Western
ENERGY SERVICES CORP.

# 2011
## annual report

# Western Energy Services Corp.

Western is an oilfield service company which provides contract drilling services through its wholly owned subsidiaries Horizon Drilling Inc. in Canada and Stoneham Drilling Corporation in the United States. In addition, Western provides well servicing through its wholly owned subsidiary Matrix Well Servicing Inc.

Focused on Safety – Focused on our Customers – Focused on our People

**THIS ANNUAL REPORT** includes the following:



**ANNUAL AND SPECIAL MEETING**

The Annual and Special Meeting of the Shareholders of Western Energy Services Corp. will be held on May 10, 2012 in the McMurray Room of the Calgary Petroleum Club, 319 – 5th Avenue S.W., Calgary, Alberta at 3:00 p.m. (Calgary time).

# At a Glance

**OPERATING HIGHLIGHTS**

| | Year ended December 31 2011 | Year ended December 31 2010 | Change |
|---|---|---|---|
| **Contract drilling rig fleet – Canada** | | | |
| – Average | **32** | 13 | 146% |
| – End of period | **38** | 22 | 73% |
| Drilling revenue per operating day (CDN$) | **29,885** | 25,349 | 18% |
| Drilling rig operating days | **8,074** | 2,210 | 265% |
| Drilling rig utilization rate | **70%** | 58% | 21% |
| CAODC industry average utilization rate | **52%** | 37% | 41% |
| **Contract drilling rig fleet – United States** | | | |
| – Average | **4** | – | 100% |
| – End of period | **5** | – | 100% |
| Drilling revenue per operating day (US$) | **33,038** | – | 100% |
| Drilling rig operating days | **640** | – | 100% |
| Drilling rig utilization rate | **70%** | – | 100% |

**FINANCIAL HIGHLIGHTS**

| *(stated in thousands of Canadian dollars except share and per share amounts)* | Year ended December 31 2011 | Year ended December 31 2010 | Change |
|---|---|---|---|
| Revenue | **262,519** | 56,009 | 369% |
| EBITDA | **99,324** | 16,504 | 502% |
| EBITDA as a percentage of revenue | **38%** | 29% | 31% |
| Cash flow from operating activities | **59,368** | 10,953 | 442% |
| Capital expenditures | **88,869** | 21,282 | 318% |
| Business acquisitions | **225,746** | 197,455 | 14% |
| Net income from continuing operations | **53,882** | 23,339 | 131% |
| – Basic net income per share | **1.04** | 1.03 | 1% |
| – Diluted net income per share | **1.00** | 0.96 | 4% |
| Net income | **64,746** | 26,590 | 143% |
| – Basic net income per share | **1.25** | 1.17 | 7% |
| – Diluted net income per share | **1.21** | 1.09 | 11% |
| Return on Shareholder's Equity | **18%** | 6% (1) | 200% |
| Weighted average number of shares | | | |
| – Basic | **51,595,078** | 22,724,270 | 127% |
| – Diluted | **53,640,617** | 24,385,704 | 120% |
| Outstanding common shares as at period end | **58,533,287** | 37,680,944 | 55% |

*(1) Normalized for the gain on business acquisitions of $19.7 million.*

# Report to Shareholders

We are proud to have realized our initial vision, delivered on our start-up promises, and created value. Our fleet is well suited to the current market, and we are in an excellent position to profitably expand.

**DELIVERING A VISION / PROMISES KEPT**

Early in 2010, Western's Senior management team comprised of the CEO, COO and CFO approached the public markets in an effort to raise funds to realize our vision – the consolidation of drilling rigs, well servicing rigs and rental equipment in the Canadian market. Embarking on an extended roadshow across Canada and the U.S. we participated in over fifty one-on-one meetings and countless conference calls, only to be reminded that perhaps our goal of profitable consolidation in this industry had run its course.

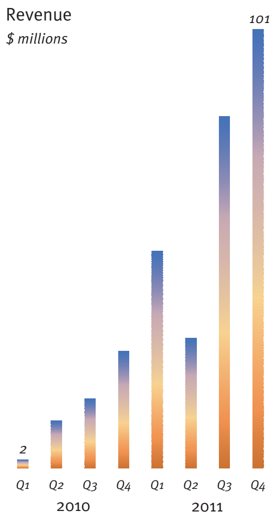
With the market conditions as they were at the time, it appeared highly doubtful we could be successful in raising the capital to implement our vision. However we persevered and, following two weeks of effort, we received a positive response to our request for funding at $0.20 per share ($4.00 post consolidation). This was a far cry from what we had originally contemplated. It was now decision time. We accepted reality and raised the $75 million required to ensure the implementation of our business plan and the realization of our vision.

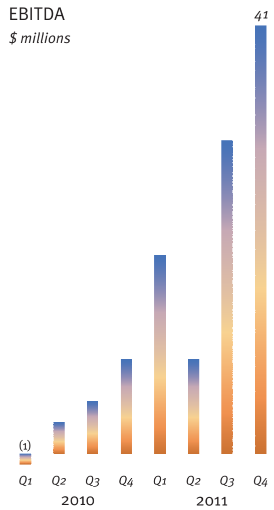
We are pleased to say that we have delivered on every promise we made in those early days. To put things into perspective, we said Western would grow to exceed $300 million in market cap, and that there indeed were companies left to consolidate. In the beginning we listed five drilling companies we wanted to acquire which we believed would catapult Western into the significant player category in the ever-developing drilling business in Canada. We believed we could attract the right people to a start-up company to compete effectively. We committed to maintaining a conservative balance sheet and that Western would not be a penny stock forever.

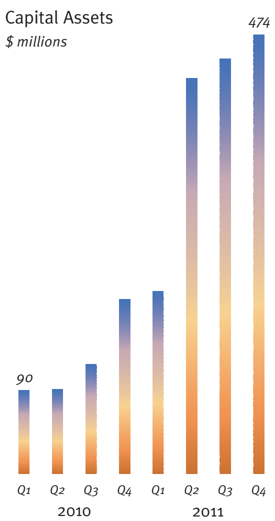
At the time of writing, our team has completed 11 transactions in 25 months:

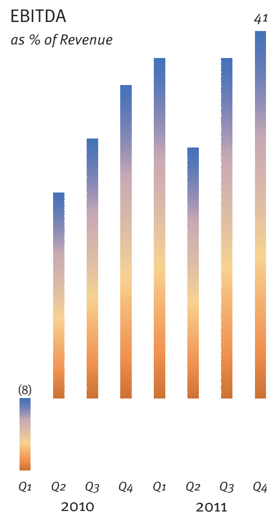
- two equity issuances for $161 million;
- a Senior Unsecured Notes issuance for $175 million;
- seven acquisitions, including the acquisition of all five drilling companies that we initially targeted, as well as the initial recapitalization of Western; and
- sold non-core production services segment StimSol Canada Inc. on September 13, 2011 for gross proceeds of $24 million, which resulted in a gain of approximately $10.1 million.

With increased activity and horizontal drilling, Western has recorded strong year-end results: consolidated revenue of $262.5 million; EBITDA of $99.3 million; and net income of $64.7 million.




## Report to Shareholders

Additionally, we completed a 20 for 1 consolidation of our stock, moved to the TSX and delivered financial results, such as EBITDA, equal to or better than many of our well established competitors. All of this has been achieved while maintaining a balance sheet with a debt to EBITDA of less than 1.5 to 1.0.

Western is now the sixth largest drilling company in Canada, has expanded operations into the U.S., generated significant rental revenue and has established a well servicing division Matrix Well Servicing Inc. Most importantly, we are proud to say that everyone who has been issued a Western share since the recapitalization, for either equity or in exchange for their assets, are all in the money.

What should impress you about Western? Our team has delivered what we promised, and created value. We have assembled, through both prudent strategic acquisitions and organic growth, one of the youngest fleets of drilling rigs in Canada with our overall cost of less than $10 million per rig. In total, approximately 95% of Western's rig fleet is Efficient Long Reach (ELR™) rigs with depth ratings greater than 3,000 meters and all of Western's rigs are capable of drilling horizontal wells. With over thirty top drives on 68% of our rigs and above average pumping capacity, our fleet is well suited for the current drilling market.

If one analyses the market, there was a significant transformation from a predominantly natural gas market in 2006 with approximately 76% of all wells targeting natural gas, while today 65% of all wells are targeting oil. In Western's case 85% of wells drilled in 2011 were targeting oil or liquids-rich natural gas plays. Further, well licenses for wells greater than 3,050 metres and horizontal well licenses continue to increase and this tells us that the fleet of rigs Western has acquired and constructed will continue to be in high demand. Western operated at 70% utilization during 2011 compared to the Canadian industry average of 52%. Our day rates continue to be some of the highest in the industry, as all of Western's ELR™ rigs can operate in the unconventional resource plays. These factors, together with 70% utilization in the U.S. Bakken play, position us very well to expand our market.

The contract drilling industry in Canada continued to see improved activity throughout 2011. The total number of wells drilled on a rig release basis in 2011 increased by 7% over the prior year, while the industry average days per well also increased by 15% to 12.4 days per well. Taken together, these factors have led to a 22% year-over-year increase in the number of operating days in the Canadian contract drilling industry.

The increased activity and horizontal drilling translated into strong results for Western:

- An increase in revenue by 369% to $262.5 million in 2011 compared to $56.0 million in 2010;
- An increase in EBITDA by 502% to $99.3 million in 2011 compared to $16.5 million in 2010; and
- An increase in net income by 143% to $64.7 million in 2011 compared to $26.6 million in 2010.

Subsequent to year-end, Western improved its balance sheet strength through the issuance of $175 million principal amount of 7⅞% Senior Unsecured Notes due January 2019. The issuance of these notes provides Western with additional flexibility to support our growth plans either through acquisitions or organic growth.

What has made the difference in Western's success as a start-up drilling company? We know – it's our people. Western, although considered a small cap company, has assembled a large cap management team with most having a history at large cap corporations. The equipment we have purchased, upgraded or built is known for the reliability, horsepower, technical ability and mobility that are critical to operators seeking to optimize returns in technically complex reservoirs. Our Efficient Long Reach (ELR™) drilling rigs have reduced time required to drill wells and expanded the type of drillable wells now available to be drilled. Western's management prides itself on its focus on our most important asset – Our People – with lower personnel turnover and the ability to attract qualified individuals leading to fully crewed rigs capable of 24/7 operations on a continuous basis.

It has been another year of successful growth, integration and profitability and, as we say at Western, "It is what we do!"

I would like to take this opportunity to recognize all those employees who have worked tirelessly to complete all of the integrations without compromising safety and profitability.

On behalf of the Board of Directors,

**DALE E. TREMBLAY**
**Chairman and Chief Executive Officer**

March 21, 2012

# A culture of working safely — on a daily basis

## A safe work environment is gained with positive attitude, education, leading by example and the ability to teach and learn from one another. We believe that all employees, from the CEO to the newest person on the job, are responsible for the prevention of incidents. It is only as a team that we will be able to achieve zero incidents.

Western is committed to providing and maintaining a healthy and safe work environment for our employees, through a comprehensive health, safety and environment protection program. Our policy is to provide quality products and services, while taking all reasonable steps to safeguard and protect our employees, contractors, customers, property, the public and the environment.

In 2011, statistical trending analysis identified four key hazardous work environments which are common in our industry. Detailed training programs for each hazard were developed and training provided, resulting in a significant reduction in Western's most common injury, hands and fingers.

Western has further refined its Heath, Safety and Environment programs, emphasizing communication, training and competency within our workforce. Program improvements included Operation Safety meetings and a Safety Awards Program that encourages active participation by all personnel in Hazard Identification, Job Observation and Near Miss reporting.

Western continued its environmental stewardship, reporting any spills to Federal and Provincial regulatory bodies and maintaining an environmental management program. This program includes environmental site assessments and remedial work to reduce Western's environmental risk exposure.

The challenges and successes of 2011 will further improve our goal and belief that an injury free workplace is attainable and sustainable.

# Western Energy Services Corp.
## Management's Discussion and Analysis

*The following discussion of the financial condition, changes in financial condition and results of operations of Western Energy Services Corp. (the "Company" or "Western") should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Company for the years ended December 31, 2011 and 2010. This management's discussion and analysis ("MD&A") is dated March 8, 2012. All amounts are denominated in Canadian dollars (CDN$) unless otherwise identified.*

**Selected Financial Information**

**(stated in thousands, except share and per share amounts)**

| **Financial Highlights** | **Three months ended Dec 31, 2011** | **Three months ended Dec 31, 2010** | **Year ended Dec 31, 2011** | **Year ended Dec 31, 2010** |
|---|---|---|---|---|
| Revenue | 101,300 | 26,582 | 262,519 | 56,009 |
| EBITDA(1) | 41,473 | 9,359 | 99,324 | 16,504 |
| EBITDA as a percentage of revenue | 41% | 35% | 38% | 29% |
| Cash flow from operating activities | 25,337 | 3,716 | 59,368 | 10,953 |
| Capital expenditures | 34,336 | 13,826 | 88,869 | 21,282 |
| Net income from continuing operations | 24,923 | 2,766 | 53,882 | 23,339 (2) |
| -basic net income per share | 0.43 | 0.10 | 1.04 | 1.03 |
| -diluted net income per share | 0.41 | 0.09 | 1.00 | 0.96 |
| Net income | 24,314 | 5,739 | 64,746 (3) | 26,590 (2) |
| -basic net income per share | 0.42 | 0.20 | 1.25 | 1.17 |
| -diluted net income per share | 0.40 | 0.19 | 1.21 | 1.09 |
| Weighted average number of shares | | | | |
| -basic(4) | 58,533,287 | 28,220,418 | 51,595,078 | 22,724,270 |
| -diluted(4) | 60,549,515 | 29,769,783 | 53,640,617 | 24,385,704 |
| Outstanding common shares as at period end(4) | 58,533,287 | 37,680,944 | 58,533,287 | 37,680,944 |
| Dividends declared | - | - | - | - |
| **Operating Highlights** | | | | |
| **Contract Drilling** | | | | |
| *Canadian Operations* | | | | |
| Contract drilling rig fleet: | | | | |
| -Average | 37 | 16 | 32 | 13 (5) |
| -End of period | 38 | 22 | 38 | 22 |
| Drilling revenue per operating day (CDN$) | 33,199 | 27,487 | 29,885 | 25,349 |
| Drilling rig utilization rate(6) | 79% | 65% | 70% | 58% (5) |
| CAODC industry average utilization rate(6) | 61% | 50% | 52% | 37% (5) |
| *United States Operations* | | | | |
| -Average | 5 | - | 4 (7) | - |
| -End of period | 5 | - | 5 | - |
| Drilling revenue per operating day (US$) | 30,705 | - | 33,038 | - |
| Drilling rig utilization rate(6) | 79% | - | 70% (7) | - |

| **Financial Position at (stated in thousands)** | **Dec 31, 2011** | **Dec 31, 2010** | **Jan 1, 2010** |
|---|---|---|---|
| Working capital | 39,874 | 13,156 | 809 |
| Property and equipment | 473,930 | 188,355 | - |
| Total assets | 619,645 | 264,108 | 12,269 |
| Long term debt | 108,039 | 46,054 | - |

(1) See Financial Measures Reconciliations on page 2.

(2) Includes a $19.7 million non-recurring gain on acquisitions.

(3) Includes a $10.1 million non-recurring gain on the sale of StimSol Canada Inc.

(4) Prior year amounts adjusted to reflect the 20:1 share consolidation completed on June 22, 2011.

(5) Calculated from the date of acquisition of the Contract Drilling segment (March 18, 2010).

(6) Utilization rate calculated on a spud to rig release basis.

(7) Calculated from the date of acquisition of the United States operations (June 10, 2011).

***On January 1, 2011, Western adopted International Financial Reporting Standards ("IFRS") for Canadian publicly accountable enterprises. Prior to the adoption of IFRS, Western followed Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). While IFRS has many similarities to Canadian GAAP, some of Western's accounting policies have changed as a result of the transition to IFRS. The most significant accounting policy changes that have had an impact on the results of Western's operations are discussed within the applicable sections of this MD&A, and in more detail in the Transition to International Financial Reporting Standards section of this MD&A. Prior year comparative amounts have been changed to reflect results as if Western had always prepared its financial results using IFRS.***

**Financial Measures Reconciliations**

Western uses certain measures in this MD&A which do not have any standardized meaning as prescribed by IFRS. These measures may not be comparable to similar measures presented by other reporting issuers. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Company.

**EBITDA**

Management believes that in addition to net income from continuing operations, earnings from continuing operations before interest and finance costs, taxes, depreciation, other non-cash items and one-time gains and losses ("EBITDA") as derived from information reported in the consolidated statements of operations and comprehensive income is a useful supplemental measure as it provides an indication of the results generated by Western's principal business activities prior to consideration of how those activities are financed, the impact of foreign exchange, how the results are taxed, how funds are invested, and how non-cash charges and one-time gains or losses affect results.

