

First Quarter 2019 Interim Report

Date: April 24, 2019

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, 2018 and 2017, the Company's management discussion and analysis ("MD&A") for the year ended December 31, 2018, as well as the condensed consolidated financial statements and notes as at and for the three months ended March 31, 2019 and 2018. This MD&A is dated April 24, 2019. All amounts are denominated in Canadian dollars (CDN\$) unless otherwise identified.

Financial Highlights (stated in thousands, except share and per share amounts)	Three months ended March 31		
	2019	2018	Change
Revenue	65,775	81,257	(19%)
Operating Revenue ⁽¹⁾	61,773	72,965	(15%)
Gross Margin ⁽¹⁾	15,532	20,271	(23%)
Gross Margin as a percentage of Operating Revenue	25%	28%	(11%)
Adjusted EBITDA ⁽¹⁾	11,248	15,112	(26%)
Adjusted EBITDA as a percentage of Operating Revenue	18%	21%	(14%)
Cash flow from operating activities	5,888	3,864	52%
Capital expenditures	2,192	4,656	(53%)
Net loss	(7,078)	(5,947)	19%
-basic net loss per share	(0.08)	(0.06)	33%
-diluted net loss per share	(0.08)	(0.06)	33%
Weighted average number of shares			
-basic	92,306,835	92,177,048	-
-diluted	92,306,835	92,177,048	-
Outstanding common shares as at period end	92,307,042	92,177,098	-
Operating Highlights⁽¹⁾			
Contract Drilling			
<i>Canadian Operations</i>			
Average active rig count	18.7	29.1	(36%)
Operating Revenue per Billable Day	19,475	19,004	2%
Operating Revenue per Operating Day	21,974	21,171	4%
Drilling rig utilization - Billable Days	38%	58%	(34%)
Drilling rig utilization - Operating Days	34%	52%	(35%)
CAODC industry average utilization - Operating Days ⁽²⁾	29%	41%	(29%)
<i>United States Operations</i>			
Average active rig count	5.5	3.3	67%
Operating Revenue per Billable Day (US\$)	19,717	19,928	(1%)
Operating Revenue per Operating Day (US\$)	23,263	21,838	7%
Drilling rig utilization - Billable Days	75%	56%	34%
Drilling rig utilization - Operating Days	64%	51%	25%
Production Services			
Average active rig count	22.8	20.6	11%
Service rig Operating Revenue per Service Hour	670	703	(5%)
Service rig utilization	36%	31%	16%

(1) See "Non-IFRS Measures" on page 16 of this MD&A.

(2) Source: The Canadian Association of Oilwell Drilling Contractors ("CAODC"). The CAODC industry average is based on Operating Days divided by total available days.

Financial Position at (stated in thousands)	March 31, 2019	December 31, 2018	March 31, 2018
Working capital	24,213	15,739	33,761
Property and equipment	609,117	615,395	643,253
Total assets	663,117	667,295	706,895
Long term debt	238,590	222,258	227,401

Overall Performance and Results of Operations

Western is an oilfield service company focused on three core business lines: contract drilling, well servicing and oilfield rental equipment services. Western provides contract drilling services through its division, Horizon Drilling (“Horizon”) in Canada, and its wholly owned subsidiary, Stoneham Drilling Corporation (“Stoneham”) in the United States (“US”). Western provides well servicing and oilfield rental equipment services in Canada through its wholly owned subsidiary Western Production Services Corp. (“Western Production Services”). Western Production Services’ division, Eagle Well Servicing (“Eagle”) provides well servicing operations, while its division, Aero Rental Services (“Aero”) provides oilfield rental equipment services. Stoneham’s division, Western Oilfield Services, provides well servicing operations in the United States. Financial and operating results for Horizon and Stoneham are included in Western’s contract drilling segment, while financial and operating results for Eagle, Aero, and Western Oilfield Services are included in Western’s production services segment. Non-International Financial Reporting Standards (“Non-IFRS”) measures are defined on page 16 of this MD&A. Abbreviations for standard industry terms are included on page 18 of this MD&A.

Western has a drilling rig fleet of 57 rigs specifically suited for drilling complex horizontal wells. Western is currently the fourth largest drilling contractor in Canada, based on the Canadian Association of Oilwell Drilling Contractors (“CAODC”) registered rigs, with a fleet of 49 rigs operating through Horizon. Of the Canadian fleet, 23 are classified as Cardium class rigs, 19 as Montney class rigs and seven as Duvernay class rigs. As compared to the Cardium class rigs, the Montney class rigs have a larger hookload, while the Duvernay class rigs have the largest hookload allowing the rig to support more drill pipe downhole. Additionally, Western has eight drilling rigs operating through Stoneham in the US, including six Duvernay class rigs. Western is also the fifth largest well servicing company in Canada with a fleet of 63 rigs operating through Eagle. Western’s oilfield rental equipment division, which operates through Aero, provides oilfield rental equipment for hydraulic fracturing services, well completions and production work, coil tubing and drilling services.

Crude oil and natural gas prices impact the cash flow of Western’s customers, which in turn impacts the demand for Western’s services. The following table summarizes average crude oil and natural gas prices, as well as average foreign exchange rates, for the three months ended March 31, 2019 and 2018.

	Three months ended March 31		
	2019	2018	Change
Average crude oil and natural gas prices⁽¹⁾⁽²⁾			
Crude Oil			
West Texas Intermediate (US\$/bbl)	54.87	62.89	(13%)
Western Canadian Select (CDN\$/bbl)	59.15	46.90	26%
Natural Gas			
30 day Spot AECO (CDN\$/mcf)	2.57	2.06	25%
Average foreign exchange rates⁽²⁾			
US dollar to Canadian dollar	1.33	1.26	6%

(1) See "Abbreviations" on page 17 of this MD&A.

(2) Source: Bloomberg

West Texas Intermediate (“WTI”) on average declined by 13% for the three months ended March 31, 2019, compared to the same period in the prior year. However, pricing on Canadian crude oil increased in the first quarter of 2019, as compared to the same period in the prior year, due to improved price differentials as a result of the mandated crude oil production curtailments implemented by the Government of Alberta. As a result, the price for Western Canadian Select (“WCS”) increased by 26% for the three months ended March 31, 2019, as compared to the same period in the prior year. Natural gas prices improved for the three months ended March 31, 2019, as the 30 day spot AECO price increased by 25% over the same period in the prior year, and improved by 60% as compared to the fourth quarter of 2018.

In the United States, improved market conditions in 2019 led to a corresponding increase in the demand for oilfield services. As reported by Baker Hughes, a GE Company, the average number of active drilling rigs in the United States increased approximately 8% for the three months ended March 31, 2019 as compared to the same period in the prior

year. However, market conditions in Canada did not improve despite improved prices for Canadian crude oil and natural gas. The mandated crude oil production curtailments implemented by the Government of Alberta and continued industry concerns over market access, increased regulation, and the prevailing customer preference to return cash to shareholders, or pay down debt, rather than grow production have resulted in a decrease in industry activity in Canada. The CAODC reported that for drilling in Canada, the total number of Operating Days in the Western Canadian Sedimentary Basin (“WCSB”) decreased by approximately 33% in the first quarter of 2019 as compared to the first quarter of 2018.

