Western Energy Services Corp.

Condensed Consolidated Financial Statements

March 31, 2021 and 2020

(Unaudited)

Western Energy Services Corp.

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

	Note		March 31, 2021		December 31, 2020
Assets					
Current assets					
Cash and cash equivalents		$	6,570	$	19,322
Trade and other receivables			25,477		18,246
Other current assets	5		5,596		5,928
			37,643		43,496
Non current assets					
Property and equipment	6		440,836		452,040
Other non current assets	5		48		89
		$	478,527	$	495,625
Liabilities					
Current liabilities					
Trade payables and other current liabilities		$	19,663	$	23,138
Current portion of long term debt	7		4,553		4,361
			24,216		27,499
Non current liabilities					
Long term debt	7		233,418		237,633
Deferred taxes			5,859		8,020
			263,493		273,152
Shareholders' equity					
Share capital	8		441,472		441,461
Contributed surplus			15,759		15,678
Retained earnings (deficit)			(266,815)		(260,333)
Accumulated other comprehensive income			22,919		23,996
Non controlling interest			1,699		1,671
			215,034		222,473
		$	478,527	$	495,625

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

Western Energy Services Corp.

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

	Note	Three months ended March 31, 2021	Three months ended March 31, 2020
Revenue		$ 36,969	$ 51,765
Expenses			
Operating		26,925	39,591
Administrative		3,153	3,813
Depreciation	6	10,806	12,898
Stock based compensation	9	68	100
Finance costs	11	4,568	4,678
Other items	12	(35)	(345)
Impairment of property and equipment		-	11,500
Loss before income taxes		(8,516)	(20,470)
Income tax recovery	13	2,062	5,139
Net loss		(6,454)	(15,331)
Other comprehensive loss (1)			
(Loss) gain on translation of foreign operations		(723)	5,884
Unrealized foreign exchange (loss) gain on net investment in subsidiary		(354)	3,086
Comprehensive loss		$ (7,531)	$ (6,361)
Net income (loss) attributable to:			
Shareholders of the Company		$ (6,482)	$ (15,339)
Non controlling interest		28	8
Comprehensive income (loss) attributable to:			
Shareholders of the Company		$ (7,559)	$ (6,369)
Non controlling interest		28	8
Net loss per share:			
Basic		$ (0.07)	$ (0.17)
Diluted		(0.07)	(0.17)
Weighted average number of shares:			
Basic	10	91,184,713	91,892,784
Diluted	10	91,184,713	91,892,784

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

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

Western Energy Services Corp.

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

	Share capital	Contributed surplus (1)	Retained earnings (deficit)	Accumulated other comprehensive income(2)	Non controlling interest	Total shareholders' equity
Balance at December 31, 2019	$ 441,794	$ 15,459	$ (219,074)	$ 27,157	$ 1,756	$ 267,092
Common shares:						
Issued on vesting of restricted share units	5	(5)	-	-	-	-
Purchased under normal course issuer bid	(478)	-	-	-	-	(478)
Stock based compensation	-	115	-	-	-	115
Comprehensive income (loss)	-	-	(15,339)	8,970	8	(6,361)
Balance at March 31, 2020	441,321	15,569	(234,413)	36,127	1,764	260,368
Common shares:						
Issued on vesting of restricted share units	140	(140)	-	-	-	-
Stock based compensation	-	249	-	-	-	249
Distributions to non controlling interest	-	-	-	-	(43)	(43)
Comprehensive loss	-	-	(25,920)	(12,131)	(50)	(38,101)
Balance at December 31, 2020	441,461	15,678	(260,333)	23,996	1,671	222,473
Common shares:						
Issued for cash on exercise of stock options	9	-	-	-	-	9
Fair value of exercised options	2	(2)	-	-	-	-
Stock based compensation	-	83	-	-	-	83
Comprehensive income (loss)	-	-	(6,482)	(1,077)	28	(7,531)
Balance at March 31, 2021	$ 441,472	$ 15,759	$ (266,815)	$ 22,919	$ 1,699	$ 215,034

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

(2) At March 31, 2021 the accumulated other comprehensive income balance consists of the translation of foreign operations and unrealized foreign exchange on the net investment in subsidiary.

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

Western Energy Services Corp.

