Western Energy Services Corp.

Condensed Consolidated Financial Statements

September 30, 2011 and 2010

(Unaudited)

Western Energy Services Corp.

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

	Note	September 30, 2011	December 31, 2010
Assets			
Current assets			
Cash and cash equivalents		$ -	$ 3,475
Trade and other receivables		73,175	28,060
Prepaid expenses and other current assets		1,314	1,324
Assets of discontinued operations	19	2,968	3,778
		77,457	36,637
Non current assets			
Property and equipment	7	448,203	188,355
Goodwill	5	56,536	29,117
Deferred taxes		2,328	1,167
Other non current assets		271	-
Assets of discontinued operations	19	28	8,832
		$ 584,823	$ 264,108
Liabilities			
Current liabilities			
Trade payables and other current liabilities	8	$ 35,034	$ 20,852
Current portion of provisions		294	295
Current portion of long term debt	9	4,450	513
Liabilities of discontinued operations	19	1,316	1,821
		41,094	23,481
Non current liabilities			
Provisions		435	356
Long term debt	9	108,057	46,054
Deferred taxes		43,756	7,377
Liabilities of discontinued operations	19	-	7
		193,342	77,275
Shareholders' equity			
Share capital	10	319,698	159,895
Contributed surplus		3,103	2,359
Retained earnings		65,011	24,579
Accumulated other comprehensive income		3,669	-
		391,481	186,833
		$ 584,823	$ 264,108

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

Western Energy Services Corp.

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

	Note	Three months ended Sept 30, 2011	Three months ended Sept 30, 2010	Nine months ended Sept 30, 2011	Nine months ended Sept 30, 2010
Revenue		$ 80,786	$ 16,485	$ 161,219	$ 29,427
Operating expenses		53,639	12,236	109,263	22,262
Gross profit		27,147	4,249	51,956	7,165
Administrative expenses		5,093	1,866	10,727	4,320
Finance costs	13	1,333	219	2,404	525
Other items	14	779	114	2,149	223
Gain on business acquisitions		-	(8,720)	-	(19,814)
Income from continuing operations before taxes		19,942	10,770	36,676	21,911
Income taxes	15	6,053	912	7,717	1,339
Net income from continuing operations		13,889	9,858	28,959	20,572
Discontinued operations					
Gain on sale of StimSol (net of tax)	19	10,661	-	10,661	-
Net income from discontinued operations (net of tax)	19	343	177	812	279
Net income		24,893	10,035	40,432	20,851
Translation of foreign operations		4,063	-	3,669	-
Comprehensive income (attributable to common shareholders of the Company)		$ 28,956	$ 10,035	$ 44,101	$ 20,851
Net income per share from continuing operations[1]:					
Basic		$ 0.24	$ 0.37	$ 0.59	$ 0.99
Diluted		$ 0.23	$ 0.36	$ 0.56	$ 0.91
Net income per share from discontinued operations[1]:					
Basic		$ 0.19	$ 0.01	$ 0.23	$ 0.01
Diluted		$ 0.18	$ -	$ 0.23	$ 0.01
Net income per share[1]:					
Basic		$ 0.43	$ 0.38	$ 0.82	$ 1.00
Diluted		$ 0.41	$ 0.36	$ 0.79	$ 0.92
Weighted average number of shares[1]:					
Basic		58,533,287	26,377,458	49,256,925	20,872,089
Diluted		60,618,480	27,621,563	51,294,610	22,565,533

(1) Restated to reflect the 20:1 share consolidation completed on June 22, 2011

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

Western Energy Services Corp.

Condensed Consolidated Statement of Changes in Shareholders' Equity (Unaudited)
(thousands of Canadian dollars)

Attributable to common shareholders of the Company:

	Note	Share capital	Contributed surplus (1)	Retained earnings/ (deficit)	Accumulated other comprehensive income (2)	Total shareholders' equity
Balance at January 1, 2010		$ 8,253	$ 1,835	$ (2,011)	$ -	$ 8,077
Issue of common shares (net of issue costs)	10	77,039	-	-	-	77,039
Stock based compensation-continuing operations	11	-	300	-	-	300
Stock based compensation-discontinued operations	11	-	46	-	-	46
Comprehensive income		-	-	20,851	-	20,851
Balance at September 30, 2010		85,292	2,181	18,840	-	106,313
Issue of common shares (net of issue costs)	10	74,603	-	-	-	74,603
Stock based compensation-continuing operations	11	-	156	-	-	156
Stock based compensation-discontinued operations	11	-	22	-	-	22
Comprehensive income		-	-	5,739	-	5,739
Balance at December 31, 2010		159,895	2,359	24,579	-	186,833
Issue of common shares (net of issue costs)	10	159,960	-	-	-	159,960
Cancellation of common shares	10	(157)	-	-	-	(157)
Stock based compensation-continuing operations	11	-	812	-	-	812
Stock based compensation-discontinued operations	11	-	(68)	-	-	(68)
Comprehensive income		-	-	40,432	3,669	44,101
Balance at September 30, 2011		$ 319,698	$ 3,103	$ 65,011	$ 3,669	$ 391,481

(1) Contributed surplus relates to Western's stock based compensation described in Note 11.

(2) At September 30, 2011, the accumulated other comprehensive income balance consists entirely of the effect of translation of foreign operations.

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

Western Energy Services Corp.

Condensed Consolidated Statements of Cash Flows (Unaudited)
(thousands of Canadian dollars)