Operational results for the three months ended March 31, 2019 include:

- First quarter Operating Revenue decreased by \$11.2 million to \$61.8 million in 2019 as compared to \$73.0 million in 2018. In the contract drilling segment, Operating Revenue totalled \$45.9 million in the first quarter of 2019, a decrease of \$11.5 million (or 20%) as compared to \$57.4 million in the first quarter of 2018. In the production services segment, Operating Revenue totalled \$16.0 million in the three months ended March 31, 2019, as compared to \$15.7 million in the three months ended March 31, 2018, an increase of \$0.3 million (or 2%). Activity was higher for contract drilling in the United States and for well servicing in Canada; whereas lower contract drilling and oilfield rental equipment activity in Canada impacted Operating Revenue as described below:
 - Drilling rig utilization – Operating Days (“Drilling Rig Utilization”) in Canada decreased to 34% in the first quarter of 2019 compared to an average of 52% in the same period of the prior year, reflecting an 1,800 basis points (“bps”) reduction. The decrease in activity was mainly attributable to mandated crude oil production curtailments in Alberta, coupled with heightened market uncertainty and as a result, customers reduced, or ended their first quarter 2019 drilling programs earlier than in the past. First quarter 2019 Drilling Rig Utilization of 34% represented a premium of 500 bps to the CAODC industry average of 29%, a decrease as compared to the first quarter of 2018 when Drilling Rig Utilization of 52% represented a premium of 1,100 bps to the industry average. The decrease in the Company’s utilization premium to the industry average in 2019 was a function of a smaller industry rig fleet, as older rigs continue to be decommissioned and higher specification rigs continue to move out of the WCSB. Western’s market share, represented by the Company’s Operating Days as a percentage of the CAODC’s total Operating Days in the WCSB, remained consistent at 10% in both the first quarter of 2019 and 2018. Pricing continued to increase and resulted in a 2% improvement in Operating Revenue per Billable Day in the first quarter of 2019, as compared to the same period in the prior year, as day rates have held constant or increased in all rig classes.
 - In the United States, improved WTI prices led to six of the Company’s eight drilling rigs operating during the quarter, three of which were working on term contracts. During the fourth quarter of 2018, the Company purchased one Cardium class drilling rig for its fleet in the United States, which commenced operations in the Permian basin. Additionally, a Duvernay class rig from the Canadian fleet was deployed to the Permian Basin in the first quarter of 2019. As a result of a larger and more geographically diversified rig fleet in 2019 and improved market conditions, Operating Days increased by 54% in the first quarter of 2019, as compared to the same period in the prior year. Furthermore, Drilling Rig Utilization improved to 64% in the first quarter of 2019, compared to 51% in the same period of the prior year. While day rates on the Company’s high specification Duvernay class rigs improved, Operating Revenue per Billable Day for the first quarter of 2019 decreased by 1% as the newly acquired Cardium class rig, which worked at a lower day rate and also has a significantly lower capital investment, decreased the average day rate in the United States; and
 - In Canada, service rig utilization was 36% in the first quarter of 2019 compared to 31% in the same period of the prior year. The increase is due to continued efforts by management to improve activity with existing customers and broaden the Company’s customer base, despite customer programs being impacted by continued market uncertainty. While utilization improved, service rig Operating Revenue per Service Hour decreased during the first quarter of 2019 by 5%, as compared to the same period in the prior year, due to pricing pressure in certain operating areas. Higher utilization, offset partially by lower pricing, led to well servicing Operating Revenue in the period increasing to \$13.7 million, an improvement of \$0.7 million (or 5%), as compared to the same period in the prior year.
- First quarter Adjusted EBITDA decreased by \$3.9 million (or 26%) to \$11.2 million in 2019 as compared to \$15.1 million in the first quarter of 2018. The year over year change in Adjusted EBITDA is due to lower activity in the contract drilling segment in Canada, and decreased oilfield rental equipment activity in the production services segment, which was offset partially by higher utilization for contract drilling in the United States and well servicing in Canada. Also impacting Adjusted EBITDA was \$0.6 million in one time mobilization costs related to the Duvernay class rig moving from the Canadian fleet to the United States, as well as \$0.4 million in costs related to establishing well servicing operations for Western Oilfield Services in the United States.

- Administrative expenses, excluding depreciation and stock based compensation, decreased by \$0.9 million (or 17%) to \$4.3 million, as compared to \$5.2 million in the first quarter of 2018, mainly due to lower rent expense as a result of the adoption of IFRS 16, coupled with lower employee related costs.
- The Company incurred a net loss of \$7.1 million in the first quarter of 2019 (\$0.08 per basic common share) as compared to a net loss of \$5.9 million in the same period in 2018 (\$0.06 per basic common share). The change can be attributed to a \$3.9 million decrease in Adjusted EBITDA, mainly due to lower utilization in the contract drilling segment in Canada, and lower oilfield rental equipment activity, offset partially by higher utilization in contract drilling in the United States and in well servicing in Canada.

Offsetting the above mentioned item was:

- A \$1.3 million increase in income tax recovery due to an increased loss before taxes;
- A \$0.7 million decrease in finance costs, due to a lower average interest rate; and
- A \$0.3 million change in other items, which include gains and losses on foreign exchange and asset sales.
- First quarter 2019 capital expenditures of \$2.2 million included \$1.0 million of expansion capital and \$1.2 million of maintenance capital. In total, capital spending in the first quarter of 2019 decreased by \$2.5 million from the \$4.7 million incurred in the first quarter of 2018. The Company incurred expansion capital mainly related to drilling rig upgrades, as well as required maintenance capital, in the first quarter of 2019.
- On January 1, 2019, the Company adopted IFRS 16, Leases, using the modified retrospective method. The adoption of IFRS 16 resulted in an increase in long term debt of \$12.8 million, an increase in property and equipment of \$10.1 million, a decrease in provisions of \$1.4 million, a decrease in the deferred tax liability of \$0.4 million, a decrease in other assets of \$0.1 million, and a net decrease in retained earnings of \$1.1 million. For the three months ended March 31, 2019, the impact of IFRS 16 on Adjusted EBITDA was an increase of \$0.9 million, whereas the impact on net loss was a decrease of less than \$0.1 million as increased Adjusted EBITDA was partially offset by higher depreciation and finance costs.

Outlook

Currently, 11 of Western's drilling rigs are operating. Six of Western's 57 drilling rigs (or 11%) are under term take or pay contracts, with three expected to expire in 2019, two expected to expire in 2020 and one expected to expire in 2021. These contracts each typically generate between 250 and 350 Billable Days per year.

