# Western Energy Services Corp.

**Condensed Consolidated Financial Statements**

*March 31, 2024 and 2023*

*(Unaudited)*

**Western Energy Services Corp.**

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

| | Note | March 31, 2024 | December 31, 2023 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | | $ 3,419 | $ 5,930 |
| Trade and other receivables | | 44,419 | 37,638 |
| Other current assets | 5 | 6,822 | 7,166 |
| | | 54,660 | 50,734 |
| Non current assets | | | |
| Property and equipment | 6 | 386,978 | 392,165 |
| Other non current assets | 5 | 143 | 34 |
| | | $ 441,781 | $ 442,933 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Trade payables and other current liabilities | | $ 21,414 | $ 26,562 |
| Current portion of long term debt | 7 | 3,823 | 4,047 |
| | | 25,237 | 30,609 |
| Non current liabilities | | | |
| Long term debt | 7 | 111,109 | 111,174 |
| Deferred taxes | | 6,076 | 5,485 |
| | | 142,422 | 147,268 |
| **Shareholders' equity** | | | |
| Share capital | 8 | 521,603 | 521,603 |
| Contributed surplus | | 20,808 | 20,371 |
| Retained earnings (deficit) | | (273,179) | (274,675) |
| Accumulated other comprehensive income | | 27,963 | 26,071 |
| Non controlling interest | | 2,164 | 2,295 |
| | | 299,359 | 295,665 |
| | | $ 441,781 | $ 442,933 |

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 (unaudited)
(thousands of Canadian dollars except share and per share amounts)

| | Note | Three months ended March 31, 2024 | Three months ended March 31, 2023 |
|---|---|---|---|
| **Revenue** | | $ 61,982 | $ 79,239 |
| **Expenses** | | | |
| Operating | | 41,964 | 55,874 |
| Administrative | | 4,799 | 4,169 |
| Depreciation | 6 | 10,523 | 10,296 |
| Stock based compensation | 9 | 437 | 876 |
| Finance costs | 11 | 2,656 | 3,042 |
| Other items | 12 | (380) | (606) |
| **Income before income taxes** | | 1,983 | 5,588 |
| Income tax expense | 13 | (528) | (1,167) |
| **Net income** | | 1,455 | 4,421 |
| **Other comprehensive income** [1] | | | |
| Gain (loss) on translation of foreign operations | | 1,161 | (45) |
| Unrealized foreign exchange gain (loss) on net investment in subsidiary | | 731 | (25) |
| **Comprehensive income** | | $ 3,347 | $ 4,351 |
| **Net income (loss) attributable to:** | | | |
| Shareholders of the Company | | $ 1,496 | $ 4,252 |
| Non controlling interest | | (41) | 169 |
| **Comprehensive income (loss) attributable to:** | | | |
| Shareholders of the Company | | $ 3,388 | $ 4,182 |
| Non controlling interest | | (41) | 169 |
| **Net income per share:** | | | |
| Basic | | $ 0.04 | $ 0.13 |
| Diluted | | 0.04 | 0.13 |
| **Weighted average number of shares:** | | | |
| Basic | 10 | 33,843,015 | 33,841,323 |
| Diluted | 10 | 33,843,015 | 33,843,048 |

(1) Other comprehensive income 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, 2022 | $ 521,549 | $ 17,664 | $ (267,468) | $ 28,845 | $ 1,940 | $ 302,530 |
| Stock based compensation | - | 876 | - | - | - | 876 |
| Comprehensive income (loss) | - | - | 4,252 | (70) | 169 | 4,351 |
| Balance at March 31, 2023 | 521,549 | 18,540 | (263,216) | 28,775 | 2,109 | 307,757 |
| Common shares: | | | | | | |
| Issued on vesting of restricted share units | 54 | (54) | - | - | - | - |
| Stock based compensation | - | 1,885 | - | - | - | 1,885 |
| Contributions from non controlling interest | - | - | - | - | 33 | 33 |
| Comprehensive income (loss) | - | - | (11,459) | (2,704) | 153 | (14,010) |
| Balance at December 31, 2023 | 521,603 | 20,371 | (274,675) | 26,071 | 2,295 | 295,665 |
| Stock based compensation | - | 437 | - | - | - | 437 |
| Distributions to non controlling interest | - | - | - | - | (90) | (90) |
| Comprehensive income (loss) | - | - | 1,496 | 1,892 | (41) | 3,347 |
| Balance at March 31, 2024 | $ 521,603 | $ 20,808 | $ (273,179) | $ 27,963 | $ 2,164 | $ 299,359 |