	Note	Three months ended Sept 30, 2011	Three months ended Sept 30, 2010	Nine months ended Sept 30, 2011	Nine months ended Sept 30, 2010
Operating activities					
Net income from continuing operations		$ 13,889	$ 9,858	$ 28,959	$ 20,572
Adjustments for:					
Depreciation included in operating expenses		7,792	2,132	15,529	3,921
Depreciation included in administrative expenses		144	43	281	77
Stock based compensation included in operating expenses		66	24	182	50
Stock based compensation included in administrative expenses		336	121	630	250
Loss (gain) on sale of assets		243	1	(1,204)	(4)
Income taxes	15	6,053	912	7,717	1,339
Gain on business acquisitions		-	(8,720)	-	(19,814)
Unrealized foreign exchange loss (gain)		121	(55)	155	(190)
Finance costs		1,333	219	2,404	525
Other		(101)	1	(298)	116
Cash generated from operating activities		29,876	4,536	54,355	6,842
Taxes paid		(1)	(180)	(100)	(243)
Change in non-cash working capital		(23,120)	(1,865)	(19,206)	54
Continuing operations		6,755	2,491	35,049	6,653
Discontinued operations		(3,364)	961	(1,018)	782
Cash flow from operating activities		3,391	3,452	34,031	7,435
Investing activities					
Additions to property and equipment		(24,927)	(5,120)	(54,533)	(7,456)
Proceeds on sale of property and equipment		-	18	2,539	97
Business acquisitions	6	7	(195)	(113,277)	(35,985)
Investments		-	-	(558)	-
Proceeds from sale of investments		-	-	912	-
Changes in non-cash working capital		1,529	214	(2,646)	1,160
Continuing operations		(23,391)	(5,083)	(167,563)	(42,184)
Discontinued operations		20,829	(870)	21,430	413
Cash flow used in investing activities		(2,562)	(5,953)	(146,133)	(41,771)
Financing activities					
Issue of common shares	10	-	-	86,336	75,000
Share issue costs	10	-	-	(4,706)	(4,117)
(Payment) drawdown of long term debt		(4,768)	568	29,624	(37,711)
Finance costs paid		(1,373)	(233)	(2,640)	(888)
Change in non-cash working capital		(3)	(39)	(20)	102
Continuing operations		(6,144)	296	108,594	32,386
Discontinued operations		44	(15)	33	(331)
Cash flow (used in) from financing activities		(6,100)	281	108,627	32,055
Decrease in cash and cash equivalents		$ (5,271)	$ (2,220)	$ (3,475)	$ (2,281)
Cash and cash equivalents, beginning of period		$ 5,271	$ 2,325	$ 3,475	$ 2,386
Cash and cash equivalents, end of period		$ -	$ 105	$ -	$ 105
Cash and cash equivalents:					
Bank accounts		$ -	$ 105	$ -	$ 105
		$ -	$ 105	$ -	$ 105

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

1. Reporting entity:

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the registered office is 900, 606 – 4th Street SW, Calgary, Alberta. Western is a publicly traded company that was listed on the TSX Venture Exchange under the symbol "WRG", prior to the graduation to the Toronto Stock Exchange on October 13, 2011 where it currently trades under the same symbol. These condensed consolidated financial statements ("Financial Statements") as at and for the three and nine months ended September 30, 2011 and 2010, are comprised of Western and its wholly owned subsidiaries (together referred to as the "Company"). The Company operates in the contract drilling segment of the Canadian and United States oilfield service industry. Operations in Canada are conducted through Western's wholly owned subsidiaries, Horizon Drilling Inc. ("Horizon"), which was acquired on March 18, 2010 and in the United States through Stoneham Drilling Corporation, which was acquired on June 10, 2011. The Company's previous operations in the production services segment were conducted through Western's wholly owned subsidiary, StimSol Canada Inc. ("StimSol") which was sold to a third party on September 13, 2011. As a result, the Company has accounted for its production services segment as discontinued operations (see Note 19).

2. Basis of preparation:

Statement of compliance:

International Financial Reporting Standards ("IFRS") require an entity adopting IFRS, in its first annual financial statements under IFRS, to make an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its 2011 annual consolidated financial statements. These Financial Statements have been prepared using accounting policies consistent with IFRS and in accordance with IAS 34, "Interim Financial Reporting" ("IAS 34") as issued by the International Accounting Standards Board and using the accounting policies the Company expects to adopt in its consolidated financial statements for the year ending December 31, 2011. The Company applied IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), as at January 1, 2010. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 21.

These Financial Statements do not include all of the information required for annual financial statements. Amounts relating to the three and nine months ended September 30, 2010 and as at December 31, 2010 were formerly presented in accordance with previous Canadian GAAP ("Canadian GAAP"). These amounts have been revised as necessary to be compliant with our accounting policies under IFRS. Reconciliations and descriptions relating to the transition from Canadian GAAP to IFRS are included in Note 21.

These Financial Statements were approved for issuance by the Board of Directors on November 9, 2011 and should be read in conjunction with the Company's 2010 audited annual consolidated financial statements, which have been prepared in accordance with Canadian GAAP, the Company's March 31, 2011 condensed consolidated financial statements, which have been prepared in accordance with IFRS, and in consideration of the IFRS transition disclosures included in Note 21 to these Financial Statements.

3. Significant accounting policies:

These Financial Statements should be read in conjunction with the Company's March 31, 2011 condensed consolidated financial statements, which outline the Company's significant accounting policies in Note 3 thereto, as well as the Company's critical accounting judgements and key sources of estimation uncertainty as set out in Note 4 thereto, which have been applied consistently in these Financial Statements.

4. Seasonality:

The Company's operations are often weather dependent, which has a seasonal effect. During the first quarter, the frozen conditions allow oil and gas companies to move heavy equipment to otherwise inaccessible areas and the resulting demand for services, such as those provided by the Company, is high. The second quarter is normally a slower period due to wet conditions creating weight restrictions on roads and reducing the mobility of heavy equipment, which slows activity levels in the industry. The third and fourth quarters are usually representative of average activity levels. Therefore, interim periods may not be representative of the results expected for the full year of operation due to seasonality.

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

5. Operating segments:

Currently, the Company operates in the Canadian and United States oilfield service industry through its contract drilling segment. In June 2011, the Company entered into the United States through the acquisition of Stoneham Drilling Trust ("Stoneham"). Contract drilling includes drilling rigs along with related auxiliary equipment and provides contract drilling services to oil and natural gas exploration and production companies. The Company's Chief Executive Officer ("CEO") reviews internal management reports on at least a monthly basis.

Information regarding the results of the segment is included below. Performance is measured based on segment profit, as included in the internal management reports that are reviewed by the Company's CEO. 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 less cash administrative expenses less depreciation expense.

The following is a summary of the Company's results by segment for the three and nine months ended September 30, 2011 and 2010:

Three months ended September 30, 2011	Contract Drilling	Corporate & Other	Total
Continuing Operations:			
Revenue	$ 80,786	$ -	$ 80,786
Segment profit (loss)	25,003	(2,547)	22,456
Finance costs	(124)	1,457	1,333
Depreciation	7,859	77	7,936
Expenditures on capital items	$ 23,707	$ 1,220	$ 24,927

Three months ended September 30, 2010	Contract Drilling	Corporate & Other	Total
Continuing Operations:			
Revenue	$ 16,485	$ -	$ 16,485
Segment profit (loss)	3,474	(946)	2,528
Finance costs	(287)	506	219
Depreciation	2,142	33	2,175
Expenditures on capital items	$ 5,116	$ 4	$ 5,120

Nine months ended September 30, 2011	Contract Drilling	Corporate & Other	Total
Continuing Operations:			
Revenue	$ 161,219	$ -	$ 161,219
Segment profit (loss)	47,363	(5,322)	42,041
Finance costs	(144)	2,548	2,404
Depreciation	15,654	156	15,810
Expenditures on capital items	$ 51,493	$ 3,040	$ 54,533

Nine months ended September 30, 2010	Contract Drilling[1]	Corporate & Other	Total
Continuing Operations:			
Revenue	$ 29,427	$ -	$ 29,427
Segment profit (loss)	5,707	(2,562)	3,145
Finance costs	252	273	525
Depreciation	3,943	55	3,998
Expenditures on capital items	$ 7,182	$ 274	$ 7,456

[1] Contract drilling segment acquired March 18, 2010.

