Western Energy Services Corp.

Condensed Consolidated Financial Statements

March 31, 2020 and 2019

(Unaudited)

Western Energy Services Corp.

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

	Note		March 31, 2020		December 31, 2019
Assets					
Current assets					
Cash and cash equivalents		$	5,148	$	4,015
Trade and other receivables			33,886		29,494
Other current assets	5		6,081		5,918
			45,115		39,427
Non current assets					
Property and equipment	6		496,974		511,052
Other non current assets	5		42		58
		$	542,131	$	550,537
Liabilities					
Current liabilities					
Trade payables and other current liabilities		$	19,406	$	27,520
Current portion of long term debt	7		4,791		4,876
			24,197		32,396
Non current liabilities					
Long term debt	7		239,118		228,274
Deferred taxes			18,448		22,775
			281,763		283,445
Shareholders' equity					
Share capital	8		441,321		441,794
Contributed surplus			15,569		15,459
Retained earnings (deficit)			(234,413)		(219,074)
Accumulated other comprehensive income			36,127		27,157
Non controlling interest			1,764		1,756
			260,368		267,092
		$	542,131	$	550,537

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

Western Energy Services Corp.

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

	Note	Three months ended March 31, 2020	Three months ended March 31, 2019
Revenue		$ 51,765	$ 65,775
Expenses			
Operating		39,591	50,243
Administrative		3,813	4,284
Depreciation	6	12,898	16,376
Stock based compensation	9	100	174
Finance costs	11	4,678	4,676
Other items	12	(345)	(378)
Impairment of property and equipment	6	11,500	-
Loss before income taxes		(20,470)	(9,600)
Income tax recovery	13	5,139	2,522
Net loss		(15,331)	(7,078)
Other comprehensive income (loss) (1)			
(Gain) loss on translation of foreign operations		(5,884)	1,286
Unrealized foreign exchange (gain) loss on net investment in subsidiary		(3,086)	768
Comprehensive gain (loss)		$ (6,361)	$ (9,132)
Net income (loss) attributable to:			
Shareholders of the Company		$ (15,339)	$ (7,084)
Non controlling interest		8	6
Comprehensive income (loss) attributable to:			
Shareholders of the Company		$ (6,369)	$ (9,138)
Non controlling interest		8	6
Net loss per share:			
Basic		$ (0.17)	$ (0.08)
Diluted		(0.17)	(0.08)
Weighted average number of shares:			
Basic	10	91,892,784	92,306,835
Diluted	10	91,892,784	92,306,835

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

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

Western Energy Services Corp.

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

	Share capital	Contributed surplus (1)	Retained earnings (deficit)	Accumulated other comprehensive income(2)	Non controlling interest	Total shareholders' equity
Balance at December 31, 2018	$ 441,512	$ 15,142	$ (136,992)	$ 32,152	$ 1,985	$ 353,799
Common shares:						
Issued on vesting of restricted share units	5	(5)	-	-	-	-
Stock based compensation	-	206	-	-	-	206
IFRS 16 adoption	-	-	(1,125)	-	-	(1,125)
Comprehensive income (loss)	-	-	(7,084)	(2,054)	6	(9,132)
Balance at March 31, 2019	441,517	15,343	(145,201)	30,098	1,991	343,748
Common shares:						
Issued on vesting of restricted share units	277	(277)	-	-	-	-
Stock based compensation	-	393	-	-	-	393
Distributions to non controlling interest	-	-	-	-	(156)	(156)
Comprehensive income (loss)	-	-	(73,873)	(2,941)	(79)	(76,893)
Balance at December 31, 2019	441,794	15,459	(219,074)	27,157	1,756	267,092
Common shares:						
Issued on vesting of restricted share units	5	(5)	-	-	-	-
Purchased under normal course issuer bid	(478)	-	-	-	-	(478)
Stock based compensation	-	115	-	-	-	115
Comprehensive income (loss)	-	-	(15,339)	8,970	8	(6,361)
Balance at March 31, 2020	$ 441,321	$ 15,569	$ (234,413)	$ 36,127	$ 1,764	$ 260,368

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

(2) At March 31, 2020, the accumulated other comprehensive income balance consists of the translation of foreign operations and unrealized foreign exchange on the net investment in subsidiary.

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

Western Energy Services Corp.

