Western Energy Services Corp.

Condensed Consolidated Financial Statements

September 30, 2022 and 2021

(Unaudited)

Western Energy Services Corp.

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

	Note	September 30, 2022	December 31, 2021
Assets			
Current assets			
Cash and cash equivalents		$ 13,025	$ 7,478
Trade and other receivables		37,675	26,464
Other current assets	5	5,730	6,411
		56,430	40,353
Non current assets			
Property and equipment	6	418,817	415,245
Other non current assets	5	404	405
		$ 475,651	$ 456,003
Liabilities			
Current liabilities			
Trade payables and other current liabilities		$ 29,805	$ 24,590
Current portion of long term debt	7	5,186	13,539
		34,991	38,129
Non current liabilities			
Long term debt	7	127,639	226,884
Deferred taxes		7,256	4,490
		169,886	269,503
Shareholders' equity			
Share capital	8	521,549	441,672
Contributed surplus		16,815	15,762
Retained earnings (deficit)		(264,212)	(296,467)
Accumulated other comprehensive income		29,834	23,540
Non controlling interest		1,779	1,993
		305,765	186,500
		$ 475,651	$ 456,003

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 Sept 30 2022	Three months ended Sept 30 2021	Nine months ended Sept 30 2022	Nine months ended Sept 30 2021
Revenue		$ 58,483	$ 32,960	$ 139,552	$ 90,315
Expenses					
Operating		40,371	25,242	101,789	68,060
Administrative		3,313	2,709	10,075	8,158
Depreciation	6	9,744	10,475	29,652	31,761
Stock based compensation	9	795	39	1,135	219
Finance costs	11	2,946	5,851	11,428	14,944
Other items	12	(517)	(602)	(620)	(617)
Gain on debt forgiveness	8	-	-	(49,357)	-
Income (loss) before income taxes		1,831	(10,754)	35,450	(32,210)
Income tax (expense) recovery	13	(1,013)	357	(3,035)	2,419
Net income (loss)		818	(10,397)	32,415	(29,791)
Other comprehensive income (loss) (1)					
Gain (loss) on translation of foreign operations		3,171	1,500	3,973	(54)
Unrealized foreign exchange gain on net investment in subsidiary		1,852	782	2,321	20
Comprehensive income (loss)		$ 5,841	$ (8,115)	$ 38,709	$ (29,825)
Net income (loss) attributable to:					
Shareholders of the Company		$ 816	$ (10,685)	$ 32,255	$ (30,047)
Non controlling interest		2	288	160	256
Comprehensive income (loss) attributable to:					
Shareholders of the Company		$ 5,839	$ (8,403)	$ 38,549	$ (30,081)
Non controlling interest		2	288	160	256
Net income (loss) per share: (2)					
Basic		$ 0.02	$ (13.65)	$ 1.89	$ (39.17)
Diluted		0.02	(13.65)	1.89	(39.17)
Weighted average number of shares: (2)					
Basic	10	33,839,658	761,664	17,120,283	760,520
Diluted	10	33,839,658	761,664	17,120,936	760,520

(1) Other comprehensive income (loss) includes items that may be subsequently reclassified into profit and loss.
(2) Restated retroactively for the Share Consolidation as defined and described in Note 8.

