

Western Energy Services Corp.
Consolidated Financial Statements
December 31, 2020 and 2019

To the Shareholders of Western Energy Services Corp.:

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of Western Energy Services Corp. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Audit Committee is appointed by the Board of Directors, with all of its members being independent directors. The Audit Committee meets with management, as well as with the external auditors, to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the auditor's report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited independently by Deloitte LLP on behalf of Western Energy Services Corp. in accordance with Canadian generally accepted auditing standards. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements.

"Signed"

Alex R.N. MacAusland
President &
Chief Executive Officer

"Signed"

Jeffrey K. Bowers
Senior Vice President, Finance,
Chief Financial Officer & Corporate Secretary

February 25, 2021

Independent Auditor's Report

To the Shareholders of Western Energy Services Corp.

Opinion

We have audited the consolidated financial statements of Western Energy Services Corp. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2020 and 2019, and the consolidated statements of operations and comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the financial statements for the year ended December 31, 2020. The matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Property and equipment - Impairment - Refer to Notes 3(h), 4(a) and 8 to the financial statements

Key Audit Matter Description

The Company identified indicators of impairment for the contract drilling, well servicing and oilfield rental cash generating units ("CGUs") as a result of the prolonged commodity price downturn and the Company's market capitalization being less than the carrying amount of its net assets. When there is an indicator of impairment, the recoverable amount of the CGU is estimated to determine the amount of impairment, if any. The recoverable amount for property and equipment is the higher of fair value less costs to sell ("FVLCS") and value in use. The Company used FVLCS which has been derived from their discounted forecast cash flow model. Arriving at the estimated future cash flows involves significant judgments, estimates and assumptions, including those associated with the future revenues and the discount rate. As at March 31, 2020, it was determined that the recoverable amounts of the contract drilling and oilfield rental CGUs was lower than their carrying values, causing the Company to recognize impairment losses. As at December 31, 2020, there were no additional impairment losses recognized relating to the recoverable amount of the Company's CGUs.

While there are several assumptions that go into determining the recoverable amount, the judgments with the highest degree of subjectivity in the valuation model are the future revenues and discount rate. Auditing the assumptions surrounding the future

revenues and discount rate required a high degree of subjectivity in applying audit procedures and in evaluating the results of those procedures. This resulted in an increased extent of audit effort, including the involvement of fair value specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to the future revenues and discount rate used to determine the recoverable amount of the CGU's included the following, among others:

- Evaluated management's ability to accurately forecast future revenues by comparing actual results to management's historical forecasts;
- Evaluated the reasonableness of future revenues by comparing the forecasts to actual revenues; and internal communications to management and the Board of Directors.
- With the assistance of fair value specialists, evaluated the future revenues and discount rate by:
 - Testing the underlying source information in the determination of discount rate and developing a range of independent estimates and comparing this range to the discount rate selected by management.
 - Testing future revenues by understanding the changes in the forecast from the previous year and assessed if the estimated revenue was consistent with previous results and observable industry data and publications.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is David Langlois.

Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
February 25, 2021

Western Energy Services Corp.

Consolidated Balance Sheets
(thousands of Canadian dollars)

	Note	December 31, 2020	December 31, 2019
Assets			
Current assets			
Cash and cash equivalents		\$ 19,322	\$ 4,015
Trade and other receivables	6	18,246	29,494
Other current assets	7	5,928	5,918
		43,496	39,427
Non current assets			
Property and equipment	8	452,040	511,052
Other non current assets	7	89	58
		\$ 495,625	\$ 550,537
Liabilities			
Current liabilities			
Trade payables and other current liabilities	9	\$ 23,138	\$ 27,520
Current portion of long term debt	10	4,361	4,876
		27,499	32,396
Non current liabilities			
Long term debt	10	237,633	228,274
Deferred taxes	16	8,020	22,775
		273,152	283,445
Shareholders' equity			
Share capital	11	441,461	441,794
Contributed surplus		15,678	15,459
Retained earnings (deficit)		(260,333)	(219,074)
Accumulated other comprehensive income		23,996	27,157
Non controlling interest		1,671	1,756
		222,473	267,092
		\$ 495,625	\$ 550,537

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

Approved on behalf of the Board of Directors:

"Signed"

Ronald P. Mathison
Director, Chairman of the Board

"Signed"

John R. Rooney
Director, Chairman of the Audit Committee

Western Energy Services Corp.

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

	Note	Year ended December 31, 2020	Year ended December 31, 2019
Revenue		\$ 103,684	\$ 196,408
Expenses			
Operating		72,879	155,450
Administrative		10,527	16,720
Depreciation	8	48,268	63,167
Stock based compensation	12	449	586
Finance costs	14	17,963	18,697
Other items	15	(1,992)	(410)
Impairment of property and equipment	8	11,500	54,000
Loss before income taxes		(55,910)	(111,802)
Income tax recovery	16	14,609	30,772
Net loss		(41,301)	(81,030)
Other comprehensive loss ⁽¹⁾			
Loss on translation of foreign operations		(1,214)	(3,195)
Unrealized foreign exchange loss on net investment in subsidiary		(1,947)	(1,800)
Comprehensive loss		\$ (44,462)	\$ (86,025)
Net loss attributable to:			
Shareholders of the Company		\$ (41,259)	\$ (80,957)
Non controlling interest		(42)	(73)
Comprehensive loss attributable to:			
Shareholders of the Company		\$ (44,420)	\$ (85,952)
Non controlling interest		(42)	(73)
Net loss per share:			
Basic		\$ (0.45)	\$ (0.88)
Diluted		(0.45)	(0.88)
Weighted average number of shares:			
Basic	13	91,253,521	92,379,902
Diluted	13	91,253,521	92,379,902

(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 consolidated financial statements.

Western Energy Services Corp.

Consolidated Statements of Changes in Shareholders' Equity
(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, 2018	\$ 441,512	\$ 15,142	\$ (136,992)	\$ 32,152	\$ 1,985	\$ 353,799
Common shares:						
Issued on vesting of restricted share units	282	(282)	-	-	-	-
Stock based compensation	-	599	-	-	-	599
IFRS 16 adoption	-	-	(1,125)	-	-	(1,125)
Distributions to non controlling interest	-	-	-	-	(156)	(156)
Comprehensive loss	-	-	(80,957)	(4,995)	(73)	(86,025)
Balance at December 31, 2019	441,794	15,459	(219,074)	27,157	1,756	267,092
Common shares:						
Issued on vesting of restricted share units	145	(145)	-	-	-	-
Purchased under normal course issuer bid	(478)	-	-	-	-	(478)
Stock based compensation	-	364	-	-	-	364
Distributions to non controlling interest	-	-	-	-	(43)	(43)
Comprehensive loss	-	-	(41,259)	(3,161)	(42)	(44,462)
Balance at December 31, 2020	\$ 441,461	\$ 15,678	\$ (260,333)	\$ 23,996	\$ 1,671	\$ 222,473

(1) Contributed surplus relates to stock based compensation described in Note 12.

(2) At December 31, 2020, 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 consolidated financial statements.

Western Energy Services Corp.

Consolidated Statements of Cash Flows
(thousands of Canadian dollars)

	Note	Year ended December 31, 2020	Year ended December 31, 2019
Operating activities			
Net loss		\$ (41,301)	\$ (81,030)
Adjustments for:			
Depreciation	8	48,268	63,167
Non cash stock based compensation	12	364	599
Finance costs	14	17,963	18,697
Impairment of property and equipment	8	11,500	54,000
Income tax recovery	16	(14,609)	(30,772)
Other		(292)	(348)
Income taxes paid		(32)	-
Change in non cash working capital		5,862	7,405
Cash flow from operating activities		27,723	31,718
Investing activities			
Additions to property and equipment	8	(2,788)	(7,968)
Proceeds on sale of property and equipment		549	941
Change in non cash working capital		(770)	(1,933)
Cash flow used in investing activities		(3,009)	(8,960)
Financing activities			
Share purchase under normal course issuer bid	11	(478)	-
Finance costs paid		(16,959)	(17,400)
Repayment of second lien debt	10	(2,150)	(2,150)
Repayment of other long term debt	10	(3,169)	(3,403)
(Repayment of) draw on credit facilities	10	(1,297)	406
Proceeds from US paycheck protection plan	10	2,314	-
Net proceeds from HSBC facility	10	12,375	-
Distributions to non controlling interest		(43)	(156)
Cash flow used in financing activities		(9,407)	(22,703)
Increase in cash and cash equivalents		15,307	55
Cash and cash equivalents, beginning of year		4,015	3,960
Cash and cash equivalents, end of year ⁽¹⁾		\$ 19,322	\$ 4,015

⁽¹⁾ At December 31, 2020 and 2019, the Company's cash and cash equivalents consisted of bank accounts with banks within the Company's existing credit facilities syndicate, as well as \$1.0 million (US\$0.8 million) of restricted cash in 2020 (2019: nil) related to the US paycheck protection program (note 10).

