Company's business and financial results.
- The overall uncertainty surrounding global economic conditions has contributed significant volatility to commodity prices in North America which has adversely affected the crude oil and natural gas industry in North America. Global economic conditions that may affect the North American crude oil and natural gas industry include, among other things, demand for commodities, sovereign debt levels and political unrest. Such factors continue to impact commodity prices in North America and contribute to higher volatility in North American stock markets. Negative volatility of global economic conditions could have a material adverse effect on Western, its customers and its suppliers.
- The current conflict between Ukraine and Russia and the international response has, and may continue to have, potential wide-ranging consequences for global market volatility and economic conditions, including energy and commodity prices, which may, in turn, increase inflationary pressures and interest rates. Certain countries, including Canada and the United States, have imposed strict financial and trade sanctions against Russia, which have, and may continue to have, far-reaching effects on the global economy and energy and commodity prices. The short-, medium- and long-term implications of the conflict in Ukraine are difficult to predict with any certainty at this time and there remains uncertainty relating to the potential direct and indirect impact of the conflict on Western, and it could have a material and adverse effect on the Company's business, financial condition and results of operations. Depending on the extent, duration, and severity of the conflict, it may have the effect of heightening many of the other risks described herein, including, without limitation, the risks relating to Western's exposure to commodity prices; supply chains and Western's ability to obtain required equipment or labour; cybersecurity risks; inflationary pressures; and restricted access to capital and increased borrowing costs as a result of increased interest rates.
- The ability of Western to make payments, dividends, or enter into certain transactions will be subject to applicable laws and contractual restrictions in the instruments governing its indebtedness, including the Credit Facilities, the HSBC Facility and the Second Lien Facility. The Credit Facilities, the HSBC Facility and the Second Lien Facility contain numerous covenants that limit the discretion of management with respect to certain business matters. The Credit Facilities contain a number of financial covenants that require Western to meet certain financial ratios and financial condition tests. Western's ability to meet such tests could be affected by events beyond its control, and it may not

be able to meet such financial ratios and/or tests. A failure to comply with the obligations in the Credit Facilities, including financial ratios and financial condition tests, could result in a default which, if not cured or waived, would permit acceleration of the repayment of the relevant indebtedness as the lenders could elect to declare all amounts outstanding under the Credit Facilities to be immediately due and payable and terminate all commitments to extend further credit.

- Liquidity risk is the risk that the Company will not be able to meet its financial and other obligations as they become due or can only do so at an excessive cost. The Company believes it can finance any future operations through one of or a combination of internally generated cash flows, borrowing under existing credit facilities, the issuance of debt or the issuance of equity, according to its capital management. However, there is no guarantee that Western will be able to achieve any of the foregoing if economic conditions continue or worsen. To the extent external sources of capital become unavailable or available on onerous terms or otherwise limited, Western's assets, liabilities, business, financial condition, and results of operations may be materially and adversely affected as a result.
- Certain activities conducted by Western are affected by factors that are beyond its control or influence. Western's businesses and activities in Canada and its operations in the United States are directly affected by fluctuations in exploration, development and production activity carried on by its customers which, in turn, is dictated by numerous factors including global energy prices and government policies. The addition, elimination or curtailment of government regulations and incentives could have a significant impact on the crude oil and natural gas business in Canada and abroad. These factors could lead to a decline in the demand for the Company's services, resulting in a material adverse effect on the Company's business and financial results. Further, the operations of Western are subject to a variety of federal, state, provincial and local laws, regulations, and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment, the operation of equipment used in its operations and the transportation of materials and equipment it provides for its customers.
- Many factors including, but not limited to, the Company's financial and operating results, can affect the volatility and price of the common shares. Some of these factors include the current local and global economic condition, governmental/regulatory actions or inactions, speculation made by media or the investment community, industry conditions, commodity prices, foreign exchange rates and political or other events unrelated to the Company's operating performance may impact the price of the common shares. Investors should not place undue reliance on historical share price as an indicator of future share price or Western's financial results, and should seek advice from a financial expert prior to investing.
- The Company may issue additional common shares in the future, which may dilute a shareholder's holdings in the Company or negatively affect the market price of the common shares. The Company's articles permit the issuance of an unlimited number of common shares and an unlimited number of Preferred Shares, issuable in series. Such additional common shares and preferred shares may, in certain cases, be issued without the approval of shareholders and shareholders will have no pre-emptive rights in connection with such further issuances. The Board of Directors has the discretion to determine the provisions attached to any series of preferred shares and the price and the terms of issue of further issuances of common shares. Issuances of a substantial number of common shares or preferred shares, may adversely affect prevailing market prices for the common shares or preferred shares. As well, with any additional issuance of common shares or preferred shares, shareholders will experience dilution, compared to funding via debt. Also, additional common shares will be issued by the Company on the exercise of stock options under the Company's stock option plan, vesting under the Company's restricted share unit plan, or pursuant to other share compensation arrangements.
- In Canada the level of activity in the energy services industry is influenced by seasonal weather patterns. The spring thaw makes the ground unstable and less capable of supporting heavy loads. There is greater demand for energy services provided by the Company in the winter season when freezing conditions permit the movement and operation of heavy equipment. Volatility in the weather and temperature, including as a result of climate change, can therefore create unpredictability in activity and utilization rates, which could have a material adverse effect on the Company's business and financial results.
- The Company's operations are subject to many hazards inherent in the oilfield service industry, such as blowouts, explosions, damaged or lost drilling, well servicing and oilfield rental equipment or damage or loss from inclement weather, which could result in business interruption, casualty losses, damage or destruction of equipment, suspension of operations, environmental damage or damage to property. The Company will have the benefit of insurance maintained by it and industry standard contracts; however, it may become liable for damages against

which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons. This could have a material adverse effect on the Company's business and financial results.

- 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 or wage and price controls, may negatively impact levels of demand for Western's services and cost of inputs, and could, accordingly, have a material adverse effect on Western's business, financial condition and results of operations. Higher interest rates as a result of inflation 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.
- The Company's business is subject to credit risk primarily from credit exposure to customers, with a concentration of credit risk with customers in the crude oil and natural gas industry. In particular, Western may be exposed to credit-related losses in the event counterparties to contracts become insolvent, are subject to creditor protection laws or otherwise fail to fulfill their present or future financial obligations to Western.
- The business operations of Western will depend, to a certain extent, on industry standard agreements, and in some cases, verbal agreements with its customer base, some of which are cancellable at any time by Western, or its customers, upon certain conditions being met. There can be no assurance that Western's relationship with its customers will continue, and a significant reduction or total loss of the business from a customer, if not offset by sales to new or existing customers, could have a material adverse effect on Western's business, financial condition, results of operations and cash flows.
- As a result of the long-life nature of contract drilling and well servicing equipment and the lag between when the decision to build a rig is made and when that rig is placed into service, the number of rigs in the industry does not always correlate to the level of demand for those rigs. Periods of high demand often spur increased capital expenditures on rigs, and those capital expenditures may result in equipment supply exceeding actual demand. The potential of a capital overbuild in the industry could cause Western's competitors to lower their rates and could lead to a decrease in rates in the energy services industry generally, which could have a material adverse effect on Western's business and financial results.
- Public support for climate change action and receptivity to alternative/renewable energy technologies has grown in recent years. There has been increased environmental activism and public opposition to the continued exploitation, development and transportation of fossil fuels, and in relation to the oil sands in particular. Additionally, the risks of natural disasters that could impact Western's business may increase in the future as a result of climate change. Laws, the political landscape in Canada and abroad, regulations, policies, obligations, natural disasters, social attitudes and customer preferences relating to climate change and the transition to a lower carbon economy could have an adverse impact on Western's business, financial condition, results of operations, cash flows, reputation, access to capital, access to insurance, cost of borrowing, access to liquidity, and/or business plans. The Company's exploration and production customers' facilities and other operations emit greenhouse gases which requires them to comply with legislation in those provinces and states where they operate. Over the past few years, both Federal and Provincial governments have implemented carbon levies on greenhouse gas emissions. The direct or indirect costs of these new greenhouse gas emission reduction regulations, as well as regulations which may be adopted in these or other jurisdictions in the future, may have a material adverse effect on the Company's business, financial condition and results of operations and cash flows, as well as impacting the Company's customers' operations.
- The safety performance of the Company and each of its operating divisions and its subsidiary is an important part of the Company's business and the Company's customer's business. Western's Health, Safety and Environment department develops, implements and monitors strategies to ensure all of the Company's operations are meeting regulatory and internal safety policies and procedures. The Company's safety performance is continuously monitored at all levels of the Company, starting with the Board of Directors.
- A portion of the operations of the Company are in the United States which subject the Company to currency fluctuations and different tax and regulatory laws.
- In the ordinary course of business, Western may be subject to ongoing audits by tax authorities. While Western believes that its tax filing positions are appropriate and supportable, it is possible that tax matters, including the calculation and determination of revenue, expenditures, deductions, credits and other tax attributes, taxable income and taxes payable, may be reviewed and challenged by the tax authorities. In addition, the previous tax filing positions of businesses acquired by Western may be reviewed and challenged by tax authorities. If such challenge were to succeed, it could have a material adverse effect on Western's tax position. Further, the

interpretation of and changes in tax laws, whether by legislative or judicial action or decision, and the administrative policies and assessing practices of taxation authorities, could have a material adverse effect on Western's tax position. As a consequence, Western is unable to predict with certainty the effect of the foregoing on Western's taxes payable, effective tax rate and earnings.