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, 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
Issued on vesting of restricted share units	192	(192)	-	-	-	-
Fair value of exercised options	2	(2)	-	-	-	-
Stock based compensation	-	245	-	-	-	245
Comprehensive loss	-	-	(30,047)	(34)	256	(29,825)
Balance at September 30, 2021	441,664	15,729	(290,380)	23,962	1,927	192,902
Common shares:						
Issued for cash on exercise of stock options	5	-	-	-	-	5
Fair value of exercised options	3	(3)	-	-	-	-
Stock based compensation	-	36	-	-	-	36
Comprehensive (loss) income	-	-	(6,087)	(422)	66	(6,443)
Balance at December 31, 2021	441,672	15,762	(296,467)	23,540	1,993	186,500
Common shares:						
Issue of common shares on debt to equity exchange	50,000	-	-	-	-	50,000
Issue of common shares from rights offering	31,502	-	-	-	-	31,502
Share issue costs	(1,734)	-	-	-	-	(1,734)
Issued for cash on exercise of stock options	22	-	-	-	-	22
Issued on vesting of restricted share units	80	(80)	-	-	-	-
Fair value of exercised options	7	(7)	-	-	-	-
Stock based compensation	-	1,140	-	-	-	1,140
Distributions to non controlling interest	-	-	-	-	(374)	(374)
Comprehensive income	-	-	32,255	6,294	160	38,709
Balance at September 30, 2022	$ 521,549	$ 16,815	$ (264,212)	$ 29,834	$ 1,779	$ 305,765

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

(2) At September 30, 2022 the accumulated other comprehensive income balance consists of the translation of foreign operations and unrealized foreign exchange on the net investment in subsidiary.

Western Energy Services Corp.

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

	Note	Three months ended Sept 30 2022	Three months ended Sept 30 2021	Nine months ended Sept 30 2022	Nine months ended Sept 30 2021
Operating activities					
Net income (loss)		$ 818	$ (10,397)	$ 32,415	$ (29,791)
Adjustments for:					
Depreciation	6	9,744	10,475	29,652	31,761
Non cash stock based compensation	9	797	62	1,140	245
Finance costs	11	2,946	5,851	11,428	14,944
Gain on debt forgiveness	8	-	-	(49,357)	-
Income tax expense (recovery)	13	1,013	(357)	3,035	(2,419)
Other		(509)	(594)	(605)	(616)
Change in non cash working capital		(7,955)	(7,564)	(5,669)	(5,729)
Cash flow from (used in) operating activities		6,854	(2,524)	22,039	8,395
Investing activities					
Additions to property and equipment	6	(8,470)	(1,331)	(26,520)	(4,759)
Proceeds on sale of property and equipment		182	553	250	965
Repayment of promissory note	5	54	-	160	-
Distributions to non controlling interest		-	-	(374)	-
Change in non cash working capital		2,666	(698)	6,211	(401)
Cash flow used in investing activities		(5,568)	(1,476)	(20,273)	(4,195)
Financing activities					
Proceeds from rights offering	8	-	-	31,502	-
Share issue costs	8	(49)	-	(2,285)	-
Finance costs paid		(7,267)	(5,305)	(8,670)	(14,040)
Repayment of second lien debt	7	(270)	(538)	(11,345)	(1,613)
Second lien debt issue costs	7	(43)	-	(1,783)	-
Repayment of lease obligations	7	(668)	(769)	(1,827)	(2,262)
Draw on (repayment of) credit facilities	7	7,000	8,393	(1,000)	(2,607)
Repayment of HSBC facility	7	(208)	-	(833)	-
Issuance costs of HSBC facility	7	-	-	-	(23)
Issue of common shares	8	-	-	22	9
Cash flow (used in) from financing activities		(1,505)	1,781	3,781	(20,536)
(Decrease) increase in cash and cash equivalents		(219)	(2,219)	5,547	(16,336)
Cash and cash equivalents, beginning of period		13,244	5,205	7,478	19,322
Cash and cash equivalents, end of period		$ 13,025	$ 2,986	$ 13,025	$ 2,986

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 and nine months ended September 30, 2022 and 2021 (the "Financial Statements") are comprised of Western, its divisions and its wholly owned subsidiary (together referred to as the "Company"). The Company is an energy 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 production services in Canada through its division Eagle Well Servicing ("Eagle") which provides well servicing and its division Aero Rental Services ("Aero") which provides oilfield rental equipment services. Financial and operating results for Horizon and Stoneham are included in the contract drilling segment, while financial and operating results for Eagle and Aero are included in the 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, 2021 and 2020. 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, 2021 and for the years ended December 31, 2021 and 2020 as filed on SEDAR at www.sedar.com.

