

## 2019 Management's Discussion & Analysis

Date: February 27, 2020

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, 2019 and 2018. This Management's Discussion and Analysis ("MD&A") is dated February 27, 2020. All amounts are denominated in Canadian dollars (CDN\$) unless otherwise identified.

Financial Highlights (stated in thousands, except share and per share amounts)	Three months ended December 31			Year ended December 31			
	2019	2018	Change	2019	2018	Change	2017
Revenue	45,838	63,133	(27%)	196,408	236,410	(17%)	238,175
Adjusted EBITDA <sup>(1)</sup>	5,584	7,916	(29%)	24,238	31,616	(23%)	35,695
Adjusted EBITDA as a percentage of revenue	12%	13%	(8%)	12%	13%	(8%)	15%
Cash flow from operating activities	8,921	5,022	78%	31,718	33,231	(5%)	24,641
Additions to property and equipment	2,942	6,102	(52%)	7,968	19,960	(60%)	18,132
Net loss	(52,249)	(9,530)	448%	(81,030)	(41,060)	97%	(37,445)
-basic net loss per share	(0.56)	(0.10)	460%	(0.88)	(0.45)	96%	(0.48)
-diluted net loss per share	(0.56)	(0.10)	460%	(0.88)	(0.45)	96%	(0.48)
Weighted average number of shares							
-basic	92,501,314	92,305,208	-	92,379,902	92,224,585	-	77,601,827
-diluted	92,501,314	92,305,208	-	92,379,902	92,224,585	-	77,601,827
Outstanding common shares as at period end	92,501,314	92,305,542	-	92,501,314	92,305,542	-	92,175,598
<b>Operating Highlights<sup>(2)</sup></b>							
<b>Contract Drilling</b>							
<i>Canadian Operations</i>							
Average active rig count	11.4	18.1	(37%)	12.3	19.2	(36%)	20.6
Revenue per Billable Day	22,023	22,474	(2%)	21,383	21,321	-	20,178
Revenue per Operating Day	24,725	25,166	(2%)	23,854	23,644	1%	22,349
Drilling rig utilization - Billable Days	23%	36%	(36%)	25%	38%	(34%)	41%
Drilling rig utilization - Operating Days	21%	32%	(34%)	22%	35%	(37%)	37%
CAODC industry average utilization - Operating Days <sup>(3)</sup>	23%	28%	(18%)	22%	29%	(24%)	29%
<i>United States Operations</i>							
Average active rig count	2.9	4.9	(41%)	4.4	3.4	29%	3.1
Revenue per Billable Day (US\$)	21,979	19,602	12%	20,460 <sup>(4)</sup>	21,109	(3%)	21,205
Revenue per Operating Day (US\$)	26,596	22,011	21%	24,150 <sup>(4)</sup>	23,571	2%	24,672
Drilling rig utilization - Billable Days	37%	79%	(53%)	56%	57%	(2%)	61%
Drilling rig utilization - Operating Days	30%	71%	(58%)	47%	51%	(8%)	52%
<b>Production Services</b>							
<i>Canadian Operations</i>							
Average active rig count	20.1	18.8	7%	19.1	16.5	16%	17.2
Revenue per Service Hour	680	669	2%	661	686	(4%)	675
Service rig utilization	32%	28%	14%	30%	25%	20%	26%

(1) See "Non-IFRS Measures" on page 21 of this MD&A.

(2) See "Defined Terms" on page 22 of this MD&A.

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

(4) Excludes shortfall commitment revenue from take or pay contracts of US\$1.3 million for the year ended December 31, 2019.

<b>Financial Position at (stated in thousands)</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Working capital	7,031	15,739	62,866
Property and equipment	511,052	615,395	652,828
Total assets	550,537	667,295	760,504
Long term debt	228,274	222,258	265,219

## Overall Performance and Results of Operations

Western is an oilfield service company focused on three core business lines: contract drilling, well servicing and oilfield rental equipment services. Western provides contract drilling services through its division, Horizon Drilling (“Horizon”) in Canada, and its wholly owned subsidiary, Stoneham Drilling Corporation (“Stoneham”) in the United States (“US”). Western provides well servicing and oilfield rental equipment services in Canada through its wholly owned subsidiary Western Production Services Corp. (“Western Production Services”). Western Production Services’ division, Eagle Well Servicing (“Eagle”) provides well servicing operations, while its division, Aero Rental Services (“Aero”) provides oilfield rental equipment services. Stoneham’s division, Western Oilfield Services, provides well servicing operations in the United States. Financial and operating results for Horizon and Stoneham are included in Western’s contract drilling segment, while financial and operating results for Eagle, Aero, and Western Oilfield Services are included in Western’s production services segment. Non-International Financial Reporting Standards (“Non-IFRS”) measures, such as Adjusted EBITDA, are defined on page 21 of this MD&A. Abbreviations for standard industry terms are included on page 22 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<sup>1</sup>, 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, based on the CAODC registered rigs<sup>2</sup>, with a fleet of 63 rigs operating through Eagle. Additionally, Western Oilfield Services has three well servicing rigs operating in the Bakersfield area of California in the US. Western’s oilfield rental equipment division, which operates through Aero, provides oilfield rental equipment for hydraulic fracturing services, well completions and production work, coil tubing and drilling services.

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

	<b>Three months ended December 31</b>			<b>Year ended December 31</b>		
	<b>2019</b>	<b>2018</b>	<b>Change</b>	<b>2019</b>	<b>2018</b>	<b>Change</b>
<b>Average crude oil and natural gas prices<sup>(1)(2)</sup></b>						
<b>Crude Oil</b>						
West Texas Intermediate (US\$/bbl)	56.96	58.82	(3%)	57.02	64.76	(12%)
Western Canadian Select (CDN\$/bbl)	54.29	36.01	51%	58.77	52.34	12%
<b>Natural Gas</b>						
30 day Spot AECO (CDN\$/mcf)	2.42	1.58	53%	1.76	1.50	17%
<b>Average foreign exchange rates<sup>(2)</sup></b>						
US dollar to Canadian dollar	1.32	1.32	-	1.33	1.30	2%

(1) See “Abbreviations” on page 22 of this MD&A.

(2) Source: Sproule December 31, 2019 Price Forecast, Historical Prices.

West Texas Intermediate (“WTI”) on average declined for the three months and year ended December 31, 2019 respectively, compared to the same periods in the prior year. However, pricing on Western Canadian Select (“WCS”) crude oil increased by 51% in the fourth quarter of 2019 and by 12% year over year respectively, compared to the same periods 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. Natural gas prices in Canada increased for both the three months and year

<sup>1</sup> Source: CAODC Contractor Summary as at February 27, 2020.

<sup>2</sup> Source: CAODC Fleet List as at February 27, 2020.

ended December 31, 2019, as the 30 day spot AECO price increased by 53% and 17% respectively, over the same periods of the prior year. The US dollar to the Canadian dollar foreign exchange rate remained constant quarter over quarter, though weakened for the year ended December 31, 2019 which had a slightly positive effect on the cash flows of Western's Canadian customers, when selling US dollar denominated commodities.

In the United States, industry activity has decreased in 2019, particularly in the fourth quarter. As reported by Baker Hughes Company<sup>3</sup>, the number of active drilling rigs in the United States decreased year over year by approximately 26%. Likewise, in Canada, market conditions have deteriorated despite improved year to date 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<sup>4</sup> reported that for drilling in Canada, the total number of Operating Days in the Western Canadian Sedimentary Basin ("WCSB") decreased by approximately 30% in 2019 as compared to 2018, as a result of a 13% decrease in the industry rig count year over year.