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

Western Energy Services Corp.

Notes to the consolidated financial statements

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

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 that is listed on the Toronto Stock Exchange ("TSX") under the symbol "WRG". These consolidated financial statements as at and for the years ended December 31, 2020 and 2019 (the "Financial Statements") are comprised of Western, its divisions and its wholly owned subsidiaries (together referred to as the "Company"). The Company is an oilfield service company providing contract drilling services through its division, Horizon Drilling ("Horizon") in Canada, and its wholly owned subsidiary, Stoneham Drilling Corporation ("Stoneham") in the United States. Western provides well servicing and oilfield rental equipment services in Canada through its wholly owned subsidiary Western Production Services Corp. ("Western Production Services"). Western Production Services' division, Eagle Well Servicing ("Eagle") provides well servicing operations, while its division, Aero Rental Services ("Aero") provides oilfield rental equipment services. Stoneham's division, Western Oilfield Services, provides well servicing operations in the United States ("US"). Financial and operating results for Horizon and Stoneham are included in Western's contract drilling segment, while financial and operating results for Eagle, Aero, and Western Oilfield Services are included in Western's production services segment.

2. Basis of preparation and significant accounting policies:

(a) Statement of compliance:

These Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS").

Preparation of these Financial Statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity and areas where assumptions and estimates are significant to these Financial Statements are disclosed in Note 4.

These Financial Statements were approved for issuance by Western's Board of Directors on February 25, 2021.

(b) Basis of measurement:

The consolidated financial statements have been prepared using the historical cost basis except as detailed in the Company's accounting policies in Note 3.

(c) Functional and presentation currency:

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

3. Significant accounting policies:

The significant accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, unless otherwise indicated.

(a) Basis of consolidation:

These Financial Statements include the accounts of Western and its subsidiaries, which are entities over which Western has control. Control exists when Western has the power, directly or indirectly, to direct the relevant activities of an entity so as to obtain benefit from its activities. The financial results of Western's subsidiaries are included in the Financial Statements from the date that control commences until the date that control ceases. The accounting policies of Western's subsidiaries have been aligned with the policies adopted by Western. When Western ceases to control a subsidiary, the financial statements of that subsidiary are de-consolidated.

Inter-company balances and transactions, and any income and expenses arising from inter-company transactions, have been eliminated in these Financial Statements.

A portion of the Company's operations are conducted through arrangements where the Company and a third party each have a 50% interest. Based on the criteria outlined in IFRS 10, Consolidated Financial Statements, the Company determined that, for financial reporting purposes, the Company has control of these arrangements. As a result, the Company fully consolidates the arrangements and has recorded a non-controlling interest in equity and net income (loss).

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

(b) Foreign currency transactions and operations:

The Canadian dollar is Western's functional and presentation currency. Each of the Company's subsidiaries' functional currency is determined individually and items included in the financial statements of each subsidiary are measured using that functional currency. Transactions in foreign currencies are translated to the respective functional currencies of Western and its subsidiaries at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the exchange rate in effect on the balance sheet date with any resulting foreign exchange gain or loss recognized in net income (loss). Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rate in effect on the date of the transaction. Foreign currency gains and losses on transactions are reported on a net basis and recognized in other items within net income (loss).

The Company's foreign operations are conducted through Stoneham, which has a US dollar functional currency. For the purposes of presenting the Financial Statements, the assets and liabilities of this foreign operation are translated to Canadian dollars using exchange rates in effect on the balance sheet date. Income and expenses are translated at the average exchange rate for the period. Exchange differences arising from this translation are recognized in other comprehensive income (loss).

(c) Business combinations:

The Company uses the acquisition method to account for business combinations. The Company measures goodwill as the fair value of the consideration transferred, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a gain on acquisition is recognized immediately in net income (loss).

Goodwill is allocated as of the date of the business combination to the Company's operating segments that are expected to benefit from the business combination and represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which can be no higher than the operating segment level. Goodwill is not amortized and is tested for impairment annually. Additionally, goodwill is reviewed at each reporting date to determine if events or changes in circumstances indicate that the asset might be impaired, in which case an impairment test is performed. Goodwill is measured at cost less accumulated impairment losses.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred and recognized in other items within net income (loss).

(d) Financial instruments:

All financial instruments are measured at fair value upon initial recognition of the transaction. Measurement in subsequent periods is dependent on whether the instrument is classified as "amortized cost", "fair value through profit or loss" or "fair value through other comprehensive income".

The Company derecognizes a financial asset when the contractual right to the cash flows from the asset expires, or it transfers the right to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following financial assets and liabilities recognized at amortized cost:

Cash and cash equivalents are initially recognized at fair value and are subsequently measured at amortized cost with changes therein recognized in net income (loss).

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

The Company's trade and other receivables are classified under the amortized cost category and are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value, adjusted for any directly attributable transaction costs. Subsequent to initial recognition, trade and other receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Trade payables and other current liabilities, lease obligations, the Second Lien Facility, the HSBC Facility, and Credit Facilities are classified under the amortized cost category. Financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Financial liabilities, including the Second Lien Facility and the HSBC Facility are subsequently measured at amortized cost using the effective interest method. Transaction costs incurred with respect to the Credit Facilities are deferred and amortized using the straight line method over the term of the facility. The asset is recognized in other assets on the balance sheet while the amortization is included in finance costs within net income (loss). Transaction costs related to undrawn term loans are recognized in deferred charges until the term loan is drawn. Subsequent to drawing on the term loan, transaction costs are netted against the term loan and amortized using the effective interest method.

(e) Cash and cash equivalents:

Cash and cash equivalents are comprised of cash balances and short term investments with original maturities of three months or less.

(f) Property and equipment:

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment.

Cost includes expenditures that are directly attributable to the acquisition of the asset and bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The cost of self-constructed assets includes the cost of materials and direct labour as well as any other costs directly attributable to bringing the assets to a working condition for their intended use.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are included in the cost of those assets, until such time as the assets are substantially available for their intended use. All other borrowing costs are recognized in net income (loss) in the period incurred.

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. Costs associated with certifications and overhauls of drilling and well servicing rigs are capitalized and depreciated over the anticipated period between certifications, while the carrying amount of a replaced part, previous certification or overhaul is derecognized and recorded as a loss in net income (loss) as incurred. The costs of day-to-day servicing of property and equipment (i.e. repairs and maintenance) are recognized in net income (loss) as incurred.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

Property and equipment is depreciated on a straight line basis. A summary of the expected life and residual values for the Company's property and equipment as at December 31, 2020 and 2019 is as follows:

	Expected Life	Residual values
Buildings	25 years	-
Drilling rigs and related equipment:		
Drilling rigs	8 to 25 years	10%
Drill pipe	5 to 8 years	-
Major inspections and overhauls	3 to 5 years	-
Well servicing rigs and related equipment	12 to 25 years	10%
Ancillary drilling and well servicing equipment	5 to 15 years	-
Rental equipment	1 to 30 years	-
Shop and office equipment	1 to 10 years	-
Vehicles	3 years	20%

Depreciation is calculated based on the cost of the asset, less its estimated residual value. Depreciation is recognized in net income (loss) on a straight line basis over the estimated useful lives of each class of asset. Leased assets are depreciated over the shorter of the lease term and their estimated useful lives unless it is reasonably certain that the Company will obtain ownership at the end of the lease term, in which case, the estimated useful life of the asset is used. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted if appropriate.

An item of property and equipment is derecognized when it is either disposed of or when it is determined that no further economic benefit is expected from the item's future use or disposal and as such is decommissioned. Losses realized on decommissioned assets are recognized in net income (loss) upon derecognition. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal, less associated costs of disposal, with the carrying amount of property and equipment, and are recognized in other items within net income (loss).

(g) Inventory:

Inventory is primarily comprised of operating supplies and is measured at the lower of cost and net realizable value. Inventory is charged to operating expenses as items are consumed using the weighted average cost method.

(h) Impairment:

(i) Financial assets:

Financial assets are assessed at each reporting date to determine whether there is evidence that they are impaired. A financial asset is impaired if evidence indicates a loss event has occurred after the initial recognition of the asset, and the loss event had a negative effect on the estimated future cash flows of the asset that can be estimated reliably.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is an indication of impairment. If an indication exists, then the asset's carrying amount is assessed for impairment.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). An impairment is recognized in net income (loss) if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing fair value less costs to sell, the Company must estimate the price that would be received to sell the asset or CGU less any incremental costs directly attributable to the disposal. In assessing value in use, the estimated cash flows are discounted to their present value using an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairments recognized in prior periods are assessed at each reporting date for indications that the impairment has decreased or no longer exists. An impairment is reversed if there has been a change in the estimates used to determine the recoverable amount and the decrease in impairment can be objectively related to an event occurring after the impairment was recognized. An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment had been recognized. Such reversal is recognized in net income (loss).