These Financial Statements were approved for issuance by Western's Board of Directors on October 25, 2022.

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 volatility of 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, 2021.

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.

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

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

For the three and nine months ended September 30, 2022, the Company recognized $0.1 million and $1.1 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 $0.1 million for the three months ended September 30, 2022 and a reduction of operating and administrative expenses of $1.0 million and $0.1 million respectively, for the nine months ended September 30, 2022. For the three and nine months ended September 30, 2021, the Company recognized $2.1 million and $9.3 million, respectively related to government subsidies. These subsidies were recognized as a reduction of operating, administrative and depreciation expense of $1.8 million, $0.2 million and $0.1 million respectively, for the three months ended September 30, 2021 and $7.9 million, $1.0 million and $0.4 million respectively, for the nine months ended September 30, 2021.

3. Seasonality:

The Company's operations are often weather dependent, which has a seasonal effect. During the first quarter, the working conditions in the field are 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 provides energy services primarily to oil and natural gas exploration companies through its contract drilling and production services segments in both Canada and the United States. Contract drilling includes drilling rigs along with related ancillary equipment. Production services includes well servicing rigs and related equipment, as well as oilfield rental equipment.

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.

The following is a summary of the Company's results by operating segment for the three and nine months ended September 30, 2022 and 2021:

Three months ended September 30, 2022	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 38,106	$ 20,448	$ -	$ (71)	$ 58,483
Operating earnings (loss)	2,151	4,037	(1,133)	-	5,055
Finance costs	-	-	2,946	-	2,946
Depreciation	6,999	2,345	400	-	9,744
Additions to property and equipment	7,990	480	-	-	8,470

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

4. Operating segments (continued):

Three months ended September 30, 2021	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 19,460	$ 13,671	$ -	$ (171)	$ 32,960
Operating (loss) earnings	(5,434)	877	(909)	-	(5,466)
Finance costs	-	-	5,851	-	5,851
Depreciation	7,701	2,438	336	-	10,475
Additions to property and equipment	1,080	251	-	-	1,331

Nine months ended September 30, 2022	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 86,309	$ 53,507	$ -	$ (264)	$ 139,552
Operating (loss) earnings	(5,534)	7,425	(3,855)	-	(1,964)
Finance costs	-	-	11,428	-	11,428
Gain on debt forgiveness	-	-	(49,357)	-	(49,357)
Depreciation	21,468	6,944	1,240	-	29,652
Additions to property and equipment	24,851	1,669	-	-	26,520

Nine months ended September 30, 2021	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 51,699	$ 39,108	$ -	$ (492)	$ 90,315
Operating (loss) earnings	(15,927)	1,650	(3,387)	-	(17,664)
Finance costs	-	-	14,944	-	14,944
Depreciation	23,180	7,431	1,150	-	31,761
Additions to property and equipment	3,530	1,228	1	-	4,759

Total assets and liabilities by operating segment are as follows:

As at September 30, 2022	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 374,576	$ 89,171	$ 11,904	$ 475,651
Total liabilities	56,591	23,341	89,954	169,886

As at December 31, 2021	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 350,919	$ 94,441	$ 10,643	$ 456,003
Total liabilities	49,925	20,147	199,431	269,503

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

Three months ended September 30, 2022	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ 2,151	$ 4,037	$ (1,133)	$ 5,055
Add (deduct):				
Stock based compensation	(209)	(70)	(516)	(795)
Finance costs	-	-	(2,946)	(2,946)
Other items	-	-	517	517
Income (loss) before income taxes	$ 1,942	$ 3,967	$ (4,078)	$ 1,831

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

4. Operating segments (continued):

Three months ended September 30, 2021	Contract Drilling	Production Services	Corporate	Total
Operating (loss) earnings	$ (5,434)	$ 877	$ (909)	$ (5,466)
Add (deduct):				
Stock based compensation	(4)	1	(36)	(39)
Finance costs	-	-	(5,851)	(5,851)
Other items	-	-	602	602
(Loss) income before income taxes	$ (5,438)	$ 878	$ (6,194)	$ (10,754)