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

(2) At March 31, 2024, 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, 2024 | Three months ended March 31, 2023 |
|---|---|---|---|
| **Operating activities** | | | |
| Net income | | $ 1,455 | $ 4,421 |
| Adjustments for: | | | |
| Depreciation | 6 | 10,523 | 10,296 |
| Non cash stock based compensation | 9 | 437 | 876 |
| Finance costs | 11 | 2,656 | 3,042 |
| Income tax expense | 13 | 528 | 1,167 |
| Other | | (362) | (505) |
| Change in non cash working capital | | (7,435) | (12,852) |
| Cash flow from operating activities | | 7,802 | 6,445 |
| **Investing activities** | | | |
| Additions to property and equipment | 6 | (1,902) | (5,165) |
| Proceeds on sale of property and equipment | | 1,180 | 679 |
| Repayment of promissory note | 5 | 56 | 56 |
| Distributions to non controlling interest | | (90) | - |
| Change in non cash working capital | | (1,619) | (1,841) |
| Cash flow used in investing activities | | (2,375) | (6,271) |
| **Financing activities** | | | |
| Finance costs paid | | (5,122) | (5,208) |
| Principal repayment of second lien facility | 7 | (270) | (269) |
| Principal repayment of lease obligations | 7 | (619) | (549) |
| (Repayment of) draw on credit facilities | 7 | (1,406) | 4,110 |
| Principal repayment of HSBC facility | 7 | (313) | (312) |
| Principal repayment of US paycheck protection plan | 7 | (208) | - |
| Cash flow used in financing activities | | (7,938) | (2,228) |
| Decrease in cash and cash equivalents | | (2,511) | (2,054) |
| Cash and cash equivalents, beginning of period | | 5,930 | 8,878 |
| Cash and cash equivalents, end of period | | $ 3,419 | $ 6,824 |

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 March 31, 2024 and for the three months ended March 31, 2024 and 2023 (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 material 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, 2023 and 2022. 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, 2023 and for the years ended December 31, 2023 and 2022 as filed on SEDAR+ at www.sedarplus.ca.

These Financial Statements were approved for issuance by Western's Board of Directors on April 23, 2024.

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, 2023.

**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 months ended March 31, 2024 and 2023:

| Three months ended March 31, 2024 | Contract Drilling | Production Services | Corporate | Inter-segment Elimination | Total |
|---|---|---|---|---|---|
| Revenue | $ 39,638 | $ 22,447 | $ - | $ (103) | $ 61,982 |
| Operating earnings (loss) | 2,121 | 4,249 | (1,674) | - | 4,696 |
| Finance costs | - | - | 2,656 | - | 2,656 |
| Depreciation | 7,937 | 2,145 | 441 | - | 10,523 |
| Additions to property and equipment | 1,491 | 411 | - | - | 1,902 |

| Three months ended March 31, 2023 | Contract Drilling | Production Services | Corporate | Inter-segment Elimination | Total |
|---|---|---|---|---|---|
| Revenue | $ 58,095 | $ 21,307 | $ - | $ (163) | $ 79,239 |
| Operating earnings (loss) | 6,857 | 3,590 | (1,547) | - | 8,900 |
| Finance costs | - | - | 3,042 | - | 3,042 |
| Depreciation | 7,539 | 2,328 | 429 | - | 10,296 |
| Additions to property and equipment | 4,067 | 780 | 318 | - | 5,165 |

Total assets and liabilities by operating segment are as follows:

| As at March 31, 2024 | Contract Drilling | Production Services | Corporate | Total |
|---|---|---|---|---|
| Total assets | $ 354,218 | $ 82,262 | $ 5,301 | $ 441,781 |
| Total liabilities | 47,846 | 26,413 | 68,163 | 142,422 |

| As at December 31, 2023 | Contract Drilling | Production Services | Corporate | Total |
|---|---|---|---|---|
| Total assets | $ 356,606 | $ 80,229 | $ 6,098 | $ 442,933 |
| Total liabilities | 48,419 | 26,240 | 72,609 | 147,268 |