(i) Employee benefits:

(i) Short-term employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Stock based compensation awards:

Stock based compensation expense relates to stock options as well as cash and equity settled restricted share units ("RSUs"). The grant date fair values of stock option and equity settled RSUs granted are recognized as an expense, with a corresponding increase in contributed surplus in equity, over the vesting period.

The amount recognized as an expense is based on the estimate of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. Upon exercise of stock options, the consideration paid by the holder is included in share capital and the related contributed surplus associated with the stock options exercised is reclassified into share capital. Upon vesting of equity settled RSUs, the related contributed surplus associated with the RSU is reclassified into share capital.

For cash settled RSUs, the fair value of the RSUs is recognized as stock based compensation expense, with a corresponding increase in accrued liabilities over the vesting period. The amount recognized as an expense is based on the estimate of the number of RSUs expected to vest. Cash settled RSUs are measured at their fair value at each reporting period on a mark-to-market basis. Upon vesting of the cash settled RSUs, the liability is reduced by the cash payout.

(j) Revenue:

A portion of the Company's revenue is generated from contracts with its customers. Long term contracts, as well as short term contracts, are common in the contract drilling segment, whereas the Company's other operating segments typically do not have long term contracts. In the production services segment, master service agreements may be signed with Western's customers, however there typically is no term commitment for a specific number of service rig hours. Long term contracts are those contracts with an initial term greater than one year. Segmented disclosures are included in Note 5, disaggregating revenue by geographic area and by operating segment.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

Similar to revenue on short term or spot market contracts, the Company satisfies its performance obligations related to its long term contracts as the Company provides its services on a per billable day or hourly basis. As days are worked on the customer's contract, the Company satisfies its performance obligation to the customer and recognizes revenue. The Company has elected to use the practical expedient under IFRS 15, paragraph B16, as the Company invoices its customers on a per day or per hour basis that directly corresponds with the value received by the customer. Revenue is therefore recognized on a per day or per hour basis, for both drilling and rig mobilization days. Should the customer terminate a long term drilling contract early, the Company may be entitled to shortfall commitment revenue on the contract. The Company recognizes shortfall commitment revenue when payment from the customer is certain. At the inception of a contract, an estimate for shortfall commitment revenue is not recognized, as the Company expects the customer to use its services for the full term of the contract. As a result, determining when to recognize shortfall commitment revenue requires judgment to ensure that revenue is recognized when the performance obligation has been satisfied and collectability assured.

(k) Lease assets and obligations:

Lease assets:

The Company has lease agreements for items including office space, vehicles, shops and office equipment which qualify as leased assets under IFRS 16, Leases.

At the inception of an arrangement, the Company determines whether such an arrangement is or contains a lease under IFRS 16. An agreement which results in the Company having the right to control the use of an asset over a period of time with set payments is considered a lease. Lease assets, or right of use assets, are capitalized at the date the lease commences and are comprised of the initial lease liability, less any lease incentives received. Depreciation is calculated based on the initial cost of the asset and recognized in net income (loss) on a straight line basis over the estimated useful life of the lease. The lease assets are included in property and equipment on the consolidated balance sheets and segregated in Note 8.

Lease obligations:

IFRS 16 requires the Company to make judgments that affect the valuation of lease obligations and the corresponding lease assets, including whether a contract falls within the scope of IFRS 16, the term of the lease, and determining the interest rate used for discounting future cash flows. The lease obligations, and the corresponding lease assets, at inception of the agreement are measured at the present value of the fixed lease payments, discounted using the Company's incremental borrowing rate at the inception of the agreement.

Finance costs are allocated to each period during the lease term using the effective interest rate method. Lease modifications, where the scope increases in exchange for additional corresponding consideration, are accounted for as a separate lease. For a lease modification that is not a separate lease or where the increase in consideration is not correlated with a change in the scope of the lease, at the effective date of the lease modification, the Company will remeasure the lease liability using the Company's incremental borrowing rate, with a corresponding adjustment to the right of use asset. The lease term includes the non-cancellable period of the lease agreement and periods covered by any option to renew, where it is reasonably certain that the option will be exercised.

(l) Finance income and finance costs:

Finance income comprises interest income on cash and cash equivalent balances. Interest income is recognized as it accrues in net income (loss).

Finance costs comprise interest expense on borrowings, costs associated with securing debt instruments, and unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition or construction of a qualifying asset are recognized in net income (loss) when incurred.

Warrants issued in conjunction with long term debt financings are included in deferred charges at their grant date fair value and amortized over the life of the warrant as a finance cost.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

(m) Income tax:

Income tax expense is comprised of current and deferred income taxes. Income tax is recognized in net income (loss) and other comprehensive income (loss) except to the extent that it relates to items recognized in equity on the consolidated balance sheets.

Current income tax is calculated using tax rates which are enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions on the basis of amounts expected to be paid to taxation authorities.

Deferred income taxes are recognized, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the respective entity's financial statements.

Deferred income taxes are determined using tax rates which are enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible balances can be utilized. All deferred tax assets are analyzed at each reporting period and reduced to the extent that it is no longer probable that the asset will be recovered.

(n) Earnings per share:

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the Company's net income (loss) by the weighted average number of common shares outstanding during the reporting period. Diluted EPS is determined by adjusting the Company's net income and the weighted average number of common shares outstanding for the effects of all potentially dilutive common shares, which comprise equity settled RSUs, in-the-money stock options and outstanding warrants. Diluted EPS is calculated using the treasury stock method where the deemed proceeds from the exercise of stock options or warrants and the associated unrecognized stock based compensation expense are considered to be used to reacquire common shares at the average common share price for the reporting period. The average market value of Western's common shares for purposes of calculating the dilutive effect of stock options and warrants are based on quoted market prices for the period during which the options or warrants were outstanding in the reporting period.

(o) Operating segment reporting:

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other operating segments. All operating segments' results are reviewed regularly by the Company's President & Chief Executive Officer and Senior Vice President, Finance, Chief Financial Officer & Corporate Secretary ("Executive Management"), to make decisions about resources to be allocated to the operating segment and assess its performance.

Operating segment results that are reported to Executive Management include items directly attributable to an operating segment as well as those that can be allocated on a reasonable basis. The Company's operating segments are defined in Note 5.

(p) Government grants:

In response to the COVID-19 pandemic and emergency measures, such as lockdowns, governments have established various programs to assist companies through this period of uncertainty. Management has determined that the Company qualifies 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 grant amounts as either other income or as a reduction of the expenses related to the grant.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued):

Canada Emergency Wage Subsidy ("CEWS"):

For the year ended December 31, 2020, the company has recorded \$8.2 million (December 31, 2019: nil) related to the CEWS from the Government of Canada. The CEWS relates to operating and administrative expenses for the year ended December 31, 2020 and has been recognized as a reduction of these expenses by \$6.6 million (December 31, 2019: nil) and \$1.6 million (December 31, 2019: nil) respectively.

Canada Emergency Rent Subsidy ("CERS"):

For the year ended December 31, 2020, the company has recorded \$0.3 million (December 31, 2019: nil) related to the CERS from the Government of Canada. The CERS relates to eligible expenses such as rent and operating costs for the Company's leased properties, some of which had been capitalized as assets under IFRS 16, Leases. For the year ended December 31, 2020, the Company has recognized a reduction of operating expenses of \$0.1 million (December 31, 2019: nil) and a reduction of depreciation expense of \$0.2 million (December 31, 2019: nil) related to IFRS 16 related assets.

US Paycheck Protection Plan ("PPP"):

During the third quarter of 2020, the Company received US\$1.8 million related to a PPP loan implemented by the US Government as part of their COVID-19 relief efforts. The PPP loan is being used to cover eligible US expenses, including payroll, utility costs, and other specific operating costs, in the period in which they are incurred. The Company expects that a portion of the PPP loan may be forgiven if all conditions of the loan are met. Interest on the PPP loan will accrue at 1% per annum. The PPP loan may be prepaid without penalties by the Company any time prior to maturity on July 23, 2025. For the year ended December 31, 2020, the Company has recognized US\$0.3 million (December 31, 2019: nil) related to PPP loan forgiveness, as a reduction of operating expenses.

(q) New interpretations and amendments not yet adopted:

A number of interpretations are not yet effective for the year ended December 31, 2020, and have not been applied in preparing these Financial Statements. The following new interpretations and amendments have been issued, but are not yet effective until financial years beginning on or after January 1, 2021. The Company does not expect these changes to have a significant impact on its financial statements.