Nine months ended September 30, 2022	Contract Drilling	Production Services	Corporate	Total
Operating (loss) earnings	$ (5,534)	$ 7,425	$ (3,855)	$ (1,964)
Add (deduct):				
Stock based compensation	(284)	(113)	(738)	(1,135)
Finance costs	-	-	(11,428)	(11,428)
Gain on debt forgiveness	-	-	49,357	49,357
Other items	-	-	620	620
(Loss) income before income taxes	$ (5,818)	$ 7,312	$ 33,956	$ 35,450

Nine months ended September 30, 2021	Contract Drilling	Production Services	Corporate	Total
Operating (loss) earnings	$ (15,927)	$ 1,650	$ (3,387)	$ (17,664)
Add (deduct):				
Stock based compensation	(62)	(40)	(117)	(219)
Finance costs	-	-	(14,944)	(14,944)
Other items	-	-	617	617
(Loss) income before income taxes	$ (15,989)	$ 1,610	$ (17,831)	$ (32,210)

Segmented information by geographic area is as follows:

As at September 30, 2022	Canada	United States	Total
Property and equipment	$ 330,168	$ 88,649	$ 418,817
Total assets	375,853	99,798	475,651

As at December 31, 2021	Canada	United States	Total
Property and equipment	$ 329,550	$ 85,695	$ 415,245
Total assets	366,223	89,780	456,003

	Canada	United States	Total
Revenue - Three months ended September 30, 2022	$ 47,034	$ 11,449	$ 58,483
Revenue - Three months ended September 30, 2021	30,812	2,148	32,960
Revenue - Nine months ended September 30, 2022	117,949	21,603	139,552
Revenue - Nine months ended September 30, 2021	84,366	5,949	90,315

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

4. Operating segments (continued):

Revenue from contracts:

For the three and nine months ended September 30, 2022, the Company had no revenue from long term contracts in the contract drilling segment (for the three and nine months ended September 30, 2021: nil and $2.5 million respectively).

For the three and nine months ended September 30, 2022, and 2021, the Company had no revenue from long term contracts in the production services segment.

Significant customers:

For the three and nine months ended September 30, 2022, and 2021, the Company had no customers comprising 10.0% or more of the Company's total revenue.

5. Other assets:

The Company's other assets as at September 30, 2022 and December 31, 2021 are as follows:

	September 30, 2022	December 31, 2021
Current:		
Prepaid expenses	$ 846	$ 2,098
Inventory	4,133	3,595
Deposits	441	407
Promissory note [(1)]	228	211
Deferred charges	82	100
Total current portion of other assets	5,730	6,411
Non current:		
Deferred charges	137	-
Promissory note - long term [(1)]	267	405
Total non current portion of other assets	404	405
Total other assets	$ 6,134	$ 6,816

[(1)] At September 30, 2022, the Company has a three year promissory note related to an asset sale of US$0.4 million (December 31, 2021: US$0.5 million), payable in equal monthly payments until expiry on November 14, 2024.

