Western Energy Services Corp.

Condensed Consolidated Financial Statements

June 30, 2011 and 2010

(Unaudited)

Western Energy Services Corp.

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

	Note	June 30, 2011	December 31, 2010
Assets			
Current assets			
Cash and cash equivalents		$ 5,271	$ 3,475
Trade and other receivables		40,900	31,221
Inventories		517	463
Prepaid expenses and other current assets		2,289	1,439
Assets of discontinued operations	19	58	38
		49,035	36,636
Non current assets			
Property and equipment	7	432,980	194,739
Goodwill	5	55,583	29,117
Deferred taxes		5,180	3,586
Other non current assets		311	-
Assets of discontinued operations	19	28	28
		$ 543,117	$ 264,106
Liabilities			
Current liabilities			
Trade payables and other current liabilities	8	$ 23,898	$ 22,155
Current portion of provisions		338	315
Current portion of long term debt	9	1,081	536
Liabilities of discontinued operations	19	334	476
		25,651	23,482
Non current liabilities			
Provisions		505	353
Long term debt	9	116,186	46,061
Deferred taxes		38,518	7,377
		180,860	77,273
Shareholders' equity			
Share capital	10	319,698	159,895
Contributed surplus		2,837	2,359
Retained earnings		40,116	24,579
Accumulated other comprehensive loss		(394)	-
		362,257	186,833
		$ 543,117	$ 264,106

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

Western Energy Services Corp.

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

	Note	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Revenue		$ 32,412	$ 13,396	$ 87,797	$ 17,715
Operating expenses		24,423	10,076	61,078	13,466
Gross profit		7,989	3,320	26,719	4,249
Administrative expenses		3,445	2,187	6,650	3,007
Finance costs	13	509	219	1,071	310
Other items	14	2,279	31	1,342	138
Gain on business acquisitions		-	529	-	(11,094)
Income from continuing operations before taxes		1,756	354	17,656	11,888
Income taxes	15	(2,534)	569	1,850	571
Net income (loss) from continuing operations		4,290	(215)	15,806	11,317
Net loss from discontinued operations (net of tax)	19	(97)	(68)	(269)	(501)
Net income (loss)		4,193	(283)	15,537	10,816
Translation of foreign operations		(394)	-	(394)	-
Change in fair value of available for sale asset		(16)	-	-	-
Comprehensive income (loss) (attributable to common shareholders of the Company)		$ 3,783	$ (283)	$ 15,143	$ 10,816
Net income (loss) per share from continuing operations[1]:					
Basic		$ 0.08	$ (0.01)	$ 0.35	$ 0.63
Diluted		$ 0.08	$ (0.01)	$ 0.34	$ 0.57
Net loss per share from discontinued operations[1]:					
Basic		$ -	$ -	$ (0.01)	$ (0.03)
Diluted		$ -	$ -	$ (0.01)	$ (0.03)
Net income (loss) per share[1]:					
Basic		$ 0.08	$ (0.01)	$ 0.35	$ 0.60
Diluted		$ 0.08	$ (0.01)	$ 0.33	$ 0.54
Weighted average number of shares[1]:					
Basic		51,010,095	26,377,458	44,541,870	18,073,780
Diluted		53,028,369	26,377,458	46,533,545	19,892,157

(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 loss [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	11	-	178	-	-	178
Comprehensive income		-	-	10,816	-	10,816
Balance at June 30, 2010		$ 85,292	$ 2,013	$ 8,805	$ -	$ 96,110
Issue of common shares (net of issue costs)	10	74,603	-	-	-	74,603
Stock based compensation	11	-	346	-	-	346
Comprehensive income		-	-	15,774	-	15,774
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	11	-	478	-	-	478
Comprehensive income (loss)		-	-	15,537	(394)	15,143
Balance at June 30, 2011		$ 319,698	$ 2,837	$ 40,116	$ (394)	$ 362,257

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

(2) At June 30, 2011, the accumulated other comprehensive loss 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 Statement of Cash Flows (Unaudited)
(thousands of Canadian dollars)