**Operating Earnings**

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

The following table provides a reconciliation of net income from continuing operations under IFRS as disclosed in the consolidated statements of operations and comprehensive income to EBITDA and Operating Earnings.

| (stated in thousands) | Three months ended Dec 31, 2011 | Three months ended Dec 31, 2010 | Year ended Dec 31, 2011 | Year ended Dec 31, 2010 |
|---|---|---|---|---|
| **EBITDA** | 41,473 | 9,359 | 99,324 | 16,504 |
| Less: | | | | |
| Depreciation - operating | 9,012 | 3,021 | 24,541 | 6,942 |
| Depreciation - administrative | 165 | 47 | 446 | 124 |
| **Operating earnings** | 32,296 | 6,291 | 74,337 | 9,438 |
| Less: | | | | |
| Stock based compensation - operating | 125 | 31 | 307 | 81 |
| Stock based compensation - administrative | 398 | 125 | 1,028 | 375 |
| Finance costs | 1,246 | 358 | 3,650 | 883 |
| Other items | (1,472) | 1,376 | 677 | 1,600 |
| Gain on business acquisitions | - | 161 | - | (19,653) |
| Income taxes | 7,076 | 1,474 | 14,793 | 2,813 |
| **Net income from continuing operations** | 24,923 | 2,766 | 53,882 | 23,339 |

**Overall Performance and Results of Operations**

Western is an oilfield service company providing contract drilling services through its wholly owned subsidiaries Horizon Drilling Inc. ("Horizon") in Canada, which was acquired on March 18, 2010, and Stoneham Drilling Corporation in the United States, which was acquired on June 10, 2011. In addition, during the first quarter of 2012, Western commenced well servicing operations through its wholly owned subsidiary Matrix Well Servicing Inc. ("Matrix"). On September 13, 2011, Western sold all of the shares owned and debt owing from its wholly owned subsidiary StimSol Canada Inc. ("StimSol"), and as such current and prior period results relating to StimSol have been reclassified as discontinued operations.

The drilling industry in Canada has continued to see improved activity throughout 2011, specifically the demand for rigs that have the ability to drill long reach horizontal wells safely and efficiently. During 2011, Western's utilization in the contract drilling segment averaged 70% in Canada as compared to the CAODC industry average of 52%. In the United States, utilization since the acquisition of Stoneham Drilling Trust ("Stoneham") on June 10, 2011 averaged 70%.

Although the price for natural gas remains soft, oil prices on average increased by approximately 20% in 2011, as compared to the prior year. This has resulted in a 7% increase in the number of wells drilled on a rig release basis in Canada during 2011 relative to 2010. In addition to more wells being drilled in 2011, the industry average drilling days per well also increased in the period to average 12.4 days per well, a 15% increase over the same period of the prior year. The increase in the number of wells drilled, coupled with the increase in the average number of days per well, has led to a 22% year-over-year increase in operating days in the Canadian contract drilling industry. The increased demand for oil, along with an emphasis on liquids rich natural gas, has primarily resulted in the drilling of horizontal wells in both conventional and unconventional resource plays. During 2011, Western's entire drilling fleet has been focused on drilling horizontal wells. In Canada, Western averaged 14.1 days per well drilled in 2011; while in the United States, since the acquisition of Stoneham, Western averaged 33.4 days per well drilled.

Key operational results for the fourth quarter 2011:

- During the fourth quarter, the Company's drilling rig count increased by one due to the commissioning of a new Efficient Long Reach ("ELR") telescopic double. As such, the Company exited the period with 38 drilling rigs in Canada along with 5 drilling rigs in the United States for a total drilling rig fleet of 43.
- Fourth quarter revenues increased by $74.7 million (or 281%) to $101.3 million in 2011 as compared to $26.6 million in 2010. The increase reflects Western's increased market share in the contract drilling segment as the Company exited 2011 with a fleet of 43 rigs, a 95% increase over the prior year. In Canada, revenues in the fourth quarter reflect average revenue per operating day of $33,199 and a utilization rate of 79%, as compared to the industry average of 61%. In the United States, revenues in the fourth quarter reflect a utilization rate of 79% and average revenue per operating day of US$30,705.
- Fourth quarter EBITDA increased by $32.1 million (or 343%) to $41.5 million in 2011, as compared to $9.4 million in 2010. The increase in EBITDA is due to Western's growth in the contract drilling segment which contributed $45.4 million in the fourth quarter of 2011 (45% of contract drilling revenue), an increase of $34.4 million over the same period in the prior year. The increased EBITDA in the contract drilling segment was offset in part by increased corporate administrative expenses.
- Corporate administrative expenses, excluding depreciation and stock based compensation, in the fourth quarter of 2011 increased by $2.1 million to $3.7 million, as compared to $1.6 million in the same period of the prior year. The increase is due to higher staffing levels and costs associated with Western's continued growth through consolidation efforts in the oilfield service industry. Corporate administrative costs represent 3.7% of revenue in the fourth quarter of 2011, an improvement from 5.9% in the same period of the prior year.
- Net income from continuing operations increased by $22.1 million to $24.9 million in the fourth quarter of 2011 as compared to $2.8 million in the same period in the prior year. The increase is attributable to the scale achieved in the contract drilling segment which resulted in the $32.1 million increase in EBITDA quarter-over-quarter, which was partially offset by a $6.1 million increase in depreciation expense due to the increased rig fleet and higher activity levels, a $5.6 million increase in income tax expense as a result of a more profitable operation, and a $0.9 million increase in finance costs due to higher average debt levels in the period resulting from the Company's acquisition of Stoneham in June 2011.
- Fourth quarter capital expenditures totalled $34.3 million, the majority of which related to the contract drilling segment, which spent $31.5 million. These expenditures mainly relate to Western's drilling rig build program, which incurred $16.7 million in the fourth quarter. The remaining capital spending in the contract drilling segment related to ancillary drilling equipment. Additionally, $2.6 million was incurred on the construction of Western's five next generation well servicing rigs, four of which have commenced operations in 2012 with the fifth expected to be delivered in the first quarter.

- On October 13, 2011 Western commenced trading on the Toronto Stock Exchange (the "TSX") under the symbol "WRG". Western's common shares were delisted from the TSX Venture Exchange upon the commencement of trading on the TSX.

Key operational results for the year ended December 31, 2011:

- Revenues increased by $206.5 million (or 369%) to $262.5 million in 2011 as compared to $56.0 million in 2010, reflecting the Company's increased market share in the contract drilling segment. In Canada, revenues in the contract drilling segment reflect an average rig fleet of 32 rigs as compared to a fleet of 13 in the prior year, an increase of 146%. Revenue per operating day averaged $29,885 in Canada, compared to $25,349 in the prior year, and utilization averaged 70% compared to the industry average of 52% and Western's 58% in the same period of the prior year. Subsequent to the acquisition of Stoneham on June 10, 2011, the Company has had an average fleet of four drilling rigs operating in the United States with utilization averaging 70%. Revenue per operating day in the United States averaged US$33,038, which was impacted by significant mobilization revenue earned in the third quarter relating to deploying three rigs from Canada into the United States which increased revenue per operating day by approximately US$2,200.
- EBITDA increased by 502% to $99.3 million in 2011 as compared to $16.5 million in 2010. The $82.8 million increase in EBITDA is due to Western's growth in the contract drilling segment which contributed $108.4 million in 2011 (41% of contract drilling revenue), an increase of $87.8 million over the same period in the prior year. Partially offsetting the increased EBITDA in Western's contract drilling segment was an increase in corporate administrative expenses.
- Corporate administrative expenses, excluding depreciation and stock based compensation, increased by $4.8 million to $8.9 million in 2011 as compared to $4.1 million in the prior year. The increase is due to higher staffing levels and costs associated with Western's continued growth through consolidation efforts in the oilfield service industry. Corporate administrative costs represent 3.4% of revenue in 2011, an improvement from 7.3% in the prior year.
- Net income from continuing operations increased by $30.6 million to $53.9 million in 2011 as compared to $23.3 million in the same period of the prior year. Normalizing the prior period's net income from continuing operations by removing the impact of the one-time gain on business acquisitions of $19.7 million, net income from continuing operations increased by $50.3 million (or 1,362%). The increase is attributable to the scale achieved in the contract drilling segment which resulted in the $82.8 million increase in EBITDA year-over-year, which was partially offset by a $17.9 million increase in depreciation expense due to higher activity levels, a $12.0 million increase in income tax expense due to a more profitable operation, and a $2.8 million increase in finance costs due to higher average debt levels in the period resulting from the Company's acquisition of Stoneham in June 2011 and Pantera Drilling Income Trust ("Pantera") in December 2010.
- Capital expenditures in 2011 totalled $88.9 million, the majority of which relate to the contract drilling segment which spent $83.0 million. These expenditures mainly relate to the purchase of a mechanical telescopic ELR double drilling rig from a private company for $7.0 million as well as $36.0 million incurred as part of Western's drilling rig build program, with the remaining capital spending relating to ancillary drilling equipment. An additional $5.2 million was incurred on Western's well servicing rig build program.
- On March 29, 2011 Western completed a public offering for 192,500,000 common shares (9,625,000 common shares post 20:1 share consolidation) at a price of $0.39 per share ($7.80 per share post 20:1 share consolidation) for gross proceeds of approximately $75.1 million. On April 1, 2011, the underwriters of the public offering exercised an over-allotment option and pursuant thereto acquired an additional 28,875,000 common shares (1,443,750 common shares post 20:1 share consolidation) at $0.39 per share ($7.80 per share post 20:1 share consolidation) for gross proceeds of approximately $11.3 million. The underwriters were paid commissions of approximately $4.3 million with respect to the public offering.
- On June 8, 2011, Western increased its syndicated revolving credit facility to 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 purpose of the Revolving Facility is for general corporate purposes including refinancing the previous credit facility as well as partially financing the acquisition of Stoneham.
- On June 10, 2011, the Company acquired all of the issued and outstanding units of Stoneham in exchange for a combination of cash and common shares of Western. The total transaction value was approximately $225.7 million, including the assumption of approximately $34.3 million in debt. A portion of the consideration included the issuance

of approximately 196.1 million common shares of Western (9.8 million common shares post 20:1 share consolidation) at an ascribed value of $0.39 per Western common share ($7.80 per share post 20:1 share consolidation) with the remaining $115.0 million of consideration paid in cash.

- On September 13, 2011, Western sold its wholly owned subsidiary StimSol for gross proceeds of approximately $24.0 million, which were used to reduce Western's bank indebtedness. Prior to the sale, StimSol carried on the business of Western's production services segment which included stimulation services, fluid pumping, and specialty solvents. This transaction resulted in a gain of approximately $10.1 million, which was recorded in discontinued operations in the consolidated financial statements.
- Subsequent to December 31, 2011, on January 30, 2012 Western completed a private offering of $175.0 million aggregate principal amount of 7⅞% senior unsecured notes due January 30, 2019 (the "Notes"). The Notes were issued at par. Western used the net proceeds from the offering to repay all of its outstanding indebtedness under its secured credit facilities and for general corporate purposes. As a result of the issuance of the Notes, Western voluntarily reduced its Revolving Facility from $150.0 million to $125.0 million. Western's operating facility of $10.0 million remains unchanged.

**Outlook**

Western currently has a drilling rig fleet of 44 rigs, with an additional 3 rigs under construction. Western is the sixth largest drilling contractor in Canada with a fleet of 39 drilling rigs. As a result of the acquisition of Stoneham on June 10, 2011, Western has entered the United States market with the intention of building a strong presence, initially in the Williston basin of North Dakota. Currently, Western has five drilling rigs deployed in the United States. Subsequent to year-end, the Company has established a corporate presence in Denver, Colorado. Additionally, during 2012 Western commenced operations of four next generation well servicing rigs in the Lloydminster, Alberta area with the fifth expected to be delivered by the end of the first quarter. This moves Western towards its stated objective of entering the well servicing industry in Canada.

Western's drilling rig fleet is specifically suited for the current market which is focused on drilling wells of increased complexity. In total, approximately 95% of Western's fleet are ELR rigs with depth ratings greater than 3,000 meters and all of Western's rigs are capable of drilling horizontal wells. Approximately 66% of Western's fleet is under long term take-or-pay contracts, which provide a base level of revenue. These contracts typically generate 250 utilization days per year in Canada, as the annual spring breakup restricts activity during the second quarter, while in the United States these contracts typically generate approximately 300 utilization days per year.

Western has increased its 2012 capital budget to include the construction of 3 additional ELR telescopic double drilling rigs for approximately $32.0 million, all of which are expected to be contracted prior to going into service. Additionally, the Board of Directors approved the construction of 5 additional next generation well servicing rigs for approximately $10.0 million. As such, our revised capital expenditures are expected to be approximately $125 million for 2012, which includes approximately $75 million in expansion capital and approximately $50 million in maintenance capital. Expansion capital in the contract drilling segment aggregates to approximately $65 million and mainly relates to Western's drilling rig build program which includes the completion of seven drilling rigs in 2012, one of which has already been commissioned. Of the remaining drilling rigs currently under construction, one is expected to be completed in each of the first, second and third quarters of 2012. The three new builds discussed above are anticipated to be completed in the latter part of the fourth quarter of 2012 or early in the first quarter of 2013. Expansion capital in the well servicing segment relates to the five service rig builds discussed above, which are anticipated to be completed in the latter part of the fourth quarter of 2012 or early in the first quarter of 2013. Maintenance capital relates to various items such as rotational equipment, drill pipe, replacement parts and infrastructure upgrades. Western believes that with continued strong pricing environments for oil and natural gas liquids, additional rig build opportunities will be available.

Drilling activity in Canada and the United States was substantially higher in 2011 as compared to the last number of years. Furthermore, Western's utilization rates have consistently been above industry average due to the Company's modern rig fleet, strong customer base and solid reputation. Western believes that customers targeting oil and liquids-rich natural gas wells will continue to drive demand in 2012 and lead to levels of utilization consistent with 2011. Currently the largest challenges facing the drilling industry are the growth of the industry's drilling rig fleet, as contract drillers continue to expand their fleet, depressed natural gas prices, and the challenge to attract and retain skilled labour. Despite the weakness in natural gas prices, which have recently hit 10 year lows, the price for oil and natural gas liquids remains strong, which to this point has driven the strong activity levels in 2011 and the first quarter of 2012. Currently Western's fleet is fully crewed with qualified personnel and three crews on every rig. The Company believes Western's modern fleet and corporate culture will provide a distinct advantage in attracting qualified individuals. Western has a proven track record for delivering high quality equipment and well trained, highly skilled crews to its customers who rely on the Company to drill increasingly complex long reach horizontal wells. As such, Western is well positioned for future growth.

**Segmented Information**

Subsequent to the disposition of StimSol in the third quarter of 2011, and prior to commencing operations in the well servicing segment in the first quarter of 2012, Western operates exclusively in the contract drilling segment. Contract drilling services includes drilling rigs along with related equipment with operations in both Canada and the United States.

**Segment Review of Contract Drilling**

| (stated in thousands) | Year ended Dec 31, 2011 | Year ended Dec 31, 2010 |
|---|---|---|
| Revenue | 262,519 | 56,009 |
| Expenses | | |
| Operating | | |
| Cash operating expenses | 147,503 | 33,107 |
| Depreciation | 24,540 | 6,942 |
| Stock based compensation | 306 | 81 |
| Total operating expenses | 172,349 | 40,130 |
| Administrative | | |
| Cash administrative expenses | 6,644 | 2,336 |
| Depreciation | 206 | 33 |
| Stock based compensation | 211 | 90 |
| Total administrative expenses | 7,061 | 2,459 |
| EBITDA(1) | 108,372 | 20,566 |
| Operating earnings(1) | 83,626 | 13,591 |
| Capital expenditures | 82,954 | 20,976 |
| EBITDA as a percentage of revenue | 41% | 37% |

**Canadian Operations**

| | | |
|---|---|---|
| Contract drilling rig fleet: | | |
| Average | 32 | 13 (2) |
| End of period | 38 | 22 |
| Drilling revenue per operating day (CDN$) | 29,885 | 25,349 |
| Drilling rig operating days(3) | 8,074 | 2,210 (2) |
| Number of meters drilled | 1,485,195 | 415,814 |
| Drilling rig utilization rate(3) | 70% | 58% (2) |
| CAODC industry average utilization rate(3) | 52% | 37% (2) |

**United States Operations**

| | | |
|---|---|---|
| Contract drilling rig fleet: | | |
| Average(4) | 4 | - |
| End of period | 5 | - |
| Drilling revenue per operating day (US$) | 33,038 | - |
| Drilling rig operating days(3)(4) | 640 | - |
| Number of meters drilled | 105,725 | - |
| Drilling rig utilization rate(3)(4) | 70% | - |

(1) See Financial Measures Reconciliations on page 2.

(2) Calculated from the date of acquisition of the Contract Drilling segment (March 18, 2010).

(3) Utilization rate and drilling rig operating days are calculated on a spud to rig release basis.

(4) Calculated from the date of acquisition of the United States operations (June 10, 2011).