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

6. Property and equipment:

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

	Land	Buildings	Contract drilling equipment	Production services equipment	Office and shop equipment	Finance lease assets	Total
Cost:							
Balance at December 31, 2021	$ 5,089	$ 4,396	$ 800,198	$ 199,682	$ 12,713	$ 13,019	$ 1,035,097
Additions to property and equipment	-	-	24,851	1,669	-	-	26,520
Lease additions	-	-	-	-	-	59	59
Disposals	-	-	(1,857)	(1,101)	(959)	(52)	(3,969)
Foreign exchange adjustment	-	-	14,097	-	70	67	14,234
Balance at September 30, 2022	$ 5,089	$ 4,396	$ 837,289	$ 200,250	$ 11,824	$ 13,093	$ 1,071,941
Accumulated depreciation:							
Balance at December 31, 2021	$ -	$ 2,970	$ 475,787	$ 123,034	$ 11,568	$ 6,493	$ 619,852
Depreciation	-	101	21,245	6,577	390	1,339	29,652
Disposals	-	-	(1,838)	(1,101)	(955)	(42)	(3,936)
Foreign exchange adjustment	-	-	7,414	-	70	72	7,556
Balance at September 30, 2022	$ -	$ 3,071	$ 502,608	$ 128,510	$ 11,073	$ 7,862	$ 653,124
Carrying amounts:							
At December 31, 2021	$ 5,089	$ 1,426	$ 324,411	$ 76,648	$ 1,145	$ 6,526	$ 415,245
At September 30, 2022	$ 5,089	$ 1,325	$ 334,681	$ 71,740	$ 751	$ 5,231	$ 418,817

Impairment:

As at September 30, 2022, the Company reviewed for indicators of impairment since its last test. 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.

	September 30, 2022	December 31, 2021
Current:		
Second Lien Facility	$ 1,080	$ 2,150
HSBC Facility	1,250	1,250
Lease obligations (1)	2,519	2,444
Revolving Facility	-	8,000
PPP Loan	833	608
Less: unamortized issue costs	(496)	(913)
Total current portion of long term debt	5,186	13,539
Non current:		
Second Lien Facility	106,610	209,112
HSBC Facility	10,417	11,250
Lease obligations (1)	3,365	5,176
Revolving Facility	7,000	-
PPP Loan	1,565	1,610
Less: unamortized issue costs	(1,318)	(264)
Total non current portion of long term debt	127,639	226,884
Total long term debt	$ 132,825	$ 240,423

(1) Lease obligations include leases capitalized under IFRS 16. During the three and nine months ended September 30, 2022 and 2021, the Company expensed less than $0.1 million and $0.2 million respectively, related to leases of low value assets or leases with a term of less than one year.

Credit Facilities:

On May 18, 2022, in connection with the Restructuring Transaction (as defined and described below), Western and its lenders under its syndicated revolving credit facility (the "Revolving Facility") and its committed operating facility (the "Operating Facility" and together the "Credit Facilities") amended the Credit Facilities, including extending the maturity to May 18, 2025, reducing the amount available under its Revolving Facility from $50.0 million to $35.0 million, with no changes to the $10.0 million Operating Facility, and amending its financial covenants. Revisions to certain financial covenants include:

(i) a reduction of the debt to capitalization ratio from 0.6:1.0 or less to 0.5:1.0 or less;

(ii) a new requirement for trailing twelve months EBITDA of $19.3 million in the first quarter of 2022 and $16.4 million in each of the second and third quarters of 2022 if the Credit Facilities are drawn above $25.0 million during such fiscal quarter or the net book value of property, plant and equipment drops below $250.0 million for the prior fiscal quarter;

(iii) a new debt service coverage ratio of 1.1x in the fourth quarter of 2022 and 1.15x thereafter if the Credit Facilities are drawn above $25.0 million during such fiscal quarter or the net book value of property, plant and equipment drops below $250.0 million for the prior fiscal quarter;

(iv) the removal of the current ratio, minimum liquidity requirement and senior debt to capitalization ratio; and

(v) the payment of interest on the senior secured term loan facility (the "Second Lien Facility") from the use of the proceeds of the Credit Facilities is allowed.

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.

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

7. Long term debt (continued):

As at September 30, 2022, the Company's Credit Facilities are subject to the following financial covenants:

	Covenant	September 30, 2022
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio (1)(2)	3.0:1.0 or less	0:1.0
Maximum Consolidated Debt to Consolidated Capitalization Ratio (3)(4)	0.5:1.0 or less	0.0:1.0
Minimum Consolidated Trailing 12-Month EBITDA(5)	$16.4 million or more	Not applicable

(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 including the HSBC Facility and 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) The Minimum Consolidated Trailing 12-month EBITDA is only applicable if the Company has more than $25.0 million drawn on its Credit Facilities, or if the net book value of property and equipment is less than $250.0 million. The company has $7.0 million drawn at September 30, 2022 on its Credit Facilities and the net book value of its property and equipment was greater than $250.0 million, therefore the covenant is not applicable at September 30, 2022.