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

	Note	Three months ended March 31, 2020	Three months ended March 31, 2019
Operating activities			
Net loss		$ (15,331)	$ (7,078)
Adjustments for:			
Depreciation	6	12,898	16,376
Non cash stock based compensation	9	115	206
Finance costs	11	4,678	4,676
Impairment of property and equipment	6	11,500	-
Income tax recovery	13	(5,139)	(2,522)
Other		(67)	(410)
Change in non cash working capital		(7,115)	(5,360)
Cash flow from operating activities		1,539	5,888
Investing activities			
Additions to property and equipment	6	(575)	(2,192)
Proceeds on sale of property and equipment		2	623
Change in non cash working capital		(1,410)	(2,864)
Cash flow used in investing activities		(1,983)	(4,433)
Financing activities			
Share purchase under normal course issuer bid		(478)	-
Finance costs paid		(8,303)	(8,360)
Repayment of second lien debt		(537)	(538)
Repayment of other long term debt		(808)	(754)
Draw on credit facilities	7	11,703	7,282
Cash flow from (used in) financing activities		1,577	(2,370)
Increase (decrease) in cash and cash equivalents		1,133	(915)
Cash and cash equivalents, beginning of period		4,015	3,960
Cash and cash equivalents, end of period [1]		$ 5,148	$ 3,045

[1] At March 31, 2020 and 2019, the Company's cash and cash equivalents consisted of bank accounts and high interest savings accounts with banks within the Company's existing credit facilities syndicate.

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

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

1. Reporting entity:

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the head office is 1700, 215 - 9th Avenue SW, Calgary, Alberta. Western is a publicly traded company that is listed on the Toronto Stock Exchange ("TSX") under the symbol "WRG". These condensed consolidated financial statements as at and for the three months ended March 31, 2020 and 2019 (the "Financial Statements") are comprised of Western, its divisions and its wholly owned subsidiaries (together referred to as the "Company"). The Company is an oilfield service company providing contract drilling services through its division, Horizon Drilling ("Horizon") in Canada, and its wholly owned subsidiary, Stoneham Drilling Corporation ("Stoneham") in the United States. Western provides well servicing and oilfield rental equipment services in Canada through its wholly owned subsidiary Western Production Services Corp. ("Western Production Services"). Western Production Services' division, Eagle Well Servicing ("Eagle") provides well servicing 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.

2. Basis of preparation and significant accounting policies:

Statement of compliance:

These Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the years ended December 31, 2019 and 2018. These Financial Statements have been prepared using accounting policies and estimates which are consistent with Note 3 and 4 of the audited annual consolidated financial statements as at December 31, 2019 and for the years ended December 31, 2019 and 2018 as filed on SEDAR at www.sedar.com.

These Financial Statements were approved for issuance by Western's Board of Directors on May 21, 2020.

Functional and presentation currency:

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

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 condensed 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 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 following table shows the impact of the reclassification on the Company's statement of operations and comprehensive income for the three months ended March 31, 2019:

	Three months ended March 31, 2019	
	Before Reclassification	After Reclassification
Expenses		
Operating	$ 66,027	$ 50,243
Administrative	5,050	4,284
Depreciation	-	16,376
Stock based compensation	-	174
Total	$ 71,077	$ 71,077

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

Critical accounting estimates and recent developments:

The preparation of these Financial Statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. In March 2020, the World Health Organization declared a global pandemic as a result of the COVID-19 outbreak, which led to demand destruction worldwide as countries implemented emergency measures such as lockdowns, to prevent the spread of the COVID-19 virus. The significant decrease in global demand for crude oil, coupled with an international price war, resulted in historical lows and increased volatility in crude oil prices.

The current economic environment and the ongoing pandemic will continue to impact the Company and the full extent of the impact is currently unknown, as it will depend on the duration of the pandemic and its resulting impact on international markets. The pandemic and reduction in global demand results in uncertainty for the Company, as well as estimates and assumptions used by management to prepare these Financial Statements. Estimates and judgments made by management are subject to a higher degree of volatility in this uncertain time. A full list of critical accounting estimates is included in the Company’s annual consolidated Financial Statements for the year ended December 31, 2019. However, the current market conditions have increased the uncertainty specifically relating to, but not limited to, assumptions used in calculating the recoverable amounts of the Company’s cash generating units (“CGUs”) in its impairment assessment, as well as increased risk of non-payment of accounts receivable. Actual results may differ from the estimates used in preparing these Financial Statements. As a result of the demand destruction and volatility in crude oil prices, the Company has recognized an impairment of $9.5 million in its contract drilling CGU and $2.0 million in its oilfield rental equipment CGU as further detailed in Note 6 of these Financial Statements.

