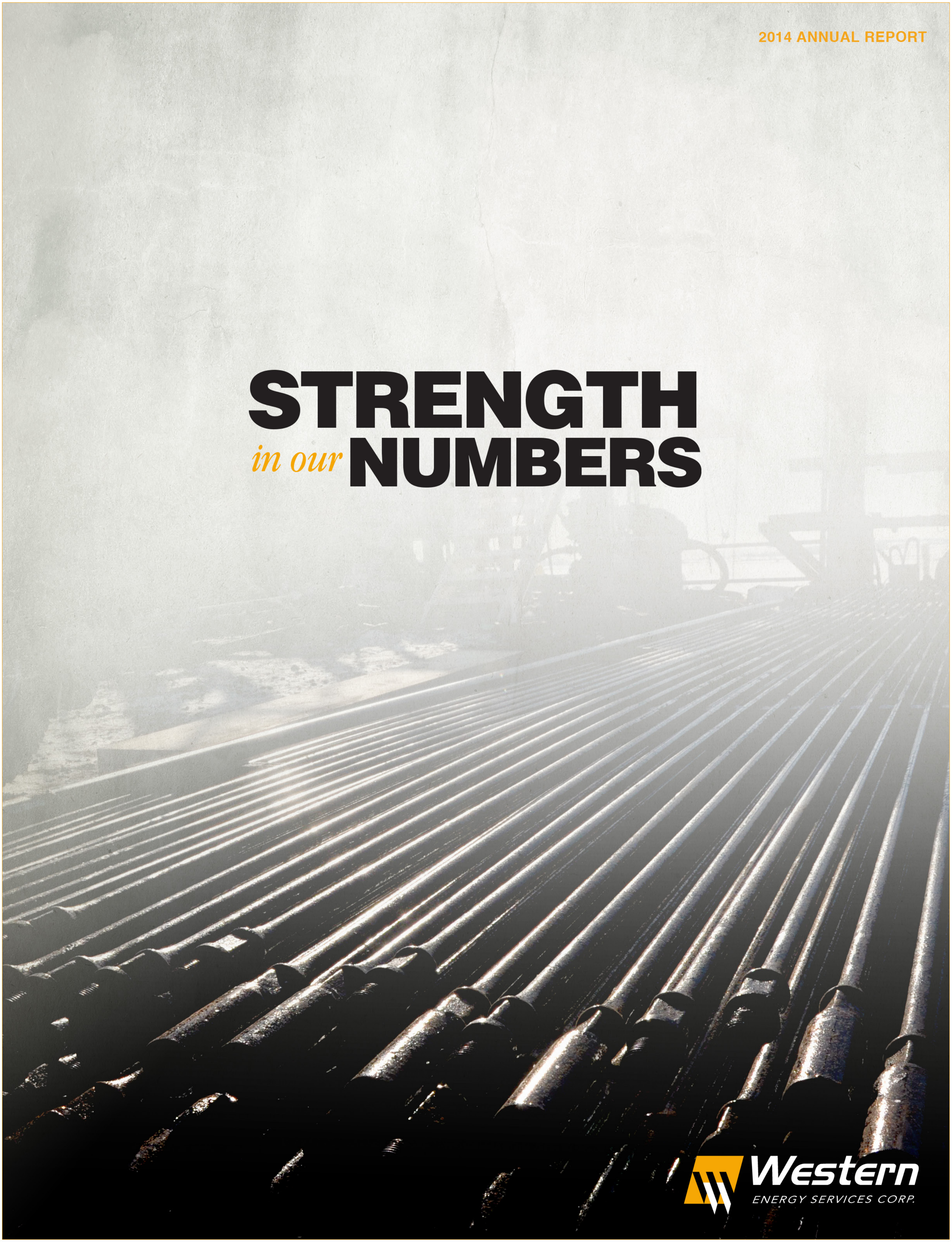
2014 ANNUAL REPORT

STRENGTH *in our* NUMBERS



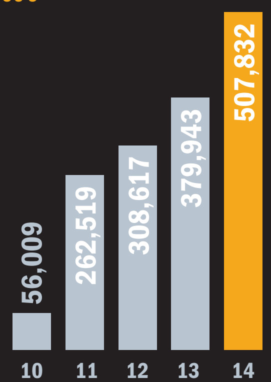
Western
ENERGY SERVICES CORP.

Western Energy Services Corp. is an oilfield service company focused on providing superior service to its customers, and sustainable growth for shareholders.

FINANCIAL HIGHLIGHTS

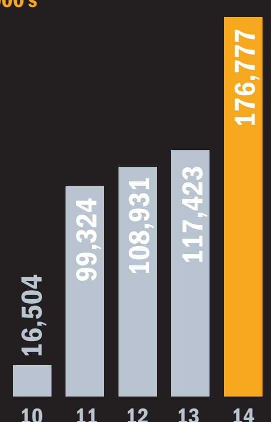
55% COMPOUND ANNUAL GROWTH RATE IN REVENUE SINCE 2010

HISTORICAL REVENUE
$000's



61% COMPOUND ANNUAL GROWTH RATE IN EBITDA SINCE 2010

HISTORICAL EBITDA
$000's



CONTRACT DRILLING SERVICES

Horizon Drilling is Western's Canadian contract drilling division and currently operates a fleet of 49 drilling rigs, making it the sixth largest drilling rig contractor in Canada. Horizon's fleet is one of the newest drilling fleets in the Western Canadian Sedimentary Basin, with an average age of approximately seven years, which allows the company to provide customers with reliability, mobility and advanced technical capabilities.

Stoneham Drilling Corporation is Western's U.S. contract drilling division and currently operates a fleet of five drilling rigs in the Williston Basin in the United States. Similar in design to many of the Canadian based rigs, the U.S. fleet is suited for the current U.S. market which predominantly consists of drilling horizontal wells that are deeper and more technically challenging.

WELL SERVICING

Eagle Well Servicing is Western's well servicing division, which currently operates a fleet of 65 well servicing rigs making it the seventh largest fleet in Canada. Eagle operates from four bases located in Alberta and Saskatchewan, allowing Eagle to service wells in all key Western Canadian Sedimentary Basin oil and natural gas resource plays. With an industry leading team, and a fleet with an average age of five years, Eagle excels when it comes to safe, efficient and functional well servicing.

OILFIELD RENTAL EQUIPMENT SERVICES

Aero Rental Services is Western's oilfield rental equipment division that operates from facilities in Red Deer and Grande Prairie, Alberta. Aero supplies oil and natural gas exploration and production companies, as well as other oilfield service companies, with specialized high pressure rental equipment utilized in drilling and completions activities. Aero has followed an organic growth model, allowing it to evolve and adapt its rental equipment mix to the changing needs of its customers.

Annual and Special Meeting

The Annual and Special Meeting of the Shareholders of Western Energy Services Corp. will be held on Thursday May 7, 2015 at 3:00 pm (MST) in the McMurray Room at the Calgary Petroleum Club, 319 – 5th Avenue SW, Calgary Alberta.

Report to Shareholders – Strength in our Numbers

Strength in our numbers might seem like a bold statement in today's current oil and gas economic environment, but for 2014 it sums up our year in a number of ways. The collective strength of our people. Strength in our equipment. Strength in our performance. Strength in our balance sheet. Strength in our strategy. Each of these elements contributed to a record year for Western as we posted $508 million in revenue, increased adjusted EBITDA to $177 million and generated cash flow from operating activities of $181 million.

On the surface, strength in our numbers can certainly be attributed to these financial highlights from the year, but on another level it represents much more. It represents Western's strength in knowing our numbers inside and out. At every level of the organization we encourage our people to understand how the financial results show their contribution to the growth of the company. Operations personnel understand how theirs costs and associated cost control impacts the ability of our services to remain competitive in the market we participate in. Sales people understand our margins and the importance of communicating to our customers the benefits of long-term relationships, and knowing our bottom line to continue to provide the service and quality of products that our customers have come to expect.

Strength of Western's equipment is essential to the vision we have had from day one of providing superior service to our customers. We take pride in offering equipment that sets the standards for efficiency and operational performance. We don't cut corners in either the construction or maintenance of our equipment and focus on ensuring it meets and exceeds the needs of the market in the most innovative and cost effective manner possible. Some of the accomplishments relating to our equipment from the year include:

- Launching our 2nd pad rig into our Canadian drilling rig fleet and converting two additional U.S. based drilling rigs to pad rigs, bringing Western's total pad rig fleet to six rigs. These changes to the U.S. division in particular helped improve the bottom line and drive increased year over year revenue for our U.S. operations.
- Investing further capital into Aero Rental Services, Western's equipment rental division, allowing Aero to continue to provide industry leading pressure control equipment, increase their market share and post record net operating revenue for the year.
- The addition of Double-Shouldered (DS40) high torque pipe to our tubular inventory which, coupled with our fleet of 1,300hp or larger pumps and top drives, allows us to compete for the deeper Montney and Duvernay work.
- Maintaining a rotational equipment inventory that allows our drilling and well servicing equipment to continue to perform with minimal downtime, saving our customers valuable time and money.

Strength in our performance is evident not only in our numbers but also in the many operational and infrastructure improvements we achieved in 2014:

- We outperformed the drilling industry average (CAODC) utilization in every month of the year in Horizon Drilling, our Canadian contract drilling division.
- We successfully integrated and converted accounting systems from the IROC acquisition into our corporate office to achieve greater efficiencies.
- We focused marketing efforts on selective opportunities in the oilsands and steam assisted gravity drainage ("SAGD") operations which, in turn drove improved utilization and revenue in all of our Canadian divisions. For example, Eagle Well Servicing had one well servicing rig working for SAGD operations in 2013 and by the fourth quarter of 2014 four well servicing rigs were working in SAGD operations.
- We streamlined our internal field services department to work more efficiently with our operating divisions for capital project management and centralized purchasing, creating improved efficiencies in our maintenance and capital build programs.
- We achieved a number of record wells for customers in our U.S. drilling division, Stoneham Drilling, which highlights our operational efficiencies and quality of our equipment.
- We remained diligent in our pursuit of safety excellence and ended the year with a reduction in our total recordable incident frequency (TRIF) as compared to 2013. In fact, a vast majority of Western's drilling and well servicing rigs operated without one recordable injury for all of 2014. This speaks to the culture we have built with safety at its core.

The momentum from these accomplishments is exhilarating and rewards the contribution of our people. It is our continued belief that a company's long-term success is dependent on finding the right people to lead and deliver on our strategy for growth. Western attracts people that understand that teamwork is essential to not only the success of the company but to the people themselves. When challenges present themselves it is the collective strength and contribution of our team that pulls us through and allows us to seek new opportunities and solutions. We believe that strong corporate governance helps to steer the company towards maximum shareholder value.

Outlook

There is no doubt that the oil and gas industry is currently experiencing a challenging cycle; what remains to be determined is for how long and the severity of this cycle. While Western is not in the business of forecasting oil prices, we are committed to monitoring our industry and maintaining fiscal discipline by building a strong balance sheet that can sustain us during cycles - and we have worked relentlessly to do just that. Western has built a strong foundation that has served us well since 2010 and we have consistently posted year over year growth in almost every metric.

At the end of 2014 we announced a conservative capital budget for the current year which demonstrates our commitment to maintaining Western's premier drilling and well servicing fleet, while expanding our strategic presence in the oilfield rental equipment market. Although we have revised the budget since that time it still includes carry-forward capital of $21 million for the completion of two 5,000m telescopic ELR double drilling rigs, one 6,000m ELR AC triple pad drilling rig and one slant well servicing rig. Keeping with our fiscal discipline, the majority of the capital budget has been deferred until the second half of 2015 and will be further postponed if market conditions continue to deteriorate.

We also announced at year end an increase to Western's four year extendible revolving credit facility to $175 million with a maturity date extension to December 17, 2018, and an increase of Western's operating demand revolving loan facility to $20 million. While both facilities are currently undrawn, the additional borrowing capacity on both facilities does continue to provide Western with significant financial flexibility to conduct our operations and execute on any strategic opportunities that may arise.

Western's financial strength and fiscal discipline also continues to support and sustain our dividend program. With the recently announced quarterly dividend of $0.075 per share, payable on April 16, 2015 to shareholders of record at close of business on March 31, 2015, Western will have paid eleven consecutive quarterly dividends since our dividend program was introduced in September 2012.

In short, we have been managing our operations and balance sheet with the understanding that our industry is cyclical in nature, and believe we have a financial and operational strategy designed to work through the highs and lows of our industry. So although our industry is facing a challenging road ahead, we believe Western is well equipped to ride out this cycle and face the challenges with strength and determination.

I have said this before and will say it again, Western's financial success and operational performance is a direct result of the dedication of our employees who have the spirit to continue to make Western successful in all areas of our operations, and are keen to deliver the best service to our customers while providing return to our shareholders in a sustainable manner. For this contribution and loyalty I am grateful, and would like to thank each and every employee for their commitment to making Western the exceptional company that it is today and to our customers and shareholders for their continued support.

Respectfully submitted,

Alex R.N. MacAusland
President and CEO
Western Energy Services Corp.

March 20, 2015

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Management Discussion & Analysis 2014 — Dated: February 26, 2015

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, 2014 and 2013. This Management Discussion and Analysis ("MD&A") is dated February 26, 2015. 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)	**2014**	**2013**	**2014**	**2013**	**2012**
Revenue	139,210	129,713	507,832	379,943	308,617
Operating Revenue[1]	129,181	119,831	474,120	353,124	282,856
Gross Margin[1]	57,826	52,980	207,231	147,559	131,063
Gross Margin as a percentage of Operating Revenue	45%	44%	44%	42%	46%
Adjusted EBITDA[1]	50,419	43,543	176,777	117,423	108,931
Adjusted EBITDA as a percentage of Operating Revenue	39%	36%	37%	33%	39%
Cash flow from operating activities	47,830	36,866	181,351	114,358	104,916
Capital expenditures	31,071	27,529	108,604	95,234	127,231
Net income (loss)	(8,164)	15,797	36,450	35,246	45,178
-basic net income (loss) per share	(0.11)	0.22	0.49	0.51	0.77
-diluted net income (loss) per share	(0.11)	0.21	0.48	0.50	0.74
Weighted average number of shares					
-basic	74,882,690	73,374,219	74,396,701	69,032,574	58,784,692
-diluted	74,927,714	73,654,868	75,427,149	69,873,460	60,860,359
Outstanding common shares as at period end	74,866,028	73,386,191	74,866,028	73,386,191	59,582,143
Dividends declared	5,614	5,504	22,376	20,983	8,924
Dividends declared per common share	0.075	0.075	0.30	0.30	0.15
Operating Highlights					
Contract Drilling					
Canadian Operations					
Average contract drilling rig fleet	50	46	49	45	41
Operating Revenue per revenue day[2]	27,104	26,060	26,178	24,829	26,163
Operating Revenue per operating day[3]	29,710	28,884	28,699	27,513	29,102
Drilling rig utilization rate per revenue day[4]	65%	72%	64%	61%	60%
Drilling rig utilization rate per operating day[5]	59%	65%	58%	55%	54%
CAODC industry average utilization rate[5]	45%	43%	44%	40%	42%
United States Operations					
Average contract drilling rig fleet	5	5	5	5	5
Operating Revenue per revenue day (US$)[2]	28,309	23,457	26,124	22,507	26,154
Operating Revenue per operating day (US$)[3]	31,876	26,559	29,680	26,942	32,742
Drilling rig utilization rate per revenue day[4]	95%	99%	94%	81%	85%
Drilling rig utilization rate per operating day[5]	85%	87%	83%	67%	68%
Production Services					
Average well servicing rig fleet	65	65	65	48	5
Operating Revenue per service hour[3]	837	804	817	766	596
Service rig utilization rate[6]	58%	53%	54%	45%	36%

(1) See "Financial Measures Reconciliations" on page 2 of this MD&A.
(2) Operating Revenue per revenue day is calculated using Operating Revenue divided by operating days and mobilization days.
(3) Operating Revenue per operating day and per service hour are calculated using Operating Revenue divided by operating days and service hours, respectively.
(4) Drilling rig utilization rate per revenue day is calculated based on operating and mobilization days divided by total available days.
(5) Drilling rig utilization rate per operating day is calculated on operating days only (i.e. spud to rig release basis) divided by total available days.
(6) Service rig utilization rate is calculated based on actual well servicing hours divided by available hours, being 10 hours per day, per well servicing rig, 365 days per year.