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

	Note	Three months ended March 31, 2021	Three months ended March 31, 2020
Operating activities			
Net loss		$ (6,454)	$ (15,331)
Adjustments for:			
Depreciation	6	10,806	12,898
Non cash stock based compensation	9	83	115
Finance costs	11	4,568	4,678
Impairment of property and equipment		-	11,500
Income tax recovery	13	(2,062)	(5,139)
Other		(43)	(67)
Income taxes paid		28	-
Change in non cash working capital		(5,417)	(7,115)
Cash flow from operating activities		1,509	1,539
Investing activities			
Additions to property and equipment	6	(873)	(575)
Proceeds on sale of property and equipment		117	2
Change in non cash working capital		(969)	(1,410)
Cash flow used in investing activities		(1,725)	(1,983)
Financing activities			
Share purchase under normal course issuer bid		-	(478)
Finance costs paid		(8,255)	(8,303)
Repayment of second lien debt	7	(538)	(537)
Repayment of lease obligations	7	(729)	(808)
(Repayment of) draw on credit facilities	7	(3,000)	11,703
Issuance costs of HSBC facility	7	(23)	-
Issue of common shares	8	9	-
Cash flow (used in) from financing activities		(12,536)	1,577
(Decrease) increase in cash and cash equivalents		(12,752)	1,133
Cash and cash equivalents, beginning of period		19,322	4,015
Cash and cash equivalents, end of period [1]		$ 6,570	$ 5,148

[1] At March 31, 2021 and 2020, the Company's cash and cash equivalents consisted of bank accounts with banks within the Company's existing credit facilities syndicate, as well as $0.2 million (US$0.1 million) of restricted cash in 2021 (March 31, 2020: nil) related to the US paycheck protection program (Note 7).

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

1. Reporting entity:

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the head office is 1700, 215 - 9th Avenue SW, Calgary, Alberta. Western is a publicly traded company listed on the Toronto Stock Exchange ("TSX") under the symbol "WRG". These condensed consolidated financial statements as at and for the three months ended March 31, 2021 and 2020 (the "Financial Statements") are comprised of Western, its divisions and its wholly owned subsidiaries (together referred to as the "Company"). The Company is an oilfield service company providing contract drilling services through its division, Horizon Drilling ("Horizon") in Canada, and its wholly owned subsidiary, Stoneham Drilling Corporation ("Stoneham") in the United States. Western provides well servicing and oilfield rental equipment services in Canada through its wholly owned subsidiary Western Production Services Corp. ("Western Production Services"). Western Production Services' division, Eagle Well Servicing ("Eagle") provides well servicing, while its division, Aero Rental Services ("Aero") provides oilfield rental equipment services. Stoneham's division, Western Oilfield Services, provides well servicing operations in the United States ("US"). Financial and operating results for Horizon and Stoneham are included in Western's contract drilling segment, while financial and operating results for Eagle, Aero, and Western Oilfield Services are included in Western's production services segment.

2. Basis of preparation and significant accounting policies:

Statement of compliance:

These Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the years ended December 31, 2020 and 2019. These Financial Statements have been prepared using accounting policies and estimates which are consistent with Note 3 and 4 of the audited annual consolidated financial statements as at December 31, 2020 and for the years ended December 31, 2020 and 2019 as filed on SEDAR at www.sedar.com.

These Financial Statements were approved for issuance by Western's Board of Directors on April 26, 2021.

Functional and presentation currency:

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

Critical accounting estimates and recent developments:

The preparation of these Financial Statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

The current economic environment and the ongoing COVID-19 pandemic is continuing to impact the Company and the full extent of the impact is unknown, as it will depend on the duration of the pandemic, the rollout of COVID-19 vaccines, and its resulting impact on the economy and international markets. The COVID-19 pandemic and reduction in global demand results in uncertainty for the Company, as well as estimates and assumptions used by management to prepare these Financial Statements. Estimates and judgments made by management are subject to a higher degree of volatility in this uncertain time. A full list of critical accounting estimates is included in the Company's annual consolidated Financial Statements for the year ended December 31, 2020. However, the current market conditions have increased the uncertainty specifically relating to, but not limited to, assumptions used in calculating the recoverable amounts of the Company's cash generating units ("CGUs") in its impairment assessment, as well as increased risk of non-payment of accounts receivable.

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

Canada Emergency Wage Subsidy ("CEWS"):

For the three months ended March 31, 2021, the Company has recorded $3.2 million (three months ended March 31, 2020: nil) related to the CEWS from the Government of Canada. The CEWS relates to operating and administrative expenses in the period and have been recognized as a reduction of these expenses by $3.0 million (three months ended March 31, 2020: nil) and $0.2 million (three months ended March 31, 2020: nil) respectively.