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

- Fourth quarter revenue decreased by \$17.3 million to \$45.8 million in 2019 as compared to \$63.1 million in 2018. In the contract drilling segment, revenue totalled \$30.9 million in the fourth quarter of 2019, a decrease of \$18.3 million (or 37%) as compared to \$49.2 million in the fourth quarter of 2018. In the production services segment, revenue totalled \$15.0 million for the three months ended December 31, 2019, as compared to \$14.0 million for the three months ended December 31, 2018, an increase of \$1.0 million (or 7%). While contract drilling day rates were higher in the United States and activity was higher for well servicing in Canada, lower contract drilling and oilfield rental equipment activity in Canada impacted revenue as described below:
  - Drilling rig utilization – Operating Days ("Drilling Rig Utilization") in Canada decreased to 21% in the fourth quarter of 2019 compared to an average of 32% in the same period of the prior year, reflecting a 1,100 basis points ("bps") reduction. The decrease in activity was mainly attributable to mandated crude oil production curtailments in Alberta due to pipeline constraints, coupled with continued market uncertainty and as a result, customers reduced or cancelled their 2019 drilling programs. Fourth quarter 2019 Drilling Rig Utilization of 21% represented a discount of 200 bps to the CAODC industry average of 23%<sup>5</sup>, a decrease as compared to the fourth quarter of 2018 when Drilling Rig Utilization of 32% was 400 bps higher than the industry average. The decrease in the Company's utilization as compared 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, decreased to 8.2% in the fourth quarter of 2019, as compared to 9.6% in the fourth quarter of 2018. Revenue per Billable Day decreased by 2% in the fourth quarter of 2019, as compared to the same period in the prior year, due to changes in the average rig mix and lower third party revenue as less fuel was purchased on behalf of the Company's customers;
  - In the United States, six of the Company's eight drilling rigs worked during the quarter, two of which were operating on term contracts. Drilling Rig Utilization was 30% in the fourth quarter of 2019, compared to 71% in the fourth quarter of 2018, reflecting a 44% decrease in Operating Days. Revenue per Billable Day for the fourth quarter of 2019 improved by 12%, mainly due to a higher proportion of Operating Days related to the Company's high specification Duvernay class rigs in the Williston Basin in North Dakota, compared to the rigs working in the Permian Basin in Texas which worked at lower average day rates, while operating at a significantly lower cost; and
  - In Canada, service rig utilization was 32% in the fourth quarter of 2019 compared to 28% 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 continued market uncertainty and mandated crude oil production curtailments in Alberta. Revenue per Service Hour increased during the fourth quarter of 2019 by 2%, as compared to the same period in the prior year, due to changes in the average rig mix. Higher utilization and pricing, led to well servicing revenue in the period increasing to \$12.6 million, an improvement of \$1.0 million (or 9%), as compared to the same period in the prior year.

<sup>3</sup> Source: Baker Hughes Company, 2019 Rig Count monthly press releases.

<sup>4</sup> Source: CAODC, monthly Contractor Summary.

<sup>5</sup> Source: CAODC, monthly Contractor Summary.

- Administrative expenses decreased by \$0.6 million (or 12%) to \$4.2 million in the fourth quarter of 2019, as compared to \$4.8 million in the fourth quarter of 2018, mainly due to lower rent expense as a result of the adoption of IFRS 16.
- The Company incurred a net loss of \$52.2 million in the fourth quarter of 2019 (\$0.56 per basic common share) as compared to a net loss of \$9.5 million in the same period in 2018 (\$0.10 per basic common share). The change can mainly be attributed to a property and equipment impairment loss of \$54.0 million and a \$2.3 million decrease in Adjusted EBITDA, offset partially by a \$12.2 million increase in income tax recovery and a \$1.6 million decrease in depreciation expense due to certain assets being fully depreciated in the period.
- Fourth quarter Adjusted EBITDA decreased by \$2.3 million (or 29%) to \$5.6 million in 2019 as compared to \$7.9 million in the fourth quarter of 2018. The year over year change in Adjusted EBITDA is due to lower contract drilling in Canada and the United States, lower oilfield rental equipment activity in Canada, \$1.0 million of restructuring costs related to severance as the Company continues to monitor and align its costs with lower activity levels, offset partially by increased pricing in the United States and higher well servicing activity in Canada.
- As a result of continued market uncertainty and the related outlook for current and future oilfield services activity and pricing, the Company completed an impairment test for each of its cash generating units (“CGU”) as at December 31, 2019. Based on the results of these tests, it was determined that property and equipment in the Company’s contract drilling and oilfield rentals CGUs was impaired by \$49.0 million and \$5.0 million respectively.
- Fourth quarter 2019 additions to property and equipment of \$2.9 million included \$1.2 million related to expansion capital and \$1.7 million of maintenance capital. In total, additions to property and equipment in the fourth quarter of 2019 decreased by \$3.2 million (or 52%) from the \$6.1 million incurred in the fourth quarter of 2018.
- Subsequent to December 31, 2019, on January 6, 2020, the Company announced a normal course issuer bid (the “Bid”), which has been filed with and accepted by the Toronto Stock Exchange. Pursuant to the Bid, Western may purchase for cancellation up to 5,200,000 common shares of the Company. The Bid commenced on January 14, 2020 and will terminate the earlier of: (i) January 13, 2021; and (ii) the date on which the maximum number of common shares are purchased pursuant to the Bid. 1,571,000 common shares for a total cost of approximately \$0.5 million have been repurchased since the commencement of the Bid.

Operational results for the year ended December 31, 2019 include:

- Revenue in 2019 decreased by \$40.0 million (or 17%) to \$196.4 million as compared to \$236.4 million in 2018. In the contract drilling segment, revenue totalled \$140.8 million in 2019, including US\$1.3 million of shortfall commitment revenue, and reflects a decrease of \$43.1 million (or 23%) as compared to \$183.9 million in 2018. In the production services segment, revenue totalled \$55.9 million in 2019, as compared to \$52.7 million in 2018, an increase of \$3.2 million (or 6%). Activity was higher for well servicing in Canada; whereas lower contract drilling and oilfield rental equipment activity in Canada and lower activity in the United States impacted revenue as described below:
  - Drilling Rig Utilization in Canada for the year ended December 31, 2019 decreased to 22%, compared to an average of 35% for the prior year, reflecting a 1,300 bps reduction. The decrease in activity was mainly attributable to mandated crude oil production curtailments in Alberta due to pipeline constraints, coupled with heightened market uncertainty and as a result, customers reduced or cancelled their 2019 drilling programs. Drilling Rig Utilization of 22% in 2019 was consistent with the CAODC industry average of 22%<sup>6</sup>, whereas in 2018, Drilling Rig Utilization of 35% represented a 600 bps premium to the CAODC 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, was 8.9% in 2019, as compared to 9.8% in 2018. Despite lower activity, revenue per Billable Day in 2019 was consistent with the prior year, due to rates on all rig classes remaining relatively constant, coupled with changes in the average rig mix;
  - In the United States, seven of the Company’s eight drilling rigs worked in 2019, three of which were operating on term contracts. Additionally, US\$1.3 million in shortfall commitment revenue was recognized in 2019. 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, Operating Days increased by 21%, as compared to 2018. However, Drilling Rig

<sup>6</sup> Source: CAODC, monthly Contractor Summary.