During the year ended December 31, 2011, revenues in the contract drilling segment totalled $262.5 million, an increase of $206.5 million (or 369%) compared to the prior year. The increase reflects a number of factors including the rapid growth of the Company since it was recapitalized in December 2009, with the acquisition of 42 drilling rigs and the capital build of another 3 drilling rigs, net of 2 drilling rigs which have been decommissioned, over the past 2 years. Strong demand led to improved day rates in 2011, with revenue per operating day in Canada averaging $29,885 as compared to $25,349 in the prior year, an increase of 18%. Since the acquisition of Stoneham on June 10, 2011, revenue per operating day in the United States averaged US$33,038, due in part to significant mobilization revenue earned in the third quarter relating to deploying three rigs from Canada into the United States, which resulted in an increase in revenue per operating day of approximately US$2,200 for the period. In addition to a larger rig fleet and improved day rates, the Company's utilization also improved to 70% in Canada, as compared to 58% in the prior year and an industry average of 52% in 2011. Since the acquisition of Stoneham on June 10, 2011, utilization in the United States has averaged 70%. During 2011, the Company drilled 572 wells in Canada for a total of 1.5 million meters drilled, while in the United States the Company drilled 19 wells for a total of 0.1 million meters drilled.

During 2011, EBITDA in the contract drilling segment increased significantly due to the increase in revenues. As a result, EBITDA totalled $108.4 million (41% of the segment's revenue), an $87.8 million increase over the prior year, reflecting strong margins, above industry average utilization rates and economies of scale that have been achieved as a result of Western's growth through consolidation strategy.

Capital expenditures in the contract drilling segment totalled $83.0 million in 2011, an increase of $62.0 million as compared to the prior year. Of the capital expenditures incurred in 2011, $7.0 million relates to the purchase of an ELR double drilling rig from a private company in January 2011, $36.0 million relates to the Company's rig build program with the remaining capital spending relating to ancillary drilling equipment, including additional top drives, loaders and heavy weight drill pipe.

**Corporate and other**

| **(stated in thousands)** | **Year ended Dec 31, 2011** | **Year ended Dec 31, 2010** |
|---|---|---|
| Expenses | | |
| Operating | | |
| Cash operating expenses | 179 | - |
| Depreciation | 1 | - |
| Stock based compensation | 1 | - |
| Total operating expenses | 181 | - |
| Administrative | | |
| Cash administrative expenses | 8,869 | 4,062 |
| Depreciation | 240 | 91 |
| Stock based compensation | 817 | 285 |
| Total administrative expenses | 9,926 | 4,438 |
| Finance costs | 3,650 | 883 |
| Other items | 677 | 1,600 |
| Gain on business acquisitions | - | (19,653) |
| Capital expenditures | 5,915 | 306 |

During 2011, corporate administrative expenses, excluding depreciation and stock based compensation, increased by $4.8 million to $8.9 million as compared to the same period in the prior year reflecting 3.4% of consolidated revenues as compared to 7.3% in the same period of the prior year. While corporate administrative expenses have increased, the decrease as a percentage of revenue reflects the scale Western has achieved through its growth through consolidation strategy, and expansion into the United States.

Finance costs increased by $2.8 million in 2011 to $3.7 million as compared to $0.9 million in the prior year. The increase is mainly due to a higher average debt balance outstanding following the acquisition of Pantera in December 2010 and Stoneham in June 2011.

Other items, which totalled $0.7 million in 2011, mainly consist of acquisition costs associated with the acquisition of Stoneham of $3.3 million which were partially offset by net foreign exchange gains of $1.4 million and net gains on the sale of certain noncore assets of $1.2 million.

The gain on business acquisitions in the prior year of $19.7 million relates to the acquisition of Impact Drilling Ltd. ("Impact") in the third quarter of 2010, as well as the acquisitions of Horizon and Cedar Creek Drilling Ltd. ("Cedar Creek") in the first quarter of 2010 all of which were accounted for using IFRS 3, *Business Combinations*.

Of the $5.9 million in capital expenditures in the corporate and other segment, $5.5 million relate to Matrix's capital spending program which commenced the construction of five next generation well servicing rigs in 2011.

**Liquidity and Capital Resources**

On March 29, 2011 Western completed a public offering for 192,500,000 common shares (9,625,000 common shares post 20:1 share consolidation) at a price of $0.39 per share ($7.80 per share post 20:1 share consolidation) for gross proceeds of approximately $75.1 million. On April 1, 2011, the underwriters of the public offering exercised an over-allotment option and pursuant thereto acquired an additional 28,875,000 common shares (1,443,750 common shares post 20:1 share consolidation) at $0.39 per share ($7.80 per share post 20:1 share consolidation) for gross proceeds of approximately $11.3 million. The underwriters were paid commissions of approximately $4.3 million with respect to the public offering.

On June 8, 2011, Western increased its syndicated Revolving Facility to a $150 million committed three year extendible facility. Western continues to have a $10 million demand operating 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 will 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 the Company.

Long term debt at December 31, 2011 was $108.0 million, unchanged from September 30, 2011 as cash from operating activities was sufficient to cover capital expenditures in the fourth quarter. As compared to December 31, 2010, long term debt increased by $62.0 million, which is mainly attributable to the acquisition of Stoneham, which included cash consideration of $115.0 million and the assumption of $34.3 million in net debt, partially offset by the equity offering completed in 2011 for net proceeds of approximately $81.6 million. Subsequent to December 31, 2011, on January 30, 2012 Western completed a private offering of $175.0 million aggregate principal amount of 7⅞% senior unsecured notes due January 30, 2019. In conjunction with the closing of the Notes, Western voluntarily reduced its Revolving facility from $150.0 million to $125.0 million. Western's operating facility of $10.0 million remains unchanged.

As at December 31, 2011, Western had a working capital balance of $39.9 million, a $26.7 million improvement over the $13.2 million working capital balance as at December 31, 2010. The increase in working capital is mainly due to the increase in revenue and EBITDA in the fourth quarter of 2011 as compared to the same period in the prior year, due to the acquisition of Stoneham in June 2011 and the high activity levels in the contract drilling segment, which on a relative basis increased accounts receivable by a greater margin than the increase in accounts payable.

During 2011, cash generated from operating activities totalled $95.7 million as compared to $15.0 million in the prior year. The increase is attributable to Western's continued growth through consolidation in the contract drilling segment.

**Fourth Quarter 2011**
**Selected Financial Information**
**(stated in thousands, except share and per share amounts)**

| **Financial Highlights** | **Three months ended Dec 31, 2011** | **Three months ended Dec 31, 2010** |
|---|---|---|
| Revenue | 101,300 | 26,582 |
| EBITDA(1) | 41,473 | 9,359 |
| EBITDA as a percentage of revenue | 41% | 35% |
| Cash flow from operating activities | 25,337 | 3,716 |
| Capital expenditures | 34,336 | 13,826 |
| Net income from continuing operations | 24,923 | 2,766 |
| -basic net income per share | 0.43 | 0.10 |
| -diluted net income per share | 0.41 | 0.09 |
| Net income | 24,314 | 5,739 |
| -basic net income per share | 0.42 | 0.20 |
| -diluted net income per share | 0.40 | 0.19 |
| Weighted average number of shares | | |
| -basic(2) | 58,533,287 | 28,220,418 |
| -diluted(2) | 60,549,515 | 29,769,783 |
| Outstanding common shares as at period end(2) | 58,533,287 | 37,680,944 |
| Dividends declared | - | - |
| **Operating Highlights** | | |
| **Contract Drilling** | | |
| *Canadian Operations* | | |
| Contract drilling rig fleet: | | |
| -Average | 37 | 16 |
| -End of period | 38 | 22 |
| Drilling revenue per operating day (CDN$) | 33,199 | 27,487 |
| Drilling rig operating days(3) | 2,706 | 967 |
| Drilling rig utilization rate(3) | 79% | 65% |
| CAODC industry average utilization rate(3) | 61% | 50% |
| *United States Operations* | | |
| -Average | 5 | - |
| -End of period | 5 | - |
| Drilling revenue per operating day (US$) | 30,705 | - |
| Drilling rig operating days(3) | 365 | - |
| Drilling rig utilization rate(3) | 79% | - |

(1) See Financial Measures Reconciliations on page 2.

(2) Prior year amounts adjusted to reflect the 20:1 share consolidation completed on June 22, 2011.

(3) Utilization rate calculated on a spud to rig release basis.

During the fourth quarter, the Company's drilling rig count increased by one rig due to the commissioning of a new ELR telescopic double. As such, the Company exited the period with 38 rigs in Canada along with 5 rigs in the United States for a total rig fleet of 43.

Revenues, which are derived entirely from the contract drilling segment, totalled $101.3 million in the fourth quarter of 2011, an increase of $74.7 million (or 281%) compared to $26.6 million in the prior year. The increase is due to a number of factors including strong oil prices, which resulted in increased activity in the oilfield service industry, as well as the increase in the Company's average rig fleet to 42 in the fourth quarter of 2011 as compared to an average rig fleet of 16 in the prior year, an increase of 163%. Additionally, in Canada revenues in the fourth quarter of 2011 reflect average revenue per operating day of $33,199, a 21% improvement over the prior year, and a utilization rate of 79%, which was 30% higher than the industry average and 22% higher than the prior year. The Company has consistently exceeded the industry average utilization rate due to its modern rig fleet, which has an average age of approximately 5.5 years and 95% of which are ELR, coupled with the Company's ability to maintain a fully staffed rig fleet with three crews on each rig. In the United States, utilization averaged 79% while revenue per operating day averaged US$30,705. During the fourth quarter, the Company drilled 167 wells in Canada for a total of 0.5 million meters drilled, while in the United States, the Company drilled 9 wells for a total of 43,000 meters drilled.

During the fourth quarter of 2011, EBITDA totalled $41.5 million (41% of revenue) a $32.1 million increase, or 343%, over the same period of the prior year. The significant increase in EBITDA reflects strong margins and above average utilization rates in Western's contract drilling segment as well as the economies of scale that have been realized as a result of Western's growth through consolidation strategy.

Net income from continuing operations increased to $24.9 million in the fourth quarter of 2011 as compared to $2.8 million in the same period in the prior year. The increase is attributable to the scale achieved in the contract drilling segment which resulted in the $32.1 million increase in EBITDA quarter-over-quarter, which was partially offset by a $6.1 million increase in depreciation expense due to higher activity levels, a $5.6 million increase in income tax expense as a result of a more profitable operation, and a $0.9 million increase in finance costs due to higher average debt levels in the period resulting from the Company's acquisition of Stoneham in June 2011.

Fourth quarter capital expenditures totalled $34.3 million, the majority of which related to the contract drilling segment, which spent $31.5 million. These expenditures mainly relate to Western's drilling rig build program, which incurred $16.7 million in the fourth quarter, while an additional $2.6 million was incurred on the construction of Western's five next generation well servicing rigs. The remaining capital spending related to ancillary drilling equipment.

**Summary of Quarterly Results**

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

| Three months ended | Dec 31, 2011 | Sep 30, 2011 | Jun 30, 2011 | Mar 31, 2011 | Dec 31, 2010 | Sep 30, 2010 | Jun 30, 2010 | Mar 31, 2010 |
|---|---|---|---|---|---|---|---|---|
| **(stated in thousands, except per share amounts)** | | | | | | | | |
| Revenue | 101,300 | 80,786 | 30,340 | 50,093 | 26,582 | 16,485 | 11,153 | 1,789 |
| EBITDA[(1)] | 41,473 | 30,392 | 8,534 | 18,925 | 9,359 | 4,703 | 2,591 | (149) |
| Cash flow from operating activities | 25,337 | 3,391 | 21,027 | 9,613 | 3,716 | 3,452 | 3,985 | (200) |
| Income (loss) from continuing operations | 24,923 | 13,889 | 4,752 | 10,318 | 2,766 | 9,858 | (435) | 11,150 |
| per share - basic[(2)] | 0.43 | 0.24 | 0.09 | 0.27 | 0.10 | 0.37 | (0.02) | 1.15 |
| per share - diluted[(2)] | 0.41 | 0.23 | 0.09 | 0.26 | 0.09 | 0.36 | (0.02) | 0.95 |
| Net income (loss) | 24,314 | 24,893 | 4,179 | 11,360 | 5,739 | 10,035 | (283) | 11,099 |
| per share - basic[(2)] | 0.42 | 0.43 | 0.08 | 0.30 | 0.20 | 0.38 | (0.01) | 1.15 |
| per share - diluted[(2)] | 0.40 | 0.41 | 0.08 | 0.28 | 0.19 | 0.36 | (0.01) | 0.95 |
| Total assets | 619,645 | 584,823 | 543,117 | 329,114 | 264,108 | 143,399 | 115,327 | 151,485 |
| Long term financial liabilities[(3)] | 108,039 | 108,057 | 116,186 | 28,027 | 46,054 | 20,636 | 4,109 | 38,896 |
| Dividends declared | - | - | - | - | - | - | - | - |

(1) See Financial Measures Reconciliations on page 2.

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

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

Revenue is derived entirely from the Company's contract drilling segment. Prior to the acquisition of Horizon and Cedar Creek on March 18, 2010, the Company had no revenue from continuing operations. Subsequent to March 18, 2010, revenue has steadily increased through to the end of the first quarter of 2011 mainly due to the Company's continued growth in size through the acquisitions of Impact in the third quarter of 2010, and Pantera in the fourth quarter of 2010. Revenue in the second quarter of 2011 was negatively impacted by spring breakup, while revenue in the third and fourth quarters of 2011 reflects high levels of activity and the acquisition of Stoneham on June 10, 2011.

EBITDA has followed a similar trend to revenue: steadily increasing subsequent to the acquisition of Horizon and Cedar Creek in the first quarter of 2010 and decreasing in the second quarter of 2011 due to decreased activity associated with spring breakup. During the third and fourth quarters of 2011, EBITDA increased following the acquisition of Stoneham and the return to high activity levels following spring breakup. This trend reflects strong margins, above industry average utilization rates and economies of scale that have been achieved as a result of Western's consolidation strategy.

Net income (loss) fluctuated throughout 2010 mainly due to the gain on business acquisitions that were recognized in the first and third quarters as well as the cyclical nature of the oilfield service industry. During 2011, net income increased in the first quarter, when activity levels were high, and decreased in the second quarter, when activity levels were lower due to spring breakup, before rebounding in the third and fourth quarters following the acquisition of Stoneham and higher activity levels.

Total assets of the Company continue to increase throughout 2010 and 2011 due to the continued growth of the Company through corporate acquisitions and the Company's capital spending program.

**Goodwill**

A continuity of Western's goodwill balance as at December 31, 2011 is as follows:

| (stated in thousands) | | Amount |
|---|---|---|
| January 1, 2010 | $ | - |
| Pantera acquisition | | 29,117 |
| December 31, 2010 | $ | 29,117 |
| Stoneham acquisition | | 26,410 |
| December 31, 2011 | $ | 55,527 |

The goodwill acquired as part of the Stoneham acquisition is attributable to the purchase price being approximately 113% of the replacement cost of the assets acquired. The goodwill on the Pantera acquisition is attributable to the exchange ratio between Western's common shares and Pantera's income trust units being negotiated based on a value of $0.21 per Western common share ($4.20 per share post 20:1 share consolidation); however the consideration exchanged was valued based on a price per Western common share of $0.33 ($6.60 per share post 20:1 share consolidation), representing the price immediately before closing the acquisition. This resulted in additional consideration of approximately $27.1 million, and a corresponding increase in the goodwill recognized. Prior to considering the share price increase on the Pantera acquisition, the purchase price represents approximately 103% of the replacement cost of the assets acquired.

**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 year ended December 31, 2011, there were no significant transactions within the disposal group as the respective entities are being wound up.

On September 13, 2011, the Company sold its Canadian 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 $10.1 million gain on sale of StimSol. No cash taxes were owed on this transaction.

The net income from discontinued operations for the year ended December 31, 2011 and 2010 is as follows:

| (stated in thousands) | | **Year ended Dec 31, 2011** | | **Year ended Dec 31, 2010** |
|---|---|---|---|---|
| Revenue from discontinued operations | $ | 12,930 | $ | 11,589 |
| Operating expenses | | 10,528 | | 8,233 |
| Gross profit | | 2,402 | | 3,356 |
| Administrative expenses | | 1,300 | | 2,161 |
| Finance costs | | 1 | | 33 |
| Other items | | 38 | | 239 |
| Income before tax from discontinued operations | | 1,063 | | 923 |
| Income tax expense (recovery) | | 310 | | (2,328) |
| Income from discontinued operations | | 753 | | 3,251 |
| Gain on sale of StimSol (net of tax) | | 10,111 | | - |
| Net income from discontinued operations | $ | 10,864 | $ | 3,251 |

Assets and liabilities from discontinued operations at December 31, 2011, December 31, 2010 and January 1, 2010 were as follows:

| (stated in thousands) | Dec 31, 2011 | Dec 31, 2010 | Jan 1, 2010 |
|---|---|---|---|
| Current assets: | | | |
| Trade and other receivables | $ - | $ 3,195 | $ 1,801 |
| Inventory | - | 463 | 353 |
| Prepaid expenses and other current assets | - | 120 | 187 |
| Total current assets | $ - | $ 3,778 | $ 2,341 |
| Non current assets: | | | |
| Property and equipment | $ - | $ 6,412 | $ 7,360 |
| Deferred tax asset | - | 2,420 | - |
| Total non current assets | $ - | $ 8,832 | $ 7,360 |
| Current liabilities: | | | |
| Trade and other payables | $ - | $ 1,778 | $ 1,837 |
| Current portion of provisions | - | 20 | - |
| Current portion of long term debt | - | 23 | 274 |
| Total current liabilities | $ - | $ 1,821 | $ 2,111 |
| Non current liabilities: | | | |
| Long term debt | $ - | $ 7 | $ 92 |
| Total non current liabilities | $ - | $ 7 | $ 92 |

**Contractual Obligations**

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

| | Payments due by period | | | | | | |
|---|---|---|---|---|---|---|---|
| **(stated in thousands)** | 2012 | 2013 | 2014 | 2015 | 2016 | Thereafter | Total |
| Operating leases | $ 2,922 | $ 3,753 | $ 3,309 | $ 2,464 | $ 2,453 | $ 18,488 | $ 33,389 |
| Capital commitments | 48,426 | 23 | 17 | - | - | - | 48,466 |
| Purchase commitments | 15,496 | - | - | - | - | - | 15,496 |
| Total | $ 66,844 | $ 3,776 | $ 3,326 | $ 2,464 | $ 2,453 | $ 18,488 | $ 97,351 |

**Outstanding Share Data**

| | Mar 7, 2012 | Dec 31, 2011 | Dec 31, 2010[(1)] |
|---|---|---|---|
| Common shares outstanding | 58,533,287 | 58,533,287 | 37,680,944 |
| Warrants outstanding | 2,525,000 | 2,525,000 | 2,525,000 |
| Stock options outstanding | 2,131,000 | 2,101,000 | 1,032,583 |

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

**Off Balance Sheet Arrangements**

As at December 31, 2011, Western had no off balance sheet arrangements in place.