IFRS 3 - Business combinations, amends certain recognition and measurement principal exceptions applied to assets and liabilities acquired under the acquisition method. The amendments, which focus on the treatment of contingent liabilities and assets, specify both the particular items for which exceptions are provided and the nature of those exceptions.

IFRS 9 - Financial Instruments, has been amended to specify the net fees considered during the assessment of a financial liability as a result of a substantial change in terms. The definition of fees has been updated to include any fees paid, net of any fees received, between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

IAS 1 - Presentation of Financial Statements, has been amended to clarify the requirements for the presentation of liabilities in the statement of financial position. This amendment specifies that for an entity to classify a liability as current, it cannot have the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period.

IAS 16 - Property, Plant and Equipment, has been amended to clarify directly attributable costs associated with the measurement and recognition of an asset as property plant and equipment. In addition, IAS 16 has added guidance regarding the treatment of inventory produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management.

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, has been amended to specify which costs an entity includes in determining the cost of fulfilling a contract for the purposes of assessing whether the contract is onerous. In doing this an entity should consider all costs that relate directly to the contract, which include both the incremental costs of fulfilling the contract and an allocation of other costs that relate directly to fulfilling the contract.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

4. Critical accounting estimates:

The preparation of the Financial Statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies (described in Note 3) and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In March 2020, the World Health Organization declared a global pandemic as a result of the COVID-19 outbreak, which led to demand destruction worldwide as countries implemented emergency measures such as lockdowns, to prevent the spread of the COVID-19 virus. The significant decrease in global demand for crude oil, coupled with an international price war, resulted in historical lows and increased volatility in crude oil prices. The current economic environment and the ongoing pandemic is continuing to impact the Company and the full extent of the impact is unknown, as it will depend on the duration of the COVID-19 pandemic, the timing of COVID-19 vaccines being distributed and its resulting impact on the economy and international markets. The pandemic and reduction in global demand results in uncertainty for the Company, as well as estimates and assumptions used by management to prepare these Financial Statements. The current market conditions have increased the uncertainty specifically relating to, but not limited to, assumptions used in calculating the recoverable amounts of the Company's CGUs in its impairment assessment, as well as increased risk of non-payment of trade receivables.

A number of the Company's accounting policies and disclosures require key assumptions concerning the future and other estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities or disclosures within the next fiscal year. Where applicable, further information about the assumptions made is disclosed in the notes specific to that asset or liability. The critical accounting estimates and judgments set out below have been applied consistently to all periods presented in these Financial Statements.

(a) Impairment:

An evaluation of whether or not an asset is impaired involves consideration of whether indicators of impairment exist. Factors which could indicate impairment exists include: significant underperformance of an asset relative to historical or projected operating results, significant changes in the manner in which an asset is used or in the Company's overall business strategy, the carrying amount of the net assets of the entity being more than its market capitalization or significant negative industry or economic trends. In some cases, these events are clear. However, in many cases, a clearly identifiable event indicating possible impairment does not occur. Instead, a series of individually insignificant events occur over a period of time leading to an indication that an asset may be impaired. Events can occur in these situations that may not be known until a date subsequent to their occurrence. Management continually monitors the Company's operating segments, the markets, and the business environment, and makes judgments and assessments about conditions and events in order to conclude whether there are indications of impairment.

When there is an indicator of impairment, the recoverable amount of the asset is estimated to determine the amount of impairment, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The determination of CGUs is based on management judgment.

The recoverable amount for property and equipment is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, the Company must estimate the price that would be received to sell the asset or CGU less any incremental costs directly attributable to the disposal. In assessing value in use, the estimated cash flows are discounted to their present value using an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Arriving at the estimated future cash flows involves significant judgments, estimates and assumptions, including those associated with the future cash flows of the CGU, determination of the CGU and discount rates.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

4. Critical accounting estimates (continued):

If indicators conclude that the asset is no longer impaired, the Company will reverse impairments on assets only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Impairment losses on goodwill are not reversed. Similar to determining if an impairment exists, judgment is required in assessing if a reversal of an impairment is required.

(c) Property and equipment:

Property and equipment is depreciated over the estimated useful life of the asset to the asset's estimated residual value as determined by management. All estimates of useful lives and residual values are set out in Note 3 (f). Assessing the reasonableness of the estimated useful life, residual value and the appropriate depreciation methodology requires judgment and is based on management's experience and knowledge of the industry. Additionally, when determining to decommission an asset, future utilization and economic conditions are considered based on management's experience and knowledge of the industry and requires management's judgment.

(c) Income taxes:

Preparation of the Financial Statements involves determining an estimate of, or provision for, income taxes in each of the jurisdictions in which the Company operates. The process also involves making an estimate of taxes currently payable and taxes expected to be payable or recoverable in future periods, referred to as deferred taxes. Deferred taxes result from the effects of temporary differences due to items that are treated differently for tax and accounting purposes. The tax effects of these differences are reflected in the consolidated balance sheets as deferred tax assets and liabilities.

An assessment must also be made to determine the likelihood that the Company's future taxable income will be sufficient to permit the recovery of deferred income tax assets. To the extent that such recovery is not probable, recognized deferred tax assets must be reduced. Judgment is required in determining the provision for income taxes and recognition of deferred tax assets and liabilities. Management must also exercise judgment in its assessment of continually changing tax interpretations, regulations and legislation, to ensure deferred tax assets and liabilities are complete and fairly presented. The effects of differing assessments and applications could be material.

5. Operating segments:

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

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

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

Western Energy Services Corp.

Notes to the consolidated financial statements

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

5. Operating segments (continued):

The following is a summary of the Company's results by operating segment for the years ended December 31, 2020 and 2019:

Year ended December 31, 2020	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	\$ 61,992	\$ 42,066	\$ -	\$ (374)	\$ 103,684
Operating loss	(21,086)	(1,613)	(5,291)	-	(27,990)
Finance costs	-	-	17,963	-	17,963
Impairment of property and equipment	9,500	2,000	-	-	11,500
Depreciation	34,908	11,468	1,892	-	48,268
Additions to property and equipment	2,038	702	48	-	2,788

Year ended December 31, 2019	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	\$ 140,771	\$ 55,874	\$ -	\$ (237)	\$ 196,408
Operating loss	(23,759)	(9,940)	(5,230)	-	(38,929)
Finance costs	-	-	18,697	-	18,697
Impairment of property and equipment	49,000	5,000	-	-	54,000
Depreciation	48,026	13,240	1,901	-	63,167
Additions to property and equipment	5,128	2,385	455	-	7,968

Total assets and liabilities by operating segment are as follows:

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

As at December 31, 2019	Contract Drilling	Production Services	Corporate	Total
Total assets	\$ 427,074	\$ 111,897	\$ 11,566	\$ 550,537
Total liabilities	61,403	21,114	200,928	283,445

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

Year ended December 31, 2020	Contract Drilling	Production Services	Corporate	Total
Operating loss	\$ (21,086)	\$ (1,613)	\$ (5,291)	\$ (27,990)
Add (deduct):				
Stock based compensation	(121)	(106)	(222)	(449)
Finance costs	-	-	(17,963)	(17,963)
Other items	-	-	1,992	1,992
Impairment of property and equipment	(9,500)	(2,000)	-	(11,500)
Loss before income taxes	\$ (30,707)	\$ (3,719)	\$ (21,484)	\$ (55,910)

Year ended December 31, 2019	Contract Drilling	Production Services	Corporate	Total
Operating loss	\$ (23,759)	\$ (9,940)	\$ (5,230)	\$ (38,929)
Add (deduct):				
Stock based compensation	(170)	(88)	(328)	(586)
Finance costs	-	-	(18,697)	(18,697)
Other items	-	-	410	410
Impairment of property and equipment	(49,000)	(5,000)	-	(54,000)
Loss before income taxes	\$ (72,929)	\$ (15,028)	\$ (23,845)	\$ (111,802)

Western Energy Services Corp.

Notes to the consolidated financial statements

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

5. Operating segments (continued):

Segmented information by geographic area is as follows:

As at December 31, 2020	Canada	United States	Total
Property and equipment	\$ 356,139	\$ 95,901	\$ 452,040
Total assets	395,118	100,507	495,625
As at December 31, 2019	Canada	United States	Total
Property and equipment	\$ 404,473	\$ 106,579	\$ 511,052
Total assets	435,312	115,225	550,537
Revenue - year ended December 31, 2020	\$ 89,412	\$ 14,272	\$ 103,684
Revenue - year ended December 31, 2019	150,196	46,212	196,408

Revenue from contracts:

For the year ended December 31, 2020, the Company's revenue from long term and short term contracts in the contract drilling segment totaled \$15.6 million and \$46.4 million respectively (year ended December 31, 2019: \$44.8 million and \$96.0 million, respectively).

For the years ended December 31, 2020 and 2019, the Company had no revenue from long term contracts in the production services segment.