	Note	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Operating Activities					
Net income (loss) from continuing operations		$ 4,290	$ (215)	$ 15,806	$ 11,317
Adjustments for:					
Depreciation included in operating expenses		3,100	1,725	8,025	2,144
Depreciation included in administrative expenses		96	37	160	43
Stock based compensation included in operating expenses		82	31	143	34
Stock based compensation included in administrative expenses		193	131	335	144
(Gain) loss on sale of assets		(322)	-	(1,479)	11
Income taxes	15	(2,534)	569	1,850	571
Gain on business acquisitions		-	529	-	(11,094)
Unrealized foreign exchange (gain) loss		(5)	(50)	28	(123)
Finance costs		509	219	1,071	310
Other		(91)	115	(197)	115
Cash generated from operating activities		5,318	3,091	25,742	3,472
Taxes paid		(2)	(63)	(100)	(63)
Change in non-cash working capital		16,048	1,153	5,431	564
Continuing operations		21,364	4,181	31,073	3,973
Discontinued operations		(337)	(196)	(432)	(188)
Cash flow from operating activities		21,027	3,985	30,641	3,785
Investing activities					
Additions to property and equipment		(14,743)	(3,871)	(29,764)	(3,930)
Proceeds on sale of property and equipment		680	76	3,289	1,561
Business acquisitions	6	(113,284)	-	(113,284)	(35,790)
Investments		(184)	-	(558)	-
Proceeds from sale of investments		912	-	912	-
Changes in non-cash working capital		831	812	(4,167)	946
Continuing operations		(125,788)	(2,983)	(143,572)	(37,213)
Discontinued operations		-	-	-	1,310
Cash flow used in investing activities		(125,788)	(2,983)	(143,572)	(35,903)
Financing activities					
Issue of common shares	10	11,261	-	86,336	75,000
Share issue costs	10	(552)	88	(4,706)	(4,117)
Drawdown (payment) of long term debt		52,475	(34,821)	34,381	(38,295)
Finance costs paid		(763)	(226)	(1,267)	(380)
Change in non-cash working capital		(65)	(229)	(17)	141
Continuing operations		62,356	(35,188)	114,727	32,349
Discontinued operations		-	-	-	(292)
Cash flow from (used in) financing activities		62,356	(35,188)	114,727	32,057
(Decrease) increase in cash and cash equivalents		$ (42,405)	$ (34,186)	$ 1,796	$ (61)
Cash and cash equivalents, beginning of period		$ 47,676	$ 36,511	$ 3,475	$ 2,386
Cash and cash equivalents, end of period		$ 5,271	$ 2,325	$ 5,271	$ 2,325
Cash and cash equivalents:					
Bank accounts		$ 5,271	$ 2,325	$ 5,271	$ 2,325
		$ 5,271	$ 2,325	$ 5,271	$ 2,325

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 listed on the TSX Venture Exchange under the symbol "WRG". These condensed consolidated financial statements ("Financial Statements") as at and for the three and six months ended June 30, 2011 and 2010, are comprised of Western and its wholly owned subsidiaries (together referred to as the "Company"). The Company operates in the oilfield service industry in two segments: contract drilling and production services. Operations in the contract drilling segment are conducted through Western's wholly owned subsidiaries, Horizon Drilling Inc. ("Horizon"), which was acquired on March 18, 2010 and Stoneham Drilling Limited Partnership, which was acquired on June 10, 2011. Operations in the production services segment are conducted through Western's wholly owned subsidiary, StimSol Canada Inc. ("StimSol") (see Note 5).

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, 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 six months ended June 30, 2010 and as at December 31, 2010 were previously presented in accordance with Canadian GAAP. These amounts have been restated 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 August 10, 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.

5. Operating segments:

The Company has two reportable segments, as described below, which are the Company's strategic business units. The strategic business units offer different services at different stages of the exploration and production process in the oil and gas industry, and are managed separately as a result. In June 2011, the Company re-entered into the United States through the acquisition of Stoneham Drilling Trust ("Stoneham"). For each of the strategic business units, the Company's Chief Executive Officer ("CEO") reviews internal management reports on at least a monthly basis.

The following summary describes the operations in each of the Company's reportable segments:

- Contract drilling includes drilling rigs along with related auxiliary equipment and provides contract drilling services to oil and natural gas exploration and production companies.
- Production services include various oilfield services relating to stimulation and fluid pumping, nitrogen services, specialty solvents and laboratory services. Production services also include the sale of nitrogen and chemical products.