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

5. Operating segments (continued):

Goodwill	Contract Drilling	Corporate & Other	Total
Balance, January 1, 2010	$ -	$ -	$ -
Additions: Pantera Drilling Income Trust	29,117	-	29,117
Balance, December 31, 2010	29,117	-	29,117
Additions: Stoneham Drilling Trust	27,419	-	27,419
Balance, September 30, 2011	$ 56,536	$ -	$ 56,536

Total assets and liabilities from continuing operations of reportable segments are as follows:

As at September 30, 2011	Contract Drilling	Corporate & Other	Total
Total assets	$ 575,243	$ 6,584	$ 581,827
Total liabilities	$ 81,530	$ 110,496	$ 192,026

As at September 30, 2010	Contract Drilling	Corporate & Other	Total
Total assets	$ 136,164	$ (1,726) [1]	$ 134,438
Total liabilities	$ 11,279	$ 23,879	$ 35,158

[1] Includes bank indebtedness of $2.6 million.

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

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Continuing operations:				
Segment profit	$ 22,456	$ 2,528	$ 42,041	$ 3,145
Add (deduct):				
Stock based compensation	(402)	(145)	(812)	(300)
Finance costs	(1,333)	(219)	(2,404)	(525)
Other items	(779)	(114)	(2,149)	(223)
Gain on business acquisitions	-	8,720	-	19,814
Income from continuing operations before taxes	$ 19,942	$ 10,770	$ 36,676	$ 21,911

Segmented information from continuing operations by geographic area is as follows:

As at and for the period ended September 30, 2011	Canada	United States[1]	Total
Revenue: three months ended	$ 71,912	$ 8,874	$ 80,786
Revenue: nine months ended	151,462	9,757	161,219
Property and equipment	397,584	50,619	448,203
Total assets	$ 521,607	$ 60,220	$ 581,827

(1) The Company's United States operations were acquired on June 10, 2011

As at and for the period ended September 30, 2010	Canada	United States	Total
Revenue: three months ended	$ 16,485	$ -	$ 16,485
Revenue: nine months ended	29,427		29,427
Property and equipment	118,289	-	118,289
Total assets	$ 133,825	$ 613	$ 134,438

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

6. Business acquisition:

Stoneham Drilling Trust

On June 10, 2011, Western acquired all of the issued and outstanding income trust units of Stoneham in exchange for cash consideration equal to $115.0 million and 196,073,351 (9,803,678 post 20:1 share consolidation) common shares of Western at an ascribed price of $0.39 per share ($7.80 per share post 20:1 share consolidation), based on the closing trading price of Western on June 9, 2011.

The acquisition of Stoneham enabled the Company to continue its growth strategy as an oilfield service provider in the Canadian oilfield service industry as well as re-enter the United States oilfield service market. The acquisition provided the Company with an increased market share through access to Stoneham's assets and operational personnel. The Company also expects reduced unit costs through economies of scale.

The following summarizes the major classes of consideration transferred, and the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

As at June 10, 2011		Amount
Cash paid	$	115,000
Shares issued		76,469
Assumption of bank debt (net of $1.7 million in cash acquired)		34,277
	$	225,746

This acquisition has been accounted for using the acquisition method on June 10, 2011, 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, Stoneham's operating results have been included in Western's revenues, expenses and capital spending.

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

As at June 10, 2011		Amount
Net working capital (excluding cash)	$	7,624
Property and equipment		219,248
Goodwill		27,419
Finance leases		(320)
Provisions		(338)
Deferred tax liability		(27,887)
	$	225,746

Trade receivables are comprised of gross contractual amounts totalling $17.9 million, all of which is expected to be collected.

The Company cannot reasonably determine the revenue and net income amount attributable to Stoneham's assets had the acquisition closed on January 1, 2011, due to the fact Stoneham's management and cost structure has changed subsequent to the acquisition by the Company.

The Company assessed the acquisition for intangible assets and concluded that none existed. The allocations described above are preliminary and subject to changes upon finalization of purchase price adjustments. These adjustments may include, but are not limited to, deferred tax balance adjustments on the filing of tax returns and final working capital adjustments on the respective balances acquired. For the three and nine months ended September 30, 2011, an adjustment was made to the purchase price allocation of approximately $1.0 million, resulting in a decrease in net working capital and deferred tax liability along with an increase in goodwill.

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

6. Business acquisition (continued):

Goodwill on the Stoneham acquisition is attributable to the price paid for Stoneham'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 Stoneham of $3.3 million relating to due diligence, severance costs as well as external legal and advisory fees, which were expensed in the period incurred.

7. Property and equipment:

	Land	Buildings	Drilling rigs and related equipment	Well servicing equipment	Shop and office equipment	Vehicles under finance leases	Total
Cost or deemed cost:							
Balance at January 1, 2010	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Acquisitions: business combinations	374	1,279	174,445	-	132	182	176,412
Additions	-	62	20,585	-	347	471	21,465
Disposals	-	-	(3,057)	-	-	-	(3,057)
Balance at December 31, 2010	$ 374	$ 1,341	$ 191,973	$ -	$ 479	$ 653	$ 194,820
Balance at January 1, 2011	$ 374	$ 1,341	$ 191,973	$ -	$ 479	$ 653	$ 194,820
Acquisitions: business combinations	4,600	1,800	212,403	-	125	320	219,248
Additions	-	118	51,062	2,569	784	-	54,533
Disposals	-	-	(2,209)	-	-	-	(2,209)
Impact of foreign exchange	-	-	3,682	-	-	-	3,682
Balance at September 30, 2011	$ 4,974	$ 3,259	$ 456,911	$ 2,569	$ 1,388	$ 973	$ 470,074
Depreciation and impairment losses:							
Balance at January 1, 2010	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Depreciation for the year	-	49	6,290	-	124	37	6,500
Disposals	-	-	(35)	-	-	-	(35)
Balance at December 31, 2010	$ -	$ 49	$ 6,255	$ -	$ 124	$ 37	$ 6,465
Balance at January 1, 2011	$ -	$ 49	$ 6,255	$ -	$ 124	$ 37	$ 6,465
Depreciation for the period	-	74	15,370	-	263	103	15,810
Disposals	-	-	(459)	-	-	-	(459)
Impact of foreign exchange	-	-	55	-	-	-	55
Balance at September 30, 2011	$ -	$ 123	$ 21,221	$ -	$ 387	$ 140	$ 21,871
Carrying amounts:							
At December 31, 2010	$ 374	$ 1,292	$ 185,718	$ -	$ 355	$ 616	$ 188,355
At September 30, 2011	$ 4,974	$ 3,136	$ 435,690	$ 2,569	$ 1,001	$ 833	$ 448,203

Assets under construction:
Included in property and equipment at September 30, 2011 are assets under construction of $17.6 million (December 31, 2010: $11.5 million) of which $15.0 million relates to the contract drilling segment including the construction of three top drive telescopic Efficient Long Reach double drilling rigs as well as ancillary drilling equipment and $2.6 million relates to the construction of well servicing rigs.

