



## 2022 Management's Discussion and Analysis

Date: February 28, 2023

The following discussion of the financial condition, changes in financial condition and results of operations of Western Energy Services Corp. (the "Company" or "Western") should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Company for the years ended December 31, 2022 and 2021. This MD&A is dated February 28, 2023. All amounts are denominated in Canadian dollars (CDN\$) unless otherwise identified.

Financial Highlights (stated in thousands, except share and per share)	Three months ended December 31			Year ended December 31			
	2022	2021	Change	2022	2021	Change	2020
Revenue	60,792	41,363	47%	200,344	131,678	52%	103,684
Adjusted EBITDA <sup>(1)</sup>	12,233	8,950	37%	39,921	23,047	73%	20,278
Adjusted EBITDA as a percentage of revenue <sup>(1)</sup>	20%	22%	(9%)	20%	18%	11%	20%
Cash flow from operating activities	6,502	8,236	(21%)	28,541	16,631	72%	27,723
Additions to property and equipment	7,708	2,107	266%	34,228	6,866	399%	2,788
Net income (loss)	(3,095)	(6,021)	(49%)	29,320	(35,812)	(182%)	(41,301)
-basic and diluted net income (loss) per share <sup>(2)</sup>	(0.09)	(0.90)	(90%)	1.24	(5.36)	(123%)	(6.19)
Weighted average number of shares <sup>(2)</sup>							
-basic	33,841,318	6,701,745	405%	23,581,155	6,677,829	253%	6,669,111
-diluted	33,841,318	6,701,745	405%	23,581,735	6,677,829	253%	6,669,111
Outstanding common shares as at period end <sup>(2)</sup>	33,841,318	764,220	4,328%	33,841,318	764,220	4,328%	759,709
<b>Operating Highlights<sup>(3)</sup></b>							
<b>Contract Drilling</b>							
<i>Canadian Operations</i>							
Average active rig count	10.1	10.2	(1%)	8.9	8.6	3%	5.6
End of period rig count	36	49	(27%)	36	49	(27%)	49
Operating Days	928	940	(1%)	3,241	3,124	4%	2,064
Revenue per Operating Day	33,923	24,014	41%	29,698	21,931	35%	23,417
Drilling rig utilization	28%	21%	33%	24%	18%	33%	12%
CAOEC industry average utilization <sup>(4)</sup>	40%	30%	33%	35%	25%	40%	16%
Average meters drilled per well	7,412	5,986	24%	6,406	5,592	15%	4,939
Average Operating Days per well	14.8	11.6	28%	12.8	11.8	8%	12.9
<i>United States Operations</i>							
Average active rig count	3.2	1.1	191%	2.7	1.1	145%	0.6
End of period rig count	8	8	-	8	8	-	8
Operating Days	293	100	193%	976	387	152%	201
Revenue per Operating Day (US\$)	29,439	20,092	47%	25,927	16,615	56%	22,594 <sup>(5)</sup>
Drilling rig utilization	40%	14%	186%	33%	13%	154%	7%
Average meters drilled per well	3,001	3,807	(21%)	3,450	3,305	4%	1,312
Average Operating Days per well	13.7	14.8	(7%)	11.7	14.8	(21%)	11.9
<b>Production Services</b>							
Average active rig count	23.7	29.3	(19%)	25.8	25.9	-	14.6
End of period rig count	65	63	3%	65	63	3%	63
Service Hours	15,443	19,046	(19%)	67,077	67,323	-	53,351
Revenue per Service Hour	991	780	27%	943	735	28%	693
Service rig utilization	38%	46%	(17%)	41%	41%	-	23%

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

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

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

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

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

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

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

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

### Business Overview

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

#### Contract Drilling

Western markets a fleet of 44 drilling rigs specifically suited for drilling complex horizontal wells across Canada and the US. Western is currently the fourth largest drilling contractor in Canada, based on the Canadian Association of Energy Contractors ("CAOEC") registered drilling rigs<sup>1</sup>. In 2022, Western deregistered 13 drilling rigs with the CAOEC, all of which can be reactivated at a later date.