Information regarding the results of each reportable 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 six months ended June 30, 2011 and 2010:

Three months ended June 30, 2011	Contract Drilling	Production Services	Corporate & Other	Total
Continuing Operations:				
Revenue	$ 30,340	$ 2,072	$ -	$ 32,412
Segment profit (loss)	7,068	(680)	(1,569)	4,819
Finance costs	26	-	483	509
Depreciation	2,993	159	44	3,196
Expenditures on capital items	$ 12,853	$ 75	$ 1,815	$ 14,743

Three months ended June 30, 2010	Contract Drilling [(1)]	Production Services	Corporate & Other	Total
Continuing Operations:				
Revenue	$ 11,153	$ 2,243	$ -	$ 13,396
Segment profit (loss)	2,110	290	(1,105)	1,295
Finance costs	450	1	(232)	219
Depreciation	1,562	177	23	1,762
Expenditures on capital items	$ 2,030	$ 1,572	$ 269	$ 3,871

5. Operating segments (continued):

Six months ended June 30, 2011	Contract Drilling	Production Services	Corporate & Other	Total
Continuing Operations:				
Revenue	$ 80,433	$ 7,364	$ -	$ 87,797
Segment profit (loss)	22,360	960	(2,773)	20,547
Finance costs	(20)	-	1,091	1,071
Depreciation	7,795	311	79	8,185
Expenditures on capital items	$ 27,786	$ 157	$ 1,821	$ 29,764

Six months ended June 30, 2010	Contract Drilling [(1)]	Production Services	Corporate & Other	Total
Continuing Operations:				
Revenue	$ 12,943	$ 4,772	$ -	$ 17,715
Segment profit (loss)	2,233	801	(1,614)	1,420
Finance Costs	539	4	(233)	310
Depreciation	1,801	363	23	2,187
Expenditures on capital items	$ 2,066	$ 1,594	$ 270	$ 3,930

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

Goodwill	Contract Drilling	Production Services	Corporate & Other	Total
Balance, January 1, 2011 & March 31, 2011	$ 29,117	$ -	$ -	$ 29,117
Additions	26,466	-	-	26,466
Balance, June 30, 2011	$ 55,583	$ -	$ -	$ 55,583

Goodwill	Contract Drilling	Production Services	Corporate & Other	Total
Balance, January 1, 2010 & March 31, 2010	$ -	$ -	$ -	$ -
Additions	-	-	-	-
Balance, June 30, 2010	$ -	$ -	$ -	$ -

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

As at June 30, 2011	Contract Drilling	Production Services	Corporate & Other	Total
Total assets	$ 526,847	$ 10,445	$ 5,739	$ 543,031
Total liabilities	$ 66,958	$ 1,667	$ 111,901	$ 180,526

As at June 30, 2010	Contract Drilling	Production Services	Corporate & Other	Total
Total assets	$ 106,145	$ 7,863	$ 768	$ 114,776
Total liabilities	$ 14,175	$ 756	$ 3,600	$ 18,531

5. Operating segments (continued):

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Continuing operations:				
Segment profit	$ 4,819	$ 1,295	$ 20,547	$ 1,420
Add (deduct):				
Stock based compensation	(275)	(162)	(478)	(178)
Finance costs	(509)	(219)	(1,071)	(310)
Other items	(2,279)	(31)	(1,342)	(138)
Gain on business acquisitions	-	(529)	-	11,094
Income from continuing operations before taxes	$ 1,756	$ 354	$ 17,656	$ 11,888

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

As at and for the period ended June 30, 2011	Canada	United States	Total
Revenue: three months ended	$ 31,529	$ 883	$ 32,412
Revenue: six months ended	86,914	883	87,797
Property and equipment	387,042	45,938	432,980
Total assets	$ 492,554	$ 50,477	$ 543,031

As at and for the period ended June 30, 2010	Canada	United States	Total
Revenue: three months ended	$ 13,396	$ -	$ 13,396
Revenue: six months ended	17,715	-	17,715
Property and equipment	96,053	-	96,053
Total assets	$ 113,436	$ 1,340	$ 114,776

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 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)	34,284
	$ 225,753

6. Business acquisition (continued):

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)	$	9,224
Property and equipment		219,216
Goodwill		26,466
Finance leases		(288)
Provisions		(338)
Deferred tax liability		(28,527)
	$	225,753

Trade receivables are comprised of gross contractual amounts totalling $17.9 million, all of which was expected to be collectible at the acquisition date.