As at September 30, 2022, the Company was in compliance with all covenants related to its Credit Facilities.

Second Lien Facility:

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"). Pursuant to the Restructuring Transaction, Western entered into a debt restructuring agreement with Alberta Investment Management Corporation ("AIMCo"), the lender under its Second Lien Facility. On May 18, 2022, the Restructuring Transaction closed and the Company converted $100.0 million of the principal amount outstanding under the Second Lien Facility into 16,666,667 (2,000,000,000 pre-consolidation) common shares at a conversion price of $6.00 per share (the "Debt Exchange"). The Second Lien Facility was amended to, among other things, extend its maturity date from January 31, 2023 to May 18, 2026. As part of the Restructuring Transaction, on May 18, 2022, Western completed a $31.5 million rights offering (the "Rights Offering"), as described further in Note 8, where $10.0 million of the net proceeds from the Rights Offering was used to repay $10.0 million of the principal amount of the Second Lien Facility.

At September 30, 2022, the Company had $107.7 million outstanding on the Second Lien Facility. Interest is payable semi-annually, at a rate of 8.5% per annum, on January 1 and July 1 each year or the next applicable business day. Amortization payments equal to 1.0% of the initial principal amount of $108.0 million are payable annually, in quarterly installments, with the balance due on May 18, 2026.

HSBC Facility:

At September 30, 2022, the Company had $11.7 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 and began January 2022, with the balance due upon maturity on December 31, 2026.

US Paycheck Protection Program ("PPP Loan"):

At September 30, 2022, the Company had US$1.8 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 August 7, 2025.

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

8. Share capital:

On August 2, 2022, the Company completed a consolidation of the issued and outstanding common shares (the "Share Consolidation") at a ratio of one post-consolidation common share for every 120 pre-consolidation common shares. As a result, the values for basic and diluted shares, restricted share units ("RSUs") and stock options outstanding, as well as earnings per share for the current and prior periods have been adjusted and restated to reflect the effect of the Share Consolidation.

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, 2021	764,220	$	441,672
Issued on debt to equity exchange	16,666,667		50,000
Issued for cash - May 18, 2022 rights offering	16,407,229		31,502
Issuance costs, net of deferred tax	-		(1,734)
Issued for cash on exercise of stock options	725		22
Issued on vesting of restricted share units	2,451		80
Issued on Share Consolidation for fractional shares	26		-
Fair value of exercised stock options	-		7
Balance at September 30, 2022	33,841,318	$	521,549

As described previously in Note 7, on May 18, 2022, the Company closed its Restructuring Transaction, including the completion of the Debt Exchange. The Debt Exchange resulted in the issuance of 16,666,667 (2,000,000,000 pre-consolidation) common shares on May 18, 2022. The fair value of the common shares issued from the Debt Exchange was $3.00 per common share, which was the post-consolidation closing share price of Western on May 18, 2022, or $50.0 million, whereas the carrying amount of the debt exchanged was $100.0 million, resulting in a $50.0 million gain on debt forgiveness. Additionally, there was approximately $0.6 million of unamortized issue costs on the previous $215.0 million Second Lien Facility that were expensed against the gain on debt forgiveness.

As a condition to the completion of the Debt Exchange, described in Note 7, the Company completed a Rights Offering to holders of its common shares on April 19, 2022 to subscribe for additional common shares, resulting in the issuance 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 $31.5 million. As the Rights offering was fully subscribed, Western did not utilize a standby commitment whereby G2S2 Capital Inc. ("G2S2"), Armco Alberta Inc. ("Armco") and MATCO Investments Ltd. ("Matco"), each a significant shareholder of the Company, agreed to acquire any common shares not subscribed for under the Rights Offering. 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, being used for upgrades to the Company's rig fleet.