Utilization decreased to 47% for the year ended December 31, 2019, compared to 51% in the prior year due to activity slowing in the United States. While day rates on the Company's high specification Duvernay class rigs remained constant in the Williston Basin in North Dakota, revenue per Billable Day for the year ended December 31, 2019 decreased by 3% as the rigs working in the Permian Basin in Texas worked at lower average day rates, while operating at a significantly lower cost and worked a higher proportion of Operating Days in 2019 than 2018; and

- In Canada, service rig utilization was 30% for the year ended December 31, 2019 compared to 25% in 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, wet weather in certain areas and mandated crude oil production curtailments in Alberta. While utilization improved, revenue per Service Hour decreased in 2019 by 4%, compared to 2018 due to pricing pressure in certain operating areas. Higher utilization, offset partially by lower pricing, led to well servicing revenue in the period increasing to \$46.2 million, an improvement of \$4.8 million (or 12%), as compared to the prior year.
- Administrative expenses in 2019 decreased by \$2.2 million (or 12%) to \$16.7 million, as compared to \$18.9 million in 2018, mainly due to lower rent expense as a result of the adoption of IFRS 16, coupled with lower employee related costs due to lower headcount, offset partially by severance costs described previously.
- The Company incurred a net loss of \$81.0 million in 2019 (\$0.88 per basic common share) as compared to a net loss of \$41.1 million in 2018 (\$0.45 per basic common share). The change can be attributed to:
  - A \$17.2 million increase in income tax recovery due to an increased loss before income taxes in the period due to the impairment of property and equipment and the decrease in the Alberta corporate tax rate substantively enacted in the second quarter of 2019;
  - A \$3.0 million decrease in depreciation expense due to certain assets being fully depreciated in the period;
  - A \$0.6 million decrease in stock based compensation expense mainly due to the Company's lower share price;
  - A \$0.4 million decrease in finance costs, mainly due to \$0.6 million of non-cash accretion expense recognized in the prior year related to the early redemption of the Company's senior notes; and
  - A \$0.3 million change in other items, which include gains and losses on foreign exchange and asset sales.

Offsetting the above mentioned items were the \$54.0 million impairment loss on property and equipment and a \$7.4 million decrease in Adjusted EBITDA.

- Adjusted EBITDA for the year ended December 31, 2019 decreased by \$7.4 million (or 23%) to \$24.2 million as compared to \$31.6 million for the year ended December 31, 2018. The year over year change is mainly due to lower Adjusted EBITDA in Canadian contract drilling, coupled with \$1.9 million related to restructuring costs related to severance as the Company continues to monitor and adjust its costs based on lower activity levels, lower rent expense as a result of the adoption of IFRS 16, and \$1.4 million in costs related to establishing well servicing operations for Western Oilfield Services in the United States, which was offset partially by shortfall commitment revenue.
- As a result of continued market uncertainty and the related outlook for current and future oilfield services activity and pricing, the Company completed an impairment test for each of its CGUs as at December 31, 2019. Based on the results of these tests, it was determined that property and equipment in the Company's contract drilling and oilfield rentals CGUs were impaired by \$49.0 million and \$5.0 million respectively.
- Year to date additions to property and equipment of \$8.0 million included \$2.6 million of expansion capital and \$5.4 million of maintenance capital. In total, additions to property and equipment for 2019 decreased by \$12.0 million (or 60%) from the \$20.0 million incurred in 2018. The Company incurred expansion capital mainly related to drilling rig upgrades, as well as required maintenance capital in 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 and year ended December 31, 2019, the impact of IFRS 16 on Adjusted EBITDA was an increase of \$0.8 million and \$3.3 million respectively, whereas the impact on net loss was less than \$0.1 million in each respective period, as increased Adjusted EBITDA was offset by higher depreciation expense and finance costs.

## Outlook

Currently, 15 of Western's drilling rigs are operating. Three of Western's 57 drilling rigs (or 5%) are under term take or pay contracts, with 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.

Due to decreased activity levels, Western's capital budget for 2020 is expected to total approximately \$8 million, with \$1 million allocated for expansion capital and \$7 million for maintenance capital. Western believes the 2020 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 2020 capital budgets for Western's Canadian customers decreasing year over year. As such, year over year activity levels in Canada are expected to be consistent with 2019 levels. Controlling fixed costs and maintaining balance sheet flexibility are priorities for the Company, as prices and demand for Western's services remain below historical levels. Going forward, Western's variable cost structure and a prudent capital budget will aid in preserving balance sheet strength.

As at December 31, 2019, Western had \$12.3 million drawn on its \$60.0 million credit facilities, consisting of its \$50.0 million syndicated first lien credit facility (the "Revolving Facility") and its \$10.0 million committed operating facility (the "Operating Facility" and together the "Credit Facilities"), which mature on December 17, 2021. Western currently has \$211.2 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.

## Review of the Year Ended December 31, 2019 Results

### Segmented Information

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

#### Contract Drilling

Financial Highlights (stated in thousands)	Three months ended December 31			Year ended December 31		
	2019	2018	Change	2019	2018	Change
Revenue	30,901	49,158	(37%)	140,771	183,937	(23%)
Expenses						
Operating	23,576	38,071	(38%)	107,913	143,075	(25%)
Administrative	2,167	2,338	(7%)	8,590	9,288	(8%)
Adjusted EBITDA <sup>(1)</sup>	5,158	8,749	(41%)	24,268	31,574	(23%)
Adjusted EBITDA as a percentage of revenue	17%	18%	(6%)	17%	17%	-
Depreciation	11,065	13,172	(16%)	48,027	52,757	(9%)
Operating Loss	(5,907)	(4,423)	34%	(23,759)	(21,183)	12%
Stock based compensation	55	56	(2%)	170	441	(61%)
Loss before income taxes and impairment	(5,962)	(4,479)	33%	(23,929)	(21,624)	11%
Additions to property and equipment	1,619	5,442	(70%)	5,128	17,478	(71%)

#### Operating Highlights

##### Canadian Operations

Contract drilling rig fleet:

Average active rig count <sup>(2)</sup>	11.4	18.1	(37%)	12.3	19.2	(36%)
End of period	49	50	(2%)	49	50	(2%)
Revenue per Billable Day <sup>(2)</sup>	22,023	22,474	(2%)	21,383	21,321	-
Revenue per Operating Day <sup>(2)</sup>	24,725	25,166	(2%)	23,854	23,644	1%
Operating Days <sup>(2)</sup>	932	1,487	(37%)	4,012	6,328	(37%)
Number of meters drilled	334,382	529,707	(37%)	1,383,001	2,081,121	(34%)
Number of wells drilled	77	124	(38%)	328	506	(35%)
Average Operating Days per well	12.1	12.0	1%	12.2	12.5	(2%)
Drilling rig utilization - Billable Days <sup>(2)</sup>	23%	36%	(36%)	25%	38%	(34%)
Drilling rig utilization - Operating Days <sup>(2)</sup>	21%	32%	(34%)	22%	35%	(37%)
CAODC industry average utilization - Operating Days <sup>(2)(3)</sup>	23%	28%	(18%)	22%	29%	(24%)

##### United States Operations

Contract drilling rig fleet:

Average active rig count <sup>(2)</sup>	2.9	4.9	(41%)	4.4	3.4	29%
End of period	8	7	14%	8	7	14%
Revenue per Billable Day (US\$) <sup>(2)</sup>	21,979	19,602	12%	20,460 <sup>(4)</sup>	21,109	(3%)
Revenue per Operating Day (US\$) <sup>(2)</sup>	26,596	22,011	21%	24,150 <sup>(4)</sup>	23,571	2%
Operating Days <sup>(2)</sup>	224	403	(44%)	1,352	1,121	21%
Number of meters drilled	61,173	113,979	(46%)	371,171	343,716	8%
Number of wells drilled	15	20	(25%)	89	64	39%
Average Operating Days per well	14.9	20.2	(26%)	15.2	17.5	(13%)
Drilling rig utilization - Billable Days <sup>(2)</sup>	37%	79%	(53%)	56%	57%	(2%)
Drilling rig utilization - Operating Days <sup>(2)</sup>	30%	71%	(58%)	47%	51%	(8%)

(1) See "Non-IFRS Measures" on page 21 of this MD&A.