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

**4. Operating segments (continued):**

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

| Three months ended March 31, 2024 | Contract Drilling | Production Services | Corporate | Total |
|---|---|---|---|---|
| Operating earnings (loss) | $ 2,121 | $ 4,249 | $ (1,674) | $ 4,696 |
| Add (deduct): | | | | |
| Stock based compensation | 3 | (33) | (407) | (437) |
| Finance costs | - | - | (2,656) | (2,656) |
| Other items | - | - | 380 | 380 |
| Income (loss) before income taxes | $ 2,124 | $ 4,216 | $ (4,357) | $ 1,983 |

| Three months ended March 31, 2023 | Contract Drilling | Production Services | Corporate | Total |
|---|---|---|---|---|
| Operating earnings (loss) | $ 6,857 | $ 3,590 | $ (1,547) | $ 8,900 |
| Add (deduct): | | | | |
| Stock based compensation | (224) | (75) | (577) | (876) |
| Finance costs | - | - | (3,042) | (3,042) |
| Other items | - | - | 606 | 606 |
| Income (loss) before income taxes | $ 6,633 | $ 3,515 | $ (4,560) | $ 5,588 |

Segmented information by geographic area is as follows:

| As at March 31, 2024 | Canada | United States | Total |
|---|---|---|---|
| Property and equipment | $ 304,960 | $ 82,018 | $ 386,978 |
| Total assets | 352,562 | 89,219 | 441,781 |

| As at December 31, 2023 | Canada | United States | Total |
|---|---|---|---|
| Property and equipment | $ 310,360 | $ 81,805 | $ 392,165 |
| Total assets | 354,641 | 88,292 | 442,933 |

| | Canada | United States | Total |
|---|---|---|---|
| Revenue - Three months ended March 31, 2024 | $ 54,948 | $ 7,034 | $ 61,982 |
| Revenue - Three months ended March 31, 2023 | 63,841 | 15,398 | 79,239 |

Revenue from long term contracts:

For the three months ended March 31, 2024, and 2023, the Company had no revenue from long term contracts in the contract drilling or production services segments.

Significant customers:

For the three months ended March 31, 2024, and 2023, the Company had no 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, 2024 and December 31, 2023 are as follows:

| | March 31, 2024 | December 31, 2023 |
|---|---|---|
| Current: | | |
| Prepaid expenses | $ 2,652 | $ 2,981 |
| Inventory | 3,601 | 3,579 |
| Deposits | 336 | 321 |
| Promissory note | 151 | 203 |
| Deferred charges | 82 | 82 |
| Total current portion of other assets | 6,822 | 7,166 |
| Non current: | | |
| Deferred charges | 143 | 34 |
| Total non current portion of other assets | 143 | 34 |
| Total other assets | $ 6,965 | $ 7,200 |

**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, 2023 | $ 5,089 | $ 4,457 | $ 844,274 | $ 201,335 | $ 12,663 | $ 13,733 | $ 1,081,551 |
| Additions to property and equipment | - | 220 | 1,271 | 396 | 15 | - | 1,902 |
| Lease additions | - | - | - | - | - | 2,351 | 2,351 |
| Disposals | - | - | (185) | (2,827) | - | (32) | (3,044) |
| Foreign exchange adjustment | - | - | 4,572 | - | 15 | 18 | 4,605 |
| Balance at March 31, 2024 | $ 5,089 | $ 4,677 | $ 849,932 | $ 198,904 | $ 12,693 | $ 16,070 | $ 1,087,365 |
| **Accumulated depreciation:** | | | | | | | |
| Balance at December 31, 2023 | $ - | $ 3,238 | $ 528,060 | $ 136,953 | $ 11,882 | $ 9,253 | $ 689,386 |
| Depreciation | - | 34 | 7,789 | 1,991 | 210 | 499 | 10,523 |
| Disposals | - | - | (185) | (1,912) | - | (32) | (2,129) |
| Foreign exchange adjustment | - | - | 2,585 | - | 14 | 8 | 2,607 |
| Balance at March 31, 2024 | $ - | $ 3,272 | $ 538,249 | $ 137,032 | $ 12,106 | $ 9,728 | $ 700,387 |
| **Carrying amounts:** | | | | | | | |
| At December 31, 2023 | $ 5,089 | $ 1,219 | $ 316,214 | $ 64,382 | $ 781 | $ 4,480 | $ 392,165 |
| At March 31, 2024 | $ 5,089 | $ 1,405 | $ 311,683 | $ 61,872 | $ 587 | $ 6,342 | $ 386,978 |

As at March 31, 2024, the Company reviewed for indicators of impairment and determined no such 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.

