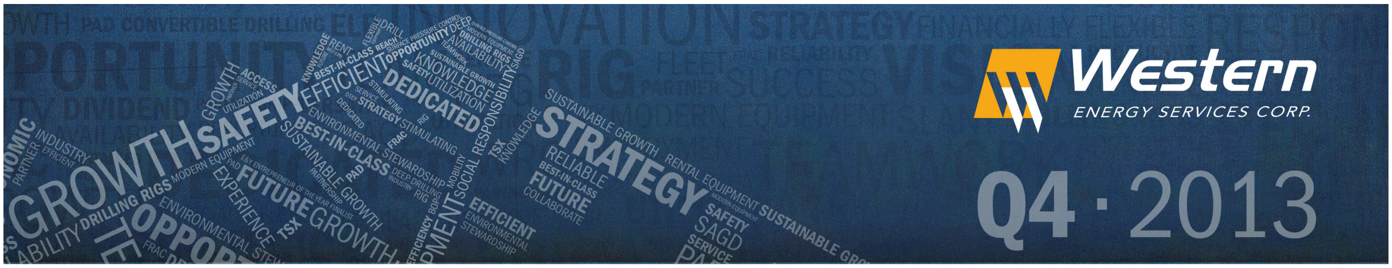

Management Discussion & Analysis 2013 — Dated: February 27, 2014

The following discussion of the financial condition, changes in financial condition and results of operations of Western Energy Services Corp. (the "Company" or "Western") should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Company for the years ended December 31, 2013 and 2012. This Management Discussion and Analysis ("MD&A") is dated February 27, 2014. All amounts are denominated in Canadian dollars (CDN$) unless otherwise identified.

Financial Highlights	**Three months ended December 31**		**Year ended December 31**		
(stated in thousands, except share and per share amounts)	**2013**	**2012**	**2013**	**2012**	**2011**
Revenue	129,713	83,338	379,943	308,617	262,519
Operating Revenue[1]	119,831	76,455	353,124	282,856	237,428
Gross Margin[1]	52,980	37,360	147,559	131,063	114,837
Gross Margin as a percentage of operating revenue	44%	49%	42%	46%	48%
EBITDA[1]	43,543	31,381	117,423	108,931	99,324
EBITDA as a percentage of operating revenue	36%	41%	33%	39%	42%
Cash flow from operating activities	36,866	11,021	114,358	104,916	59,368
Capital expenditures	27,529	20,328	95,234	127,231	88,869
Net income	15,797	13,092	35,246	45,178	64,746
-basic net income per share	0.22	0.22	0.51	0.77	1.25
-diluted net income per share	0.21	0.22	0.50	0.74	1.21
Weighted average number of shares					
-basic	73,374,219	59,485,594	69,032,574	58,784,692	51,595,078
-diluted	73,654,868	60,800,390	69,873,460	60,860,359	53,640,617
Outstanding common shares as at period end	73,386,191	59,582,143	73,386,191	59,582,143	58,533,287
Dividends declared	5,504	4,469	20,983	8,924	-
Dividends declared per common share	0.075	0.075	0.30	0.15	-
Operating Highlights					
Contract Drilling					
Canadian Operations					
Average contract drilling rig fleet	46	44	45	41	32
Operating Revenue per operating day (CDN$)[2]	28,884	28,867 [6]	27,513	29,102 [6]	26,909
Drilling rig utilization rate per revenue day[3]	72%	62%	61%	60%	77%
Drilling rig utilization rate per operating day[4]	65%	55%	55%	54%	70%
CAODC industry average utilization rate[4]	43%	40%	40%	42%	52%
United States Operations					
Average contract drilling rig fleet	5	5	5	5	4
Operating Revenue per operating day (US$)[2]	26,559	32,356	26,942	32,742	31,386 [7]
Drilling rig utilization rate per revenue day[3]	99%	79%	81%	85%	89% [7]
Drilling rig utilization rate per operating day[4]	87%	62%	67%	68%	70% [7]
Production Services					
Average well servicing rig fleet	65	7	48	5	-
Operating Revenue per service hour (CDN$)[2]	804	614	766	596	-
Service rig utilization rate[5]	53%	45%	45%	36%	-

(1) See Financial Measures Reconciliations on page 2.
(2) Operating Revenue per operating day and per service hour are calculated using Operating Revenue divided by operating days and service hours, respectively.
(3) Drilling rig utilization rate per revenue day is calculated based on operating and move days.
(4) Drilling rig utilization rate per operating day is calculated on operating days only (i.e. spud to rig release basis).
(5) Service rig utilization rate calculated based on full utilization of 10 hours per day, 365 days per year.
(6) Excludes $2.2 million of shortfall commitment revenue from take or pay contracts.
(7) Calculated from the date of acquisition of the United States operations (June 10, 2011).

Financial Position at (stated in thousands)	December 31, 2013	December 31, 2012	December 31, 2011
Working capital	50,616	77,628	39,874
Property and equipment	783,225	568,157	473,930
Total assets	986,792	749,448	619,645
Long term debt	262,877	186,948	108,039

Financial Measures Reconciliations

Western uses certain measures in this MD&A which do not have any standardized meaning as prescribed by International Financial Reporting Standards ("IFRS"). These measures which are derived from information reported in the consolidated statements of operations and comprehensive income may not be comparable to similar measures presented by other reporting issuers. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Company.

Operating Revenue

Management believes that in addition to revenue, Operating Revenue is a useful supplemental measure as it provides an indication of the revenue generated by Western's principal operating activities, excluding third party charges.

The following table provides a reconciliation of revenue under IFRS as disclosed in the consolidated statements of operations and comprehensive income to Operating Revenue:

	Three months ended December 31		Year ended December 31	
(stated in thousands)	**2013**	**2012**	**2013**	**2012**
Operating Revenue				
Drilling	90,754	74,840	284,469	279,456
Production services	29,275	1,615	69,004	3,400
Less: inter-company eliminations	(198)	-	(349)	-
	119,831	**76,455**	**353,124**	**282,856**
Third party charges	9,882	6,883	26,819	25,761
Revenue	**129,713**	**83,338**	**379,943**	**308,617**

Gross Margin

Management believes that in addition to net income, Gross Margin is a useful supplemental measure as it provides an indication of the results generated by Western's principal operating activities prior to considering administrative expenses, depreciation and amortization, how those activities are financed, the impact of foreign exchange, how the results are taxed, how funds are invested, and how non-cash items and one-time gains and losses affect results.

EBITDA

Management believes that in addition to net income, earnings before interest and finance costs, taxes, depreciation and amortization, other non-cash items and one-time gains and losses ("EBITDA") is a useful supplemental measure as it provides an indication of the results generated by the Company's principal operating activities similar to Gross Margin but also factors in the cash administrative expenses incurred in the period.

Operating Earnings

Management believes that in addition to net income, Operating Earnings is a useful supplemental measure as it provides an indication of the results generated by the Company's principal operating activities similar to EBITDA but also factors in the depreciation expense charged in the period.