For the three and nine months ended September 30, 2011, the Company has capitalized $0.1 million and $0.2 million, respectively (three and nine months ended September 30, 2010: $Nil) of specific borrowing costs related to the acquisition and construction of qualifying assets based on a capitalization rate of 4.5%.

The Company has assessed the indicators of impairment surrounding property and equipment as well as goodwill and did not identify any indicators of impairment at September 30, 2011. As at December 31, 2010, the Company completed its assessments and did not identify indicators of impairment on the carrying value of long-lived assets of the Company.

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

8. Trade payables and other current liabilities:

	September 30, 2011	December 31, 2010
Trade payables	$ 5,520	$ 6,081
Accrued trade payables	20,817	10,408
Derivatives	-	16
Non-trade payables and accrued expenses	8,697	4,347
Total	$ 35,034	$ 20,852

The Company's exposure to currency and liquidity risk related to trade payables and other current liabilities is disclosed in Note 17.

9. Long term debt:

This note provides information about the contractual terms of the Company's long term debt instruments, which are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see Note 17.

	September 30, 2011	December 31, 2010
Operating facility	$ 3,017	$ -
Revolving facility	108,000	45,000
Bank mortgage	1,061	1,111
Finance lease obligations	429	456
	112,507	46,567
Less: current portion	(4,450)	(513)
Total long term debt	$ 108,057	$ 46,054

On June 8, 2011, Western amended and increased its syndicated credit facilities. The credit facilities consist of a $10 million operating demand revolving loan (the "Operating Facility"), and a $150 million committed three year extendible revolving credit facility (the "Revolving Facility"). 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 current maturity date of the Revolving Facility is June 7, 2014. Amounts borrowed under the Revolving Facility bear interest at the bank's prime rate or the banker's acceptance rate plus an applicable margin depending, in each case, on the ratio of consolidated debt to consolidated EBITDA. The Revolving Facility is secured by the assets of Western. The terms and conditions of the Operating Facility remain unchanged. As at September 30, 2011, the Company had $42.0 million in available credit under the Revolving Facility and $7.0 million under the Operating Facility.

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

	Covenant
Maximum Consolidated Debt to Consolidated EBITDA Ratio (1)(2)(3)	3.0 to 1.0 or less
Maximum Consolidated Debt to Consolidated Capitalization Ratio	0.6 to 1.0 or less
Minimum Consolidated EBITDA to Consolidated Interest Expense Ratio	2.5 to 1.0 or more

(1) In the event of a material acquisition during any fiscal quarter, the ratio shall increase by 0.50 for 90 days following the material acquisition.

(2) The Maximum Consolidated Debt to Consolidated EBITDA ratio will reduce to 2.75 to 1.0 after the first anniversary of the agreement and to 2.50 to 1.0 after the second anniversary date of the agreement.

(3) Consolidated EBITDA is defined as consolidated net income (loss), plus interest, income taxes, depreciation and amortization and any other extraordinary or non-recurring loss, less gain on sale of property and equipment and any other extraordinary or non-recurring gain that are included in the calculation of consolidated net income.

As at September 30, 2011 and December 31, 2010, the Company was in compliance with all covenants related to its credit facilities.

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

9. Long term debt (continued):

The bank mortgage is secured by land and a building with a carrying amount of $1.6 million (December 31, 2010: $1.7 million) (see Note 7).

During the three and nine months ended September 30, 2011, the Company incurred interest and financing costs of approximately $1.3 million and $2.5 million, respectively (three and nine months ended September 30, 2010: $0.2 million and $0.5 million, respectively) on its long term debt. The Company paid an average of 4.5% on its borrowings for the three and nine months ended September 30, 2011 (three and nine months ended September 30, 2010: 4.37% and 4.18%, respectively).

10. Common shares:

On June 22, 2011, the Company completed a 20:1 share consolidation of all its outstanding common shares. Therefore, all common shares, per common share amounts, stock option and warrant figures in the current and comparative periods have been retrospectively restated to reflect this change.

At September 30, 2011, the Company was authorized to issue an unlimited number of common shares.

Common shares	Issued and outstanding shares (1)		Amount
Balance, January 1, 2010	6,601,592	$	8,253
Issued for cash - March 18, 2010	18,750,000		75,000
Issued on acquisition of Cedar Creek Drilling Ltd.	1,025,866		6,155
Issued on acquisition of Pantera Drilling Income Trust	11,303,486		74,603
Issue costs	-		(4,116)
Balance, December 31, 2010	37,680,944		159,895
Issued for cash - March 29, 2011	9,625,000		75,075
Issued for cash - April 1, 2011	1,443,750		11,261
Issued on acquisition of Stoneham (Note 6)	9,803,678		76,469
Cancellation of common shares	(20,085)		(157)
Issue costs net of deferred tax	-		(2,845)
Balance, September 30, 2011	58,533,287	$	319,698

(1) Restated to reflect the 20:1 share consolidation completed on June 22, 2011

11. Stock based compensation:

Stock options:

The Company's stock option plan provides for stock options to enable directors, officers, employees and consultants of the Company and its affiliates to participate in the growth and development of the Company. Subject to the specific provisions of the stock option plan, eligibility, grant, vesting and terms of the options and the number of options 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 shares as stock options.

	Stock options outstanding (1)		Weighted average exercise price (1)
Balance, January 1, 2010	8,500	$	47.40
Granted	1,115,000		5.70
Expired/Forfeited	(90,917)		9.58
Balance, December 31, 2010	1,032,583		5.70
Granted	1,156,000		7.93
Expired/Forfeited	(274,083)		6.85
Balance, September 30, 2011	1,914,500	$	6.88

(1) Restated to reflect the 20:1 share consolidation completed on June 22, 2011

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

11. Stock based compensation (continued):

For the three and nine months ended September 30, 2011 and 2010, no stock options were cancelled.