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

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

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

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

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

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

#### Production Services

Production services provides well servicing and oilfield equipment rentals in Canada. Western operates 65 well servicing rigs and is the third largest well servicing company in Canada based on CAOEC registered well servicing rigs<sup>2</sup>.

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

Owned well servicing rigs	Year ended December 31	
	2022	2021
Mast type		
Single	30	29
Double	27	26
Slant	8	8
<b>Total owned well servicing rigs</b>	<b>65</b>	<b>63</b>

<sup>1</sup> Source: CAOEC Contractor Summary as at February 28, 2023.

<sup>2</sup> Source: CAOEC Fleet List as at February 28, 2023.

## Business Environment

Crude oil and natural gas prices impact the cash flow of Western's customers, which in turn impacts the demand for Western's services. The following table summarizes average crude oil and natural gas prices, as well as average foreign exchange rates, for the three months ended December 31, 2022 and 2021 and for the years ended December 31, 2022 and 2021.

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

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

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

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

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

## Overall Performance and Results of Operations

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

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

<sup>3</sup> Source: Baker Hughes Company, 2022 Rig Count monthly press releases.

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

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

- In the United States, drilling rig utilization averaged 40% in the fourth quarter of 2022, compared to 14% in the fourth quarter of 2021, with Operating Days improving from 100 days in the fourth quarter of 2021 to 293 days in the same period of 2022. Average active industry rigs of 760 in the fourth quarter of 2022 were 36% higher compared to the fourth quarter of 2021. Revenue per Operating Day for the fourth quarter of 2022 averaged US\$29,439, a 47% increase compared to US\$20,092 in the same period of the prior year, mainly due to improved pricing and changes in rig mix, as there was more activity with the Company’s higher spec rigs which command higher day rates; and
- In Canada, service rig utilization of 38% in the fourth quarter of 2022 was lower than 46% in the same period of the prior year, mainly due to very cold weather in December 2022, which caused some customers to defer their capital programs into 2023. Revenue per Service Hour averaged \$991 in the fourth quarter of 2022 and was 27% higher than the fourth quarter of 2021, due to improved pricing and inflationary pressures on operating costs, including higher CAOEC industry wages and fuel charges that are passed through to the customer.
- Administrative expenses increased by \$1.3 million or 52%, to \$3.8 million in the fourth quarter of 2022, as compared to \$2.5 million in the fourth quarter of 2021, due to higher employee related costs along with inflationary cost increases associated with improved industry activity.
- The Company generated a net loss of \$3.1 million in the fourth quarter of 2022 (\$0.09 net loss per basic common share) as compared to a net loss of \$6.0 million in the same period in 2021 (\$0.90 net loss per basic common share). The change can mainly be attributed to a \$3.2 million increase in Adjusted EBITDA, a \$1.7 million decrease in finance costs due to the lower total debt balance, offset partially by a \$0.9 million increase in income tax expense, a \$0.8 million increase in stock based compensation expense, a \$0.2 million increase in the loss on asset disposals and a \$0.2 million increase in depreciation expense due to property and equipment additions.
- Adjusted EBITDA of \$12.2 million in the fourth quarter of 2022 was \$3.2 million, or 36%, higher compared to \$9.0 million in the fourth quarter of 2021. Adjusted EBITDA was higher due to improved activity in the US and higher pricing in Canada and in the US, and \$1.0 million related to the receipt of the Employee Retention Credit in the US (“ERC”) which was offset by one-time costs of \$1.6 million related to reactivating certain drilling rigs.
- Fourth quarter additions to property and equipment of \$7.7 million in 2022 compared to \$2.1 million in the fourth quarter of 2021, consisting of \$6.0 million of expansion capital and \$1.7 million of maintenance capital, as the Company continued its rig upgrade program initiated in 2022.