Western's capital budget for 2019 remains unchanged and is expected to total \$15 million with \$2 million allocated for expansion capital and \$13 million for maintenance capital. Western believes the 2019 capital budget provides a prudent use of cash resources and will allow it to maintain its premier drilling and well servicing rig fleets, while remaining responsive to customer requirements. Western will continue to manage its operations in a disciplined manner and make required adjustments to its capital program as customer demand changes.

Mandated crude oil production cuts in Alberta and uncertainty surrounding takeaway capacity related to the timing of construction on the Trans Mountain pipeline expansion and the Keystone XL pipeline, as well as the in service date of the Enbridge Line 3 pipeline replacement, have resulted in the announced 2019 capital budgets for Western's Canadian customers decreasing by an estimated 15% year over year. As such, year over year activity levels in Canada are expected to decrease in 2019. Controlling fixed costs and maintaining balance sheet flexibility are priorities for the Company, as prices for Western's services remain below historical levels. However, Western's variable cost structure and a prudent capital budget will aid in preserving balance sheet strength.

Given the outlook for oilfield services in Canada, Western is proactively looking to deploy existing assets from Canada into more active resource plays in the United States. In the first quarter of 2019, Western transferred a Duvernay class drilling rig from Canada to the Permian Basin in the United States, increasing the United States drilling rig fleet to eight rigs. Additionally, in the first quarter of 2019, the Company began establishing well servicing operations in the United States and relocated three well service rigs from Canada to the Bakersfield area of California. The Bakersfield area is located in a mature basin where the demand for well interventions is high. Furthermore, as refineries in California have no pipeline connections to the rest of the contiguous United States, the realized price of oil produced by operators in the Bakersfield area is influenced by waterborne crude pricing dynamics, typically resulting in a premium to WTI pricing. Western's three well service rigs deployed in this area fit the profile of wells being serviced and feature engines that are compliant with the California Air Resources Board on-highway emissions standards.

As at March 31, 2019, Western had \$19.2 million drawn on its \$60.0 million Credit Facilities, which mature on December 17, 2021 and currently has \$212.9 million outstanding on its Second Lien Facility, which matures on January 31, 2023.

Oilfield service activity in Canada will be affected by the development of resource plays in Alberta and northeast British Columbia which will be impacted by pipeline construction, environmental regulations, and the level of investment in Canada. Currently, the largest challenges facing the oilfield service industry are limited take away capacity, continued customer spending constraints relative to historical levels, and the challenge of staffing field crews. Western's rig fleet is well positioned to benefit from the recently approved liquefied natural gas project in British Columbia. It is also Western's view that its modern drilling and well servicing rig fleets, reputation, and disciplined cash management provide a competitive advantage which will enable the Company to manage through the current oilfield service environment.

Segmented Information

Western operates in the contract drilling segment as well as in the production services segment in both Canada and the United States. Contract drilling includes drilling rigs along with related equipment. Production services includes well servicing rigs and related equipment as well as oilfield rental equipment.

Contract Drilling

Financial Highlights (stated in thousands)	Three months ended March 31		
	2019	2018	Change
Revenue			
Operating Revenue ⁽¹⁾	45,884	57,350	(20%)
Third party charges	3,558	7,589	(53%)
Total revenue	49,442	64,939	(24%)
Expenses			
Operating			
Cash operating expenses	36,958	48,995	(25%)
Depreciation	12,538	13,112	(4%)
Stock based compensation	30	104	(71%)
Total operating expenses	49,526	62,211	(20%)
Administrative			
Cash administrative expenses	2,041	2,421	(16%)
Depreciation	60	56	7%
Stock based compensation	15	26	(42%)
Total administrative expenses	2,116	2,503	(15%)
Gross Margin ⁽¹⁾	12,484	15,944	(22%)
Gross Margin as a percentage of Operating Revenue	27%	27%	-
Adjusted EBITDA ⁽¹⁾	10,443	13,523	(23%)
Adjusted EBITDA as a percentage of Operating Revenue	23%	20%	15%
Operating Earnings (Loss) ⁽¹⁾	(2,155)	355	(707%)
Capital expenditures	1,926	3,774	(49%)

Operating Highlights

Canadian Operations

Contract drilling rig fleet:			
Average active rig count ⁽¹⁾	18.7	29.1	(36%)
End of period	49	50	(2%)
Operating Revenue per Billable Day ⁽¹⁾	19,475	19,004	2%
Operating Revenue per Operating Day ⁽¹⁾	21,974	21,171	4%
Operating Days ⁽¹⁾	1,493	2,351	(36%)
Number of meters drilled	492,809	674,206	(27%)
Number of wells drilled	128	177	(28%)
Average Operating Days per well	11.7	13.3	(12%)
Drilling rig utilization - Billable Days ⁽¹⁾	38%	58%	(34%)
Drilling rig utilization - Operating Days ⁽¹⁾	34%	52%	(35%)
CAODC industry average utilization - Operating Days ⁽¹⁾⁽²⁾	29%	41%	(29%)

United States Operations

Contract drilling rig fleet:			
Average active rig count ⁽¹⁾	5.5	3.3	67%
End of period	8	6	33%
Operating Revenue per Billable Day (US\$) ⁽¹⁾	19,717	19,928	(1%)
Operating Revenue per Operating Day (US\$) ⁽¹⁾	23,263	21,838	7%
Operating Days ⁽¹⁾	423	274	54%
Number of meters drilled	119,947	78,819	52%
Number of wells drilled	26	15	73%
Average Operating Days per well	16.3	18.3	(11%)
Drilling rig utilization - Billable Days ⁽¹⁾	75%	56%	34%
Drilling rig utilization - Operating Days ⁽¹⁾	64%	51%	25%

(1) See "Non-IFRS Measures" on page 16 of this MD&A.

(2) Source: CAODC. The CAODC industry average is based on Operating Days divided by total available days.

During the first quarter of 2019, Operating Revenue in the contract drilling segment totalled \$45.9 million, an \$11.5 million decrease (or 20%), as compared to the same period of the prior year. The first quarter of 2019 was impacted by lower industry activity in Canada as some of the Company's customers reduced or ended their drilling programs earlier than in the past due to market uncertainty; however, improved market conditions in the United States led to higher year over year activity. While pricing in Canada improved by 2% in the first quarter of 2019, pricing in the United States decreased by 1% as compared to the same period in the prior year mainly due to changes in the average rig mix.

For the three months ended March 31, 2019, third party charges per Billable Day in the contract drilling segment decreased to approximately \$1,600, as compared to approximately \$2,500 in the same period of the prior year. The decrease is mainly due to lower fuel purchases as fewer customers elected to purchase fuel through the Company, instead electing to purchase fuel directly from a third party provider in 2019.