As at September 30, 2011: Exercise price ($/share) (1)	Number of options outstanding (1)	Weighted average contractual life remaining (years)	Number of options exercisable
5.70-6.20	945,000	3.57	-
6.21-8.75	969,500	4.73	-
	1,914,500	4.16	-

(1) Restated to reflect the 20:1 share consolidation completed on June 22, 2011

As at December 31, 2010: Exercise price ($/share) (1)	Number of options outstanding (1)	Weighted average contractual life remaining (years)	Number of options exercisable (1)
5.70	1,032,500	4.33	-
26.40	83	1.24	83
	1,032,583	4.33	83

(1) Restated to reflect the 20:1 share consolidation completed on June 22, 2011

The average fair value of the stock options granted in 2011 was $2.61 per stock option (2010: $2.20 per stock option). For the three and nine months ended September 30, 2011, the Company recorded approximately $0.4 million and $0.8 million, respectively in stock based compensation expense (three and nine months ended September 30, 2010: $0.1 million and $0.3 million, respectively). The accounting fair value as at the date of grant is calculated in accordance with a Black Scholes methodology using the following inputs:

	September 30	
	2011	2010
Risk-free interest rate	1%	2%
Average forfeiture rate	23%	14%
Average expected life	2.0 years	3.0 years
Maximum life	5.0 years	5.0 years
Average vesting period	2.0 years	3.0 years
Expected dividend	nil	nil
Expected share price volatility	60%	60%

Warrants:	Warrants outstanding (1)	Weighted average exercise price (1)
Balance at: December 31, 2010 and September 30, 2011	2,525,000	$ 2.10

(1) Restated to reflect the 20:1 share consolidation completed on June 22, 2011

The warrants expire on December 22, 2014.

12. Earnings per share:

Basic earnings per share

Weighted average number of common shares(1):

	Three months ended September 30	
	2011	2010
Issued common shares, beginning of period	58,533,287	26,377,458
Weighted average number of common shares	58,533,287	26,377,458

(1) Restated to reflect the 20:1 share consolidation completed on June 22, 2011

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

12. Earnings per share (continued):

	Nine months ended September 30	
	2011	2010
Issued common shares, beginning of period	37,680,944	6,601,592
Effect of shares issued-March 18, 2010	-	14,270,497
Effect of shares issued-March 29, 2011	6,557,692	-
Effect of shares issued-April 1, 2011	967,788	-
Effect of shares issued-June 10, 2011	4,057,932	-
Effect from the cancellation of shares	(7,431)	-
Weighted average number of common shares	49,256,925	20,872,089

(1) Restated to reflect the 20:1 share consolidation completed on June 22, 2011

Diluted earnings per share

Weighted average number of common shares (diluted)[(1)]:

	Three months ended September 30	
	2011	2010
Weighted average number of common shares (basic)	58,533,287	26,377,458
Dilutive effect of stock options and warrants	2,085,193	1,244,105
Weighted average number of common shares (diluted)	60,618,480	27,621,563

(1) Restated to reflect the 20:1 share consolidation completed on June 22, 2011

	Nine months ended September 30	
	2011	2010
Weighted average number of common shares (basic)	49,256,925	20,872,089
Dilutive effect of stock options and warrants	2,037,685	1,693,444
Weighted average number of common shares (diluted)	51,294,610	22,565,533

(1) Restated to reflect the 20:1 share consolidation completed on June 22, 2011

At September 30, 2011, 893,500 options (three and nine months ended September 30, 2010: 910,167 options) were excluded from the three and nine month diluted weighted average number of common shares calculation, respectively as their effect would have been anti-dilutive.

13. Finance costs:

Recognized in the statements of operations and comprehensive income:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Interest expense on long term debt	$ 1,301	$ 155	$ 2,180	$ 407
Amortization of debt financing fees	41	65	306	118
Interest income	(16)	(9)	(106)	(13)
Accretion of provisions	7	8	24	13
Total finance costs	$ 1,333	$ 219	$ 2,404	$ 525

14. Other items:

Recognized in the statements of operations and comprehensive income:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Acquisition costs	$ 612	$ 188	$ 3,348	$ 445
Foreign exchange (gain) loss	(76)	(75)	11	(218)
Change in fair value of derivatives	-	-	(6)	-
Loss (gain) on sale of assets	243	1	(1,204)	(4)
Total other items	$ 779	$ 114	$ 2,149	$ 223

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

15. Income taxes:

Recognized in the statements of operations and comprehensive income:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Income taxes:				
Current tax recovery	$ -	$ -	$ (1,050)	$ -
Deferred tax expense	6,053	912	8,767	1,339
Total income taxes	$ 6,053	$ 912	$ 7,717	$ 1,339

For the nine months ended September 30, 2011, the Company recognized a $1.1 million current tax recovery upon filing of Horizon Drilling International Inc.'s United States tax returns in the period. Previously, the non-capital loss carry forwards resulting in this recovery were included in the Company's deferred tax asset.

For the three months ended September 30, 2011, the Company recognized a deferred income tax expense of approximately $6.1 million relating to taxable income earned in the period. For the nine months ended September 30, 2011, the $8.8 million deferred tax expense relates to the taxable income earned in the period, offset by a deferred tax recovery recognized in the second quarter of 2011 for the recognition of approximately $4.1 million (tax effected) of previously unrecognized tax pools which are now likely to be used which was recognized in the second quarter of 2011.

At September 30, 2011, the Company has gross loss carry forwards equal to $18.2 million in Canada, which expire between 2029 and 2031. In the United States, the Company has US$26.7 million gross loss carry forwards which expire between 2028 and 2030.

16. Costs by nature:

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

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Depreciation of property and equipment	$ 7,936	$ 2,175	$ 15,810	$ 3,998
Employee benefits: salaries	31,386	7,955	62,768	13,898
Employee benefits: stock based compensation	402	145	812	300
Repairs and maintenance	3,643	1,140	8,745	1,990
Third party charges	6,248	835	14,356	1,765

17. Financial risk management and financial instruments:

The Company's financial instruments include cash and cash equivalents, trade and other receivables, trade payables and other current liabilities, and long term debt. Cash and cash equivalents, investments in equity securities and derivatives are carried at fair value. The carrying amount of trade receivables and trade payables and other current liabilities approximates their fair values due to their short term nature. Long term debt instruments bear interest at rates that approximate market rates and therefore their carrying values approximate fair values.

Interest rate risk:

The Company is exposed to interest rate risk on certain debt instruments to the extent the prime interest rate changes. Currently, the Company's credit facilities are subject to interest rate changes. For the revolving credit facility, a one percent change in interest rates would have an approximately $0.3 million and $0.5 million impact on interest expense for the three and nine months ended September 30, 2011, respectively. Other long term debt, such as the bank mortgage, is subject to fixed rates.