| | March 31, 2024 | December 31, 2023 |
|---|---|---|
| Current: | | |
| Second Lien Facility | $ 1,080 | $ 1,080 |
| Lease obligations (1) | 2,149 | 2,465 |
| PPP Loan | 1,083 | 995 |
| Less: unamortized issue costs | (489) | (493) |
| Total current portion of long term debt | 3,823 | 4,047 |
| Non current: | | |
| Second Lien Facility | 97,991 | 98,261 |
| HSBC Facility | 5,625 | 5,938 |
| Lease obligations (1) | 3,955 | 1,898 |
| Revolving Facility | - | 5,000 |
| Operating Facility | 3,594 | - |
| PPP Loan | 515 | 768 |
| Less: unamortized issue costs | (571) | (691) |
| Total non current portion of long term debt | 111,109 | 111,174 |
| Total long term debt | $ 114,932 | $ 115,221 |

(1) Lease obligations include leases capitalized under IFRS 16. During the three months ended March 31, 2024 and 2023, 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 March 31, 2024, 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"). On March 22, 2024, the Company extended the maturity of the Credit Facilities from May 18, 2025 to the earlier of (i) six months prior to the maturity date of the Second Lien Facility which is currently November 18, 2025, or (ii) March 21, 2027 if the Second Lien Facility is extended. The commitments and financial covenants under the Credit Facilities extension are unchanged.

Amounts borrowed under the Credit Facilities bear interest at the bank's Canadian prime rate, or the Canadian overnight repo rate average ("CORRA") 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.

As at March 31, 2024, the Company's Credit Facilities are subject to the following financial covenants:

| | Covenant | March 31, 2024 |
|---|---|---|
| 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 March 31, 2024, the Company had $3.6 million 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.

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

**7. Long term debt (continued):**

As at March 31, 2024, the Company was in compliance with all covenants related to its Credit Facilities.

**Second Lien Facility:**

At March 31, 2024, the Company had $99.1 million outstanding on the second lien secured term loan facility with Alberta Investment Management Corporation (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 March 31, 2024, the Company had $5.6 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. In 2023, the Company prepaid all monthly principal amounts for the remaining term of the loan, with the remaining outstanding balance due upon maturity on December 31, 2026.

**US Paycheck Protection Program ("PPP Loan"):**

At March 31, 2024, the Company had US$1.2 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.

**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, 2023 | 33,843,009 | $ | 521,603 |
| Issued on vesting of restricted share units | 6 | | - |
| Balance at March 31, 2024 | 33,843,015 | $ | 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, 2023 | 3,052,700 | $ | 4.95 |
| Forfeited | (136,531) | | 4.80 |
| Expired | (72) | | 38.40 |
| Balance at March 31, 2024 | 2,916,097 | $ | 4.95 |

For the three months ended March 31, 2024 and 2023 no stock options were cancelled and no stock options were granted.

As at March 31, 2024, Western had 744,182 (December 31, 2023: 783,213) vested and exercisable stock options outstanding at a weighted average exercise price equal to $5.62 (December 31, 2023: $5.58) per stock option.

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

**9. Stock based compensation (continued):**

**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 |
|---|---|
| Balance at December 31, 2023 | 13 |
| Issued on vesting of restricted share units | (6) |
| Balance at March 31, 2024 | 7 |

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

| | Three months ended March 31, 2024 | Three months ended March 31, 2023 |
|---|---|---|
| Stock options | $ 437 | $ 871 |
| Restricted share units – equity settled expense | - | 5 |
| Total stock based compensation expense | $ 437 | $ 876 |

**10. Earnings per share:**

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

| | Three months ended March 31, 2024 | Three months ended March 31, 2023 |
|---|---|---|
| Issued common shares, beginning of period | 33,843,009 | 33,841,318 |
| Weighted average number of common shares issued | 6 | 5 |
| Weighted average number of common shares (basic) | 33,843,015 | 33,841,323 |
| Dilutive effect of equity securities | - | 1,725 |
| Weighted average number of common shares (diluted) | 33,843,015 | 33,843,048 |

For the three months ended March 31, 2024, 2,916,097 stock options (three months ended March 31, 2023, 3,109,476 stock options) and 7 equity settled RSUs (three months ended March 31, 2023, nil 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 are comprised of the following:

| | Three months ended March 31, 2024 | Three months ended March 31, 2023 |
|---|---|---|
| Interest expense on long term debt | $ 2,524 | $ 2,920 |
| Amortization of debt financing fees | 21 | 21 |
| Accretion expense on Second Lien Facility | 110 | 110 |
| Accretion expense on HSBC Facility | 14 | 14 |
| Interest income | (13) | (23) |
| Total finance costs | $ 2,656 | $ 3,042 |

The Company had an effective interest rate on its borrowings of 8.8% for the three months ended March 31, 2024 (three months ended March 31, 2023: 8.7%).