The following table provides a reconciliation of net income under IFRS as disclosed in the consolidated statements of operations and comprehensive income to Gross Margin, EBITDA and Operating Earnings:

	Three months ended December 31		Year ended December 31	
(stated in thousands)	**2013**	**2012**	**2013**	**2012**
Gross Margin	52,980	37,360	147,559	131,063
Add (subtract):				
Administrative expenses	(10,195)	(6,572)	(33,163)	(24,409)
Depreciation - administrative	345	365	1,431	971
Stock based compensation - administrative	413	228	1,596	1,306
EBITDA	43,543	31,381	117,423	108,931
Depreciation - operating	(15,916)	(9,067)	(47,701)	(31,890)
Depreciation - administrative	(345)	(365)	(1,431)	(971)
Operating Earnings	27,282	21,949	68,291	76,070
Stock based compensation - operating	(252)	(153)	(895)	(537)
Stock based compensation - administrative	(413)	(228)	(1,596)	(1,306)
Finance costs	(5,155)	(3,237)	(17,058)	(12,437)
Other items	(363)	(583)	(496)	(756)
Income taxes	(5,302)	(4,656)	(13,000)	(15,856)
Net income	15,797	13,092	35,246	45,178

Overall Performance and Results of Operations

Western 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. Subsequent to the acquisition of IROC Energy Services Corp. ("IROC") on April 22, 2013, Western provides well servicing operations in Canada through IROC Energy Services Partnership's (the "Partnership") division Eagle Well Servicing ("Eagle"). Previously, well servicing operations were conducted through Western's division Matrix Well Servicing ("Matrix"). Western also provides oilfield rental services in Canada through the Partnership's division Aero Rental Services ("Aero"). Financial and operating results for Eagle and Aero from the date of the acquisition, as well as Matrix, are included in Western's production services segment. Subsequent to December 31, 2013, the name of the Partnership was changed to Western Energy Services Partnership.

In 2013, the commodity price environment for crude oil in Canada strengthened as compared to 2012, increasing approximately 8% year over year. Additionally, the price for natural gas has improved significantly, increasing approximately 29% year over year. The demand for oil, along with an emphasis on liquids rich natural gas, has resulted in the drilling of horizontal wells in both conventional and unconventional resource plays. Horizontal wells in the Western Canadian Sedimentary Basin ("WCSB"), as a percentage of all wells drilled, increased in 2013 to 70% compared to 65% in 2012. This has resulted in continued demand in the WCSB for Efficient Long Reach ("ELR") drilling rigs, with the industry utilization rate averaging 40% during 2013, which is consistent with the five year average of 41% and the prior year when industry utilization averaged 42%. During 2013, Western's entire drilling rig fleet has been focused on drilling horizontal wells. In Canada, Western's average operating days per well drilled decreased by 4% to 16.8 operating days per well in 2013 as compared to 17.5 operating days per well in 2012. However, the average meters drilled per well increased by 2% to 3,397 in 2013 as compared to 3,334 in the prior year, reflecting increased efficiencies in Western's drilling operations. In the United States, Western averaged 26.0 operating days per well drilled in 2013 as compared to 26.3 operating days per well in the prior year, a 1% decrease. The average meters drilled per well in the United States also decreased by 3% to 5,723 meters in 2013, compared to 5,897 meters in 2012. The average time it takes to drill a well has a direct relationship to the complexity and depth of the well.

Key operational results for the fourth quarter of 2013 include:

- Fourth quarter Operating Revenues increased by $43.4 million (or 57%) to $119.8 million in 2013 as compared to $76.4 million in 2012. The increase is due to the increased size and scale of Western's production services segment following the acquisition of IROC which resulted in an approximate $27.7 million increase in Operating Revenue in the period. Additionally, Operating Revenue in the contract drilling segment increased by $15.9 million due to higher utilization in both Canada and the United States coupled with a larger average drilling rig fleet in Canada. These increases were partially offset by decreased day rates in the United States, while day rates in Canada recovered in the fourth quarter of 2013 to remain unchanged, averaging approximately $28,900 in both the fourth quarters of 2013 and 2012.

- Fourth quarter EBITDA increased by $12.1 million (or 39%) to $43.5 million in 2013 (36% of Operating Revenue), as compared to $31.4 million in 2012 (41% of Operating Revenue). The increase in EBITDA is mainly due to the $8.1 million increased contribution from the production services segment following the acquisition of IROC, coupled with a $6.9 million increase in contract drilling EBITDA. These increases were offset by a $2.9 million increase in corporate administrative expenses, mainly due to approximately $2 million in one-time personnel costs. The Company was able to effectively control costs quarter over quarter, specifically in the contract drilling segment where, on a per operating day basis, administrative expenses decreased by 37%, and operating expenses decreased by 1%. The decrease in operating expenses and administrative expenses in the fourth quarter of 2013 was due in part to an increase of $1.1 million and $0.5 million respectively, in capitalized overhead costs, which directly relate to Western's capital program. Normalizing for the increased capitalized overhead costs, operating expenses per operating day remained constant year over year and administrative expenses per operating day decreased 28% compared to the fourth quarter of 2012. However, EBITDA as a percentage of Operating Revenue decreased compared to the prior year by approximately 500 bps mainly due to approximately $2.2 million of contracted shortfall commitment revenue recognized in 2012.
- Administrative expenses, excluding depreciation and stock based compensation, in the fourth quarter of 2013 increased $3.4 million to $9.4 million (8% of Operating Revenue) as compared to $6.0 million in the fourth quarter of 2012 (8% of Operating Revenue) mainly due to the previously mentioned one-time personnel costs, as well as the increased administrative expenses associated with the acquisition of IROC, partially offset by an increase in capitalized overhead of $0.5 million. Normalizing for the impact of these items, administrative expenses as a percentage of Operating Revenue was 6% in the fourth quarter of 2013 as compared to 8% in the same period of the prior year.
- Net income increased by $2.7 million to $15.8 million in the fourth quarter of 2013 ($0.22 per basic common share) as compared to net income of $13.1 million in the same period in the prior year ($0.22 per basic common share). The increase is mainly attributed to the increase in EBITDA of $12.1 million, partially offset by an increase in depreciation expense of $6.8 million due to increased activity, an increase of $1.9 million in finance costs due to the $90.0 million senior notes issued in September 2013 and increases in stock based compensation, income tax expense and other items totalling $0.7 million.
- Fourth quarter capital expenditures of $27.5 million include $23.3 million of expansion capital, $3.8 million of maintenance capital and $0.4 million for critical spares. The majority of the fourth quarter 2013 capital expenditures relate to the contract drilling segment, which incurred $24.5 million of capital expenditures. These expenditures mainly relate to Western's drilling rig build program, which totalled $12.7 million in the period relating to the construction of three drilling rigs, one of which was commissioned in the fourth quarter of 2013 with the remaining two rigs commissioned in the first quarter of 2014. The remaining capital spending in the contract drilling segment related to ancillary drilling equipment. Additionally, $2.9 million was incurred in the production services segment mainly relating to the purchase of additional oilfield rental equipment.

Key operational results for the year ended December 31, 2013 include:

- Operating Revenues for 2013 increased by $70.2 million (or 25%) to $353.1 million as compared to $282.9 million in the same period of the prior year. The increase is mainly due to a $65.6 million increase in Operating Revenue in the production services segment following the IROC acquisition completed on April 22, 2013. The remaining increase is attributed to improved utilization and an increased drilling rig fleet in the Canadian contract drilling segment.
- EBITDA increased by $8.5 million (or 8%) to $117.4 million (33% of Operating Revenue) in 2013, as compared to $108.9 million (39% of Operating Revenue) in 2012. The increase in EBITDA is mainly attributed to the $18.1 million increased contribution from the production services segment following the acquisition of IROC coupled with improved utilization and an increased drilling rig fleet in Canada. These increases were partially offset by lower drilling day rates in both Canada and the United States, however Western continues to effectively control costs. In the contract drilling segment operating expenses per operating day have decreased by approximately 3% and administrative expenses have decreased approximately 8%.
- During 2013, administrative expenses, excluding depreciation and stock based compensation, increased $8.0 million to $30.1 million (9% of Operating Revenue) as compared to $22.1 million (8% of Operating Revenue) in 2012. The increase is mainly due to the increased administrative expenses associated with the acquisition of IROC which closed during spring break up in the second quarter of 2013, when Operating Revenue is seasonally low, and approximately $2 million in one-time personnel costs.