- Complex drilling and completions programs for the exploration, development and production of conventional and unconventional crude oil and natural gas reserves in North America demand high performance equipment. The abilities of energy service providers to meet these demands will depend on continuous improvement of existing rig technology such as 7500 psi circulating systems, walking systems, drive systems, control systems, automation, mud systems and top drives to improve drilling efficiency. Western's ability to deliver equipment and services that are more efficient is critical to continued success. There is no assurance that competitors will not achieve technological improvements that are more advantageous, timely or cost effective than improvements developed by Western.
- Certain components of the Company's equipment may become obsolete or experience a decrease in demand through the introduction of competing products that are lower in cost, exhibit enhanced performance characteristics or are determined by the market to be preferable for environmental or other reasons. Regulatory changes or customer preferences which favor lower-emissions technology could make the Company's existing equipment less attractive or effective or require the Company to invest significant capital to upgrade its technology. The Company will need to keep current with the changing market for energy services and technological and regulatory changes. If it fails to do so, it could have a material adverse effect on the Company's business and financial results.
- The Company depends on its suppliers to deliver equipment in a timely and efficient manner and the failure of the Company's suppliers to do so, could be detrimental to the Company's ability to keep customers and to grow.
- Western's business, financial condition and results of operations have been and may continue to be materially and adversely affected by the outbreak of epidemics, pandemics and other public health crises in geographic areas in which the Company has operations, customers or employees, including the ongoing COVID-19 pandemic and continued uncertainty with respect to the extent and duration of the pandemic. Actions that have been, and may be, taken by governmental authorities in response to the pandemic have resulted, and may continue to result in, among other things: fluctuations in the status of the global economy, including changes in global energy demand; increased volatility in financial and commodity markets; disruptions to global supply chains; labour shortages; inflation and cost pressures; significant impacts to the workforce; reductions in trade volumes; temporary operational restrictions and restrictions on gatherings of individuals, as well as shelter-in-place declarations and quarantine orders; business closures and travel bans; political and economic instability; and civil unrest. The occurrence of new variants of the COVID-19 virus in certain geographic areas, including certain areas in which Western operates, and the possibility that a resurgence of the COVID-19 virus or the spread of such new or other variants or mutations thereof may occur in other areas, may result in the reimposition of certain of the foregoing restrictions or further restrictions by governmental authorities in certain jurisdictions, including certain jurisdictions in which Western operates. Depending on the extent and duration of the COVID-19 pandemic, it may also have the effect of heightening many of the other risks described herein, including the risks relating to Western's exposure to commodity prices; restricted access to capital and increased borrowing costs; Western's ability to fund its debt obligations; and otherwise complying with the covenants contained in the Credit Facilities, HSBC Facility and the Second Lien Facility.
- The Company is subject to the operating risks inherent in the industry, including environmental damage. The Company has established programs to address compliance with current environmental standards and monitors its practices concerning the handling of environmentally hazardous materials. However, there can be no assurance that the Company's procedures will prevent environmental damage occurring from spills of materials handled by the Company or that such damage has not already occurred.
- World crude oil and natural gas prices are quoted in United States dollars and the price received by Canadian producers is therefore affected by the Canadian/US dollar exchange rate, which will fluctuate over time. In recent years, the Canadian dollar has experienced levels which were below par to the United States dollar although the Canadian dollar may experience fluctuations from such levels. To the extent that Western engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which Western may contract. Western takes on interest rate risk in association with its debt obligations. Amounts paid in respect of interest on debt reduce Western's cash flow. Interest rates are influenced by Canadian and global economic conditions beyond the Company's control. 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 the Company's cash flow and ability to service obligations under its debt obligations. The Company is exposed to interest rate risk on its Credit Facilities and the HSBC Facility. Floating-rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate with changes in market interest rates.

- The Company is required to periodically review asset balances including capital assets for impairment when certain factors indicate the need for analysis. These calculations are based on management's estimates and assumptions at the time the analysis is made. Several factors are included in this analysis and may include changes in share price, cash flow and earnings estimates, changes in market conditions, and general local and global economic conditions. Any resulting future impairment write down to capital assets could result in a non-cash charge against net earnings and could be material in nature.
- The Company may find it necessary in the future to obtain additional debt or equity to support ongoing operations, to re-finance debt, to undertake capital expenditures or to undertake acquisitions or other business combination transactions (including joint venture transactions). There can be no assurance that additional financing will be available to the Company when needed or on terms acceptable to the Company. The Company's inability to raise financing to support ongoing operations, to re-finance debt, including the Second Lien Facility, or to fund capital expenditures or acquisitions or other business combination transactions could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.
- As of the date of the AIF, AIMCo is the Company's largest shareholder. AIMCo has the ability to substantially influence matters affecting shareholders or requiring shareholder approval, including the election of directors, amendments to the articles and bylaws of the Company, and the determination of significant corporate actions. In addition, pursuant to the investor rights agreement, AIMCo has certain nomination rights, including the right to nominate up to two directors on the Board. AIMCo's nomination rights remain in effect so long as AIMCo and its affiliates beneficially own, control or direct at least 30% of the outstanding common shares.
- Sales of a substantial number of Common Shares in the public market could occur at any time. These sales, or the market perception that the holders of a large number of common shares intend to sell such common shares, could significantly reduce the market price of the common shares and the market price could decline. Western cannot predict the effect, if any, that future public sales of these common shares or the availability of these common shares for sale will have on the market price of the common shares. If the market price of the common shares was to drop as a result, this might impede Western's ability to raise additional capital and might cause remaining shareholders to lose all or part of their investments.
- There are potential conflicts of interest which may arise as a result of the members of Western's Board of Directors being engaged in certain businesses on their own behalf or on behalf of other companies. Conflicts, if any, will be subject to the procedures and remedies available under the Business Corporations Act (Alberta) and Western's internal code of business conduct and ethics.
- The Company relies on various information systems to manage its business. If these systems were compromised due to a successful cyber-attack, this could have a material adverse effect on the Company's business and financial results.
- When Western contracts for the construction of a contract drilling or well servicing rig, the cost of construction of the rig and the timeline for completing the construction are estimated at that time. Actual costs of construction may, however, vary significantly from those estimated as a result of numerous factors, including, without limitation, changes in input costs such as the price of steel, variations in labour rates, and, to the extent that component parts must be sourced from other countries, fluctuations in exchange rates and tariffs. In addition, several factors could cause delays in the construction of a rig, including shortages in skilled labour and delays or shortages in the supply of component parts. While Western has not experienced any material delays to date, construction delays in the future could lead to postponements of the anticipated date for deployment of a newly constructed rig into operation and any such postponement could have a negative effect on cash flows generated from operations, of which the effect may be material.

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 measure and ratio used in this MD&A is identified and defined as follows:

Adjusted EBITDA

Earnings before interest and finance costs, taxes, depreciation and amortization, other non-cash items and one-time gains and losses ("Adjusted EBITDA") is a useful 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)	**2022**	**2021**	**2022**	**2021**
Net income (loss)	**(3,095)**	**(6,021)**	**29,320**	**(35,812)**
Income tax expense (recovery)	(177)	(1,038)	2,858	(3,457)
Income (loss) before income taxes	**(3,272)**	**(7,059)**	**32,178**	**(39,269)**
Add (deduct):				
Gain on debt forgiveness	-	-	(49,357)	-
Depreciation	10,444	10,263	40,096	42,024
Stock based compensation	850	34	1,985	253
Finance costs	2,988	4,720	14,416	19,664
Other items	1,223	992	603	375
Adjusted EBITDA	**12,233**	**8,950**	**39,921**	**23,047**

Other Supplemental Financial Measures

In addition to the above non-IFRS measures, Western uses certain other supplemental financial measures in this MD&A, as described below:

Revenue per Operating Day: Calculated as total 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: Calculated as total well servicing revenue divided by total Service Hours. This calculation represents the average hourly rate, charged to Western's customers.

Working capital: Calculated as current assets less current liabilities as disclosed in the Company's annual 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");
- Basis point ("bps"): A 1% change equals 100 basis points and a 0.01% change is equal to one basis point;
- Canadian Association of Energy Contractors ("CAOEC");
- DecaNewton ("daN");
- International Financial Reporting Standards ("IFRS");
- Pounds ("lbs");
- Thousand cubic feet ("mcf");
- Western Canadian Sedimentary Basin ("WCSB"); 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, in particular, the Company's expectations regarding improved activity in 2023; Western's expectations regarding prevailing customer preferences; the potential impact of the current conflict in Ukraine on commodity prices, the demand for Western's services and the anticipated effect on the energy service industry generally; the pricing for the Company's services and equipment; the Company's expected total capital budget for 2023, including the allocation of such budget and expectations with respect to the committed expenditures being carried forward; the anticipated reduction of the Company's finance costs on a go forward basis as a result of the Restructuring Transaction; beliefs regarding appropriate measures of the Company's environmental value; the ability of the Company to help its customers reach their Scope 1 reduction targets; the implications of the COVID-19 pandemic on Western, the energy service industry and global economic activity; expectations with respect to the Trans Mountain pipeline expansion; the positive impact of the Blueberry River First Nations decision on the energy industry; the Company's liquidity needs including the ability of current capital resources to cover Western's financial obligations; 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 Company's use of proceeds from the Rights Offering; the Company's use of forward foreign currency contracts; estimates with respect to foreign exchange rates; factors affecting companies with credit risk; expectations as to the benefits of the LNG Canada natural gas project in British Columbia on the Company and its rig fleet; 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 producer spending and 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; the Company's ability to find and maintain enough field crew members; and forward-looking information contained under the headings "*Disclosure Controls and Procedures and Internal Controls Over Financial Reporting*", "*Business Risks*" 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 2023 and in the future; the impact, direct and indirect, of the COVID-19 pandemic and geo-political events, including the war in Ukraine, 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 United States, Ukraine 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 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, 2022, which may be accessed through the SEDAR website at www.sedar.com.

The forward-looking statements and information contained in this MD&A are made as of the date hereof and Western does not undertake any obligation to update publicly or revise any forward-looking statements and information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws. 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.sedar.com.