Financial Position at (stated in thousands)	December 31, 2014	December 31, 2013	December 31, 2012
Working capital	78,336	50,616	77,628
Property and equipment	827,306	783,225	568,157
Total assets	1,057,118	986,792	749,448
Long term debt	264,165	262,877	186,948

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 flow through third party charges.

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.

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

	Three months ended December 31		Year ended December 31	
(stated in thousands)	**2014**	**2013**	**2014**	**2013**
Operating Revenue				
Drilling	94,877	90,754	350,105	284,469
Production services	34,447	29,275	125,404	69,004
Less: inter-company eliminations	(143)	(198)	(1,389)	(349)
	129,181	**119,831**	**474,120**	**353,124**
Third party charges	10,029	9,882	33,712	26,819
Revenue	**139,210**	**129,713**	**507,832**	**379,943**
Less: operating expenses	(98,524)	(92,901)	(363,603)	(280,980)
Add:				
Depreciation - operating	16,740	15,916	61,991	47,701
Stock based compensation - operating	400	252	1,011	895
Gross Margin	**57,826**	**52,980**	**207,231**	**147,559**

Adjusted 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 ("Adjusted 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 Adjusted 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 EBITDA, Adjusted EBITDA and Operating Earnings:

	Three months ended December 31		**Year ended December 31**	
(stated in thousands)	**2014**	**2013**	**2014**	**2013**
Net income (loss)	(8,164)	15,797	36,450	35,246
Add:				
Finance costs	4,897	5,155	20,782	17,058
Income taxes	5,784	5,302	22,311	13,000
Depreciation - operating	16,740	15,916	61,991	47,701
Depreciation - administrative	444	345	1,776	1,431
EBITDA	19,701	42,515	143,310	114,436
Add:				
Stock based compensation - operating	400	252	1,011	895
Stock based compensation - administrative	1,073	413	2,827	1,596
Impairment loss on property and equipment	7,247	-	7,247	-
Impairment loss on goodwill	22,668	-	22,668	-
Other items	(670)	363	(286)	496
Adjusted EBITDA	50,419	43,543	176,777	117,423
Subtract:				
Depreciation - operating	(16,740)	(15,916)	(61,991)	(47,701)
Depreciation - administrative	(444)	(345)	(1,776)	(1,431)
Operating Earnings	33,235	27,282	113,010	68,291

Overall Performance and Results of Operations

Western is an oilfield service company focused on three core business lines: contract drilling, well servicing and oilfield rental equipment services. Western provides 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 Western 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 equipment 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.

Western currently has a drilling rig fleet of 54 rigs, with an average age of approximately seven years. Western is the sixth largest drilling contractor in Canada with a fleet of 49 rigs operating through Horizon. Additionally, Western has five Efficient Long Reach ("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 rig fleet is one of the newest in the Western Canadian Sedimentary Basin ("WCSB"), with an average age of approximately five years. Western's oilfield equipment rental division, which operates through Aero, provides oilfield rental equipment for frac services, well completions and production work, coil tubing services and drilling.

Commodity prices such as crude oil and natural gas impact the cash flow of Western's customers, which in turn impacts the demand for Western's services. Overall performance of the Company was affected by the volatility of crude oil in the second half of 2014. Crude oil prices were strong in the first six months of 2014, however weakened significantly in the last half of 2014. During the first six months of 2014, light oil such as West Texas Intermediate ("WTI") averaged approximately US$95/bbl, while during the last half of 2014, WTI averaged approximately US$85/bbl and approximately US$73/bbl in the fourth quarter of 2014. From its peak in June 2014 of approximately US$103/bbl to the December 31, 2014 exit price of approximately US$53/bbl, WTI decreased by approximately 49%. Similarly, the price for heavy oil, such as Western Canadian Select ("WCS"), averaged approximately $89/bbl in the first half of 2014, while during the last six months of 2014, WCS averaged approximately $75/bbl and approximately $65/bbl in the fourth quarter of 2014. From its highest price in June 2014 of approximately $95/bbl to approximately $43/bbl at the end of the year, WCS decreased by approximately 55%. On a year over year basis, the average price of WTI decreased by approximately 5% in 2014, while WCS increased by approximately 11% as compared to the prior year. Natural gas prices have marginally improved to average approximately $4/mcf in the fourth quarter of 2014, a 3% increase as compared to the same period in 2013. However, from February

2014 when AECO averaged approximately $7/mcf to the exit price of approximately $3/mcf at December 31, 2014, AECO decreased by approximately 57%. Year over year, the AECO 30-day spot rate increased on average by 44% as heating demand increased in the first quarter due to a cold winter, resulting in decreased storage levels across North America.

Despite the reduction in commodity prices in the last half of the year, strong demand for oilfield services resulted in increased drilling of horizontal wells in both conventional and unconventional resource plays. Horizontal wells in the WCSB, as a percentage of all wells drilled, increased in the year ended December 31, 2014 to 75%, as compared to 70% in the prior year. This has resulted in continued demand in the WCSB for Western's ELR drilling rigs, as industry utilization rates for the year ended December 31, 2014 averaged 44%, which is consistent with the five year average and an improvement over the prior year when industry utilization averaged 40%.

Key operational results for the three months ended December 31, 2014 include:

- Fourth quarter Operating Revenues increased by $9.4 million (or 8%) to $129.2 million in 2014 as compared to $119.8 million in 2013. Contract drilling operating days remained relatively constant year over year as a larger average drilling rig fleet in Canada was offset by lower utilization in Canada and the United States. However, improved day rates in the contract drilling segment in both Canada and the United States in the fourth quarter of 2014, resulted in a $4.2 million increase in Operating Revenues during the period. Additionally, improved utilization and pricing resulted in a $5.2 million increase in Operating Revenues for the production services segment during the period.
- Fourth quarter Adjusted EBITDA totalled $50.4 million in 2014 (39% of Operating Revenue), a $6.9 million (or 16%) increase, as compared to $43.5 million in the fourth quarter of 2013 (36% of Operating Revenue). After normalizing for $2.0 million in one-time personnel costs recorded in the fourth quarter of 2013, Adjusted EBITDA increased by $4.9 million, or 11% as compared to the fourth quarter of 2013. The year over year increase in Adjusted EBITDA is due to the improved daily rates in the contract drilling segment and improved pricing and higher utilization in the production services segment.
- Administrative expenses, excluding depreciation and stock based compensation, in the fourth quarter of 2014 decreased by $2.0 million (or 22%) to $7.4 million (5.7% of Operating Revenue) as compared to $9.4 million in the fourth quarter of 2013 (7.8% of Operating Revenue). Included in the fourth quarter of 2013 administrative expenses is approximately $2.0 million of one-time personnel costs. Normalizing for this one-time cost, administrative expenses remained constant in the fourth quarter of 2014.
- Although actual results were as expected, and have improved year over year, as a result of the declining commodity price environment and the reduced outlook for oilfield services activity and pricing, Western recorded a $22.7 million goodwill impairment loss in its well servicing division, as well as a loss on the decommissioning of a shallow drilling rig, used drilling equipment and oilfield rental equipment totalling $7.2 million.
- Net income decreased by $24.0 million to a net loss of $8.2 million in the fourth quarter of 2014 (a loss of $0.11 per basic common share) as compared to net income of $15.8 million in the same period in 2013 ($0.22 per basic common share). The decrease is mainly attributed to the impairment loss on goodwill of $22.7 million, a decommissioning loss on property and equipment of $7.2 million, an increase in depreciation expense of $0.9 million due to Western's continuing rig build and upgrade program, and an increase of $0.5 million in income tax expense due to an increase in taxable income, partially offset by the $6.9 million increase in Adjusted EBITDA. Normalizing for the $22.7 million goodwill impairment loss, the $7.2 million decommissioning loss on property and equipment in 2014 and the one-time personnel costs in the fourth quarter of 2013, net income increased by 22% in the fourth quarter of 2014.
- Fourth quarter capital expenditures of $31.1 million included $23.6 million of expansion capital, $5.6 million of maintenance capital and $1.9 million for rotational equipment. The majority of the fourth quarter 2014 capital expenditures relate to the contract drilling segment, which incurred $27.4 million of capital expenditures. These expenditures mainly relate to Western's drilling rig build program, which totalled $14.4 million in the period relating to the construction of four drilling rigs, one of which was commissioned during the fourth quarter of 2014. The remaining capital spending in the contract drilling segment related to ancillary drilling equipment. Additionally, $3.6 million was incurred in the production services segment relating to the construction of one slant well servicing rig, as well as well servicing rig upgrades and the purchase of additional oilfield rental equipment.
- On December 15, 2014, Western initiated a normal course issuer bid (the "Bid"), which has been filed with and accepted by the Toronto Stock Exchange. Pursuant to the Bid, Western may purchase for cancellation up to 5,550,000 common shares of the Company. Approximately 23,400 common shares for a total cost of $0.1 million were repurchased in the year ended December 31, 2014.
- On December 18, 2014, Western increased its four year extendible credit facility (the "Revolving Facility") to $175.0 million from $125.0 million previously, with a maturity date extension to December 17, 2018 and increased Western's operating demand revolving loan (the "Operating Facility") to $20.0 million from $10.0 million previously.

Key operational results for the year ended December 31, 2014 include:

- Operating Revenue for 2014 increased by $121.0 million (or 34%) to $474.1 million as compared to $353.1 million in the same period of the prior year. The increase is due to higher utilization and improved day rates, coupled with a larger average drilling rig fleet in the contract drilling segment, a full year's contribution from the production services segment following the acquisition of IROC, as well as higher utilization and improved pricing in the production services segment.
- Adjusted EBITDA increased by $59.4 million (or 51%) to $176.8 million (37% of Operating Revenue) in 2014, as compared to $117.4 million (33% of Operating Revenue) in 2013. The increase in Adjusted EBITDA reflects increased activity and improved pricing, coupled with effective cost control in all divisions, as well as the larger drilling rig fleet and the increased size and scale of Western's production services segment.
- During 2014, administrative expenses, excluding depreciation and stock based compensation, increased marginally by $0.3 million to $30.4 million (6.4% of Operating Revenue), as compared to $30.1 million (8.5% of Operating Revenue) in the same period of the prior year. Normalizing for approximately $2.0 million in one-time personnel costs recorded in 2013, administrative expenses in 2014 have increased by approximately $2.3 million (or 8%) due to a full year of operations following the acquisition of IROC, as well as increased employee related costs. As a percentage of Operating Revenue, administrative expenses have decreased as Western has been able to effectively control costs while increasing the size and scale of the Company's operations.
- For the year ended December 31, 2014, net income increased by $1.2 million (or 3%) to $36.4 million ($0.49 per basic common share) as compared to $35.2 million ($0.51 per basic common share) in 2013. The increase is mainly attributed to the $59.4 million increase in Adjusted EBITDA, offset by a goodwill impairment of $22.7 million, an increase of $14.7 million in depreciation expense due to increased activity, an increase of $9.3 million in income tax expense due to the increase in taxable income, $7.2 million related to decommissioning losses on property and equipment, an increase of $3.7 million in finance costs due to the additional $90.0 million in senior notes issued in September of 2013, and increases in stock based compensation and other items totalling $0.6 million.
- Total capital expenditures of $108.6 million in 2014 include $85.2 million of expansion capital, $14.8 million of maintenance capital and $8.6 million for rotational equipment. The majority of capital expenditures in 2014 relate to the contract drilling segment, which incurred $94.6 million in capital expenditures. These expenditures mainly relate to Western's drilling rig build program, which totalled $60.5 million in 2014, which in addition to the three drilling rigs under construction at year end, commissioned an additional three drilling rigs in Canada in 2014 and completed two 1,500 hp AC pad conversions in the United States in the second quarter of 2014. The remaining capital spending in the contract drilling segment related to ancillary drilling equipment. Additionally, $13.7 million was incurred in the production services segment mainly relating to the construction of one slant well servicing rig, as well as well servicing rig upgrades and the purchase of additional oilfield rental equipment.

Subsequent Event

On February 26, 2015, the Board of Directors of Western declared a quarterly dividend of $0.075 per share, payable on April 16, 2015 to shareholders of record at the close of business on March 31, 2015. 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 drilling rig fleet is specifically suited for drilling horizontal wells of increased complexity. In total, 96% 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. Currently, 12 of Western's 54 drilling rigs (or 22%) are operating under long term take-or-pay contracts, with 5 of these contracts committed into 2016 and 2017, providing a base level of future 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 revised capital budget for 2015 totals approximately $46 million comprised of $21 million of carry forward capital from 2014, $6 million in expansion capital and $19 million in maintenance capital. The revised capital budget reflects a net decrease of $18 million from Western's previously announced budget of $64 million. The following table summarizes the changes in the 2015 capital budget:

Capital Expenditures (stated in millions)	**Original 2015 Budget**	**Cancellations**	**Increased 2014 Carry Forward**	**Revised 2015 Budget**	**Variance**
Expansion	6	-	-	6	-
Maintenance	36	(17)	-	19	(17)
Carry forward	22	(4)	3	21	(1)
Total Capital Expenditures	**64**	**(21)**	**3**	**46**	**(18)**

Revised carry forward capital of $21 million relates to the completion of two 5,000m telescopic ELR double drilling rigs, one 6,000m ELR AC triple pad drilling rig and one slant well servicing rig. Expansion capital of $6 million relates to additional oilfield rental equipment, while maintenance capital of $19 million includes $13 million for the contract drilling segment and $6 million for the production services segment. Included in the maintenance capital budget is $1 million related to rotational equipment. In addition, the majority of the capital budget has been deferred until the second half of 2015 and will be further postponed or cancelled if market conditions continue to deteriorate. Western believes the 2015 capital budget provides a prudent use of cash resources and ensures that it continues to maintain its balance sheet flexibility allowing for the execution on strategic opportunities as they arise, or alternatively adjust downward if the downturn in oilfield service activity is prolonged. This budget demonstrates the Company's commitment to maintaining its drilling and well servicing rig fleets while expanding Western's strategic presence in the oilfield rental equipment market. Western will continue to evaluate and expand its operations in a disciplined manner and make any required adjustments to its capital program as customer demand improves.