3. Seasonality:

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

4. Operating segments:

The Company operates in the oilfield service industry through its contract drilling segment and through its production services segment in both Canada and the United States. Contract drilling includes drilling rigs along with related ancillary equipment and provides services to crude oil and natural gas exploration and production companies. Production services includes well servicing rigs and related equipment, as well as oilfield rental equipment and provides services to crude oil and natural gas exploration and production companies and in the case of oilfield rental equipment, to other oilfield service companies.

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

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

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

4. Operating segments (continued):

The following is a summary of the Company's results by operating segment for the three months ended March 31, 2020 and 2019:

Three months ended March 31, 2020	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 34,216	$ 17,682	$ -	$ (133)	$ 51,765
Operating loss	(3,053)	(54)	(1,430)	-	(4,537)
Finance costs	-	-	4,678	-	4,678
Impairment of property and equipment	9,500	2,000	-	-	11,500
Depreciation	9,394	3,005	499	-	12,898
Additions to property and equipment	378	169	28	-	575

Three months ended March 31, 2019	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 49,442	$ 16,430	$ -	$ (97)	$ 65,775
Operating loss	(2,155)	(1,516)	(1,457)	-	(5,128)
Finance costs	-	-	4,676	-	4,676
Depreciation	12,598	3,329	449	-	16,376
Additions to property and equipment	1,880	307	5	-	2,192

Total assets and liabilities by operating segment are as follows:

As at March 31, 2020	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 418,877	$ 110,479	$ 12,775	$ 542,131
Total liabilities	56,816	19,780	205,167	281,763

As at December 31, 2019	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 427,074	$ 111,897	$ 11,566	$ 550,537
Total liabilities	61,403	21,114	200,928	283,445

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

Three months ended March 31, 2020	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (3,053)	$ (54)	$ (1,430)	$ (4,537)
(Deduct) add:				
Stock based compensation	(31)	(16)	(53)	(100)
Finance costs	-	-	(4,678)	(4,678)
Other items	-	-	345	345
Impairment of property and equipment	(9,500)	(2,000)	-	(11,500)
Loss before income taxes	$ (12,584)	$ (2,070)	$ (5,816)	$ (20,470)

Three months ended March 31, 2019	Contract Drilling	Production Services	Corporate	Total
Operating loss	$ (2,155)	$ (1,516)	$ (1,457)	$ (5,128)
(Deduct) add:				
Stock based compensation	(45)	(21)	(108)	(174)
Finance costs	-	-	(4,676)	(4,676)
Other items	-	-	378	378
Loss before income taxes	$ (2,200)	$ (1,537)	$ (5,863)	$ (9,600)

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

4. Operating segments (continued):

Segmented information by geographic area is as follows:

As at March 31, 2020	Canada	United States	Total
Property and equipment	$ 382,973	$ 114,001	$ 496,974
Total assets	422,562	119,569	542,131

As at December 31, 2019	Canada	United States	Total
Property and equipment	$ 404,473	$ 106,579	$ 511,052
Total assets	435,312	115,225	550,537

	Canada	United States	Total
Revenue - three months ended March 31, 2020	$ 46,690	$ 5,075	$ 51,765
Revenue - three months ended March 31, 2019	52,529	13,246	65,775

Revenue from contracts:

For the three months ended March 31, 2020, the Company's revenue from long term and short term contracts in the contract drilling segment totaled $6.5 million and $27.7 million, respectively (for the three months ended March 31, 2019: $14.4 million and $35.0 million, respectively).

For the three months ended March 31, 2020 and 2019, the Company had no revenue from long term contracts in the production services segment.

Significant customers:

For the three months ended March 31, 2020 and 2019, the Company had no customers comprising 10.0% or more of the Company's total revenue.

5. Other assets:

The Company's other assets as at March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020	December 31, 2019
Current:		
Prepaid expenses	$ 2,113	$ 2,093
Inventory	3,218	3,108
Deposits	510	387
Deferred charges	240	330
Total current portion of other assets	6,081	5,918
Non current:		
Deferred charges	42	58
Total non current portion of other assets	42	58
Total other assets	$ 6,123	$ 5,976