- For the year ended December 31, 2013, net income decreased by $9.9 million to $35.2 million ($0.51 per basic common share) as compared to $45.2 million ($0.77 per basic common share) in 2012. The decrease in net income reflects increased depreciation of $16.3 million due to increased activity in both contract drilling and production services, increased finance costs of $4.6 million due to the additional $90.0 million in senior notes issued in September 2013, offset by the increase in EBITDA of $8.5 million and a decrease in income taxes of $2.9 million.
- Total capital expenditures of $95.2 million in 2013 include $78.7 million of expansion capital, $10.3 million of maintenance capital and $6.2 million for critical spares. The majority of the 2013 capital expenditures relate to the contract drilling segment, which incurred $86.5 million in capital expenditures. These expenditures mainly relate to Western's drilling rig build program, which totalled $47.5 million in 2013 relating to the commissioning of three drilling rigs during the year and an additional two rigs which were commissioned in the first quarter of 2014. The remaining capital spending in the contract drilling segment related to ancillary drilling equipment. Additionally, $8.2 million was spent in the production services segment in 2013 mainly relating to the purchase of additional oilfield rental equipment and the completion of the Company's well servicing rig build program.
- On April 22, 2013, the Company acquired all of the issued and outstanding shares of IROC in exchange for a combination of cash and common shares of Western. The total transaction value was approximately $176.3 million, including the assumption of $29.4 million in debt. A portion of the consideration included the issuance of approximately 12.4 million common shares of Western at an ascribed price of $6.80 per Western common share with the remaining $62.9 million of consideration paid in cash. IROC's well servicing fleet totalled 53 rigs, consisting of 22 singles, 25 doubles and 6 slant rigs. At the acquisition date, IROC had two well servicing rigs under construction: a double, which was commissioned in June 2013 and a slant rig, which was commissioned in July 2013. Additionally, IROC's assets included approximately $35 million in oilfield rental equipment and three coiled tubing units. The three coiled tubing units owned by IROC were not operated by Western after the acquisition and were sold in the third quarter of 2013 for proceeds of approximately $4.2 million.
- On September 18, 2013 Western completed a private offering of $90.0 million aggregate principal amount of 7⅞% senior unsecured notes due January 30, 2019 which were issued at $1,016.25 per $1,000.00 principal amount plus accrued interest from and including July 30, 2013. Western used the net proceeds from the offering to repay all of its outstanding indebtedness under its secured credit facilities, which was incurred as a result of the acquisition of IROC, and for general corporate purposes.
- On October 18, 2013, Western extended the maturity date of its $125.0 million extendible revolving credit facility (the "Revolving Facility") to October 18, 2017. There were no other material changes to the terms of the Revolving Facility.

Subsequent Events

- On February 27, 2014, the Board of Directors of Western declared a quarterly dividend of $0.075 per share, payable on April 14, 2014 to shareholders of record at the close of business on March 31, 2014. On a prospective basis, the declaration of dividends will be determined on a quarter-by-quarter basis by the Board of Directors.

Outlook

Western's operations are focused on three core business lines: contract drilling, well servicing and oilfield equipment rental services. Western currently has a drilling rig fleet of 54 rigs, with an average age of approximately six years. Western is the sixth largest drilling contractor in Canada with a fleet of 49 rigs operating through Horizon. Additionally, Western has five ELR triple drilling rigs deployed in the United States operating through Stoneham. Western is also the seventh largest well servicing company in Canada with a fleet of 65 rigs operating through Eagle. Western's well servicing fleet is one of the newest in the WCSB, with an average age of approximately four years. Western's oilfield equipment rental division operates through Aero, which provides oilfield rental equipment to meet our customer's needs in drilling and various completion processes such as fracturing, coil tubing and steam assisted gravity drainage ("SAGD") operations for oil and gas producers and oilfield service companies.

Western's drilling rig fleet is specifically suited for the current market which is focused on drilling horizontal wells of increased complexity. In total, 94% of Western's fleet are ELR drilling rigs with depth ratings greater than 3,000 meters and all of Western's rigs are capable of drilling resource based horizontal wells. Approximately 41% of Western's fleet is currently under long term take-or-pay contracts, an increase from the third quarter of 2013 when approximately one third of the fleet was under long term contracts. The increase is due to improved demand for high quality deep drilling rigs such as Western's. The average remaining term on these contracts is approximately 2.2 years, which provides a base level of revenue. These contracts typically generate 250 operating days per year in Canada, as spring breakup restricts activity during the second quarter, while in the United States these contracts typically range from 330 to 365 revenue generating days per year.

Western’s approved capital spending for 2014 totals approximately $104 million, which is comprised of $21 million of carry forward capital from 2013, $52 million relating to Western’s previously announced 2014 budget and the additional $31 million announced today for the construction of one 5,500m ELR AC triple drilling rig and one 4,500m telescopic ELR double drilling rig. In total, Western’s 2014 capital plan includes approximately $62 million in expansion capital and $42 million in maintenance capital, including $10 million for critical spare equipment. The $21 million of carry forward from Western’s 2013 capital program is mainly related to the completion in January 2014 of one telescopic Efficient Long Reach double drilling rig in Canada, as well as the completion of two additional 1,500 hp AC pad conversions in the United States. Western believes the 2014 capital budget provides a prudent use of cash resources and ensures that it has the flexibility to execute on strategic opportunities as they arise. This budget demonstrates the Company’s commitment to maintaining Western’s premier drilling and service rig fleet while expanding Western’s strategic presence in the oilfield rental equipment market. Western will continue to evaluate and expand its operations in a prudent manner and make any required adjustments to its capital program as these opportunities unfold in 2014.

During 2013, the price for light crude oil improved with the Edmonton Par price increasing 8% year over year, however the price for heavy crude oil, such as the Western Canadian Select price, increased by only 1% year over year. Natural gas prices have also improved; although they remain low by historical standards, the AECO 30-day spot rate increased on average by 29% in 2013 as compared to 2012. The increased commodity price environment and improving economic conditions in North America led to increased oilfield services activity in the fourth quarter of 2013, which has further improved through the first two months of 2014. Western believes oilfield services activity in 2014 and beyond will improve, providing additional drilling rig build opportunities at attractive rates that meet our return on investment criteria. Activity is expected to continue improving as liquefied natural gas projects gain approval, crude oil transportation capacity increases through rail and pipeline development, drilling activity increases in the Duvernay and Montney resource plays in Alberta and northeast British Columbia, and as foreign investment continues to flow into Canada. Currently, the largest challenges facing the oilfield services industry are producer spending constraints, pricing differentials on Canadian crude oil, historically low natural gas prices, and the challenge to attract and retain skilled labour. The Company believes Western’s modern drilling and well servicing rig fleet and corporate culture will provide a distinct advantage in retaining and attracting qualified individuals. Western is of the view, that its modern fleet, strong customer base and solid reputation provide a competitive advantage which will enable the Company to continue its growth strategy and higher than industry average utilization.

Segmented Information

Western operates in the contract drilling segment in both Canada and the United States as well as the production servicing segment in Canada. Contract drilling includes drilling rigs along with related equipment. Production services includes well servicing rigs and related equipment as well as oilfield rental equipment.