The continued pressure on crude oil and natural gas prices, which are currently near five year lows, has resulted in reductions to the capital spending plans for the majority of our customers. In some cases, the capital spending reductions have been significant. While activity in the first two months of 2015 has been constant, although lower than in the same period of the prior year, Western currently expects an early end to first quarter activity, due to the current commodity price environment. Activity levels throughout the oilfield services industry for the remainder of 2015 are expected to be significantly lower as compared to 2014, resulting in utilization and price reductions across all of Western's business lines. Lower activity and pricing pressure, will impact Western's Adjusted EBITDA and cash flow from operating activities. Western's variable cost structure, under which approximately 80% of operating and administrative costs are variable, and prudent capital budget will aid in preserving balance sheet strength. At December 31, 2014, Western's net debt to trailing 12 month EBITDA ratio was 1.1. In addition to $62.7 million in cash and cash equivalents at December 31, 2014, Western has $175 million available on the Revolving Facility, which does not mature until December 17, 2018, $20 million available on the Operating Facility, and no principle repayments are due on the $265 million Senior Notes until they mature on January 30, 2019. As such, Western is well positioned to manage the current slowdown in activity and maintain a sustainable dividend.

Oilfield service activity will be impacted by the development of resource plays in Alberta and northeast British Columbia including those related to liquefied natural gas projects, increased crude oil transportation capacity through rail and pipeline development and foreign investment into Canada. Currently, the largest challenges facing the oilfield service industry are producer spending constraints as a result of lower commodity prices, pricing differentials on Canadian crude oil, and the challenge to attract and retain skilled labour. The Company believes Western's modern drilling and well servicing rig fleet, above industry average utilization, and corporate culture will provide a distinct advantage in retaining and attracting qualified individuals. Western's view is 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 services 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

(stated in thousands)	Three months ended December 31 2014	2013	Year ended December 31 2014	2013
Revenue				
Operating Revenue[1]	94,877	90,754	350,105	284,469
Third party charges	7,898	7,973	26,502	23,553
Total revenue	102,775	98,727	376,607	308,022
Expenses				
Operating				
Cash operating expenses	58,031	55,586	216,065	182,800
Depreciation	12,745	11,533	46,712	37,778
Stock based compensation	203	173	587	687
Total operating expenses	70,979	67,292	263,364	221,265
Administrative				
Cash administrative expenses	3,896	3,573	17,314	16,059
Depreciation	58	65	238	328
Stock based compensation	85	108	362	278
Total administrative expenses	4,039	3,746	17,914	16,665
Gross Margin[1]	44,744	43,141	160,542	125,222
Gross Margin as a percentage of Operating Revenue	47%	48%	46%	44%
Adjusted EBITDA[1]	40,848	39,568	143,228	109,163
Adjusted EBITDA as a percentage of Operating Revenue	43%	44%	41%	38%
Operating Earnings[1]	28,045	27,970	96,278	71,057
Capital expenditures	27,366	24,452	94,647	86,525
Canadian Operations				
Contract drilling rig fleet:				
Average	50	46	49	45
End of period	49	47	49	47
Operating Revenue per revenue day[2]	27,104	26,060	26,178	24,829
Operating Revenue per operating day[3]	29,710	28,884	28,699	27,513
Drilling rig operating days[4]	2,724	2,754	10,478	9,098
Number of meters drilled	503,189	506,950	2,041,842	1,844,099
Number of wells drilled	133	150	606	543
Average operating days per well	20.5	18.3	17.3	16.8
Drilling rig utilization rate per revenue day[5]	65%	72%	64%	61%
Drilling rig utilization rate per operating day[6]	59%	65%	58%	55%
CAODC industry average utilization rate[6]	45%	43%	44%	40%
United States Operations				
Contract drilling rig fleet:				
Average	5	5	5	5
End of period	5	5	5	5
Operating Revenue per revenue day (US$)[2]	28,309	23,457	26,124	22,507
Operating Revenue per operating day (US$)[3]	31,876	26,559	29,680	26,942
Drilling rig operating days[4]	385	402	1,506	1,228
Number of meters drilled	102,290	94,784	360,105	268,964
Number of wells drilled	18	17	65	47
Average operating days per well	21.4	24.4	23.2	26.0
Drilling rig utilization rate per revenue day[5]	95%	99%	94%	81%
Drilling rig utilization rate per operating day[6]	85%	87%	83%	67%

(1) See "Financial Measures Reconciliations" on page 2 of this MD&A.
(2) Operating Revenue per revenue day is calculated using Operating Revenue divided by operating days and mobilization days.
(3) Operating Revenue per operating day is calculated using Operating Revenue divided by operating days.
(4) Drilling rig operating days are calculated on a spud to rig release basis.
(5) Utilization rate per revenue day is calculated based on operating and mobilization days divided by total available days.
(6) Utilization rate per operating day is calculated on operating days only (i.e. spud to rig release basis) divided by total available days.

For the year ended December 31, 2014, Operating Revenues in the contract drilling segment totalled $350.1 million, a $65.6 million (or 23%) increase, as compared to the year ended December 31, 2013. An increased average drilling rig fleet in Canada of 49 rigs for 2014, compared to 45 in the prior year, and increased demand for the Company's contract drilling services in both Canada and the United States, coupled with improved pricing, resulted in increased Operating Revenue in 2014, as compared to 2013.

During the year ended December 31, 2014, utilization per operating day in Canada increased to 58% from 55% in 2013. The larger fleet and improved utilization resulted in an increase of approximately 15% in the Company's operating days to 10,478 days in 2014, compared to 9,098 days in 2013. The Company's utilization per operating day in Canada of 58% in 2014 reflects an approximate 1,400 bps premium to the Canadian Association of Oilwell Drilling Contractors ("CAODC") industry average of 44%, as compared to the 1,500 bps premium realized in the prior year. The Company's utilization premium, as compared to the CAODC industry average, is attributed to the Company's customer base which includes a high proportion of large independent and major exploration and production companies that are more likely to drill through cycles and have a long term focus, coupled with Western's continued investment in its ELR fleet, which enhances the marketability of its rigs.

For the year ended December 31, 2014, Operating Revenue per revenue day in Canada totalled $26,178 compared to $24,829 in the prior year, a 5% increase attributable to a change in rig mix weighted to the deeper drilling rigs in Western's fleet and increased rental revenue. Third party charges per revenue day remained constant in 2014 as compared to 2013 at approximately $2,200 per revenue day.

In the United States in 2014, operating days increased by 278 days (or 23%). Similarly, utilization per operating day in 2014 increased to 83% compared to 67% in the same period in the prior year, mainly due to fewer down days. With the exception of downtime on two rigs for the completion of 1,500 hp AC pad conversions in the first half of 2014, the fleet in the United States was essentially fully utilized in 2014.

For the year ended December 31, 2014, Operating Revenues per revenue day in the United States increased by 16% to US$26,124, as day rates on Western's upgraded rig fleet have improved and as mobilization days as a percentage of total revenue days have decreased as the Company transitions to walking pad rigs.

During 2014, Adjusted EBITDA in the contract drilling segment increased by $34.0 million (or 31%) to $143.2 million (41% of the segment's Operating Revenue), as compared to $109.2 million (38% of the segment's Operating Revenue) in 2013, due to the increase in operating days and improved day rates in both Canada and the United States. Additionally, effective cost control contributed to an increase in Adjusted EBITDA as operating costs per revenue day have increased marginally by 4% mainly due to the CAODC wage increases in the fourth quarter of 2014 and 2013, and the Company's increased pad drilling which is more intense and continuous in nature and requires larger crew configurations, coupled with increased repairs and maintenance costs in 2014.

For the year ended December 31, 2014, cash administrative expenses, excluding depreciation and stock based compensation, increased 7% to $17.3 million, compared to $16.1 million in the prior year, mainly due to higher employee related expenses.

Depreciation expense in the contract drilling segment for the year ended December 31, 2014 increased by $8.8 million to $46.9 million due to increased activity and an increase in ancillary equipment which is depreciated on a straight-line basis.

As at December 31, 2014, Western reviewed its property and equipment based on the marketability of its tangible assets. For the year ended December 31, 2014, Western recognized a loss of approximately $7.0 million in the contract drilling segment on the decommissioning of a shallow drilling rig, as well as certain used equipment that is no longer in use.

Capital expenditures totalled $94.6 million in 2014 in the contract drilling segment and includes $75.2 million related to expansion capital, $11.4 million related to maintenance capital and $8.0 million related to rotational equipment. Of the expansion capital incurred in 2014, $60.5 million relates to the Company's rig build program, which in addition to the three drilling rigs under construction at year end, commissioned an additional three drilling rigs in Canada in 2014 and completed two 1,500 hp AC pad conversions in the United States in the second quarter of 2014. Western's drilling rig count in Canada increased to 49 rigs at the end of 2014 as the three drilling rigs commissioned in the year were offset by one drilling rig which was decommissioned on December 31, 2014.

Production Services

(stated in thousands)	Three months ended December 31 2014	2013	Year ended December 31 2014	2013
Revenue				
Operating Revenue[(1)]	34,447	29,275	125,404	69,004
Third party charges	2,131	1,909	7,210	3,266
Total revenue	36,578	31,184	132,614	72,270
Expenses				
Operating				
Cash operating expenses	23,496	21,346	85,925	49,934
Depreciation	3,995	4,383	15,279	9,923
Stock based compensation	197	79	424	208
Total operating expenses	27,688	25,808	101,628	60,065
Administrative				
Cash administrative expenses	1,839	1,876	7,710	5,875
Depreciation	114	-	425	-
Stock based compensation	104	126	398	182
Total administrative expenses	2,057	2,002	8,533	6,057
Gross Margin[(1)]	13,082	9,838	46,689	22,336
Gross margin as a percentage of Operating Revenue	38%	34%	37%	32%
Adjusted EBITDA[(1)]	11,243	7,962	38,979	16,461
Adjusted EBITDA as a percentage of Operating Revenue	33%	27%	31%	24%
Operating Earnings[(1)]	7,134	3,579	23,275	6,538
Capital expenditures	3,616	2,948	13,707	8,200
Well servicing rig fleet:				
Average	65	65	65	48
End of period	65	65	65	65
Operating Revenue per service hour[(2)]	837	804	817	766
Total service hours	34,456	31,403	127,768	77,879
Service rig utilization rate[(3)]	58%	53%	54%	45%

(1) See "Financial Measures Reconciliations" on page 2 of this MD&A.

(2) Operating Revenue per service hour is calculated using Operating Revenue divided by service hours.

(3) Utilization rate is calculated based on actual well servicing hours divided by available hours, being 10 hours per day, per well servicing rig, 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 as at December 31, 2014, as compared to 10 rigs immediately prior to the acquisition. Additionally, with the acquisition of IROC, Western acquired approximately $35 million in oilfield rental equipment, which is operated through Aero. Operating Revenue increased significantly for the year ended December 31, 2014 to $125.4 million, compared to $69.0 million in the year ended December 31, 2013 due to a full period's contribution from the assets acquired in the acquisition of IROC, coupled with improved utilization and hourly rates. For the year ended December 31, 2014, Aero's contribution to Operating Revenue in the production services segment totalled $21.0 million, compared to $9.3 million in 2013 due to improved demand, continued investment in oilfield rental equipment and a full period's contribution from Aero's assets following the acquisition of IROC.

During the year ended December 31, 2014, as a result of the increased well servicing rig fleet subsequent to the acquisition of IROC and improved utilization of 54% in 2014 compared to 45% in 2013, well servicing hours increased to 127,768 compared to 77,879 in the prior year, a 64% increase. Eagle is the seventh largest well servicing company in Canada based on rig fleet size, while comparatively having worked the fourth most service rig hours in the industry in 2014. Additionally, Operating Revenue per service hour increased 7% in 2014 to $817 compared to $766 in 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 single, double and slant well servicing rigs in a number of different geographic locations, whereas prior to the IROC acquisition, the Company operated a fleet of single well servicing rigs in the Lloydminster area which is highly competitive, less capital intensive and typically results in lower hourly rates. Additionally, service hour rates have improved due to an increase in steam assisted gravity drainage ("SAGD") work, which on average commands higher hourly rates due to the complexity of the work.

Adjusted EBITDA increased to $39.0 million (31% of the segment's Operating Revenue) during the year ended December 31, 2014 from $16.5 million (24% of the segment's Operating Revenue) in 2013. The increase in Adjusted EBITDA in 2014 is attributed to improved utilization and hourly rates, a full period of operations for Eagle and Aero in 2014, compared to a partial period subsequent to the IROC acquisition in April of 2013, as well as effective cost control in the period.

During the year ended December 31, 2014, cash administrative expenses, excluding depreciation and stock based compensation, increased 31% to $7.7 million due a full year of operations for Eagle and Aero in Western's production services segment following the acquisition of IROC in 2013.

In 2014, depreciation expense increased significantly by 58% to $15.7 million mainly due to higher utilization and a full period of operations from the assets acquired in the IROC acquisition, compared to the partial period in 2013.

As a result of the declining commodity price environment and the reduced outlook for oilfield services activity and pricing, Western recorded a $22.7 million goodwill impairment loss in 2014 in its well servicing division, representing the full amount of goodwill allocated to the division. Additionally, a $0.2 million derecognition loss on certain underutilized oilfield rental equipment was recognized in the period.

During the year ended December 31, 2014, capital expenditures in the production services segment totalled $13.7 million and mainly relate to expansion capital associated with the construction of one slant well servicing rig, as well as well servicing rig upgrades and the purchase of additional oilfield rental equipment.

Corporate

	Three months ended December 31		**Year ended December 31**	
(stated in thousands)	**2014**	**2013**	**2014**	**2013**
Administrative				
Cash administrative expenses	1,672	3,987	5,430	8,201
Depreciation	272	280	1,113	1,103
Stock based compensation	884	179	2,067	1,136
Total administrative expenses	2,828	4,446	8,610	10,440
Finance costs	4,897	5,155	20,782	17,058
Other items	(670)	363	(286)	496
Income taxes				
Current tax expense	3,670	231	9,457	520
Deferred tax expense	2,114	5,071	12,853	12,480
Total income taxes	5,784	5,302	22,310	13,000
Capital expenditures	89	129	250	509

Corporate administrative expenses for the year ended December 31, 2014 decreased by $2.8 million to $5.4 million, a 34% decrease. The decrease from the prior year is mainly due to approximately $2.0 million in one-time personnel costs recorded in 2013. Normalizing for these one-time costs, administrative expenses decreased by $0.8 million, mainly due to effective cost control during the period.

For the year ended December 31, 2014, finance costs on a consolidated basis, increased by $3.7 million as compared to the prior year. The increase is mainly due to the higher debt levels following the acquisition of IROC and the resulting issuance of $90.0 million in principal amount of the 7⅞% senior notes on September 18, 2013. The Company had an effective interest rate of 8.0% on its borrowings in 2014 as compared to 7.4% in 2013.