For the three months ended March 31, 2019, cash operating expenses per Billable Day in the contract drilling segment, excluding third party charges, increased by 8% to \$15,295, as compared to \$14,182 in the same period of the prior year. The increase in the first quarter of 2019, as compared to the same period of the prior year, is mainly due to one time mobilization costs of \$0.6 million incurred related to moving one Duvernay class drilling rig from the Canadian fleet to the Permian Basin. Additionally, salaries and related costs increased due to certain rigs in Canada employing extra crew members to accommodate increased operational demands as wells continue to be drilled faster, whereas in the United States, competitive workforce conditions resulted in higher salaries and related costs. Furthermore, higher repairs and maintenance expenses increased cash operating expenses per Billable Day in the first quarter of 2019, as compared to the same period in the prior year.

Gross Margin per Billable Day improved for the three months ended March 31, 2019 by 5%, as compared to the same period of the prior year, mainly due to the higher activity in the United States.

Contract drilling Adjusted EBITDA for the three months ended March 31, 2019 decreased by \$3.1 million to \$10.4 million, as compared to \$13.5 million in the same period of the prior year. The decrease is mainly due to lower activity in Canada, offset partially by increased activity in the United States.

For the three months ended March 31, 2019, cash administrative expenses, which exclude depreciation and stock based compensation, totalled \$2.0 million and were 16% lower than the same period of the prior year, mainly due to lower employee related costs and lower rent expense as a result of the adoption of IFRS 16.

Depreciation expense for the quarter ended March 31, 2019 totalled \$12.6 million and reflects a decrease of \$0.6 million over the same period of the prior year, mainly due to certain assets being fully depreciated in the year.

Capital expenditures in the contract drilling segment totalled \$1.9 million in the first quarter of 2019 and include \$0.9 million of expansion capital and \$1.0 million of maintenance capital. Contract drilling capital expenditures represent a decrease of \$1.9 million from the \$3.8 million incurred in the three months ended March 31, 2018. The Company incurred expansion capital relating to rig upgrades in 2019, as well as required maintenance capital.

Canadian Operations

While the price for Canadian crude oil and natural gas improved during the first quarter of 2019, activity in the WCSB declined as some of the Company's customers reduced or ended their drilling programs earlier than in the past, largely due to economic factors such as the crude oil production curtailments mandated by the Government of Alberta. As a result, during the three months ended March 31, 2019, Operating Days decreased by 36% and Drilling Rig Utilization in Canada declined to 34% as compared to 52% in the same period of the prior year.

Drilling Rig Utilization in Canada of 34% in the first quarter of 2019 reflects a 500 bps premium to the CAODC average of 29%, as compared to a 1,100 bps premium to the CAODC average of 41% in the first quarter of 2018. The decrease in the Company's premium to the CAODC average for the three months ended March 31, 2019 was due to a smaller industry rig fleet, as older rigs continue to be decommissioned and higher specification rigs continue to move out of the WCSB. Western's market share, represented by the Company's Operating Days as a percentage of the CAODC's total Operating Days in the WCSB, remained consistent at 10% in both the first quarter of 2019 and 2018.

Operating Revenue per Billable Day in Canada improved by 2% and totalled \$19,475, compared to \$19,004 in the same period of the prior year, as day rates have held constant or increased in all rig classes.

United States Operations

A larger drilling rig fleet and improved market conditions led to six of the Company's eight United States drilling rigs operating during the three months ended March 31, 2019. This resulted in Western's Operating Days in the United States, in the first quarter of 2019, increasing by 149 days (or 54%) which resulted in Drilling Rig Utilization of 64%, as compared to 51% in the same period of the prior year. While day rates on the Company's high specification Duvernay class rigs improved, Operating Revenue per Billable Day declined by 1% in the first quarter of 2019 to total US\$19,717 as compared

to US\$19,928 in the first quarter of 2018, as the newly acquired Cardium class rig, which worked at a lower day rate and also has a significantly lower capital investment, decreased the average day rate in the United States.

Production Services Financial Highlights (stated in thousands)	Three months ended March 31		
	2019	2018	Change
Revenue			
Operating Revenue ⁽¹⁾	15,980	15,735	2%
Third party charges	450	703	(36%)
Total revenue	16,430	16,438	-
Expenses			
Operating			
Cash operating expenses	13,382	12,110	11%
Depreciation	3,195	3,280	(3%)
Stock based compensation	21	4	425%
Total operating expenses	16,598	15,394	8%
Administrative			
Cash administrative expenses	1,235	1,364	(9%)
Depreciation	134	69	94%
Stock based compensation	-	11	(100%)
Total administrative expenses	1,369	1,444	(5%)
Gross Margin ⁽¹⁾	3,048	4,328	(30%)
Gross margin as a percentage of Operating Revenue	19%	28%	(32%)
Adjusted EBITDA ⁽¹⁾	1,813	2,964	(39%)
Adjusted EBITDA as a percentage of Operating Revenue	11%	19%	(42%)
Operating Loss ⁽¹⁾	(1,516)	(385)	294%
Capital expenditures	266	882	(70%)
Operating Highlights			
Canadian well servicing rig fleet:			
Average active rig count ⁽¹⁾	22.8	20.6	11%
End of period	63	66	(5%)
Service rig Operating Revenue per Service Hour ⁽¹⁾	670	703	(5%)
Service Hours ⁽¹⁾	20,498	18,476	11%
Service rig utilization ⁽¹⁾	36%	31%	16%

(1) See "Non-IFRS Measures" on page 16 of this MD&A.

The Company's production services segment includes Eagle's well servicing fleet and Aero's oilfield rental equipment in Canada, as well as Western Oilfield Services' well servicing fleet in the United States. Operating Revenue in the production services segment for the three months ended March 31, 2019 increased by \$0.3 million (or 2%) to \$16.0 million, compared to \$15.7 million in the same period of the prior year. In 2019, Eagle's contribution to Operating Revenue in the production services segment was \$13.7 million compared to \$13.0 million in the prior year, whereas Aero's contribution to Operating Revenue in the production services segment was \$2.3 million compared to \$2.7 million in the prior year. The increase in Operating Revenue for Eagle in the first quarter of 2019, as compared to the first quarter of 2018, reflects an increased market share and is due to continued efforts by management to improve activity with existing customers and broaden the Company's customer base, despite customer programs being impacted by continued market uncertainty. Aero's Operating Revenue decreased in the first quarter of 2019, as compared to the first quarter of 2018, due to reduced industry activity. As operations are still being established for Western Oilfield Services in the United States, there was no Operating Revenue generated for the three months ended March 31, 2019.

Eagle's Service Hours improved by 11% to 20,498 hours (36% utilization) in the quarter ended March 31, 2019, as compared to 18,476 hours (31% utilization) in the same period of the prior year, mainly due to the continued efforts by management to increase market share. While utilization improved, service rig Operating Revenue per Service Hour decreased during the first quarter of 2019 by 5% to \$670, as compared to \$703 in the same period in the prior year, due to pricing pressure in certain operating areas.

