Western Energy Services Corp.
Condensed Consolidated Financial Statements
September 30, 2023 and 2022
(Unaudited)

Western Energy Services Corp.

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

	Note	September 30, 2023	December 31, 2022
Assets			
Current assets			
Cash and cash equivalents		$ 10,954	$ 8,878
Trade and other receivables		34,318	47,213
Other current assets	5	5,773	5,453
		51,045	61,544
Non current assets			
Property and equipment	6	402,842	413,840
Other non current assets	5	93	324
		$ 453,980	$ 475,708
Liabilities			
Current liabilities			
Trade payables and other current liabilities		$ 30,223	$ 34,459
Current portion of long term debt	7	4,349	5,162
		34,572	39,621
Non current liabilities			
Long term debt	7	114,107	126,527
Deferred taxes		6,084	7,030
		154,763	173,178
Shareholders' equity			
Share capital	8	521,603	521,549
Contributed surplus		19,822	17,664
Retained earnings (deficit)		(272,315)	(267,468)
Accumulated other comprehensive income		27,791	28,845
Non controlling interest		2,316	1,940
		299,217	302,530
		$ 453,980	$ 475,708

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)

		Three months ended Sept 30		Nine months ended Sept 30	
	Note	2023	2022	2023	2022
Revenue		$ 55,003	$ 58,483	$ 177,196	$ 139,552
Expenses					
Operating		39,929	40,371	130,429	101,789
Administrative		4,041	3,313	12,398	10,075
Depreciation	6	10,283	9,744	30,831	29,652
Stock based compensation	9	574	795	2,212	1,135
Finance costs	11	2,789	2,946	8,710	11,428
Other items	12	(1,078)	(517)	(1,762)	(620)
Gain on debt forgiveness		-	-	-	(49,357)
Income (loss) before income taxes		(1,535)	1,831	(5,622)	35,450
Income tax recovery (expense)	13	268	(1,013)	931	(3,035)
Net income (loss)		(1,267)	818	(4,691)	32,415
Other comprehensive income (loss) (1)					
Gain (loss) on translation of foreign operations		1,081	3,171	(94)	3,973
Unrealized foreign exchange (loss) gain on net investment in subsidiary		(274)	1,852	(960)	2,321
Comprehensive income (loss)		$ (460)	$ 5,841	$ (5,745)	$ 38,709
Net income (loss) attributable to:					
Shareholders of the Company		$ (1,356)	$ 816	$ (4,847)	$ 32,255
Non controlling interest		89	2	156	160
Comprehensive income (loss) attributable to:					
Shareholders of the Company		$ (549)	$ 5,839	$ (5,901)	$ 38,549
Non controlling interest		89	2	156	160
Net income (loss) per share:					
Basic		$ (0.04)	$ 0.02	$ (0.14)	$ 1.89
Diluted		(0.04)	0.02	(0.14)	1.89
Weighted average number of shares:					
Basic	10	33,841,781	33,839,658	33,841,478	17,120,283
Diluted	10	33,841,781	33,839,658	33,841,478	17,120,936

(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, 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, net of tax	(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 (loss)	-	-	32,255	6,294	160	38,709
Balance at September 30, 2022	521,549	16,815	(264,212)	29,834	1,779	305,765
Stock based compensation	-	849	-	-	-	849
Comprehensive income (loss)	-	-	(3,256)	(989)	161	(4,084)
Balance at December 31, 2022	521,549	17,664	(267,468)	28,845	1,940	302,530
Common shares:						
Issued on vesting of restricted share units	54	(54)	-	-	-	-
Stock based compensation	-	2,212	-	-	-	2,212
Contributions from non controlling interest	-	-	-	-	220	220
Comprehensive income (loss)	-	-	(4,847)	(1,054)	156	(5,745)
Balance at September 30, 2023	$ 521,603	$ 19,822	$ (272,315)	$ 27,791	$ 2,316	$ 299,217