Other items for the year ended December 31, 2014 mainly consist of foreign exchange and asset sale gains and losses.

For the year ended December 31, 2014, income taxes, on a consolidated basis, totalled $22.3 million representing an effective tax rate of 38.0%, as compared to 26.9% in 2013. Normalizing for the goodwill impairment of $22.7 million, Western's effective tax rate was 27.4%. The increase in the normalized effective tax rate in 2014 is due to increased taxable income earned in the United States in 2014, which has higher corporate tax rates.

Liquidity and Capital Resources

The Company's liquidity needs in the short term and long term can be sourced in several ways including: funds from operations, borrowing against existing credit facilities, new debt instruments, equity issuances and proceeds from the sale of assets. As at December 31, 2014, Western had cash and cash equivalents of $62.7 million, an increase of $45.3 million from December 31, 2013. As a result, Western's consolidated net debt balance at December 31, 2014 was $202.6 million, a decrease of $43.8 million as compared to December 31, 2013. During the year ended December 31, 2014, Western had Adjusted EBITDA of $176.8 million and raised $9.7 million on the exercise of stock options and warrants. These cash inflows were offset by capital expenditures of $108.6 million, dividend payments of $22.3 million, cash interest payments of $19.1 million, and income tax payments of $0.8 million.

As at December 31, 2014, Western had a working capital balance of $78.3 million, a $27.7 million increase as compared to December 31, 2013, mainly due to increased activity. On December 18, 2014, Western increased its four year extendible Revolving Facility to $175.0 million from $125.0 million previously, with a maturity date extension to December 17, 2018 and increased Western's Operating Facility to $20.0 million from $10.0 million previously. As at December 31, 2014, the Company has $265.0 million in senior notes outstanding, $195.0 million in available credit facilities and is in compliance with all debt covenants. Currently, Western's net debt to trailing 12 month Adjusted EBITDA is 1.1 with no scheduled long term debt repayments until January 2019. 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 revised 2015 capital budget.

For the years ended December 31, 2014 and 2013, the Company had one significant customer comprising 13.1% and 10.8% respectively, of the Company's total revenue. The increase in this customer's percentage of total revenue in 2014 is attributed to a full year of contribution from the production services segment following the acquisition of IROC in 2013. The trade receivable balance relating to this customer as at December 31, 2014 represented 9.8% of the Company's total trade and other receivables. This customer is a publicly traded company with a market capitalization in excess of $35 billion as at December 31, 2014. The Company's significant customers may change quarter to quarter.

Fourth Quarter 2014

Selected Financial Information

Financial Highlights	**Three months ended December 31**	
(stated in thousands, except share and per share amounts)	**2014**	**2013**
Total Revenue	139,210	129,713
Operating Revenue	129,181	119,831
Gross Margin(1)	57,826	52,980
Gross Margin as a percentage of operating revenue	45%	44%
EBITDA(1)	50,419	43,543
EBITDA as a percentage of operating revenue	39%	36%
Cash flow from operating activities	47,830	36,866
Capital expenditures	31,071	27,529
Net income (loss)	(8,164)	15,797
-basic net income (loss) per share	(0.11)	0.22
-diluted net income (loss) per share	(0.11)	0.21
Weighted average number of shares		
-basic	74,882,690	73,374,219
-diluted	74,927,714	73,654,868
Outstanding common shares as at period end	74,866,028	73,386,191
Dividends declared	5,614	5,504
Dividends declared per common share	0.075	0.075

Operating Highlights		
Contract Drilling		
Canadian Operations		
Average contract drilling rig fleet	50	46
Contract drilling rig fleet - end of period	49	47
Operating revenue per revenue day (CDN$)(2)	27,104	26,060
Operating revenue per operating day (CDN$)(3)	29,710	28,884
Drilling rig operating days(4)	2,724	2,754
Number of meters drilled	503,189	506,950
Number of wells drilled	133	150
Average operating days per well	20.5	18.3
Drilling rig utilization rate per revenue day(5)	65%	72%
Drilling rig utilization rate per operating day(6)	59%	65%
CAODC industry average utilization rate(6)	45%	43%
United States Operations		
Average contract drilling rig fleet	5	5
Contract drilling rig fleet - end of period	5	5
Operating revenue per revenue day (US$)(2)	28,309	23,457
Operating revenue per operating day (US$)(3)	31,876	26,559
Drilling rig operating days(4)	385	402
Number of meters drilled	102,290	94,784
Number of wells drilled	18	17
Average operating days per well	21.4	24.4
Drilling rig utilization rate per revenue day(5)	95%	99%
Drilling rig utilization rate per operating day(6)	85%	87%
Production Services		
Average well servicing rig fleet	65	65
Well servicing rig fleet - end of period	65	65
Operating revenue per service hour (CDN$)(3)	837	804
Total service hours	34,456	31,403
Service rig utilization rate(7)	58%	53%

(1) See Financial Measures Reconciliations on page 2.
(2) Operating Revenue per revenue day is calculated using Operating Revenue divided by operating days and mobilization days.
(3) Operating Revenue per operating day and per service hour are calculated using Operating Revenue divided by operating days and service hours, respectively.
(4) Drilling rig operating days are calculated on a spud to rig release basis.
(5) Drilling rig utilization rate per revenue day is calculated based on operating and move days.
(6) Drilling rig utilization rate per operating day is calculated on operating days only (i.e. spud to rig release basis) divided by total available days.
(7) Utilization rate is calculated based on actual well servicing hours divided by available hours, being 10 hours per day, per well servicing rig, 365 days per year.

Consolidated

Operating Revenue increased by $9.4 million (or 8%) to $129.2 million in the fourth quarter of 2014 compared to $119.8 million in the same period of the prior year. The increase in Operating Revenue can be attributed to the improved day rates in the contract drilling segment in Canada and the United States, as well as improved pricing and utilization in the production services segment.

Adjusted EBITDA increased by $6.9 million (or 16%) in the fourth quarter of 2014 to $50.4 million as compared to $43.5 million in the fourth quarter of 2013. Included in EBITDA in the fourth quarter of 2013 is approximately $2.0 million in one-time personnel costs. Normalizing for this item, EBITDA increased $4.9 million (or 11%) in the fourth quarter of 2014 compared to the fourth quarter of 2013. The increase in EBITDA can mainly be attributed to improved day rates in the contract drilling segment, coupled with increased utilization and pricing in the production services segment.

Contract Drilling

During the fourth quarter of 2014, Operating Revenues in the contract drilling segment totalled $94.9 million, a $4.2 million (or 5%) increase as compared to the fourth quarter of 2013, due to improved day rates in both Canada and the United States as lower utilization was partially offset by an increased average drilling rig fleet resulting in operating days decreasing by 1% and 4% in Canada and the United States, respectively.

In Canada, Operating Revenue per revenue day improved 4% to $27,104 in the fourth quarter of 2014, compared to $26,060 in the fourth quarter of 2013 as a result of changes in the Company's rig mix. The deteriorating economic conditions in the fourth quarter of 2014, resulted in shallow winter drilling programs being the first to be cut by the Company's customers, resulting in lower utilization for Western's shallow drilling rigs which typically work at lower day rates. Canadian operations in the fourth quarter of 2014 were impacted by decreased activity, as customers began adjusting to the decline in the commodity price environment for crude oil and natural gas. The Company's utilization per operating day in Canada decreased to 59% in the fourth quarter of 2014, as compared to 65% in the fourth quarter of 2013, however operating days remained consistent at approximately 2,700 in both periods due to the larger drilling rig fleet. The Company's fourth quarter utilization rate reflects an approximate 1,400 bps premium to the CAODC industry average of 45%, as compared to the fourth quarter of 2013 premium of 2,200 bps to the CAODC industry average of 43%. The decrease in the Company's premium to the CAODC industry average is due to lower activity associated with Western's shallow drilling rigs in the quarter, as well as increased competition in the industry resulting from continual industry fleet upgrades and the decommissioning of underutilized drilling rigs throughout the industry.

In the United States, Operating Revenue per revenue day increased approximately 21% to US$28,309 in the fourth quarter of 2014 from US$23,457 in the same period in the prior year. This increase is attributable to higher day rates on the drilling rigs Western has upgraded in the past 12 months. The United States fleet was fully utilized for much of the fourth quarter of 2014 with utilization per operating day averaging 85% in the fourth quarter of 2014, compared to 87% in the fourth quarter of 2013. On a revenue day basis, utilization averaging 95% in the fourth quarter of 2014, as compared to 99% in the fourth quarter of 2013.

During the fourth quarter of 2014, Adjusted EBITDA in the contract drilling segment increased by $1.2 million (or 3%) to $40.8 million (43% of the segment's Operating Revenue), as compared to $39.6 million (44% of the segment's Operating Revenue) in the fourth quarter of 2013. The increase in Adjusted EBITDA is attributed to the improved day rates in Canada and the United States. Partially offsetting the increase in Operating Revenue is an approximate $1,100 increase in operating expenses per revenue day, mainly due to the CAODC wage increase in the fourth quarter of 2014 accounting for an increase of approximately $225 per revenue day, increased one-time repair and maintenance costs incurred during the period of approximately $300 per revenue day, lower capitalized overhead of approximately $300 per revenue day and the impact of the weaker Canadian dollar on translating Stoneham's operating expenses for consolidation purposes, accounting for an increase of approximately $150 per revenue day. A portion of the incremental repair and maintenance costs incurred in the fourth quarter of 2014 relate to preparing a drilling rig for a committed contract. Additionally, gross cash administrative expenses have increased marginally in the fourth quarter of 2014 to $3.9 million as compared to $3.6 million the same period in the prior year, due to increased employee related costs.

As at December 31, 2014, Western reviewed its property and equipment based on the marketability of its tangible assets. For the quarter ended December 31, 2014, Western recognized a loss of approximately $7.0 million in the contract drilling segment related to the decommissioning of a shallow drilling rig, as well as certain used equipment that is no longer in use.

Total capital expenditures of $27.4 million in the contract drilling segment for the fourth quarter of 2014 includes $21.4 million related to expansion capital, $4.2 million related to maintenance capital and $1.8 million related to rotational equipment. Of the expansion capital incurred during the fourth quarter of 2014, $14.4 million relates to the Company's rig build program incurred on the construction of four drilling rigs, one of which was commissioned in the fourth quarter, with the remaining capital spending relating to ancillary drilling equipment.

Production Services

During the fourth quarter of 2014, Operating Revenue totalled $34.4 million as compared to $29.3 million in the fourth quarter of 2013, a 17% increase. The increase in Operating Revenue can be attributed to improved utilization and hourly rates, as well as improved demand and continued investment in oilfield rental equipment. For the fourth quarter of 2014, Aero's contribution to Operating Revenue in the production services segment increased by $1.6 million to $5.6 million, as compared to $4.0 million in the fourth quarter of 2013.

Total service hours in the fourth quarter of 2014 increased by 10% to 34,456 compared to 31,403 in the fourth quarter of 2013, resulting in utilization in the period of 58% compared to 53% in the same period of the prior year. The improved utilization is partially attributed to Eagle's increased focus on SAGD work in the oil sands in northern Alberta. During the fourth quarter of 2014, Eagle had six well servicing rigs working in this area which realized utilization of 73%, as compared to the same period of the prior year when Eagle had one rig working in this area. Additionally, activity in most of Eagle's operating areas improved year over year, with the exception of Red Deer, Alberta due to unfavourable weather conditions and in southeast Saskatchewan due to reduced demand.

For the fourth quarter of 2014, Operating Revenue per service hour also increased by 4% to $837 compared to $804 in the same period in the prior year. The increase in Operating Revenue per service hour is attributed to wage increases in the fourth quarter passed through to our customers, coupled with higher rates on rigs completing SAGD work.

Adjusted EBITDA increased in the fourth quarter of 2014 to $11.2 million (33% of the segment's Operating Revenue), which is an improvement from $8.0 million (27% of the segment's Operating Revenue) in the fourth quarter of 2013 mainly due to improved utilization and hourly rates.

Cash administrative expenses, excluding depreciation and stock based compensation, remained unchanged at $1.8 million in the fourth quarter of 2014, as compared to the fourth quarter of 2013, mainly due to effective cost control in the period.

Depreciation expense in the production services segment for the fourth quarter of 2014 remained constant at approximately $4.1 million during the period as compared to $4.4 million in the same period in the prior year.

As a result of the declining commodity price environment and the reduced outlook for oilfield services activity and pricing, Western recorded a $22.7 million goodwill impairment loss in the fourth quarter of 2014 in its well servicing segment, representing the full amount of goodwill previously allocated to the segment. Additionally, a $0.2 million derecognition loss on certain underutilized oilfield rental equipment was recognized in the fourth quarter of 2014.

Corporate

During the fourth quarter of 2014, corporate administrative expenses, excluding depreciation and stock based compensation, decreased $2.3 million to $1.7 million as compared to $4.0 million in the fourth quarter of 2013. The decrease is mainly attributed to one-time personnel costs of $2.0 million incurred in the fourth quarter of 2013. Normalizing for these one-time costs in the prior year, corporate administrative expenses decreased by $0.3 million in the fourth quarter of 2014, mainly due to effective cost control in the period.

Finance costs in the fourth quarter of 2014 remained consistent, decreasing marginally by $0.3 million to $4.9 million as compared to $5.2 million in the same period of the prior year, mainly due to increased interest income on Western's cash and cash equivalents balances.

For the fourth quarter of 2014 and 2013, income taxes totalled $5.8 million and $5.3 million respectively. Normalizing for the goodwill impairment of $22.7 million in 2014, Western's effective tax rate was 28.5% in the fourth quarter of 2014 as compared to 25.1% in the fourth quarter of 2013. The increase in the effective tax rate is due to the relative increase in taxable income earned in the United States in the fourth quarter of 2014, which has higher corporate tax rates.

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 significant quarter over quarter 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, 2014	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013
(stated in thousands, except per share amounts)								
Revenue	139,210	125,225	81,981	161,416	129,713	101,389	50,835	98,006
Operating Revenue(1)	129,181	117,960	77,352	149,627	119,831	96,473	48,010	88,810
Gross Margin(1)	57,826	50,570	31,206	67,629	52,980	37,547	16,087	40,945
Adjusted EBITDA(1)	50,419	42,782	24,028	59,548	43,543	30,297	9,199	34,384
Cash flow from operating activities	47,830	22,975	71,912	38,634	36,866	6,667	48,381	22,444
Net income (loss)	(8,164)	14,718	4,396	25,500	15,797	7,927	(3,381)	14,903
per share - basic	(0.11)	0.20	0.06	0.35	0.22	0.11	(0.05)	0.25
per share - diluted	(0.11)	0.19	0.06	0.34	0.21	0.11	(0.05)	0.24
Total assets	1,057,118	1,040,973	1,016,112	1,019,192	986,792	947,836	903,882	748,112
Long term debt	264,165	263,624	263,293	263,119	262,877	263,050	232,529	182,068
Dividends declared	5,614	5,615	5,609	5,538	5,504	5,502	5,501	4,474

(1) See "Financial Measures Reconciliations" on page 2 of this MD&A.