Adjusted EBITDA decreased in the first quarter of 2019 by \$1.2 million (or 39%) to \$1.8 million, compared to \$3.0 million in the first quarter of 2018. While Operating Revenue increased by 2%, the lower Adjusted EBITDA in 2019 was mainly due to additional costs of \$0.4 million related to establishing well servicing operations in the Bakersfield area of California in the United States in the first quarter of 2019 and higher operating costs for salaries and repairs and maintenance.

During the first quarter of 2019, cash administrative expenses, which exclude depreciation and stock based compensation, totalled \$1.2 million and were 9% lower than the prior year, mainly due to lower employee related costs and lower rent expense due to the impact of adopting IFRS 16.

Depreciation expense in the first quarter of 2019 was consistent with the first quarter of 2018 and totalled \$3.3 million, as capital assets added in the prior year were offset by certain capital assets being fully depreciated in the quarter.

Capital expenditures in the production services segment totalled \$0.3 million in the first quarter of 2019, as compared to \$0.9 million in the same period of the prior year, and consisted entirely of maintenance capital.

Corporate

(stated in thousands)	Three months ended March 31		
	2019	2018	Change
Administrative			
Cash administrative expenses	1,008	1,373	(27%)
Depreciation	449	135	233%
Stock based compensation	108	213	(49%)
Total administrative expenses	1,565	1,721	(9%)
Finance costs	4,676	5,380	(13%)
Other items	(378)	(87)	334%
Income taxes			
Deferred tax recovery	(2,522)	(1,242)	103%
Total income taxes	(2,522)	(1,242)	103%
Operating Loss ⁽¹⁾	(1,457)	(1,508)	(3%)

(1) See "Non-IFRS Measures" on page 16 of this MD&A.

Corporate cash administrative expenses, which exclude depreciation and stock based compensation, for the quarter ended March 31, 2019 decreased by 27% to \$1.0 million, as compared to the same period in the prior year, mainly due to lower employee related costs and lower rent expense as a result of the adoption of IFRS 16.

Finance costs of \$4.7 million for the quarter ended March 31, 2019, were lower by \$0.7 million (or 13%) as compared to the same period in the prior year. The decrease is due to the lower effective interest rate on the Company's borrowings of 8.0% in the first quarter of 2019, as compared to 9.2% in the first quarter of 2018, which was higher due to the inclusion of \$0.6 million of non-cash accretion expense related to the early redemption of the Company's senior notes.

Other items, which relate to gains and losses on the sale of assets and foreign exchange, total a \$0.4 million gain in the first quarter of 2019 as compared to a gain of \$0.1 million in the same period of the prior year.

For the first quarter of 2019, income taxes on a consolidated basis totalled a recovery of \$2.5 million, representing an effective tax rate of 26.3%.

Liquidity and Capital Resources

The Company's liquidity needs 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 March 31, 2019, Western had working capital of \$24.2 million, an increase of \$8.5 million from December 31, 2018. Western's consolidated debt balance at March 31, 2019 increased by \$19.0 million (or 8%) to \$246.6 million, as compared to \$227.6 million at December 31, 2018, mainly due to the implementation of IFRS 16, Leases, which added \$12.8 million to long term debt, coupled with additional draws on the Company's Credit Facilities to finance the Company's increased working capital balance in the first quarter of 2019.

During the quarter ended March 31, 2019, Western had the following changes to its cash balances, which resulted in a \$0.9 million decrease in cash and cash equivalents in the period:

Cash and cash equivalents (stated in thousands)	
Opening balance, at December 31, 2018	3,960
Add:	
Adjusted EBITDA	11,248
Draw on Credit Facilities	7,282
Change in non cash working capital	(8,224)
Proceeds on sale of property and equipment	623
Deduct:	
Finance costs paid	(8,360)
Additions to property and equipment	(2,192)
Repayment of Second Lien Facility	(538)
Repayment of other long term debt	(754)
Ending balance, at March 31, 2019	3,045

Western's Credit Facilities, which have a limit of \$60.0 million, mature on December 17, 2021. Western's cash from operations and available Credit Facilities are expected to be sufficient to cover Western's financial obligations, including working capital requirements and the 2019 capital budget. Advances under the Credit Facilities are limited by the Company's borrowing base. The borrowing base is applicable when either (i) more than \$40.0 million is drawn on the Credit Facilities or (ii) the net book value of Western's property and equipment is less than \$300.0 million. The borrowing base is determined as follows:

- 85% of eligible investment grade accounts receivable; plus
- 75% of eligible non-investment grade accounts receivable; plus
- 25% of the net book value of property and equipment to a maximum of \$40.0 million.

As at March 31, 2019, the borrowing base calculation was not applicable as less than \$40.0 million was drawn on the Company's Credit Facilities and the net book value of Western's property and equipment was greater than \$300.0 million.

Amounts borrowed under the Credit Facilities bear interest at the bank's Canadian prime rate, US base rate, LIBOR 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 16 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.

The Credit Facilities are secured by the assets of Western and its subsidiaries. A summary of the Company's financial covenants as at March 31, 2019 is as follows:

March 31, 2019	Covenants ⁽¹⁾
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio	3.0:1.0 or less
Maximum Consolidated Debt to Consolidated Capitalization Ratio	0.6:1.0 or less
Minimum Current Ratio	1.15:1.0 or more

(1) See covenant definitions in Note 7 of the March 31, 2019 condensed consolidated financial statements.

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

For the three months ended March 31, 2019, the Company had no customers comprising 10.0% or more of the Company's total revenue. For the three months ended March 31, 2018, the Company had one significant customer comprising 13.2% of the Company's total revenue. The Company's significant customers may change from period to period.

Summary of Quarterly Results

In addition to other market factors, quarterly results of Western are markedly affected by weather patterns throughout its operating areas. Historically, the first quarter of the calendar year is very active, followed by a much slower second quarter due to what is known in the Canadian oilfield service industry as "spring breakup", where due to the spring thaw, provincial and county road bans restrict movement of heavy equipment. As a result of this, the variation of Western's results on a quarterly basis, particularly between the first and second quarters, can be significant quarter over quarter 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)	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017
Revenue	65,775	63,133	58,879	33,141	81,257	66,515	54,131	33,307
Operating Revenue ⁽¹⁾	61,773	57,806	54,071	30,976	72,965	59,255	51,111	30,469
Gross Margin ⁽¹⁾	15,532	12,677	12,025	5,562	20,271	15,886	12,299	5,667
Adjusted EBITDA ⁽¹⁾	11,248	7,916	7,691	897	15,112	10,067	6,882	121
Cash flow from operating activities	5,888	5,022	(1,968)	26,313	3,864	(800)	1,609	20,659
Net loss	(7,078)	(9,530)	(10,108)	(15,475)	(5,947)	(4,974)	(11,478)	(16,628)
per share - basic	(0.08)	(0.10)	(0.11)	(0.17)	(0.06)	(0.06)	(0.16)	(0.23)
per share - diluted	(0.08)	(0.10)	(0.11)	(0.17)	(0.06)	(0.06)	(0.16)	(0.23)
Total assets	663,117	667,295	669,079	670,584	706,895	760,504	737,385	758,278
Long term debt	238,590	222,258	222,564	210,944	227,401	265,219	264,958	264,702

(1) See "Non-IFRS Measures" on page 16 of this MD&A.