Contract Drilling

	Three months ended December 31		Year Ended December 31	
(stated in thousands)	**2013**	**2012**	**2013**	**2012**
Revenue				
Operating revenue	90,754	74,840	284,469	279,456
Third party charges	7,973	6,883	23,553	25,761
Total revenue	98,727	81,723	308,022	305,217
Expenses				
Operating				
Cash operating expenses	55,586	44,665	182,800	174,220
Depreciation	11,533	8,886	37,778	31,477
Stock based compensation	173	135	687	501
Total operating expenses	67,292	53,686	221,265	206,198
Administrative				
Cash administrative expenses	3,573	4,425	16,059	15,886
Depreciation	65	87	328	375
Stock based compensation	108	(39)	278	217
Total administrative expenses	3,746	4,473	16,665	16,478
Gross Margin(1)	43,141	37,058	125,222	130,997
Gross Margin as a percentage of operating revenue	48%	50%	44%	47%
EBITDA(1)	39,568	32,633	109,163	115,111
EBITDA as a percentage of operating revenue	44%	44%	38%	41%
Operating Earnings(1)	27,970	23,660	71,057	83,259
Capital expenditures	24,452	16,463	86,525	110,293
Canadian Operations				
Contract drilling rig fleet:				
Average	46	44	45	41
End of period	47	44	47	44
Operating revenue per operating day (CDN$)	28,884	28,867 (4)	27,513	29,102 (4)
Drilling rig operating days(3)	2,754	2,198	9,098	8,127
Number of meters drilled	506,950	357,439	1,844,099	1,546,841
Number of wells drilled	150	112	543	464
Average operating days per well	18.3	19.6	16.8	17.5
Drilling rig utilization rate per revenue day(2)	72%	62%	61%	60%
Drilling rig utilization rate per operating day(3)	65%	55%	55%	54%
CAODC industry average utilization rate(3)	43%	40%	40%	42%
United States Operations				
Contract drilling rig fleet:				
Average	5	5	5	5
End of period	5	5	5	5
Operating revenue per operating day (US$)	26,559	32,356	26,942	32,742
Drilling rig operating days(3)	402	286	1,228	1,238
Number of meters drilled	94,784	68,947	268,964	277,180
Number of wells drilled	17	12	47	47
Average operating days per well	24.4	23.8	26.0	26.3
Drilling rig utilization rate per revenue day(2)	99%	79%	81%	85%
Drilling rig utilization rate per operating day(3)	87%	62%	67%	68%

(1) See Financial Measures Reconciliations on page 2.
(2) Utilization rate per revenue day is calculated based on operating and move days.
(3) Utilization rate per operating day and drilling rig operating days are calculated on operating days only (i.e. spud to rig release basis).
(4) Excludes $2.2 million of shortfall commitment revenue from take or pay contracts.

During the year ended December 31, 2013, Operating Revenues in the contract drilling segment totalled $284.5 million; a $5.0 million (or 2%) increase over the prior year, due to increased operating days in Canada, partially offset by slightly lower activity in the United States, $2.2 million in contracted shortfall commitment revenue earned in the prior year and lower pricing in both Canada and the United States. In Canada, an increased average drilling rig fleet of 45 rigs in the current year, compared to 41 in 2012, and steady demand for the Company's contract drilling services resulted in increased operating days, as compared to the prior year. The Company's utilization in Canada increased to 55% in 2013, as compared to 54% in 2012, which coupled with the 10% increase in the Company's drilling rig fleet resulted in operating days increasing by 12% to 9,098 in 2013 as compared to 8,127 in the prior year. The Company's 2013 utilization in Canada of 55% reflects an approximate 1,500 bps premium to the Canadian Association of Oilwell Drilling Contractors ("CAODC") industry average of 40%. The Company's utilization premium over the CAODC average has improved by approximately 300 bps over the 1,200 bps spread in the prior year. This increase is attributed to the evolution of the Company's customer base which now includes a higher proportion of large independent and major exploration and production companies that drill through cycles and have a long term focus, coupled with Western's continued investment in our ELR fleet, which enhances the marketability of our rigs. For the year ended December 31, 2013, Operating Revenue per operating day in Canada decreased by $1,589 (or 5%) to $27,513 as compared to $29,102 in the prior year. This decrease is attributable to increased pricing pressure due to continued low industry average utilization through the first three quarters of 2013. However, prices increased in the fourth quarter of 2013 to comparable levels in the fourth quarter of the prior year.

Third party charges in Canada per operating day for the year ended December 31, 2013 totalled $2,536 compared to $3,082 in the prior year. The decrease in third party charges is partially due to the evolution of the Company's customer base, which now includes a higher proportion of large independent and major exploration and production companies that prefer to pay directly for items such as fuel, and a number of other significant flow through charges that were incurred in the prior year.

In the United States, operating days for the year ended December 31, 2013 remained constant decreasing 1% to 1,228 days, as compared to 1,238 days in 2012. Similarly, utilization for 2013 of 67% remained consistent with the 2012 average of 68%. While utilization during the first six months of 2013 was lower, due to drilling program changes from our largest customer in the United States, this was offset by higher utilization realized in the third and fourth quarters of 2013 as work with new customers was obtained, though at lower rates than previously realized. As such, Operating Revenues per operating day decreased to US$26,942 for the year ended December 31, 2013 compared to US$32,742 per operating day in the prior year, an 18% decrease. During 2013, Western added the first moving system to its drilling rig fleet in the United States and intends to add two additional moving systems as part of the 2014 capital budget, which coupled with an improved customer mix, is expected to increase the marketability and day rates of Western's United States based rigs.

During 2013, EBITDA in the contract drilling segment decreased by $5.9 million (or 5%) to $109.2 million (38% of the segment's Operating Revenue), as compared to $115.1 million (41% of the segment's Operating Revenue) in 2012. The decrease in EBITDA and EBITDA as a percentage of Operating Revenue is attributed to lower day rates and decreased contracted shortfall commitment revenue in 2013 as compared to 2012, offset by the increase in operating days.

In 2013, cash administrative expenses, excluding depreciation and stock based compensation, remained consistent at $16.1 million compared to $15.9 million in 2012. While cash administrative expenses increased in 2013 due to increased employee related expenses, which were required to support the larger drilling rig fleet, this increase was partially offset by an increase of approximately $0.5 million in capitalized overhead costs, which were directly related to the Company's capital program. On a per operating day basis, cash administrative expenses decreased approximately 8% year over year. Normalizing for the $0.5 million increase in capitalized overhead, on a per operating day basis cash administrative expenses decreased approximately 5% year over year.

Depreciation expense in the contract drilling segment for the year ended December 31, 2013 increased by $6.3 million to $37.8 million, due to increased operating days and additional capital invested for items such as increasing the pumping capacity of the fleet and adding moving systems to select rigs, as well as an increase in ancillary equipment which is depreciated on a straight-line basis. As a result, on a per operating day basis, depreciation expense increased approximately 9% year over year.

Total capital expenditures of $86.5 million in the contract drilling segment for the year ended December 31, 2013 include $72.2 million related to expansion capital, $8.1 million related to maintenance capital and $6.2 million related to critical spares. Of the expansion capital incurred during 2013, $47.5 million relates to the Company's rig build program which commissioned three drilling rigs in 2013 and an additional two commissioned in the first quarter of 2014, with the remaining capital spending relating to ancillary drilling equipment, including mud pumps and generator upgrades.

Production Services

(stated in thousands)	Three months ended December 31 2013	2012	Year ended December 31 2013	2012
Revenue				
Operating revenue	29,275	1,615	69,004	3,400
Third party charges	1,909	-	3,266	-
Total revenue	31,184	1,615	72,270	3,400
Expenses				
Operating				
Cash operating expenses	21,346	1,313	49,934	3,334
Depreciation	4,383	181	9,923	413
Stock based compensation	79	18	208	36
Total operating expenses	25,808	1,512	60,065	3,783
Administrative				
Cash administrative expenses	1,876	479	5,875	1,723
Depreciation	-	14	-	64
Stock based compensation	126	9	182	(30)
Total administrative expenses	2,002	502	6,057	1,757
Gross Margin[(1)]	9,838	302	22,336	66
Gross margin as a percentage of operating revenue	34%	19%	32%	2%
EBITDA[(1)]	7,962	(177)	16,461	(1,657)
EBITDA as a percentage of operating revenue	27%	(11%)	24%	(49%)
Operating Earnings[(1)]	3,579	(372)	6,538	(2,134)
Capital expenditures	2,948	3,283	8,200	12,358
Well servicing rig fleet:				
Average	65	7	48	5
End of period	65	8	65	8
Operating revenue per service hour (CDN$)	804	614	766	596
Total service hours	31,403	2,633	77,879	5,705
Service rig utilization rate[(2)]	53%	45%	45%	36%

(1) See Financial Measures Reconciliations on page 2.

(2) Utilization rate calculated based on full utilization of 10 hours per day, 365 days per year.