With the exception of lower activity in the second quarters of 2013 and 2014, due to the cyclical nature of the oilfield service industry, revenues have increased significantly due to the acquisition of IROC, the Company's capital spending program, and increased activity in both the contract drilling and production services segments.

Adjusted EBITDA has followed a similar trend to revenue, steadily increasing after spring breakup in the second quarters through the third and fourth quarters and into the first quarter. Adjusted EBITDA is generally highest in the first quarter when activity is the highest. Adjusted EBITDA has shown continuous improvement from the third quarter of 2013 through to the first quarter of 2014, while being impacted by spring breakup in Canada in the second quarter of 2014. However, Adjusted EBITDA was impacted by spring breakup to a much lesser extent in the second quarter of 2014 than in past second quarters, due to favourable weather conditions, increased pad drilling, improved commodity prices, and a weaker Canadian dollar leading to more customers drilling through spring breakup.

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 acquisition over the fair value of the net tangible and intangible assets acquired. A continuity of Western's goodwill balance as at December 31, 2014 and 2013 is as follows:

(stated in thousands)	Amount
December 31, 2012	$ 55,527
Addition: IROC acquisition	33,183
December 31, 2013	88,710
Impairment of goodwill	(22,668)
Adjustment: IROC acquisition	1,714
Foreign exchange adjustment	1,851
December 31, 2014	$ 69,607

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, 2014 are as follows:

(stated in thousands)	2015	2016	2017	2018	2019	Thereafter	Total
Senior Notes	$ -	$ -	$ -	$ -	$ 265,000	$ -	$ 265,000
Senior Notes interest	20,869	20,869	20,869	20,869	10,434	-	93,910
Trade payables and other current liabilities	73,671	-	-	-	-	-	73,671
Dividends payable	5,615	-	-	-	-	-	5,615
Operating leases	4,430	3,343	2,507	2,376	2,329	11,839	26,824
Purchase commitments	16,363	-	-	-	-	-	16,363
Other long term debt	1,200	748	551	-	-	-	2,499
Total	$ 122,148	$ 24,960	$ 23,927	$ 23,245	$ 277,763	$ 11,839	$ 483,882

There have been no material changes in the contractual obligations detailed above, other than in the normal course of business, during the current interim period.

Outstanding Share Data

	February 26, 2015	December 31, 2014	December 31, 2013
Common shares outstanding	74,671,728	74,866,028	73,386,191
Warrants outstanding	-	-	108,261
Restricted share units outstanding	297,321	304,336	-
Stock options outstanding	4,785,267	5,093,972	4,425,598

Off Balance Sheet Arrangements

As at December 31, 2014, Western had no off balance sheet arrangements in place.

Transactions with Related Parties

During the year ended December 31, 2014, 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 a "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 their 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, 2014, 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 15, Revenue from Contracts with Customers, was issued in May 2014 and replaces the previous guidance on revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The standard provides a single, principles based five step model to be applied to all contracts with customers. The Company is currently evaluating the impact of the adoption of this new standard on its financial statements.
- IFRS 9, Financial Instruments, was amended in July 2014 which amends its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted and shall be applied retrospectively. The Company is currently evaluating the impact of the adoption of this new standard on its 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 requirements of National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings", an evaluation of the effectiveness of DC&P and ICFR was carried out under the supervision of the CEO and CFO at December 31, 2014. This evaluation was based on the framework established in the Internal Control – Integrated Framework (2013) issued in May 2013 by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, the CEO and CFO have concluded that, subject to 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.

In 2014, we updated our control framework to COSO 2013 as required, however there was no change 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 MD&A of the Company's financial condition and results of operations is based on the consolidated financial statements for the year ended December 31, 2014, 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 occur with absolute 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 share based payments.

The accounting estimates believed to be the most difficult, subjective or require complex judgements and which are the most critical to the reporting of results of operations and financial positions of the Company 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. The application of judgement is required in determining if an impairment test is required. If indicators indicate that the asset is no longer impaired, the Company will reverse impairment losses on assets. Impairment losses on goodwill are never reversed. Similar to determining if an impairment exists, judgment is required in assessing if a reversal of an impairment loss is required. 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, 2014, the Company completed its assessments and recognized a loss of $7.2 million in the fourth quarter of 2014 related to the decommissioning of a shallow drilling rig, as well as certain used equipment no longer in use. Additionally, the Company recorded a goodwill impairment loss of $22.7 million. There were no additional impairment indicators determined to exist on the Company's remaining definite life assets. As this is the first period where an impairment loss was recorded, there were no reversals of previously impairment losses.

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 and equity settled restricted share units 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, 2014 as filed on SEDAR at www.sedar.com. The Company's primary business risks as at December 31, 2014 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, including the ability of oil and gas companies to accumulate capital or variations in their exploration and development budgets, 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 oilfield 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 WCSB 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 declaration of dividends; the future demand for the Company's services and equipment; the terms of existing and future drilling contracts in Canada and the US and the revenues resulting therefrom (including the number of operating days typically generated from the Company's contracts); the Company's expansion and maintenance capital plans for 2015, including the ability of current capital resources to cover Western's financial obligations and the 2015 capital budget; the Company's expected sources of funding to support such capital plans and the Company's plans to postpone capital spending if market conditions continue to deteriorate; 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 being obtained; the expectation of continued foreign investment into the Canadian oilfield industry; the expectation of an early end to first quarter activity, the expectation that producer spending constraints will continue to be a large challenge facing the Company in 2015; and forward-looking statements under the heading "Critical Accounting Estimates".

The material assumptions in making the forward-looking statements in this MD&A 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; the current low levels of and pressures on commodity pricing; the continued business relationship between the Company and its one significant customer; general economic and financial market conditions; the development of liquefied natural gas projects, crude oil transport and pipeline approval and development; the Company's ability to finance its operations; the effects of seasonal and weather conditions on operations and facilities; the competitive environment to which the various business segments are, or may be, exposed in all aspects of their business; the ability of the Company's various business segments to access equipment (including spare parts and new technologies); changes in laws or regulations; currency exchange fluctuations; the ability of the Company to attract and retain skilled labour and qualified management; the ability to retain and attract significant customers; and other unforeseen conditions which could impact the use of services supplied by Western including 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 on 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, the risk that the demand for oilfield services will not improve for the remainder of 2015 and that commodity prices will remain low, and other 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.

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Western Energy Services Corp.

Consolidated Financial Statements

December 31, 2014 and 2013

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. ("Western" or the "Company"). 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 within reasonable limits of materiality.

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 the Company in accordance with 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

February 26, 2015

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Western Energy Services Corp.

We have audited the accompanying consolidated financial statements of Western Energy Services Corp., which comprise the consolidated balance sheets as at December 31, 2014 and 2013, and the consolidated statement of operations and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Western Energy Services Corp. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP.

Chartered Accountants

February 26, 2015
Calgary, Alberta

Western Energy Services Corp.

Consolidated Balance Sheets
(thousands of Canadian dollars)

	Note	December 31, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents		$ 62,662	$ 17,389
Trade and other receivables	7	89,817	90,519
Other current assets	8	6,344	5,576
		158,823	113,484
Non current assets			
Property and equipment	9	827,306	783,225
Goodwill	10	69,607	88,710
Other non current assets	8	1,382	1,373
		$ 1,057,118	$ 986,792
Liabilities			
Current liabilities			
Trade payables and other current liabilities	11	$ 73,671	$ 56,317
Dividends payable		5,615	5,504
Current portion of provisions	12	139	139
Current portion of long term debt	13	1,062	908
		80,487	62,868
Non current liabilities			
Provisions	12	1,819	1,957
Long term debt	13	264,165	262,877
Deferred taxes	19	109,444	95,665
		455,915	423,367
Shareholders' equity			
Share capital	14	423,633	411,143
Contributed surplus		6,815	6,088
Retained earnings		153,544	139,721
Accumulated other comprehensive income		15,125	5,171
Non controlling interest		2,086	1,302
		601,203	563,425
		$ 1,057,118	$ 986,792

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

Approved on behalf of the Board of Directors:

“Signed”	“Signed”
Ronald P. Mathison	Lorne A. Gartner
Director, Chairman of the Board	Director, Chairman of the Audit Committee

Western Energy Services Corp.

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

	Note	Year ended December 31, 2014	Year ended December 31, 2013
Revenue		$ 507,832	$ 379,943
Operating expenses		363,603	280,980
Impairment of property and equipment	9	7,247	-
Gross profit		136,982	98,963
Administrative expenses		35,057	33,163
Finance costs	17	20,782	17,058
Other items	18	(286)	496
Impairment of goodwill	10	22,668	-
Income before income taxes		58,761	48,246
Income taxes	19	22,311	13,000
Net income		36,450	35,246
Other comprehensive income (1)			
Gain on translation of foreign operations		(6,296)	(3,034)
Loss on change in fair value of available for sale assets (net of tax)		-	1,621
Unrealized foreign exchange gain on net investment in subsidiary (net of tax)		(3,658)	(2,114)
Comprehensive income		$ 46,404	$ 38,773
Net income attributable to:			
Shareholders of the Company		$ 36,199	$ 35,124
Non controlling interest		251	122
Comprehensive income attributable to:			
Shareholders of the Company		$ 46,153	$ 38,651
Non controlling interest		251	122
Net income per share:			
Basic		$ 0.49	$ 0.51
Diluted		0.48	0.50
Weighted average number of shares:			
Basic	16	74,396,701	69,032,574
Diluted	16	75,427,149	69,873,460

(1) Other comprehensive income 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)

	Note	Share capital	Contributed surplus (1)	Retained earnings	Accumulated other comprehensive income (2)	Non controlling interest	Total shareholders' equity
Balance at December 31, 2012		$ 322,878	$ 4,689	$ 125,579	$ 1,644	$ -	$ 454,790
Common shares:							
Issued common shares on acquisition	14	83,999	-	-	-	-	83,999
Issued for cash on exercise of stock options	14	192	-	-	-	-	192
Issued for cash on exercise of warrants	14	2,982	-	-	-	-	2,982
Fair value of exercised options and warrants	14	1,092	(1,092)	-	-	-	-
Stock based compensation	15	-	2,491	-	-	-	2,491
Dividends declared		-	-	(20,982)	-	-	(20,982)
Non controlling interest acquired		-	-	-	-	1,110	1,110
Contributions from non controlling interest		-	-	-	-	70	70
Comprehensive income		-	-	35,124	3,527	122	38,773
Balance at December 31, 2013		411,143	6,088	139,721	5,171	1,302	563,425
Common shares:							
Issued for cash on exercise of stock options	14	9,460	-	-	-	-	9,460
Issued for cash on exercise of warrants	14	227	-	-	-	-	227
Purchased under normal course issuer bid	14	(127)	-	-	-	-	(127)
Fair value of exercised options and warrants	14	2,930	(2,930)	-	-	-	-
Stock based compensation	15	-	3,657	-	-	-	3,657
Dividends declared		-	-	(22,376)	-	-	(22,376)
Contributions from non controlling interest		-	-	-	-	533	533
Comprehensive income		-	-	36,199	9,954	251	46,404
Balance at December 31, 2014		$ 423,633	$ 6,815	$ 153,544	$ 15,125	$ 2,086	$ 601,203

(1) Contributed surplus relates to stock based compensation described in Note 15.

(2) At December 31, 2014, the accumulated other comprehensive income balance consists of the translation of foreign operations and unrealized foreign exchange on 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, 2014	Year ended December 31, 2013
Operating activities			
Net income		$ 36,450	$ 35,246
Adjustments for:			
Depreciation included in operating expenses		61,991	47,701
Depreciation included in administrative expenses		1,776	1,431
Stock based compensation included in operating expenses	15	936	895
Stock based compensation included in administrative expenses	15	2,721	1,596
Loss on sale of assets		9	1,137
Gain on sale of investments		-	(1,234)
Impairment of property and equipment	9	7,247	-
Impairment of goodwill	10	22,668	-
Income taxes	19	22,311	13,000
Finance costs	17	20,782	17,058
Other		35	(1,321)
Cash generated from operating activities		176,926	115,509
Income taxes paid		(754)	(6,965)
Change in non-cash working capital		5,179	5,814
Cash flow from operating activities		181,351	114,358
Investing activities			
Additions to property and equipment	9	(108,604)	(95,234)
Proceeds on sale of property and equipment		2,033	4,757
Business acquisitions		-	(62,898)
Proceeds from sale of investments		-	34,446
Changes in non-cash working capital		2,738	4,059
Cash flow used in investing activities		(103,833)	(114,870)
Financing activities			
Issue of common shares	14	9,687	3,174
Share purchase under normal course issuer bid	14	(127)	-
Repayment of long term debt		(1,013)	(49,823)
Issuance of senior notes		-	91,463
Issue costs of senior notes		-	(1,332)
Finance costs paid		(19,059)	(12,893)
Dividends paid		(22,266)	(19,946)
Contributions from non controlling interest		533	70
Change in non-cash working capital		-	600
Cash flow (used in) from financing activities		(32,245)	11,313
Increase in cash and cash equivalents		45,273	10,801
Cash and cash equivalents, beginning of year		17,389	6,588
Cash and cash equivalents, end of year		$ 62,662	$ 17,389
Cash and cash equivalents:			
Bank accounts		$ 15,662	$ 7,889
Short term investments		47,000	9,500
		$ 62,662	$ 17,389

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

1. Reporting entity:

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the registered 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, 2014 and 2013 (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. Subsequent to the acquisition of IROC Energy Services Corp. ("IROC") on April 22, 2013, Western provides well servicing operations through Western 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 through the Partnership's division, Aero Rental Services ("Aero"). Financial and operating results for Eagle and Aero from the date of the acquisition of IROC, as well as Matrix are included in Western's production services segment.

2. Basis of preparation:

(a) Statement of compliance:

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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 26, 2015.

(b) Basis of measurement:

These Financial Statements have been prepared on the historical cost basis except for the following items in the balance sheet:

(i) derivative financial instruments are measured at fair value;
(ii) financial instruments at fair value through profit or loss are measured at fair value; and
(iii) financial instruments classified as available for sale are measured at fair value.

(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, are eliminated in preparing these Financial Statements.

A portion of the Company's operations are conducted through an arrangement 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 the arrangement. As a result, the Company fully consolidates the arrangement and has recorded a non controlling interest in equity and net income.

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 reporting 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. 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.

The Company's current foreign operations are conducted through Stoneham, which has 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.

(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.

Goodwill is allocated as of the date of the business combination to the Company's reporting 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.

(d) Financial instruments:

Recognition and measurement:

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 a "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.

3. Significant accounting policies (continued):

(d) Financial instruments (continued):

The Company has the following non-derivative financial assets:

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

Cash and cash equivalents are 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, senior unsecured notes (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.

(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) Investments:

Investments, if any, are classified as available for sale financial assets with changes in fair value recognized in other comprehensive income. When the investments are ultimately sold, any gains or losses are reversed and recognized through net income.