Western Energy Services Corp.

Consolidated Financial Statements

December 31, 2022 and 2021

To the Shareholders of Western Energy Services Corp.:

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of Western Energy Services Corp. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Audit Committee is appointed by the Board of Directors, with all of its members being independent directors. The Audit Committee meets with management, as well as with the external auditors, to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the auditor's report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited independently by Deloitte LLP on behalf of Western Energy Services Corp. in accordance with Canadian generally accepted auditing standards. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements.

"Signed"
Alex R.N. MacAusland
President &
Chief Executive Officer

"Signed"
Jeffrey K. Bowers
Senior Vice President, Finance,
Chief Financial Officer & Corporate Secretary

February 28, 2023

Deloitte.

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Independent Auditor's Report

To the Shareholders of Western Energy Services Corp.

Opinion

We have audited the consolidated financial statements of Western Energy Services Corp. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2022 and 2021, and the consolidated statements of operations and comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

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

Key Audit Matter Description

The Company's determination of whether or not an indicator of impairment or impairment reversal exists in its cash generating units (CGUs) requires management to make significant judgments, estimates, and assumptions in evaluating factors which could indicate if impairment or impairment reversal exist. This includes significant changes of operating results and the manner in which an asset is used, the carrying amount of the net assets of the entity being more than its market capitalization or significant negative industry or economic trends. There were no indicators of impairment or impairment reversal for any of the CGUs at December 31, 2022.

While there are several factors required to determine whether or not an indicator of impairment or impairment reversal exists, the judgments with the highest degree of subjectivity are the inputs to the Company's market capitalization deficiency assessment (specifically control premium, industry and company specific factors), and the impact of industry activity level expectations on the Company's earnings. Auditing these factors required a high degree of subjectivity which resulted in an increased extent of audit effort, including the involvement of fair value specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to inputs to the Company's market capitalization deficiency assessment, and impact of industry activity level expectations on the Company's earnings considered in the assessment of indicators of impairment or impairment reversal included the following, among others:

- With the assistance of fair value specialists, evaluated the changes in the market capitalization deficiency, including the change in control premium, industry and company specific factors, and its impact on the Company's impairment or impairment reversal indicator analysis.
- Evaluated the reasonableness of management's assessment of the impact of industry activity level expectations on the Company's earnings by:
    - Evaluating management's ability to accurately forecast by comparing actual results to previous year forecasts.
    - Benchmarking to the industry's general economic environment and the Company's specific economic circumstances.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
February 28, 2023

Western Energy Services Corp.

Consolidated Balance Sheets
(thousands of Canadian dollars)

	Note	December 31, 2022	December 31, 2021
Assets			
Current assets			
Cash and cash equivalents		$ 8,878	$ 7,478
Trade and other receivables	6	47,213	26,464
Other current assets	7	5,453	6,411
		61,544	40,353
Non current assets			
Property and equipment	8	413,840	415,245
Other non current assets	7	324	405
		$ 475,708	$ 456,003
Liabilities			
Current liabilities			
Trade payables and other current liabilities	9	$ 34,459	$ 24,590
Current portion of long term debt	10	5,162	13,539
		39,621	38,129
Non current liabilities			
Long term debt	10	126,527	226,884
Deferred taxes	16	7,030	4,490
		173,178	269,503
Shareholders' equity			
Share capital	11	521,549	441,672
Contributed surplus		17,664	15,762
Retained earnings (deficit)		(267,468)	(296,467)
Accumulated other comprehensive income		28,845	23,540
Non controlling interest		1,940	1,993
		302,530	186,500
		$ 475,708	$ 456,003

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

Approved on behalf of the Board of Directors:

"Signed"
Ronald P. Mathison
Director, Chairman of the Board

"Signed"
John R. Rooney
Director, Chairman of the Audit Committee

Western Energy Services Corp.

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

	Note	Year ended December 31, 2022	Year ended December 31, 2021
Revenue		$ 200,344	$ 131,678
Expenses			
Operating		146,560	97,950
Administrative		13,863	10,681
Depreciation	8	40,096	42,024
Stock based compensation	12	1,985	253
Finance costs	14	14,416	19,664
Other items	15	603	375
Gain on debt forgiveness	11	(49,357)	-
Income (loss) before income taxes		32,178	(39,269)
Income tax (expense) recovery	16	(2,858)	3,457
Net income (loss)		29,320	(35,812)
Other comprehensive income (loss) (1)			
Gain (loss) on translation of foreign operations		3,352	(334)
Unrealized foreign exchange gain (loss) on net investment in subsidiary		1,953	(122)
Comprehensive income (loss)		$ 34,625	$ (36,268)
Net income (loss) attributable to:			
Shareholders of the Company		$ 28,999	$ (36,134)
Non controlling interest		321	322
Comprehensive income (loss) attributable to:			
Shareholders of the Company		$ 34,304	$ (36,590)
Non controlling interest		321	322
Net income (loss) per share: (2)			
Basic		$ 1.24	$ (5.36)
Diluted		1.24	(5.36)
Weighted average number of shares: (2)			
Basic	13	23,581,155	6,677,829
Diluted	13	23,581,735	6,677,829

(1) Other comprehensive income (loss) includes items that may be subsequently reclassified into profit and loss.
(2) Restated retroactively for the Share Consolidation and Rights Offering as defined and described in Note 11.

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

Western Energy Services Corp.

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

	Share capital	Contributed surplus [1]	Retained earnings (deficit)	Accumulated other comprehensive income[2]	Non controlling interest	Total shareholders' equity
Balance at December 31, 2020	$ 441,461	$ 15,678	$ (260,333)	$ 23,996	$ 1,671	$ 222,473
Common shares:						
Issued for cash on exercise of stock options	14	-	-	-	-	14
Issued on vesting of restricted share units	192	(192)	-	-	-	-
Fair value of exercised options	5	(5)	-	-	-	-
Stock based compensation	-	281	-	-	-	281
Comprehensive loss	-	-	(36,134)	(456)	322	(36,268)
Balance at December 31, 2021	441,672	15,762	(296,467)	23,540	1,993	186,500
Common shares:						
Issue of common shares on debt to equity exchange	50,000	-	-	-	-	50,000
Issue of common shares from rights offering	31,502	-	-	-	-	31,502
Share issue costs, net of tax	(1,734)	-	-	-	-	(1,734)
Issued for cash on exercise of stock options	22	-	-	-	-	22
Issued on vesting of restricted share units	80	(80)	-	-	-	-
Fair value of exercised options	7	(7)	-	-	-	-
Stock based compensation	-	1,989	-	-	-	1,989
Distributions to non controlling interest	-	-	-	-	(374)	(374)
Comprehensive income	-	-	28,999	5,305	321	34,625
Balance at December 31, 2022	$ 521,549	$ 17,664	$ (267,468)	$ 28,845	$ 1,940	$ 302,530

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

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

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

Western Energy Services Corp.

Consolidated Statements of Cash Flows
(thousands of Canadian dollars)

	Note	Year ended December 31, 2022	Year ended December 31, 2021
Operating activities			
Net income (loss)		$ 29,320	$ (35,812)
Adjustments for:			
Depreciation	8	40,096	42,024
Non cash stock based compensation	12	1,989	281
Finance costs	14	14,416	19,664
Gain on debt forgiveness	11	(49,357)	-
Income tax expense (recovery)	16	2,858	(3,457)
Other		612	346
Change in non cash working capital		(11,393)	(6,415)
Cash flow from operating activities		28,541	16,631
Investing activities			
Additions to property and equipment	8	(34,228)	(6,866)
Proceeds on sale of property and equipment		416	2,212
Repayment (issuance) of promissory note	7	217	(611)
Distributions to non controlling interest		(374)	-
Change in non cash working capital		5,017	(422)
Cash flow used in investing activities		(28,952)	(5,687)
Financing activities			
Proceeds from rights offering	11	31,502	-
Share issue costs	11	(2,285)	-
Finance costs paid		(9,286)	(14,667)
Repayment of second lien debt	10	(11,615)	(2,150)
Second lien debt issue costs	10	(1,783)	-
Repayment of lease obligations	10	(2,494)	(2,961)
Repayment of credit facilities	10	(1,000)	(3,000)
Repayment of HSBC facility	10	(1,250)	-
Issuance costs of HSBC facility	10	-	(24)
Issue of common shares	11	22	14
Cash flow from (used in) financing activities		1,811	(22,788)
Increase (decrease) in cash and cash equivalents		1,400	(11,844)
Cash and cash equivalents, beginning of year		7,478	19,322
Cash and cash equivalents, end of year		$ 8,878	$ 7,478

The accompanying notes are an integral part of these 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 consolidated financial statements as at and for the years ended December 31, 2022 and 2021 (the "Financial Statements") are comprised of Western, its divisions and its wholly owned subsidiary (together referred to as the "Company"). The Company is an energy 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 production services in Canada through its division Eagle Well Servicing ("Eagle") which provides well servicing and its division Aero Rental Services ("Aero") which provides 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:

(a) Statement of compliance:

These Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS").

Preparation of these Financial Statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity and areas where assumptions and estimates are significant to these Financial Statements are disclosed in Note 4.

These Financial Statements were approved for issuance by Western's Board of Directors on February 28, 2023.

(b) Basis of measurement:

The consolidated Financial Statements have been prepared using the historical cost basis except as described in the Company's accounting policies in Note 3.

(c) Functional and presentation currency:

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

3. Significant accounting policies:

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

(a) Basis of consolidation:

These Financial Statements include the accounts of Western and its wholly owned subsidiary, Stoneham. The financial results of Stoneham are prepared for the same period as Western, using consistent accounting policies. Inter-company balances and transactions, and any income and expenses arising from inter-company transactions, have been eliminated in these Financial Statements.