Revenue and Adjusted EBITDA, which were impacted by lower commodity prices throughout the last eight quarters, began to recover in 2017. In 2017 and through to the third quarter of 2018, after normalizing for shortfall commitment revenue, Revenue and Adjusted EBITDA in each quarter increased, as compared to the same quarter in the prior year, due to improving market conditions. However, the fourth quarter of 2018 was impacted by record high differentials on Canadian crude oil and market uncertainty continued into the first quarter of 2019, resulting in customers reducing or delaying their drilling programs, which had a negative impact on Western's Revenue and Adjusted EBITDA.

Net loss is impacted by the seasonal nature of the oilfield service industry in Canada. A net loss has been incurred throughout the last eight quarters, due to the prolonged decline in crude oil and natural gas prices.

Total assets over the last eight quarters have been impacted by depreciation expense exceeding capital additions as capital spending has been reduced during the downturn in crude oil and natural gas prices.

Commitments

In the normal course of business the Company incurs commitments related to its contractual obligations. The expected maturities of the Company's contractual obligations as at March 31, 2019 are as follows:

(stated in thousands)	2019	2020	2021	2022	2023	Thereafter	Total
Second Lien Facility	1,613	2,150	2,150	2,150	205,325	-	213,388
Second Lien Facility interest	7,662	15,376	15,179	15,105	7,473	-	60,795
Trade payables and other current liabilities ⁽¹⁾	21,043	-	-	-	-	-	21,043
Operating commitments ⁽²⁾	3,004	882	843	841	816	884	7,270
Revolving Facility	-	-	18,000	-	-	-	18,000
Operating Facility	-	-	1,173	-	-	-	1,173
Finance lease obligations ⁽³⁾	3,273	4,250	2,954	2,146	1,792	1,860	16,275
Total	36,595	22,658	40,299	20,242	215,406	2,744	337,944

(1) Trade payables and other current liabilities exclude the Company's interest accrued as at March 31, 2019 on the Second Lien Facility.

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

(3) Finance lease obligations represent the gross lease commitments to be paid over the term of the Company's outstanding long term leases and include those leases capitalized under IFRS 16.

Second Lien Facility and interest:

The Company pays interest on the Second Lien Facility semi-annually on January 1 and July 1. The Second Lien Facility is due January 31, 2023.

Trade payables and other current liabilities:

The Company has recorded trade payables for amounts due to third parties which are expected to be paid within one year.

Operating commitments:

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

Other long term debt:

The Company has other long term debt relating to leased vehicles, as well as office and equipment leases, classified as lease obligations under IFRS 16, which was adopted January 1, 2019. These leases run for a terms greater than one year.

There have been no material changes in the contractual obligations, other than in the normal course of business, subsequent to March 31, 2019.

Outstanding Share Data

	April 24, 2019	March 31, 2019	December 31, 2018
Common shares outstanding	92,307,042	92,307,042	92,305,542
Warrants	7,099,546	7,099,546	7,099,546
Stock options outstanding	7,642,047	7,657,077	8,313,537
Restricted share units outstanding - equity settled	534,110	534,110	543,997

Off Balance Sheet Arrangements

As at March 31, 2019, Western had no off balance sheet arrangements in place.

Transactions with Related Parties

During the three months ended March 31, 2019 and 2018, the Company had no transactions with related parties.

Financial Instruments

Fair Values

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.

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, finance lease obligations, the Second Lien 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, 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.

Credit Risk

The Company’s trade receivables are with customers in the crude oil and natural gas industry and are subject to normal industry credit risk. The Company’s practice is to manage credit risk by performing a detailed analysis of the credit worthiness of new customers before the Company’s standard payment terms are offered. Additionally, the Company continuously reviews individual customer trade receivables, taking into consideration payment history and the aging of the trade receivable to monitor collectability.

Under IFRS 9, Financial Instruments, the Company is required to review impairment of its trade and other receivables at each reporting period and to review its loss allowance for expected future credit losses. The Company records an allowance for doubtful accounts if an account is determined to be uncollectible. Any provisions recorded by the Company are reviewed regularly to determine if any of the balances provided for should be written off. The allowance for doubtful accounts could materially change as a result of fluctuations in the financial position of the Company’s customers.

The Company completes a detailed review of its historical credit losses as part of its impairment assessment. The Company has had minimal historical impairment losses on its trade and other receivables, due in part to its credit

management processes. As such, the Company assesses impairment losses on an individual customer account basis, rather than recognize a loss allowance on all outstanding trade and other receivables.

Interest Rate Risk

The Company is exposed to interest rate risk on debt subject to floating interest rates, such as the Company's Credit Facilities. Other long term debt, such as the Second Lien Facility and the Company's finance leases have fixed interest rates, however they are subject to interest rate fluctuations relating to refinancing as required.

Foreign Exchange Risk

The Company is exposed to foreign exchange fluctuations in relation to its US dollar capital expenditures and US operations. The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary. From time to time the Company may use forward foreign currency contracts to hedge against these fluctuations.

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. To manage liquidity risk, the Company forecasts operational results and capital spending on a regular basis. Variances between actual results and forecast are continually monitored to assess the Company's ability to meet its financial obligations.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

As Western's common shares trade on the Toronto Stock Exchange, pursuant to National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, the President and Chief Executive Officer ("CEO") and Senior Vice President, Finance and Chief Financial Officer ("CFO") of the Company have certified as at March 31, 2019 that they have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") to provide reasonable assurance that: (i) material information relating to the Company, including its consolidated subsidiaries, is made known to the CEO and the CFO by others within those entities, particularly during the periods in which the interim filings of the Company are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

The CEO and CFO do not expect that the DC&P will prevent or detect all errors, misstatements and fraud but are designed to provide reasonable assurance of achieving their objectives. A control system, no matter how well designed or operated, can only provide reasonable, but not absolute, assurance that the objectives of the control system are met. In addition to DC&P, the CEO and CFO have designed internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

During the three months ended March 31, 2019, there were no changes in internal control over financial reporting that materially affected, or are reasonably likely to materially affect, Western's internal control over financial reporting.

Critical Accounting Estimates

This MD&A of the Company's financial condition and results of operations is based on the condensed consolidated financial statements for the three months ended March 31, 2019, which were prepared in accordance with IFRS. The presentation of these financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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. These estimates and judgements are based on historical experience and on various assumptions that are believed to be reasonable under the circumstances. Anticipating future events cannot occur with absolute certainty, therefore these estimates may change as new events occur, more experience is acquired and as the Company's operating environment changes. The Company's critical accounting estimates relate to business combinations, impairment, property and equipment, income taxes, stock based compensation, and the Company's allowance for doubtful accounts.