(g) Embedded derivatives:

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 their 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 changes in the value of the embedded derivatives are included in other items within net income.

The only embedded derivative the Company has as at December 31, 2014 and 2013 relates to the early redemption option on the Senior Notes.

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

3. Significant accounting policies (continued):

(h) Property and equipment:
Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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 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. The costs of day-to-day servicing of property and equipment (i.e. repairs and maintenance) are recognized in net income as incurred.

Depreciation is calculated based on the cost of the asset, less its estimated residual value. Depreciation is recognized in net income either on a unit of production or 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.

The estimated useful lives of each class of asset for the current and comparative periods are as follows:

	Expected Life	**Residual values**	**Depreciation method**
Buildings	25 years	-	Straight-line
Drilling rigs and related equipment:			
Drilling rigs	1,600 to 5,000 drilling operating days	10-20%	Unit-of-production
Drill pipe	1,600 drilling operating days	10%	Unit-of-production
Major inspections and overhauls	1,000 drilling operating days	-	Unit-of-production
Ancillary drilling equipment	5 to 10 years	-	Straight-line
Well servicing rigs and related equipment	22,000 to 44,000 service hours	10-20%	Unit-of-production
Rental equipment	1 to 30 years	-	Straight-line
Shop and office equipment	1 to 10 years	-	Straight-line
Vehicles	3 years	20%	Straight-line

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. 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.

(i) Inventory:
Inventory is measured at the lower of cost and net realizable value. Write downs of inventory are reversed if there has been a change in the estimates used to determine the recoverable amount and the decrease in impairment write down can be objectively related to an event occurring after the impairment was recognized.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

3. Significant accounting policies (continued):

(j) Impairment:

(i) Financial assets:

Financial assets are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective 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 goodwill the recoverable amount is estimated each year at the same time, unless there is an indication of 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"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the business combination.

An impairment loss is recognized in net income if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and the decrease in impairment loss can be objectively related to an event occurring after the impairment was recognized. An impairment loss 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 loss had been recognized. Such reversal is recognized in net income.

(k) 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 and cash and equity settled restricted share units ("RSUs"). The grant date fair values of stock option and equity settled RSU awards granted to employees are recognized as an employee expense, with a corresponding increase 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 employee is included in share capital and the related contributed surplus associated with the stock options exercised is reclassed into share capital. Upon vesting of equity settled RSUs, the related contributed surplus associated with the RSU award is reclassified into share capital.

3. Significant accounting policies (continued):

(k) Employee benefits (continued):

(ii) Stock based compensation awards (continued):

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.

(l) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost within net income. Also, a provision is recognized if an inducement or incentive is associated with a lease, such as a free rent period on an office lease or cash payments received for leasehold improvements. Lease inducements received are recognized as a reduction to the total lease expense, over the term of the lease.

(m) Revenue:

The Company's services are sold based upon purchase orders or contracts with customers that include fixed or determinable prices based upon daily or hourly rates and recoverable costs. Revenue is recognized when there is persuasive evidence that an arrangement exists, the service has been provided, the rate is fixed or determinable, and collection of the amounts billed to the customer is reasonably assured. The Company considers persuasive evidence to exist when a formal contract is signed or customer acceptance is obtained. Contract terms do not include a provision for significant post-service delivery obligations. Revenue from contracts of long or medium terms are recorded using the percentage-of-completion method, as services are provided, and collection is reasonably assured.

(n) Leased assets and payments:

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. Leases which result in the Company assuming substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition of a finance lease, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments under the lease agreement. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between finance expense and the reduction of the outstanding liability. Finance expense is allocated to each period during the lease term using the effective interest rate method.

All other leases that are determined not to be finance leases are considered operating leases. Payments made under operating leases are recognized in net income on a straight-line basis over the term of the lease.

(o) 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.

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 when incurred.

(p) Income tax:

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

3. Significant accounting policies (continued):

(p) Income tax (continued):

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, except for temporary differences that arise from goodwill which is not deductible for tax purposes.

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.

(q) 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 or 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 or loss and the weighted average number of common shares outstanding for the effects of all potentially dilutive common shares, which comprise equity settled RSUs and in-the-money stock options and warrants granted. 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 an average share price for the reporting period. The average market value of Western's shares for purposes of calculating the dilutive effect of stock options is based on quoted market prices for the period during which the options were outstanding in the reporting period.

(r) 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 components. All operating segments' results are reviewed regularly by the Company's President & Chief Executive Officer and Senior Vice President, Finance & Chief Financial Officer ("Senior Management"), to make decisions about resources to be allocated to the segment and assess its performance.

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

(s) Standards adopted in the year:

As at January 1, 2014, the Company adopted the following standards:

- International Accounting Standard ("IAS") 36, Impairment of Assets – Amendments to IAS 36 requires entities to disclose the recoverable amount of an individual asset or impaired CGU. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014 and require retrospective application. For the year ended December 31, 2014, the Company has recorded an impairment loss on property and equipment, as well as goodwill, and has disclosed the recoverable amounts in Notes 9 and 10, respectively, of the financial statements.

(t) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended December 31, 2014, and have not been applied in preparing these Financial Statements.

3. Significant accounting policies (continued):

(t) New standards and interpretations not yet adopted (continued):

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

- IFRS 15, Revenue from Contracts with Customers, was issued in May 2014 and replaces the previous guidance on revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The standard provides a single, principles based five step model to be applied to all contracts with customers. The Company is currently evaluating the impact of the adoption of this new standard on its financial statements.
- IFRS 9, Financial Instruments, was amended in July 2014 with respect to its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted and shall be applied retrospectively. The Company is currently evaluating the impact of the adoption of this new standard on its financial statements.

4. Critical accounting judgments and key sources of estimation uncertainty:

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates 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.

Key sources of estimation uncertainty:

A number of the Company's accounting policies and disclosures require key assumptions concerning the future, and other key sources of estimation uncertainty 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 judgments and key sources of estimation uncertainty 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 is 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 segments, the markets, and the business environment, and makes judgments and assessments about conditions and events in order to conclude whether a possible impairment exists.

Property and equipment:

The fair value of property and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of equipment is based on market and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

The value in use calculation associated with property and equipment used for impairment assessments involves significant judgments, estimates and assumptions, including those associated with the future cash flows of the CGU, determination of the CGU, discount rates and asset useful lives.

Goodwill:

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value.

4. Critical accounting judgments and key sources of estimation uncertainty (continued):

(b) Property and equipment:

Property and equipment are depreciated over their estimated useful lives while factoring in an asset's estimated residual value as determined by management. All estimates of useful lives and residual values are set out in Note 3 (h). 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.

(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 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 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.

(d) Determination of functional currency:

The determination of functional currency is a matter of determining the primary economic environment in which an entity operates. IAS 21, The Effects of Changes in Foreign Exchange Rates, sets out a number of factors to apply in making the determination of the functional currency. However, applying the factors in IAS 21 does not always result in a clear indication of functional currency. Where IAS 21 factors indicate differing functional currencies within a subsidiary, the Company uses judgment in the ultimate determination of that subsidiary's functional currency. Judgment was applied in the determination of the functional currency of certain of the Company's operating entities.

(e) Stock based awards:

The fair value of employee stock options and equity settled RSUs are measured using a Black Scholes option pricing model. Measurement inputs include the share price on the grant date, the exercise price of the instrument, the expected volatility, the weighted average expected life of the instruments, the expected dividends and the risk-free interest rate. Service and non-market performance conditions are not taken into account in determining fair value. The stock based compensation recognized is also determined based on management's grant date estimate of the forfeitures that are expected to occur over the life of the stock options and equity settled RSUs. Cash settled RSUs are measured using the amount expected to vest and are fair valued using a mark-to-market calculation based on the Company's closing share price at the end of the period. The number of stock options and RSUs that actually vest could differ from the estimated number of awards expected to vest and any differences between the actual and estimated forfeitures are recognized prospectively as they occur.

(f) Non-derivative financial liabilities:

As detailed in the Company's accounting policy, the Company records its financial instruments at fair value on inception with changes in fair value recorded when required by the Company's classification of such instruments. Calculation of the fair value of the Company's financial instruments are complex and requires judgment around the selection of market inputs and is based on many variables including but not limited to credit spreads and interest rate spreads which are factors outside management's control.

The fair value of non-derivative financial liabilities for disclosure purposes is calculated based on the present value of future principal and interest payments, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

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

5. Operating segments:

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

Senior Management reviews internal management reports for these segments on at least a monthly basis.

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

The following is a summary of the Company's results by segment for the years ended December 31, 2014 and 2013:

Year ended December 31, 2014	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 376,607	$ 132,614	$ -	$ (1,389)	$ 507,832
Segment profit (loss)	96,278	23,275	(6,543)	-	113,010
Finance costs	-	-	20,782	-	20,782
Impairment of property and equipment	6,956	291	-	-	7,247
Depreciation	46,950	15,704	1,113	-	63,767
Additions to property and equipment (1)	95,781	12,363	309	-	108,453

(1) Additions include the purchase of property and equipment, non-cash capital asset additions and property and equipment acquired through business acquisitions.

Year ended December 31, 2013	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 308,022	$ 72,270	$ -	$ (349)	$ 379,943
Segment profit (loss)	71,057	6,538	(9,304)	-	68,291
Finance costs	-	-	17,058	-	17,058
Depreciation	38,106	9,923	1,103	-	49,132
Additions to property and equipment (1)	86,911	176,777	610	-	264,298

(1) Additions include the purchase of property and equipment, non-cash capital asset additions and property and equipment acquired through business acquisitions.

Goodwill	Contract Drilling	Production Services	Total
Balance at December 31, 2012	$ 55,527	$ -	$ 55,527
Additions: IROC acquisition	-	33,183	33,183
Balance at December 31, 2013	55,527	33,183	88,710
Impairment of goodwill	-	(22,668)	(22,668)
Foreign exchange adjustment	1,851	-	1,851
Adjustments: IROC acquisition (Note 6)	-	1,714	1,714
Balance at December 31, 2014	$ 57,378	$ 12,229	$ 69,607

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

5. Operating segments (continued):

Total assets and liabilities of the reportable segments are as follows:

As at December 31, 2014	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 777,678	$ 211,328	$ 68,112	$1,057,118
Total liabilities	137,490	42,894	275,531	455,915

As at December 31, 2013	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 726,591	$ 235,309	$ 24,892	$ 986,792
Total liabilities	109,359	35,901	278,107	423,367

A reconciliation of segment profit to income before income taxes is as follows:

	Year ended December 31, 2014	Year ended December 31, 2013
Segment profit	$ 113,010	$ 68,291
Add (deduct):		
Stock based compensation	(3,838)	(2,491)
Finance costs	(20,782)	(17,058)
Other items	286	(496)
Impairment of property and equipment	(7,247)	-
Impairment of goodwill	(22,668)	-
Income before income taxes	$ 58,761	$ 48,246

Segmented information by geographic area is as follows:

As at and for the year ended December 31, 2014	Canada	United States	Total
Revenue	$ 457,536	$ 50,296	$ 507,832
Property and equipment	714,257	113,049	827,306
Total assets	921,907	135,211	1,057,118

As at and for the year ended December 31, 2013	Canada	United States	Total
Revenue	$ 345,308	$ 34,635	$ 379,943
Property and equipment	691,351	91,874	783,225
Total assets	885,195	101,597	986,792

Significant customers:

For the year ended December 31, 2014, the Company had one significant customer comprising 13.1% of the Company's total revenue. The trade receivable balances related to this customer as at December 31, 2014 represented 9.8% of the Company's total trade and other receivables. This customer is a publicly traded company with a market capitalization in excess of $35 billion. For the year ended December 31, 2013, the Company had one significant customer comprising 10.8% of the Company's total revenue.

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

6. Business acquisition:

IROC Energy Services Corp. ("IROC")

On April 22, 2013, Western acquired all of the issued and outstanding common shares of IROC in exchange for cash consideration equal to $62.9 million and 12,352,832 common shares of Western at an ascribed price of $6.80 per share, based on the trading price of Western on the close of the transaction. The final value allocated to the shares issued was $84.0 million.

The acquisition of IROC enabled the Company to continue its growth strategy as an oilfield service provider in the Canadian oilfield service industry and to enter the oilfield rental equipment industry in Canada. The acquisition provided the Company with an increased market share in the production services industry through access to IROC's assets and customer base.

The following summarizes the major classes of consideration transferred at the acquisition date:

As at April 22, 2013		Amount
Cash paid	$	62,934
Shares issued		83,999
Assumption of bank debt (net of $36 in cash acquired)		29,411
	$	176,344

This acquisition has been accounted for using the acquisition method on April 22, 2013, whereby the assets acquired and the liabilities assumed were recorded at their fair values with the surplus of the aggregate consideration relative to the fair value of the identifiable net assets recorded as goodwill. The Company assessed 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. Subsequent to the acquisition date, IROC's operating results have been included in Western's revenues, expenses and capital spending. The purchase price allocation is final as at December 31, 2014.

The following summarizes the allocation of the aggregate consideration for the IROC acquisition:

		Amount
Net working capital (excluding cash)	$	329
Property and equipment		166,003
Goodwill		34,897
Deferred tax liability		(23,775)
Non controlling interest		(1,110)
	$	176,344

Trade receivables net of the allowance for doubtful accounts, included in net working capital, are comprised of contractual amounts due of $21.1 million, all of which was collected as at December 31, 2013.

The Company estimates that had the acquisition closed on January 1, 2013, $106.6 million of revenue for the year ended December 31, 2013 would have been attributable to IROC's assets. Included in this estimated amount is $68.2 million of revenue recognized by the Company subsequent to the acquisition date relating to IROC's assets. The Company cannot reasonably determine the net income amount attributable to IROC's assets had the acquisition closed on January 1, 2013 or from the acquisition date, due to the fact that IROC's management and cost structure has been changed and integrated into the Company's operations.

The Company assessed the acquisition for intangible assets and concluded that none existed.

Goodwill on the IROC acquisition was attributed to the price paid for IROC's newly constructed modern rig fleet in competitive market conditions. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company incurred costs related to the acquisition of IROC of $2.1 million relating to due diligence as well as external legal and advisory fees, which were expensed within other items in 2013 (see Note 18).

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

7. Trade and other receivables:

	December 31, 2014	December 31, 2013
Trade receivables	$ 77,524	$ 74,131
Accrued trade receivables	11,676	15,191
Other receivables	633	1,453
Allowance for doubtful accounts	(16)	(256)
Total	$ 89,817	$ 90,519

The Company's exposure to credit risk related to trade and other receivables is disclosed in Note 21.