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

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

Foreign exchange risk:

The Company is exposed to foreign currency fluctuations in relation to monetary assets and liabilities denominated in foreign currencies. From time to time, the Company may use forward foreign currency contracts to hedge against these fluctuations. For the three and nine months ended September 30, 2011, the increase or decrease in net income before taxes for each one percent change in foreign exchange rates between the Canadian and US Dollars is estimated to be less than $0.1 million.

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 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 September 30, 2011, approximately 98% of the Company's trade receivables from continuing operations were less than 90 days old. During the three and nine months ended September 30, 2011, there have been no significant changes to the allowance for doubtful accounts provision. The Company believes the unimpaired amounts more 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 Company's trade receivables aging:

	September 30, 2011	December 31, 2010
Trade receivables		
Current	$ 51,047	$ 13,553
Outstanding for 31 to 60 days	4,685	10,228
Outstanding for 61 to 90 days	6,469	2,310
Outstanding for over 90 days	1,186	399
Less: allowance for doubtful accounts	-	(75)
Accrued trade receivables	9,094	798
Other receivables	694	847
Total	$ 73,175	$ 28,060

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. At September 30, 2011, the Company expects to recover all of its trade and other receivables.

Significant customers:

For the three months ended September 30, 2011, the Company had no single customer which amounted to greater than 10% of total revenue.

For the nine months ended September 30, 2011, the Company had one significant customer comprising 13.3% of total revenue. This customer's trade receivable balance at September 30, 2011 represented 5% of the Company's total trade and other receivable balance. No other single customer represents greater than 10% of the Company's total revenue in the nine month period.

For the three months ended September 30, 2010, the Company had three significant customers comprising 20.0%, 14.4% and 12.9%, respectively of total revenue. The combined total of the three significant customers represented 47.3% of total revenue in the three month period. No other single customer represents greater than 10% of the Company's total revenue in the three month period.

For the nine months ended September 30, 2010, the Company had three significant customers comprising 19.3%, 15.6% and 10.6%, respectively of total revenue. The combined total of the three significant customers represented 45.5% of total revenue in the nine month period. No other single customer represents greater than 10% of the Company's total revenue in the nine month period.

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

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

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 is available cash resources to meet the Company's liquidity needs. The Company's existing credit facilities and cash flow from operating activities 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 Canadian oilfield service industry.

The table below provides an analysis of the expected maturities of the Company's outstanding obligations:

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

	Carrying	Due prior to September 30				
	amount	2012	2013	2014	2015	2016
Financial liabilities:						
Operating facility	$ 3,017	$ 3,017	$ -	$ -	$ -	$ -
Revolving facility	108,000	-	-	108,000	-	-
Bank mortgage	1,061	1,061	-	-	-	-
Trade and other current liabilities	35,034	35,034	-	-	-	-
Total	$ 147,112	$ 39,112	$ -	$ 108,000	$ -	$ -

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 holdings of 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 incurs 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 condensed consolidated balance sheets are categorized based upon the level of judgement 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 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 are the only financial assets or liabilities measured using fair value. The Company's cash and cash equivalents are categorized as level 1 as there is quoted prices in an active market for these instruments.

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

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

Capital management:

The capital structure of the Company consists of cash and cash equivalents, operating and revolving credit facilities, other debt instruments and share capital. The overall capitalization of the Company is outlined below:

	September 30, 2011	December 31, 2010
Operating facility	$ 3,017	$ -
Revolving facility	108,000	45,000
Bank mortgage	1,061	1,111
Finance lease obligations	429	456
Total debt	112,507	46,567
Shareholders' equity	391,481	186,833
Less: cash and cash equivalents	-	(3,475)
Total capitalization	$ 503,988	$ 229,925

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 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 September 30, 2011, the Company had $49.0 million in available credit under its credit facilities and was in compliance with all debt covenants (see Note 9). There were no changes in the Company's approach to capital management during the three and nine months ended September 30, 2011.

18. Commitments:

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

	2011	2012	2013	2014	2015	Thereafter	Total
Operating leases	$ 511	$ 1,923	$ 1,676	$ 1,217	$ 86	$ 73	$ 5,486
Capital commitments	38,474	7,709	-	-	-	-	46,183
Purchase commitments	2,035	-	-	-	-	-	2,035
Total	$ 41,020	$ 9,632	$ 1,676	$ 1,217	$ 86	$ 73	$ 53,704

Operating leases:

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

Purchase and capital commitments:

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

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

19. Discontinued operations:

During 2010, management determined its United States and international production services divisions, included in the production services segment, would be disposed of in order for the Company to focus on its core business operations in western Canada. The disposal groups consisted of certain property and equipment including a building, field equipment and shop equipment used in the production services segment. During the three and nine months ended September 30, 2011, there were no significant transactions within the disposal group as the respective entities are being wound up. As at September 30, 2011, all amounts are valued at the lower of cost and fair value less cost to sell.

On September 13, 2011, the Company sold its wholly owned subsidiary StimSol, the remainder of its production services segment, to a third party for gross proceeds equal to approximately $24.0 million. As a result of the net proceeds exceeding the carrying value of StimSol's net assets less cost to sell, the Company recognized a $10.7 million gain on sale of StimSol in September 2011. No cash taxes are owing on this transaction.

The net income from discontinued operations for the three and nine months ended September 30, 2011 and 2010 is as follows:

	Three months ended Sept 30, 2011	Three months ended Sept 30, 2010	Nine months ended Sept 30, 2011	Nine months ended Sept 30, 2010
Revenue from discontinued operations	$ 5,566	$ 2,849	$ 12,930	$ 7,663
Operating expenses	4,888	1,774	10,503	5,556
Gross profit	678	1,075	2,427	2,107
Administrative expenses	260	778	1,284	1,451
Finance costs	-	8	1	17
Other items	37	165	20	269
Income before tax from discontinued operations	381	124	1,122	370
Income tax expense (recovery)	38	(53)	310	91
Income from discontinued operations	343	177	812	279
Gain on sale of StimSol (net of tax)	10,661	-	10,661	-
Net income from discontinued operations	$ 11,004	$ 177	$ 11,473	$ 279

Assets and liabilities from discontinued operations at September 30, 2011 and December 31, 2010 were as follows:

	September 30, 2011	December 31, 2010
Current assets:		
Trade and other receivables	$ 2,917	$ 3,195
Inventory	-	463
Prepaid expenses and other current assets	51	120
Total current assets	$ 2,968	$ 3,778
Non current assets:		
Property and equipment	$ 28	$ 6,412
Deferred tax asset	-	2,420
Total non current assets	$ 28	$ 8,832
Current liabilities:		
Trade and other payables	$ 1,316	$ 1,778
Current portion of provisions	-	20
Current portion of long term debt	-	23
Total current liabilities	$ 1,316	$ 1,821
Non current liabilities:		
Long term debt	$ -	$ 7
Total non current liabilities	$ -	$ 7

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

19. Discontinued operations (continued):

The cash flows from discontinued operations for the three and nine months ended September 30, 2011 and 2010 were as follows:

	Three months ended Sept 30, 2011	Three months ended Sept 30, 2010	Nine months ended Sept 30, 2011	Nine months ended Sept 30, 2010
Operating Activities				
Net income from discontinued operations	$ 11,004	$ 177	$ 11,473	$ 279
Adjustments for:				
Depreciation in operating expenses	107	189	395	544
Depreciation in administrative expenses	11	12	34	20
Stock based compensation in operating expenses	(51)	8	(25)	17
Stock based compensation in administrative expenses	(84)	14	(44)	29
Gain on sale of StimSol	(10,661)	-	(10,661)	-
Loss on sale of assets	61	22	29	16
Income taxes (recovery)	38	(53)	310	91
Unrealized foreign exchange (gain) loss	(3)	121	(8)	237
Finance costs	-	8	1	17
Cash generated from operating activities	422	498	1,504	1,250
Taxes paid	(49)	-	(227)	-
Change in non-cash working capital	(3,737)	463	(2,295)	(468)
Cash flow (used in) from operating activities	(3,364)	961	(1,018)	782
Investing activities				
Proceeds on sale of StimSol (net of cash held)	23,096	-	23,096	-
Additions to property and equipment	(427)	(1,360)	(584)	(2,954)
Proceeds on sale of property and equipment	35	384	785	3,176
Changes in non-cash working capital	(1,875)	106	(1,867)	191
Cash flow from (used in) investing activities	20,829	(870)	21,430	413
Financing activities				
(Payment) drawdown of long term debt	44	(14)	34	(323)
Finance costs paid	-	(1)	(1)	(8)
Change in non-cash working capital	-	-	-	-
Cash flow from (used in) financing activities	44	(15)	33	(331)
Increase in cash and cash equivalents	$ 17,509	$ 76	$ 20,445	$ 864

20. Related party transactions:

During the three and nine months ended September 30, 2011, the Company entered into sales transactions totaling approximately $2.0 and $2.3 million, respectively (three and nine months ended September 30, 2010: $nil and $nil, respectively) with a customer who shares a common Director with the Company. These related party transactions, which have been recorded within the Company's revenue, are in the normal course of operations, have been measured at the agreed exchange amount, which is the amount of consideration established and agreed to by the related parties, and which is similar to those negotiated with third parties. All outstanding balances are to be settled with cash, and none of the balances are secured. At September 30, 2011, approximately $1.6 million (September 30, 2010: $nil) is outstanding in trade and other receivables.

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

21. Explanation of transition to IFRS:

As stated in Note 2, 2011 is the first year the Company's financial statements are prepared in accordance with IFRS. The effect of the transition to IFRS as well as the IFRS 1 exemptions elected by the Company are outlined in detail in Note 22 of the Company's March 31, 2011 condensed consolidated financial statements and should be read in conjunction with this note. In the third quarter of 2011, the Company has made no changes to its IFRS 1 elections and there have been no changes from the previously reported January 1, 2010 opening balance sheet.

The accounting policies set out in Note 3 of the Company's March 31, 2011 condensed consolidated financial statements have been applied in preparing these Financial Statements for the three and nine months ended September 30, 2011 and 2010, the comparative information presented in these Financial Statements for the year ended December 31, 2010 and in the preparation of an opening IFRS condensed consolidated balance sheet at January 1, 2010, the Company's transition date.

Reconciliation of Canadian GAAP to IFRS:

In preparing its IFRS balance sheets, the Company has adjusted amounts previously reported in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity:

		As at September 30, 2010
Shareholders' equity under Canadian GAAP		$ 106,644
Differences increasing (decreasing) reported shareholders' equity:		
Property and equipment - depreciation	(a)	(332)
Provisions	(b)	(81)
Income taxes	(d)	83
Discontinued operations	(e)	(1)
Total shareholders' equity under IFRS		$ 106,313

Reconciliation of net income and comprehensive income:

		Three months ended Sept 30, 2010	Nine months ended Sept 30, 2010
Net income and comprehensive income under Canadian GAAP		$ 10,154	$ 21,162
Differences increasing (decreasing) reported net income:			
Property and equipment - depreciation	(a)	(188)	(332)
Provisions	(b)	23	(81)
Stock based compensation	(c)	(1)	17
Income taxes	(d)	47	83
Discontinued operations	(e)	-	2
Total net income and comprehensive income under IFRS		$ 10,035	$ 20,851

21. Explanation of transition to IFRS (continued):

Notes to Reconciliation of Canadian GAAP to IFRS:

(a) Property and equipment:

IAS 16 "Property, plant and equipment" ("IAS 16") is effective as of January 1, 2010 and is applicable to all items of property and equipment at that date. The transition rules in IAS 16 and IFRS 1 as applied by the Company result in the following:

- Property and equipment were fair valued at the transition date which then became the items' deemed cost to be depreciated moving forward and resulted in no change in the carrying value due to the fact that items were previously fair valued under Canadian GAAP as at December 22, 2009. There was no difference in depreciation expense for the period between December 23, 2009 and January 1, 2010 between Canadian GAAP and IFRS.
- The identification of certain significant components of property and equipment has resulted in a change to the estimation of the useful life of certain items of property and equipment in 2010 under IFRS. The change in estimate has resulted in adjustments to the carrying value and depreciation expense previously booked under Canadian GAAP in 2010.

(b) Provisions:

Under IFRS, the Company recognized a provision due to an onerous office lease in 2010, as the benefit the Company expected to receive in the future no longer exceeded the cost of fulfilling the contract.

(c) Stock based compensation:

The Company has elected to apply IFRS 2 "Share-based payments" to equity instruments granted after November 7, 2002 that have not vested by the transition date.

Under Canadian GAAP, forfeitures of awards are recognized as they occur. Under IFRS, an estimate is required 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. As a result, the Company adjusted its expense to reflect this difference.

(d) Income taxes:

Deferred taxes have been adjusted to give effect to adjustments related to the change in depreciation expense from transition to IFRS throughout 2010. As at January 1, 2010, no adjustment has been made to income taxes for the change in the classification of certain lease contracts as finance leases under IFRS as the amounts were not significant.