The accounting estimates believed to be the most difficult, subjective or require complex judgements and which are the most critical to the reporting of results of operations and financial positions of the Company are as follows:

Impairment

An evaluation of whether or not an asset is impaired involves consideration of whether indicators of impairment exist. Factors which could indicate impairment exists include: significant underperformance of an asset relative to historical or

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

When there are indicators of impairment, and at a minimum annually in the case of goodwill, 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 cash generating unit ("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 judgement.

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 future 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, the Company will reverse impairment losses 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 loss is required.

Property and equipment

Property and equipment is depreciated over the estimated useful life of the asset while factoring in an asset's estimated residual value as determined by management. All estimates of useful lives and residual values are set out in Note 3 (f) of the December 31, 2018 annual consolidated financial statements. 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 experience and knowledge of the industry and requires management's judgement.

Income taxes

Preparation of the condensed consolidated 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 condensed consolidated balance sheet 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.

Stock based compensation

The fair values of stock options, equity settled restricted share units ("RSUs"), and warrants are measured using a Black Scholes option pricing model. Measurement inputs include the common share price on the grant date, the exercise price of the instrument, the expected common share price volatility, the weighted average expected life of the instruments, the expected dividends and the risk-free interest rate. Service and non-market performance conditions are not taken into account in determining fair value.

Stock based compensation recognized is also determined based on management's grant date estimate of the forfeitures that are expected to occur over the life of the stock options and equity settled RSUs. Cash settled RSUs outstanding are fair valued using a mark-to-market calculation based on the Company's closing common share price at the end of the period. The number of stock options and RSUs that actually vest could differ from the estimated number of awards expected to vest and any differences between the actual and estimated forfeitures are recognized prospectively as they occur.

Allowance for doubtful accounts

The Company reviews its outstanding trade and other receivables balances on at least a monthly basis to determine collectability. Accounts receivable balances are also reviewed as circumstances change in the economy and/or a customer's credit worthiness changes. An allowance for doubtful accounts is recorded if an account is considered uncollectible.

Business Risks

For a comprehensive listing of the Company's business risks please see the most recent Annual Information Form for the year ended December 31, 2018 as filed on SEDAR at www.sedar.com. Certain of the Company's primary business risks as at March 31, 2019 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 exact impact of these risks cannot be accurately predicted.
- If a low commodity price environment persists, the demand for the Company's equipment and services will remain lower than normal and the Company's utilization rates and revenue will be adversely affected during such time. In addition, lower utilization and revenue could result in the Company not being in compliance with certain covenants in its Credit Facilities, which in turn could restrict the Company's ability to access its Credit Facilities, pay distributions and incur additional debt in the future.
- The Company may find it necessary in the future to obtain additional debt or equity to support ongoing operations, to refinance debt, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available when needed or on terms acceptable to the Company.
- 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.
- In addition to global economic events and uncertainty, the capacity within North America to ship commodities to market introduces uncertainties in levels of activity and pricing for crude oil and natural gas production.
- The Company is vulnerable to market prices. Fixed costs, including costs associated with operations, interest, leases, and labour costs account for a significant portion of the Company's expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, or other factors could significantly affect its financial results.
- Competition among oilfield service companies offering related services is significant. Some competitors are larger and have greater revenue than the Company and overall greater financial resources. The Company's ability to generate revenue depends on its ability to attract and win contracts and to perform services.
- Currently, the Company is focused on providing services in the WCSB as well as certain limited geographic areas in the United States, which may expose the Company to more extreme market fluctuations relating to factors such as weather and general economic conditions which may be more extreme than the broader industry conditions.

- The success of the Company is dependent upon the efforts and abilities of its management team. The loss of any member of the management team could have a material adverse effect upon the business and prospects of the Company.
- Safety is a key factor customers consider when selecting an oilfield service company. A decline in the Company's safety performance could result in reduced demand for the Company's services which could have a material adverse effect on the Company's business and financial results.
- The Company's operations are subject to many hazards inherent in the oilfield service industry, such as blowouts, explosions, damaged or lost drilling, well servicing and oilfield rental equipment or damage or loss from inclement weather, which could result in business interruption, casualty losses, damage or destruction of equipment, suspension of operations, environmental damage or damage to property. This could have a material adverse effect on the Company's business and financial results.
- During the prolonged downturn many oilfield service workers left the industry and, therefore, as activity has increased it has been difficult for the Company to attract and retain field crews. This could have a material adverse effect on the Company's business and financial results.
- The Company's business is subject to the operating risks inherent to the oilfield service industry. On occasion, substantial liabilities to third parties may be incurred. The Company will have the benefit of insurance maintained by it and industry standard contracts, however, it may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.
- The ability of the Company to make payments, dividends or enter into certain transactions will be subject to the applicable laws and contractual restrictions in the instruments governing its indebtedness, including the Credit Facilities and the Second Lien Facility.
- The oilfield service industry has experienced a high degree of invention and innovation. It is possible that new technology will be developed which will compete with the Company's products and services.
- A portion of the operations of the Company are in the United States which subject the Company to currency fluctuations and different tax and regulatory laws.
- The loss of a significant customer or customers, or any decrease in services provided or prices charged to a significant customer or customers could have a material adverse effect on the Company's business and financial results.
- The Company's business is subject to credit risk primarily from credit exposure to customers, with a concentration of credit risk with customers in the crude oil and natural gas industry.
- The Company relies on various information systems to manage its business. If these systems were compromised as a result of a successful cyber-attack, this could have a material adverse effect on the Company business and financial results.

Non-IFRS Measures

Western uses certain measures in this MD&A which do not have any standardized meaning as prescribed by IFRS. These measures, which are derived from information reported in the condensed consolidated financial statements, may not be comparable to similar measures presented by other reporting issuers. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Company. These Non-IFRS measures are identified and defined as follows:

Operating Revenue

Management believes that Operating Revenue is a useful supplemental measure as it provides an indication of the revenue generated by Western's principal operating activities, excluding flow through third party charges such as rig fuel, which at the customer's request may be paid for initially by Western, then recharged in its entirety to Western's customers. The closest IFRS measure would be revenue.

Gross Margin

Management believes that Gross Margin is a useful supplemental measure as it provides an indication of the results generated by Western's principal operating activities prior to considering administrative expenses, depreciation and amortization, stock based compensation, how those activities are financed, the impact of foreign exchange, how the results are taxed, how funds are invested, and how non-cash items and one-time gains and losses affect results. The closest IFRS measure would be net income.