(2) See "Defined Terms" on page 22 of this MD&A.

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

(4) Excludes shortfall commitment revenue from take or pay contracts of US\$1.3 million for the year ended December 31, 2019.

For the year ended December 31, 2019, revenue for the contract drilling segment totalled \$140.8 million, including US\$1.3 million of shortfall commitment revenue, which was a \$43.1 million decrease (or 23%), as compared to the prior year. Revenue for the year ended December 31, 2019 was impacted by lower industry activity in Canada as customers reduced their drilling programs due to the mandated Government of Alberta production curtailments and market uncertainty; however, a larger and more geographically diverse rig fleet in the United States led to higher year over year activity. While pricing in Canada was consistent with 2018, pricing in the United States decreased by 3% in 2019 compared to 2018, mainly due to changes in the average rig mix, as the rigs working in the Permian Basin in Texas worked at lower average day rates, while operating at a significantly lower cost.

For the year ended December 31, 2019, operating expenses per Billable Day, which include third party charges, increased by 3%, as compared to the prior year. The increase is mainly attributed to fixed operating costs being allocated over fewer Billable Days in 2019 compared to 2018.

Administrative expenses for 2019 totalled \$8.6 million and were 8% lower than the prior year, mainly due to lower rent expense as a result of the adoption of IFRS 16, as well as lower employee related costs, offset partially by restructuring costs.

Contract drilling incurred a loss before income taxes and impairment of \$23.9 million in 2019, compared to a loss before income taxes of \$21.6 million in 2018. The change can be attributed to a \$7.3 million decrease in Adjusted EBITDA, which was partially offset by a \$4.8 million decrease in depreciation expense and a \$0.2 million decrease in stock based compensation.

Contract drilling Adjusted EBITDA of \$24.3 million in 2019 decreased by \$7.3 million (or 23%), as compared to \$31.6 million in 2018. The decrease in 2019 is mainly due to lower activity in Canada, which was partially offset by increased Operating Days in the United States year over year, as well as shortfall commitment revenue recognized in 2019.

Depreciation expense in 2019 totalled \$48.0 million and reflects a decrease of \$4.8 million (or 9%) over the prior year, mainly due to certain assets being fully depreciated in the period.

Additions to property and equipment in the contract drilling segment were significantly lower year over year and totalled \$5.1 million in 2019. Additions to property and equipment include \$1.8 million of expansion capital relating to rig upgrades and \$3.3 million of required maintenance capital.

As a result of continued market uncertainty and the related outlook for current and future oilfield services activity and pricing, the Company recorded a \$49.0 million impairment loss in the contract drilling segment in the fourth quarter of 2019.

#### *Canadian Operations*

While the price for Canadian crude oil and natural gas improved in 2019, activity in the WCSB declined as most customers reduced their drilling programs, largely due to economic factors such as the crude oil production curtailments mandated by the Government of Alberta. As a result, Operating Days decreased by 37% in 2019 and Drilling Rig Utilization in Canada declined to 22% as compared to 35% in 2018.

Drilling Rig Utilization in Canada of 22% in 2019 is consistent with the CAODC average, as compared to a 600 bps premium in the prior year. The decrease in the Company's premium to the CAODC average for 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, decreased to 8.9% in 2019, as compared to 9.8% in 2018.

For the year ended December 31, 2019, revenue per Billable Day in Canada totalled \$21,383 and was consistent with \$21,321 in the prior year, as rates on all rig classes have remained relatively constant despite decreased activity in the industry.

#### *United States Operations*

A larger drilling rig fleet, with seven of the Company's eight drilling rigs operating in 2019, resulted in Western's Operating Days in the United States increasing by 231 days (or 21%) for the year ended December 31, 2019. However, Drilling Rig Utilization of 47% in 2019, compared to 51% in 2018, mainly due to lower activity in the Permian Basin in the United States in the fourth quarter of 2019.

For the year ended December 31, 2019, revenue per Billable Day decreased by 3% to US\$20,460 as compared to US\$21,109 in the prior year. While day rates on the Company's high specification Duvernay class rigs remained constant in the Williston Basin in North Dakota, revenue per Billable Day declined in 2019, as the rigs working in the Permian Basin in Texas, worked at lower average day rates, while operating at a significantly lower cost.



**Production Services**

<b>Financial Highlights (stated in thousands)</b>	<b>Three months ended December 31</b>			<b>Year ended December 31</b>		
	<b>2019</b>	<b>2018</b>	<b>Change</b>	<b>2019</b>	<b>2018</b>	<b>Change</b>
Revenue	14,997	13,987	7%	55,874	52,721	6%
Expenses						
Operating	12,531	12,397	1%	47,773	43,048	11%
Administrative	1,215	1,383	(12%)	4,801	5,341	(10%)
Adjusted EBITDA <sup>(1)</sup>	1,251	207	504%	3,300	4,332	(24%)
Adjusted EBITDA as a percentage of revenue	8%	1%	700%	6%	8%	(25%)
Depreciation	3,287	3,123	5%	13,240	12,889	3%
Operating Loss	(2,036)	(2,916)	(30%)	(9,940)	(8,557)	16%
Stock based compensation	29	13	123%	88	76	16%
Loss before income taxes and impairment	(2,065)	(2,929)	(29%)	(10,028)	(8,633)	16%
Additions to property and equipment	1,270	660	92%	2,385	2,439	(2%)

**Operating Highlights**

Canadian well servicing rig fleet:						
Average active rig count <sup>(2)</sup>	20.1	18.8	7%	19.1	16.5	16%
End of period	63	66	(5%)	63	66	(5%)
Revenue per Service Hour <sup>(2)</sup>	680	669	2%	661	686	(4%)
Service Hours <sup>(2)</sup>	18,494	17,247	7%	69,882	60,337	16%
Service rig utilization <sup>(2)</sup>	32%	28%	14%	30%	25%	20%

(1) See "Non-IFRS Measures" on page 21 of this MD&A.

(2) See "Defined Terms" on page 22 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. Revenue in the production services segment for the year ended December 31, 2019 increased by \$3.2 million (or 6%) to \$55.9 million, compared to \$52.7 million in the prior year. In 2019, Eagle's contribution to revenue in the production services segment increased to \$46.2 million compared to \$41.4 million in the prior year, whereas Aero's contribution to revenue in the production services segment decreased to \$9.3 million compared to \$11.3 million in the prior year. The increase in revenue for Eagle for the year ended December 31, 2019, as compared to the prior year, is due to higher activity and reflects an increased market share 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 wet weather in certain areas in the third quarter of 2019, mandated production curtailments in Alberta due to pipeline constraints, and continued market uncertainty. The decrease in Aero's revenue in 2019, as compared to 2018, is mainly due to lower industry activity. Operations commenced in Western Oilfield Services in the United States in 2019, with the first well servicing hours worked near the end of the second quarter of 2019.