Significant customers:

For the years ended December 31, 2020 and 2019, the Company had no customers comprising 10.0% or more of the Company's total revenue.

6. Trade and other receivables:

The Company's trade and other receivables as at December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Trade receivables	\$ 15,134	\$ 25,700
Accrued trade receivables	2,001	3,318
Other receivables	2,389	531
Allowance for doubtful accounts	(1,278)	(55)
Total	\$ 18,246	\$ 29,494

The Company's exposure to credit risk related to trade and other receivables is disclosed in Note 18.

7. Other Assets:

The Company's other assets as at December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Current:		
Prepaid expenses	\$ 2,327	\$ 2,093
Inventory	3,069	3,108
Deposits	355	387
Deferred charges	177	330
Total current portion of other assets	5,928	5,918
Non current:		
Deferred charges	89	58
Total non current portion of other assets	89	58
Total other assets	\$ 6,017	\$ 5,976

Western Energy Services Corp.

Notes to the consolidated financial statements

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

8. Property and equipment:

The following table summarizes the Company's property and equipment as at December 31, 2020 and 2019:

	Land	Buildings	Contract drilling equipment	Production services equipment	Office and shop equipment	Finance lease assets	Total
Cost:							
Balance at December 31, 2018	\$ 5,089	\$ 4,396	\$ 806,053	\$ 203,888	\$ 12,513	\$ 3,911	\$ 1,035,850
Additions	-	-	5,126	2,247	595	-	7,968
Lease additions	-	-	-	-	-	573	573
Adoption of IFRS 16	-	-	-	-	-	10,080	10,080
Disposals	-	-	(2,323)	(1,667)	(18)	(240)	(4,248)
Foreign exchange adjustment	-	-	(8,529)	(200)	(37)	(67)	(8,833)
Balance at December 31, 2019	5,089	4,396	800,327	204,268	13,053	14,257	1,041,390
Additions to property and equipment	-	-	2,019	702	67	-	2,788
Finance lease additions	-	-	-	-	-	189	189
Disposals	-	-	(174)	(567)	(19)	(808)	(1,568)
Foreign exchange adjustment	-	-	(3,485)	(83)	(16)	(17)	(3,601)
Balance at December 31, 2020	\$ 5,089	\$ 4,396	\$ 798,687	\$ 204,320	\$ 13,085	\$ 13,621	\$ 1,039,198
Accumulated depreciation:							
Balance at December 31, 2018	\$ -	\$ 1,419	\$ 316,848	\$ 91,110	\$ 9,565	\$ 1,513	\$ 420,455
Depreciation	-	201	47,326	11,527	973	3,140	63,167
Impairment on property and equipment	-	1,082	47,918	5,000	-	-	54,000
Disposals	-	-	(2,085)	(1,548)	(18)	(176)	(3,827)
Foreign exchange adjustment	-	-	(3,329)	(77)	(34)	(17)	(3,457)
Balance at December 31, 2019	-	2,702	406,678	106,012	10,486	4,460	530,338
Depreciation ⁽¹⁾	-	134	34,395	10,131	922	2,907	48,489
Impairment on property and equipment	-	-	9,500	2,000	-	-	11,500
Disposals	-	-	(142)	(497)	(19)	(547)	(1,205)
Foreign exchange adjustment	-	-	(1,875)	(46)	(17)	(26)	(1,964)
Balance at December 31, 2020	\$ -	\$ 2,836	\$ 448,556	\$ 117,600	\$ 11,372	\$ 6,794	\$ 587,158
Carrying amounts:							
At December 31, 2019	\$ 5,089	\$ 1,694	\$ 393,649	\$ 98,256	\$ 2,567	\$ 9,797	\$ 511,052
At December 31, 2020	\$ 5,089	\$ 1,560	\$ 350,131	\$ 86,720	\$ 1,713	\$ 6,827	\$ 452,040

(1) Excludes a credit to depreciation expense of \$0.2 million associated with the CERS as described in Note 3 (p).

Assets under construction:

Included in property and equipment at December 31, 2020 are assets under construction of \$0.6 million (December 31, 2019: \$0.6 million) which includes ancillary drilling and well servicing equipment.

Impairment Testing:

As at March 31, 2020 impairment indicators were identified related to the volatility of crude oil prices and uncertainty of demand as a result of the COVID-19 pandemic, as well as the carrying amount of the Company's net assets being greater than its market capitalization. As such, the Company performed an impairment analysis on each of its CGUs. These CGUs are based on contract drilling rigs, well servicing rigs and oilfield rental equipment within the Company's contract drilling and production services operating segments.

As at March 31, 2020, the recoverable amounts allocated to these CGUs were determined from a fair value less costs to sell cash flow projection based on historical results, recent industry conditions and the Company's most recent 2020 forecast. Cash flow projections for 2021 to 2024 assumed a gradual increase in activity, however remained below historical levels. Cash flow projections thereafter were calculated using a 2% inflationary growth rate. For the purposes of completing the impairment analysis on the contract drilling CGU, assumptions were made relating to average contract drilling utilization, which ranged from approximately 12% to 60% per year. For the purposes of completing the impairment analysis on the well servicing CGU, assumptions were made relating to average well servicing utilization, which range from approximately 19% to 55% per year.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

8. Property and equipment (continued):

Cash flow projections were based on the average remaining economic life of the CGUs ranging from 7 to 15 years. Salvage values were based on management's best estimate, ranged between 0% and 20%, and included costs of disposal of 2%.

The forecasted cash flows were based on management's best estimates of asset utilization, pricing for available equipment, costs to maintain that equipment and an after tax discount rate of 13.0% per annum.

As at March 31, 2020 the results of the tests performed indicated an impairment of property and equipment of \$11.5 million, with \$9.5 million and \$2.0 million related to the contract drilling and oilfield rental equipment CGUs respectively. There was no impairment in the well servicing CGU.

The property and equipment impairments recorded in the first quarter of 2020, were due to the significant decrease in demand and volatile economic conditions associated with the COVID-19 pandemic and international price war, which resulted in significant reductions or cancellations to the capital spending plans for Western's customers, and a reduced outlook for oilfield service activity.

As at December 31, 2020, impairment indicators were identified related to the volatility of crude oil prices and uncertainty of demand as a result of the COVID-19 pandemic and the related vaccine rollout, as well as the carrying amount of the Company's net assets being greater than its market capitalization. As such, the Company performed an impairment analysis on each of its CGUs at December 31, 2020.

As at December 31, 2020, the recoverable amounts allocated to the CGUs were determined from a fair value less costs to sell cash flow projection based on historical results, recent industry conditions and the Company's most recent 2021 forecast. Cash flow projections for 2022 to 2025 have assumed an increase in activity, however remain below historical levels. Cash flow projections thereafter are calculated using a 2% inflationary growth rate. For the purposes of completing the impairment analysis on the contract drilling CGU, assumptions were made relating to average contract drilling utilization, which range from 18% to 46% per year. For the purposes of completing the impairment analysis on the well servicing CGU, assumptions were made relating to average well servicing utilization, which range from approximately 26% to 46% per year.

Cash flow projections are based on the average remaining economic life of the contract drilling and well servicing CGUs, which range from 6 to 14 years. Salvage values have been based on management's best estimate, range between 0% and 20%, and include costs of disposal of 2%.

The forecasted cash flows are based on management's best estimates of asset utilization, pricing for available equipment, costs to maintain that equipment and an after tax discount rate of 13.0% per annum.

The results of the tests indicated no further impairment of property and equipment related to the contract drilling, well servicing, or oilfield rental equipment CGUs at December 31, 2020.

The following table summarizes the impairment impact of changes to the most sensitive inputs by CGU as at December 31, 2020. The most sensitive inputs to the model are the discount rate and the future cash flows. The impairment test's sensitivity to these inputs is as follows:

Cash Generating Unit	Total Impairment (in \$000s)			
	0.5% Increase in Discount Rate	0.5% Decrease in Discount Rate	5% Decrease in Cash Flows	5% Increase in Cash Flows
Contract drilling	\$ 4,300	\$ -	\$ 13,300	\$ -
Well servicing	100	-	2,200	-
Oilfield rental equipment	-	-	400	-
Total	\$ 4,400	\$ -	\$ 15,900	\$ -

Western Energy Services Corp.

Notes to the consolidated financial statements

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

8. Property and equipment (continued):

Year ended December 31, 2019:

As at December 31, 2019, the Company identified impairment indicators related to the prolonged commodity price downturn and the carrying amount of the Company's net assets being greater than its market capitalization, and as such performed an impairment analysis on each of its CGUs. These CGUs were contract drilling rigs, well servicing rigs and oilfield rental equipment within the Company's contract drilling and production services segments.