The Company estimates that had the acquisition closed on January 1, 2011, $53.4 million of revenue (pro forma) for the six months ended June 30, 2011 would have been attributable to Stoneham's assets. Since the acquisition date, $3.6 million of revenue for the period ended June 30, 2011 is attributable to Stoneham's assets. The Company cannot reasonably determine the 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. Net income attributable from Stoneham's assets, from the date of acquisition, was equal to $0.2 million.

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

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 $2.7 million relating to due diligence, 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	Production service equipment	Well service equipment	Shop and office equipment	Vehicles under finance leases	Total
Cost or deemed cost:								
Balance at January 1, 2010	$ -	$ -	$ -	$ 5,379	$ -	$ 61	$ 62	$ 5,502
Acquisitions: business combinations	374	1,279	174,449	-	-	132	182	176,416
Additions	560	62	20,585	2,955	-	485	472	25,119
Disposals	-	-	(3,057)	(2,024)	-	-	-	(5,081)
Balance at December 31, 2010	$ 934	$ 1,341	$ 191,977	$ 6,310	$ -	$ 678	$ 716	$ 201,956
Balance at January 1, 2011	$ 934	$ 1,341	$ 191,977	$ 6,310	$ -	$ 678	$ 716	$ 201,956
Acquisitions: business combinations	4,600	1,800	212,403	-	-	125	288	219,216
Additions	-	101	27,492	95	1,645	423	8	29,764
Disposals	-	-	(1,794)	(843)	-	-	-	(2,637)
Impact of foreign exchange	-	-	(416)	-	-	-	-	(416)
Balance at June 30, 2011	$ 5,534	$ 3,242	$ 429,662	$ 5,562	$ 1,645	$ 1,226	$ 1,012	$ 447,883
Depreciation and impairment losses:								
Balance at January 1, 2010	$ -	$ -	$ -	$ 36	$ -	$ 2	$ -	$ 38
Depreciation for the year	-	49	6,293	861	-	185	70	7,458
Disposals	-	-	(35)	(244)	-	-	-	(279)
Balance at December 31, 2010	$ -	$ 49	$ 6,258	$ 653	$ -	$ 187	$ 70	$ 7,217
Balance at January 1, 2011	$ -	$ 49	$ 6,258	$ 653	$ -	$ 187	$ 70	$ 7,217
Depreciation for the period	-	38	7,656	256	-	167	68	8,185
Disposals	-	-	(376)	(121)	-	-	-	(497)
Impact of foreign exchange	-	-	(2)	-	-	-	-	(2)
Balance at June 30, 2011	$ -	$ 87	$ 13,536	$ 788	$ -	$ 354	$ 138	$ 14,903
Carrying amounts:								
At December 31, 2010	$ 934	$ 1,292	$ 185,719	$ 5,657	$ -	$ 491	$ 646	$ 194,739
At June 30, 2011	$ 5,534	$ 3,155	$ 416,126	$ 4,774	$ 1,645	$ 872	$ 874	$ 432,980

Assets under construction:
Included in property and equipment at June 30, 2011 are assets under construction of $14.3 million (December 31, 2010: $11.5 million) of which $12.7 million relates to the contract drilling segment and the construction of two top drive telescopic Efficient Long Reach double drilling rigs as well as ancillary drilling equipment and $1.6 million relates to the construction of well servicing rigs.

For the three and six months ended June 30, 2011, the Company has capitalized $47,000 and $122,000, respectively (three and six months ended June 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 June 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.

8. Trade payables and other current liabilities:

	June 30, 2011	December 31, 2010
Trade payables	$ 7,644	$ 6,589
Accrued trade payables	11,865	10,694
Derivatives	-	16
Non-trade payables and accrued expenses	4,389	4,856
Total	$ 23,898	$ 22,155

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.