Eagle's Service Hours improved by 16% to 69,882 hours (30% utilization) in 2019, as compared to 60,337 hours (25% utilization) in 2018. The improvement in Eagle's Service Hours is mainly due to the continued efforts by management to increase market share. While utilization improved, revenue per Service Hour decreased by 4% to \$661 in 2019, as compared to \$686 in the prior year, due to changes in the average rig mix.

During the year ended December 31, 2019, administrative expenses totalled \$4.8 million and were 10% lower than the prior year, mainly due to lower rent expense due to the impact of adopting IFRS 16, as well as lower employee related expenses.

For the year ended December 31, 2019, production services incurred a loss before income taxes and impairment of \$10.0 million, compared to a loss before income taxes of \$8.6 million in 2018 mainly due to a \$1.0 million decrease in Adjusted EBITDA and a \$0.3 million increase in depreciation expense.

Adjusted EBITDA decreased in 2019 by \$1.0 million to \$3.3 million, compared to \$4.3 million in 2018. While revenue increased by 6%, the lower Adjusted EBITDA for the year ended December 31, 2019 was due to higher operating costs related to repairs and maintenance, partially due to reactivating rigs, coupled with \$1.4 million related to establishing well servicing operations in the Bakersfield area of California, offset partially by lower rent expense due to the adoption of IFRS 16.

Depreciation expense for 2019 was 3% higher than 2018, mainly due to leases capitalized with the adoption of IFRS 16 which resulted in increased depreciation expense for the year.

Additions to property and equipment in the production services segment totalled \$2.4 million in 2019, and included \$0.7 million of expansion capital and maintenance capital of \$1.7 million, consistent with \$2.4 million in the prior year.

As a result of continued market uncertainty and the related outlook for current and future oilfield services activity and pricing, the Company recorded a \$5.0 million impairment loss in the production services segment in the fourth quarter of 2019.

#### Corporate

(stated in thousands)	Three months ended December 31			Year ended December 31		
	2019	2018	Change	2019	2018	Change
Expenses						
Administrative	824	1,040	(21%)	3,329	4,290	(22%)
Depreciation	497	136	265%	1,901	535	255%
Operating Loss	(1,321)	(1,176)	12%	(5,230)	(4,825)	8%
Stock based compensation	43	85	(49%)	328	661	(50%)
Finance costs	4,645	4,603	1%	18,697	19,050	(2%)
Other items	(1)	(101)	(99%)	(410)	(99)	314%
Income tax recovery	(15,786)	(3,641)	334%	(30,772)	(13,634)	126%
Additions to property and equipment	53	-	100%	455	43	958%

Corporate administrative expenses for the year ended December 31, 2019 decreased by 22%, as compared to the prior year and totalled \$3.3 million. The decrease for 2019 is mainly due to lower employee related costs and lower rent expense as a result of the adoption of IFRS 16, offset partially by restructuring costs.

Finance costs in 2019 of \$18.7 million were lower by \$0.4 million (or 2%), as compared to 2018 and represented an effective interest rate of 7.9%, as compared to 8.5% in 2018. The decrease for the year ended December 31, 2019 is mainly due to the inclusion of \$0.6 million of non-cash accretion expense related to the early redemption of the Company's senior notes in 2018, offset partially by a higher average long term debt balance outstanding in 2019.

Other items, which relate to gains and losses on the sale of assets and foreign exchange, total a gain of \$0.4 million for 2019, as compared to a gain of \$0.1 million in 2018.

For the year ended December 31, 2019, income taxes on a consolidated basis totalled a recovery of \$30.8 million, representing an effective tax rate of 27.5%, as compared to an effective tax rate of 24.9% in 2018. The increase in the effective tax rate for 2019, as compared to the prior year, is mainly due to the decrease in the Alberta corporate tax rate substantively enacted in the second quarter of 2019. Normalizing for this change, the effective tax rate for the year ended December 31, 2019 would have been approximately 23.7%.

#### 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 December 31, 2019, Western had working capital of \$7.0 million, a decrease of \$8.7 million from December 31, 2018. Western's consolidated debt balance at December 31, 2019 increased by \$8.2 million (or 4%) to \$235.8 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, offset partially by repayments on the Second Lien and other long term debt during 2019.

During the year ended December 31, 2019, Western had the following changes to its cash balances, which resulted in no significant change in cash and cash equivalents for the year:

<b>Cash and cash equivalents (stated in thousands)</b>	
Opening balance, at December 31, 2018	3,960
Add:	
Adjusted EBITDA <sup>(1)</sup>	24,238
Net draw on Credit Facilities	406
Change in non cash working capital	5,472
Proceeds on sale of property and equipment	941
Deduct:	
Finance costs paid	(17,400)
Additions to property and equipment	(7,968)
Repayment of Second Lien debt	(2,150)
Repayment of lease obligations	(3,403)
Other items	(81)
<b>Ending balance, at December 31, 2019</b>	<b>4,015</b>

(1) See "Non-IFRS Measures" on page 21 of this MD&A.

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 2020 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 December 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 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 21 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 December 31, 2019 is as follows:

<b>December 31, 2019</b>	<b>Covenants<sup>(1)</sup></b>
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 11 of the December 31, 2019 consolidated financial statements.

At December 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 years ended December 31, 2019 and 2018, the Company had no customers comprising 10.0% or more of the Company's total revenue. The Company's significant customers may change from period to period.

**Review of Fourth Quarter 2019 Results**  
**Selected Financial Information**

<b>Financial Highlights</b> (stated in thousands, except share and per share amounts)	<b>Three months ended December 31</b>		
	<b>2019</b>	<b>2018</b>	<b>Change</b>
Total Revenue	45,838	63,133	(27%)
Adjusted EBITDA <sup>(1)</sup>	5,584	7,916	(29%)
Adjusted EBITDA as a percentage of revenue	12%	13%	(8%)
Cash flow from operating activities	8,921	5,022	78%
Additions to property and equipment	2,942	6,102	(52%)
Net loss	(52,249)	(9,530)	448%
-basic net loss per share	(0.56)	(0.10)	460%
-diluted net loss per share	(0.56)	(0.10)	460%
Weighted average number of shares			
-basic	92,501,314	92,305,208	-
-diluted	92,501,314	92,305,208	-
Outstanding common shares as at period end	92,501,314	92,305,542	-
<b>Operating Highlights</b>			
<b>Contract Drilling</b>			
<i>Canadian Operations</i>			
Contract drilling rig fleet:			
Average active rig count <sup>(2)</sup>	11.4	18.1	(37%)
End of period	49	50	(2%)
Revenue per Billable Day <sup>(2)</sup>	22,023	22,474	(2%)
Revenue per Operating Day <sup>(2)</sup>	24,725	25,166	(2%)
Operating Days <sup>(2)</sup>	932	1,487	(37%)
Number of meters drilled	334,382	529,707	(37%)
Number of wells drilled	77	124	(38%)
Average Operating Days per well	12.1	12.0	1%
Drilling rig utilization - Billable Days <sup>(2)</sup>	23%	36%	(36%)
Drilling rig utilization - Operating Days <sup>(2)</sup>	21%	32%	(34%)
CAODC industry average utilization rate <sup>(3)</sup>	23%	28%	(18%)
<i>United States Operations</i>			
Contract drilling rig fleet:			
Average active rig count <sup>(2)</sup>	2.9	4.9	(41%)
End of period	8	7	14%
Revenue per Billable Day <sup>(2)</sup>	21,979	19,602	12%
Revenue per Operating Day (US\$) <sup>(2)</sup>	26,596	22,011	21%
Operating Days <sup>(2)</sup>	224	403	(44%)
Number of meters drilled	61,173	113,979	(46%)
Number of wells drilled	15	20	(25%)
Average Operating Days per well	14.9	20.2	(26%)
Drilling rig utilization - Billable Days <sup>(2)</sup>	37%	79%	(53%)
Drilling rig utilization - Operating Days <sup>(2)</sup>	30%	71%	(58%)
<b>Production Services</b>			
Canadian well servicing rig fleet:			
Average active rig count <sup>(2)</sup>	20.1	18.8	7%
End of period	63	66	(5%)
Revenue per Service Hour <sup>(2)</sup>	680	669	2%
Service Hours <sup>(2)</sup>	18,494	17,247	7%
Service rig utilization <sup>(2)</sup>	32%	28%	14%

(1) See "Non-IFRS Measures" on page 21 of this MD&A.