Canada Emergency Rent Subsidy ("CERS"):

For the three months ended March 31, 2021, the Company has recorded $0.2 million (three months ended March 31, 2020: nil) related to the CERS from the Government of Canada. The CERS relates to eligible expenses such as rent and operating costs for the Company's leased properties, some of which had been capitalized as assets under IFRS 16, Leases. For the three months ended March 31, 2021, the Company has recognized a reduction of operating expenses of $0.1 million (for the three months ended March 31, 2020: nil) and a reduction of depreciation expense of $0.1 million (for the three months ended March 31, 2020: nil) related to IFRS 16 related assets.

US Paycheck Protection Plan ("PPP"):

During the third quarter of 2020 the Company received US$1.8 million related to a PPP loan implemented by the US Government as part of their COVID-19 relief efforts. The PPP loan is being used to cover eligible US expenses, including payroll, rent, and other specific operating costs, in the period in which they are incurred. The Company expects that a portion of the PPP loan may be forgiven if all conditions of the loan are met. Interest on the PPP loan will accrue at 1% per annum. The PPP loan may be prepaid without penalties by the Company any time prior to maturity on July 23, 2025. For the three months ended March 31, 2021, and 2020 no amounts related to PPP loan forgiveness were recognized.

3. Seasonality:

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

4. Operating segments:

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

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

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

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

4. Operating segments (continued):

The following is a summary of the Company's results by operating segment for the three months ended March 31, 2021 and 2020:

Three months ended March 31, 2021	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 20,297	$ 16,878	$ -	$ (206)	$ 36,969
Operating earnings (loss)	(3,959)	1,699	(1,655)	-	(3,915)
Finance costs	-	-	4,568	-	4,568
Depreciation	7,808	2,560	438	-	10,806
Additions to property and equipment	720	153	-	-	873

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

Total assets and liabilities by operating segment are as follows:

As at March 31, 2021	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 366,886	$ 100,226	$ 11,415	$ 478,527
Total liabilities	51,039	19,531	192,923	263,493

As at December 31, 2020	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 372,247	$ 99,172	$ 24,206	$ 495,625
Total liabilities	51,595	18,350	203,207	273,152

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

Three months ended March 31, 2021	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ (3,959)	$ 1,699	$ (1,655)	$ (3,915)
Add (deduct):				
Stock based compensation	(21)	(18)	(29)	(68)
Finance costs	-	-	(4,568)	(4,568)
Other items	-	-	35	35
Loss before income taxes	$ (3,980)	$ 1,681	$ (6,217)	$ (8,516)

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

4. Operating segments (continued):

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

Segmented information by geographic area is as follows:

As at March 31, 2021	Canada	United States	Total
Property and equipment	$ 348,110	$ 92,726	$ 440,836
Total assets	381,461	97,066	478,527

As at December 31, 2020	Canada	United States	Total
Property and equipment	$ 356,139	$ 95,901	$ 452,040
Total assets	395,118	100,507	495,625

	Canada	United States	Total
Revenue - three months ended March 31, 2021	$ 35,894	$ 1,075	$ 36,969
Revenue - three months ended March 31, 2020	46,690	5,075	51,765

Revenue from contracts:
For the three months ended March 31, 2021, the Company's revenue from long term and short term contracts in the contract drilling segment totaled $0.4 million and $19.9 million respectively (for the three months ended March 31, 2020: $6.5 million and $27.7 million respectively).

For the three months ended March 31, 2021, the Company had no revenue from long term contracts in the production services segment (for the three months ended March 31, 2020: nil).

Significant customers:
For the three months ended March 31, 2021, the Company had one customer comprising 13.0% of the Company's total revenue. The trade receivable balance outstanding related to this customer was 13.3% of the Company's total trade and other receivables as at March 31, 2021. For the three months ended March 31, 2020, the Company had no significant customers comprising 10.0% or more of the Company's total revenue.