Subsidiaries are entities over which Western has control. Control exists when Western has the power, directly or indirectly, to direct the relevant activities of an entity to obtain benefit from its activities. The financial results of Western's subsidiaries are included in the Financial Statements from the date that control commenced until the date that control ceases.

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

3. Significant accounting policies (continued):

(b) Foreign currency transactions and operations:

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

The Company's foreign operations are conducted through Stoneham, which has a US dollar functional currency. For the purposes of presenting the Financial Statements, the assets and liabilities of this foreign operation are translated to Canadian dollars using exchange rates in effect on the balance sheet date. Income and expenses are translated at the average exchange rate for the period. Exchange differences arising from this translation are recognized in other comprehensive income (loss).

(c) Business combinations:

The Company uses the acquisition method to account for business combinations. The Company measures goodwill as the fair value of the consideration transferred, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a gain on acquisition is recognized immediately in net income (loss).

Goodwill is allocated as of the date of the business combination to the Company's operating segments that are expected to benefit from the business combination and represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which can be no higher than the operating segment level. Goodwill is not amortized and is tested for impairment annually. Additionally, goodwill is reviewed at each reporting date to determine if events or changes in circumstances indicate that the asset might be impaired, in which case an impairment test is performed. Goodwill is measured at cost less accumulated impairment losses.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred and recognized in other items within net income (loss).

(d) Financial instruments:

All financial instruments are measured at fair value upon initial recognition of the transaction. Measurement in subsequent periods is dependent on whether the instrument is classified as "amortized cost", "fair value through profit or loss" or "fair value through other comprehensive income".

The Company derecognizes a financial asset when the contractual right to the cash flows from the asset expires, or it transfers the right to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following financial assets and liabilities recognized at amortized cost:

Cash and cash equivalents are initially recognized at fair value and are subsequently measured at amortized cost with changes therein recognized in net income (loss).

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

3. Significant accounting policies (continued):

The Company's trade and other receivables are classified under the amortized cost category and are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value, adjusted for any directly attributable transaction costs. Subsequent to initial recognition, trade and other receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Trade payables and other current liabilities, lease obligations, the Second Lien Facility, the HSBC Facility, and Credit Facilities are classified under the amortized cost category. Financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Financial liabilities, including the Second Lien Facility and the HSBC Facility are subsequently measured at amortized cost using the effective interest method. Transaction costs incurred with respect to the Credit Facilities are deferred and amortized using the straight line method over the term of the facility. The asset is recognized in other assets on the balance sheet while the amortization is included in finance costs within net income (loss). Transaction costs related to undrawn term loans are recognized in deferred charges until the term loan is drawn. Subsequent to drawing on the term loan, transaction costs are netted against the term loan and amortized using the effective interest method.

(e) Cash and cash equivalents:

Cash and cash equivalents are comprised of cash balances and short term investments with original maturities of three months or less.

(f) Property and equipment:

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

Cost includes expenditures that are directly attributable to the acquisition of the asset and bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The cost of self-constructed assets includes the cost of materials and direct labour as well as any other costs directly attributable to bringing the assets to a working condition for their intended use.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are included in the cost of those assets, until such time as the assets are substantially available for their intended use. All other borrowing costs are recognized in net income (loss) in the period incurred.

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. Costs associated with certifications and overhauls of drilling and well servicing rigs are capitalized and depreciated over the anticipated period between certifications, while the carrying amount of a replaced part, previous certification or overhaul is derecognized and recorded as a loss in net income (loss) as incurred. The costs of day-to-day servicing of property and equipment (i.e. repairs and maintenance) are recognized in net income (loss) as incurred.

Property and equipment is depreciated on a straight line basis. A summary of the expected life and residual values for the Company's property and equipment as at December 31, 2022 and 2021 is as follows:

	Expected Life	**Residual values**
Buildings	25 years	-
Drilling rigs and related equipment:		
Drilling rigs	8 to 25 years	10%
Drill pipe	5 to 8 years	-
Recertifications	3 to 5 years	-
Well servicing rigs and related equipment	12 to 25 years	10%
Ancillary drilling and well servicing equipment	5 to 15 years	-
Rental equipment	1 to 30 years	-
Shop and office equipment	1 to 10 years	-
Vehicles	3 years	20%

3. Significant accounting policies (continued):

Depreciation is calculated based on the cost of the asset, less its estimated residual value. Depreciation is recognized in net income (loss) on a straight line basis over the estimated useful lives of each class of asset. Leased assets are depreciated over the shorter of the lease term and their estimated useful lives unless it is reasonably certain that the Company will obtain ownership at the end of the lease term, in which case, the estimated useful life of the asset is used. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted if appropriate.

An item of property and equipment is derecognized when it is either disposed of or it is determined that no further economic benefit is expected from the item's future use or disposal and as such is decommissioned. Losses realized on decommissioned assets are recognized in net income (loss) upon derecognition. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal, less associated costs of disposal, with the carrying amount of property and equipment, and are recognized in other items within net income (loss).

(g) Inventory:

Inventory is primarily comprised of operating spare parts and is measured at the lower of cost and net realizable value. Inventory is charged to operating expenses as items are consumed using the weighted average cost method.

(h) Impairment:

(i) Financial assets:
Financial assets are assessed at each reporting date to determine whether there is evidence that they are impaired. A financial asset is impaired if evidence indicates a loss event has occurred after the initial recognition of the asset, and the loss event had a negative effect on the estimated future cash flows of the asset that can be estimated reliably.

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

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). An impairment is recognized in net income (loss) if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing fair value less costs to sell, the Company must estimate the price that would be received to sell the asset or CGU less any incremental costs directly attributable to the disposal. In assessing value in use, the estimated cash flows are discounted to their present value using an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairments recognized in prior periods are assessed at each reporting date for indications that the impairment has decreased or no longer exists. An impairment is reversed if there has been a change in the estimates used to determine the recoverable amount and the decrease in impairment can be objectively related to an event occurring after the impairment was recognized. An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment had been recognized. Such reversal is recognized in net income (loss).

(i) Employee benefits:

(i) Short-term employee benefits:
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3. Significant accounting policies (continued):

(ii) Stock based compensation awards:

Stock based compensation expense relates to stock options as well as cash and equity settled restricted share units ("RSUs"). The grant date fair values of stock option and equity settled RSUs granted are recognized as an expense, with a corresponding increase in contributed surplus in equity, over the vesting period.

The amount recognized as an expense is based on the estimate of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. Upon exercise of stock options, the consideration paid by the holder is included in share capital and the related contributed surplus associated with the stock options exercised is reclassed into share capital. Upon vesting of equity settled RSUs, the related contributed surplus associated with the RSU is reclassified into share capital.

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

(j) Revenue:

A portion of the Company's revenue is generated from contracts with its customers. Long term contracts, as well as short term contracts, are common in the contract drilling segment, whereas the Company's production services segment typically does not have long term contracts. In the production services segment, master service agreements may be signed with Western's customers, however there typically is no commitment for a specific term or number of service rig hours. Long term contracts are those contracts with an initial term greater than one year. Segmented disclosures are included in Note 5, disaggregating revenue by geographic area and by operating segment.

Similar to revenue on short term or spot market contracts, the Company satisfies its performance obligations related to its long term contracts as the Company provides its services on a per billable day or hourly basis. As days are worked on the customer's contract, the Company satisfies its performance obligation to the customer and recognizes revenue. The Company has elected to use the practical expedient under IFRS 15, paragraph B16, as the Company invoices its customers on a per day or per hour basis that directly corresponds with the value received by the customer. Revenue is therefore recognized on a per day or per hour basis, for both drilling and rig mobilization days. Should the customer terminate a long term drilling contract early, the Company may be entitled to shortfall commitment revenue on the contract. The Company recognizes shortfall commitment revenue when payment from the customer is certain. At the inception of a contract, an estimate for shortfall commitment revenue is not recognized, as the Company expects the customer to use its services for the full term of the contract. As a result, determining when to recognize shortfall commitment revenue requires judgment to ensure that revenue is recognized when the performance obligation has been satisfied and collectability assured.

(k) Lease assets and obligations:

Lease assets:

The Company has lease agreements for items including office space, vehicles, shops and office equipment which qualify as leased assets under IFRS 16, Leases.

At the inception of an arrangement, the Company determines whether such an arrangement is or contains a lease under IFRS 16. An agreement which results in the Company having the right to control the use of an asset over a period of time with set payments is considered a lease. Lease assets, or right of use assets, are capitalized at the date the lease commences and are comprised of the initial lease liability, less any lease incentives received. Depreciation is calculated based on the initial cost of the asset and recognized in net income (loss) on a straight line basis over the estimated useful life of the lease. The lease assets are included in property and equipment on the consolidated balance sheets and segregated in Note 8.

3. Significant accounting policies (continued):

Lease obligations:

IFRS 16 requires the Company to make judgments that affect the valuation of lease obligations and the corresponding lease assets, including whether a contract falls within the scope of IFRS 16, the term of the lease, and determining the interest rate used for discounting future cash flows. The lease obligations, and the corresponding lease assets, at inception of the agreement are measured at the present value of the fixed lease payments, discounted using the Company's incremental borrowing rate at the inception of the agreement.

Finance costs are allocated to each period during the lease term using the effective interest rate method. Lease modifications, where the scope increases in exchange for additional corresponding consideration, are accounted for as a separate lease. For a lease modification that is not a separate lease or where the increase in consideration is not correlated with a change in the scope of the lease, at the effective date of the lease modification, the Company will remeasure the lease liability using the Company's incremental borrowing rate, with a corresponding adjustment to the right of use asset. The lease term includes the non-cancellable period of the lease agreement and periods covered by any option to renew, where it is reasonably certain that the option will be exercised.