(e) Discontinued operations:

As discussed in Note 19, the Company sold its wholly owned subsidiary Stimsol on September 13, 2011. As a result of this transaction, the production services segment has been classified as a discontinued operation in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". The transition to IFRS did not impact the determination of the discontinued operations but did impact the presentation of certain IFRS adjustments relating to the discontinued operations within the Company's statements of operations and balance sheets.

Leases:

Under Canadian GAAP, leases of certain vehicles were classified as operating leases. Under IFRS, these vehicles have been classified as finance leases based on whether risk and rewards transfer to the lessee. As a result, property and equipment within discontinued operations assets together with leased obligations within discontinued operations liabilities on the condensed consolidated balance sheet have been adjusted.

21. Explanation of transition to IFRS (continued):

(e) Discontinued operations (continued):

Stock based compensation:

As discussed in Note 21 (c), the Company previously recognized forfeitures as they occurred under Canadian GAAP which resulted in an IFRS adjustment to account for the estimate of forfeitures at the date of grant. As a result, the Company adjusted its respective expense within discontinued operations on the statements of operations to reflect this difference relating to the production services segment.

(f) Presentation reclassifications

Reclassification of depreciation, amortization of intangibles and stock based compensation:
The Company has elected to present expenses in the statements of operations and comprehensive income based on the function of the expense. As a result, depreciation, amortization of intangibles and stock based compensation expenses have been reclassified to either operating expenses or administrative expenses based on their function.

Change in accounting policies:

(i) Business combinations: Following Canadian GAAP, the Company adopted Canadian Institute of Chartered Accountants ("CICA") Handbook S. 1582, Business Combinations, which is consistent with IFRS 3, Business Combinations, as at January 1, 2010. Therefore, there have been no adjustments under IFRS related to the business combinations entered into in 2010.

(ii) Asset impairment: In accordance with IFRS, for the purpose of assessing impairment of property and equipment, management has identified cash generating units ("CGUs") based on the smallest group of assets that are capable of generating largely independent cash inflows. Under Canadian GAAP, property and equipment was allocated to asset groups defined as the lowest level of assets and liabilities for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. In addition, the recoverable amount for the impairment analysis is based on discounted cash flows under IFRS, unlike Canadian GAAP, where the recoverable amount was originally assessed on an undiscounted basis.

(iii) Income taxes presentation: Under IFRS, all deferred taxes are classified as non-current, irrespective of the classification of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary difference.

(iv) Stock based compensation: Under IFRS, an estimate is required 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. Under Canadian GAAP, the Company's policy was to account for the forfeitures as they occurred.

Material adjustments to the condensed consolidated statements of cash flows for 2010:

Consistent with the Company's accounting policy choice under IAS 7 "Statement of Cash Flows", interest paid and income taxes paid have moved into the body of the statement of cash flows, whereas they were previously disclosed as supplementary information. In addition, interest paid has been classified as a financing activity. There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under Canadian GAAP.

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

21. Explanation of transition to IFRS (continued):

Reconciliation of the statements of operations and comprehensive income under IFRS:

For the three months ended September 30, 2010:

Canadian GAAP accounts	Note	Canadian GAAP amounts(1)	IFRS adjustments	IFRS reclassifications	IFRS amounts	IFRS accounts
Revenue		$ 16,485	$ -	$ -	$ 16,485	Revenue
Operating expenses		10,081	-	-	12,236	Operating expenses
	(f)			2,131		Operating expenses-depreciation
	(f)			24		Operating expenses-stock based compensation
General and administrative	(b)	1,732	(31)	-	1,866	Administrative expenses
	(f)			43		Administrative expenses-depreciation
	(f)			122		Administrative expenses-stock based compensation
Depreciation	(a)	1,986	188	(2,174)	-	
Stock based compensation	(c)	145	1	(146)	-	
Interest and finance costs	(b)	211	8	-	219	Finance costs
				114	114	Other items
Loss on sale of assets		1	-	(1)	-	Loss on sale of assets
Foreign exchange gain		(75)	-	75	-	Foreign exchange gain
Acquisition costs		188	-	(188)	-	Acquisition costs
Gain on business acquisitions		(8,720)	-	-	(8,720)	Other income-gain on business acquisitions
Income from continuing operations before taxes		10,936	(166)	-	10,770	Income from continuing operations before taxes
Future income taxes	(d)	959	(47)	-	912	Income taxes
Net income from continuing operations		9,977	(119)	-	9,858	Net income from continuing operations
Net income from discontinued operations	(e)	177	-	-	177	Net income from discontinued operations
Net income and comprehensive income		$ 10,154	$ (119)	$ -	$ 10,035	Net income and comprehensive income

(1) Previous Canadian GAAP results have been restated for the period ended September 30, 2010 to reflect the results of the production services division as discontinued operations (Note 19).

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

21. Explanation of transition to IFRS (continued):

Reconciliation of the statements of operations and comprehensive income under IFRS (continued):

For the nine months ended September 30, 2010:

Canadian GAAP accounts	Note	Canadian GAAP amounts(1)	IFRS adjustments	IFRS reclassifications	IFRS amounts	IFRS accounts
Revenue		$ 29,427	$ -	$ -	$ 29,427	Revenue
Operating expenses		18,291	-	-	22,262	Operating expenses
	(f)			3,921		Operating expenses-depreciation
	(f)			50		Operating expenses-stock based compensation
General and administrative	(b)	3,924	68	-	4,320	Administrative expenses
	(f)			77		Administrative expenses-depreciation
	(f)			251		Administrative expenses-stock based compensation
Depreciation	(a)	3,666	332	(3,998)	-	
Stock based compensation	(c)	318	(17)	(301)	-	
Interest and finance costs	(b)	512	13	-	525	Finance costs
				223	223	Other items
Gain on sale of assets		(4)	-	4	-	Gain on sale of assets
Foreign exchange gain		(218)	-	218	-	Foreign exchange gain
Acquisition costs		445	-	(445)	-	Acquisition costs
Gain on business acquisitions		(19,814)	-	-	(19,814)	Other income-gain on business acquisitions
Income from continuing operations before taxes		22,307	(396)	-	21,911	Income from continuing operations before taxes
Future income taxes	(d)	1,422	(83)	-	1,339	Income taxes
Net income from continuing operations		20,885	(313)	-	20,572	Net income from continuing operations
Net income from discontinued operations	(e)	277	2	-	279	Net income from discontinued operations
Net income and comprehensive income		$ 21,162	$ (311)	$ -	$ 20,851	Net income and comprehensive income

(1) Previous Canadian GAAP results have been restated for the period ended September 30, 2010 to reflect the results of the production services division as discontinued operations (Note 19).