Subsequent to the acquisition of IROC on April 22, 2013, the Company's well servicing fleet increased significantly to 65 rigs at December 31, 2013 as compared to 10 rigs immediately prior to the acquisition and 8 rigs at December 31, 2012. Previously, Western's well servicing rigs operated through Matrix. Subsequent to the acquisition of IROC, the Company's well servicing rigs, including the Matrix well servicing rigs, operate through Eagle. Additionally, with the acquisition of IROC, Western acquired approximately $35 million in oilfield rental equipment, which is operated through Aero. As a result of these changes, Operating Revenue for the year ended December 31, 2013 increased significantly to $69.0 million as compared to $3.4 million in 2012 when Western had just commenced well servicing operations. EBITDA also improved following the IROC acquisition to $16.5 million for the year ended December 31, 2013; a significant improvement from the negative EBITDA in the same period of the prior year.

Well servicing utilization improved to 45% in 2013, a 900 bps improvement from the same period in the prior year. For comparison purposes, on a pro forma basis, Eagle and Matrix's utilization in 2012 averaged 59%. The year over year decrease in activity on a pro forma basis is due to lower industry activity levels in the WCSB. As a result of the increased well servicing rig fleet subsequent to the acquisition of IROC, well servicing hours increased substantially to 77,879 in 2013 as compared to 5,705 in the prior year. Furthermore, Operating Revenue per service hour increased by 29% in 2013 to average $766 as compared to $596 in 2012. The increase in Operating Revenue per service hour is attributed to the increased size of the Company's well servicing operations as Eagle operates in a number of different geographic locations, whereas the Company previously operated solely in the Lloydminster area which is highly competitive, less capital intensive and typically results in lower hourly rates. For the year ended December 31, 2013, Operating Revenue in the Aero division totalled $9.3 million.

During 2013, capital expenditures in the production services segment totalled $8.2 million and mainly relate to expansion capital associated with the purchase of additional oilfield rental equipment as well as the Company's well servicing rig build program.

Corporate

	Three months ended December 31		Year ended December 31	
(stated in thousands)	**2013**	**2012**	**2013**	**2012**
Administrative				
Cash administrative expenses	3,987	1,075	8,201	4,523
Depreciation	280	264	1,103	532
Stock based compensation	179	258	1,136	1,119
Total administrative expenses	4,446	1,597	10,440	6,174
Finance costs	5,155	3,237	17,058	12,437
Other items	363	583	496	756
Income taxes				
Current tax expense	231	276	520	5,090
Deferred tax expense	5,071	4,380	12,480	10,766
Total income taxes	5,302	4,656	13,000	15,856
Capital expenditures	129	582	509	4,580

Corporate administrative expenses for the year ended December 31, 2013 increased by $3.7 million to $8.2 million as compared to $4.5 million in the same period in the prior year, due to approximately $2 million in one-time personnel costs, as well as increased staffing levels and overhead required to support the Company's growth.

During 2013, finance costs on a consolidated basis increased by $4.6 million year over year, largely due to higher debt levels following the acquisition of IROC on April 22, 2013 and the resulting issuance of the $90.0 million in principal amount of senior notes on September 18, 2013, and one additional month of interest in 2013 on the $175.0 million senior notes that were issued on January 30, 2012.

Other items for the year ended December 31, 2013, represent a net expense of $0.5 million as gains on the sale of Western's investments in the first quarter of 2013 of $1.2 million as well as foreign exchange gains of $0.4 million, were largely offset by $2.1 million in costs associated with the acquisition of IROC.

For the year ended December 31, 2013, income taxes on a consolidated basis totalled $13.0 million representing an effective tax rate of 26.9% as compared to 26.0% in 2012. The inclusion of $2.1 million in IROC acquisition costs, which are non deductible for tax purposes, resulted in a higher effective tax rate for the year. Additionally, the effective tax rate for 2013 was impacted by an increase in the corporate tax rate in British Columbia to 11% in 2013 as compared to 10% in 2012.

Liquidity and Capital Resources

As at December 31, 2013, Western had cash and cash equivalents of $17.4 million, resulting in a consolidated net debt balance of $246.4 million, an increase of $60.3 million as compared to December 31, 2012 mainly due to the acquisition of IROC in April 2013 which included cash consideration of $62.9 million for the IROC common shares plus an additional $29.4 million for the assumption of IROC's debt. Additionally, Western incurred capital expenditures of $95.0 million, paid dividends of $19.9 million, made cash interest payments of $12.9 million, and paid income taxes of $7.0 million. These cash outflows were partially offset by cash generated from operating activities of $115.5 million, the sale of investments of $34.4 million, an increase of $10.6 million in non-cash working capital, the sale of assets of $4.7 million and $3.2 million raised on the exercise of stock options and warrants.

At December 31, 2013, Western had a working capital balance of $50.6 million, a $27.0 million decrease as compared to December 31, 2012 mainly due to improved accounts receivable collections as days sales outstanding decreased from 86 days at December 31, 2012 to 61 days at December 31, 2013, coupled with the sale of investments in 2013. On September 18, 2013, the Company issued $90.0 million in principal amount senior notes for gross proceeds of $91.5 million that were used to repay the outstanding balance on the revolving credit facility. At December 31, 2013, the Company has $265.0 million in senior notes outstanding. During the fourth quarter of 2013, the Company extended the maturity date of the revolving credit facility from a committed three year term to a committed four year term. The maturity date on the revolving credit facility is now October 18, 2017. At December 31, 2013, Western had approximately $135.0 million in available credit facilities and is in compliance with all debt covenants. As a result of the IROC acquisition, Western's pro forma net debt to trailing 12 month EBITDA is 1.9. As such, cash from operations coupled with Western's working capital, cash balances and available credit facilities are expected to be sufficient to cover Western's financial obligations including the 2014 capital budget.

For the year ended December 31, 2013, the Company had a significant customer comprising 10.8% of the Company's total revenue. This customer is a publicly traded company with a market capitalization in excess of $35 billion. Except as previously mentioned, no other single customer represented greater than 10% of the Company's total revenue for the years ended December 31, 2013 and 2012. Year over year, the Company's significant customers may change.

Fourth Quarter 2013

Selected Financial Information

Financial Highlights	**Three months ended December 31**	
(stated in thousands, except share and per share amounts)	**2013**	**2012**
Total Revenue	129,713	83,338
Operating Revenue	119,831	76,455
Gross Margin(1)	52,980	37,360
Gross Margin as a percentage of operating revenue	44%	49%
EBITDA(1)	43,543	31,381
EBITDA as a percentage of operating revenue	36%	41%
Cash flow from operating activities	36,866	11,021
Capital expenditures	27,529	20,328
Net income	15,797	13,092
-basic net income per share	0.22	0.22
-diluted net income per share	0.21	0.22
Weighted average number of shares		
-basic	73,374,219	59,485,594
-diluted	73,654,868	60,800,390
Outstanding common shares as at period end	73,386,191	59,582,143
Dividends declared	5,504	4,469
Dividends declared per common share	0.075	0.075
Operating Highlights		
Contract Drilling		
Canadian Operations		
Average contract drilling rig fleet	46	44
Contract drilling rig fleet - end of period	47	44
Operating revenue per operating day (CDN$)(2)	28,884	28,867 (6)
Drilling rig operating days(4)	2,754	2,198
Number of meters drilled	506,950	357,439
Number of wells drilled	150	112
Average operating days per well	18.3	19.6
Drilling rig utilization rate per revenue day(3)	72%	62%
Drilling rig utilization rate per operating day(4)	65%	55%
CAODC industry average utilization rate(4)	43%	40%
United States Operations		
Average contract drilling rig fleet	5	5
Contract drilling rig fleet - end of period	5	5
Operating revenue per operating day (US$)(2)	26,559	32,356
Drilling rig operating days(4)	402	286
Number of meters drilled	94,784	68,947
Number of wells drilled	17	12
Average operating days per well	24.4	23.8
Drilling rig utilization rate per revenue day(3)	99%	79%
Drilling rig utilization rate per operating day(4)	87%	62%
Production Services		
Average well servicing rig fleet	65	7
Well servicing rig fleet - end of period	65	8
Operating revenue per service hour (CDN$)(2)	804	614
Total service hours	31,403	2,633
Service rig utilization rate(5)	53%	45%

(1) See Financial Measures Reconciliations on page 2.
(2) Operating Revenue per operating day and per service hour are calculated using Operating Revenue divided by operating days and service hours, respectively.
(3) Drilling rig utilization rate per revenue day is calculated based on operating and move days.
(4) Drilling rig utilization rate per operating day and drilling rig operating days are calculated on operating days only (i.e. spud to rig release basis).
(5) Service rig utilization rate calculated based on full utilization of 10 hours per day, 365 days per year.
(6) Excludes $2.2 million of shortfall commitment revenue from take or pay contracts.