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

5. Other assets:

The Company's other assets as at March 31, 2021 and December 31, 2020 are as follows:

	March 31, 2021	December 31, 2020
Current:		
Prepaid expenses	$ 1,829	$ 2,327
Inventory	3,197	3,069
Deposits	377	355
Deferred charges	193	177
Total current portion of other assets	5,596	5,928
Non current:		
Deferred charges	48	89
Total non current portion of other assets	48	89
Total other assets	$ 5,644	$ 6,017

6. Property and equipment:

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

	Land	Buildings	Contract drilling equipment	Production services equipment	Office and shop equipment	Finance lease assets	Total
Cost:							
Balance at December 31, 2020	$ 5,089	$ 4,396	$ 798,687	$ 204,320	$ 13,085	$ 13,621	$ 1,039,198
Additions to property and equipment	-	-	720	153	-	-	873
Lease additions	-	-	-	-	-	60	60
Disposals	-	-	(53)	(509)	-	(750)	(1,312)
Foreign exchange adjustment	-	-	(2,135)	(52)	(10)	(14)	(2,211)
Balance at March 31, 2021	$ 5,089	$ 4,396	$ 797,219	$ 203,912	$ 13,075	$ 12,917	$ 1,036,608
Accumulated depreciation:							
Balance at December 31, 2020	-	2,836	448,556	117,600	11,372	6,794	587,158
Depreciation(1)	-	34	7,709	2,384	213	571	10,911
Disposals	-	-	(53)	(507)	-	(695)	(1,255)
Foreign exchange adjustment	-	-	(999)	(25)	(9)	(9)	(1,042)
Balance at March 31, 2021	$ -	$ 2,870	$ 455,213	$ 119,452	$ 11,576	$ 6,661	$ 595,772
Carrying amounts:							
At December 31, 2020	$ 5,089	$ 1,560	$ 350,131	$ 86,720	$ 1,713	$ 6,827	$ 452,040
At March 31, 2021	$ 5,089	$ 1,526	$ 342,006	$ 84,460	$ 1,499	$ 6,256	$ 440,836

(1) Excludes a credit to depreciation expense of $0.1 million associated with the CERS as described in Note 2.

Impairment:

As at March 31, 2021, the Company reviewed for indicators of impairment since its last test which was performed on December 31, 2020. Based on this review it was determined that there were no additional indicators of impairment since the last test performed. The Company continually monitors its budgets and forecasts and performs its impairment test based on these projections. Since the last impairment test was performed there have been no material revisions to this forecast.

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

7. Long term debt:

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

	March 31, 2021	December 31, 2020
Current:		
Second Lien Facility	$ 2,150	$ 2,150
HSBC Facility	313	-
Lease obligations (1)	2,651	2,843
PPP Loan	359	227
Less: unamortized issue costs	(920)	(859)
Total current portion of long term debt	4,553	4,361
Non current:		
Second Lien Facility	206,938	207,475
HSBC Facility	12,188	12,500
Revolving Facility	8,000	11,000
PPP Loan	1,842	2,001
Lease obligations (1)	5,388	5,858
Less: unamortized issue costs	(938)	(1,201)
Total non current portion of long term debt	233,418	237,633
Total long term debt	$ 237,971	$ 241,994

(1) Lease obligations include leases capitalized under IFRS 16. During the three months ended March 31, 2021 and 2020, the Company expensed $0.1 million, related to leases of low value assets or leases with a term of less than one year.

Credit Facilities:

At March 31, 2021, the Company's credit facilities consisted of a $50.0 million syndicated revolving credit facility (the "Revolving Facility") and a $10.0 million committed operating facility (the "Operating Facility" and together the "Credit Facilities") which mature on July 1, 2022.

Advances under the Credit Facilities are limited by the Company's borrowing base. Under the Credit Facility, the borrowing base is determined as follows:

- 85% of investment grade accounts receivable; plus
- 75% of non-investment grade accounts receivable; plus
- The lessor of:
  - (i) 66 2/3% of the total Credit Facilities; or
  - (ii) 25% of the net book value of property and equipment; or
  - (iii) 40% of appraised net orderly liquidation value of property and equipment.

As at March 31, 2021, the Company was in compliance with its borrowing base requirement, as its Credit Facility draw was less than the maximum amount calculated under the borrowing base.

Amounts borrowed under the Credit Facilities bear interest at the bank's Canadian prime rate, or the banker's acceptance rate plus an applicable margin depending, in each case, on the ratio of Consolidated Debt to Consolidated EBITDA as defined by the Credit Facilities agreement. The Credit Facilities are secured by the assets of the Company and its subsidiaries. As at March 31, 2021, $8.0 million (December 31, 2020: $11.0 million) was drawn on the Credit Facilities.