8. Other assets:

	December 31, 2014	December 31, 2013
Current:		
Prepaid expenses	$ 2,944	$ 2,856
Inventory	2,611	2,040
Deposits	608	551
Deferred charges and other	181	129
Total current portion of other assets	6,344	5,576
Non current:		
Deferred charges and other	1,382	1,373
Total non current portion of other assets	1,382	1,373
Total other assets	$ 7,726	$ 6,949

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

9. Property and equipment:

	Land	Buildings	Contract drilling equipment	Production services equipment	Office and shop equipment	Vehicles under finance leases	Total
Cost:							
Balance at December 31, 2012	$ 4,974	$ 3,636	$ 593,463	$ 17,944	$ 9,157	$ 1,722	$ 630,896
Acquisitions: business combination	115	145	-	166,283	1,508	405	168,456
Additions	-	8	86,446	7,713	1,067	-	95,234
Finance lease additions	-	-	-	-	-	608	608
Disposals	-	-	(2,129)	(4,259)	(62)	(287)	(6,737)
Foreign exchange adjustment	-	-	6,212	-	149	11	6,372
Balance at December 31, 2013	5,089	3,789	683,992	187,681	11,819	2,459	894,829
Acquisition: business combination (Note 6)	-	-	-	(2,453)	-	-	(2,453)
Additions	-	259	93,961	13,381	674	329	108,604
Finance lease additions	-	-	941	-	-	1,361	2,302
Impairment of loss and derecognition		-	(7,726)	(360)	-	-	(8,086)
Disposals	-	-	(1,221)	(1,685)	-	(557)	(3,463)
Foreign exchange adjustment	-	-	10,198	-	47	24	10,269
Balance at December 31, 2014	$ 5,089	$ 4,048	$ 780,145	$ 196,564	$ 12,540	$ 3,616	$1,002,002
Depreciation:							
Balance at December 31, 2012	$ -	$ 301	$ 60,198	$ 384	$ 1,481	$ 375	$ 62,739
Depreciation for the year	-	162	37,274	9,356	1,848	492	49,132
Disposals	-	-	(639)	(52)	(47)	(105)	(843)
Foreign exchange adjustment	-	-	563	-	9	4	576
Balance at December 31, 2013	-	463	97,396	9,688	3,291	766	111,604
Depreciation for the period	-	174	46,147	14,808	1,945	693	63,767
Impairment of loss and derecognition	-	-	(771)	(68)	-	-	(839)
Disposals	-	-	(517)	(510)	-	(394)	(1,421)
Foreign exchange adjustment	-	-	1,552	-	25	8	1,585
Balance at December 31, 2014	$ -	$ 637	$ 143,807	$ 23,918	$ 5,261	$ 1,073	$ 174,696
Carrying amounts:							
At December 31, 2013	$ 5,089	$ 3,326	$ 586,596	$ 177,993	$ 8,528	$ 1,693	$ 783,225
At December 31, 2014	$ 5,089	$ 3,411	$ 636,338	$ 172,646	$ 7,279	$ 2,543	$ 827,306

Assets under construction:

Included in property and equipment at December 31, 2014 are assets under construction of $36.8 million (December 31, 2013: $16.5 million) which include costs incurred to date for the construction of three drilling rig builds and one slant well servicing rig build, as well as ancillary drilling and well servicing equipment.

For the year ended December 31, 2014, the Company recorded an impairment loss of $7.2 million (December 31, 2013: $nil) related to a decommissioned shallow drilling rig and used equipment in the contract drilling segment, and underutilized rental equipment in the production services segment. The recoverable amount for these assets of $1.7 million was determined based on fair value less cost to sell as at December 31, 2014, and is classified as a Level 3 fair value measurement. Refer to Note 21 for information on fair value hierarchy classifications.

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

10. Goodwill:

		Goodwill
Balance at December 31, 2012	$	55,527
Additions: IROC acquisition		33,183
Balance at December 31, 2013		88,710
Impairment loss		(22,668)
Foreign exchange adjustment		1,851
Adjustments: IROC acquisition (Note 6)		1,714
Balance at December 31, 2014	$	69,607

The determination of CGUs is based on management's judgment regarding shared equipment, geographic proximity and materiality. The Company currently has three CGUs consisting of contract drilling, well servicing and oilfield rental equipment.

The following summarizes the goodwill allocated to each CGU:

		December 31, 2014		December 31, 2013
CGU:				
Contract drilling	$	57,378	$	55,527
Well servicing		-		21,675
Oilfield rental equipment		12,229		11,508
Total goodwill allocated	$	69,607	$	88,710

For impairment testing purposes, goodwill has been allocated to the Company's cash-generating units that are expected to benefit from the synergies of the business combinations which resulted in the initial recognition of the goodwill. These cash-generating units are based on contract drilling rigs, well servicing rigs and oilfield rental equipment within the Company's contract drilling and production services segments.

The recoverable amounts of these cash-generating units was determined based on a value in use calculation which uses cash flow projections based on a five year forecast which incorporates the Company's 2015 budget approved by the Board of Directors for the following fiscal year and a pre-tax discount rate of 14% (December 31, 2013: 13%) per annum. Based on management's best estimates at December 31, 2014, a trailing five year average utilization and profit margin, plus 2% price inflation per year, were used to project cash flows from 2016 to 2019. The cash flows beyond 2019 have been extrapolated using a 2% per annum growth rate. The forecasted cash flows are based on management's best estimates of future pricing, asset utilization, rates for available equipment and costs to maintain that equipment.

The results of the tests indicated a goodwill impairment of $22.7 million on the well servicing CGU as at December 31, 2014 (December 31, 2013: $nil), which represented the total amount of goodwill related to the well servicing division. The goodwill impairment is due to the declining commodity price environment and outlook for oilfield services activity and pricing, which has resulted in reductions to the capital spending plans for the majority of Western's customers. Based on the value in use calculation, the recoverable amount of the well servicing CGU is $139.7 million as at December 31, 2014.

The most sensitive inputs to the model used for all CGUs are the discount rate and the growth rate. The impairment test's sensitivity to these inputs is as follows: All else being equal, a 0.5% increase in the discount rate would not have changed the results of the analysis for the contract drilling, well servicing and oilfield rental equipment CGUs. All else being equal, a 0.5% decrease in the growth rates would not have changed the results of the analysis for the contract drilling, well servicing and oilfield rental equipment CGUs. All else being equal, a 5.0% decrease in profit margin would not have changed the results of the analysis for the contract drilling, well servicing and oilfield rental equipment CGUs.

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

11. Trade payables and other current liabilities:

	December 31, 2014	December 31, 2013
Trade payables	$ 23,252	$ 14,073
Accrued trade payables and expenses	50,419	42,244
Total	$ 73,671	$ 56,317

The Company's exposure to foreign exchange and liquidity risk related to trade payables and other current liabilities is disclosed in Note 21.

12. Provisions:

	Onerous contracts	Lease inducements	Total
Balance at December 31, 2012	$ 104	$ 2,233	$ 2,337
Provisions used during the year	(108)	(137)	(245)
Accretion of provisions	4	-	4
Balance at December 31, 2013	-	2,096	2,096
Provisions used during the year	-	(138)	(138)
Balance at December 31, 2014	$ -	$ 1,958	$ 1,958

	December 31, 2014	December 31, 2013
Current	$ 139	$ 139
Non current	1,819	1,957
	$ 1,958	$ 2,096

At December 31, 2014, the Company has recognized a provision for the deferral of an office lease inducement received which is amortized on a straight-line basis over the life of the contract.

13. Long term debt:

This note provides information about the contractual terms of the Company's long term debt instruments. The Company's exposure to interest rate, foreign exchange and liquidity risk is disclosed in Note 21.

	December 31, 2014	December 31, 2013
Current:		
Operating Facility [(a)]	$ -	$ -
Other long term debt - current portion [(1)]	1,062	908
Total current portion of long term debt	1,062	908
Non current:		
Revolving Facility [(a)]	-	-
Senior Notes [(b)]	265,000	265,000
Less: net unamortized premium and issue costs on Senior Notes	(2,122)	(2,635)
Other long term debt - non current portion [(1)]	1,287	512
Total non current portion of long term debt	264,165	262,877
Total long term debt	$ 265,227	$ 263,785

(1) Other long term debt consists of finance lease obligations and a note payable.

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

13. Long term debt (continued):

(a) Credit facilities:

On December 18, 2014, the Company amended its credit facilities to increase its revolving credit facility (the "Revolving Facility") to $175.0 million, from $125.0 million previously, with a maturity date extension to December 17, 2018 and increased the Company's operating demand revolving loan (the "Operating Facility") to $20.0 million, from $10.0 million previously. The syndicate of banks providing the Revolving Facility has also expanded as a result of these amendments. The Revolving Facility requires interest to be paid monthly with no scheduled principal repayments unless the Revolving Facility is not extended by the maturity date. The Operating Facility principal balance is due on demand with interest paid monthly.

Amounts borrowed under the Operating and Revolving Facilities bear interest at the bank's Canadian prime rate, US base rate, LIBOR, 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 relevant agreement. The credit facilities are secured by the assets of Western and its subsidiaries. As at December 31, 2014, the Company had $175.0 million in available credit under the Revolving Facility and $20.0 million under the Operating Facility.

The Company's credit facilities are subject to the following financial covenants:

	Covenant
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio (1)(2)	2.5:1.0 or less
Maximum Consolidated Debt to Consolidated Capitalization Ratio	0.6:1.0 or less
Minimum Consolidated EBITDA to Consolidated Interest Expense Ratio	2.0:1.0 or more

(1) In the event of a material acquisition during any fiscal quarter, the ratio shall increase by 0.50 until (and including) the end of the second full fiscal quarter after the material acquisition.

(2) Consolidated Senior Debt in the credit facilities is defined as consolidated debt which includes indebtedness under the Revolving Facility, Operating Facility, and finance leases, reduced by cash on hand in excess of $20 million and outstanding principal on unsecured debt. Consolidated EBITDA in the credit facilities is defined 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.

As at December 31, 2014 and 2013, the Company was in compliance with all covenants related to its credit facilities.

(b) Senior Notes:

During 2012, the Company completed a private placement of $175.0 million 7⅞% Senior Notes. The Senior Notes were issued at par value and are due on January 30, 2019. On September 18, 2013, the Company completed a private placement of an additional $90.0 million principal amount Senior Notes which were issued at $1,016.25 per $1,000 principal amount plus accrued interest from and including, July 30, 2013 and are due on January 30, 2019. The Senior Notes contain certain early redemption options under which the Company has the option to redeem all or a portion of the Senior Notes at various redemption prices, which include the principal amount plus accrued and unpaid interest, if any, to the applicable redemption date. Interest is payable semi-annually on January 30 and July 30.

The Senior Notes are unsecured, ranking equal in right of payment to all existing and future unsecured indebtedness, and have been guaranteed by the Company's current and future subsidiaries. The Senior Notes Indenture contains certain restrictions relating to items such as making restricted payments and incurring additional debt.

At December 31, 2014, the fair value of the Senior Notes was approximately $250.4 million (December 31, 2013: $270.3 million).

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

14. Share capital:

At December 31, 2014, the Company was 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, 2012	59,582,143	$	322,878
Issued for cash on exercise of stock options	31,666		192
Issued for cash on exercise of warrants	1,419,550		2,982
Fair value of exercised stock options and warrants	-		1,092
Issued on acquisition of IROC	12,352,832		83,999
Balance at December 31, 2013	73,386,191		411,143
Issued for cash on exercise of stock options	1,394,976		9,460
Issued for cash on exercise of warrants	108,261		227
Shares purchased under normal course issuer bid	(23,400)		(127)
Fair value of exercised stock options and warrants	-		2,930
Balance at December 31, 2014	74,866,028	$	423,633

For the year ended December 31, 2014, the Company declared dividends of $22.4 million (December 31, 2013: $21.0 million) representing an annual cash dividend of $0.30 per share and had dividends payable of $5.6 million at December 31, 2014 (December 31, 2013: $5.5 million).

On December 15, 2014, Western initiated a normal course issuer bid (the "Bid"), which has been filed with and accepted by the Toronto Stock Exchange. Pursuant to the Bid, Western may purchase for cancellation up to 5,550,000 common shares of the Company. The Bid commenced on December 17, 2014 and will terminate on the earlier of: (i) December 16, 2015; and (ii) the date on which the maximum number of Common Shares are purchased pursuant to the Bid. For the year ended December 31, 2014, 23,400 common shares for a total cost of $0.1 million were repurchased, cancelled, and charged to share capital.

15. 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.

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

	Stock options outstanding		Weighted average exercise price
Balance at December 31, 2012	2,522,733	$	7.08
Granted	2,335,000		7.03
Exercised	(31,666)		6.06
Forfeited	(400,469)		7.48
Balance at December 31, 2013	4,425,598		7.02
Granted	2,495,566		9.46
Exercised	(1,394,976)		6.78
Forfeited	(432,216)		7.62
Balance at December 31, 2014	5,093,972	$	8.23

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

15. Stock based compensation (continued):

For the years ended December 31, 2014 and 2013, no stock options were cancelled. The average fair value of the stock options granted in 2014 was $2.71 per stock option (2013: $1.92 per stock option). For the year ended December 31, 2014, the Company recorded approximately $3.3 million in stock based compensation expense related to stock options (December 31, 2013: $2.5 million).

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

As at December 31, 2014 Exercise price ($/share)	Number of options outstanding	Weighted average contractual life remaining (years)	Number of options exercisable
5.70-7.00	1,387,770	2.77	507,760
7.01-10.00	2,037,979	3.28	696,331
10.01-11.14	1,668,223	4.61	-
	5,093,972	3.58	1,204,091

As at December 31, 2014, Western had 1,204,091 (December 31, 2013: 1,289,509 options) exercisable stock options outstanding at a weighted average exercise price equal to $7.12 (December 31, 2013: $6.96) per stock option.

The accounting fair value of the stock options as at the date of grant is calculated in accordance with a Black Scholes methodology using the following averaged inputs:

	2014	2013
Risk-free interest rate	1%	1%
Average forfeiture rate	16%	22%
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	3%	4%
Expected share price volatility	60%	60%

Restricted share unit plan:

In August 2014, the Company implemented a RSU plan for eligible directors, officers, employees and consultants of the Company so that they may participate in the growth and development of Western. Although the TSX has accepted the adoption of the RSU plan, the RSU plan and RSUs granted thereunder prior to the receipt of shareholder approval of the RSU plan remain subject to shareholder ratification, which will be sought at the Company's next annual meeting. Under the terms of the RSU plan, the RSUs awarded will vest in three equal portions on the first, second and third anniversary of the grant date and will be settled in equity or cash at the discretion of the Company.

Subject to the specific provisions of the RSU plan, eligibility, vesting period, terms of the units and the number of units granted are to be determined by the Board of Directors at the time of grant. The RSU plan allows the Board of Directors to issue up to 1% of the Company's outstanding common shares as 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 Western's outstanding RSUs:

	Equity settled	Cash settled	Total
Balance at December 31, 2013 and 2012	-	-	-
Granted	176,351	136,444	312,795
Issued as a result of dividends	3,987	2,822	6,808
Forfeited	(3,000)	(12,267)	(15,267)
Balance at December 31, 2014	177,338	126,999	304,336

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

15. Stock based compensation (continued):

The estimated fair value of the equity settled RSUs granted during the year ended December 31, 2014 was $1.1 million (December 31, 2013: $nil) and will be recognized as an expense over the vesting periods of the RSUs.