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

6. Property and equipment:

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

	Land	Buildings	Contract drilling equipment	Production services equipment	Office and shop equipment	Lease assets	Total
Cost:							
Balance at December 31, 2019	$ 5,089	$ 4,396	$ 800,327	$ 204,268	$ 13,053	$ 14,257	$ 1,041,390
Additions to property and equipment	-	-	360	169	46	-	575
Lease additions	-	-	-	-	-	118	118
Disposals	-	-	(10)	(274)	(19)	(48)	(351)
Foreign exchange adjustment	-	-	16,300	402	73	143	16,918
Balance at March 31, 2020	$ 5,089	$ 4,396	$ 816,977	$ 204,565	$ 13,153	$ 14,470	$ 1,058,650
Accumulated depreciation:							
Balance at December 31, 2019	$ -	$ 2,702	$ 406,678	$ 106,012	$ 10,486	$ 4,460	$ 530,338
Depreciation	-	34	9,241	2,577	254	792	12,898
Impairment of property and equipment	-	-	9,500	2,000	-	-	11,500
Disposals	-	-	(10)	(225)	(19)	(15)	(269)
Foreign exchange adjustment	-	-	6,915	168	65	61	7,209
Balance at March 31, 2020	$ -	$ 2,736	$ 432,324	$ 110,532	$ 10,786	$ 5,298	$ 561,676
Carrying amounts:							
At December 31, 2019	$ 5,089	$ 1,694	$ 393,649	$ 98,256	$ 2,567	$ 9,797	$ 511,052
At March 31, 2020	$ 5,089	$ 1,660	$ 384,653	$ 94,033	$ 2,367	$ 9,172	$ 496,974

Impairment:

As at March 31, 2020, the Company identified impairment indicators related to the volatility of crude oil prices and uncertainty related to demand as a result of the COVID-19 pandemic, as well as the Company's carrying amounts of its net assets being greater than its market capitalization. As such, the Company performed an impairment analysis on each of its CGUs. These CGUs are based on contract drilling rigs, well servicing rigs and oilfield rental equipment within the Company's contract drilling and production services segments.

As at March 31, 2020, the recoverable amounts allocated to these CGUs were determined from a fair value less costs to sell cash flow projection based on historical results, recent industry conditions and the Company's most recent 2020 forecast. Cash flow projections for 2021 to 2024 have assumed a gradual increase in activity, however remain below historical levels. Cash flow projections thereafter are calculated using a 2% inflationary growth rate. For the purposes of completing the impairment analysis on the contract drilling CGU, assumptions were made relating to average contract drilling utilization, which range from approximately 12% to 60% per year. For the purposes of completing the impairment analysis on the well servicing CGU, assumptions were made relating to average well servicing utilization, which range from approximately 19% to 55% per year.

Cash flow projections are based on the average remaining economic life of the CGU's assets ranging from 7 to 15 years. Salvage values have been based on management's best estimate, range between 0% and 20%, and include costs of disposal of 2%.

6. Property and equipment (continued):

The forecasted cash flows are based on management's best estimates of asset utilization, pricing for available equipment, costs to maintain that equipment and an after tax discount rate of 13.0% per annum.

The results of the tests indicated an impairment of property and equipment at March 31, 2020 of $11.5 million (March 31, 2019: $nil), with $9.5 million and $2.0 million related to the contract drilling and oilfield rental equipment CGUs respectively. There was no impairment in the well servicing CGU. The property and equipment impairment losses are due to the significant decrease in demand and volatile economic conditions associated with the COVID-19 pandemic and international price war, which has resulted in significant reductions or cancellations to the capital spending plans for Western's customers, and has resulted in a reduced outlook for oilfield service activity. Based on the fair value less costs to sell calculation, the after tax recoverable amount of the contract drilling, well servicing and oilfield rental equipment CGUs is $381.7 million, $88.9 million, and $13.1 million respectively, as at March 31, 2020.

The most sensitive inputs to the model are the discount rate and the future cash flows. The following table summarizes the total impairment by CGU that would result, by changing the most sensitive inputs to the model:

	Total Impairment (in $000s)			
Cash Generating Unit	0.5% Increase in Discount Rate	0.5% Decrease in Discount Rate	5% Decrease in Cash Flows	5% Increase in Cash Flows
Contract drilling	$ 20,000	$ -	$ 28,700	$ -
Well servicing	-	-	-	-
Oilfield rental equipment	2,300	1,900	2,900	1,400
Total	$ 22,300	$ 1,900	$ 31,600	$ 1,400

7. Long term debt:

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

	March 31, 2020	December 31, 2019
Current:		
Second Lien Facility	$ 2,150	$ 2,150
Lease obligations (1)	3,505	3,593
Less: unamortized issue costs	(864)	(867)
Total current portion of long term debt	4,791	4,876
Non current:		
Second Lien Facility	209,088	209,625
Revolving Facility	24,000	12,000
Operating Facility	-	297
Lease obligations (1)	7,601	8,135
Less: unamortized issue costs	(1,571)	(1,783)
Total non current portion of long term debt	239,118	228,274
Total long term debt	$ 243,909	$ 233,150

(1) Lease obligations include leases capitalized under IFRS 16. During the three months ended March 31, 2020 and March 31, 2019, the Company expensed less than $0.1 million related to leases of low value assets or leases with a term of less than one year.