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

(2) At September 30, 2023, 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 Sept 30 2023	Three months ended Sept 30 2022	Nine months ended Sept 30 2023	Nine months ended Sept 30 2022
Operating activities					
Net income (loss)		$ (1,267)	$ 818	$ (4,691)	$ 32,415
Adjustments for:					
Depreciation	6	10,283	9,744	30,831	29,652
Non cash stock based compensation	9	574	797	2,212	1,140
Finance costs	11	2,789	2,946	8,710	11,428
Gain on debt forgiveness		-	-	-	(49,357)
Income tax (recovery) expense	13	(268)	1,013	(931)	3,035
Other		(161)	(509)	(606)	(605)
Change in non cash working capital		1,317	(7,955)	9,560	(5,669)
Cash flow from operating activities		13,267	6,854	45,085	22,039
Investing activities					
Additions to property and equipment	6	(7,348)	(8,470)	(19,218)	(26,520)
Proceeds on sale of property and equipment		84	182	1,223	250
Repayment of promissory note	5	56	54	168	160
(Distributions to) contributions from non controlling interest		(269)	-	220	(374)
Change in non cash working capital		2,802	2,666	(133)	6,211
Cash flow used in investing activities		(4,675)	(5,568)	(17,740)	(20,273)
Financing activities					
Proceeds from rights offering		-	-	-	31,502
Share issue costs		-	(49)	-	(2,285)
Finance costs paid		(4,859)	(7,267)	(10,560)	(8,670)
Principal repayment of second lien facility	7	(270)	(270)	(810)	(11,345)
Second lien facility issue costs	7	-	(43)	-	(1,783)
Principal repayment of lease obligations	7	(722)	(668)	(1,899)	(1,827)
Draw on (repayment of) credit facilities	7	-	7,000	(7,000)	(1,000)
Principal repayment of HSBC facility	7	(4,375)	(208)	(5,000)	(833)
Issue of common shares		-	-	-	22
Cash flow (used in) from financing activities		(10,226)	(1,505)	(25,269)	3,781
(Decrease) increase in cash and cash equivalents		(1,634)	(219)	2,076	5,547
Cash and cash equivalents, beginning of period		12,588	13,244	8,878	7,478
Cash and cash equivalents, end of period		$ 10,954	$ 13,025	$ 10,954	$ 13,025

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 September 30, 2023 and for the three and nine months ended September 30, 2023 and 2022 (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 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, 2022 and 2021. 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, 2022 and for the years ended December 31, 2022 and 2021 as filed on SEDAR+ at www.sedarplus.ca.

These Financial Statements were approved for issuance by Western's Board of Directors on October 24, 2023.

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 for commodities 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, 2022.

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.

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

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 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, 2023 and 2022:

Three months ended September 30, 2023	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 38,259	$ 16,812	$ -	$ (68)	$ 55,003
Operating earnings (loss)	(212)	2,311	(1,349)	-	750
Finance costs	-	-	2,789	-	2,789
Depreciation	7,631	2,178	474	-	10,283
Additions to property and equipment	6,896	340	112	-	7,348

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

Nine months ended September 30, 2023	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 126,940	$ 50,564	$ -	$ (308)	$ 177,196
Operating earnings (loss)	1,891	6,095	(4,448)	-	3,538
Finance costs	-	-	8,710	-	8,710
Depreciation	22,772	6,708	1,351	-	30,831
Additions to property and equipment	16,924	1,801	493	-	19,218

Nine months ended September 30, 2022	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 86,309	$ 53,507	$ -	$ (264)	$ 139,552
Operating earnings (loss)	(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

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

4. Operating segments (continued):

Total assets and liabilities by operating segment are as follows:

As at September 30, 2023	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 366,410	$ 80,062	$ 7,508	$ 453,980
Total liabilities	57,843	24,321	72,599	154,763

As at December 31, 2022	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 380,649	$ 85,646	$ 9,413	$ 475,708
Total liabilities	58,287	23,987	90,904	173,178

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

Three months ended September 30, 2023	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ (212)	$ 2,311	$ (1,349)	$ 750
Add (deduct):				
Stock based compensation	(146)	(43)	(385)	(574)
Finance costs	-	-	(2,789)	(2,789)
Other items	-	-	1,078	1,078
Income (loss) before income taxes	$ (358)	$ 2,268	$ (3,445)	$ (1,535)