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

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

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

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

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

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

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

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

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

## Outlook

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

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

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

Energy service activity in Canada will be affected by the continued development of resource plays in Alberta and northeast British Columbia which will be impacted by continued pipeline construction, environmental regulations, and the level of

investment in Canada. However, the January 2023 announcement that the government of British Columbia and the Blueberry River First Nations reached an agreement (the “Blueberry Agreement”) which provides a framework for how resource development may continue within the Blueberry River First Nations claim area, including the restoration and future development of land, water and natural resources, is expected to have a positive impact on the energy industry. Given the recent developments with the Blueberry Agreement in northeastern British Columbia, there is an increased demand for Montney and Duvernay class rigs and with Western’s recent drilling rig upgrade program almost complete, the Company is well positioned to be the contractor to supply drilling rigs in a tightening market. Western is also active with three fit for purpose drilling rigs in the Clearwater formation in northern Alberta. In the short term, the largest challenges facing the energy service industry are a lack of qualified field personnel and the restrained growth in customer drilling activity due to the continuing preference to return cash to shareholders through share buybacks, increased dividends and repayment of debt, rather than grow production. If commodity prices remain high for an extended period and as customers strengthen their balance sheets and satisfy shareholders, we expect that drilling activity will continue to increase. In the medium term, Western’s rig fleet is well positioned to benefit from the LNG Canada liquefied natural gas project now under construction in British Columbia. Western is an experienced deep and long driller in Canada, with an average well length of 6,406 meters drilled per well and an average of 12.8 operating days to drill per well in 2022. It remains Western’s view that its upgraded drilling rigs and modern well servicing rigs, reputation for quality and capacity of the Company’s rig fleet, and disciplined cash management provides Western with a competitive advantage.

## Review of Results for the Year Ended December 31, 2022

### Segmented Information

#### Contract Drilling

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

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

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

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

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

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

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

### Canadian Operations

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

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

### United States Operations

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

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

### Production Services

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

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

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

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

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



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

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

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

#### Corporate

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

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

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

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

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

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

**Review of Fourth Quarter 2022 Results**  
**Selected Financial Information**

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

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

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

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

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

## Review of Fourth Quarter 2022 Results

### Consolidated

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

### Contract Drilling

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

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

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

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

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

### *Canadian Operations*

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

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

### *United States Operations*

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

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

### Production Services

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

Service Hours decreased by 19% to 15,443 hours (38% utilization) in the fourth quarter of 2022, compared to 19,046 hours (46% utilization) in the fourth quarter of 2021. The decrease in Service Hours for the three months ended December 31, 2022, was due to cold weather in the fourth quarter of 2022, resulting in certain customers delaying their capital programs

into the first quarter of 2023, as well as ongoing crew shortages. For the three months ended December 31, 2022, revenue per Service Hour averaged \$991 and was 27% higher than the same period of the prior year due to improved market conditions, as well as inflationary pressures on operating costs, including higher CAOEC industry wages and fuel charges that are passed through to the customer.

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

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

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

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

### **Corporate**

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

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

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

For the fourth quarter of 2022, the consolidated income tax recovery totalled \$0.2 million, representing an effective tax rate of 5.4%, as compared to an effective tax rate of 14.7% in the same period of 2021 when the Company did not recognize deferred tax assets in the period. The Company had no cash taxes payable in 2022.

## Liquidity and Capital Resources

The Company's liquidity requirements in the short and long term can be sourced in several ways including: available cash balances, funds from operations, borrowing against the Credit Facilities, new debt instruments, equity issuances and proceeds from the sale of assets. As at December 31, 2022, Western had working capital of \$21.9 million compared to working capital of \$2.2 million as at December 31, 2021 mainly due to higher pricing in the fourth quarter of 2022, compared to the same period in the prior year. Western's total debt at December 31, 2022 decreased by \$108.2 million to \$133.4 million, compared to \$241.6 million at December 31, 2021, mainly due to the debt forgiveness as part of the Debt Exchange and repayment of \$10.0 million of the principal amount of the Second Lien Facility as part of the Restructuring Transaction.

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

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

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

The Credit Facilities, which have a maximum available amount of \$45.0 million, mature on May 18, 2025. As at December 31, 2022, \$7.0 million was drawn on the Credit Facilities and \$11.3 million was drawn on the HSBC Facility. As described previously, subsequent to December 31, 2021, the Company amended the terms of its Credit Facilities, which included extending the maturity date and amending certain financial covenants. Cash flow from operations, available Credit Facilities and proceeds from the Rights Offering are expected to be sufficient to cover Western's financial obligations, including working capital requirements and the 2023 capital budget.