At March 31, 2020, the Company's credit facilities consisted of a $50.0 million syndicated revolving credit facility (the "Revolving Facility") and a $10.0 million committed operating facility (the "Operating Facility" and together the "Credit Facilities") which mature on December 17, 2021.

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

7. Long term debt (continued):

Credit Facilities:

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

As at March 31, 2020, the borrowing base calculation was not applicable as the Company had less than $40.0 million drawn on its Credit Facilities and the net book value of the Company'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. The Credit Facilities are secured by the assets of the Company and its subsidiaries. As at March 31, 2020, $24.0 million was drawn on the Revolving Facility and no amount was drawn on the Operating Facility.

The Company's Credit Facilities are subject to the following financial covenants:

	Covenant	March 31, 2020
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio (1)(2)	3.0:1.0 or less	1.07:1.0
Maximum Consolidated Debt to Consolidated Capitalization Ratio (3)(4)	0.6:1.0 or less	0.47:1.0
Minimum Current Ratio (5)	1.15:1.0 or more	2.9:1.0

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

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

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

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

(5) Current Ratio is defined as the ratio of current assets to current liabilities as reported on the consolidated balance sheet, where current liabilities exclude the current portion of long term debt and accrued interest.

As at March 31, 2020, the Company was in compliance with all covenants related to its Credit Facilities.

Second Lien Facility:

At March 31, 2020, the Company had $211.2 million outstanding on the second lien secured term loan facility (the "Second Lien Facility"). Interest is payable semi-annually, at a rate of 7.25% per annum, on January 1 and July 1 each year. Amortization payments equal to 1% of the initial principal amount of $215.0 million are payable annually, in quarterly installments, with the balance due on January 31, 2023.

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

8. Share capital:

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

	Issued and outstanding shares		Amount
Balance at December 31, 2019	92,501,314	$	441,794
Issued on vesting of restricted share units	1,500		5
Shares purchased under normal course issuer bid	(1,584,000)		(478)
Balance at March 31, 2020	90,918,814	$	441,321

There were no dividends declared during the three months ended March 31, 2020 and 2019.

On January 6, 2020, the Company announced a normal course issuer bid (the "Bid"), which was 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. Since the commencement of the Bid, 1,584,000 common shares for a total cost of approximately $0.5 million have been repurchased.

9. Stock based compensation:

Stock options:

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

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

	Stock options outstanding		Weighted average exercise price
Balance at December 31, 2019	7,326,530	$	1.84
Granted	6,910		0.28
Forfeited	(11,940)		0.27
Expired	(14,716)		6.21
Balance at March 31, 2020	7,306,784	$	1.83

For the three months ended March 31, 2020 and 2019, no stock options were cancelled. The average fair value of the stock options granted for the three months ended March 31, 2020 was $0.14 per stock option (for the three month ended March 31, 2019: $0.14 per stock option). As at March 31, 2020, Western had 3,613,002 (December 31, 2019: 3,591,607) exercisable stock options outstanding at a weighted average exercise price equal to $3.12 (December 31, 2019: $3.14) per stock option.

Restricted share unit plan:

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

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

9. Stock based compensation (continued):

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

	Equity settled	Cash settled	Total
Balance at December 31, 2019	646,247	818,672	1,464,919
Granted	-	8,780	8,780
Vested	(1,500)	(10,140)	(11,640)
Forfeited	-	(25,020)	(25,020)
Balance at March 31, 2020	644,747	792,292	1,437,039

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

	Three months ended March 31, 2020	Three months ended March 31, 2019
Stock options	$ 77	$ 134
Restricted share units – equity settled grants	38	72
Total equity settled stock based compensation expense	115	206
Restricted share units – cash settled grants	(15)	(32)
Total stock based compensation expense	$ 100	$ 174

Warrants:

As at March 31, 2020, Western had 7,099,546 warrants outstanding (December 31, 2019: 7,099,546). Each warrant entitles the holder to acquire one common share at an exercise price of $1.77 per common share at any time prior to October 17, 2020, after which they expire.