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

Nine months ended September 30, 2023	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ 1,891	$ 6,095	$ (4,448)	$ 3,538
Add (deduct):				
Stock based compensation	(569)	(178)	(1,465)	(2,212)
Finance costs	-	-	(8,710)	(8,710)
Other items	-	-	1,762	1,762
Income (loss) before income taxes	$ 1,322	$ 5,917	$ (12,861)	$ (5,622)

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

4. Operating segments (continued):

Nine months ended September 30, 2022	Contract Drilling	Production Services	Corporate	Total
Operating earnings (loss)	$ (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
Income (loss) before income taxes	$ (5,818)	$ 7,312	$ 33,956	$ 35,450

Segmented information by geographic area is as follows:

As at September 30, 2023	Canada	United States	Total
Property and equipment	$ 316,094	$ 86,748	$ 402,842
Total assets	356,412	97,568	453,980

As at December 31, 2022	Canada	United States	Total
Property and equipment	$ 324,861	$ 88,979	$ 413,840
Total assets	372,265	103,443	475,708

	Canada	United States	Total
Revenue - Three months ended September 30, 2023	$ 44,725	$ 10,278	$ 55,003
Revenue - Three months ended September 30, 2022	47,034	11,449	58,483
Revenue - Nine months ended September 30, 2023	140,063	37,133	177,196
Revenue - Nine months ended September 30, 2022	117,949	21,603	139,552

Revenue from long term contracts:
For both the three and nine months ended September 30, 2023, and 2022, the Company had no revenue from long term contracts in the contract drilling or production services segments.

Significant customers:
For the three and nine months ended September 30, 2023, and 2022, the Company had no customers comprising 10.0% 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 September 30, 2023 and December 31, 2022 are as follows:

	September 30, 2023	December 31, 2022
Current:		
Prepaid expenses	$ 1,023	$ 633
Inventory	4,121	4,066
Deposits	321	446
Promissory note	226	226
Deferred charges	82	82
Total current portion of other assets	5,773	5,453
Non current:		
Promissory note	38	207
Deferred charges	55	117
Total non current portion of other assets	93	324
Total other assets	$ 5,866	$ 5,777

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, 2022	$ 5,089	$ 4,396	$ 839,508	$ 200,907	$ 11,868	$ 13,187	$ 1,074,955
Additions to property and equipment	-	-	16,839	1,678	701	-	19,218
Lease additions	-	-	-	-	-	1,103	1,103
Disposals	-	-	(3,165)	(1,541)	-	(1,145)	(5,851)
Foreign exchange adjustment	-	-	(313)	-	(1)	(3)	(317)
Balance at September 30, 2023	$ 5,089	$ 4,396	$ 852,869	$ 201,044	$ 12,568	$ 13,142	$ 1,089,108
Accumulated depreciation:							
Balance at December 31, 2022	$ -	$ 3,104	$ 508,216	$ 130,292	$ 11,196	$ 8,307	$ 661,115
Depreciation	-	101	22,520	6,310	508	1,392	30,831
Disposals	-	-	(3,084)	(1,414)	-	(1,031)	(5,529)
Foreign exchange adjustment	-	-	(147)	-	(1)	(3)	(151)
Balance at September 30, 2023	$ -	$ 3,205	$ 527,505	$ 135,188	$ 11,703	$ 8,665	$ 686,266
Carrying amounts:							
At December 31, 2022	$ 5,089	$ 1,292	$ 331,292	$ 70,615	$ 672	$ 4,880	$ 413,840
At September 30, 2023	$ 5,089	$ 1,191	$ 325,364	$ 65,856	$ 865	$ 4,477	$ 402,842

As at September 30, 2023, the Company reviewed for any indicators of impairment, or impairment reversal, since its last test and determined no new indicators existed.