Amounts borrowed under the Credit Facilities bear interest at the bank's Canadian prime rate or the banker's acceptance rate plus an applicable margin depending, in each case, on the ratio of Consolidated Debt to Consolidated EBITDA as defined by the Credit Facilities agreement. Consolidated EBITDA, as defined by the Credit Facilities agreement, differs from Adjusted EBITDA as defined under Non-IFRS Measures on page 23 of this MD&A, by including certain items such as realized foreign exchange gains or losses and cash payments made on leases capitalized under IFRS 16, Leases. Copies of Western's Credit Facilities are available under the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com).

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

<b>December 31, 2022</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	0.5:1.0 or less
Minimum Debt Service Coverage Ratio	1.10 or more

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

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

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

## Summary of Quarterly Results

In addition to other market factors, Western's quarterly results are markedly affected by weather patterns throughout its operating areas. Historically, the first quarter of the calendar year is very active, followed by a much slower second quarter due to what is known in the Canadian oilfield service industry as "spring breakup", where due to the spring thaw, provincial and county road bans restrict movement of heavy equipment. As a result of this, the variation of Western's results quarter over quarter, particularly between the first and second quarters, can be significant independent of other demand factors.

The following is a summary of selected financial information of the Company for the last eight completed quarters:

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

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

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

Revenue and Adjusted EBITDA were impacted by commodity prices and market uncertainty throughout the last eight quarters. The demand destruction resulting from the COVID-19 pandemic that started in 2020 and continued throughout 2021, had a significant impact on industry activity and resulted in customers reducing or cancelling their drilling programs, which had a negative impact on Western's revenue and Adjusted EBITDA. However, crude oil prices began to recover in 2021 and continued to increase in 2022, resulting in improvements in pricing and activity throughout the industry.

A net loss was incurred from 2021 until the second quarter of 2022 due to the prolonged decline in crude oil and natural gas prices in 2021, resulting in reduced demand. However, commodity prices began to improve in the latter part of 2021 and continued to increase further in 2022, resulting in higher pricing. Excluding the gain on debt forgiveness in the second quarter of 2022, the third quarter of 2022 was the first time the Company generated positive net income in a quarter since the first quarter of 2015.

## Commitments

In the normal course of business, the Company incurs commitments related to its contractual obligations. The expected maturities of the Company's contractual obligations as at December 31, 2022 are as follows:

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

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

(2) Lease obligations represent the gross lease commitments to be paid over the term of the Company's outstanding long term leases.

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

#### *Second Lien Facility and interest:*

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

#### *Trade payables and other current liabilities:*

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

#### *HSBC Facility and interest:*

The Company pays interest on the HSBC Facility monthly, and principal payments commenced January 1, 2022. The HSBC Facility matures on December 31, 2026.

#### *Lease obligations:*

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

#### *Credit Facilities:*

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

#### *Operating commitments:*

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

#### *PPP loan:*

The Company has a US\$1.8 million US Paycheck Protection Program (“PPP”) loan obtained as part of the COVID-19 relief efforts in the US. The promissory loan has an interest rate of 1% per annum, will be repaid in equal monthly payments over its five year term and matures on July 23, 2025.

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

### **Outstanding Share Data**

	<b>February 28, 2023</b>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Common shares outstanding	33,841,324	33,841,318	764,220
Stock options outstanding	3,109,476	3,109,490	49,373
Restricted share units outstanding - equity settled	1,725	1,731	4,949

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

### **Off Balance Sheet Arrangements**

As at December 31, 2022, Western had no off balance sheet arrangements in place.

### **Financial Risk Management**

#### *Interest Risk*

The Company is exposed to interest rate risk on certain debt instruments, such as the Credit Facilities and the HSBC Facility, to the extent the prime interest rate changes and/or the Company’s interest rate margin changes. For the Credit Facilities, a one percent change in interest rates would have had a \$0.2 million impact on interest expense for the year ended December 31, 2022 (December 31, 2021: \$0.2 million). Other long term debt, such as the Second Lien Facility, PPP loan and the Company’s lease obligations, have fixed interest rates, however they are subject to interest rate fluctuations relating to refinancing.