As at December 31, 2019, the recoverable amounts allocated to these CGUs were determined from a fair value less costs to sell cash flow projection based on historical results, recent industry conditions and the Company's most recent 2020 forecast. Cash flow projections for 2021 to 2024 assumed an increase in activity, however remained below historical levels. Cash flow projections thereafter were calculated using a 2% inflationary growth rate. For the purposes of completing the impairment analysis on the contract drilling CGU, assumptions were made relating to average contract drilling utilization, which range from approximately 27% to 46% per year. For the purposes of completing the impairment analysis on the well servicing CGU, assumptions were made relating to average well servicing utilization, which range from approximately 34% to 55% per year.

Cash flow projections were based on the average remaining economic life of the CGUs ranging from 7 to 15 years. Salvage values were based on management's best estimate, range between 0% and 20%, and include costs of disposal of 2%.

The forecasted cash flows were based on management's best estimates of asset utilization, pricing for available equipment, costs to maintain that equipment and an after tax discount rate of 13.0% per annum.

The results of the tests indicated an impairment of property and equipment at December 31, 2019 of \$54.0 million, with \$49.0 million and \$5.0 million related to the contract drilling and oilfield rental equipment CGUs respectively. There was no impairment in the well servicing CGU. The property and equipment impairment losses were due to the continued market uncertainty which resulted in reductions to the capital spending plans for Western's customers, and resulted in a reduced outlook for oilfield service activity. Based on the fair value less costs to sell calculation, the after tax recoverable amount of the contract drilling, well servicing and oilfield rental equipment CGUs was \$375.4 million, \$84.3 million, and \$13.9 million respectively, as at December 31, 2019.

The most sensitive inputs to the model were the discount rate and the future cash flows. The impairment test's sensitivity to these inputs was as follows: All else being equal, a 0.5% increase in the discount rate would have led to additional impairment losses of \$10.8 million for the contract drilling CGU and \$0.2 million for the oilfield rental equipment CGU. All else being equal, a 5% decrease in cash flows would have led to additional impairment losses of \$20.6 million for the contract drilling CGU and \$0.9 million for the oilfield rental equipment CGU. All else being equal, a 0.5% decrease in the discount rate would have led to a decrease in the impairment losses of \$11.5 million for the contract drilling CGU and \$0.3 million for the oilfield rental equipment CGU. All else being equal, a 5% increase in cash flows would have led to a decrease in the impairment losses of \$20.3 million for the contract drilling CGU and \$1.0 million for the oilfield rental equipment CGU. There was no impairment in the well servicing CGU and no impact from the above sensitivities.

9. Trade payable and other current liabilities:

Trade payables and current liabilities as at December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Trade payables	\$ 8,948	\$ 11,086
Accrued trade payables and expenses	14,190	16,434
Total	\$ 23,138	\$ 27,520

The Company's exposure to foreign exchange and liquidity risk related to trade payables and other current liabilities is disclosed in Note 18.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

10. Long term debt:

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

	December 31, 2020	December 31, 2019
Current:		
Second Lien Facility	\$ 2,150	\$ 2,150
Lease obligations ⁽¹⁾	2,843	3,593
PPP Loan	227	-
Less: unamortized issue costs	(859)	(867)
Total current portion of long term debt	4,361	4,876
Non current:		
Second Lien Facility	207,475	209,625
HSBC Facility	12,500	-
Revolving Facility	11,000	12,000
Operating Facility	-	297
PPP Loan	2,001	-
Lease obligations ⁽¹⁾	5,858	8,135
Less: unamortized issue costs	(1,201)	(1,783)
Total non current portion of long term debt	237,633	228,274
Total long term debt	\$ 241,994	\$ 233,150

(1) Lease obligations include leases capitalized under IFRS 16. During the year ended December 31, 2020, the Company expensed \$0.1 million (year ended December 31, 2019: \$0.1 million), related to leases of low value assets or leases with a term of less than one year.

Credit Facilities:

On December 31, 2020, the Company amended the terms and extended the maturity of the \$50.0 million syndicated revolving credit facility (the "Revolving Facility") and the \$10.0 million committed operating facility (the "Operating Facility" and together the "Credit Facilities") to July 1, 2022.

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

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

As at December 31, 2020, the Company was in compliance with its borrowing base requirement, as its \$11.0 million Credit Facility draw was less than the maximum amount calculated under the borrowing base.

Amounts borrowed under the Credit Facilities bear interest at the bank's Canadian prime rate, or the banker's acceptance rate plus an applicable margin depending, in each case, on the ratio of Consolidated Debt to Consolidated EBITDA as defined by the Credit Facilities agreement. The Credit Facilities are secured by the assets of the Company and its subsidiaries. As at December 31, 2020, \$11.0 million (December 31, 2019: \$12.3 million) was drawn on the Credit Facilities.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

10. Long term debt (continued):

In conjunction with the Credit Facility extension, Western and its lenders agreed to make some other changes to the Credit Facilities, including the following adjustments to its financial covenants:

- The Company has obtained covenant relief for the third and fourth quarters of 2021 whereby:
 - the consolidated senior debt to consolidated EBITDA covenant is waived;
 - a minimum liquidity of \$5.0 million is required;
 - a maximum consolidated senior debt to consolidated capitalization ratio of 0.10x has been added; and
- Annual capital expenditures for 2021 cannot exceed \$10.0 million.

The Company's Credit Facilities are subject to the following financial covenants at December 31, 2020:

	Covenant	December 31, 2020
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⁾	0.6:1.0 or less	0.49:1.0
Minimum Current Ratio ⁽⁵⁾	1.15:1.0 or more	2.49:1.0

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

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

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

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

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

As at December 31, 2020 and 2019, the Company was in compliance with all covenants related to its Credit Facilities.

Second Lien Facility:

At December 31, 2020, the Company had \$209.6 million (December 31, 2019: \$211.8 million) outstanding on the second lien secured term loan facility (the "Second Lien Facility"). Interest is payable semi-annually, at a rate of 7.25% per annum, on January 1 and July 1 each year. Amortization payments equal to 1% of the initial principal amount of \$215.0 million are payable annually, in quarterly installments, with the balance due on January 31, 2023.

HSBC Facility:

In conjunction with the amended Credit Facilities on December 31, 2020, Western entered into an agreement with HSBC Bank Canada ("HSBC") for a \$12.5 million committed term non-revolving facility (the "HSBC Facility") with the participation of Business Development Bank of Canada ("BDC") under BDC's Business Credit Availability Program ("BCAP"). The BCAP program was implemented to help small and medium sized companies, directly impacted by the COVID-19 pandemic, by providing additional liquidity to cover operating costs. The HSBC Facility was fully funded on December 31, 2020 and bears interest at a floating rate. Principal amounts are payable monthly beginning January 2022, with the balance due upon maturity on December 31, 2026. The Company used the proceeds to fund its January 2021 interest and principal payments under the Second Lien Facility, and the remaining funds will be used for future interest and principal payments to Alberta Investment Management Corporation.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

10. Long term debt (continued):

PPP Loan:

At December 31, 2020, the Company had \$2.2 million (December 31, 2019: nil) outstanding related to the US paycheck protection program ("PPP"). Interest and principal is payable over the term of the loan, at a rate of 1% per annum, with the balance due upon maturity on July 23, 2025. The PPP loan may be forgiven subject to certain conditions if the proceeds are used for US payroll, utility costs and other specific operating costs incurred, within twenty four weeks of funding, as outlined by US Treasury guidelines. Management estimates that a portion of the loan will be forgiven if all conditions are met. For the year ended December 31, 2020, the Company recognized US\$0.3 million related to PPP loan forgiveness, as a reduction of operating expenses.

11. 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, 2018	92,305,542	\$ 441,512
Issued on vesting of restricted share units	195,772	282
Balance at December 31, 2019	92,501,314	441,794
Issued on vesting of restricted share units	247,798	145
Shares purchased under normal course issuer bid	(1,584,000)	(478)
Balance at December 31, 2020	91,165,112	\$ 441,461

There were no dividends declared during the years ended December 31, 2020 and 2019.

12. 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, 2018	8,313,537	\$ 3.55
Granted	2,221,410	0.24
Forfeited	(1,832,840)	2.03
Expired	(1,375,577)	9.36
Balance at December 31, 2019	7,326,530	1.84
Granted	2,484,600	0.26
Forfeited	(1,161,785)	1.62
Expired	(1,184,658)	5.16
Balance at December 31, 2020	7,464,687	\$ 0.82

For the years ended December 31, 2020 and 2019, no stock options were cancelled. The average fair value of the stock options granted in 2020 was \$0.10 per stock option (2019: \$0.08 per stock option).

Western Energy Services Corp.