(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.

As described in Note 8, on August 2, 2022, the Company completed the Share Consolidation, reducing the number of outstanding stock options and RSUs at a ratio of 120:1.

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

	Stock options outstanding	Weighted average exercise price
Balance at December 31, 2021	49,373	$ 66.23
Granted	2,973,101	4.80
Exercised	(724)	30.17
Forfeited	(18,896)	20.29
Expired	(5,398)	165.26
Balance at September 30, 2022	2,997,456	$ 5.42

For the three and nine months ended September 30, 2022 and 2021, no stock options were cancelled. The average fair value of the stock options granted for both the three and nine months ended September 30, 2022 was $2.40 per stock option (for the three and nine months ended September 30, 2021: $21.60 per stock option). As at September 30, 2022, Western had 32,392 (December 31, 2021: 32,923) vested and exercisable stock options outstanding at a weighted average exercise price equal to $57.70 (December 31, 2021: $84.00) per stock option.

Restricted share unit plan:

The Company's 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, 2021	4,949	460	5,409
Exercised	(2,454)	(374)	(2,828)
Forfeited	(764)	(73)	(837)
Balance at September 30, 2022	1,731	13	1,744

(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 Sept 30		Nine months ended Sept 30	
	2022	2021	2022	2021
Stock options	$ 791	$ 39	$ 1,108	$ 132
Restricted share units – equity settled grants	6	23	32	113
Total equity settled stock based compensation expense	797	62	1,140	245
Restricted share units – cash settled grants	(2)	(23)	(5)	(26)
Total stock based compensation expense	$ 795	$ 39	$ 1,135	$ 219

10. Earnings per share:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2022	2021	2022	2021
Issued common shares, beginning of period(1)	33,838,852	760,013	764,220	759,709
Weighted average number of common shares issued(1)	806	1,651	16,356,063	811
Weighted average number of common shares (basic)	33,839,658	761,664	17,120,283	760,520
Dilutive effect of equity securities(1)	-	-	653	-
Weighted average number of common shares (diluted)	33,839,658	761,664	17,120,936	760,520

(1) Restated retroactively for the Share Consolidation described in Note 8.

For the three and nine months ended September 30, 2022, 2,997,456 stock options (three and nine months ended September 30, 2021: 51,063 stock options) and 1,731 and 1,078 equity settled RSUs respectively, (three and nine months ended September 30, 2021: 5,274 equity settled RSUs), 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 Sept 30		Nine months ended Sept 30	
	2022	2021	2022	2021
Interest expense on long term debt	$ 2,807	$ 5,575	$ 10,838	$ 14,124
Amortization of debt financing fees	22	50	127	146
Accretion expense on Second Lien Facility	113	216	447	643
Accretion expense on HSBC Facility	15	15	45	46
Interest income	(11)	(5)	(29)	(15)
Total finance costs	$ 2,946	$ 5,851	$ 11,428	$ 14,944

The Company had an effective interest rate on its borrowings of 8.5% and 7.9% for the three and nine months ended September 30, 2022 respectively (three and nine months ended September 30, 2021: 9.2% and 8.0%).

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

12. Other items:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2022	2021	2022	2021
Gain on sale of fixed assets	$ (177)	$ (528)	$ (217)	$ (594)
Realized foreign exchange (gain) loss	(6)	(9)	(18)	13
Unrealized foreign exchange gain	(332)	(65)	(380)	(36)
Other income	(2)	-	(5)	-
Total other items	$ (517)	$ (602)	$ (620)	$ (617)

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 Sept 30		Nine months ended Sept 30	
	2022	2021	2022	2021
Current tax expense	$ -	$ -	$ 8	$ 13
Deferred tax expense (recovery)	1,013	(357)	3,027	(2,432)
Total income tax expense (recovery)	$ 1,013	$ (357)	$ 3,035	$ (2,419)