Contract Drilling

During the fourth quarter of 2013, Operating Revenues in the contract drilling segment totalled $90.7 million; a $15.9 million (or 21%) increase over the same period in the prior year. The increase in Operating Revenue is due to higher activity in Canada and the United States as operating days increased 25% and 41% respectively. Operating Revenue per operating day in Canada recovered to approximately $28,900 in 2013, unchanged from the same period in 2012.

Canadian operations in the fourth quarter of 2013 were impacted by increased activity, as customers started their winter drilling programs without significant delays. The Company's utilization rate in Canada improved 1,000 bps to average 65% in the fourth quarter of 2013 compared to 55% in the same period as the prior year. The Company's fourth quarter utilization rate reflects an approximate 2,200 bps premium to the CAODC industry average of 43% and an improvement over the Company's approximate 1,500 bps premium over the CAODC industry average of 40% in the fourth quarter of 2012.

In the United States, Operating Revenue per operating day decreased approximately 18% to US$26,559 in the fourth quarter of 2013 from US$32,356 in the same period in the prior year due to increased competition, reflecting a shift to pad drilling in the Williston Basin. However, the decrease in day rates was offset partially by increased utilization. In the United States in the fourth quarter of 2013, utilization was 87% compared to 62% in the fourth quarter of 2012. The increased utilization can be attributed to Western's increased marketing efforts, strong operational performance, and the addition of the Company's first 1,500 hp AC ELR triple pad rig conversion, with two additional 1,500 hp AC ELR pad rig conversions under construction, to the United States fleet.

During the fourth quarter of 2013, EBITDA in the contract drilling segment increased $7.0 million (or 21%) to $39.6 million (44% of Operating Revenue), as compared to $32.6 million (44% of Operating Revenue) in the same period of the prior year when $2.2 million of contracted shortfall commitment revenue was recognized. Normalizing for the prior year's contracted shortfall commitment revenue, EBITDA in the fourth quarter of 2013 increased by $9.1 million (or 30%) due to higher activity levels, as Western was able to effectively control costs in the period.

Production Services

During the fourth quarter of 2013, Operating Revenue in the production services segment totalled $29.3 million; a $27.7 million (or 1,713%) increase over the same period in the prior year. The increase in Operating Revenue can be attributed to the acquisition of IROC in April 2013, which resulted in a higher average well servicing rig fleet of 65 in the fourth quarter of 2013 compared to 7 in the same period of the prior year. Total service hours in the fourth quarter of 2013 were 31,403 compared to 2,633 in 2012 as a result of the larger well servicing rig fleet. Well servicing utilization averaged 53% in the fourth quarter of 2013 as compared to 45% in the prior year, when Western's well servicing operations were still in the start up phase. For comparison purposes, on a pro forma basis, Eagle and Matrix's utilization averaged 61% in the fourth quarter of 2012. The year over year decrease in activity on a pro forma basis is due to lower industry activity levels in the WCSB.

Operating Revenue per service hour also increased to $804 per service hour in the fourth quarter of 2013 compared to $614 in the same period of the prior year. The increase in Operating Revenue per service hour is attributed to the increased size of the Company's well servicing operations as Eagle operates in a number of different geographic locations, whereas the Company previously operated solely in the Lloydminster area which is highly competitive, less capital intensive and typically results in lower hourly rates. Eagle's Operating Revenue per service hour increased from $743 in the third quarter of 2013 to $804 in the fourth quarter of 2013 mainly due to increased pricing that was effective October 1, 2013, coupled with increased boiler revenue in the quarter.

Corporate

During the fourth quarter of 2013, corporate administrative expenses, excluding depreciation and stock based compensation, increased $2.9 million to $4.0 million as compared to $1.1 million in the fourth quarter of 2012. The increase is mainly attributed to one-time personnel costs incurred in the quarter. Normalizing for these one-time costs, corporate administrative expenses increased $1.0 million in the fourth quarter of 2013 as compared to the same period in the prior year due to increased staffing levels and overhead required to support the increased growth in the production services segment.

Finance costs in the fourth quarter of 2013 increased $2.0 million to $5.2 million as compared to $3.2 million in the same period of the prior year. This increase is mainly attributed to the issuance of $90 million in additional senior notes in September 2013 following the acquisition of IROC, resulting in higher interest expense for the fourth quarter of 2013.

For the fourth quarter of 2013 and 2012, income taxes totalled $5.3 million and $4.7 million respectively, which reflected effective tax rates of approximately 25.1% and 26.2% respectively.

Consolidated

Operating Revenue increased by $43.4 million (or 57%) to $119.8 million in the fourth quarter of 2013 compared to $76.4 million in the same period of the prior year. Included in Operating Revenue in the fourth quarter of 2012 is $2.2 million of contracted shortfall commitment revenue. Normalizing for the contracted shortfall commitment revenue, Operating Revenue increased $45.6 million (or 61%). The increase in Operating Revenue can mainly be attributed to the acquisition of IROC in April 2013 and increased activity in the contract drilling segment in the fourth quarter of 2013, as day rates in Canada remained constant with 2012 levels at approximately $28,900 per operating day.

EBITDA increased by $12.1 million in the fourth quarter of 2013 to $43.5 million as compared to $31.4 million in the fourth quarter of 2012. Included in EBITDA in the fourth quarter of 2013 is approximately $2 million in one-time personnel costs, as well as an increase of $1.6 million in capitalized overhead. In addition, EBITDA in the fourth quarter of 2012 includes $2.2 million of contracted shortfall commitment revenue. Normalizing for these items, EBITDA increased $14.7 million (or 50%). The increase in EBITDA can mainly be attributed to the increased contribution from the production services segment following the acquisition of IROC, coupled with the increased size and activity in the contract drilling segment in the fourth quarter of 2013.

Summary of Quarterly Results

In addition to other market factors, quarterly results of Western are markedly affected by weather patterns throughout its operating areas. Historically, the first quarter of the calendar year is very active, followed by a much slower second quarter due to what is known in the Canadian oilfield service industry as spring breakup. As a result of this, the variation of Western's results on a quarterly basis, particularly in the first and second quarters, can be dramatic year over year independent of other demand factors. The following is a summary of selected financial information of the Company for the last eight completed quarters.

Three months ended	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012
(stated in thousands, except per share amounts)								
Revenue	129,713	101,389	50,835	98,006	83,338	69,573	44,819	110,887
Operating Revenue(1)	119,831	96,473	48,010	88,810	76,458	76,455	40,655	100,747
Gross Margin(1)	52,980	37,547	16,087	40,945	37,360	29,382	14,108	50,213
EBITDA(1)	43,543	30,297	9,199	34,384	31,381	23,944	9,364	44,242
Cash flow from operating activities	36,866	6,667	48,381	22,444	11,021	9,248	58,930	25,717
Net income (loss)	15,797	7,927	(3,381)	14,903	13,092	8,251	827	23,008
per share - basic	0.22	0.11	(0.05)	0.25	0.22	0.14	0.01	0.39
per share - diluted	0.21	0.11	(0.05)	0.24	0.22	0.14	0.01	0.38
Total assets	986,792	947,836	903,882	748,112	749,448	727,113	699,356	706,061
Long term financial liabilities(2)	262,877	263,050	232,529	182,068	186,948	176,739	171,764	171,570
Dividends declared	5,504	5,502	5,501	4,474	4,469	4,457	-	-

(1) See Financial Measures Reconciliations on page 2.