(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, 2023	December 31, 2022
Current:		
Second Lien Facility	$ 1,080	$ 1,080
HSBC Facility	-	1,250
Lease obligations (1)	2,480	2,424
PPP Loan	1,272	904
Less: unamortized issue costs	(483)	(496)
Total current portion of long term debt	4,349	5,162
Non current:		
Second Lien Facility	105,530	106,340
HSBC Facility	6,250	10,000
Lease obligations (1)	2,062	2,911
Revolving Facility	-	7,000
PPP Loan	1,094	1,466
Less: unamortized issue costs	(829)	(1,190)
Total non current portion of long term debt	114,107	126,527
Total long term debt	$ 118,456	$ 131,689

(1) Lease obligations include leases capitalized under IFRS 16. During the three and nine months ended September 30, 2023 and 2022, 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:

As at September 30, 2023, the Company's credit facilities consisted of a $35.0 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 May 18, 2025.

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.

(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, 2023, the Company's Credit Facilities are subject to the following financial covenants:

	Covenant	September 30, 2023
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio (1)(2)	3.0:1.0 or less	0.0:1.0
Maximum Consolidated Debt to Consolidated Capitalization Ratio (3)(4)	0.5:1.0 or less	0.3:1.0
Minimum Debt Service Coverage Ratio(5)	1.15:1.0 or greater	Not applicable

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

(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 the HSBC Facility, Second Lien Facility, and PPP loan less unrestricted cash.

(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 Debt Service Coverage Ratio is defined as the ratio of Consolidated EBITDA to the total of all regularly scheduled debt payments, including interest, paid on a trailing twelve month basis. It 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. As at September 30, 2023, the Company had no amounts drawn on its Credit Facilities and the net book value of its property and equipment was greater than $250.0 million, therefore the covenant was not applicable.

As at September 30, 2023, the Company was in compliance with all covenants related to its Credit Facilities.

Second Lien Facility:

At September 30, 2023, the Company had $106.6 million outstanding on the second lien secured term loan facility (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, 2023, the Company had $6.3 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. On September 29, 2023 the Company prepaid all monthly principal amounts for the remaining term of the loan, with the remaining balance due upon maturity on December 31, 2026.

US Paycheck Protection Program ("PPP Loan"):

At September 30, 2023, the Company had US$1.8 million outstanding related to the PPP Loan. Interest and principal amounts are 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:

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, 2022	33,841,318	$	521,549
Issued on vesting of restricted share units	1,691		54
Balance at September 30, 2023	33,843,009	$	521,603

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, 2022	3,109,490	$	5.33
Granted	20,000		2.95
Forfeited	(32,253)		4.22
Expired	(12,070)		103.71
Balance at September 30, 2023	3,085,167	$	4.94

For the three and nine months ended September 30, 2023, and 2022 no stock options were cancelled. The average fair value of the stock options granted for both the three and nine months ended September 30, 2023 was $1.58 per stock option (for the three and nine months ended September 30, 2022: $2.40 per stock option).

As at September 30, 2023, Western had 763,722 (December 31, 2022: 32,455) vested and exercisable stock options outstanding at a weighted average exercise price equal to $5.66 (December 31, 2022: $57.64) per stock option.

Restricted share unit plan:

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

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

9. Stock based compensation (continued):

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

	Equity settled
Balance at December 31, 2022	1,731
Exercised	(1,691)
Forfeited	(27)
Balance at September 30, 2023	13

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	
	2023	2022	2023	2022
Stock options	$ 571	$ 791	$ 2,199	$ 1,108
Restricted share units – equity settled expense	3	6	13	32
Total equity settled stock based compensation expense	574	797	2,212	1,140
Restricted share units – cash settled expense	-	(2)	-	(5)
Total stock based compensation expense	$ 574	$ 795	$ 2,212	$ 1,135

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	
	2023	2022	2023	2022
Issued common shares, beginning of period	33,841,324	33,838,852	33,841,318	764,220
Weighted average number of common shares issued	457	806	160	16,356,063
Weighted average number of common shares (basic)	33,841,781	33,839,658	33,841,478	17,120,283
Dilutive effect of equity securities	-	-	-	653
Weighted average number of common shares (diluted)	33,841,781	33,839,658	33,841,478	17,120,936