**Transactions with Related Parties**

During the year ended December 31, 2011, the Company entered into sales transactions totaling approximately $5.6 million (2010: $Nil) 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 December 31, 2011, approximately $2.9 million (December 31, 2010: $Nil; January 1, 2010: $Nil) is outstanding in trade and other receivables.

**Financial Instruments**

*Fair Values*

The Company's cash is the only financial asset or liability measured using fair value. Fair value is determined based on quoted prices in active markets for identical assets or liabilities.

*Credit Risk*

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

*Interest Rate Risk*

The Company is exposed to interest rate risk on debt subject to floating interest rates.

*Foreign Exchange Risk*

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

*Liquidity Risk*

Liquidity risk is the exposure of the Company to the risk of not being able to meet its financial obligations as they become due. To manage liquidity risk, the Company forecasts operational results and capital spending on a regular basis. Variances between actual results and forecast are continually monitored to assess the Company's ability to meet its financial obligations.

**Changes in Accounting Policies**

***Transition to International Financial Reporting Standards ("IFRS")***

The Company has prepared its December 31, 2011 consolidated financial statements in accordance with IFRS and IFRS 1, First-time Adoption of International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB"). In the prior year, the Company prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The Company's IFRS accounting policies are provided in Note 28 of the December 31, 2011 consolidated financial statements. In addition, Note 28 of the December 31, 2011 consolidated financial statements present reconciliations between the Company's 2010 Canadian GAAP results and the 2010 IFRS results.

The adoption of IFRS has not had a material impact on the Company's operations, strategic decisions, cash flow or capital expenditures. IFRS also has not had a material impact on the Company's opening balance sheet on January 1, 2010 mainly due to the election of certain IFRS 1 optional elections as well as the fact that the Company had previously applied CICA Handbook Section 1625, Comprehensive Revaluation of Assets and Liabilities, which resulted in the Company's property and equipment balance being adjusted to its respective fair value at December 22, 2009.

In connection with the application of CICA Handbook Section 1625 on December 22, 2009, the Company reset its contributed surplus and its deficit to zero with the corresponding adjustment applied against share capital. In total, share capital was reduced by approximately $14.0 million as the $15.8 million deficit balance was eliminated which was offset by the elimination of $1.8 million in contributed surplus. There is no specific guidance or literature on this accounting treatment under IFRS. Management has not reversed these adjustments on transition to IFRS as all adjusted amounts were within the Company's net equity accounts therefore the total equity value of the Company was not impacted and the opening balance sheet is a fair presentation of the Company's financial position as at January 1, 2010.

Set forth below are the IFRS 1 applicable optional exemptions and mandatory exceptions applied in the Company's conversion from Canadian GAAP to IFRS.

IFRS optional exemptions elected:

1. Business combinations - IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from January 1, 2010 ("the Transition Date"). The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected to apply IFRS 3 to business combinations that occurred prospectively from the Transition Date and as such business combinations completed before the Transition Date have not been restated.

2. Deemed Cost - IFRS 1 provides the option for an entity to revalue property, plant and equipment ("PP&E") at fair value on the Transition Date and use this fair value as the deemed transition cost. This election applies to individual assets. The Company has elected to apply this exemption to its entire PP&E balance on the Transition Date. The result is that no adjustment was required to arrive at the IFRS deemed cost values given that the Company had previously fair valued its balance sheet on December 22, 2009 under Canadian GAAP due to the financial restructuring of the Company and application of CICA Handbook Section 1625, described above, on this date. In addition, there was no difference in depreciation expense for the period between December 23, 2009 and January 1, 2010 between Canadian GAAP and IFRS. Therefore, the December 31, 2009 property and equipment balance previously reported under Canadian GAAP represented its fair value and deemed cost on January 1, 2010 under IFRS.

3. Stock based compensation - IFRS 2, Share-based Payment, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. IFRS 1 provides the option to not retrospectively apply the requirements of IFRS 2 to equity instruments that have vested prior to the Transition Date. The Company applied this exemption and as a result, there was no adjustment to equity instruments granted after November 7, 2002 that had vested prior to the Transition Date.

4. Compound financial instruments - IFRS 1 provides the exemption that allows an entity to use its previous GAAP's accounting treatment for compound financial instruments where the liability has been settled prior to the Transition Date. Historically, Western issued convertible debt which would have been accounted for differently under IFRS. As a result of the Company electing to utilize this exemption, compound instruments entered into and settled prior to the Transition Date were not adjusted on transition to IFRS.

IFRS mandatory exceptions applicable to the Company:

Estimates - Hindsight was not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Significant IFRS accounting policy changes:

(a) Business combinations: Following Canadian GAAP, the Company adopted CICA Handbook Section 1582, Business Combinations, which is consistent with IFRS 3 as at January 1, 2010. Therefore, there have been no significant adjustments under IFRS related to the business combinations that closed in 2010.

(b) 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.

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

(d) 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.

The following provides summary reconciliations of Western's 2010 Canadian GAAP and IFRS results:

**Reconciliation of Earnings**
**(Thousands of Canadian dollars)**

| | Note | Year ended Dec 31, 2010 |
|---|---|---|
| Net income and comprehensive income under Canadian GAAP | | $ 27,049 |
| Differences increasing (decreasing) reported net income: | | |
| PP&E - Depreciation | (a) | (576) |
| Provisions | (b) | (56) |
| Stock based compensation | (c) | 26 |
| Income taxes | (d) | 144 |
| Discontinued operations | (e) | 3 |
| Total net income and comprehensive income under IFRS | | $ 26,590 |

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 estimate 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 to equity instruments granted after November 7, 2002 that had 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 23 of the December 31, 2011 consolidated financial statements, 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 consolidated balance sheet have been adjusted.

Stock based compensation:

As discussed above, 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.

**Critical Accounting Estimates**

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

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

Business Combinations:

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

Impairment:

The Company assesses impairment at each reporting date by evaluating conditions specific to the organization that may lead to impairment of assets. Where an impairment indicator exists, or annually in the case of goodwill, the recoverable amount of the asset or cash generating unit is determined. Value-in-use calculations performed in assessing the recoverable amounts incorporate a number of key estimates.

As at December 31, 2011, the Company completed its assessments and did not identify indicators of impairment for the long-lived assets of the Company. As at December 31, 2010 and January 1, 2010, the Company completed its assessments and did not identify indicators of impairment for the long-lived assets of the Company.

Componentization of property and equipment:

The identification of certain significant components of property and equipment has resulted in a change to the estimation of the useful life of some items of property and equipment in 2010 under IFRS. Management has made estimates with respect to the useful lives of items of property and equipment based on historical experience. The change in estimate has resulted in adjustments to the carrying value and depreciation expense previously booked under Canadian GAAP in 2010.

Income taxes

Preparation of the consolidated financial statements involves determining an estimate of, or provision for, income taxes in each of the jurisdictions in which the Company operates. The process also involves making an estimate of taxes currently payable and taxes expected to be payable or recoverable in future periods, referred to as deferred income taxes. Deferred taxes result from the effects of temporary differences due to items that are treated differently for tax and accounting purposes. The tax effects of these differences are reflected in the consolidated balance sheet as deferred tax assets and liabilities. An assessment must also be made to determine the likelihood that the Company's future taxable income will be sufficient to permit the recovery of deferred income tax assets. To the extent that such recovery is not probable, recognized deferred income tax assets must be reduced. Judgement is required in determining the provision for income taxes and recognition of deferred tax assets and liabilities. Management must also exercise judgement in its assessment of continually changing tax interpretations, regulations and legislation, to ensure deferred income tax assets and liabilities are complete and fairly presented. The effects of differing assessments and applications could be material.

**Business Risks**

The following business risks are applicable to the Company's business:

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

**Forward-Looking Statements and Information:**

This MD&A contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. All statements other than statements of historical fact contained in this MD&A may be forward-looking statements and forward-looking information. In particular, forward-looking information and statements in this MD&A include, but are not limited to under the heading "Outlook", "capital expenditures are expected to be approximately $125 million for 2012, which includes approximately $75 million in expansion capital and approximately $50 million in maintenance capital. Expansion capital in the contract drilling segment aggregates to approximately $65 million and mainly relates to Western's drilling rig build program which includes the completion of seven drilling rigs in 2012, one of which has already been commissioned. Of the remaining drilling rigs currently under construction, one is expected to be completed in each of the first, second and third quarters of 2012. The three new builds discussed above are anticipated to be completed in the latter part of the fourth quarter of 2012 or early in the first quarter of 2013. Expansion capital in the well servicing segment relates to the five service rig builds discussed above, which are anticipated to be completed in the latter part of the fourth quarter of 2012 or early in the first quarter of 2013." and "Western believes that customers targeting oil and liquids-rich natural gas wells will continue to drive demand in 2012 and lead to levels of utilization consistent with 2011". These forward-looking statements and information are based on certain key expectations and assumptions made by Western, including the assumption that the demand for Western's drilling rigs will remain strong through 2012 and that such demand and financial performance will not affect expansion capital. Although Western believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information as Western cannot give any assurance that they will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, general economic, market and business conditions. Readers are cautioned that the foregoing list of risks and uncertainties is not exhaustive. Additional information on these and other risk factors that could affect Western's operations and financial results are included in Western's annual information form and the other disclosure documents filed by Western with securities regulatory authorities which may be accessed through the SEDAR website at www.sedar.com. The forward-looking statements and information contained in this MD&A are made as of the date hereof and Western does not undertake any obligation to update publicly or revise and forward-looking statements and information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

**Additional data**

Additional information relating to the Company is filed on SEDAR at www.sedar.com.

# Western Energy Services Corp.

**Consolidated Financial Statements**

*December 31, 2011 and 2010*

## To the Shareholders of Western Energy Services Corp.:

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

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

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

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

**Dale E. Tremblay**
Chief Executive Officer

**Jeffrey K. Bowers**
Vice President, Finance
Chief Financial Officer

March 7, 2012

**INDEPENDENT AUDITOR'S REPORT**

*To the Shareholders of Western Energy Services Corp.:*

*We have audited the accompanying consolidated financial statements of Western Energy Services Corp., which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of operations and comprehensive income, consolidated* statements of changes in shareholder's equit*y and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.*

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

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

*An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.*

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

***Opinion***
*In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Western Energy Services Corp. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.*

Deloitte & Touche LLP

*March 7, 2012* *Chartered Accountants*
*Calgary, Alberta*

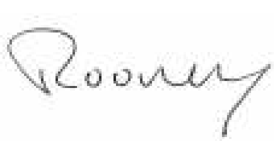
# Western Energy Services Corp.

Consolidated Balance Sheets
(thousands of Canadian dollars)

| | Note | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | | $ - | $ 3,475 | $ 2,386 |
| Trade and other receivables | 7 | 83,314 | 28,060 | 127 |
| Inventory | | 1,039 | - | - |
| Prepaid expenses and other current assets | 8 | 2,981 | 1,324 | 55 |
| Assets of discontinued operations | 23 | - | 3,778 | 2,341 |
| | | 87,334 | 36,637 | 4,909 |
| Non current assets | | | | |
| Property and equipment | 9 | 473,930 | 188,355 | - |
| Goodwill | 10 | 55,527 | 29,117 | - |
| Deferred taxes | 19 | 2,499 | 1,167 | - |
| Other non current assets | 8 | 355 | - | - |
| Assets of discontinued operations | 23 | - | 8,832 | 7,360 |
| | | $ 619,645 | $ 264,108 | $ 12,269 |
| | | | | |
| **Liabilities** | | | | |
| Current liabilities | | | | |
| Trade payables and other current liabilities | 11 | $ 39,075 | $ 20,852 | $ 1,984 |
| Current portion of provisions | 12 | 172 | 295 | - |
| Current portion of long term debt | 13 | 8,213 | 513 | 5 |
| Liabilities of discontinued operations | 23 | - | 1,821 | 2,111 |
| | | 47,460 | 23,481 | 4,100 |
| Non current liabilities | | | | |
| Provisions | 12 | 184 | 356 | - |
| Long term debt | 13 | 108,039 | 46,054 | - |
| Deferred taxes | 19 | 49,637 | 7,377 | - |
| Liabilities of discontinued operations | 23 | - | 7 | 92 |
| | | 205,320 | 77,275 | 4,192 |
| | | | | |
| **Shareholders' equity** | | | | |
| Share capital | 14 | 319,698 | 159,895 | 8,253 |
| Contributed surplus | | 3,625 | 2,359 | 1,835 |
| Retained earnings (deficit) | | 89,325 | 24,579 | (2,011) |
| Accumulated other comprehensive income | | 1,677 | - | - |
| | | 414,325 | 186,833 | 8,077 |
| | | $ 619,645 | $ 264,108 | $ 12,269 |

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

Approved on behalf of the Board of Directors:



John R. Rooney
Director

Dale E. Tremblay
Director

# Western Energy Services Corp.

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

| | Note | Year ended December 31, 2011 | Year ended December 31, 2010 |
|---|---|---|---|
| **Revenue** | | $ 262,519 | $ 56,009 |
| Operating expenses | | 172,530 | 40,130 |
| **Gross profit** | | 89,989 | 15,879 |
| Administrative expenses | | 16,987 | 6,897 |
| Finance costs | 17 | 3,650 | 883 |
| Other items | 18 | 677 | 1,600 |
| Gain on business acquisitions | 6 | - | (19,653) |
| **Income from continuing operations before taxes** | | 68,675 | 26,152 |
| Income taxes | 19 | 14,793 | 2,813 |
| **Net income from continuing operations** | 20 | 53,882 | 23,339 |
| **Discontinued operations** | | | |
| Gain on sale of StimSol (net of tax) | 23 | 10,111 | - |
| Income from discontinued operations (net of tax) | 23 | 753 | 3,251 |
| **Net income** | | 64,746 | 26,590 |
| Translation of foreign operations | | 1,677 | - |
| **Comprehensive income** | | $ 66,423 | $ 26,590 |
| Net income per share from continuing operations[1]: | | | |
| Basic | | $ 1.04 | $ 1.03 |
| Diluted | | $ 1.00 | $ 0.96 |
| Net income per share from discontinued operations[1]: | | | |
| Basic | | $ 0.21 | $ 0.14 |
| Diluted | | $ 0.20 | $ 0.13 |
| Net income per share[1]: | | | |
| Basic | | $ 1.25 | $ 1.17 |
| Diluted | | $ 1.21 | $ 1.09 |
| Weighted average number of shares[1]: | | | |
| Basic | | 51,595,078 | 22,724,270 |
| Diluted | | 53,640,617 | 24,385,704 |

(1) Per share amounts have been adjusted to reflect the 20:1 share consolidation completed on June 22, 2011.

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

## Western Energy Services Corp.

Consolidated Statements of Changes in Shareholders' Equity
(thousands of Canadian dollars)

| | Note | Share capital | Contributed surplus [1] | Retained earnings/ (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) | 14 | 151,642 | - | - | - | 151,642 |
| Stock based compensation-continuing operations | 15 | - | 456 | - | - | 456 |
| Stock based compensation-discontinued operations | 15 | - | 68 | - | - | 68 |
| Comprehensive income | | - | - | 26,590 | - | 26,590 |
| Balance at December 31, 2010 | | 159,895 | 2,359 | 24,579 | - | 186,833 |
| Issue of common shares (net of issue costs) | 14 | 159,960 | - | - | - | 159,960 |
| Cancellation of common shares | 14 | (157) | - | - | - | (157) |
| Stock based compensation-continuing operations | 15 | - | 1,335 | - | - | 1,335 |
| Stock based compensation-discontinued operations | 15 | - | (69) | - | - | (69) |
| Comprehensive income | | - | - | 64,746 | 1,677 | 66,423 |
| Balance at December 31, 2011 | | $ 319,698 | $ 3,625 | $ 89,325 | $ 1,677 | $ 414,325 |

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

(2) At December 31, 2011, the accumulated other comprehensive income balance consists entirely of the translation of foreign operations.