(2) Long term financial liabilities consist of long term debt.

Revenue was strong in the first quarter of 2012. Following spring breakup in 2012 and until the second quarter of 2013, revenues continuously increased each quarter due to the cyclical nature of the oilfield service industry, however not to the previous highs realized in the first quarter of 2012, due to slower activity in the oilfield service industry. Revenues in the third and fourth quarters of 2013 have increased significantly following spring breakup due to the acquisition of IROC in April 2013 and increased activity in the oilfield service industry.

EBITDA has followed a similar trend to revenue, steadily increasing after spring breakup into the third and fourth quarters of 2012 and 2013. EBITDA is generally highest in the first quarter when activity is the highest. EBITDA in the most recent quarters has not been as high as the first quarter of 2012 due to lower activity and general economic uncertainty as producers reduced their capital budgets, however EBITDA has shown continuous improvement into the fourth quarter of 2013.

Net income has fluctuated throughout the last eight quarters due to the cyclical nature of the oilfield service industry and has been impacted by higher depreciation rates and increased finance costs.

Total assets of the Company have increased throughout the last eight quarters due to the Company's capital spending program. During the second quarter of 2013, the significant increase in the Company's total assets was due to the acquisition of IROC.

Goodwill

Goodwill represents the excess, at the date of acquisition, of the purchase price of a business acquired over the fair value of the net tangible and intangible assets acquired. A continuity of Western's goodwill balance as at December 31, 2013 is as follows:

(stated in thousands)	Amount
December 31, 2012	$ 55,527
IROC acquisition	33,183
December 31, 2013	$ 88,710

Contractual Obligations

In the normal course of business the Company incurs contractual obligations. The expected maturities of the Company's contractual obligations as at December 31, 2013 are as follows:

(stated in thousands)	2014	2015	2016	2017	2018	Thereafter	Total
Senior Notes	$ -	$ -	$ -	$ -	$ -	$ 265,000	$ 265,000
Senior Notes interest	20,869	20,869	20,869	20,869	20,869	10,434	114,779
Trade payables and other current liabilities	56,317	-	-	-	-	-	56,317
Dividends payable	5,504	-	-	-	-	-	5,504
Operating leases	4,187	4,024	3,037	2,401	2,374	14,168	30,191
Purchase commitments	17,281	-	-	-	-	-	17,281
Other long term debt	984	417	156	1	-	-	1,558
Total	$ 105,142	$ 25,310	$ 24,062	$ 23,271	$ 23,243	$ 289,602	$ 490,630

Outstanding Share Data

	February 27, 2014	**December 31, 2013**	**December 31, 2012**
Common shares outstanding	73,475,331	73,386,191	59,582,143
Warrants outstanding	93,453	108,261	1,527,811
Stock options outstanding	4,921,267	4,425,598	2,522,733

Off Balance Sheet Arrangements

As at December 31, 2013, Western had no off balance sheet arrangements in place.

Transactions with Related Parties

During the year ended December 31, 2013, the Company had no transactions with related parties.

Financial Instruments

Fair Values

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 "financial asset or financial liability at fair value through profit or loss", "available-for-sale financial assets", "held-to-maturity investments", "loans and receivables", or "other financial liabilities".

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 on 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.

Derivatives embedded in other instruments or host contracts are separated from the host contract and accounted for separately when their economic characteristics and risks are not closely related to the host contract. Embedded derivatives are recorded on the balance sheet at estimated fair value and changes in the fair value are recorded through net income.

The asset is recognized in other assets on the balance sheet while a change in the value of the embedded derivative is included in other items within net income.

The Company has the following non-derivative financial assets:

(i) Financial assets at fair value through profit or loss:

Cash and cash equivalents is held for trading within the fair value through profit or loss category. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income.

(ii) Loans and receivables:

Loans and receivables 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, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The Company's trade and other receivables are categorized as loans and receivables.

(iii) Available for sale:

From time to time, the Company may have certain equity investments in publicly traded entities. Investments that have a quoted price in an active market are measured at fair value with changes in fair value recognized in other comprehensive income. When the investment is ultimately sold, any gains or losses are recognized in net income and any unrealized gains or losses previously recognized in other comprehensive income are reversed.

The Company has the following non-derivative financial liabilities:

(i) Other financial liabilities:

Trade and other payables, finance lease obligations, the senior notes and credit facilities are classified as "other financial liabilities". Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Other financial liabilities, including the senior notes, 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.

(ii) Equity instruments:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Credit Risk

The Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risk. The Company's practice is to manage credit risk by performing a detailed analysis of the credit worthiness of new customers before the Company's standard payment terms are offered. Additionally, the Company constantly reviews individual customer trade receivables, taking into consideration payment history and the aging of the receivable to monitor collectability.

Interest Rate Risk

The Company is exposed to interest rate risk on debt subject to floating interest rates, such as the Company's credit facilities.

Foreign Exchange Risk

The Company is exposed to foreign exchange fluctuations in relation to its US dollar capital expenditures and US operations. The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short term imbalances. From time-to-time the Company may use forward foreign currency contracts to hedge against these fluctuations.

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. To manage liquidity risk, the Company forecasts operational results and capital spending on a regular basis. Variances between actual results and forecast are continually monitored to assess the Company's ability to meet its financial obligations.

Recent Pronouncements and Amendments

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended December 31, 2013, and have not been applied in preparing these Financial Statements.

The following new standards have not been adopted and may impact the Company in the future:

- IFRS 9, Financial Instruments was issued in November 2009. The standard is effective for annual periods beginning on or after January 1, 2014, with earlier application permitted. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39, Financial Instruments: Recognition and Measurement. However, some changes were made to the fair value option for financial liabilities to address the issue of an entity's own credit risk. The Company is assessing the effect of IFRS 9 on its financial results and financial position; however, any changes are not expected to be material.
- IAS 36, Impairment of Assets – Amendments to IAS 36, requires entities to disclose the recoverable amount of an impaired Cash Generating Unit. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014 and require retrospective application. This standard is not expected to have a material impact on the Company's financial statements.
- IFRIC 21, Levies - Interpretation of IAS 37 Provisions, contingent liabilities and assets, sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event. The interpretation clarifies that the obligation that gives rise to the liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This standard is not expected to have a significant impact on the Company's financial statements.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

The President & Chief Executive Officer ("CEO") and Senior Vice President, Finance & Chief Financial Officer ("CFO") of Western are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") for the Company.

DC&P is designed to provide reasonable assurance that material information relating to the Company is made known to the CEO and CFO by others, particularly in the period in which the annual filings are being prepared, and that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified in securities legislation, and includes controls and procedures designed to ensure that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

In accordance with the provisions of NI 52-109, the CEO and CFO have limited the scope of their design of the Company's DC&P and ICFR to exclude controls, policies and procedures of IROC. Western acquired 100% of the outstanding common shares of IROC on April 22, 2013. IROC's contribution to the Company's audited consolidated financial statements for the quarter and year ended December 31, 2013 were approximately 23% and 18% respectively, of the consolidated Operating Revenues and approximately 5% and 6% respectively, of consolidated pre-tax earnings.

Additionally, at December 31, 2013, IROC's current assets and current liabilities were approximately 17% and 16% of consolidated current assets and liabilities respectively, and its non-current assets and non-current liabilities were approximately 19% and 7% of consolidated non-current assets and non-current liabilities respectively.

The scope limitation is primarily based on the time required to assess IROC's DC&P and ICFS in a manner consistent with Western's other operations.