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

7. Long term debt (continued):

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

	Covenant	March 31, 2021
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio (1)(2)	3.0:1.0 or less	0.11:1.0
Maximum Consolidated Debt to Consolidated Capitalization Ratio (3)(4)	0.6:1.0 or less	0.51:1.0
Minimum Current Ratio (5)	1.15:1.0 or more	2.06:1.0

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

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

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

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

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

As at March 31, 2021, the Company was in compliance with all covenants related to its Credit Facilities.

Second Lien Facility:

At March 31, 2021, the Company had $209.1 million outstanding on the second lien secured term loan facility (the "Second Lien Facility"). Interest is payable semi-annually, at a rate of 7.25% per annum, on January 1 and July 1 each year or the next applicable business day. Amortization payments equal to 1% of the initial principal amount of $215.0 million are payable annually, in quarterly installments, with the balance due on January 31, 2023.

HSBC Facility:

At March 31, 2021, the Company had $12.5 million outstanding related to its committed term non-revolving facility (the "HSBC Facility"). The HSBC Facility bears interest at a floating rate that is payable monthly. Principal amounts are payable monthly beginning January 2022, with the balance due upon maturity on December 31, 2026.

US Paycheck Protection Plan:

At March 31, 2021, the Company had $2.2 million outstanding related to the PPP loan. Interest and principal is payable over the term of the loan, at a rate of 1% per annum, with the balance due upon maturity on July 23, 2025. The PPP loan may be forgiven subject to certain conditions if the proceeds are used for US payroll, utility costs and other specific operating costs incurred, within twenty four weeks of funding, as outlined by US Treasury guidelines. Management estimates that a portion of the loan will be forgiven if all conditions are met. For the three months ended March 31, 2021 and 2020, no amounts related to PPP loan forgiveness have been recognized.

8. Share capital:

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

	Issued and outstanding shares		Amount
Balance at December 31, 2020	91,165,112	$	441,461
Issued for cash on exercise of stock options	34,960		9
Fair value of exercised stock options	-		2
Balance at March 31, 2021	91,200,072	$	441,472

There were no dividends declared during the three months ended March 31, 2021 and 2020.

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

9. Stock based compensation:

Stock options:

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

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

	Stock options outstanding	Weighted average exercise price
Balance at December 31, 2020	7,464,687	$ 0.82
Granted	39,720	0.48
Exercised	(34,960)	0.24
Forfeited	(517,633)	0.86
Expired	(3,400)	3.68
Balance at March 31, 2021	6,948,414	$ 0.82

For the three months ended March 31, 2021 and 2020, no stock options were cancelled. The average fair value of the stock options granted for the three months ended March 31, 2021 was $0.18 per stock option (for the three months ended March 31, 2020: $0.14 per stock option). As at March 31, 2021, Western had 3,041,414 (December 31, 2020: 3,302,108) exercisable stock options outstanding at a weighted average exercise price equal to $1.42 (December 31, 2020: $1.42) per stock option.

Restricted share unit plan:

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

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

	Equity settled	Cash settled	Total
Balance at December 31, 2020	1,244,159	263,682	1,507,841
Granted	7,320	-	7,320
Vested	-	(4,071)	(4,071)
Forfeited	(40,030)	(14,589)	(54,619)
Balance at March 31, 2021	1,211,449	245,022	1,456,471

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

9. Stock based compensation (continued):

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

	Three months ended March 31, 2021	Three months ended March 31, 2020
Stock options	$ 39	$ 77
Restricted share units – equity settled grants	44	38
Total equity settled stock based compensation expense	83	115
Restricted share units – cash settled grants	(15)	(15)
Total stock based compensation expense	$ 68	$ 100

10. Earnings per share:

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

	Three months ended March 31, 2021	Three months ended March 31, 2020
Issued common shares, beginning of period	91,165,112	92,501,314
Weighted average number of common shares issued (repurchased)	19,601	(608,530)
Weighted average number of common shares (basic)	91,184,713	91,892,784
Dilutive effect of equity securities	-	-
Weighted average number of common shares (diluted)	91,184,713	91,892,784

For the three months ended March 31, 2021, 6,948,414 stock options (three months ended March 31, 2020: 7,306,784 stock options), 1,211,449 equity settled RSUs (three months ended March 31, 2020: 644,747 equity settled RSUs) and nil warrants (for the three months ended March 31, 2020: 7,099,546 warrants) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

11. Finance costs:

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

	Three months ended March 31, 2021	Three months ended March 31, 2020
Interest expense on long term debt	$ 4,293	$ 4,359
Amortization of debt financing fees	48	105
Accretion expense on Second Lien Facility	212	216
Accretion expense on HSBC Facility	15	-
Interest income	-	(2)
Total finance costs	$ 4,568	$ 4,678

The Company had an effective interest rate on its borrowings of 7.4% for the three months ended March 31, 2021 (three months ended March 31, 2020: 7.8%).