(l) Finance income and finance costs:

Finance income comprises interest income on cash and cash equivalent balances. Interest income is recognized as it accrues in net income (loss).

Finance costs comprise interest expense on borrowings and costs associated with securing debt instruments. Borrowing costs that are not directly attributable to the acquisition or construction of a qualifying asset are recognized in net income (loss) when incurred.

Warrants issued in conjunction with long term debt financings are included in deferred charges at their grant date fair value and amortized over the life of the warrant as a finance cost.

(m) Income tax:

Income tax expense is comprised of current and deferred income taxes. Income tax is recognized in net income (loss) and other comprehensive income (loss) except to the extent that it relates to items recognized in equity on the consolidated balance sheets.

Current income tax is calculated using tax rates which are enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions on the basis of amounts expected to be paid to taxation authorities.

Deferred income taxes are recognized, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the respective entity's financial statements.

Deferred income taxes are determined using tax rates which are enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible balances can be utilized. All deferred tax assets are analyzed at each reporting period and reduced to the extent that it is no longer probable that the asset will be recovered.

(n) Earnings per share:

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the Company's net income (loss) by the weighted average number of common shares outstanding during the reporting period. Diluted EPS is determined by adjusting the Company's net income and the weighted average number of common shares outstanding for the effects of all potentially dilutive common shares, which comprise equity settled RSUs and in-the-money stock options. Diluted EPS is calculated using the treasury stock method where the deemed proceeds from the exercise of stock options and the associated unrecognized stock based compensation expense are considered to be used to reacquire common shares at the average common share

3. Significant accounting policies (continued):

price for the reporting period. The average market value of Western's common shares for purposes of calculating the dilutive effect of stock options and warrants is based on quoted market prices for the period during which the options or warrants were outstanding in the reporting period.

(o) Operating segment reporting:

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other operating segments. All operating segments' results are reviewed regularly by the Company's President & Chief Executive Officer and Senior Vice President, Finance, Chief Financial Officer & Corporate Secretary ("Executive Management"), to make decisions about resources to be allocated to the operating segment and assess its performance.

Operating segment results that are reported to Executive Management include items directly attributable to an operating segment as well as those that can be allocated on a reasonable basis. The Company's operating segments are defined in Note 5.

(p) Government grants:

In response to the COVID-19 pandemic governments established various programs to assist companies. Management determined that the Company qualified for certain programs and recognizes such government grants when there is reasonable assurance the grant will be received. Under IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, the Company recognizes grant amounts as a reduction of the expenses related to the grant.

For the year ended December 31, 2022, the Company recognized $2.2 million, under various COVID-19 relief programs in Canada and the United States. These subsidies were recognized as a reduction of operating and administrative expenses of $2.1 million and $0.1 million respectively. For the year ended December 31, 2021, the Company recognized $9.4 million related to government subsidies. These subsidies were recognized as a reduction of operating, administrative and depreciation expense of $8.0 million, $1.0 million and $0.4 million respectively.

(q) New interpretations and amendments not yet adopted:

A number of interpretations and amendments are not yet effective for the year ended December 31, 2022, and have not been applied in preparing these Financial Statements. The following new interpretations and amendments have been issued, but are not yet effective until financial years beginning on or after January 1, 2023. The Company does not expect these changes to have a material impact on its financial statements.

IAS 1 – Presentation of Financial Statements, is amended to clarify the classification of liabilities between current or non-current. The amendment specifically clarifies that the classification of a liability between current or non-current is based on the rights to defer settlement of the liability at the reporting date and is not impacted by subsequent events that could impact the classification had they been present at the reporting date. The amendment also introduces additional disclosure requirements regarding circumstances that could result in a liability classified as non-current being required to be settled within twelve months from the reporting date.

IAS 1 – Presentation of Financial Statements, is amended to require an entity to disclose their material accounting policies instead of significant accounting policies. An accounting policy is considered material when, considered with other information in the Financial Statements can reasonably be expected to influence decisions that the primary users of the Financial Statements make, rather than primarily considering the understandability of the Financial Statements when disclosing accounting policies.

IAS 8 – Accounting Policies, is amended to distinguish how an entity should present and disclose different types of accounting changes in its Financial Statements. The amendment gives additional guidance as to what is considered a change in accounting policy compared to a change in accounting estimate and how the change is applied throughout the Financial Statements.

IAS 12 – Income Taxes, is amended to clarify that that the initial recognition exemption for taxable temporary differences that do not impact accounting or taxable profit (or loss) does not apply for taxable temporary differences that at the time of the transaction give rise to equal taxable and deductible temporary differences.

4. Critical accounting estimates:

The preparation of the Financial Statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies (described in Note 3) and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

A number of the Company's accounting policies and disclosures require key assumptions concerning the future and other estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities or disclosures within the next fiscal year. Where applicable, further information about the assumptions made is disclosed in the notes specific to that asset or liability. The critical accounting estimates and judgments set out below have been applied consistently to all periods presented in these Financial Statements.

(a) Impairment:

An evaluation of whether or not an asset is impaired involves consideration of whether indicators of impairment exist. Factors which could indicate impairment exists include: significant underperformance of an asset relative to historical or projected operating results, significant changes in the manner in which an asset is used or in the Company's overall business strategy, the carrying amount of the net assets of the entity being more than its market capitalization or significant negative industry or economic trends. In some cases, these events are clear. However, in many cases, a clearly identifiable event indicating possible impairment does not occur. Instead, a series of individually insignificant events occur over a period of time leading to an indication that an asset may be impaired. Events can occur in these situations that may not be known until a date subsequent to their occurrence. Management continually monitors the Company's operating segments, the financial and commodity markets, and the business environment, and makes judgments and assessments about conditions and events in order to conclude whether there are indications of impairment.

When there is an indicator of impairment, the recoverable amount of the asset is estimated to determine the amount of impairment, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The determination of CGUs is based on management judgment.

The recoverable amount for property and equipment is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, the Company must estimate the price that would be received to sell the asset or CGU less any incremental costs directly attributable to the disposal. In assessing value in use, the estimated cash flows are discounted to their present value using an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Arriving at the estimated future cash flows involves significant judgments, estimates and assumptions, including those associated with the future cash flows of the CGU, determination of the CGU and discount rates.

If indicators conclude that the asset is no longer impaired or that its impairment has decreased, the Company will reverse impairments on assets only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Impairment losses on goodwill are not reversed. Similar to determining if an impairment exists, judgment is required in assessing if a reversal of an impairment is required.

(b) Property and equipment:

Property and equipment is depreciated over the estimated useful life of the asset to the asset's estimated residual value as determined by management. All estimates of useful lives and residual values are set out in Note 3(f). Assessing the reasonableness of the estimated useful life, residual value and the appropriate depreciation methodology requires judgment and is based on management's experience and knowledge of the industry. Additionally, when determining whether to decommission an asset, future utilization and economic conditions are considered based on management's judgement, experience and knowledge of the industry.

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

4. Critical accounting estimates (continued):

(c) Income taxes:

Preparation of the Financial Statements involves determining an estimate of, or provision for, income taxes in each of the jurisdictions in which the Company operates. The process also involves making an estimate of taxes currently payable and taxes expected to be payable or recoverable in future periods, referred to as deferred taxes. Deferred taxes result from the effects of temporary differences due to items that are treated differently for tax and accounting purposes. The tax effects of these differences are reflected in the consolidated balance sheets as deferred tax assets and liabilities.

An assessment must also be made to determine the likelihood that the Company's future taxable income will be sufficient to permit the recovery of deferred income tax assets. To the extent that such recovery is not probable, recognized deferred tax assets must be reduced. Judgment is required in determining the provision for income taxes and recognition of deferred tax assets and liabilities. Management must also exercise judgment in its assessment of continually changing tax interpretations, regulations and legislation, to ensure deferred tax assets and liabilities are complete and fairly presented. The effects of differing assessments and applications could be material.

5. Operating segments:

The Company 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 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.

The following is a summary of the Company's results by operating segment for the years ended December 31, 2022 and 2021:

Year ended December 31, 2022	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 129,521	$ 71,278	$ -	$ (455)	$ 200,344
Operating (loss) earnings	(4,610)	9,452	(5,017)	-	(175)
Finance costs	-	-	14,416	-	14,416
Gain on debt forgiveness	-	-	(49,357)	-	(49,357)
Depreciation	29,189	9,252	1,655	-	40,096
Additions to property and equipment	31,453	2,757	18	-	34,228

Year ended December 31, 2021	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 76,778	$ 55,522	$ -	$ (622)	$ 131,678
Operating (loss) earnings	(17,864)	2,829	(3,942)	-	(18,977)
Finance costs	-	-	19,664	-	19,664
Depreciation	30,663	9,810	1,551	-	42,024
Additions to property and equipment	5,101	1,745	20	-	6,866

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

5. Operating segments (continued):

Total assets and liabilities by operating segment are as follows:

As at December 31, 2022	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 380,649	$ 85,646	$ 9,413	$ 475,708
Total liabilities	58,287	23,987	90,904	173,178

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

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

Year ended December 31, 2022	Contract Drilling	Production Services	Corporate	Total
Operating (loss) earnings	$ (4,610)	$ 9,452	$ (5,017)	$ (175)
Add (deduct):				
Stock based compensation	(502)	(186)	(1,297)	(1,985)
Finance costs	-	-	(14,416)	(14,416)
Gain on debt forgiveness	-	-	49,357	49,357
Other items	-	-	(603)	(603)
(Loss) income before income taxes	$ (5,112)	$ 9,266	$ 28,024	$ 32,178

Year ended December 31, 2021	Contract Drilling	Production Services	Corporate	Total
Operating (loss) earnings	$ (17,864)	$ 2,829	$ (3,942)	$ (18,977)
Add (deduct):				
Stock based compensation	(69)	(47)	(137)	(253)
Finance costs	-	-	(19,664)	(19,664)
Other items	-	-	(375)	(375)
(Loss) income before income taxes	$ (17,933)	$ 2,782	$ (24,118)	$ (39,269)

Segmented information by geographic area is as follows:

As at December 31, 2022	Canada	United States	Total
Property and equipment	$ 324,861	$ 88,979	$ 413,840
Total assets	372,265	103,443	475,708

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

	Canada	United States	Total
Revenue - Year ended December 31, 2022	$ 167,022	$ 33,322	$ 200,344
Revenue - Year ended December 31, 2021	123,215	8,463	131,678

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

5. Operating segments (continued):

Revenue from long term contracts:

For the year ended December 31, 2022, the Company had no revenue from long term contracts in the contract drilling segment (for the year ended December 31, 2021: $2.5 million).