(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 are comprised of the following:

| | Three months ended March 31, 2024 | Three months ended March 31, 2023 |
|---|---|---|
| Gain on sale of fixed assets | $ (265) | $ (606) |
| Realized foreign exchange gain | (18) | (101) |
| Unrealized foreign exchange (gain) loss | (97) | 101 |
| Total other items | $ (380) | $ (606) |

**13. Income taxes:**

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

| | Three months ended March 31, 2024 | Three months ended March 31, 2023 |
|---|---|---|
| Deferred tax expense | $ (528) | $ (1,167) |
| Total income tax expense | $ (528) | $ (1,167) |

As at March 31, 2024, the Company has loss carry forwards in Canada equal to approximately $208.5 million, which will expire between 2036 and 2043. In the United States, the Company has approximately US$50.6 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 by function. The following table presents significant expenses by nature:

| | Three months ended March 31, 2024 | Three months ended March 31, 2023 |
|---|---|---|
| Employee salaries and benefits | $ 29,507 | $ 34,473 |
| Repairs and maintenance | 4,672 | 7,862 |
| Third party charges | 1,819 | 4,234 |

**15. Capital management:**

The overall capitalization of the Company at March 31, 2024 and December 31, 2023 is as follows:

| | Note | March 31, 2024 | December 31, 2023 |
|---|---|---|---|
| Second Lien Facility | 7 | $ 99,071 | $ 99,341 |
| HSBC Facility | 7 | 5,625 | 5,938 |
| Revolving Facility | 7 | - | 5,000 |
| Operating Facility | 7 | 3,594 | - |
| PPP Loan | 7 | 1,598 | 1,763 |
| Lease obligations | 7 | 6,104 | 4,363 |
| Total debt | | 115,992 | 116,405 |
| Shareholders' equity | | 299,359 | 295,665 |
| Less: cash and cash equivalents | | (3,419) | (5,930) |
| Total capitalization | | $ 411,932 | $ 406,140 |

**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 higher interest rates, could negatively impact Western's borrowing costs, which could, in turn, have a material adverse effect on Western's cash flow and ability to service obligations under the Credit Facilities, HSBC Facility and the Second Lien Facility.

Foreign exchange risk:

The Company is exposed to foreign currency fluctuations in relation to its US dollar capital expenditures and operations. At March 31, 2024, 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. In addition, Stoneham, Western's US subsidiary, is subject to foreign currency translation adjustments upon consolidation, which is recorded separately within other comprehensive income.

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 months ended March 31, 2024, the volatility in global demand for crude oil related to the war in Ukraine and by the conflict in the Middle East, have had an impact on commodity prices which have an effect on the Company's customers. These factors are expected to have an impact on companies and their related credit risk. The Company's practice is to manage credit risk by performing a thorough analysis of the creditworthiness of new customers before credit terms are offered.

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

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

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

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 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 Second Lien Facility.

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

**17. Commitments:**

As at March 31, 2024, the Company has commitments which require payments based on the maturity terms as follows:

| | 2024 | 2025 | 2026 | 2027 | 2028 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Trade payables and other current liabilities(1) | $ 19,294 | $ - | $ - | $ - | $ - | $ - | $ 19,294 |
| Operating commitments(2) | 3,832 | 444 | 762 | 762 | 762 | 1,143 | 7,705 |
| Second Lien Facility principal | 810 | 1,080 | 97,181 | - | - | - | 99,071 |
| Second Lien Facility interest | 4,193 | 8,341 | 6,854 | - | - | - | 19,388 |
| HSBC Facility principal | - | - | 5,625 | - | - | - | 5,625 |
| HSBC Facility interest | 371 | 389 | 270 | - | - | - | 1,030 |
| Lease obligations(3) | 2,199 | 1,480 | 1,320 | 858 | 631 | 1,095 | 7,583 |
| Operating Facility | - | 3,594 | - | - | - | - | 3,594 |
| PPP Loan | 820 | 790 | - | - | - | - | 1,610 |
| Total | $ 31,519 | $ 16,118 | $ 112,012 | $ 1,620 | $ 1,393 | $ 2,238 | $ 164,900 |

(1) Trade payables and other current liabilities exclude interest accrued as at March 31, 2024 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.