#### *Inflation Risk*

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

### *Foreign Exchange Risk*

The Company is exposed to foreign currency fluctuations in relation to its US dollar capital expenditures and international operations. From time to time, the Company may use forward foreign currency contracts to hedge against these fluctuations. At December 31, 2022, portions of the Company's cash balances, trade and other receivables, trade payables and other current liabilities were denominated in US dollars and subject to foreign exchange fluctuations which are recorded within net income (loss). In addition, Stoneham, Western's US subsidiary, is subject to foreign currency translation adjustments upon consolidation, which is recorded separately within other comprehensive income (loss). For the year ended December 31, 2022, the increase or decrease in net income (loss) and other comprehensive income (loss) for each one percent change in foreign exchange rates between the Canada and US dollar is estimated to be less than \$0.1 million and \$0.6 million, respectively (December 31, 2021: \$0.1 million and \$0.3 million, respectively).

### *Credit Risk*

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

The Company's trade receivables are with customers in the crude oil and natural gas industry and are subject to industry credit risk. For the year ended December 31, 2022, the volatility in global demand for crude oil related to the war in Ukraine and the economic volatility as countries navigate in a post-pandemic environment, have had an impact on commodity prices which have an effect on the Company's customers. These factors are expected to have an impact on companies and their related credit risk. The Company's practice is to manage credit risk by performing a thorough analysis of the credit worthiness of new customers before credit terms are offered.

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

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

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

### *Liquidity Risk*

Liquidity risk is the exposure of the Company to the risk of not being able to meet its financial obligations as they become due. The Company manages liquidity risk through management of its capital structure, monitoring and reviewing actual and forecasted cash flows and the effect on bank covenants and maintaining unused credit facilities where possible to ensure there are available cash resources to meet the Company's liquidity needs.

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

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

### **Disclosure Controls and Procedures and Internal Controls Over Financial Reporting**

The President and Chief Executive Officer ("CEO") and Senior Vice President, Finance, Chief Financial Officer & Corporate Secretary ("CFO") of Western are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") for the Company.

DC&P is designed to provide reasonable assurance that material information relating to the Company is made known to the CEO and CFO by others, particularly in the period in which the annual filings are being prepared, and that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified in securities legislation, and includes controls and procedures designed to ensure that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. ICFR is designed to provide reasonable assurance



regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

In accordance with the requirements of National Instrument 52-109 “Certification of Disclosure in Issuers’ Annual and Interim Filings”, an evaluation of the effectiveness of DC&P and ICFR was carried out under the supervision of the CEO and CFO at December 31, 2022. This evaluation was based on the framework established in the Internal Control – Integrated Framework (2013) issued in May 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the CEO and CFO have concluded that the Company’s ICFR are effective, and its DC&P are designed and operating effectively.

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

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

### **Critical Accounting Estimates and Recent Developments**

The accounting policies used in preparing the Company’s consolidated financial statements for the year ended December 31, 2022 are described in Note 3 of the audited consolidated financial statements and accompanying notes of the Company for the years ended December 31, 2022 and 2021. There were no new accounting standards or amendments to existing standards adopted in the year ended December 31, 2022 that are expected to have a material impact on the Company’s financial statements.

This MD&A of the Company’s financial condition and results of operations is based on the consolidated financial statements for the year ended December 31, 2022, which were prepared in accordance with IFRS. Conformity with IFRS requires management to make judgments, estimates and assumptions that are based on the facts, circumstances, and estimates at the date of the consolidated financial statements and affect the application of certain accounting policies and the reported amount of assets, liabilities, income and expenses.

The current economic environment and volatility in global demand results in uncertainty for the Company, which management took into consideration when applying judgments to estimates and assumptions in the consolidated financial statements. A full list of critical accounting estimates is included in the Company’s annual consolidated financial statements for the year ended December 31, 2022. Actual results may differ from the estimates used in preparing the consolidated financial statements.