During the nine months ended September 30, 2022, the Company recognized previously unrecognized deferred tax assets of $6.2 million related to unrecognized loss carry forwards. As at September 30, 2022, the Company has loss carry forwards in Canada equal to approximately $220.6 million, which will expire between 2035 and 2042. In the United States, the Company has approximately US$49.7 million loss carry forwards, some of which expire between 2028 and 2038, 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 Sept 30		Nine months ended Sept 30	
	2022	2021	2022	2021
Employee salaries and benefits (1)	$ 25,361	$ 15,530	$ 64,434	$ 41,828
Repairs and maintenance	5,203	3,242	13,526	9,461
Third party charges	2,992	1,648	7,103	3,911

(1) For the three and nine months ended September 30, 2022, these amounts include government subsidies of $0.1 and $1.1 million respectively (for the three and nine months ended September 30, 2021: $1.9 million and $8.5 million respectively) as described in Note 2.

15. Capital management:

The overall capitalization of the Company at September 30, 2022 and December 31, 2021 is as follows:

	Note	September 30, 2022	December 31, 2021
Second Lien Facility	7	$ 107,690	$ 211,262
HSBC Facility	7	11,667	12,500
Revolving Facility	7	7,000	8,000
PPP Loan	7	2,398	2,218
Finance lease obligations	7	5,884	7,620
Total debt		134,639	241,600
Shareholders' equity		305,765	186,500
Less: cash and cash equivalents		(13,025)	(7,478)
Total capitalization		$ 427,379	$ 420,622

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 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 three and nine months ended September 30, 2022, the COVID-19 pandemic, and the related volatility in global demand for crude oil as a result of the war in Ukraine, have had an impact on commodity prices. These factors are expected to have an impact on companies and their related credit risk. The Company's practice is to manage credit risk by performing a thorough analysis of the credit worthiness of new customers before credit terms are offered.

Additionally, the Company continually evaluates individual customer trade receivables for collectability taking into consideration 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 uncollectible. The allowance for doubtful accounts could materially change as a result of 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 recognize an impairment loss allowance on all outstanding trade and other receivables.

Liquidity risk:

Liquidity risk is the exposure of the Company to the risk of not being able to meet its financial obligations as they become due. The Company manages liquidity risk through management of its capital structure, monitoring and reviewing actual and forecasted cash flows and the effect on bank covenants and maintaining unused credit facilities where possible to ensure there are available cash resources to meet the Company's liquidity needs. The Company's cash and cash equivalents, cash flow from operating activities, the Rights Offering, the Credit Facilities, the HSBC Facility, 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 a material negative change in the oilfield 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 the Second Lien Facility.

As previously described in Note 7, Western closed its Restructuring Transaction, which impacted the Company's financial liabilities and capital structure.

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17. Commitments:

As at September 30, 2022, the Company has commitments which require payments based on the maturity terms as follows:

	2022	2023	2024	2025	2026	Thereafter	Total
Second Lien Facility	$ 270	$ 1,080	$ 1,080	$ 1,080	$ 104,180	$ -	$ 107,690
Second Lien Facility interest	-	9,094	9,027	8,936	7,348	-	34,405
Trade payables and other current liabilities (1)	27,477	-	-	-	-	-	27,477
HSBC Facility	417	1,250	1,250	1,250	7,500	-	11,667
HSBC Facility interest	362	929	822	711	602	-	3,426
Lease obligations (2)	770	2,772	2,272	651	367	-	6,832
Revolving Facility	-	-	-	7,000	-	-	7,000
Operating commitments (3)	8,976	819	745	60	-	-	10,600
PPP Loan	218	872	872	526	-	-	2,488
Total	$ 38,490	$ 16,816	$ 16,068	$ 20,214	$ 119,997	$ -	$ 211,585

(1) Trade payables and other current liabilities exclude interest accrued as at September 30, 2022 on the Second Lien Facility and 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.