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

## Western Energy Services Corp.

Consolidated Statements of Cash Flows
(thousands of Canadian dollars)

| | Note | Year ended December 31, 2011 | Year ended December 31, 2010 |
|---|---|---|---|
| **Operating activities** | | | |
| Net income from continuing operations | | $ 53,882 | $ 23,339 |
| Adjustments for: | | | |
| Depreciation included in operating expenses | | 24,541 | 6,942 |
| Depreciation included in administrative expenses | | 446 | 124 |
| Stock based compensation included in operating expenses | | 307 | 81 |
| Stock based compensation included in administrative expenses | | 1,028 | 375 |
| (Gain) loss on sale of assets | | (1,248) | 16 |
| Income taxes | 19 | 14,793 | 2,813 |
| Gain on business acquisitions | | - | (19,653) |
| Unrealized foreign exchange gain | | (1,057) | (103) |
| Finance costs | | 3,650 | 883 |
| Other | | (679) | 138 |
| Cash generated from operating activities | | 95,663 | 14,955 |
| Taxes paid | | (101) | (421) |
| Change in non-cash working capital | | (34,749) | (3,976) |
| Continuing operations | | 60,813 | 10,558 |
| Discontinued operations | | (1,445) | 395 |
| Cash flow from operating activities | | 59,368 | 10,953 |
| **Investing activities** | | | |
| Additions to property and equipment | | (88,869) | (21,282) |
| Proceeds on sale of property and equipment | | 3,474 | 2,926 |
| Business acquisitions | 6 | (113,277) | (35,985) |
| Investments | | (558) | - |
| Proceeds from sale of investments | | 912 | - |
| Changes in non-cash working capital | | 1,448 | 9,385 |
| Continuing operations | | (196,870) | (44,956) |
| Discontinued operations | | 23,226 | (134) |
| Cash flow used in investing activities | | (173,644) | (45,090) |
| **Financing activities** | | | |
| Issue of common shares | 14 | 86,336 | 75,000 |
| Share issue costs | 14 | (4,706) | (4,116) |
| Drawdown (payment) of long term debt | | 33,387 | (34,149) |
| Finance costs paid | | (4,230) | (1,421) |
| Change in non-cash working capital | | (20) | 121 |
| Continuing operations | | 110,767 | 35,435 |
| Discontinued operations | | 34 | (209) |
| Cash flow from financing activities | | 110,801 | 35,226 |
| (Decrease) increase in cash and cash equivalents | | $ (3,475) | $ 1,089 |
| Cash and cash equivalents, beginning of year | | $ 3,475 | $ 2,386 |
| Cash and cash equivalents, end of year | | $ - | $ 3,475 |

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

**1. Reporting entity:**

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the registered office is 900, 606 – 4th Street SW, Calgary, Alberta. Western is a publicly traded company that is listed on the Toronto Stock Exchange under the symbol "WRG". These consolidated financial statements ("Financial Statements") as at and for the years ended December 31, 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. Contract drilling 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. In addition, the Company incorporated Matrix Well Servicing Inc. in 2011 which will operate in the well servicing industry in Canada. 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 23).

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

**2. Basis of preparation:**

(a) Statement of compliance:

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB"). As these Financial Statements represent the Company's first annual financial statements prepared in accordance with IFRS, 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 28.

Previously, the Company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Previous GAAP") as set out in the handbook of the Canadian Institute of Chartered Accountants ("CICA"). In 2010, the CICA handbook was revised to incorporate IFRS and require publicly accountable enterprises, such as Western, to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these Financial Statements. In these Financial Statements, the term "Previous GAAP" refers to Canadian GAAP before the adoption of IFRS. Previous GAAP differs in some areas from IFRS. In preparing these Financial Statements, management has amended certain accounting and measurement basis which were previously applied in the financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these adjustments. Note 28 contains reconciliations and descriptions of the effect of the transition from Previous GAAP to IFRS on equity, net income and comprehensive income, along with line-by-line reconciliations of the consolidated statement of operations and comprehensive income and balance sheet for the year ended December 31, 2010 as well as the January 1, 2010 transition date to IFRS (the "Transition Date").

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

These Financial Statements were approved for issuance by the Board of Directors on March 7, 2012.

(b) Basis of measurement:

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

(i) derivative financial instruments are measured at fair value;

(ii) financial instruments at fair value through profit or loss are measured at fair value; and

(iii) financial instruments classified as available for sale are measured at fair value.

**2. Basis of preparation (continued):**

(c) Functional and presentation currency:
These Financial Statements are presented in Canadian dollars, which is Western's functional currency.

**3. Significant accounting policies:**

The significant accounting policies set out below have been applied consistently to all periods presented in these Financial Statements and in preparing the opening IFRS balance sheet at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

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

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing these Financial Statements.

(b) Foreign currency transactions and operations:
The Canadian dollar is Western's functional and presentation currency. Each of the Company's subsidiaries functional currency is determined individually and items included in the financial statements of each subsidiary are measured using that functional currency.

Transactions in foreign currencies are translated to the respective functional currencies of Western and its subsidiaries at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate in effect on the balance sheet date with any resulting foreign exchange gain or loss recognized in net income. Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rate in effect on the date of the transaction. Foreign currency gains and losses on transactions are reported on a net basis and recognized in other items within net income.

The Company currently has a foreign operation with a functional currency that is different than Canadian dollars. For the purposes of presenting consolidated financial statements, the assets and liabilities of this foreign operation are translated to Canadian dollars using exchange rates in effect on the balance sheet date. Income and expenses are translated at the average exchange rates for the period. Exchange differences arising from this translation are recognized in other comprehensive income.

(c) Business combinations:
The Company uses the acquisition method to account for business acquisitions. The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a gain on acquisition is recognized immediately in net income.

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

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

**3. Significant accounting policies (continued):**

(d) Financial instruments:

Recognition and measurement:

All financial instruments are measured at fair value upon initial recognition of the transaction. Measurement in subsequent periods is dependent on whether the instrument is classified as "financial asset or financial liability at fair value through profit or loss", "available-for-sale financial assets", "held-to-maturity investments", "loans and receivables", or "other financial liabilities".

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

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

The Company has the following non-derivative financial assets:

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

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

(ii) Loans and receivables:

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

(iii) Available for sale:

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

The Company has the following non-derivative financial liabilities:

(i) Other financial liabilities:

Trade and other payables, finance lease obligations, mortgages and credit facilities are classified as "other financial liabilities". Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Transaction costs incurred with respect to the credit facilities are deferred and amortized using the straight-line method over the term of the facility. The asset is recognized in other assets on the balance sheet while the amortization is included in finance costs within net income.

**3. Significant accounting policies (continued):**

(d) Financial instruments (continued):

Derivative financial instruments:

From time to time, the Company may hold derivative financial instruments to mitigate its foreign currency risk exposures. Derivatives are measured at fair value and changes therein are recognized in net income. Directly attributable transaction costs are recognized in net income as incurred. Forward foreign currency derivative contracts are classified as "fair value through profit or loss" and are measured at fair value. Any change in fair value is recorded through net income.

Equity instruments:

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

Embedded derivatives:

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

(e) Cash and cash equivalents:

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

(f) Property and equipment:

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and borrowing costs on qualifying assets.

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

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

Depreciation is calculated based on the cost of the asset, less its residual value.

Depreciation is recognized in net income either on a unit of production or straight-line basis over the estimated useful lives of each class of assets. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term in which case, the estimated useful life of the asset is used. Land is not depreciated.

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

**3. Significant accounting policies (continued):**

(f) Property and equipment (continued):

The estimated useful lives for the current and comparative periods are as follows:

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

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted if appropriate.

An item of property and equipment is derecognized when it is either disposed of or when it is determined that no further economic benefit is expected from the item's future use or disposal. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized in other items within net income.

(g) Intangible assets:

Intangible assets include the identifiable intangible assets that have been acquired by the Company through business combinations which have finite useful lives. These assets are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization is calculated based on the cost of the asset less its residual value. Amortization is recognized in net income on a straight-line basis over the estimated useful life of the intangible asset from the date it is available for use. Amortization methods, useful lives and residual values of intangible assets are reviewed at least annually and adjusted if appropriate.

An intangible asset is derecognized when it is either disposed of or when it is determined that no further economic benefit is expected from the item's future use or disposal. Gains and losses on disposal of an intangible asset are determined by comparing the proceeds from disposal with the carrying amount of the intangible asset, and are recognized in other items within net income.

At December 31, 2011, the Company had no intangible assets.

(h) Inventory:

Inventory is measured at the lower of cost and net realizable value. The cost of inventory is based on the average cost method, and includes expenditures incurred in acquiring the inventory, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Write downs of inventory are reversed if there has been a change in the estimates used to determine the recoverable amount and the decrease in impairment write down can be objectively related to an event occurring after the impairment was recognized.

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

(i) Impairment:

(i) Financial assets:

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

**3. Significant accounting policies (continued):**

(i) Impairment (continued):

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is an indication of impairment. If an indication exists, then the asset's carrying amount is assessed for impairment. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time, unless there is an indication of impairment.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the business combination.

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

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

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

(j) Employee benefits:

(i) Short-term employee benefits:

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

(ii) Stock based compensation awards:

The grant date fair value of stock based compensation awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the vesting period. The amount recognized as an expense is based on the estimate of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate.

(k) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost within net income.

**3. Significant accounting policies (continued):**

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

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

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

All other leases that are determined not to be finance leases are considered operating leases. Payments made under operating leases are recognized in net income on a straight-line basis over the term of the lease. Lease inducements received are recognized as a reduction to the total lease expense, over the term of the lease.

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

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

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

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

Deferred income taxes are recognized, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the respective entity's financial statements. Deferred income taxes are determined using tax rates which are enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities are recognized for all taxable temporary differences, except for temporary differences that arise from goodwill which is not deductible for tax purposes.

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

**3. Significant accounting policies (continued):**

(p) Earnings per share:

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

(q) Segment reporting:

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

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(r) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended December 31, 2011, and have not been applied in preparing these Financial Statements.

A summary of new standards that have not been adopted which may impact the Company in the future are as follows:

- Amendments to IFRS 7, Financial Instruments: Disclosures were issued in October 2010. Those amendments improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier application permitted. The Company is assessing the effect of the changes to IFRS 7 on its financial statement disclosures.

- Amendment to IAS 12, Income Taxes, deferred taxes and recovery of underlying assets. The amendment is effective for annual periods beginning on or after January 1, 2012, with earlier application permitted. The Company is assessing the effect of the changes to IAS 12 on its financial results and financial position.

- IFRS 9, Financial Instruments was issued in November 2009. The standard is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39, Financial Instruments: Recognition and Measurement. However, some changes were made to the fair value option for financial liabilities to address the issue of an entity's own credit risk. The Company is assessing the effect of IFRS 9 on its financial results and financial position; however, any changes are not expected to be material.

- IFRS 10, Consolidated Financial Statements, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation—Special Purpose Entities, and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is assessing the effect of the changes to IFRS 10 on its financial results and financial position.

**3. Significant accounting policies (continued):**

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

- IFRS 11, Joint Arrangements, establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes current IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities - Non-Monetary Contributions by Venturers, and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is assessing the effect of the changes to IFRS 11 on its financial results and financial position.

- IFRS 12, Disclosure of Interests in Other Entities, applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is assessing the effect of the changes to IFRS 12 on its financial statement disclosures.

- IFRS 13, Fair Value Measurement, defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is assessing the effect of the changes to IFRS 13 on its financial results and financial position.

- Amendments to existing standards, including IAS 27, Separate Financial Statements, and IAS 28, Investments in Associates and Joint Ventures. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13. The Company is assessing the effect of the changes to these standards on its financial results and financial position.

- IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in other comprehensive income into two groups, based on whether or not items may be reclassified to net income in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual years beginning on or after July 1, 2012 with earlier application permitted. The Company is assessing the effect of the changes to IAS 1 on its financial statement presentation.

**4. Critical accounting judgements and key sources of estimation uncertainty:**

The preparation of the Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies (described in Note 3) and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Key sources of estimation uncertainty:
A number of the Company’s accounting policies and disclosures require key assumptions concerning the future, and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities or disclosures within the next fiscal year. Where applicable, further information about the assumptions made is disclosed in the notes specific to that asset or liability.

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

(a) Impairment

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

Property and equipment:
The fair value of property and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of equipment is based on market and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

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

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

(b) Property and equipment

Property and equipment are depreciated over their estimated useful lives while factoring in an asset's expected residual value as determined by management. All estimates of useful lives and residual values are set out in Note 3 (f). Assessing the reasonableness of the estimated useful life, residual value and the appropriate depreciation methodology requires judgement and is based on management's experience and knowledge of the industry.

(c) Income taxes

Preparation of the Financial Statements involves determining an estimate of, or provision for, income taxes in each of the jurisdictions in which the Company operates. The process also involves making an estimate of taxes currently payable and taxes expected to be payable or recoverable in future periods, referred to as deferred taxes. Deferred taxes result from the effects of temporary differences due to items that are treated differently for tax and accounting purposes. The tax effects of these differences are reflected in the consolidated balance sheet as deferred tax assets and liabilities. An assessment must also be made to determine the likelihood that the Company's future taxable income will be sufficient to permit the recovery of deferred income tax assets. To the extent that such recovery is not probable, recognized deferred tax assets must be reduced.

Judgement is required in determining the provision for income taxes and recognition of deferred tax assets and liabilities. Management must also exercise judgement in its assessment of continually changing tax interpretations, regulations and legislation, to ensure deferred tax assets and liabilities are complete and fairly presented. The effects of differing assessments and applications could be material.

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

(d) Determination of functional currency.

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

(e) Stock based awards:

The fair value of employee stock options is measured using a Black Scholes option pricing model. Measurement inputs include the share price on the grant date, the exercise price of the instrument, the expected volatility, the weighted average expected life of the instruments, the expected dividends, and the risk-free interest rate. Service and non-market performance conditions are not taken into account in determining fair value. The stock based compensation recognized is also determined based on management's grant date estimate of the forfeitures that are expect to occur over the life of the stock options. The number of options that actually vest could differ from those estimated and any changes are recognized prospectively as they occur.

(f) Derivatives:

The fair value of forward foreign exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on the Government of Canada bond rate).

Fair values reflect the credit risk of the instrument including adjustments reflecting the credit risk of the Company and counterparty when appropriate. These calculations are complex and require significant judgement around the selection of market inputs that are subject to factors outside of management's control.

(g) Non-derivative financial liabilities:

As detailed in the Company's accounting policy, the Company records its financial instruments at fair value on inception with changes in fair value recorded when required by the Company's classification of such instruments. Calculation of fair value of the Company's financial instruments are complex and requires judgement around the selection of market inputs and is based on many variables including but not limited to credit spreads and interest rate spreads which are factors outside management's control. Fair value for disclosure purposes, is calculated based on the present value of future principal and interest payments, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

**5. Operating segments:**

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 CEO reviews internal management reports for this segment 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.