Notes to the consolidated financial statements

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

12. Stock based compensation (continued):

The following table summarizes the details of the Company's outstanding stock options:

As at December 31, 2020 Exercise Price (\$/share)	Number of options outstanding	Weighted average contractual life remaining (years)	Number of options exercisable
0.20-0.25	1,601,510	3.64	534,018
0.26-0.29	2,463,615	4.65	-
0.30-1.00	1,815,400	2.59	1,204,895
1.01-2.00	795,271	1.71	774,304
2.01-3.68	788,891	0.65	788,891
	7,464,687	3.19	3,302,108

As at December 31, 2020, the Company had 3,302,108 (December 31, 2019: 3,591,607) exercisable stock options outstanding at a weighted average exercise price equal to \$1.42 (December 31, 2019: \$3.14) per stock option.

The accounting fair value of the Company's stock options as at the date of grant is calculated in accordance with a Black Scholes option pricing model using the following average inputs:

	Year ended December 31, 2020	Year ended December 31, 2019
Risk-free interest rate	0.3%	1.4%
Average forfeiture rate	23.7%	21.9%
Average expected life	2.0 years	2.0 years
Maximum life	5.0 years	5.0 years
Average vesting period	2.0 years	2.0 years
Expected dividend	-	-
Expected share price volatility	71.6%	60.8%

Restricted share unit plan:

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

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

	Equity settled	Cash settled	Total
Balance at December 31, 2018	543,997	1,054,475	1,598,472
Granted	408,495	388,670	797,165
Vested	(195,771)	(429,277)	(625,048)
Forfeited	(110,474)	(195,196)	(305,670)
Balance at December 31, 2019	646,247	818,672	1,464,919
Granted	915,430	8,780	924,210
Vested	(247,797)	(459,419)	(707,216)
Forfeited	(69,721)	(104,351)	(174,072)
Balance at December 31, 2020	1,244,159	263,682	1,507,841

The estimated fair value of the equity settled RSUs granted during the year ended December 31, 2020 was \$0.2 million (December 31, 2019: \$0.1 million) and will be recognized as an expense over the vesting period of the RSUs.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

12. Stock based compensation (continued):

The accounting fair value of the Company's equity settled RSUs as at the grant date is calculated in accordance with a Black Scholes option pricing model using the following average inputs:

	Year ended December 31, 2020	Year ended December 31, 2019
Risk-free interest rate	0.3%	1.4%
Average forfeiture rate	15.3%	11.9%
Average expected life	2.0 years	2.0 years
Maximum life	3.0 years	3.0 years
Average vesting period	2.0 Years	2.0 Years
Expected dividend	-	-
Expected share price volatility	71.6%	60.9%

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

	Year ended December 31, 2020	Year ended December 31, 2019
Stock options	\$ 212	\$ 389
Restricted share units – equity settled grants	152	210
Total equity settled stock based compensation expense	364	599
Restricted share units – cash settled grants	85	(13)
Total stock based compensation expense	\$ 449	\$ 586

The outstanding liability related to cash settled RSUs at December 31, 2020 was \$0.1 million (December 31, 2019: \$0.1 million).

Warrants:

As at December 31, 2020, Western had no warrants outstanding (December 31, 2019: 7,099,546) as all warrants expired unexercised on October 17, 2020. Each warrant entitled the holder to acquire one common share at an exercise price of \$1.77 per common share at any time prior to October 17, 2020. The accounting fair value of the warrants as at the grant date was calculated in accordance with a Black Scholes option pricing model using a risk free interest rate of 1.5%, a forfeiture rate of nil, an average expected life of 1.5 years, an expected dividend of nil, and an expected share price volatility of 50%. The fair value of the Company's warrants at October 17, 2017, when granted, was approximately \$1.1 million.

13. Earnings per share:

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

	Year ended December 31, 2020	Year ended December 31, 2019
Issued common shares, beginning of period	92,501,314	92,305,542
Weighted average number of common shares issued	94,013	74,360
Weighted average number of common shares repurchased	(1,341,806)	-
Weighted average number of common shares (basic)	91,253,521	92,379,902
Dilutive effect of equity securities	-	-
Weighted average number of common shares (diluted)	91,253,521	92,379,902

For the year ended December 31, 2020, 7,464,687 stock options (December 31, 2019: 7,326,530 stock options), 1,244,159 equity settled RSUs (December 31, 2019: 646,247 equity settled RSUs) and nil warrants (December 31, 2019: 7,099,546) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

Western Energy Services Corp.

Notes to the consolidated financial statements

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14. Finance costs:

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

	Year ended December 31, 2020	Year ended December 31, 2019
Interest expense on long term debt	\$ 16,752	\$ 17,377
Amortization of debt financing fees	348	466
Accretion expense on Second Lien Facility	867	870
Interest income	(4)	(16)
Total finance costs	\$ 17,963	\$ 18,697

The Company had an effective interest rate of 7.7% on its borrowings for the year ended December 31, 2020 (December 31, 2019: 7.9%).

15. Other items:

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

	Year ended December 31, 2020	Year ended December 31, 2019
Gain on sale of fixed assets	\$ (289)	\$ (520)
Realized foreign exchange gain	(1,700)	(33)
Unrealized foreign exchange (gain) loss	(3)	143
Total other items	\$ (1,992)	\$ (410)

16. Income taxes:

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

	Year ended December 31, 2020	Year ended December 31, 2019
Current tax expense (recovery)	\$ 4	\$ (29)
Deferred tax recovery	(14,613)	(30,743)
Total income tax recovery	\$ (14,609)	\$ (30,772)

The following provides a reconciliation of loss before income taxes to total income taxes recognized in the consolidated statements of operations and comprehensive income (loss):

	Year ended December 31, 2020	Year ended December 31, 2019
Loss before income taxes	\$ (55,910)	\$ (111,802)
Federal and provincial statutory rates	24.1% (13,474)	23.8% (26,609)
Income (loss) taxed at higher rates	(87)	96
Stock based compensation	83	135
Non controlling interest	10	17
Non-deductible expenses	(209)	207
Change in effective tax rate on temporary differences	(1,002)	(4,685)
Return to provision adjustment	46	40
Other	24	27
Total income taxes	\$ (14,609)	\$ (30,772)

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16. Income taxes (continued):

The following table details the nature of the Company's temporary differences:

	December 31, 2020	December 31, 2019
Property and equipment	\$ (87,530)	\$ (96,441)
Deferred charges and accruals	23	(16)
Long term debt	1,816	2,503
Share issue costs	85	168
Other tax pools	1,238	1,172
Tax loss carry forwards	76,348	69,839
Net deferred tax liabilities	\$ (8,020)	\$ (22,775)

Movements of the Company's temporary differences for the year ended December 31, 2020 are as follows:

	Balance Dec 31, 2019	Recognized in equity	Recognized in net income (loss)	Impact of foreign exchange	Balance Dec 31, 2020
Property and equipment	\$ (96,441)	\$ -	\$ 8,477	\$ 434	\$ (87,530)
Deferred charges and accruals	(16)	-	39	-	23
Long term debt	2,503	-	(687)	-	1,816
Share issue costs	168	-	(83)	-	85
Other tax pools	1,172	-	72	(6)	1,238
Tax loss carry forwards	69,839	-	6,795	(286)	76,348
Net deferred tax liabilities	\$ (22,775)	\$ -	\$ 14,613	\$ 142	\$ (8,020)

Movements of the Company's temporary differences for the year ended December 31, 2019 are as follows:

	Balance Dec 31, 2018	Recognized in equity	Recognized in net income (loss)	Impact of foreign exchange	Balance Dec 31, 2019
Property and equipment	\$ (123,961)	\$ -	\$ 26,171	\$ 1,349	\$ (96,441)
Deferred charges and accruals	(56)	-	43	(3)	(16)
Provisions	364	-	(364)	-	-
Long term debt	(60)	-	2,563	-	2,503
Share issue costs	285	-	(117)	-	168
Other tax pools	1,493	376	(672)	(25)	1,172
Tax loss carry forwards	67,603	-	3,119	(883)	69,839
Net deferred tax liabilities	\$ (54,332)	\$ 376	\$ 30,743	\$ 438	\$ (22,775)

As at December 31, 2020, the Company has loss carry forwards equal to approximately \$250.9 million in Canada, which will expire between 2035 and 2040. In the United States, the Company has approximately US\$48.7 million loss carry forwards which expire between 2028 and 2039.

17. Costs by nature:

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

	Year ended December 31, 2020	Year ended December 31, 2019
Employee salaries and benefits ⁽¹⁾	\$ 51,934	\$ 111,479
Repairs and maintenance	8,041	19,285
Third party charges	5,805	12,315

(1) Includes the Canada Emergency Wage Subsidy of \$8.2 million and eligible PPP loan forgiveness of US\$0.3 million as described in Note 3 (p).