For the years ended December 31, 2022, and 2021, the Company had no revenue from long term contracts in the production services segment.

Significant customers:

For the years ended December 31, 2022, and 2021, the Company had no customers comprising 10.0% or more of the Company's total revenue.

6. Trade and other receivables:

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

	December 31, 2022	December 31, 2021
Trade receivables	$ 35,590	$ 25,051
Accrued trade receivables	11,562	2,377
Other receivables	1,911	745
Allowance for doubtful accounts	(1,850)	(1,709)
Total	$ 47,213	$ 26,464

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

7. Other assets:

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

	December 31, 2022	December 31, 2021
Current:		
Prepaid expenses	$ 633	$ 2,098
Inventory	4,066	3,595
Deposits	446	407
Promissory note (1)	226	211
Deferred charges	82	100
Total current portion of other assets	5,453	6,411
Non current:		
Deferred charges	117	-
Promissory note - long term (1)	207	405
Total non current portion of other assets	324	405
Total other assets	$ 5,777	$ 6,816

(1) At December 31, 2022, the Company has a three year promissory note of US$0.3 million related to an asset sale (December 31, 2021: US$0.5 million), payable in equal monthly payments starting on December 15, 2021 until expiry on November 14, 2024.

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

8. Property and equipment:

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

	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	-	-	5,099	1,604	163	-	6,866
Lease additions	-	-	-	-	-	1,791	1,791
Disposals	-	-	(2,855)	(6,194)	(525)	(2,379)	(11,953)
Foreign exchange adjustment	-	-	(733)	(48)	(10)	(14)	(805)
Balance at December 31, 2021	$ 5,089	$ 4,396	$ 800,198	$ 199,682	$ 12,713	$ 13,019	$ 1,035,097
Additions to property and equipment	-	-	31,453	2,731	44	-	34,228
Lease additions	-	-	-	-	6	162	168
Disposals	-	-	(4,038)	(1,506)	(959)	(52)	(6,555)
Foreign exchange adjustment	-	-	11,895	-	64	58	12,017
Balance at December 31, 2022	$ 5,089	$ 4,396	$ 839,508	$ 200,907	$ 11,868	$ 13,187	$ 1,074,955
Accumulated depreciation:							
Balance at December 31, 2020	$ -	$ 2,836	$ 448,556	$ 117,600	$ 11,372	$ 6,794	$ 587,158
Depreciation	-	134	30,321	9,258	721	1,968	42,402
Disposals	-	-	(2,834)	(3,804)	(516)	(2,262)	(9,416)
Foreign exchange adjustment	-	-	(256)	(20)	(9)	(7)	(292)
Balance at December 31, 2021	$ -	$ 2,970	$ 475,787	$ 123,034	$ 11,568	$ 6,493	$ 619,852
Depreciation	-	134	28,888	8,761	520	1,793	40,096
Disposals	-	-	(2,700)	(1,503)	(955)	(42)	(5,200)
Foreign exchange adjustment	-	-	6,241	-	63	63	6,367
Balance at December 31, 2022	$ -	$ 3,104	$ 508,216	$ 130,292	$ 11,196	$ 8,307	$ 661,115
Carrying amounts:							
At December 31, 2021	$ 5,089	$ 1,426	$ 324,411	$ 76,648	$ 1,145	$ 6,526	$ 415,245
At December 31, 2022	$ 5,089	$ 1,292	$ 331,292	$ 70,615	$ 672	$ 4,880	$ 413,840

Assets under construction:

Included in property and equipment at December 31, 2022 are assets under construction of $7.1 million (December 31, 2021: $1.3 million) which includes ancillary drilling and well servicing equipment.

The Company reviewed for indicators of impairment and determined no such indicators existed.

9. Trade payables and other current liabilities:

Trade payables and current liabilities as at December 31, 2022 and 2021 are as follows:

	December 31, 2022	December 31, 2021
Trade payables	$ 21,967	$ 11,197
Accrued trade payables and expenses	12,492	13,393
Total	$ 34,459	$ 24,590

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

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

10. Long term debt:

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

	December 31, 2022	December 31, 2021
Current:		
Second Lien Facility	$ 1,080	$ 2,150
HSBC Facility	1,250	1,250
Lease obligations (1)	2,424	2,444
Revolving Facility	-	8,000
PPP Loan	904	608
Less: unamortized issue costs	(496)	(913)
Total current portion of long term debt	5,162	13,539
Non current:		
Second Lien Facility	106,340	209,112
HSBC Facility	10,000	11,250
Lease obligations (1)	2,911	5,176
Revolving Facility	7,000	-
PPP Loan	1,466	1,610
Less: unamortized issue costs	(1,190)	(264)
Total non current portion of long term debt	126,527	226,884
Total long term debt	$ 131,689	$ 240,423

(1) Lease obligations include leases capitalized under IFRS 16. During the years ended December 31, 2022 and 2021, the Company expensed $0.2 million related to leases of low value assets or leases with a term of less than one year.

Credit Facilities:

On May 18, 2022, in connection with the Restructuring Transaction (as defined and described below), Western and its lenders under its syndicated revolving credit facility (the "Revolving Facility") and its committed operating facility (the "Operating Facility" and together the "Credit Facilities") amended the Credit Facilities, including extending the maturity to May 18, 2025, reducing the amount available under its Revolving Facility from $50.0 million to $35.0 million, with no changes to the $10.0 million Operating Facility, and amending its financial covenants. Revisions to certain financial covenants include:

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

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

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

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

(v) the payment of interest on the senior secured term loan facility (the "Second Lien Facility") from the use of the proceeds of the Credit Facilities is allowed.

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)

10. Long term debt (continued):

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

	Covenant	December 31, 2022
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio (1)(2)	3.0:1.0 or less	0.0:1.0
Maximum Consolidated Debt to Consolidated Capitalization Ratio (3)(4)	0.5:1.0 or less	0.3:1.0
Minimum Debt Service Coverage Ratio(5)	1.1:1.0 or greater	Not applicable

(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 the HSBC Facility, Second Lien Facility, and PPP loan less unrestricted cash.

(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) The Debt Service Coverage Ratio is defined as the ratio of consolidated trailing twelve month EBITDA (defined previously) to the total of all debt payments, including interest, due within the next twelve months. It is only applicable if the Company has more than $25.0 million drawn on its Credit Facilities, or if the net book value of property and equipment is less than $250.0 million. As at December 31, 2022 the Company had $7.0 million drawn on its Credit Facilities and net book value of its property and equipment was greater than $250.0 million, therefore the covenant is not applicable.

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

Second Lien Facility:

On May 18, 2022, Western completed a recapitalization and debt restructuring transaction to restructure a portion of its outstanding debt and raise new capital (the "Restructuring Transaction"). Pursuant to the Restructuring Transaction, Western entered into a debt restructuring agreement with Alberta Investment Management Corporation ("AIMCo"), the lender under its Second Lien Facility. On May 18, 2022, the Restructuring Transaction closed and the Company converted $100.0 million of the principal amount outstanding under the Second Lien Facility into 16,666,667 (2,000,000,000 pre-consolidation) common shares at a conversion price of $6.00 per share (the "Debt Exchange"). The Second Lien Facility was amended to, among other things, extend its maturity date from January 31, 2023 to May 18, 2026. As part of the Restructuring Transaction, on May 18, 2022, Western completed a $31.5 million rights offering (the "Rights Offering"), as described further in Note 11, where $10.0 million of the net proceeds from the Rights Offering was used to repay $10.0 million of the principal amount of the Second Lien Facility.

At December 31, 2022, the Company had $107.4 million outstanding on the Second Lien Facility. Interest is payable semi-annually, at a rate of 8.5% per annum, on January 1 and July 1 each year or the next applicable business day. Amortization payments equal to 1.0% of the initial principal amount of $108.0 million are payable annually, in quarterly installments, with the balance due on May 18, 2026.

HSBC Facility:

At December 31, 2022, the Company had $11.3 million outstanding related to its committed term non-revolving facility (the "HSBC Facility"). The HSBC Facility bears interest at a floating rate that is payable monthly. Principal amounts are payable monthly and began January 2022, with the balance due upon maturity on December 31, 2026.

US Paycheck Protection Program ("PPP Loan"):

At December 31, 2022, the Company had US$1.8 million outstanding related to the PPP Loan. Interest and principal is payable over the term of the loan, at a rate of 1% per annum, with the balance due upon maturity on July 23, 2025.

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

11. Share capital:

On August 2, 2022, the Company completed a consolidation of the issued and outstanding common shares (the "Share Consolidation") at a ratio of one post-consolidation common share for every 120 pre-consolidation common shares. As a result, the values for basic and diluted shares, restricted share units ("RSUs") and stock options outstanding, as well as earnings per share for the current and prior periods have been adjusted and restated to reflect the effect of the Share Consolidation.