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

**5. Operating segments (continued):**

The following is a summary of the Company's results by segment for the years ended December 31, 2011 and 2010:

| Year ended December 31, 2011 | Contract Drilling | Corporate & Other | Total |
|---|---|---|---|
| Continuing Operations: | | | |
| Revenue | $ 262,519 | $ - | $ 262,519 |
| Segment profit (loss) | 83,626 | (9,289) | 74,337 |
| Finance costs | 43 | 3,607 | 3,650 |
| Income taxes | 12,430 | 2,363 | 14,793 |
| Depreciation | 24,746 | 241 | 24,987 |
| Expenditures on capital items | 82,954 | 5,915 | 88,869 |

| Year ended December 31, 2010 | Contract Drilling[(1)] | Corporate & Other | Total |
|---|---|---|---|
| Continuing Operations: | | | |
| Revenue | $ 56,009 | $ - | $ 56,009 |
| Segment profit (loss) | 13,591 | (4,153) | 9,438 |
| Finance costs | 259 | 624 | 883 |
| Income taxes | 2,813 | - | 2,813 |
| Depreciation | 6,975 | 91 | 7,066 |
| Expenditures on capital items | 20,976 | 306 | 21,282 |

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

| Goodwill | Contract Drilling | Corporate & Other | Total |
|---|---|---|---|
| Balance, January 1, 2010 | $ - | $ - | $ - |
| Additions: Pantera acquisition (Note 6) | 29,117 | - | 29,117 |
| Balance, December 31, 2010 | 29,117 | - | 29,117 |
| Additions: Stoneham acquisition (Note 6) | 26,410 | - | 26,410 |
| Balance, December 31, 2011 | $ 55,527 | $ - | $ 55,527 |

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

| As at December 31, 2011 | Contract Drilling | Corporate & Other | Total |
|---|---|---|---|
| Total assets | $ 609,026 | $ 10,619 | $ 619,645 |
| Total liabilities | $ 92,052 | $ 113,268 | $ 205,320 |

| As at December 31, 2010 | Contract Drilling | Corporate & Other | Total |
|---|---|---|---|
| Total assets | $ 249,110 | $ 2,388 | $ 251,498 |
| Total liabilities | $ 26,723 | $ 48,724 | $ 75,447 |

| As at January 1, 2010 | Contract Drilling | Corporate & Other | Total |
|---|---|---|---|
| Total assets | $ - | $ 2,568 | $ 2,568 |
| Total liabilities | $ - | $ 1,989 | $ 1,989 |

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

**5. Operating segments (continued):**

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

| | Year ended December 31, 2011 | Year ended December 31, 2010 |
|---|---|---|
| Continuing operations: | | |
| Segment profit | $ 74,337 | $ 9,438 |
| Add (deduct): | | |
| Stock based compensation | (1,335) | (456) |
| Finance costs | (3,650) | (883) |
| Other items | (677) | (1,600) |
| Gain on business acquisitions | - | 19,653 |
| Income from continuing operations before taxes | $ 68,675 | $ 26,152 |

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

| As at and for the year ended December 31, 2011 | Canada | United States[1] | Total |
|---|---|---|---|
| Revenue | $ 241,290 | $ 21,229 | $ 262,519 |
| Property and equipment | 390,134 | 83,796 | 473,930 |
| Total assets | $ 525,955 | $ 93,690 | $ 619,645 |

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

| As at and for the year ended December 31, 2010 | Canada | United States | Total |
|---|---|---|---|
| Revenue | $ 56,009 | $ - | $ 56,009 |
| Property and equipment | 188,355 | - | 188,355 |
| Total assets | $ 250,148 | $ 1,350 | $ 251,498 |

| As at January 1, 2010 | Canada | United States | Total |
|---|---|---|---|
| Property and equipment | $ - | $ - | $ - |
| Total assets | $ 2,568 | $ - | $ 2,568 |

**6. Business acquisitions:**

**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 9,803,678 common shares of Western at an ascribed price of $7.80 per share, 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 to 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 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 |

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

**6. Business acquisitions (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) | $ | 7,625 |
| Property and equipment | | 220,716 |
| Goodwill (Note 10) | | 26,410 |
| Finance leases | | (320) |
| Provisions | | (338) |
| Deferred tax liability | | (28,347) |
| | $ | 225,746 |

Trade receivables, included in net working capital, are comprised of gross contractual amounts due of $17.9 million, all of which has been collected.

The Company estimates that had the acquisition closed on January 1, 2011, $133.3 million of revenue for the year ended December 31, 2011 would have been attributable to Stoneham's assets. Included in this estimated amount is $83.4 million of revenue recognized by the Company subsequent to the acquisition date relating 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 or from the acquisition date, due to the fact that Stoneham's management and cost structure has been changed and integrated into the Company's operations.

The Company assessed the acquisition for intangible assets and concluded that none existed. 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 year ended December 31, 2011, adjustments were made to the purchase price allocation resulting in a decrease in net working capital of $1.6 million, an increase in property and equipment equal to $1.5 million and a decrease in the deferred tax liability of $0.2 million which aggregated to a net decrease in goodwill of $0.1 million.

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 and severance costs as well as external legal and advisory fees, which were expensed within other items in the period incurred.

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

**6. Business acquisitions (continued):**

**2010 Business Acquisitions**

In 2010, Western completed the acquisitions of Horizon, Cedar Creek Drilling Ltd. ("Cedar Creek"), Impact Drilling Ltd. ("Impact"), and Pantera Drilling Trust ("Pantera") (the "2010 Acquisitions") in exchange for cash and/or shares of Western, as well as the assumption of bank debt.

On March 18, 2010, Western acquired control of all of the issued and outstanding common shares of Horizon for cash consideration of approximately $41.4 million. Western recorded a gain on business acquisition of $9.1 million which is representative of the Company's ability to acquire certain oilfield service equipment under favourable market conditions.

On March 18, 2010, Western acquired all of the issued and outstanding common shares of Cedar Creek in exchange for 0.133 Western common shares for each Cedar Creek common share. An aggregate of 1,025,866 common shares of Western were issued at an ascribed price of $6.00 per share, based on Western's closing trading price on March 17, 2010. The acquisitions of both Horizon and Cedar Creek enabled the Company to enter and begin operations in the contract drilling segment of the Canadian oilfield service industry. Western recorded a gain on business acquisition of $2.0 million which is representative of the Company's ability to acquire certain oilfield service equipment under favourable market conditions.

On August 25, 2010, Western acquired all of the issued and outstanding common shares of Impact for cash consideration of approximately $247,000. The acquisition of Impact enabled the Company to continue its growth strategy as an oilfield service provider in the Canadian oilfield service industry. The acquisition provided the Company with an increased market share through access to Impact's assets and operational personnel. The Company also reduced unit costs through economies of scale. Western recorded a gain on business acquisition of $8.5 million which is representative of the Company's ability to recognize certain tax assets of Impact together with favourable market conditions.

On December 17, 2010, Western acquired all of the issued and outstanding income trust units of Pantera in exchange for common shares of Western. Pantera unitholders received 1.095 common shares of Western for each income trust unit of Pantera. An aggregate of 11,303,486 common shares of Western were issued at an ascribed price of $6.60 per share, based on Western's closing trading price as at December 16, 2010. The acquisition of Pantera enabled the Company to continue its growth strategy as an oilfield service provider in the Canadian oilfield service industry. The acquisition provided the Company with an increased market share through access to Pantera's assets and operational personnel. The Company also reduced unit costs through economies of scale.

The following summarizes the major classes of consideration transferred for the 2010 acquisitions at the date of their respective acquisitions:

| | Horizon | Cedar Creek | Impact | Pantera | Total |
|---|---|---|---|---|---|
| Cash paid | $ 41,430 | $ - | $ 247 | $ - | $ 41,677 |
| Shares issued | - | 6,155 | - | 74,603 | 80,758 |
| Assumption of bank debt[1] | 24,289 [1] | 12,603 | 19,554 [1] | 18,574 | 75,020 |
| | $ 65,719 | $ 18,758 | $ 19,801 | $ 93,177 | $ 197,455 |

[1] For Horizon and Impact, the Company assumed debt net of cash of $5.6 and $0.1 million, respectively.

These acquisitions have been accounted for using the acquisition method, whereby the assets acquired and the liabilities assumed were recorded at their fair values with any surplus of the aggregate consideration relative to the fair value of the identifiable net assets recorded as goodwill and any shortage recorded as a gain on business acquisition.

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

**6. Business acquisitions (continued):**

The following summarizes the allocation of the aggregate consideration for the 2010 Acquisitions:

| | Horizon | Cedar Creek | Impact | Pantera | Total |
|---|---|---|---|---|---|
| Net working capital | $ 8,510 | $ 1,990 | $ 185 | $ 4,158 | $ 14,843 |
| Property and equipment | 71,175 | 19,146 | 24,519 | 61,631 | 176,471 |
| Intangible assets (Note 10) | 343 | 222 | - | - | 565 |
| Goodwill (Note 10) | - | - | - | 29,117 | 29,117 |
| Deferred tax asset (liability) | (4,841) | (592) | 3,730 | (1,677) | (3,380) |
| Deferred credit | (355) | - | (101) | (52) | (508) |
| Gain on business acquisition | (9,113) | (2,008) | (8,532) | - | (19,653) |
| | $ 65,719 | $ 18,758 | $ 19,801 | $ 93,177 | $ 197,455 |

Trade receivables, included in net working capital, for the 2010 Acquisitions are comprised of gross contractual amounts due of $28.7 million, all of which has been collected.

Goodwill on the Pantera acquisition is attributable to the exchange ratio between Western's common shares and Pantera's income trust units being negotiated based on a value of $4.20 per Western common share; however, the consideration exchanged was valued based on a price per Western common share of $6.60, representing the price immediately before closing the acquisition. This resulted in additional consideration of approximately $27.1 million, and a corresponding increase in the goodwill recognized. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company incurred costs related to the 2010 Acquisitions of $1.6 million relating to due diligence, as well as external legal and advisory fees, which were expensed within other items in 2010.

**7. Trade and other receivables:**

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Trade receivables | $ 68,588 | $ 26,490 | $ 83 |
| Accrued trade receivables | 14,162 | 798 | - |
| Other receivables | 564 | 847 | 119 |
| Allowance for doubtful accounts | - | (75) | (75) |
| Total | $ 83,314 | $ 28,060 | $ 127 |

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

**8. Other assets:**

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Prepaid expenses | $ 1,744 | $ 745 | $ 55 |
| Deposits | 987 | 147 | - |
| Deferred charges | 605 | 252 | - |
| Investments | - | 180 | - |
| Total | $ 3,336 | $ 1,324 | $ 55 |
| | | | |
| Current | $ 2,981 | $ 1,324 | $ 55 |
| Non current | 355 | - | - |
| | $ 3,336 | $ 1,324 | $ 55 |

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

## 9. 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 | 174,504 | - | 132 | 182 | 176,471 |
| Additions | - | 62 | 20,402 | - | 347 | 471 | 21,282 |
| Disposals | - | - | (2,933) | - | - | - | (2,933) |
| 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 | 213,871 | - | 125 | 320 | 220,716 |
| Additions | - | 203 | 82,097 | 5,358 | 1,211 | - | 88,869 |
| Capitalized Interest | - | - | 369 | 82 | - | - | 451 |
| Disposals | - | - | (2,945) | - | - | (262) | (3,207) |
| Impact of foreign exchange | - | - | 3,113 | - | (2) | - | 3,111 |
| Balance at December 31, 2011 | $ 4,974 | $ 3,344 | $ 488,478 | $ 5,440 | $ 1,813 | $ 711 | $ 504,760 |
| | | | | | | | |
| **Depreciation:** | | | | | | | |
| Balance at January 1, 2010 | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Depreciation for the year | - | 49 | 6,291 | - | 124 | 37 | 6,501 |
| Disposals | - | - | (36) | - | - | - | (36) |
| 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 year | - | 109 | 24,285 | 1 | 421 | 171 | 24,987 |
| Disposals | - | - | (547) | - | - | (103) | (650) |
| Impact of foreign exchange | - | - | 28 | - | - | - | 28 |
| Balance at December 31, 2011 | $ - | $ 158 | $ 30,021 | $ 1 | $ 545 | $ 105 | $ 30,830 |
| | | | | | | | |
| **Carrying amounts:** | | | | | | | |
| At January 1, 2010 | $ - | $ - | $ - | | $ - | $ - | $ - |
| At December 31, 2010 | $ 374 | $ 1,292 | $ 185,718 | $ - | $ 355 | $ 616 | $ 188,355 |
| At December 31, 2011 | $ 4,974 | $ 3,186 | $ 458,457 | $ 5,439 | $ 1,268 | $ 606 | $ 473,930 |

Assets under construction:
Included in property and equipment at December 31, 2011 are assets under construction of $25.4 million (December 31, 2010: $11.5 million; January 1, 2010: $Nil) of which $22.0 million relates to the contract drilling segment including the construction of four Efficient Long Reach telescopic double drilling rigs as well as ancillary drilling equipment and $3.4 million relates to the construction of well servicing rigs.

For the year ended December 31, 2011, the Company has capitalized $0.5 million (2010: $0.1 million) of specific borrowing costs related to the construction of qualifying assets based on a capitalization rate of approximately 4.3%.

The Company has assessed the indicators of impairment surrounding property and equipment and did not identify any indicators of impairment at December 31, 2011 or 2010.

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

**10. Intangible assets and goodwill:**

| | Goodwill | Drilling contracts | Total |
|---|---|---|---|
| **Cost or deemed cost:** | | | |
| Balance at January 1, 2010 | $ - | $ - | $ - |
| Acquisitions through business combinations - Pantera (Note 6) | 29,117 | 565 | 29,682 |
| Disposals | - | - | - |
| Balance at December 31, 2010 | $ 29,117 | $ 565 | $ 29,682 |
| | | | |
| Balance at January 1, 2011 | $ 29,117 | $ 565 | $ 29,682 |
| Acquisitions through business combinations - Stoneham (Note 6) | 26,410 | - | 26,410 |
| Disposals | - | - | - |
| Balance at December 31, 2011 | $ 55,527 | $ 565 | $ 56,092 |
| | | | |
| **Depreciation:** | | | |
| Balance at January 1, 2010 | $ - | $ - | $ - |
| Amortization for the year | - | 565 | 565 |
| Disposals | - | - | - |
| Balance at December 31, 2010 | $ - | $ 565 | $ 565 |
| | | | |
| Balance at January 1, 2011 | $ - | $ 565 | $ 565 |
| Amortization for the year | - | - | - |
| Disposals | - | - | - |
| Balance at December 31, 2011 | $ - | $ 565 | $ 565 |
| | | | |
| **Carrying amounts** | | | |
| At January 1, 2010 | $ - | $ - | $ - |
| At December 31, 2010 | $ 29,117 | $ - | $ 29,117 |
| At December 31, 2011 | $ 55,527 | $ - | $ 55,527 |

For impairment testing purposes, goodwill has been fully allocated to the Company’s cash-generating units that are expected to benefit from the synergies of the business combinations which resulted in the initial recognition of the goodwill. These cash-generating units are based on the type of drilling rig and are all within the Company’s contract drilling segment.

The recoverable amounts of these cash-generating units is determined based on a value in use calculation which uses cash flow projections based on a five year forecast which incorporates the Company’s financial budgets approved by the Directors for the following fiscal year and a discount rate of 13% per annum (2010: 13%).

Cash flow projections during the five year forecast period are based on the same expected margins and price inflation used throughout the budget period. The cash flows beyond that five year period have been extrapolated using a 3% per annum growth rate. Management believes that any reasonable possible change in the key assumptions on which the recoverable amounts are based would not cause the aggregate carrying amount to exceed of the cash-generating units.

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

**11. Trade payables and other current liabilities:**

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Trade payables | $ 7,768 | $ 6,081 | $ 814 |
| Accrued trade payables | 18,286 | 9,486 | - |
| Derivatives | - | 16 | - |
| Non-trade payables and accrued expenses | 13,021 | 5,269 | 1,170 |
| Total | $ 39,075 | $ 20,852 | $ 1,984 |

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

**12. Provisions:**

| | Onerous contracts | Other | Total |
|---|---|---|---|
| Balance at January 1, 2010 | $ - | $ - | $ - |
| Additions in the year | 654 | 190 | 844 |
| Provisions used during the year | (185) | (28) | (213) |
| Accretion of provisions | 20 | - | 20 |
| Balance at December 31, 2010 | $ 489 | $ 162 | $ 651 |
| | | | |
| Balance at January 1, 2011 | $ 489 | $ 162 | $ 651 |
| Additions in the year | 338 | - | 338 |
| Provisions used during the year | (622) | (41) | (663) |
| Accretion of provisions | 30 | - | 30 |
| Balance at December 31, 2011 | $ 235 | $ 121 | $ 356 |
| | | | |
| Current | $ 131 | $ 41 | $ 172 |
| Non current | $ 104 | $ 80 | $ 184 |
| | 235 | 121 | 356 |

At December 31, 2011, the Company has provisions relating to out of the money office lease contracts where the expected cost of fulfilling these contracts exceeds their future benefit to the Company. In addition, the Company has recognized a provision for the deferral of certain office lease inducements received. All provisions are amortized on a straight-line basis over the life of their respective lease contracts.

**13. Long term debt:**

This note provides information about the contractual terms of the Company's long term debt instruments. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see Note 21.

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Current: | | | |
| Operating facility | $ 7,144 | $ - | $ - |
| Bank mortgage | 1,044 | 67 | - |
| Finance lease obligations | 25 | 446 | 5 |
| Total current portion of long term debt | 8,213 | 513 | 5 |
| Non current: | | | |
| Revolving facility | 108,000 | 45,000 | - |
| Bank mortgage | - | 1,044 | - |
| Finance lease obligations | 39 | 10 | - |
| Total non current portion of long term debt | 108,039 | 46,054 | - |
| Total long term debt | $ 116,252 | $ 46,567 | $ 5 |

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

**13. Long term debt (continued):**

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 Operating Facility principal balance is due on demand with interest paid monthly. 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 Operating and Revolving Facilities 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 credit facilities are secured by the assets of Western. As of December 31, 2011, the Company had $42.0 million in available credit under the Revolving Facility and $2.9 million under the Operating Facility. See Note 27 for changes made to the credit facilities subsequent to year end.

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

| | Covenant |
|---|---|
| Maximum Consolidated Senior 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 Senior 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 non-cash items or extraordinary or non-recurring losses, less gain on sale of property and equipment and any other non-cash items or extraordinary or non-recurring gains that are included in the calculation of consolidated net income.

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

The bank mortgage is secured by land and a building with a carrying amount of $1.5 million and is due on July 3, 2012 (December 31, 2010: $1.7 million; January 1, 2010 $Nil) (see Note 9).

During the year ended December 31, 2011, the Company incurred interest and financing costs of approximately $4.2 million (year ended December 31, 2010: $1.4 million) on its long term debt. The Company paid an average of 4.4% on its borrowings for the year ended December 31, 2011 (year ended December 31, 2010: 4.3%).