12. Other items:

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

	Three months ended March 31, 2021	Three months ended March 31, 2020
(Gain) loss on sale of fixed assets	$ (60)	$ 50
Realized foreign exchange loss (gain)	8	(278)
Unrealized foreign exchange loss (gain)	17	(117)
Total other items	$ (35)	$ (345)

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

13. Income taxes:

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

	Three months ended March 31, 2021	Three months ended March 31, 2020
Current tax expense	$ 13	$ -
Deferred tax recovery	(2,075)	(5,139)
Total income tax recovery	$ (2,062)	$ (5,139)

As at March 31, 2021, the Company has loss carry forwards equal to approximately $251.0 million in Canada, which will expire between 2035 and 2041. In the United States, the Company has approximately US$49.2 million loss carry forwards, some of which expire between 2028 and 2037, and others that have an indefinite expiry.

14. Costs by nature:

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

	Three months ended March 31, 2021	Three months ended March 31, 2020
Employee salaries and benefits (1)	$ 16,935	$ 28,977
Repairs and maintenance	3,504	3,752
Third party charges	1,397	3,445

(1) For the three months ended March 31, 2021, employee salaries and benefits include the CEWS of $3.2 million (March 31, 2020: nil) as described in Note 2.

15. Capital management:

The overall capitalization of the Company at March 31, 2021 and December 31, 2020 is as follows:

	Note	March 31, 2021	December 31, 2020
Second Lien Facility	7	$ 209,088	$ 209,625
HSBC Facility	7	12,500	12,500
Revolving Facility	7	8,000	11,000
PPP Loan	7	2,201	2,228
Finance lease obligations	7	8,039	8,701
Total debt		239,828	244,054
Shareholders' equity		215,034	222,473
Less: cash and cash equivalents		(6,570)	(19,322)
Total capitalization		$ 448,292	$ 447,205

16. Financial risk management:

Credit risk:

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

The Company’s trade receivables are with customers in the crude oil, and natural gas industry and are subject to industry credit risk. For the three months ended March 31, 2021, the ongoing COVID-19 pandemic and related decrease in global demand for crude oil, have had a significant impact on commodity prices. These factors are expected to have an impact on companies and their related credit risk. The Company’s practice is to manage credit risk by performing a thorough analysis of the credit worthiness of new customers before credit terms are offered.

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

16. Financial risk management (continued):

Additionally, the Company continuously reviews individual customer trade receivables taking into consideration payment history and aging of the trade receivables to monitor collectability.

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

The Company completes a detailed review of its historical credit losses as part of its impairment assessment. The Company has had minimal historical impairment losses on its trade and other receivables, due in part to its credit management processes. As such, the Company assesses impairment losses on an individual customer account basis, rather than recognize a loss allowance on all outstanding trade and other receivables. Subsequent to March 31, 2021, the Company has collected approximately 36% of its trade and other receivables that were outstanding as at March 31, 2021.

Liquidity risk:

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

17. Commitments:

As at March 31, 2021, the Company has commitments which require payments based on the maturity terms as follows:

	2021	2022	2023	2024	2025	Thereafter	Total
Second Lien Facility	$ 1,613	$ 2,150	$ 205,325	$ -	$ -	$ -	$ 209,088
Second Lien Facility interest	7,424	15,105	7,473	-	-	-	30,002
HSBC Facility	-	1,250	1,250	1,250	1,250	7,500	12,500
HSBC Facility interest	607	769	688	610	527	447	3,648
Revolving Facility	-	8,000	-	-	-	-	8,000
Trade payables and other current liabilities(1)	16,047	-	-	-	-	-	16,047
Operating commitments(2)	1,635	716	688	687	57	-	3,783
PPP Loan	238	571	571	571	344	-	2,295
Lease obligations (3)	2,444	2,451	2,055	1,775	151	-	8,876
Total	$ 30,008	$ 31,012	$ 218,050	$ 4,893	$ 2,329	$ 7,947	$ 294,239

(1) Trade payables and other current liabilities exclude the Company's interest accrued as at March 31, 2021 on the Second Lien Facility which is stated separately.

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

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