	June 30, 2011	December 31, 2010
Operating facility	$ 565	$ -
Revolving facility	115,000	45,000
Bank mortgage	1,078	1,111
Finance lease obligations	624	486
	117,267	46,597
Less: current portion	(1,081)	(536)
Total long term debt	$ 116,186	$ 46,061

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 June 30, 2011, the Company had $35 million in available credit under the Revolving Facility and $9.4 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 June 30, 2011 and December 31, 2010, the Company was in compliance with all covenants related to its credit facilities.

9. Long term debt (continued):

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

During the three and six months ended June 30, 2011, the Company incurred interest and financing costs of approximately $0.5 million and $1.1 million, respectively (three and six months ended June 30, 2010: $0.2 million and $0.3 million, respectively) on its long term debt. The Company paid an average of 4.5% on its borrowings for the three and six months ended June 30, 2011 (three and six months ended June 30, 2010: 4.1%).

10. Common shares:

At June 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	1,025,866		6,155
Issued on acquisition of Pantera	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 shares	(20,085)		(157)
Issue costs net of deferred tax	-		(2,845)
Balance, June 30, 2011	58,533,287	$	319,698

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

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

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	690,000		7.46
Expired/Forfeited	(45,000)		6.31
Balance, June 30, 2011	1,677,583	$	6.41

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

11. Stock based compensation (continued):

For the three and six months ended June 30, 2011, there were no stock options cancelled.

As at June 30, 2011: Exercise price ($/share) [1]	Number of options outstanding [1]	Weighted average contractual life remaining (years)	Number of options exercisable [1]
5.70-8.00	1,677,500	4.24	-
26.40	83	0.74	83
	1,677,583	4.24	83

(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 $1.45 per stock option (June 30, 2010: $2.40 per stock option). For the three and six months ended June 30, 2011 the Company recorded approximately $0.3 million and $0.5 million, respectively (three and six months ended June 30, 2010: $0.2 million and $0.2 million, respectively) in stock based compensation expense. The accounting fair value as at the date of grant is calculated in accordance with a Black Scholes methodology using the following inputs:

	June 30	
	2011	2010
Risk-free interest rate	2%	2%
Average forfeiture rate	23%	13%
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 June 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:

The calculation of basic earnings per share for the three and six months ended June 30, 2011 was based on the net income attributable to common shareholders of $4.2 million and $15.5 million, respectively (three and six months ended June 30, 2010: $(0.3) million and $10.8 million, respectively), and a weighted average number of common shares outstanding of 51,010,095 and 44,541,870, respectively for the three and six months ended June 30, 2011 (three and six months ended June 30, 2010: 26,377,458 and 18,073,780, respectively).

12. Earnings per share (continued):

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

	Three months ended June 30	
	2011	2010
Issued common shares, beginning of period	47,305,944	26,377,458
Effect of shares issued-April 1, 2011	1,443,750	-
Effect of shares issued-June 10, 2011	2,262,387	-
Effect of cancellation of shares	(1,986)	-
Weighted average number of common shares	51,010,095	26,377,458

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

	Six months ended June 30	
	2011	2010
Issued common shares, beginning of period	37,680,944	6,601,592
Effect of shares issued-March 18, 2010	-	11,472,188
Effect of shares issued-March 29, 2011	4,998,619	-
Effect of shares issued-April 1, 2011	725,863	-
Effect of shares issued-June 10, 2011	1,137,443	-
Effect from the cancellation of shares	(999)	-
Weighted average number of common shares	44,541,870	18,073,780

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

Diluted earnings per share:

The calculation of diluted earnings per share for the three and six months ended June 30, 2011 was based on net income (loss) attributable to common shareholders of $4.2 million and $15.5 million, respectively (three and six months ended June 30, 2010: $(0.3) million and $10.8 million), and a weighted average number of common shares outstanding after adjustment for the effects of all potentially dilutive common shares of 53,028,369 and 46,533,545 for the three and six months ended June 30, 2011, respectively (three and six months ended June 30, 2010: 26,377,459 and 19,892,157, respectively), calculated as follows:

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

	Three months ended June 30	
	2011	2010
Weighted average number of common shares (basic)	51,010,095	26,377,458
Dilutive effect of stock options and warrants	2,018,274	-
Weighted average number of common shares (diluted)	53,028,369	26,377,458

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

	Six months ended June 30	
	2011	2010
Weighted average number of common shares (basic)	44,541,870	18,073,780
Dilutive effect of stock options and warrants	1,991,675	1,818,377
Weighted average number of common shares (diluted)	46,533,545	19,892,157

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

At June 30, 2011, 662,500 options and 662,500 options (three and six months ended June 30, 2010: 882,250 options and 882,250 options, respectively) were excluded from the three and six month diluted weighted average number of common shares calculation, respectively as their effect would have been anti-dilutive.

13. Finance costs:

Recognized in the statement of operations and comprehensive income (loss):

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Interest expense on long term debt	$ 386	$ 216	$ 880	$ 309
Amortization of debt financing fees	199	-	265	-
Interest and other income	(83)	(2)	(90)	(4)
Accretion of provisions	7	5	16	5
Total finance costs	$ 509	$ 219	$ 1,071	$ 310

14. Other items:

Recognized in the statement of operations and comprehensive income (loss):

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Acquisition costs	$ 2,562	$ 81	$ 2,737	$ 257
Foreign exchange loss (gain)	39	(50)	90	(130)
Change in fair value of derivatives	-	-	(6)	-
(Gain) loss on sale of assets	(322)	-	(1,479)	11
Total other items	$ 2,279	$ 31	$ 1,342	$ 138

15. Income taxes:

Recognized in the statement of operations and comprehensive income (loss):

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Income taxes:				
Current tax expense (recovery)	$ 8	$ -	$ (1,051)	$ -
Deferred tax (recovery) expense	(2,542)	569	2,901	571
Total income taxes	$ (2,534)	$ 569	$ 1,850	$ 571

For the six months ended June 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 June 30, 2011, the Company recognized a deferred income tax recovery of approximately $2.5 million. The deferred tax recovery mainly relates to the recognition of approximately $4.1 million (tax effected) of unrecognized tax pools which are now likely to be used. This was offset by approximately $1.7 million in deferred tax expense relating to taxable income earned in the period. For the six months ended June 30, 2011, the $2.9 million deferred tax expense relates to the taxable income earned in the period, offset by the $4.1 million deferred tax recovery discussed above.

16. Costs by nature:

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Depreciation of property and equipment	$ 3,196	$ 1,762	$ 8,185	$ 2,187
Employee benefits: salaries	13,285	5,670	33,518	7,379
Employee benefits: stock based compensation	275	162	478	178
Repairs and maintenance	2,400	832	5,497	1,024
Third party charges	2,889	722	8,108	930
Other operating expenses	1,070	474	1,888	1,011

Other operating expenses include movements of consumables sold in the amount of $1.0 million and $1.9 million, respectively for the three and six months ended June 30, 2011 (three and six months ended June 30, 2010: $0.5 million and $1.0 million, respectively).

17. Financial risk management and financial instruments:

The Company's financial instruments include cash and cash equivalents, trade and other receivables, investments in equity securities, derivatives, 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 $0.1 million impact on interest expense for the three and six months ended June 30, 2011. Other long term debt, such as the bank mortgage, is subject to fixed rates.

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 six months ended June 30, 2011, the increase or decrease in net earnings 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. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Company's functional currency.

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 June 30, 2011, approximately 91% of the Company's trade receivables from continuing operations were less than 90 days old. During the three and six months ended June 30, 2011, there have been no significant changes to the allowance for doubtful accounts provision. The Company believes the unimpaired amounts more than 30 days old are still collectible based on historic payment behavior and an analysis of the underlying customers' ability to pay.

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

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

	June 30, 2011	December 31, 2010
Trade receivables		
Current	$ 28,526	$ 14,897
Outstanding for 31 to 60 days	2,322	11,562
Outstanding for 61 to 90 days	3,920	2,718
Outstanding for over 90 days	3,516	470
Less: allowance for doubtful accounts	(21)	(100)
Accrued trade receivables	1,709	798
Other receivables	928	876
Total	$ 40,900	$ 31,221

As at June 30, 2011, other receivables consisted mainly of approximately $0.4 million relating to income tax receivables and approximately $0.4 million relating to input tax receivables.