**14. Common shares:**

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

At December 31, 2011, the Company was authorized to issue an unlimited number of common shares.

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

**14. Common shares:**

The following table summarizes the movements in Western's share capital:

| 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 (Note 6) | 1,025,866 | | 6,155 |
| Issued on acquisition of Pantera (Note 6) | 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, December 31, 2011 | 58,533,287 | $ | 319,698 |

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

**15. Stock based compensation:**

Stock options:

The Company's stock option plan provides for stock options to be issued to directors, officers, employees and consultants of the Company so that they may participate in the growth and development of Western. Subject to the specific provisions of the stock option plan, eligibility, vesting period, terms of the options and the number of options granted are to be determined by the Board of Directors at the time of grant. The stock option plan allows the Board of Directors to issue up to 10% of the Company's outstanding shares as stock options.

The following table summarizes the movements in Western's outstanding 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 | 1,358,500 | | 7.86 |
| Expired/Forfeited | (290,083) | | 6.87 |
| Balance, December 31, 2011 | 2,101,000 | $ | 6.94 |

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

For the years ended December 31, 2011 and 2010, no stock options were cancelled.

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

| As at December 31, 2011: Exercise price ($/share) (1) | Number of options outstanding (1) | Weighted average contractual life remaining (years) | Number of options exercisable |
|---|---|---|---|
| 5.70-7.31 | 1,045,000 | 3.41 | - |
| 7.32-8.75 | 1,056,000 | 4.59 | - |
| | 2,101,000 | 4.00 | - |

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

The average fair value of the stock options granted in 2011 was $2.58 per stock option (2010: $2.28 per stock option). For the year ended December 31, 2011, the Company recorded approximately $1.3 million in stock based compensation expense (2010: $0.5 million).

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

**15. Stock based compensation (continued):**

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

| | 2011 | 2010 |
|---|---|---|
| Risk-free interest rate | 1% | 2% |
| Average forfeiture rate | 20% | 15% |
| 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% |

The following table summarizes the movements of Western's outstanding warrants:

| | Warrants outstanding (1) | Weighted average exercise price (1) |
|---|---|---|
| Balance at: Dec 31, 2011 and 2010 and Jan 1, 2010 | 2,525,000 | $ 2.10 |

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

Pursuant to the private placement completed on December 22, 2009, 2,525,000 warrants were issued entitling the holder to purchase one common share at a price of $2.10 for a period of five years. The warrants expire on December 22, 2014.

**16. Earnings per share:**

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

| | Year ended December 31, 2011 (1) | Year ended December 31, 2010 (1) |
|---|---|---|
| Issued common shares, beginning of period | 37,680,944 | 6,601,592 |
| Effect of shares issued-March 18, 2010 | - | 15,658,151 |
| Effect of shares issued-December 17, 2010 | - | 464,527 |
| Effect of shares issued-March 29, 2011 | 7,330,822 | - |
| Effect of shares issued-April 1, 2011 | 1,087,757 | - |
| Effect of shares issued-June 10, 2011 | 5,506,175 | - |
| Effect from the cancellation of shares | (10,620) | - |
| Weighted average number of common shares (basic) | 51,595,078 | 22,724,270 |
| Dilutive effect of stock options and warrants | 2,045,539 | 1,661,434 |
| Weighted average number of common shares (diluted) | 53,640,617 | 24,385,704 |

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

At December 31, 2011, 1,096,000 options (December 31, 2010: 1,032,583 options) were excluded from the annual diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

**17. Finance costs:**

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

| | Year ended December 31, 2011 | Year ended December 31, 2010 |
|---|---|---|
| Interest expense on long term debt | $ 3,400 | $ 693 |
| Amortization of debt financing fees | 346 | 183 |
| Interest income | (126) | (13) |
| Accretion of provisions | 30 | 20 |
| Total finance costs | $ 3,650 | $ 883 |

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

## 18. Other items:

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

| | Year ended December 31, 2011 | Year ended December 31, 2010 |
|---|---|---|
| Acquisition costs | $ 3,349 | $ 1,587 |
| Foreign exchange gain | (1,418) | (19) |
| Change in fair value of derivatives | (6) | 16 |
| (Gain) loss on sale of assets | (1,248) | 16 |
| Total other items | $ 677 | $ 1,600 |

## 19. Income taxes:

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

| | Year ended December 31, 2011 | Year ended December 31, 2010 |
|---|---|---|
| Income taxes: | | |
| Current tax expense | $ 585 | $ - |
| Deferred tax expense | 14,208 | 2,813 |
| Total income taxes | $ 14,793 | $ 2,813 |

The following summarizes the income taxes recognized directly into equity:

| | Year ended December 31, 2011 | Year ended December 31, 2010 |
|---|---|---|
| Share issue costs | $ 1,861 | $ - |
| | $ 1,861 | $ - |

The following provides a reconciliation of net income before tax from continuing operations to income taxes recognized in the consolidated statements of operations and comprehensive income:

| | | Year ended December 31, 2011 | | Year ended December 31, 2010 |
|---|---|---|---|---|
| Income from continuing operations before tax | | $ 68,675 | | $ 26,152 |
| Expected tax using corporate tax rates | 27.22% | $ 18,693 | 28.05% | $ 7,336 |
| Stock based compensation | | 354 | | 128 |
| Gain on business combinations | | - | | (5,503) |
| Non-deductible expenses | | 130 | | 705 |
| Change in effective tax rate on temporary differences | | - | | (888) |
| Change in estimate | | (745) | | - |
| Change in previously unrecognized tax assets | | (3,341) | | 785 |
| Other | | (298) | | 250 |
| Total income taxes | | $ 14,793 | | $ 2,813 |

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

**19. Income taxes (continued):**

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

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Property and equipment | $ (63,780) | $ (15,623) | $ 609 |
| Deferred charges | 73 | - | - |
| Provisions | 89 | - | - |
| Timing differences on accruals | 310 | - | - |
| Foreign exchange on inter-company loan | (305) | - | - |
| Share issue costs | 1,617 | 912 | 133 |
| Other tax pools | 595 | 226 | - |
| Tax loss carry-forwards | 14,263 | 11,616 | 60 |
| Previously unrecognized tax asset | - | (3,341) | (802) |
| Net deferred taxes | $ (47,138) | $ (6,210) | $ - |

Movements of the Company's temporary differences for the year ended December 31, 2011 is as follows:

| | Balance Dec 31, 2010 | Acquired in business combinations | Recognized in equity | Recognized in net income | Impact of foreign exchange | Balance Dec 31, 2011 |
|---|---|---|---|---|---|---|
| Property and equipment | $ (15,623) | $ (42,586) | $ - | $ (4,881) | $ (690) | $ (63,780) |
| Deferred charges | - | - | - | 73 | - | 73 |
| Provisions | - | - | - | 89 | - | 89 |
| Timing differences on accruals | - | 657 | - | (377) | 30 | 310 |
| Foreign exchange on inter-company loan | - | - | | (305) | | (305) |
| Share issue costs | 912 | - | 1,861 | (1,157) | 1 | 1,617 |
| Other tax pools | 226 | 380 | - | (15) | 4 | 595 |
| Tax loss carry-forwards | 11,616 | 13,202 | - | (10,976) | 421 | 14,263 |
| Previously unrecognized tax asset | (3,341) | - | - | 3,341 | - | - |
| Net deferred taxes | $ (6,210) | $ (28,347) | $ 1,861 | $ (14,208) | $ (234) | $ (47,138) |

Movements of the Company's temporary differences for the year ended December 31, 2010 is as follows:

| | Balance Jan 1, 2010 | Acquired in business combinations | Recognized in equity | Recognized in net income | Impact of foreign exchange | Balance Dec 31, 2010 |
|---|---|---|---|---|---|---|
| Property and equipment | $ 609 | $ (12,993) | $ - | $ (3,239) | $ - | $ (15,623) |
| Intangibles | - | (141) | - | 141 | - | - |
| Deferred charges | - | - | - | - | - | - |
| Provisions | - | 101 | - | (101) | - | - |
| Timing differences on accruals | - | (351) | - | 351 | - | - |
| Share issue costs | 133 | - | - | 779 | - | 912 |
| Other tax pools | - | 11 | - | 215 | - | 226 |
| Tax loss carry-forwards | 60 | 9,993 | - | 1,580 | (17) | 11,616 |
| Previously unrecognized tax asset | (802) | - | - | (2,539) | - | (3,341) |
| Net deferred taxes | $ - | $ (3,380) | $ - | $ (2,813) | $ (17) | $ (6,210) |

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

**19. Income taxes (continued):**

The Company's unrecognized deductible temporary differences are as follows:

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Deductible temporary differences | $ - | $ 897 | $ 742 |
| Tax losses | - | 2,444 | 60 |
| | $ - | $ 3,341 | $ 802 |

As at December 31, 2011, the Company has non-capital losses from continuing operations available for carry forward totaling $38.0 million (December 31, 2010: $45.0 million; January 1, 2010: $5.5 million), of which $1.3 million (December 31, 2010: $41.8 million; January 1, 2010: $5.5 million) relates to Canadian entities, and $36.7 million (December 31, 2010: $3.2 million; January 1, 2010: $Nil) relates to an entity in the United States. The unused tax losses may be applied to reduce future taxable income and future income taxes payable, and will expire as follows:

| | Canada | United States |
|---|---|---|
| 2012 | $ - | $ - |
| 2013 | - | - |
| 2014 | - | - |
| 2015 | - | - |
| 2016 and beyond | 1,294 | 36,667 |
| Total | $ 1,294 | $ 36,667 |

**20. Costs by nature:**

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

| | Year ended December 31, 2011 | Year ended December 31, 2010 |
|---|---|---|
| Depreciation of property and equipment | $ 24,987 | $ 7,066 |
| Employee benefits: salaries and benefits | 98,986 | 24,800 |
| Employee benefits: stock based compensation | 1,335 | 456 |
| Repairs and maintenance | 13,162 | 3,332 |
| Third party charges | 25,091 | 3,724 |

**21. 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, such as the Operating and Revolving Facilities, to the extent the prime interest rate changes and/or the Company's interest rate margin changes. For the credit facilities, a one percent change in interest rates would have had an approximately $0.8 million impact on interest expense for the year ended December 31, 2011. Other long term debt, such as the bank mortgage, are subject to fixed rates.

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

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

Foreign exchange risk:

The Company is exposed to foreign currency fluctuations in relation to its United States dollar capital expenditures and international operations. From time to time, the Company may use forward foreign currency contracts to hedge against these fluctuations. At December 31, 2011, portions of the Company's cash and cash equivalents, trade payables and accrued liabilities were denominated in United States dollars and subject to foreign exchange fluctuations which are recorded within net income. In addition, Western's United States subsidiary is subject to foreign currency translation adjustments upon consolidation, which is recorded separately within other comprehensive income. For the year ended December 31, 2011, the increase or decrease in net income before taxes for each one percent change in foreign exchange rates between the Canadian and United States 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 December 31, 2011, approximately 99% of the Company's trade receivables from continuing operations were less than 90 days old. During the year ended December 31, 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:

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Trade receivables | | | |
| Current | $ 38,435 | $ 13,553 | $ - |
| Outstanding for 31 to 60 days | 22,614 | 10,228 | - |
| Outstanding for 61 to 90 days | 6,741 | 2,310 | - |
| Outstanding for over 90 days | 798 | 399 | 83 |
| Less: allowance for doubtful accounts | - | (75) | (75) |
| Accrued trade receivables | 14,162 | 798 | - |
| Other receivables | 564 | 847 | 119 |
| Total | $ 83,314 | $ 28,060 | $ 127 |

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 December 31, 2011, the Company expects to recover all of its trade and other receivables.

Significant customers:

For the year ended December 31, 2011, the Company had one significant customer comprising 11% of total revenue. This customer's trade receivable balance at December 31, 2011 represented 3% 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 year ended December 31, 2011.

For the year ended December 31, 2010, the Company had one significant customer comprising 16% of total revenue. No other single customer represents greater than 10% of the Company's total revenue in the year ended December 31, 2010.

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

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

Liquidity risk:

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 oilfield service industry.

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

| | Carrying | Due prior to December 31 | | | | |
|---|---|---|---|---|---|---|
| | amount | 2012 | 2013 | 2014 | 2015 | 2016 |
| Financial liabilities: | | | | | | |
| Operating facility | $ 7,144 | $ 7,144 | $ - | $ - | $ - | $ - |
| Revolving facility | 108,000 | - | - | 108,000 | - | - |
| Bank mortgage | 1,044 | 1,044 | - | - | - | - |
| Trade and other current liabilities | 39,075 | 39,075 | - | - | - | - |
| Total | $ 155,263 | $ 47,263 | $ - | $ 108,000 | $ - | $ - |

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

Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its 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 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 I as there are 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)

**21. 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:

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Operating facility | $ 7,144 | $ - | $ - |
| Revolving facility | 108,000 | 45,000 | - |
| Bank mortgage | 1,044 | 1,111 | - |
| Finance lease obligations | 64 | 456 | 5 |
| Total debt | 116,252 | 46,567 | 5 |
| Shareholders' equity | 414,325 | 186,833 | 8,077 |
| Less: cash and cash equivalents | - | (3,475) | (2,386) |
| Total capitalization | $ 530,577 | $ 229,925 | $ 5,696 |

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

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

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

As at December 31, 2011, the Company had $44.9 million in available credit under its credit facilities and was in compliance with all debt covenants (see Note 13). There were no changes in the Company's approach to capital management during the year ended December 31, 2011. Subsequent to year-end, the Company issued $175 million of 7⅞% senior unsecured notes. See Note 27 for details.

**22. Commitments:**

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

| | 2012 | 2013 | 2014 | 2015 | 2016 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Operating leases | $ 2,922 | $ 3,753 | $ 3,309 | $ 2,464 | $ 2,453 | $ 18,488 | $ 33,389 |
| Capital commitments | 48,426 | 23 | 17 | - | - | - | 48,466 |
| Purchase commitments | 15,496 | - | - | - | - | - | 15,496 |
| Total | $ 66,844 | $ 3,776 | $ 3,326 | $ 2,464 | $ 2,453 | $ 18,488 | $ 97,351 |

The Company believes that these commitments will be financed through a combination of cash flow generated from operating activities and available credit facilities.

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 ten 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)

**23. 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 year ended December 31, 2011, there were no significant transactions within the disposal group as the respective entities are being wound up.

On September 13, 2011, the Company sold its Canadian 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 $10.1 million gain on sale of StimSol. No cash taxes were owed on this transaction.

The net income from discontinued operations for the years ended December 31, 2011 and 2010 is as follows:

| | | Year ended December 31, 2011 | | Year ended December 31, 2010 |
|---|---|---|---|---|
| Revenue | $ | 12,930 | $ | 11,589 |
| Operating expenses | | 10,528 | | 8,233 |
| Gross profit | | 2,402 | | 3,356 |
| Administrative expenses | | 1,300 | | 2,161 |
| Finance costs | | 1 | | 33 |
| Other items | | 38 | | 239 |
| Income before tax from discontinued operations | | 1,063 | | 923 |
| Income tax expense (recovery) | | 310 | | (2,328) |
| Income from discontinued operations | | 753 | | 3,251 |
| Gain on sale of StimSol (net of tax) | | 10,111 | | - |
| Net income from discontinued operations | $ | 10,864 | $ | 3,251 |

Assets and liabilities from discontinued operations as at December 31, 2011, December 31, 2010 and January 1, 2010 were as follows:

| | | December 31, 2011 | | December 31, 2010 | | January 1, 2010 |
|---|---|---|---|---|---|---|
| Current assets | | | | | | |
| Trade and other receivables | $ | - | $ | 3,195 | $ | 1,801 |
| Inventory | | - | | 463 | | 353 |
| Prepaid expenses and other current assets | | - | | 120 | | 187 |
| Total current assets | $ | - | $ | 3,778 | $ | 2,341 |
| Non current assets | | | | | | |
| Property and equipment | $ | - | $ | 6,412 | $ | 7,360 |
| Deferred tax asset | | - | | 2,420 | | - |
| Total non current assets | $ | - | $ | 8,832 | $ | 7,360 |
| Current liabilities | | | | | | |
| Trade and other payables | $ | - | $ | 1,778 | $ | 1,837 |
| Current portion of provisions | | - | | 20 | | - |
| Current portion of long term debt | | - | | 23 | | 274 |
| Total current liabilities | $ | - | $ | 1,821 | $ | 2,111 |
| Non current liabilities | | | | | | |
| Long term debt | $ | - | $ | 7 | $ | 92 |
| Total non current liabilities | $ | - | $ | 7 | $ | 92 |

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

**23. Discontinued operations (continued):**

The cash flows from discontinued operations for the years ended December 31, 2011 and 2010 were as follows:

| | Year ended December 31, 2011 | Year ended December 31, 2010 |
|---|---|---|
| **Operating Activities** | | |
| Net income from discontinued operations | $ 10,864 | $ 3,251 |
| Adjustments for: | | |
| Depreciation in operating expenses | 395 | 746 |
| Depreciation in administrative expenses | 34 | 36 |
| Stock based compensation in operating expenses | (25) | 25 |
| Stock based compensation in administrative expenses | (44) | 43 |
| Gain on sale of StimSol | (10,111) | - |
| Income taxes expense | 310 | (2,328) |
| Finance costs | 1 | 33 |
| Other | 21 | 206 |
| Cash generated from operating activities | 1,445 | 2,012 |
| Taxes paid | (227) | - |
| Change in non-cash working capital | (2,663) | (1,617) |
| Cash flow (used in) from operating activities | (1,445) | 395 |
| **Investing activities** | | |
| Net proceeds on sale of StimSol | 22,546 | - |
| Additions to property and equipment | (584) | (3,308) |
| Proceeds on sale of property and equipment | 785 | 3,174 |
| Changes in non-cash working capital | 479 | - |
| Cash flow from (used in) investing activities | 23,226 | (134) |
| **Financing activities** | | |
| Drawdown (payment) of long term debt | 34 | (201) |
| Finance costs paid | - | (8) |
| Cash flow from (used in) financing activities | 34 | (209) |
| Increase in cash and cash equivalents | $ 21,815 | $ 52 |

**24. Related party transactions:**

During the year ended December 31, 2011, the Company entered into sales transactions totaling approximately $5.6 million (2010: $Nil) 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 December 31, 2011, approximately $2.9 million (December 31, 2010: $Nil; January 1, 2010: $Nil) is outstanding in trade and other receivables.