The following table provides a reconciliation of revenue under IFRS, as disclosed in the condensed consolidated statements of operations and comprehensive income, to Operating Revenue and Gross Margin:

(stated in thousands)	Three months ended March 31	
	2019	2018
Operating Revenue		
Drilling	45,884	57,350
Production services	15,980	15,735
Less: inter-company eliminations	(91)	(120)
	61,773	72,965
Third party charges	4,008	8,292
Less: inter-company eliminations	(6)	-
Revenue	65,775	81,257
Less: operating expenses	(66,027)	(77,485)
Add:		
Depreciation - operating	15,733	16,391
Stock based compensation - operating	51	108
Gross Margin	15,532	20,271

Adjusted EBITDA

Management believes that earnings before interest and finance costs, taxes, depreciation and amortization, other non-cash items and one-time gains and losses ("Adjusted EBITDA") is a useful supplemental measure as it provides an indication of the results generated by the Company's principal operating segments similar to Gross Margin but also factors in the cash administrative expenses incurred in the period. The closest IFRS measure would be net income.

Operating Earnings (Loss)

Management believes that Operating Earnings (Loss) is a useful supplemental measure as it provides an indication of the results generated by the Company's principal operating segments similar to Adjusted EBITDA but also factors in the depreciation expense incurred in the period. The closest IFRS measure would be net income.

The following table provides a reconciliation of net loss under IFRS, as disclosed in the condensed consolidated statements of operations and comprehensive income, to earnings before interest and finance costs, taxes, depreciation and amortization ("EBITDA"), Adjusted EBITDA and Operating Loss:

(stated in thousands)	Three months ended March 31	
	2019	2018
Net loss	(7,078)	(5,947)
Add:		
Finance costs	4,676	5,380
Income tax recovery	(2,522)	(1,242)
Depreciation - operating	15,733	16,391
Depreciation - administrative	643	259
EBITDA	11,452	14,841
Add:		
Stock based compensation - operating	51	108
Stock based compensation - administrative	123	250
Other items	(378)	(87)
Adjusted EBITDA	11,248	15,112
Less:		
Depreciation - operating	(15,733)	(16,391)
Depreciation - administrative	(643)	(259)
Operating Loss	(5,128)	(1,538)

Defined Terms:

Average active rig count (contract drilling): Calculated as drilling rig utilization – Billable Days multiplied by the average number of drilling rigs in the Company's fleet for the period.

Average active rig count (production services): Calculated as service rig utilization multiplied by the average number of service rigs in the Company's fleet for the period.

Billable Days: Defined as Operating Days plus rig mobilization days.

Drilling rig utilization – Operating Days (or "Drilling Rig Utilization"): Calculated based on Operating Days divided by total available days.

Drilling rig utilization – Billable Days: Calculated based on Billable Days divided by total available days.

Operating Days: Defined as contract drilling days, calculated on a spud to rig release basis.

Service Hours: Defined as well servicing hours completed.

Service rig utilization: Calculated based on Service Hours divided by available hours, being 10 hours per day, per well servicing rig, 365 days per year.

Contract Drilling Rig Classifications:

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

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

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

Abbreviations:

- Barrel ("bbl");
- Basis point ("bps"): A 1% change equals 100 basis points and a 0.01% change is equal to one basis point;
- Canadian Association of Oilwell Drilling Contractors ("CAODC");
- DecaNewton ("daN");
- International Financial Reporting Standards ("IFRS");
- Pounds ("lbs");
- Thousand cubic feet ("mcf");
- Western Canadian Sedimentary Basin ("WCSB");
- Western Canadian Select ("WCS"); and
- West Texas Intermediate ("WTI").

Forward-Looking Statements and Information

This MD&A contains certain statements or disclosures relating to Western that are based on the expectations of Western as well as assumptions made by and information currently available to Western which may constitute forward-looking information under applicable securities laws. All information and statements contained herein that are not clearly historical in nature constitute forward-looking information, and words and phrases such as “may”, “will”, “should”, “could”, “expect”, “intend”, “anticipate”, “believe”, “estimate”, “plan”, “predict”, “potential”, “continue”, “looking to”, or the negative of these terms or other comparable terminology are generally intended to identify forward-looking information. Such information represents the Company’s internal projections, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital expenditures, anticipated future debt levels and revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information.

In particular, forward-looking information in this MD&A includes, but is not limited to, statements relating to commodity pricing; the future demand for and utilization of the Company’s services and equipment; the pricing for the Company’s services and equipment; the terms of existing and future drilling contracts in Canada and the US and the revenue resulting therefrom (including the number of Operating Days and Billable Days typically generated from such contracts); the Company’s expansion and maintenance capital plans for 2019 and its ability to make changes thereto in response to customer demands; the Company’s liquidity needs including the ability of current capital resources to cover Western’s financial obligations and the 2019 capital budget; the use, availability and sufficiency of the Company’s Credit Facilities; pricing for Western’s services and impact on Adjusted EBITDA; the Company’s ability to maintain certain covenants under its Credit Facilities; the future declaration of dividends; expectations as to the increase in crude oil transportation capacity through pipeline development; expectations as to the benefits of the liquefied natural gas expansion in British Columbia; the future deployment or retirement of rigs; the potential impact of changes to laws and government regulations and the price on carbon emissions; the expectation of continued investment in the Canadian crude oil and natural gas industry; the development of Alberta and British Columbia resource plays; expectations relating to producer spending and activity levels for oilfield services; the Company’s approach to management of its budget and operations; the Company’s ability to find and maintain enough field crew members; and forward-looking statements under the headings “Disclosure Controls and Procedures and Internal Controls Over Financial Reporting”, “Business Risks” and “Critical Accounting Estimates”.

The material assumptions in making the forward-looking statements in this MD&A include, but are not limited to, assumptions relating to: demand levels and pricing for oilfield services; demand for crude oil and natural gas and the price and volatility of crude oil and natural gas; pressures on commodity pricing; the continued business relationships between the Company and its significant customers; the Company’s competitive advantage; crude oil transport and pipeline approval and development; the Company’s ability to finance its operations; the effectiveness of the Company’s cost structure and capital budget; the effects of seasonal and weather conditions on operations and facilities; the competitive environment to which the various business segments are, or may be, exposed in all aspects of their business and the Company’s competitive position therein; the ability of the Company’s various business segments to access equipment (including spare parts and new technologies); changes in laws or regulations; currency exchange fluctuations; the ability of the Company to attract and retain skilled labour and qualified management; the ability to retain and attract significant customers; the ability to maintain a satisfactory safety record; and general business, economic and market conditions.

Although Western believes that the expectations and assumptions on which such forward-looking statements and information are based on are reasonable, undue reliance should not be placed on the forward-looking statements and information as Western cannot give any assurance that they will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risk that recent improvements in commodity pricing may not continue, and other general industry, economic, market and business conditions. Readers are cautioned that the foregoing list of risks, uncertainties and assumptions are not exhaustive. Additional information on these and other risk factors that could affect Western’s operations and financial results are discussed under the heading “Risk Factors” in Western’s annual information form for the year ended December 31, 2018 (“AIF”) which may be accessed through the SEDAR website at www.sedar.com. The forward-looking statements and information contained in this MD&A are made as of the date hereof and Western does not undertake any obligation to update publicly or revise any forward-looking statements and information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Additional data

The AIF containing additional information relating to the Company is filed on SEDAR at www.sedar.com.