Impairment losses:

The allowance for doubtful accounts in respect of trade and other receivables are 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.

Significant customers:

For the three months ended June 30, 2011, the Company had three significant customers comprising 22.7%, 14.1% and 13.6%, respectively of total revenue. Of these three significant customers, one customer's trade receivable balance at June 30, 2011 represented 14.7% 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 three month period.

For the six months ended June 30, 2011, the Company had two significant customers comprising 15.5% and 11.5%, respectively of total revenue. Of these two significant customers, one customer's trade receivable balance at June 30, 2011 represented 14.7% 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 six month period.

For the three and six months ended June 30, 2010, the Company had four significant customers comprising 54.0% and 49.5% of the respective three and six month total revenue, respectively. No other single customer represented greater than 10% of the Company's total revenue in these periods.

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.

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

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.

		Due prior to				
	Carrying amount	June 30, 2012	June 30, 2013	June 30, 2014	June 30, 2015	June 30, 2016
Financial liabilities:						
Operating facility	$ 565	$ 565	$ -	$ -	$ -	$ -
Revolving facility	115,000	-	-	115,000	-	-
Bank mortgage	1,078	68	1,010	-	-	-
Trade and other current liabilities	23,898	23,898	-	-	-	-
Total	$ 140,541	$ 24,531	$ 1,010	$ 115,000	$ -	$ -

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 statement of operations and comprehensive income.

Fair value:

Financial assets and liabilities recorded at fair value in the condensed consolidated balance sheet 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 and investments in equity securities are the only financial assets or liabilities measured using fair value. The Company's cash and cash equivalents and investments in equity securities are categorized as level 1 as there are quoted prices in an active market for these instruments.

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:

	June 30, 2011	December 31, 2010
Operating facility	$ 565	$ -
Revolving facility	115,000	45,000
Bank mortgage	1,078	1,111
Finance lease obligations	624	486
Total debt	117,267	46,597
Shareholders' equity	362,257	186,833
Less: cash and cash equivalents	(5,271)	(3,475)
Total capitalization	$ 474,253	$ 229,955

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 June 30, 2011, the Company had $44.4 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 six months ended June 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	$ 1,056	$ 1,905	$ 1,661	$ 1,023	$ -	$ -	$ 5,645
Capital commitments	20,596	116	74	55	-	-	20,841
Purchase commitments	477	-	-	-	-	-	477
Total	$ 22,129	$ 2,021	$ 1,735	$ 1,078	$ -	$ -	$ 26,963

Operating leases:

The Company has offices, vehicles and oil and gas service equipment under operating leases. The leases typically run for a period of 1 to 5 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.

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 six months ended June 30, 2011, there were no significant transactions within the disposal group as the respective entities are being wound up. As at June 30, 2011, all amounts are valued at the lower of cost and fair value less cost to sell.

20. Related party transactions:

During the three and six months ended June 30, 2011, the Company entered into transactions totalling approximately $30,000 and $0.3 million, respectively (three and six months ended June 30, 2010: $24,000 and $0.1 million, respectively) with a vendor who shares common Directors with the Company. These related party transactions, which have been recorded within the Company's operating expenses, 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 June 30, 2011, approximately $14,000 (June 30, 2010: Nil) of the balance is outstanding and is recorded in trade payables and other current liabilities.

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 second 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 six months ended June 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 June 30, 2010
Shareholders' equity under Canadian GAAP		$ 96,323
Differences increasing (decreasing) reported shareholders' equity:		
PP&E - Depreciation	(a)	(144)
Provisions	(b)	(104)
Leases	(c)	(1)
Income taxes	(e)	36
Total shareholders' equity under IFRS		$ 96,110

21. Explanation of transition to IFRS (continued):

Reconciliation of net income (loss) and comprehensive income (loss):

		Three months ended June 30, 2010	Six months ended June 30, 2010
Net (loss) income and comprehensive (loss) income under Canadian GAAP		$ (98)	$ 11,008
Differences increasing (decreasing) reported net income:			
PP&E - Depreciation	(a)	(133)	(144)
Provisions	(b)	(104)	(104)
Leases	(c)	-	(1)
Stock based compensation	(d)	19	21
Income taxes	(e)	33	36
Total net (loss) income and comprehensive (loss) income under IFRS		$ (283)	$ 10,816

Notes to Reconciliation of Canadian GAAP to IFRS:

(a) Property 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) 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 together with leased obligations on the condensed consolidated balance sheet have been adjusted.