For the three and nine months ended September 30, 2023, 3,085,167 stock options (three and nine months ended September 30, 2022, 2,997,456 stock options) and 13 equity settled RSUs (three and nine months ended September 30, 2022, 1,731 and 1,078 equity settled RSUs respectively), 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	
	2023	2022	2023	2022
Interest expense on long term debt	$ 2,683	$ 2,807	$ 8,376	$ 10,838
Amortization of debt financing fees	21	22	62	127
Accretion expense on Second Lien Facility	112	113	332	447
Accretion expense on HSBC Facility	14	15	41	45
Interest income	(41)	(11)	(101)	(29)
Total finance costs	$ 2,789	$ 2,946	$ 8,710	$ 11,428

The Company had an effective interest rate on its borrowings of 8.7% and 8.6% for the three and nine months ended September 30, 2023 respectively (three and nine months ended September 30, 2022: 8.5% and 7.9% respectively).

(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	
	2023	2022	2023	2022
Gain on sale of fixed assets	$ (46)	$ (177)	$ (901)	$ (217)
Realized foreign exchange gain	(917)	(6)	(1,164)	(18)
Unrealized foreign exchange (gain) loss	(115)	(332)	303	(380)
Other income	-	(2)	-	(5)
Total other items	$ (1,078)	$ (517)	$ (1,762)	$ (620)

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	
	2023	2022	2023	2022
Current tax expense	$ -	$ -	$ (8)	$ (8)
Deferred tax recovery (expense)	268	(1,013)	939	(3,027)
Total income tax recovery (expense)	$ 268	$ (1,013)	$ 931	$ (3,035)

As at September 30, 2023, the Company has loss carry forwards in Canada equal to approximately $215.4 million, which will expire between 2036 and 2043. In the United States, the Company has approximately US$48.4 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	
	2023	2022	2023	2022
Employee salaries and benefits	$ 24,896	$ 25,361	$ 81,184	$ 64,434
Repairs and maintenance	5,945	5,203	20,326	13,526
Third party charges	3,361	2,992	9,633	7,103

15. Capital management:

The overall capitalization of the Company at September 30, 2023 and December 31, 2022 is as follows:

	Note	September 30, 2023	December 31, 2022
Second Lien Facility	7	$ 106,610	$ 107,420
HSBC Facility	7	6,250	11,250
Revolving Facility	7	-	7,000
PPP Loan	7	2,366	2,370
Lease obligations	7	4,542	5,335
Total debt		119,768	133,375
Shareholders' equity		299,217	302,530
Less: cash and cash equivalents		(10,954)	(8,878)
Total capitalization		$ 408,031	$ 427,027

16. Financial risk management:

Interest rate 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. 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 high 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 operations. At September 30, 2023, 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).

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 energy industry and are subject to industry credit risk. For the three and nine months ended September 30, 2023, the volatility in global demand for crude oil as a result of the war in Ukraine, and economic volatility as countries navigate in a post-pandemic environment, have 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 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 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 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 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 the Second Lien Facility.

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

17. Commitments:

As at September 30, 2023, the Company has commitments which require payments based on the maturity terms as follows:

	2023	2024	2025	2026	2027	Thereafter	Total
Trade payables and other current liabilities[1]	$ 27,988	$ -	$ -	$ -	$ -	$ -	$ 27,988
Operating commitments[2]	3,178	829	61	-	-	-	4,068
Second Lien Facility principal	270	1,080	1,080	104,180	-	-	106,610
Second Lien Facility interest	-	9,027	8,936	7,348	-	-	25,311
HSBC Facility principal	-	-	-	6,250	-	-	6,250
HSBC Facility interest	146	508	389	270	-	-	1,313
Lease obligations[3]	828	2,629	1,010	640	101	-	5,208
PPP Loan	333	1,331	804	-	-	-	2,468
Total	$ 32,743	$ 15,404	$ 12,280	$ 118,688	$ 101	$ -	$ 179,216

(1) Trade payables and other current liabilities exclude interest accrued as at September 30, 2023 on the Second Lien Facility and HSBC Facility which are 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.