#### **Government Grants:**

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

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

### **Business Risks**

For a comprehensive listing of the Company’s business risks please see the most recent annual information form (“AIF”) for the year ended December 31, 2022, as filed under the Company’s SEDAR profile at [www.sedar.com](http://www.sedar.com).

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

- The Company’s business relies on the crude oil and natural gas exploration and production industry which is subject to a number of risks including general economic conditions, fluctuations in demand and supply of crude oil and natural gas production, fluctuations in commodity prices, competition and increases in operating costs. In addition, changes may occur in government regulations, including regulations relating to foreign acquisitions, prices, taxes,

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

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

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

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

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

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

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

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

impact Western's borrowing costs, which could, in turn, have a material adverse effect on the Company's cash flow and ability to service obligations under its debt obligations. The Company is exposed to interest rate risk on its Credit Facilities and the HSBC Facility. Floating-rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate with changes in market interest rates.

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

## Non-IFRS Measures and Ratios

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

### *Adjusted EBITDA*

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

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

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

(stated in thousands)	Three months ended December 31		Year ended December 31	
	2022	2021	2022	2021
<b>Net income (loss)</b>	<b>(3,095)</b>	<b>(6,021)</b>	<b>29,320</b>	<b>(35,812)</b>
Income tax expense (recovery)	(177)	(1,038)	2,858	(3,457)
<b>Income (loss) before income taxes</b>	<b>(3,272)</b>	<b>(7,059)</b>	<b>32,178</b>	<b>(39,269)</b>
Add (deduct):				
Gain on debt forgiveness	-	-	(49,357)	-
Depreciation	10,444	10,263	40,096	42,024
Stock based compensation	850	34	1,985	253
Finance costs	2,988	4,720	14,416	19,664
Other items	1,223	992	603	375
<b>Adjusted EBITDA</b>	<b>12,233</b>	<b>8,950</b>	<b>39,921</b>	<b>23,047</b>

### Other Supplemental Financial Measures

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

*Revenue per Operating Day:* Calculated as total drilling revenue for both Canada and the US respectively, divided by Operating Days in Canada and the US respectively. This calculation represents the average day rate by country, charged to Western’s customers.

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

*Working capital:* Calculated as current assets less current liabilities as disclosed in the Company’s annual consolidated financial statements.

## Defined Terms

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

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

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

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

*Drilling rig utilization:* Calculated based on Operating Days divided by total available days.

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

*Service Hours:* Defined as well servicing hours completed.

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

## Contract Drilling Rig Classifications

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

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

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

## Abbreviations:

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

## Forward-Looking Statements and Information

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

In particular, forward-looking information in this MD&A includes, but is not limited to, statements relating to: the business of Western, industry, market and economic conditions and any anticipated effects on Western; commodity pricing; the future demand for the Company's services and equipment, in particular, the Company's expectations regarding improved activity in 2023; Western's expectations regarding prevailing customer preferences; the potential impact of the current conflict in Ukraine on commodity prices, the demand for Western's services and the anticipated effect on the energy service industry generally; the pricing for the Company's services and equipment; the Company's expected total capital budget for 2023, including the allocation of such budget and expectations with respect to the committed expenditures being carried



forward; the anticipated reduction of the Company's finance costs on a go forward basis as a result of the Restructuring Transaction; beliefs regarding appropriate measures of the Company's environmental value; the ability of the Company to help its customers reach their Scope 1 reduction targets; the implications of the COVID-19 pandemic on Western, the energy service industry and global economic activity; expectations with respect to the Trans Mountain pipeline expansion; the positive impact of the Blueberry River First Nations decision on the energy industry; the Company's liquidity needs including the ability of current capital resources to cover Western's financial obligations; the use, availability and sufficiency of the Company's Credit Facilities; the Company's ability to maintain certain covenants under its Credit Facilities; the repayment of the Company's debt, including the source of funds required to repay such debt; maturities of the Company's contractual obligations with third parties; the Company's use of proceeds from the Rights Offering; the Company's use of forward foreign currency contracts; estimates with respect to foreign exchange rates; factors affecting companies with credit risk; expectations as to the benefits of the LNG Canada natural gas project in British Columbia on the Company and its rig fleet; the expectation of continued investment in the Canadian crude oil and natural gas industry; the development of Alberta and British Columbia resource plays; expectations relating to producer spending and activity levels for oilfield services; the Company's ability to maintain a competitive advantage, including the factors and practices anticipated to produce and sustain such advantage; the Company's ability to find and maintain enough field crew members; and forward-looking information contained under the headings "*Disclosure Controls and Procedures and Internal Controls Over Financial Reporting*", "*Business Risks*" and "*Critical Accounting Estimates and Recent Developments*".