(d) Stock based compensation:

The Company has elected to apply IFRS 2 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.

21. Explanation of transition to IFRS (continued):

(e) 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.

(f) Presentation reclassifications

Reclassification of depreciation, amortization of intangibles and stock based compensation:
The Company has elected to present expenses in the statement of operations and comprehensive income (loss) 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 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 statement 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.

21. Explanation of transition to IFRS (continued):

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

For the three months ended June 30, 2010:

Canadian GAAP accounts	Note	Canadian GAAP amounts	IFRS adjustments	IFRS reclassifications	IFRS amounts	IFRS accounts
Revenue		$ 13,396	$ -	$ -	$ 13,396	Revenue
Operating expenses	(c)	8,325	(6)	-	10,076	Operating expenses
	(f)			1,726		Operating expenses-Depreciation
	(f)			31		Operating expenses-Stock based compensation
General and administrative	(b)	1,920	99	-	2,187	Administrative expenses
	(f)			37		Administrative expenses-Depreciation
	(f)			131		Administrative expenses-Stock based compensation
Depreciation	(a)(c)(f)	1,625	138	(1,763)	-	
Stock-based compensation	(d) (f)	181	(19)	(162)	-	
Interest and finance costs	(b)(c)	213	6	-	219	Finance costs
				31	31	Other items
(Gain)/loss on sale of assets		(1)	-	1	-	Loss on sale of assets
Foreign exchange gain		(49)	-	49	-	Foreign exchange gain
Acquisition costs		81	-	(81)	-	Acquisition costs
Loss/(gain) on business acquisitions		529	-	-	529	Other income-gain on business acquisitions
Income from continuing operations before taxes		572	(218)	-	354	Income from continuing operations before taxes
Future income taxes	(e)	602	(33)	-	569	Income taxes
Net income from continuing operations		(30)	(185)	-	(215)	Net income from continuing operations
Net loss from discontinued operations		(68)	-	-	(68)	Net loss from discontinued operations
Net income and comprehensive income		$ (98)	$ (185)	$ -	$ (283)	Net income and comprehensive income

21. Explanation of transition to IFRS (continued):

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

For the six months ended June 30, 2010:

Canadian GAAP accounts	Note	Canadian GAAP amounts	IFRS adjustments	IFRS reclassifications	IFRS amounts	IFRS accounts
Revenue		$ 17,715	$ -	$ -	$ 17,715	Revenue
Operating expenses	(c)	11,300	(12)	-	13,466	Operating expenses
	(f)			2,144		Operating expenses-Depreciation
	(f)			34		Operating expenses-Stock based compensation
General and administrative	(b)	2,721	99	-	3,007	Administrative expenses
	(f)			43		Administrative expenses-Depreciation
	(f)			144		Administrative expenses-Stock based compensation
Depreciation	(a)(c)(f)	2,032	155	(2,187)	-	
Stock-based compensation	(d) (f)	199	(21)	(178)	-	
Interest and finance costs	(b)(c)	303	7	-	310	Finance costs
				138	138	Other items
Loss on sale of assets		11	-	(11)	-	Loss on sale of assets
Foreign exchange gain		(130)	-	130	-	Foreign exchange gain
Acquisition costs		257	-	(257)	-	Acquisition costs
Gain on business acquisitions		(11,094)	-	-	(11,094)	Other income-gain on business acquisitions
Income from continuing operations before taxes		12,116	(228)	-	11,888	Income from continuing operations before taxes
Future income taxes	(e)	607	(36)	-	571	Income taxes
Net income from continuing operations		11,509	(192)	-	11,317	Net income from continuing operations
Net loss from discontinued operations		(501)	-	-	(501)	Net loss from discontinued operations
Net income and comprehensive income		$ 11,008	$ (192)	$ -	$ 10,816	Net income and comprehensive income