(2) See "Defined Terms" on page 22 of this MD&A.

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

## **Review of Fourth Quarter 2019 Results**

### **Consolidated**

Fourth quarter 2019 revenue decreased by \$17.3 million (or 27%) to \$45.8 million as compared to \$63.1 million in the same period of the prior year. Adjusted EBITDA decreased by \$2.3 million (or 29%) to \$5.6 million in the fourth quarter of 2019, as compared to \$7.9 million in the fourth quarter of 2018. The decrease in consolidated revenue and Adjusted EBITDA is mainly a result of lower utilization in the contract drilling segment and decreased oilfield rental equipment activity in the production services segment, offset partially by increased well servicing activity and higher day rates in the United States.

As a result of continued market uncertainty and the related outlook for current and future oilfield services activity and pricing, the Company completed an impairment test for each of its CGUs as at December 31, 2019. Based on the results of these tests, it was determined that property and equipment in the Company's contract drilling and oilfield rentals CGUs was impaired by \$49.0 million and \$5.0 million respectively.

### **Contract Drilling**

During the fourth quarter of 2019, revenue in the contract drilling segment totalled \$45.8 million, a \$17.3 million decrease (or 27%), as compared to the same period of the prior year. Revenue for the three months ended December 31, 2019 was impacted by lower industry activity in Canada as customers reduced their drilling programs due to the mandated Government of Alberta production curtailments and market uncertainty; additionally, activity in the United States slowed in the fourth quarter of 2019 as customers provided returns to shareholders through dividends and share buybacks, versus growth. While pricing in Canada was steady decreasing by 2% in the fourth quarter of 2019, pricing in the United States increased by 12%, as compared to the fourth quarter of 2018 due to changes in the average rig mix.

For the three months ended December 31, 2019, operating expenses per Billable Day, which include third party charges, decreased by 1%, as compared to the same period in the prior year. The decrease is mainly attributed to lower costs associated with reactivating rigs in the fourth quarter of 2019, offset partially by fixed costs being allocated over fewer Billable Days in 2019.

For the three months ended December 31, 2019, administrative expenses totalled \$2.2 million and were 7% lower than the same period of the prior year, mainly due to lower rent expense as a result of the adoption of IFRS 16, as well as lower employee related costs.

Contract drilling incurred a loss before income taxes and impairment of \$6.0 million in the fourth quarter of 2019, compared to a loss before income taxes of \$4.5 million in the same period of the prior year. The change can be attributed to a \$3.5 million decrease in Adjusted EBITDA, which was partially offset by a \$2.1 million decrease in depreciation expense.

Adjusted EBITDA in the contract drilling segment for the three months ended December 31, 2019 decreased by \$3.5 million to \$5.2 million, as compared to \$8.7 million for the same period in the prior year. The decrease for the fourth quarter of 2019 is mainly due to lower activity in Canada and the United States.

Depreciation expense for the quarter ended December 31, 2019 totalled \$11.1 million and reflects a decrease of \$2.1 million over the same period of the prior year, mainly due to certain assets being fully depreciated in the period.

Additions to property and equipment in the contract drilling segment were significantly lower year over year and totalled \$1.6 million in the fourth quarter of 2019. Additions to property and equipment in the fourth quarter of 2019 consisted of \$0.8 million of expansion capital and \$0.8 of maintenance capital. The Company incurred expansion capital related to rig upgrades in the fourth quarter of 2019, as well as required maintenance capital.

As a result of continued market uncertainty and the related outlook for current and future oilfield services activity and pricing, the Company recorded a \$49.0 million impairment loss in the contract drilling segment in the fourth quarter of 2019.

### *Canadian Operations*

While the price for Canadian crude oil and natural gas improved during the fourth quarter of 2019, activity in the WCSB declined as most customers reduced their drilling programs, 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 December 31, 2019, Operating Days decreased by 37% and Drilling Rig Utilization in Canada declined to 21% as compared to 32% in the same period of the prior year.

Drilling Rig Utilization in Canada of 21% in the fourth quarter of 2019 reflects a 200 bps discount to the CAODC average of 23%, as compared to a 400 bps premium to the CAODC average of 28% in the fourth quarter of 2018. The decrease in the Company's premium to the CAODC average for the three months ended December 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, decreased to 8.2% for the three months ended December 31, 2019 respectively, as compared to 9.6%, in the same period of the prior year.

Pricing for the quarter ended December 31, 2019 was consistent with the same period of the prior year. For the fourth quarter of 2019, revenue per Billable Day in Canada decreased by 2% and totalled \$22,023, compared to \$22,474 in the same period of the prior year rates, due to rates on all rig classes remaining relatively constant, coupled with changes in the average rig mix.

#### *United States Operations*

Lower WTI prices in the fourth quarter of 2019 and lower industry activity in the United States, resulted in Western's Operating Days in the United States decreasing for the three months ended December 31, 2019. For the fourth quarter of 2019, Operating Days decreased by 179 days (or 44%) which resulted in Drilling Rig Utilization of 30%, compared to 71% in the same period of the prior year.

While activity was lower in the fourth quarter of 2019, revenue per Billable Day improved in the three months ended December 31, 2019 by 12% to US\$21,979, as compared to US\$19,602 in the same period of the prior year. Revenue per Billable Day for the fourth quarter of 2019 increased mainly due to a higher proportion of Operating Days related to the Company's high specification Duvernay class rigs in the Williston Basin in North Dakota, compared to the rigs working in the Permian Basin in Texas, which worked at lower average day rates, while operating at a significantly lower cost.

#### **Production Services**

Revenue in the production services segment for the quarter ended December 31, 2019 increased by \$1.0 million (or 7%) to \$15.0 million, compared to \$14.0 million in the same period of the prior year. In the fourth quarter of 2019, Eagle's contribution to revenue in the production services segment increased to \$12.6 million compared to \$11.5 million in the prior year, whereas Aero's contribution to revenue in the production services segment decreased to \$2.1 million compared to \$2.5 million in the same period of the prior year. The increase in revenue for Eagle for the three months ended December 31, 2019, as compared to the same period in the prior year, is due to higher activity and reflects an increased market share due to continued efforts by management to improve activity with existing customers and broaden the Company's customer base, despite continued market uncertainty and mandated production curtailments in Alberta. The decrease in Aero's revenue for the three months ended December 31, 2019, as compared to the same period in the prior year, is mainly due to lower industry activity. Operations commenced in Western Oilfield Services in the United States in 2019, with the first well servicing hours worked near the end of the second quarter of 2019.