The material assumptions that could cause results or events to differ from current expectations reflected in the forward-looking information in this MD&A include, but are not limited to: demand levels and pricing for oilfield services; demand for crude oil and natural gas and the price and volatility of crude oil and natural gas; pressures on commodity pricing; the impact of inflation; the continued business relationships between the Company and its significant customers; crude oil transport, pipeline and LNG export facility approval and development; that all required regulatory and environmental approvals can be obtained on the necessary terms and in a timely manner, as required by the Company; liquidity and the Company's ability to finance its operations; the effectiveness of the Company's cost structure and capital budget; the effects of seasonal and weather conditions on operations and facilities; the competitive environment to which the various business segments are, or may be, exposed in all aspects of their business and the Company's competitive position therein; the ability of the Company's various business segments to access equipment (including spare parts and new technologies); global economic conditions and the accuracy of the Company's market outlook expectations for 2023 and in the future; the impact, direct and indirect, of the COVID-19 pandemic and geo-political events, including the war in Ukraine, on Western's business, customers, business partners, employees, supply chain, other stakeholders and the overall economy; changes in laws or regulations; currency exchange fluctuations; the ability of the Company to attract and retain skilled labour and qualified management; the ability to retain and attract significant customers; the ability to maintain a satisfactory safety record; that any required commercial agreements can be reached; that there are no unforeseen events preventing the performance of contracts and general business, economic and market conditions.

Although Western believes that the expectations and assumptions on which such forward-looking information is based on are reasonable, undue reliance should not be placed on the forward-looking information as Western cannot give any assurance that such will prove to be correct. By its nature, forward-looking information is subject to inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, volatility in market prices for crude oil and natural gas and the effect of this volatility on the demand for oilfield services generally; reduced exploration and development activities by customers and the effect of such reduced activities on Western's services and products; political, industry, market, economic, and environmental conditions in Canada, the United States, Ukraine and globally; supply and demand for oilfield services relating to contract drilling, well servicing and oilfield rental equipment services; the proximity, capacity and accessibility of crude oil and natural gas pipelines and processing facilities; liabilities and risks inherent in oil and natural gas operations, including environmental liabilities and risks; changes to laws, regulations and policies; the ongoing geopolitical events in Eastern Europe and the duration and impact thereof; fluctuations in foreign exchange or interest rates; failure of counterparties to perform or comply with their obligations under contracts; regional competition and the increase in new or upgraded rigs; the Company's ability to attract and retain skilled labour; Western's ability to obtain debt or equity financing and to fund capital operating and other expenditures and obligations; the potential need to issue additional debt or equity and the potential resulting dilution of shareholders; uncertainties in weather and temperature affecting the duration of the service periods and the activities that can be completed; the Company's ability to comply with the covenants under the Credit Facilities, HSBC Facility and the Second Lien Facility and the restrictions on its operations and activities if it is not compliant with such covenants; Western's ability to protect itself from "cyber-attacks" which could compromise its information systems and critical infrastructure; disruptions to global supply chains; and other general industry, economic, market and business conditions. Readers are cautioned that the foregoing list of risks, uncertainties and assumptions are not exhaustive. Additional information on these and other risk factors that could affect Western's operations and financial results are discussed under

the headings “*Business Risks*” herein and “*Risk Factors*” in Western’s AIF for the year ended December 31, 2022, which may be accessed through the SEDAR website at [www.sedar.com](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. Any forward-looking statements contained herein are expressly qualified by this cautionary statement.

**Additional data**

Additional information relating to Western, including the Company’s AIF, is available under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).