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18. Financial risk management:

Interest rate risk:

The Company is exposed to interest rate risk on certain debt instruments, such as the Credit Facility and the HSBC Facility, to the extent the prime interest rate changes and/or the Company's interest rate margin changes. For the Credit Facilities, a one percent change in interest rates would have had a \$0.1 million impact on interest expense for the year ended December 31, 2020 (December 31, 2019: \$0.1 million). Other long term debt, such as the Second Lien Facility, PPP loan and the Company's lease obligations, have fixed interest rates, however they are subject to interest rate fluctuations relating to refinancing.

Foreign exchange risk:

The Company is exposed to foreign currency fluctuations in relation to its US dollar capital expenditures and international operations. From time to time, the Company may use forward foreign currency contracts to hedge against these fluctuations. At December 31, 2020, portions of the Company's cash balances, trade and other receivables, trade payables and other current liabilities were denominated in US dollars and subject to foreign exchange fluctuations which are recorded within net income (loss). In addition, Stoneham, Western's US subsidiary, is subject to foreign currency translation adjustments upon consolidation, which is recorded separately within other comprehensive income (loss). For the year ended December 31, 2020, the increase or decrease in net income (loss) and other comprehensive income (loss) for each one percent change in foreign exchange rates between the Canada and US dollar is estimated to be \$0.1 million and \$0.3 million, respectively (December 31, 2019: \$0.1 million and \$0.4 million, respectively).

Credit risk:

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

The Company's trade receivables are with customers in the crude oil and natural gas industry and are subject to normal industry credit risk. The Company's practice is to manage credit risk by performing a thorough analysis of the credit worthiness of new customers before the Company's standard payment terms are offered.

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

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

The Company completes a detailed review of its historical credit losses as part of its impairment assessment. The Company has had low historical impairment losses on its trade and other receivables, due in part to its credit management processes. As such, the Company assesses impairment losses on an individual customer account basis, rather than recognize a loss allowance on all outstanding trade and other receivables. Subsequent to December 31, 2020, the Company has collected 71% of its trade and other receivables that were outstanding at December 31, 2020.

At December 31, 2020, approximately 8% of the Company's trade receivables were more than 90 days old. The Company believes the unimpaired amounts greater than 90 days old are still collectible based on historic payment behavior and an analysis of the underlying customers' ability to pay.

Western Energy Services Corp.

Notes to the consolidated financial statements

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18. Financial risk management (continued):

The table below provides an analysis of the Company's trade and other receivables as at December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Trade receivables:		
Current	\$ 9,330	\$ 14,352
Outstanding for 31 to 60 days	4,512	8,364
Outstanding for 61 to 90 days	59	2,216
Outstanding for over 90 days	1,233	768
Accrued trade receivables	2,001	3,318
Other receivables	2,389	531
Allowance for doubtful accounts	(1,278)	(55)
Total	\$ 18,246	\$ 29,494

Impairment losses:

The allowance for doubtful accounts in respect of trade and other receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered unrecoverable and are written off against the financial asset directly. For the year ended December 31, 2020, the Company impaired \$1.3 million in trade receivables (December 31, 2019: less than \$0.1 million).

Liquidity risk:

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

The table below provides an analysis of the expected maturities of the Company's outstanding obligations at December 31, 2020:

	Total amount	2021	Due prior to December 31					
			2022	2023	2024	2025	Thereafter	
Financial liabilities:								
Trade payables and other current liabilities	\$ 23,138	\$ 23,138	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revolving Facility	11,000	-	11,000	-	-	-	-	-
HSBC Facility	12,500	-	1,250	1,250	1,250	1,250	7,500	
Second Lien Facility	209,625	2,150	2,150	205,325	-	-	-	
Lease obligations	8,701	2,843	2,163	1,860	1,690	145	-	
PPP Loan	2,228	227	548	554	559	340	-	
Total	\$ 267,192	\$ 28,358	\$ 17,111	\$ 208,989	\$ 3,499	\$ 1,735	\$ 7,500	

Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing returns.

The Company may use derivatives and also incur financial liabilities in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors. The Company does not apply hedge accounting in order to manage volatility within the statements of operations and comprehensive income (loss).

Western Energy Services Corp.

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

18. Financial risk management (continued):

Capital management:

The overall capitalization of the Company at December 31, 2020 and December 31, 2019 is as follows:

	Note	December 31, 2020	December 31, 2019
Second Lien Facility	10	\$ 209,625	\$ 211,775
HSBC Facility	10	12,500	-
Revolving Facility	10	11,000	12,000
Operating Facility	10	-	297
PPP Loan	10	2,228	-
Finance lease obligations	10	8,701	11,728
Total debt		244,054	235,800
Shareholders' equity		222,473	267,092
Less: cash and cash equivalents		(19,322)	(4,015)
Total capitalization		\$ 447,205	\$ 498,877

Management is focused on several objectives while managing the capital structure of the Company, specifically:

- Safeguarding the entity's ability to continue as a going concern, such that it continues to provide returns for shareholders and benefits for other stakeholders;
- Maintaining a strong capital base to ensure that investor, creditor and market confidence are secured;
- Maintaining balance sheet strength, ensuring the Company's strategic objectives are met, while retaining an appropriate amount of leverage; and
- Ensuring the Company has the financing capacity to continue to execute on opportunities to increase overall market share through strategic acquisitions or organic growth that add value for the Company's shareholders.

The Company manages its capital structure based on current economic conditions, the risk characteristics of the underlying assets, and planned capital requirements within guidelines approved by its Board of Directors. Total capitalization is maintained or adjusted by drawing on existing debt facilities, issuing new debt or equity securities when opportunities are identified and through the disposition of underperforming assets to reduce debt when required.

As at December 31, 2020, the Company had \$49.0 million in undrawn credit under its Credit Facilities and was in compliance with all debt covenants (see Note 10).

19. Commitments:

As at December 31, 2020, the Company has commitments which require payments based on the maturity terms as follows:

	2021	2022	2023	2024	2025	Thereafter	Total
Second Lien Facility	\$ 2,150	\$ 2,150	\$ 205,325	\$ -	\$ -	\$ -	\$ 209,625
Second Lien Facility interest	15,179	15,105	7,473	-	-	-	37,757
HSBC Facility	-	1,250	1,250	1,250	1,250	7,500	12,500
HSBC Facility interest	806	769	688	610	527	447	3,847
Revolving Facility	-	11,000	-	-	-	-	11,000
Trade payables and other current liabilities ⁽¹⁾	15,507	-	-	-	-	-	15,507
Operating commitments ⁽²⁾	1,705	716	688	688	57	-	3,854
PPP Loan	238	571	571	571	344	-	2,295
Lease obligations ⁽³⁾	3,271	2,457	2,039	1,759	146	-	9,672
Total	\$ 38,856	\$ 34,018	\$ 218,034	\$ 4,878	\$ 2,324	\$ 7,947	\$ 306,057

(1) Trade payables and other current liabilities exclude the Company's interest accrued as at December 31, 2020 on the Second Lien Facility.

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

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

Western Energy Services Corp.

Notes to the consolidated financial statements

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

19. Commitments (continued):

Second Lien Facility and interest:

The Company pays interest on the Second Lien Facility semi-annually on January 1 and July 1. The Second Lien Facility is due January 31, 2023.

HSBC Facility and interest:

The Company pays interest and principal on the HSBC Lien Facility monthly, with principal payments beginning January 2022. The HSBC Facility is due December 31, 2026.

Trade payables and other current liabilities:

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

Operating commitments:

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

PPP Loan:

The Company pays interest and principal on the PPP loan over the term of the loan. The PPP loan is due July 23, 2025.

Lease obligations:

The Company has lease obligations relating to leased vehicles and facility leases.

20. Related party transactions:

During the years ended December 31, 2020 and 2019, the Company had no transactions with related parties. At December 31, 2020, there are no balances outstanding in trade and other receivables with related parties (December 31, 2019: \$nil).

21. Key management personnel:

Key management personnel are comprised of the Company's Board of Directors and Executive Management. The following table summarizes expenses related to key management personnel:

	Year ended	
	December 31, 2020	December 31, 2019
Short-term employee benefits	\$ 1,801	\$ 1,805
Stock based compensation ⁽¹⁾	138	211
	<u>\$ 1,940</u>	<u>\$ 2,016</u>

(1) The total fair value of stock options and RSUs granted to key management personnel for the year ended December 31, 2020 was \$0.2 million (December 31, 2019: less than \$0.1 million), which is being recognized in net income (loss) over the stock option's and RSU's vesting period.

22. Subsidiaries:

Details of the Company's material wholly owned subsidiaries and partnerships at the end of the reporting periods are as follows:

	Country of incorporation	Ownership interest (%)	
		December 31, 2020	December 31, 2019
Stoneham Drilling Corporation	USA	100	100
Western Production Services Corp.	Canada	100	100