Eagle's Service Hours improved by 7% to 18,494 hours (32% utilization) in the fourth quarter of 2019, as compared to 17,247 hours (28% utilization) in the same period of the prior year. The improvement in Eagle's Service Hours is mainly due to the continued efforts by management to increase market share. Revenue per Service Hour improved by 2% to \$680 for the three months ended December 31, 2019, as compared to the same period in the prior year, due to changes in the average rig mix.

During the three months ended December 31, 2019, administrative expenses totalled \$1.2 million and were 12% lower than the same period in the prior year, mainly due to lower rent expense due to the impact of adopting IFRS 16, as well as lower employee related expenses.

Production services incurred a loss before income taxes and impairment of \$2.1 million in the fourth quarter of 2019, compared to a loss before income taxes of \$2.9 million in the same period of 2018. The change can be attributed to a \$1.0 million increase in Adjusted EBITDA, offset by a \$0.2 million increase in depreciation expense.

Adjusted EBITDA increased in the fourth quarter of 2019 by \$1.0 million to \$1.2 million, compared to \$0.2 million in the fourth quarter of 2018. The higher Adjusted EBITDA for the three months ended December 31, 2019 was due to improved margins in Aero and lower administrative expenses relating to the impact of adopting IFRS 16.

Depreciation expense for the three months ended December 31, 2019 was 5% higher than the same period of the prior year, mainly due to leases capitalized with the adoption of IFRS 16 which resulted in increased depreciation expense in the period.

Additions to property and equipment in the production services segment totalled \$1.3 million in the fourth quarter of 2019, as compared to \$0.4 million in the same period of the prior year, and included \$0.5 million of expansion capital and \$0.8 million of maintenance capital.

As a result of continued market uncertainty and the related outlook for current and future oilfield services activity and pricing, the Company recorded a \$5.0 million impairment loss in the production services segment in the fourth quarter of 2019.

## Corporate

Corporate administrative expenses for the three months ended December 31, 2019 decreased by 21%, as compared to the same period in the prior year and totalled \$0.8 million. The decrease for the three months ended December 31, 2019 is mainly due to lower employee related costs and lower rent expense as a result of the adoption of IFRS 16, offset partially by restructuring costs.

Finance costs of \$4.6 million for the quarter ended December 31, 2019, were consistent with the same period in the prior year and represented an effective interest rate of 7.8%, as compared to 8.1% in the same period of the prior year.

Other items, which relate to gains and losses on the sale of assets and foreign exchange, total a negligible gain for the three months ended December 31, 2019 as compared to a loss of \$0.1 million in the same period of the prior year.

For the fourth quarter of 2019, income taxes on a consolidated basis totalled a recovery of \$15.8 million, representing an effective tax rate of 23.2%, as compared to an effective tax rate of 27.6% in the fourth quarter of 2018. The lower effective tax rate for the three months ended December 31, 2019, as compared to the same period of the prior year, is mainly due to the decrease in the Alberta corporate tax rate substantively enacted in the second quarter of 2019.

### 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)	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018
Revenue	45,838	47,067	37,728	65,775	63,133	58,879	33,141	81,257
Adjusted EBITDA <sup>(1)</sup>	5,584	4,968	2,438	11,248	7,916	7,691	897	15,112
Cash flow from operating activities	8,921	(592)	17,501	5,888	5,022	(1,968)	26,313	3,864
Net loss	(52,249)	(11,575)	(10,128)	(7,078)	(9,530)	(10,108)	(15,475)	(5,947)
per share - basic	(0.56)	(0.13)	(0.11)	(0.08)	(0.10)	(0.11)	(0.17)	(0.06)
per share - diluted	(0.56)	(0.13)	(0.11)	(0.08)	(0.10)	(0.11)	(0.17)	(0.06)
Total assets	550,537	617,943	626,890	663,117	667,295	669,079	670,584	706,895
Long term debt	228,274	232,722	223,363	238,590	222,258	222,564	210,944	227,401

(1) See "Non-IFRS Measures" on page 21 of this MD&A.

Revenue and Adjusted EBITDA, which were impacted by lower commodity prices and market uncertainty throughout the last eight quarters, was highest in the first quarter of 2018. However, market uncertainty continued throughout 2018 and the fourth quarter of 2018 was impacted by record high differentials on Canadian crude oil. Mandated crude oil production cuts in Alberta in 2019 and uncertainty surrounding takeaway capacity throughout 2019, impacted industry activity and resulted 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. The Company recognized an impairment loss on property and equipment of \$54.0 million in the fourth quarter of 2019.

With the exception of the fourth quarter of 2019, which included impairment losses on property and equipment, total assets over the last eight quarters have been impacted by depreciation expense exceeding additions to property and equipment as capital spending has been reduced during the downturn in crude oil and natural gas prices.

## Commitments

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

(stated in thousands)	2020	2021	2022	2023	2024	Thereafter	Total
Second Lien Facility	2,150	2,150	2,150	205,325	-	-	211,775
Second Lien Facility interest	15,376	15,179	15,105	7,473	-	-	53,133
Trade payables and other current liabilities <sup>(1)</sup>	19,812	-	-	-	-	-	19,812
Operating commitments <sup>(2)</sup>	1,408	712	710	685	685	57	4,257
Revolving Facility	-	12,000	-	-	-	-	12,000
Operating Facility	-	297	-	-	-	-	297
Lease obligations <sup>(3)</sup>	4,269	3,064	2,319	1,840	1,743	145	13,380
Total	43,015	33,402	20,284	215,323	2,428	202	314,654

(1) Trade payables and other current liabilities exclude the Company's interest accrued as at December 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) 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 expenses associated with long term leases.

### *Lease obligations:*

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

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

## Outstanding Share Data

	February 27, 2020	December 31, 2019	December 31, 2018
Common shares outstanding	90,931,814	92,501,314	92,305,542
Warrants	7,099,546	7,099,546	7,099,546
Stock options outstanding	7,325,490	7,326,530	8,313,537
Restricted share units outstanding - equity settled	644,747	646,247	543,997

## Off Balance Sheet Arrangements

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

## Transactions with Related Parties

During the years ended December 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, 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 thorough analysis of the credit worthiness of new customers before the Company's standard payment terms are offered. Additionally, the Company continuously reviews individual customer trade receivables, taking into consideration payment history and the aging of the trade receivable to monitor collectability.

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

The Company completes a detailed review of its historical credit losses as part of its impairment assessment. The Company has had 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 lease obligations have fixed interest rates, however they are subject to interest rate fluctuations relating to refinancing.

#### *Foreign Exchange Risk*

The Company is exposed to foreign exchange fluctuations in relation to its US dollar additions to property and equipment 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 additions to property and equipment 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**

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, 2019. This evaluation was based on the framework established in the Internal Control – Integrated Framework (2013) issued in May 2013 by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, the CEO and CFO have concluded that the Company's DC&P and ICFR are effectively designed and operating as intended.

The Company's management, including the CEO and CFO, does not expect that the Company's DC&P and ICFR will prevent or detect all misstatements or instances of fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues, misstatements or instances of fraud, if any, within the Company have been detected.

There have been no changes to the Company's ICFR that occurred during the most recent interim period that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

#### **Change in Accounting Policy**

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 and year ended December 31, 2019, the impact of IFRS 16 on Adjusted EBITDA was an increase of \$0.8 million and \$3.3 million respectively, whereas the impact on net loss was less than \$0.1 million in each respective period, as increased Adjusted EBITDA was offset by higher depreciation and finance costs. There have been no other changes in the Company's accounting policies. The adoption of IFRS 16 is disclosed in Note 3 of the consolidated financial statements as at and for the year ended December 31, 2019.