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	759,709	$	441,461
Issued on vesting of restricted share units	3,988		192
Issued for cash on exercise of stock options	523		14
Fair value of exercised stock options	-		5
Balance at December 31, 2021	764,220		441,672
Issued on Debt Exchange	16,666,667		50,000
Issued for cash - May 18, 2022 rights offering	16,407,229		31,502
Issuance costs, net of deferred tax	-		(1,734)
Issued for cash on exercise of stock options	725		22
Issued on vesting of restricted share units	2,451		80
Issued on Share Consolidation for fractional shares	26		-
Fair value of exercised stock options	-		7
Balance at December 31, 2022	33,841,318	$	521,549

As described previously in Note 10, on May 18, 2022, the Company closed its Restructuring Transaction, including the completion of the Debt Exchange. The Debt Exchange resulted in the issuance of 16,666,667 (2,000,000,000 pre-consolidation) common shares on May 18, 2022. The fair value of the common shares issued from the Debt Exchange was $3.00 per common share, which was the post-consolidation closing share price of Western on May 18, 2022, or $50.0 million, whereas the carrying amount of the debt exchanged was $100.0 million, resulting in a $50.0 million gain on debt forgiveness. Additionally, there was approximately $0.6 million of unamortized issue costs on the previous $215.0 million Second Lien Facility that were expensed against the gain on debt forgiveness.

As a condition to the completion of the Debt Exchange, described in Note 10, the Company completed a Rights Offering to holders of its common shares on April 19, 2022 to subscribe for additional common shares, resulting in the issuance of 16,407,229 (1,968,867,475 pre-consolidation) common shares in the capital of the Company at a price of $1.92 per share for aggregate gross proceeds of $31.5 million. In addition, $10.0 million of the proceeds from the Rights Offering was paid by Western to AIMCo to further reduce the principal amount outstanding under the Second Lien Facility, with the remaining $21.5 million of the proceeds, net of expenses of the Restructuring Transaction, being used for upgrades to the Company's rig fleet.

12. Stock based compensation:

Stock options:

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

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

12. Stock based compensation (continued):

As described in Note 11, on August 2, 2022, the Company completed the Share Consolidation, reducing the number of outstanding stock options and RSUs at a ratio of 120:1. The weighted average exercise price and the Company's stock option exercise prices have also been adjusted to reflect the Share Consolidation.

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	62,219	$ 98.85
Granted	364	56.53
Exercised	(524)	29.33
Forfeited	(7,066)	95.53
Expired	(5,620)	393.33
Balance at December 31, 2021	49,373	$ 66.23
Granted	3,085,135	4.74
Exercised	(724)	30.17
Forfeited	(18,896)	20.29
Expired	(5,398)	165.26
Balance at December 31, 2022	3,109,490	$ 5.33

For the years ended December 31, 2022 and 2021, no stock options were cancelled. The average fair value of the stock options granted in 2022 was $2.85 per stock option (2021: $21.60 per stock option).

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

As at December 31, 2022 Exercise Price ($/share)	Number of options outstanding	Weighted average contractual life remaining (years)	Number of options exercisable
2.76-4.31	112,034	4.77	-
4.32-14.40	2,959,797	4.40	-
14.41-30.60	9,918	1.64	9,913
30.61-35.10	15,579	2.65	10,393
35.11-151.20	12,162	0.59	12,149
	3,109,490	4.38	32,455

As at December 31, 2022, Western had 32,455 (December 31, 2021: 32,948) vested and exercisable stock options outstanding at a weighted average exercise price equal to $57.64 (December 31, 2021: $83.46) per stock option.

The accounting fair value of the Company's stock options as at the date of grant is calculated in accordance with a Black Scholes option pricing model using the following average inputs:

	Year ended December 31, 2022	Year ended December 31, 2021
Risk-free interest rate	2.6%	0.2%
Average forfeiture rate	9.9%	12.6%
Average expected life	2.0 years	2.0 years
Maximum life	5.0 years	5.0 years
Average vesting period	2.0 years	2.0 years
Expected share price volatility	99.1%	72.2%

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

12. Stock based compensation (continued):

Restricted share unit plan:

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

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

	Equity settled	Cash settled	Total
Balance at December 31, 2020	10,285	2,163	12,448
Granted	93	-	93
Vested	(3,990)	(1,138)	(5,128)
Forfeited	(1,439)	(565)	(2,004)
Balance at December 31, 2021	4,949	460	5,409
Exercised	(2,454)	(387)	(2,841)
Forfeited	(764)	(73)	(837)
Balance at December 31, 2022	1,731	-	1,731

The Company did not grant any equity settled RSUs during the year ended December 31, 2022. The fair value of equity settled RSUs granted during the year ended December 31, 2021 was less than $0.1 million.

The accounting fair value of the Company's equity settled RSUs as at the grant date is calculated in accordance with a Black Scholes option pricing model using the following average inputs:

	Year ended December 31, 2022	Year ended December 31, 2021
Risk-free interest rate	-	0.3%
Average forfeiture rate	-	7.5%
Average expected life	-	2.0 years
Maximum life	-	3.0 years
Average vesting period	-	2.0 Years
Expected share price volatility	-	72.9%

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

	Year ended December 31, 2022	Year ended December 31, 2021
Stock options	$ 1,947	$ 154
Restricted share units – equity settled expense	42	127
Total equity settled stock based compensation expense	1,989	281
Restricted share units – cash settled expense	(4)	(28)
Total stock based compensation expense	$ 1,985	$ 253

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

13. Earnings per share:

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

	Year ended December 31, 2022	Year ended December 31, 2021
Issued common shares, beginning of period[(1)]	764,220	759,709
Weighted average number of common shares issued[(1)]	22,816,935	5,918,120
Weighted average number of common shares (basic)	23,581,155	6,677,829
Dilutive effect of equity securities[(1)]	580	-
Weighted average number of common shares (diluted)	23,581,735	6,677,829

(1) Weighted average number of shares have been restated retroactively to account for the impact of the Share Consolidation and Rights Offering described in Note 11.

For the year ended December 31, 2022, 3,109,490 stock options (December 31, 2021: 49,373 stock options) and 1,151 equity settled RSUs (December 31, 2021: 4,949 equity settled RSUs), were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

14. Finance costs:

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

	Year ended December 31, 2022	Year ended December 31, 2021
Interest expense on long term debt	$ 13,706	$ 18,563
Amortization of debt financing fees	148	196
Accretion expense on Second Lien Facility	560	859
Accretion expense on HSBC Facility	59	62
Interest income	(57)	(16)
Total finance costs	$ 14,416	$ 19,664

The Company had an effective interest rate on its borrowings of 8.0% for the year ended December 31, 2022 (December 31, 2021: 7.8%).

15. Other items:

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

	Year ended December 31, 2022	Year ended December 31, 2021
Loss on sale of fixed assets	$ 939	$ 387
Realized foreign exchange (gain) loss	(11)	43
Unrealized foreign exchange gain	(319)	(55)
Other income	(6)	-
Total other items	$ 603	$ 375

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

16. Income taxes:

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

	Year ended December 31, 2022	Year ended December 31, 2021
Current tax expense	$ 8	$ 13
Deferred tax expense (recovery)	2,850	(3,470)
Total income tax expense (recovery)	$ 2,858	$ (3,457)

The following table summarizes the income taxes recognized directly into equity, related to the Rights Offering in 2022:

	Year ended December 31, 2022	Year ended December 31, 2021
Share issue costs	$ 551	$ -

The following provides a reconciliation of income (loss) before income taxes to total income taxes recognized in the consolidated statements of operations and comprehensive income (loss):

		Year ended December 31, 2022		Year ended December 31, 2021
Income (loss) before income taxes		$ 32,178		$ (39,269)
Federal and provincial statutory rates	23.6%	7,594	24.1%	(9,464)
Loss taxed at higher rates		(16)		(174)
Stock based compensation		447		64
Non controlling interest		(77)		(77)
Non-deductible expenses		151		87
Change in effective tax rate on temporary differences		594		(12)
Unrecognized tax asset		(6,173)		6,173
Return to provision adjustment		357		37
Other		(19)		(91)
Total income tax expense (recovery)		$ 2,858		$ (3,457)

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

	December 31, 2022	December 31, 2021
Property and equipment	$ (79,446)	$ (82,545)
Deferred charges and accruals	70	50
Long term debt	1,234	1,589
Share issue costs	431	-
Other tax pools	1,621	1,278
Tax loss carry forwards	69,060	81,311
Unrecognized tax asset	-	(6,173)
Net deferred tax liabilities	$ (7,030)	$ (4,490)

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

16. Income taxes (continued):

Movements of the Company's temporary differences for the year ended December 31, 2022 are as follows:

	Balance Dec 31, 2021	Recognized in equity	Recognized in net income (loss)	Impact of foreign exchange	Balance Dec 31, 2022
Property and equipment	$ (82,545)	$ -	$ 4,520	$ (1,421)	$ (79,446)
Deferred charges and accruals	50	-	17	3	70
Long term debt	1,589	-	(355)	-	1,234
Share issue costs	-	551	(120)	-	431
Other tax pools	1,278	-	287	56	1,621
Tax loss carry forwards	81,311	-	(13,380)	1,129	69,060
Unrecognized tax asset	(6,173)	-	6,173	-	-
Net deferred tax liabilities	$ (4,490)	$ 551	$ (2,858)	$ (233)	$ (7,030)

Movements of the Company's temporary differences for the year ended December 31, 2021 are as follows:

	Balance Dec 31, 2020	Recognized in net income (loss)	Impact of foreign exchange	Balance Dec 31, 2021
Property and equipment	$ (87,530)	$ 4,851	$ 134	$ (82,545)
Deferred charges and accruals	23	27	-	50
Long term debt	1,816	(227)	-	1,589
Share issue costs	85	(85)	-	-
Other tax pools	1,238	40	-	1,278
Tax loss carry forwards	76,348	5,024	(61)	81,311
Unrecognized tax asset	-	(6,173)	-	(6,173)
Net deferred tax liabilities	$ (8,020)	$ 3,457	$ 73	$ (4,490)

During the year ended December 31, 2022, the Company recognized previously unrecognized deferred tax assets of $6.2 million related to unrecognized loss carry forwards. As at December 31, 2022, the Company has loss carry forwards in Canada equal to approximately $219.8 million, which will expire between 2035 and 2042. In the United States, the Company has approximately US$49.7 million loss carry forwards, some of which expire between 2028 and 2038, and others that have an indefinite expiry.