10. Earnings per share:

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

	Three months ended March 31, 2020	Three months ended March 31, 2019
Issued common shares, beginning of period	92,501,314	92,305,542
Weighted average number of common shares (repurchased) issued	(608,530)	1,293
Weighted average number of common shares (basic)	91,892,784	92,306,835
Dilutive effect of equity securities	-	-
Weighted average number of common shares (diluted)	91,892,784	92,306,835

For the three months ended March 31, 2020, 7,306,784 stock options (three months ended March 31, 2019: 7,657,077 stock options), 644,747 equity settled RSUs (three months ended March 31, 2019: 534,110 equity settled RSUs) and 7,099,546 warrants (for the three months ended March 31, 2019: 7,099,546 warrants) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

11. Finance costs:

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

	Three months ended March 31, 2020	Three months ended March 31, 2019
Interest expense on long term debt	$ 4,359	$ 4,347
Amortization of debt financing fees	105	117
Accretion expense on Second Lien Facility	216	215
Interest income	(2)	(3)
Total finance costs	$ 4,678	$ 4,676

The Company had an effective interest rate of 7.8% on its borrowings for the three months ended March 31, 2020 (three months ended March 31, 2019: 8.0%).

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

12. Other items:

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

	Three months ended March 31, 2020	Three months ended March 31, 2019
Loss (gain) on sale of fixed assets	$ 50	$ (431)
Realized foreign exchange (gain) loss	(278)	30
Unrealized foreign exchange (gain) loss	(117)	23
Total other items	$ (345)	$ (378)

13. Income taxes:

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

	Three months ended March 31, 2020	Three months ended March 31, 2019
Current tax recovery	$ -	$ -
Deferred tax recovery	5,139	2,522
Total income tax recovery	$ 5,139	$ 2,522

As at March 31, 2020, the Company has loss carry forwards equal to approximately $220.8 million in Canada, which will expire between 2035 and 2040. In the United States, the Company has approximately US$50.4 million loss carry forwards which expire between 2028 and 2040.

14. Costs by nature:

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

	Three months ended March 31, 2020	Three months ended March 31, 2019
Employee salaries and benefits	$ 28,977	$ 36,025
Repairs and maintenance	3,752	5,607
Third party charges	3,445	4,002

15. Capital management:

The overall capitalization of the Company at March 31, 2020 and December 31, 2019 is as follows:

	Note	March 31, 2020	December 31, 2019
Second Lien Facility	7	$ 211,238	$ 211,775
Revolving Facility	7	24,000	12,000
Operating Facility	7	-	297
Lease obligations	7	11,106	11,728
Total debt		246,344	235,800
Shareholders' equity		260,368	267,092
Less: cash and cash equivalents		(5,148)	(4,015)
Total capitalization		$ 501,564	$ 498,877

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

16. Financial risk management:

Credit risk:

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

The Company's trade receivables are with customers in the crude oil and natural gas industry and are subject to industry credit risk. For the three months ended March 31, 2020, the COVID-19 pandemic and related decrease in global demand for crude oil, coupled with the international price war have had a significant impact on commodity prices. These factors are expected to have an impact on companies and their related credit risk. The Company's practice is to manage credit risk by performing a thorough analysis of the credit worthiness of new customers before credit terms are offered.

Additionally, the Company continuously reviews individual customer trade receivables taking into considering payment history and aging of the trade receivables 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. Subsequent to March 31, 2020, the Company has collected approximately 83% of its outstanding trade and other receivables.

Liquidity risk:

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

17. Commitments:

As at March 31, 2020, the Company has commitments which require payments based on the maturity terms as follows:

	2020	2021	2022	2023	2024	Thereafter	Total
Second Lien Facility	$ 1,613	$ 2,150	$ 2,150	$ 205,325	$ -	$ -	$ 211,238
Second Lien Facility interest	7,627	15,179	15,105	7,473	-	-	45,384
Trade payables and other current liabilities(1)	15,630	-	-	-	-	-	15,630
Operating commitments(2)	1,176	920	713	688	688	58	4,243
Revolving Facility	-	24,000	-	-	-	-	24,000
Lease obligations (3)	3,348	3,072	2,317	1,842	1,743	145	12,467
Total	$ 29,394	$ 45,321	$ 20,285	$ 215,328	$ 2,431	$ 203	$ 312,962

(1) Trade payables and other current liabilities exclude interest accrued as at March 31, 2020 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.