The accounting fair value of the equity settled RSUs as at the grant date is calculated in accordance with a Black Scholes methodology using the following averaged inputs:

	2014	2013
Risk-free interest rate	1%	-
Average forfeiture rate	16%	-
Average expected life	2.0 years	-
Maximum life	3.0 years	-
Average vesting period	2.0 years	-
Expected dividend	3%	-
Expected share price volatility	60%	-

Stock based compensation expense is comprised of the following:

	Year ended December 31, 2014	Year ended December 31, 2013
Stock options	$ 3,325	$ 2,491
Restricted share units - equity settled grants	332	-
Total equity settled stock based compensation expense	3,657	2,491
Restricted share units - cash settled grants	181	-
Total stock based compensation expense	$ 3,838	$ 2,491

Warrants:
The following table summarizes Western's outstanding warrants:

	Warrants outstanding	Weighted average exercise price
Balance at December 31, 2012	1,527,811	$ 2.10
Exercised	(1,419,550)	$ 2.10
Balance at December 31, 2013	108,261	$ 2.10
Exercised	(108,261)	$ 2.10
Balance at December 31, 2014	-	$ -

Each warrant entitled the holder to purchase one common share of Western. As at December 31, 2014, all warrants have been exercised.

16. Earnings per share:

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

	Year ended December 31, 2014	Year ended December 31, 2013
Issued common shares, beginning of period	73,386,191	59,582,143
Effect of shares issued	1,010,510	9,450,431
Weighted average number of common shares (basic)	74,396,701	69,032,574
Dilutive effect of equity compensation plans	1,030,448	840,886
Weighted average number of common shares (diluted)	75,427,149	69,873,460

At December 31, 2014, 1,813,016 options (December 31, 2013: 3,382,765 options) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

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

17. Finance costs:

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

	Year ended December 31, 2014	Year ended December 31, 2013
Interest expense on long term debt	$ 20,489	$ 16,553
Amortization of debt financing fees and provisions	644	729
Interest and dividend income	(351)	(224)
Total finance costs	$ 20,782	$ 17,058

For the year ended December 31, 2014, the Company incurred interest and financing costs of approximately $21.8 million (December 31, 2013: $18.3 million), which includes capitalized interest of $1.0 million (December 31, 2013: $1.2 million) on its long term debt (see Note 13). The Company had an effective interest rate of 8.0% on its borrowings for the year ended December 31, 2014 (December 31, 2013: 7.4%).

18. Other items:

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

	Year ended December 31, 2014	Year ended December 31, 2013
Loss on sale of assets	$ 9	$ 1,137
Gain on sale of investments	-	(1,234)
Loss (gain) on fair value of derivatives	166	(608)
Foreign exchange gain	(457)	(419)
Other income	(4)	(452)
Acquisition costs	-	2,072
Total other items	$ (286)	$ 496

19. Income taxes:

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

	Year ended December 31, 2014	Year ended December 31, 2013
Current tax expense	$ 9,457	$ 520
Deferred tax expense	12,854	12,480
Total income taxes	$ 22,311	$ 13,000

The following summarizes the income taxes recognized directly into other comprehensive income:

	Year ended December 31, 2014	Year ended December 31, 2013
Translation differences for foreign operations	$ 529	$ 333
Available for sale financial assets	-	(232)
Total income taxes in other comprehensive income	$ 529	$ 101

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

19. Income taxes (continued):

The following provides a reconciliation of income before income taxes recognized in the consolidated statements of operations and comprehensive income:

		Year ended December 31, 2014		Year ended December 31, 2013
Income before income taxes		$ 58,761		$ 48,246
Federal and provincial statutory rates	25.3%	14,866	25.2%	12,151
Income taxed at higher rates		741		29
Impairment of goodwill		5,735		-
Stock based compensation		881		628
Non-deductible expenses		282		516
Change in effective tax rate on temporary differences		135		349
Change in estimate		(351)		(211)
Change in previously unrecognized tax assets		(109)		-
Return to provision adjustment		(18)		(320)
Other		149		(142)
Total income taxes		$ 22,311		$ 13,000

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

	December 31, 2014	December 31, 2013
Property and equipment	$ (129,831)	$ (114,690)
Other assets	(216)	(257)
Deferred charges and accruals	(5,345)	(1,893)
Provisions	491	523
Long-term debt	363	233
Share issue costs	264	762
Other tax pools	509	535
Tax loss carry-forwards	24,229	19,105
Other	92	17
Net deferred tax liabilities	$ (109,444)	$ (95,665)

Movements of the Company's temporary differences for the year ended December 31, 2014 is as follows:

	Balance Dec 31, 2013	Recognized in other comprehensive income	Recognized in net income	Impact of foreign exchange	Acquired in business combinations	Balance Dec 31, 2014
Property and equipment	$(114,690)	$ -	$ (12,982)	$(2,784)	$ 624	$(129,832)
Other assets	(257)	-	41	-	-	(216)
Deferred charges	41	-	(62)	-	-	(21)
Provisions	523	-	(33)	-	-	490
Long term debt	233	-	130	-	-	363
Timing differences on accruals	(1,553)	-	(2,839)	(20)	-	(4,412)
Foreign exchange on inter-company loan	(381)	(529)	(2)	-	-	(912)
Share issue costs	762	-	(499)	-	-	263
Other tax pools	552	-	32	19	-	603
Tax loss carry-forwards	19,105	-	3,360	1,765	-	24,230
Net deferred tax liabilities	$ (95,665)	$ (529)	$ (12,854)	$ (1,020)	$ 624	$(109,444)

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

19. Income taxes (continued):

Movements of the Company's temporary differences for the year ended December 31, 2013 is as follows:

	Balance Dec 31, 2012	Recognized in other comprehensive income	Recognized in net income	Impact of foreign exchange	Acquired in business combinations	Balance Dec 31, 2013
Property and equipment	$ (75,047)	$ -	$ (14,064)	$(1,850)	$ (23,729)	$(114,690)
Other assets	(276)	232	(213)	-	-	(257)
Deferred charges	79	-	(38)	-	-	41
Provisions	579	-	(56)	-	-	523
Long term debt	222	-	(84)	-	95	233
Timing differences on accruals	203	-	596	13	(2,365)	(1,553)
Foreign exchange on inter-company loan	(45)	(333)	(3)	-	-	(381)
Share issue costs	1,141	-	(500)	-	121	762
Other tax pools	473	-	(11)	10	80	552
Tax loss carry-forwards	14,787	-	1,893	988	1,437	19,105
Net deferred tax liabilities	$ (57,884)	$ (101)	$ (12,480)	$ (839)	$ (24,361)	$ (95,665)

At December 31, 2014, the Company has gross loss carry forwards equal to approximately $6.0 million in Canada, which expire between 2026 and 2034. In the United States, the Company has approximately US$50.0 million gross loss carry forwards which expire between 2028 and 2034.

At December 31, 2014 and 2013, the Company had no unrecognized deductible temporary differences.

20. Costs by nature:

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

	Year ended December 31, 2014	Year ended December 31, 2013
Depreciation of property and equipment (Note 9)	$ 63,767	$ 49,132
Employee benefits: salaries and benefits	212,286	165,674
Employee benefits: stock based compensation (Note 15)	3,838	2,491
Repairs and maintenance	29,310	22,554
Third party charges	33,712	26,819

21. Financial risk management and financial instruments:

The Company's financial instruments include cash and cash equivalents, trade and other receivables, investments, trade payables and other current liabilities, derivatives and long term debt instruments such as the credit facilities and Senior Notes. Cash and cash equivalents, investments and derivatives are carried at fair value. The carrying amounts of trade and other receivables, trade payables, and other current liabilities approximate their fair values due to their short term nature. The credit facilities bear interest at rates that approximate market rates and therefore their carrying values approximate fair values. The Senior Notes are recorded at their amortized cost. Fair value disclosure of the Senior Notes is based on their trading price on December 31, 2014.

Interest rate risk:

The Company is exposed to interest rate risk on certain debt instruments, such as the Operating Facility and Revolving 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 $nil impact on interest expense for the year ended December 31, 2014 as there was no balance outstanding on the credit facilities during the year ended December 31, 2014 (December 31, 2013: $0.4 million). Other long term debt, such as the Senior Notes and the Company's finance leases, are subject to fixed interest rates.

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

21. Financial risk management and financial instruments (continued):

Foreign exchange risk:

The Company is exposed to foreign currency fluctuations in relation to its United States 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, 2014, portions of the Company's cash balances, trade payables and accrued liabilities were denominated in United States dollars and subject to foreign exchange fluctuations which are recorded within net income. In addition, Stoneham, Western's United States subsidiary, is subject to foreign currency translation adjustments upon consolidation, which is recorded separately within other comprehensive income. For the year ended December 31, 2014, the increase or decrease in net income and other comprehensive income for each one percent change in foreign exchange rates between the Canadian and United States dollars is estimated to be less than $0.2 million and $0.5 million, respectively (December 31, 2013: $0.2 million and $0.5 million, respectively).

Credit risk:

Credit risk arises from cash 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.

At December 31, 2014, approximately 99% of the Company's trade receivables were less 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.

The table below provides an analysis of the aging of the Company's trade receivables:

	December 31, 2014	December 31, 2013
Trade receivables:		
Current	$ 51,537	$ 38,913
Outstanding for 31 to 60 days	21,856	28,347
Outstanding for 61 to 90 days	3,788	5,640
Outstanding for over 90 days	343	1,231
Accrued trade receivables	11,676	15,191
Other receivables	633	1,453
Allowance for doubtful accounts	(16)	(256)
Total	$ 89,817	$ 90,519

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 irrecoverable and are written off against the financial asset directly.

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 flow from operating activities, existing credit facilities and excess working capital 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.

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

21. Financial risk management and financial instruments (continued):

Liquidity risk (continued):

The table below provides an analysis of the expected maturities of the Company's outstanding obligations at December 31, 2014:

	Total	Due prior to December 31					
	amount	2015	2016	2017	2018	2019	Thereafter
Financial liabilities:							
Trade and other current liabilities	$ 73,671	$ 73,671	$ -	$ -	$ -	$ -	$ -
Senior Notes	265,000	-	-	-	-	265,000	-
Total	$ 338,671	$ 73,671	$ -	$ -	$ -	$ 265,000	$ -

Cash flows included in the maturity analysis may occur significantly earlier, or at significantly different amounts.

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.

Fair value:

Financial assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels based on the amount of subjectivity associated with the inputs in the fair value determination of these assets and liabilities are as follows:

Level I – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II – Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level III – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The Company's cash and cash equivalents balance, investments and derivatives are the only financial assets or liabilities measured using fair value. The Company's cash and cash equivalents and investment balances are categorized as level I as there are quoted prices in an active market for these instruments. The estimated fair value of the Senior Notes is based on level II inputs as the inputs are directly observable through correlation with market data.

Capital management:

The overall capitalization of the Company at December 31, 2014 is as follows:

	Note	December 31, 2014	December 31, 2013
Other long term debt	13	$ 2,349	$ 1,420
Senior Notes	13	265,000	265,000
Total debt		267,349	266,420
Shareholders' equity		601,203	563,425
Less: cash and cash equivalents		(62,662)	(17,389)
Total capitalization		$ 805,890	$ 812,456

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

21. Financial risk management and financial instruments (continued):

Capital Management (continued):

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

- 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;
- 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
- 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.

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, 2014, the Company had $195.0 million in available credit under its credit facilities and was in compliance with all debt covenants (see Note 13).

22. Commitments:

The Company has total commitments which require payments for the next five years based on the maturity terms as follows:

	2015	2016	2017	2018	2019	Thereafter	Total
Senior Notes	$ -	$ -	$ -	$ -	$ 265,000	$ -	$ 265,000
Senior Notes interest	20,869	20,869	20,869	20,869	10,434	-	93,910
Trade payables and other current liabilities	73,671	-	-	-	-	-	73,671
Dividends payable	5,615	-	-	-	-	-	5,615
Operating leases	4,430	3,343	2,507	2,376	2,329	11,839	26,824
Purchase commitments	16,363	-	-	-	-	-	16,363
Other long term debt	1,200	748	551	-	-	-	2,499
Total	$ 122,148	$ 24,960	$ 23,927	$ 23,245	$ 277,763	$ 11,839	$ 483,882

Senior Notes and interest:

The Company pays interest on the Senior Notes semi-annually on January 30 and July 30. The Senior Notes are due January 30, 2019.

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.

Dividends Payable:

The Company paid a quarterly dividend equal to $0.075 per share on January 15, 2015 to shareholders of record on December 31, 2014.

Operating leases:

The Company has offices and oilfield service equipment under operating leases. The leases typically run for a period of one to thirteen years, typically with an option to renew the lease after that date.

Purchase commitments:

The Company has agreements in place to purchase certain capital and other operational items with third parties.

Other long term debt:

The Company has other long term debt relating to leased vehicles as well as an outstanding note payable.

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

23. Related party transactions:

During the years ended December 31, 2014 and 2013, the Company did not have any significant sales transactions with any related parties. At December 31, 2014, there are no significant balances outstanding in trade and other receivables with related parties (December 31, 2013: $nil).

24. Key management personnel:

During the year ended December 31, 2014, the Company paid compensation to key management personnel as follows:

	Year ended December 31, 2014	Year ended December 31, 2013
Short-term employee benefits (1)	$ 2,363	$ 4,819
Stock based compensation (2)	744	447
	$ 3,107	$ 5,266

(1) Includes approximately $2 million in one-time personnel costs for the year ended December 31, 2013.

(2) The total fair value of stock options and RSUs granted to key management personnel for the year ended December 31, 2014 was equal to $2.4 million (December 31, 2013: $0.1 million) which is being recognized in net income over the options' vesting period.

25. Subsidiaries:

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

		Ownership interest (%)	
	Country of incorporation	December 31, 2014	December 31, 2013
Stoneham Drilling Corporation	USA	100	100
Western Energy Services Partnership	Canada	100	100

26. Subsequent events:

On February 26, 2015, the Board of Directors of Western declared a quarterly dividend of $0.075 per share, payable on April 16, 2015, to shareholders of record at the close of business on March 31, 2015. The dividends will be eligible dividends for Canadian income tax purposes.

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Alex R.N. MacAusland [3]
Calgary, Alberta

Ronald P. Mathison
Calgary, Alberta

John R. Rooney [1] [2]
Calgary, Alberta

1 Member of the Audit Committee

2 Member of the Corporate Governance and Compensation Committee

3 Member of the Health, Safety and Environment Committee

OFFICERS

Ronald P. Mathison
Chairman of the Board

Alex R.N. MacAusland
President and
Chief Executive Officer

Jeffrey K. Bowers
Sr. Vice President Finance
and Chief Financial Officer

Rick M. Harrison
Sr. Vice President Operations

Darcy D. Reinboldt
Sr. Vice President Operations

David G. Trann
Vice President Finance

Tim J. Sebastian
Vice President Corporate
Development and General Counsel

Jeff A. Vathje
Vice President Human Resources

Steven A. MacNabb
Vice President Health, Safety
and Environment

Cordell P. Verweire
Vice President Marketing

Jan M. Campbell
Corporate Secretary

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Alberta Treasury Branches
The Bank of Nova Scotia
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