#### **Reclassification of depreciation and stock based compensation**

Beginning in the third quarter of 2019, the Company reclassified specific expenses to better align the expenses with management's review of the performance and disclosure of its operating segments. Depreciation and stock based compensation expenses were previously grouped with operating and administrative expenses. The Company has reclassified these costs in the consolidated statement of operations and comprehensive income. Historical results were reclassified to match the current period presentation. The reclassification did not impact operating loss, loss before income taxes, net loss, Adjusted EBITDA or earnings per share. Management believes the reclassifications described above, now align the nature of the costs presented with the assessment of performance of each operating segment. The reclassification of depreciation and stock based compensation is detailed in Note 2 of the consolidated financial statements for the year ended December 31, 2019.

#### **Critical Accounting Estimates**

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, 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 judgments are based on historical experience and on various assumptions that are believed to be reasonable under the circumstances. Future events cannot be anticipated 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 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 judgments 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 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 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 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) of the December 31, 2019 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 judgment.

#### *Income taxes*

Preparation of the 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 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.

## 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, 2019 as filed under the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com). Certain of the Company's primary business risks as at December 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 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.
- Competition among oilfield service companies offering related services is significant. Some competitors are larger and have greater revenue than the Company and overall greater financial resources. The Company's ability to generate revenue depends on its ability to attract and win contracts and to perform services.
- The ability of the Company to make payments, dividends or enter into certain transactions will be subject to the applicable laws and contractual restrictions in the instruments governing its indebtedness, including the Credit Facilities and the Second Lien Facility.
- In addition to global economic events and uncertainty, the capacity within North America to ship commodities to market introduces uncertainties in levels of activity and pricing for crude oil and natural gas production.
- The Company's business is subject to credit risk primarily from credit exposure to customers, with a concentration of credit risk with customers in the crude oil and natural gas industry.
- The Company's operations are subject to many hazards inherent in the oilfield service industry, such as blowouts, explosions, damaged or lost drilling, well servicing and oilfield rental equipment or damage or loss from inclement weather, which could result in business interruption, casualty losses, damage or destruction of equipment, suspension of operations, environmental damage or damage to property. This could have a material adverse effect on the Company's business and financial results.
- The Company's exploration and production customers' facilities and other operations emit greenhouse gases which requires them to comply with legislation in those provinces and states where they operate. Over the past few years, both Federal and Provincial governments have implemented carbon levies on greenhouse gas emissions. The direct or indirect costs of these new greenhouse gas emission reduction regulations, as well as regulations which may be adopted in these or other jurisdictions in the future, may have a material adverse effect on the Company's business, financial condition and results of operations and cash flows, as well as impacting the Company's customers' operations.
- Safety is a key factor customers consider when selecting an oilfield service company. A decline in the Company's safety performance could result in reduced demand for the Company's services which could have a material adverse effect on the Company's business and financial results.
- Currently, the Company is focused on providing services in the WCSB as well as certain limited geographic areas in the United States, which may expose the Company to more extreme market fluctuations relating to factors such as weather and general economic conditions which may be more extreme than the broader industry conditions.
- A portion of the operations of the Company are in the United States which subject the Company to currency fluctuations and different tax and regulatory laws.
- The Company may find it necessary in the future to obtain additional debt or equity to support ongoing operations, to refinance debt, to undertake additions to property and equipment or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available when needed or on terms acceptable to the Company.

- The Company is vulnerable to market prices. Fixed costs, including costs associated with operations, interest, leases, and labour costs account for a significant portion of the Company's expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, or other factors could significantly affect its financial results.
- The oilfield service industry has experienced a high degree of invention and innovation. It is possible that new technology will be developed which will compete with the Company's products and services.
- The Company's business is subject to the operating risks inherent to the oilfield service industry. On occasion, substantial liabilities to third parties may be incurred. The Company will have the benefit of insurance maintained by it and industry standard contracts, however, it may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.
- The success of the Company is dependent upon the efforts and abilities of its management team. The loss of any member of the management team could have a material adverse effect upon the business and prospects of the Company.
- During the prolonged downturn many oilfield service workers left the industry and, therefore, as activity has increased it has been difficult for the Company to attract and retain field crews. This could have a material adverse effect on the Company's business and financial results.
- The loss of a significant customer or customers, or any decrease in services provided or prices charged to a significant customer or customers could have a material adverse effect on the Company's business and financial results.
- The Company relies on various information systems to manage its business. If these systems were compromised as a result of a successful cyber-attack, this could have a material adverse effect on the Company business and financial results.

#### Non-IFRS Measures

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

#### *Adjusted EBITDA*

Earnings before interest and finance costs, taxes, depreciation and amortization, other non-cash items and one-time gains and losses ("Adjusted EBITDA") is a useful supplemental measure as it is used by management and other stakeholders, including current and potential investors, to analyze the Company's principal business activities. Adjusted EBITDA provides an indication of the results generated by the Company's principal operating segments, which assists management in monitoring current and forecasting future operations, as certain non-core items such as interest and finance costs, taxes, depreciation and amortization, and other non-cash items and one-time gains and losses are removed. The closest IFRS measure would be net loss for consolidated results and on a segmented basis, loss before income taxes, as the Company manages its income tax position on a legal entity basis, which can differ from its operating segments.

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

(stated in thousands)	Three months ended December 31		Year ended December 31	
	2019	2018	2019	2018
<b>Net loss</b>	<b>(52,249)</b>	<b>(9,530)</b>	<b>(81,030)</b>	<b>(41,060)</b>
Income tax recovery	(15,786)	(3,641)	(30,772)	(13,634)
<b>Loss before income taxes</b>	<b>(68,035)</b>	<b>(13,171)</b>	<b>(111,802)</b>	<b>(54,694)</b>
Add (deduct):				
Depreciation	14,848	16,431	63,167	66,181
Stock based compensation	127	154	586	1,178
Finance costs	4,645	4,603	18,697	19,050
Other items	(1)	(101)	(410)	(99)
Impairment of property and equipment	54,000	-	54,000	-
<b>Adjusted EBITDA</b>	<b>5,584</b>	<b>7,916</b>	<b>24,238</b>	<b>31,616</b>

### 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 additions to property and equipment, anticipated future debt levels and revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information.

In particular, forward-looking information in this MD&A includes, but is not limited to, statements relating to commodity pricing; the future demand for 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 Billable Days typically generated from such contracts and expected expiration dates of such contracts); the Company's expansion and maintenance capital plans for 2020 and its ability to make changes thereto

in response to customer demands; the Company's liquidity needs including the ability of current capital resources to cover Western's financial obligations, working capital requirements and the 2020 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 on the Company and its rig fleet; the future deployment or retirement of rigs and other existing assets; the potential impact of changes to laws, governmental and environmental regulations, and the price on carbon emissions; the expectation of continued investment in the Canadian crude oil and natural gas industry; the development of Alberta and British Columbia resource plays; expectations relating to producer spending and activity levels for oilfield services; the Company's approach to management of its budget and operations; the Company's ability to maintain a competitive advantage to enable it to manage the current oilfield service environment; the Company's ability to find and maintain enough field crew members; the amount and timing of purchases of common shares under the Bid; 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 "Business Risks" herein and "Risk Factors" in Western's AIF for the year ended December 31, 2019 which may be accessed through the SEDAR website at [www.sedar.com](http://www.sedar.com). The forward-looking statements and information contained in this MD&A are made as of the date hereof and Western does not undertake any obligation to update publicly or revise any forward-looking statements and information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

#### **Additional data**

The AIF containing additional information relating to the Company is filed under the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com).