Further details related to the acquisition are disclosed in Note 6 of the Company's notes to the audited consolidated financial statements as at and for the year ended December 31, 2013.

In accordance with the requirements of National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings" ("NI 52-109"), an evaluation of the effectiveness of DC&P and ICFR was carried out under the supervision of the CEO and CFO at December 31, 2013. Based on this evaluation, the CEO and CFO have concluded that, subject to the previously noted scope limitation and the inherent limitations noted below, the Company's DC&P and ICFR are effectively designed and operating as intended.

The Company's management, including the CEO and CFO, does not expect that the Company's DC&P and ICFR will prevent or detect all misstatements or instances of fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues, misstatements or instances of fraud, if any, within the Company have been detected.

There have been no changes to the Company's ICFR that occurred during the most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

Critical Accounting Estimates

This Management's Discussion and Analysis of the Company's financial condition and results of operations is based on its consolidated financial statements which were prepared in accordance with IFRS. The presentation of these financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of provisions at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates and judgements are based on historical experience and on various assumptions that are believed to be reasonable under the circumstances. Anticipating future events cannot be done with certainty, therefore these estimates may change as new events occur, more experience is acquired and as the Company's operating environment changes. The Company's key accounting estimates relate to business combinations, impairment, depreciation, current and deferred taxes and the determination of the fair value of stock options.

The accounting estimates believed to be the most difficult, subjective or have complex judgements and which are the most critical to the reporting of results of operations and financial positions are as follows:

Business Combinations

The Company assesses the fair values of the net assets acquired based on management's best estimate of market value, which takes into consideration the condition of the assets acquired, current industry conditions and the discounted future cash flows expected to be received from the assets as well as the amount it is expected to cost to settle the outstanding liabilities.

Impairment

The Company assesses impairment at each reporting date by evaluating conditions specific to the organization that may lead to impairment of assets. Where an impairment indicator exists, or annually in the case of goodwill, the recoverable amount of the asset or cash generating unit is determined. Value-in-use and fair value less cost to sell calculations performed in assessing the recoverable amounts incorporate a number of key estimates. As at December 31, 2013, the Company completed its assessments and did not identify indicators of impairment for the long-lived assets of the Company.

Depreciation

The Company's property and equipment is depreciated based upon estimates of useful lives and salvage values. These estimates are based on industry practice and the Company's own experience and may change as more experience is gained, market conditions shift or new technological advancements are made.

The componentization of the Company's property and equipment, specifically drilling rig equipment and well servicing rig equipment, is based on management's judgment as to which components constitute a significant cost in relation to the entire item. The componentization process also requires management's judgement in assessing whether individual components have similar consumption patterns and useful lives.

Income taxes

Preparation of the consolidated 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 sheet 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 tax assets. To the extent that such recovery is not probable, recognized deferred tax assets must be reduced to the recoverable amount. Judgement is required in determining the provision for income taxes and recognition of deferred tax assets and liabilities. Management must also exercise judgement 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.

Share-based payments

Stock based compensation expense associated with stock options granted is based on various assumptions, using the Black-Scholes option pricing model to calculate an estimate of fair value. The inputs into the model include interest rates, expected life, expected volatility, expected forfeitures, expected dividends and share prices and these inputs affect the estimated fair value calculated. Determining the estimated expected life, volatility, forfeitures and expected dividends requires judgement.

Business Risks

For a comprehensive listing of the Company's business risks please see the most recent Annual Information Form for the year ended December 31, 2013 as filed on SEDAR at www.sedar.com. The Company's primary business risks are as follows:

- The Company's business relies on the oil and gas exploration and production industry which is subject to a number of risks including general economic conditions, fluctuations in demand and supply of production components, fluctuations in commodity prices, competition and increases in operating costs. In addition, changes may occur in government regulations, including regulations relating to foreign acquisitions, prices, taxes, royalties, land tenure, allowable production, importing and exporting of oil and natural gas and environmental protection for the oil and gas industry as a whole. Risks impacting the oil and gas exploration and production industry may also affect the Company's business. The exact impact of these risks cannot be accurately predicted.
- In addition to global economic events and uncertainty, the capacity within North America to ship commodities to market introduces uncertainties in levels of activity and pricing for oil and natural gas production.
- The Company is vulnerable to market prices. Fixed costs, including costs associated with operations, leases, and labour costs account for a significant portion of the Company's expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, or other factors could significantly affect its revenues and financial results.
- Competition among related service companies is significant. Some competitors are larger and have greater revenues than the Company and overall greater financial resources. The Company's ability to generate revenues depends on its ability to attract and win contracts and to perform services.
- Currently, the Company is focused on providing services in the Western Canadian Sedimentary Basin as well as certain geographic areas in the United States, which may expose the Company to more extreme market fluctuations relating to items such as weather and general economic conditions which may be more extreme than the broader industry conditions.
- The success of the Company is dependent upon the efforts and abilities of its management team. The loss of any member of the management team could have a material adverse effect upon the business and prospects of the Company.
- The Company's business is subject to the operating risks inherent to the oilfield service industry. On occasion, substantial liabilities to third parties may be incurred. The Company will have the benefit of insurance maintained by it and industry standard contracts, however, it may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.
- The oilfield service industry has experienced a high degree of invention and innovation. It is possible that new technology will be developed which will compete with the Company's products and services.
- A portion of the operations of the Company are in the United States which subject the Company to currency fluctuations and different tax and regulatory laws.

Forward-Looking Statements and Information

This MD&A contains certain statements or disclosures relating to Western that are based on the expectations of Western as well as assumptions made by and information currently available to Western which may constitute forward-looking information under applicable securities laws. All such statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that Western anticipates or expects may, or will occur in the future (in whole or part) should be considered forward-looking information. In some cases forward-looking information can be identified by terms such as "forecast", "future," "may", "will", "expect", "anticipate,", "believe", "potential", "enable", "plan", "continue", "contemplate", "pro forma", or other comparable terminology.

In particular, forward-looking information in this MD&A includes, but is not limited to, statements relating to, future dividends; the demand for Company's services and equipment; the terms of existing and future drilling contracts in Canada and the US; the Company's expansion and maintenance capital plans for 2014, expectations as to the increase in crude oil transportation capacity through rail and pipeline development, expectations as to the necessary approvals for liquefied natural gas projects, the expectation of increase in drilling activity in the Duvernay and Montney resource plays, and the Company's expected sources of funding to support such capital plans; the Company's expected utilization for its drilling and well servicing divisions; industry activity levels and pricing; commodity pricing; and forward looking statements under the heading "Critical Accounting Estimates".

The material assumptions in making forward-looking statements are disclosed in this MD&A under the headings "Overall Performance and Results of Operations", "Subsequent Events", "Outlook", "Liquidity and Capital Resources" and "Critical Accounting Estimates", and include, but are not limited to, assumptions relating to, demand levels and pricing for oilfield services; fluctuations in the price and demand for oil and natural gas; commodity pricing; general economic and financial market conditions; the Company's ability to finance its operations; the effects of seasonal and weather conditions on operations and facilities; changes in laws or regulations; currency exchange fluctuations and the ability of the Company to attract and retain skilled labour and qualified management and other unforeseen conditions which could impact the use of services supplied by Western and Western's ability to respond to such conditions.

Although Western believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information as Western cannot give any assurance that they will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, general industry, economic, market and business conditions. Readers are cautioned that the foregoing list of risks, uncertainties and assumptions are not exhaustive. Additional information on these and other risk factors that could affect Western's operations and financial results are included in Western's annual information form which may be accessed through the SEDAR website at www.sedar.com. The forward-looking statements and information contained in this MD&A are made as of the date hereof and Western does not undertake any obligation to update publicly or revise any forward-looking statements and information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Additional data

The Annual Information Form containing additional information relating to the Company is filed on SEDAR at www.sedar.com.