17. Costs by nature:

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

	Year ended December 31, 2022	Year ended December 31, 2021
Employee salaries and benefits (1)	$ 89,677	$ 60,770
Repairs and maintenance	20,043	13,124
Third party charges	11,962	5,603

(1) For the year ended December 31, 2022, these amounts include government subsidies of $2.2 million (December 31, 2021: $8.6 million) as described in Note 3(p).

18. Financial risk management:

Interest rate 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 $0.2 million impact on interest expense for the year ended December 31, 2022 (December 31, 2021: $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 high 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 international operations. From time to time, the Company may use forward foreign currency contracts to hedge against these fluctuations. At December 31, 2022, 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, 2022, 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, 2021: $0.1 million and $0.3 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 crude oil, and natural gas industry and are subject to industry credit risk. For the year ended December 31, 2022 the volatility in global demand for crude oil as a result of the war in Ukraine, and economic volatility as countries navigate in a post-pandemic environment, have an impact on commodity prices. These factors are expected to have an impact on companies and their related credit risk. The Company's practice is to manage credit risk by performing a thorough analysis of the credit worthiness of new customers before credit terms are offered.

Additionally, the Company continually evaluates individual customer trade receivables for collectability 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 uncollectible. The allowance for doubtful accounts could materially change as a result of fluctuations in the financial position of the Company's customers.

The Company reviews its historical credit losses as part of its impairment assessment. The Company has had low historical impairment losses on its trade receivables, due in part to its credit management processes. As such, the Company assesses impairment losses on an individual customer account basis, rather than recognize an impairment loss allowance on all outstanding trade and other receivables. Subsequent to December 31, 2022, the Company has collected 64% of its trade and other receivables that were outstanding at December 31, 2022.

At December 31, 2022, approximately 10% (5% net of allowance for doubtful accounts) of the Company's trade receivables were more than 90 days old. The Company believes the unimpaired amounts greater than 90 days old are still collectable based on historic payment behavior and an analysis of the underlying customer's ability to pay.

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

18. Financial risk management (continued):

The table below provides an analysis of the Company's trade and other receivables as at December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
Trade receivables:		
Current	$ 16,280	$ 13,584
Outstanding for 31 to 60 days	14,074	7,533
Outstanding for 61 to 90 days	1,663	2,039
Outstanding for over 90 days	3,573	1,895
Accrued trade receivables	11,562	2,377
Other receivables	1,911	745
Allowance for doubtful accounts	(1,850)	(1,709)
Total	$ 47,213	$ 26,464

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.

As at December 31, 2022, liquidity was sufficient as Western had $8.9 million in cash and access to the undrawn balance on its Credit Facilities of $38.0 million. All of the Company's long term debt instruments mature in 2025 and 2026 (Note 10).

This expectation could be adversely affected by a material negative change in the oilfield service industry, which in turn could lead to covenant breaches on the Company's Credit Facilities, which if not amended or waived, could limit, in part, or in whole, the Company's access to the Credit Facilities and the Second Lien Facility.

The table below provides an analysis of the expected maturities of the Company's outstanding obligations at December 31, 2022:

	Total amount	Due prior to December 31 2023	2024	2025	2026	2027	Thereafter
Financial liabilities:							
Second Lien Facility	$ 107,420	$ 1,080	$ 1,080	$ 1,080	$ 104,180	$ -	$ -
Second Lien Facility interest	4,536	4,536	-	-	-	-	-
Trade payables and other current liabilities	29,923	29,923	-	-	-	-	-
HSBC Facility	11,250	1,250	1,250	1,250	7,500	-	-
Lease obligations	5,335	2,424	2,068	537	302	4	-
Revolving Facility	7,000	-	-	7,000	-	-	-
PPP Loan	2,370	904	913	553	-	-	-
Total	$ 167,834	$ 40,117	$ 5,311	$ 10,420	$ 111,982	$ 4	$ -

As previously described in Note 10, Western closed its Restructuring Transaction, which impacted the Company's financial liabilities and capital structure.

Market risk:

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

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

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

18. Financial risk management (continued):

Capital management:

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

	Note	December 31, 2022	December 31, 2021
Second Lien Facility	10	$ 107,420	$ 211,262
HSBC Facility	10	11,250	12,500
Revolving Facility	10	7,000	8,000
PPP Loan	10	2,370	2,218
Finance lease obligations	10	5,335	7,620
Total debt		133,375	241,600
Shareholders' equity		302,530	186,500
Less: cash and cash equivalents		(8,878)	(7,478)
Total capitalization		$ 427,027	$ 420,622

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

- Safeguarding the entity's ability to continue as a going concern, such that it continues to provide returns for shareholders and benefits for other stakeholders;
- Ensuring that investor, creditor and market confidence are secured;
- Maintaining balance sheet strength, ensuring the Company's strategic objectives are met, while retaining an appropriate amount of leverage; and
- Ensuring the Company has the financing capacity to continue to execute on opportunities to increase overall market share through strategic acquisitions or organic growth that add value for the Company's shareholders.

The Company manages its capital structure based on current economic conditions, the risk characteristics of the underlying assets, and planned capital requirements within guidelines approved by its Board of Directors. Total capitalization is maintained or adjusted by drawing on existing debt facilities, issuing new debt or equity securities when opportunities are identified and through the disposition of underperforming assets to reduce debt when required.

As at December 31, 2022, the Company had $38.0 million in undrawn credit under its Credit Facilities and was in compliance with all debt covenants (see Note 10).

19. Commitments:

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

	2023	2024	2025	2026	2027	Thereafter	Total
Second Lien Facility	$ 1,080	$ 1,080	$ 1,080	$ 104,180	$ -	$ -	$ 107,420
Second Lien Facility interest	9,094	9,027	8,936	7,348	-	-	34,405
Trade payables and other current liabilities (1)	29,923	-	-	-	-	-	29,923
HSBC Facility	1,250	1,250	1,250	7,500	-	-	11,250
HSBC Facility interest	929	822	711	602	-	-	3,064
Lease obligations (2)	2,795	2,296	675	389	4	-	6,159
Revolving Facility	-	-	7,000	-	-	-	7,000
Operating commitments (3)	6,234	757	61	-	-	-	7,052
PPP Loan	946	946	569	-	-	-	2,461
Total	$ 52,251	$ 16,178	$ 20,282	$ 120,019	$ 4	$ -	$ 208,734

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

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

19. Commitments (continued):

Second Lien Facility and interest:
The Company pays interest on the Second Lien Facility semi-annually on January 1 and July 1. The Second Lien Facility is due May 18, 2026.

Trade payables and other current liabilities:
The Company has recorded trade payables for amounts due to third parties which are expected to be paid within one year.

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

Revolving Facility:
The Company's Revolving Facility matures on May 18, 2025. The Company amended the Revolving Facility on May 18, 2022 as described previously in Note 10.

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

Operating commitments:
The Company has agreements in place to purchase certain capital and other operational items with third parties, as well as short term leases with a term of less than one year, and operating expenses associated with long term leases.

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

20. Key management personnel:

Key management personnel are comprised of the Company's Board of Directors and Executive Management. The following table summarizes expenses related to key management personnel:

	Year ended December 31, 2022	Year ended December 31, 2021
Short-term employee benefits	$ 2,165	$ 1,683
Stock based compensation [(1)]	1,077	126
	$ 3,242	$ 1,809

(1) The total fair value of stock options granted to key management personnel for the year ended December 31, 2022 was $3.5 million (December 31, 2021: nil), which is being recognized in net income (loss) over the stock option's vesting period.

21. Subsidiaries:

Details of the Company's material wholly owned subsidiary at the end of the reporting periods is as follows:

		Ownership interest (%)	
	Country of incorporation	December 31, 2022	December 31, 2021
Stoneham Drilling Corporation	USA	100	100

CORPORATE INFORMATION

DIRECTORS

Trent Boehm [2]
Calgary, Alberta

Colleen Cebuliak [1][3]
Edmonton, Alberta

Tomer Cohen [3]
Halifax, Nova Scotia

Lorne A. Gartner [1][2][3]
Calgary, Alberta

Alex R.N. MacAusland [3]
Calgary, Alberta

Ronald P. Mathison
Calgary, Alberta

John R. Rooney [1][2][3]
Calgary, Alberta

OFFICERS

Ronald P. Mathison
Chairman of the Board

Alex R. N. MacAusland
President and
Chief Executive Officer

Jeffrey K. Bowers
Sr. Vice President, Finance, Chief Financial Officer and Corporate Secretary

Peter J. Balkwill
Vice President, Finance

Dan Lundstrom
Vice President, HSE

April Williams
Vice President, Human Resources

AUDITOR
Deloitte LLP
Calgary, Alberta

LEAD BANK
HSBC Bank Canada

STOCK EXCHANGE LISTING
Toronto Stock Exchange Symbol: WRG

TRANSFER AGENT
Computershare
Calgary, Alberta

[1] Member of the Audit Committee
[2] Member of the Corporate Governance and Compensation Committee
[3] Member of the Health, Safety and Environment Committee

Horizon Drilling – A Western Co.
Eagle Well Servicing – A Western Co.
Stoneham Drilling Corporation – A Western Co.
Aero Rental Services – A Western Co.

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