**25. Key management personnel:**

During the year ended December 31, 2011, the Company paid compensation to key management personnel as follows:

| | Year ended December 31, 2011 | Year ended December 31, 2010 |
|---|---|---|
| Short-term employee benefits | $ 2,559 | $ 1,400 |
| Stock based compensation(1) | 499 | 279 |
| | $ 3,058 | $ 1,679 |

(1) The total fair value of stock options granted to key management personnel for the year ended December 31, 2011 was equal to $0.9 million (2010: $1.1 million) which is being recognized in net income over the options' vesting period.

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

**26. Subsidiaries:**

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

| | | Ownership interest (%) | | |
|---|---|---|---|---|
| | Country of incorporation | December 31, 2011 | December 31, 2010 | January 1, 2010 |
| Horizon Drilling Inc. | Canada | 100 | 100 | - |
| Stoneham Drilling Corporation | USA | 100 | 100 | - |
| Matrix Well Servicing Inc. | Canada | 100 | - | - |
| StimSol Canada Inc. | Canada | - | 100 | 100 |

**27. Subsequent events:**

On January 30, 2012, the Company completed a private placement of $175 million aggregate principal amount of 7⅞% senior unsecured notes (the "Notes") due 2019. The Company used the net proceeds from the Notes offering to repay all of its outstanding indebtedness under its secured credit facilities and for general corporate purposes. As a result of the issuance of the Notes, the Company voluntarily reduced its Revolving Facility from $150 million to $125 million. Western's Operating Facility of $10 million remains unchanged. As a result of the issuance of the Notes, the Company's financial covenants related to the Maximum Consolidated Senior Debt to Consolidated EBITDA ratio decreased to 2.0 to 1.0 or less.

**28. Explanation of transition to IFRS:**

As stated in Note 2(a), these are the Company's first Financial Statements prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied in preparing the Financial Statements for the year ended December 31, 2011, the comparative information presented in these Financial Statements for the year ended December 31, 2010 and in the preparation of an opening IFRS balance sheet at January 1, 2010 (the Company's Transition Date).

In accordance with IFRS, the Company has complied with the requirements of IFRS 1. IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date. However, it also provides for certain optional exemptions and certain mandatory exceptions for first-time IFRS adopters.

Set forth below are the IFRS 1 applicable optional exemptions and mandatory exceptions applied in the Company's conversion from Previous GAAP to IFRS.

IFRS optional exemptions elected:

1. Business combinations - IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected to apply IFRS 3 to business combinations that occurred prospectively from the Transition Date and as such business combinations completed before the Transition Date have not been restated.

2. Deemed Cost - IFRS 1 provides the option for an entity to revalue property, plant and equipment ("PP&E") at fair value on the Transition Date and use this fair value as the deemed transition cost. This election applies to individual assets.

   The Company has elected to apply this exemption to its entire property and equipment balance at the Transition Date. The result is that no adjustment was required to arrive at the IFRS deemed cost values given that the Company had previously fair valued its balance sheet on December 22, 2009 under Previous GAAP. At December 22, 2009, due to the financial restructuring that occurred on that date, the Company applied CICA Handbook S. 1625, Comprehensive Revaluation of Assets and Liabilities, which resulted in the Company's property and equipment balance being adjusted to its respective fair value at that date. In addition, there was no difference in depreciation expense for the period between December 23, 2009 and January 1, 2010 between Previous GAAP and IFRS. Therefore, the December 31, 2009 property and equipment balance under Previous GAAP represented its fair value and deemed cost on January 1, 2010 under IFRS.

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

**28. Explanation of transition to IFRS (continued):**

In connection with the application of CICA Handbook S. 1625 on December 22, 2009, the Company reset its contributed surplus and its deficit to zero with the corresponding adjustment applied against share capital. In total, share capital was reduced by approximately $14.0 million as the $15.8 million deficit balance was eliminated which was offset by the elimination of $1.8 million in contributed surplus.

Considering IFRS 1 requirements, these adjustments were deemed appropriate, as all adjusted amounts were within the Company's net equity accounts and therefore the total equity value was not impacted and as such the opening balance sheet is a fair presentation of the Company's financial position as at January 1, 2010.

3. Stock based compensation - IFRS 2, Share-based Payment, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. IFRS 1 provides the option to not retrospectively apply the requirements of IFRS 2 to equity instruments that have vested prior to the Transition Date. As a result of the transition method elected, there was no adjustment to equity instruments granted after November 7, 2002 that had vested prior to January 1, 2010.

4. Compound financial instruments - IFRS 1 provides the exemption that allows an entity to use its previous GAAP's accounting treatment for compound financial instruments where the liability has been settled prior to January 1, 2010. Historically, Western issued convertible debt which would have been accounted for differently under IFRS. As a result of the Company electing to utilize this exemption, compound instruments entered into and settled prior to January 1, 2010 were not adjusted on transition to IFRS.

IFRS mandatory exceptions applicable to the Company:
Estimates - Hindsight was not used to create or revise estimates. The estimates previously made by the Company under Previous GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Reconciliation of Previous GAAP to IFRS:
In preparing its IFRS balance sheets, the Company has adjusted amounts previously reported in financial statements prepared in accordance with Previous GAAP. An explanation of how the transition from Previous 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:

| | | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Shareholders' equity under Previous GAAP | | $ 187,322 | $ 8,077 |
| Differences increasing (decreasing) reported shareholders' equity: | | | |
| Property and equipment - depreciation | (a) | (576) | - |
| Provisions | (b) | (56) | - |
| Income taxes | (d) | 144 | - |
| Discontinued operations | (e) | (1) | - |
| Total shareholders' equity under IFRS | | $ 186,833 | $ 8,077 |

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

**28. Explanation of transition to IFRS (continued):**

Reconciliation of net income and comprehensive income:

| | | Year ended December 31, 2010 |
|---|---|---|
| Net income and comprehensive income under Previous GAAP | | $ 27,049 |
| Differences increasing (decreasing) reported net income: | | |
| Property and equipment - depreciation | (a) | (576) |
| Provisions | (b) | (56) |
| Stock based compensation | (c) | 26 |
| Income taxes | (d) | 144 |
| Discontinued operations | (e) | 3 |
| Total net income and comprehensive income under IFRS | | $ 26,590 |

Notes to the reconciliation of Previous GAAP to IFRS:

(a) Property and equipment:

IAS 16, Property, plant and equipment, 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 resulted in the following:

- Property and equipment were fair valued at the Transition Date which then became the item's 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 Previous GAAP as at December 22, 2009. There was no difference in depreciation expense between Previous GAAP and IFRS for the period between December 23, 2009 and January 1, 2010.
- The identification of certain significant components of property and equipment has resulted in a change to the estimated 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 Previous 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 had not vested by the Transition Date.

Under Previous 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 23, 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

**28. Explanation of transition to IFRS (continued):**

IFRS adjustments relating to the discontinued operations within the Company's statements of operations and balance sheets.

Leases:

Under Previous 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, capitalized leased obligations within discontinued operations on the consolidated balance sheet have been adjusted.

Stock based compensation:

As discussed in Note 28 (c), the Company previously recognized forfeitures as they occurred under Previous 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 Previous 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 CGUs based on the smallest group of assets that are capable of generating largely independent cash inflows. Under Previous 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 Previous 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 Previous GAAP, the Company's policy was to account for the forfeitures as they occurred.

Material adjustments to the 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 consolidated 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 consolidated statement of cash flows presented under IFRS and the consolidated statement of cash flows presented under Previous GAAP.

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

## 28. Explanation of transition to IFRS (continued):

Reconciliation of the consolidated balance sheet under IFRS:

As at January 1, 2010:

| Previous GAAP accounts | Note | Previous GAAP amounts | IFRS adjustments | IFRS amounts | IFRS accounts |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets | | | | | |
| Cash | | $ 2,386 | $ - | $ 2,386 | Cash |
| Accounts receivable | | 127 | - | 127 | Trade and other receivables |
| Inventory | | - | - | - | Inventories |
| Prepaid expenses | | 55 | - | 55 | Prepaid expenses and other current assets |
| Current assets of discontinued operations | | 2,341 | - | 2,341 | Current assets of discontinued operations |
| | | 4,909 | - | 4,909 | |
| Non-current assets | | | | | |
| Property and equipment | | - | - | - | Property and equipment |
| Assets of discontinued operations | (e) | 7,310 | 50 | 7,360 | Assets of discontinued operations |
| | | $ 12,219 | $ 50 | $ 12,269 | |
| **Liabilities** | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued liabilities | | $ 1,984 | $ - | $ 1,984 | Trade payables and other current liabilities |
| Current portion of long term debt | | 5 | - | 5 | Current portion of long term debt |
| Current liabilities of discontinued operations | (e) | 2,088 | 23 | 2,111 | Current liabilities of discontinued operations |
| | | 4,077 | 23 | 4,100 | |
| Non-current liabilities | | | | | |
| Long term debt | | - | - | - | Long term debt |
| Future income taxes | | - | - | - | Deferred taxes |
| Liabilities of discontinued operations | (e) | 65 | 27 | 92 | Liabilities of discontinued operations |
| | | 4,142 | 50 | 4,192 | |
| **Shareholders' Equity** | | | | | |
| Common shares | | 8,253 | - | 8,253 | Share capital |
| Contributed surplus | | 1,835 | - | 1,835 | Contributed surplus |
| Retained earnings (deficit) | | (2,011) | - | (2,011) | Retained earnings (deficit) |
| | | 8,077 | - | 8,077 | |
| | | $ 12,219 | $ 50 | $ 12,269 | |

(1) Previous GAAP results have been adjusted as at January 1, 2010 to reflect the results of the production services division as discontinued operations (Note 23).

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

## 28. Explanation of transition to IFRS (continued):

Reconciliation of the consolidated balance sheet under IFRS:

As at December 31, 2010:

| Previous GAAP accounts | Note | Previous GAAP amounts | IFRS adjustments | IFRS reclassifications | IFRS amounts | IFRS accounts |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Current assets | | | | | | |
| Cash | | $ 3,475 | $ - | $ - | $ 3,475 | Cash |
| Accounts receivable | | 28,060 | - | - | 28,060 | Trade and other receivables |
| Inventory | | - | - | - | - | Inventories |
| Prepaid expenses | | 892 | - | 432 | 1,324 | Prepaid expenses and other current assets |
| Investment | | 180 | - | (180) | - | |
| Deferred charges | | 252 | - | (252) | - | |
| Future income taxes | | 1,167 | - | (1,167) | - | |
| Assets of discontinued operations | | 3,778 | - | - | 3,778 | Assets of discontinued operations |
| | | 37,804 | - | (1,167) | 36,637 | |
| Non-current assets | | | | | | |
| Property and equipment | (a) | 188,931 | (576) | - | 188,355 | Property and equipment |
| Goodwill | | 29,117 | - | - | 29,117 | Goodwill |
| Future income taxes | | - | - | 1,167 | 1,167 | Deferred taxes |
| Assets of discontinued operations | (e) | 8,803 | 29 | - | 8,832 | Assets of discontinued operations |
| | | $ 264,655 | $ (547) | $ - | $ 264,108 | |
| **Liabilities** | | | | | | |
| Current liabilities | | | | | | |
| Accounts payable and accrued liabilities | | $ 20,852 | $ - | $ - | $ 20,852 | Trade payables and other current liabilities |
| Current portion of deferred credits | (b) | 239 | 56 | - | 295 | Current portion of provisions |
| Current portion of long term debt | | 513 | - | - | 513 | Current portion of long term debt |
| Liabilities of discontinued operations | (e) | 1,798 | 23 | - | 1,821 | Liabilities of discontinued operations |
| | | 23,402 | 79 | - | 23,481 | |
| Non-current liabilities | | | | | | |
| Deferred credits | | 356 | - | - | 356 | Provisions |
| Long term debt | | 46,054 | - | - | 46,054 | Long term debt |
| Future income taxes | (d) | 7,521 | (144) | - | 7,377 | Deferred taxes |
| Liabilities of discontinued operations | (e) | - | 7 | - | 7 | Liabilities of discontinued operations |
| | | 77,333 | (58) | - | 77,275 | |
| **Shareholders' Equity** | | | | | | |
| Common shares | | 159,895 | - | - | 159,895 | Share capital |
| Contributed surplus | (d) | 2,389 | (30) | - | 2,359 | Contributed surplus |
| Retained earnings | | 25,038 | (459) | - | 24,579 | Retained earnings |
| | | 187,322 | (489) | - | 186,833 | |
| | | $ 264,655 | $ (547) | $ - | $ 264,108 | |

(1) Previous GAAP results have been adjusted as at December 31, 2010 to reflect the results of the production services division as discontinued operations (Note 23).

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

## 28. Explanation of transition to IFRS (continued):

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

For the year ended December 31, 2010:

| Previous GAAP accounts | Note | Previous GAAP amounts | IFRS adjustments | IFRS reclassifications | IFRS amounts | IFRS accounts |
|---|---|---|---|---|---|---|
| Revenue | | $ 56,009 | $ - | $ - | $ 56,009 | Revenue |
| Operating expenses | | 33,108 | - | - | 40,130 | Operating expenses |
| | (f) | | | 6,941 | | Operating expenses-Depreciation and amortization |
| | (f) | | | 81 | | Operating expenses-Stock based compensation |
| General and administrative | (b) | 6,363 | 35 | - | 6,897 | Administrative expenses |
| | (f) | | | 124 | | Administrative expenses-Depreciation |
| | (f) | | | 375 | | Administrative expenses-Stock based compensation |
| Depreciation | (a) | 5,924 | 576 | (6,500) | - | |
| Amortization of intangibles | (f) | 565 | - | (565) | - | |
| Stock-based compensation | (c) | 482 | (26) | (456) | - | |
| Interest and finance costs | (b) | 862 | 21 | - | 883 | Finance costs |
| | | | | 1,600 | 1,600 | Other items |
| Loss on sale of assets | | 16 | - | (16) | - | Loss on sale of assets |
| Foreign exchange (gain) loss | | (3) | - | 3 | - | Foreign exchange (gain) loss |
| Acquisition costs | | 1,587 | - | (1,587) | - | Acquisition costs |
| Gain on business acquisitions | | (19,653) | - | - | (19,653) | Other income-gain on business acquisitions |
| Income from continuing operations before taxes | | 26,758 | (606) | - | 26,152 | Income from continuing operations before taxes |
| Future income taxes | (d) | 2,957 | (144) | - | 2,813 | Income taxes |
| Net income from continuing operations | | 23,801 | (462) | - | 23,339 | Net income from continuing operations |
| Net income from discontinued operations | (e) | 3,248 | 3 | - | 3,251 | Net income from discontinued operations |
| Net income and comprehensive income | | $ 27,049 | $ (459) | $ - | $ 26,590 | Net income and comprehensive income |

(1) Previous GAAP results have been adjusted for the year ended December 31, 2010 to reflect the results of the production services division as discontinued operations (Note 23).

# Corporate Information

**DIRECTORS**

**Donald D. Copeland** (1)(2)
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Calgary, Alberta

**Steven C. Grant** (1)(2)
Houston, Texas

**Ronald P. Mathison** (1)(2)
Calgary, Alberta

**Murray K. Mullen** (1)(2)
Calgary, Alberta

**John R. Rooney** (1)(2)
Calgary, Alberta

**Dale. E. Tremblay**
Calgary, Alberta

*(1) Audit Committee Member*

*(2) Corporate Governance and Compensation Committee Member*

**CORPORATE OFFICE**

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**OFFICERS**

**Dale E. Tremblay**
Chairman and CEO

**Alex MacAusland**
President and COO

**Jeffrey K. Bowers**
Vice President Finance and CFO

**Jan M. Campbell**
Corporate Secretary

**LEGAL COUNSEL**

**Borden Ladner Gervais LLP**
Calgary, Alberta

**AUDITOR**

**Deloitte & Touche LLP**
Calgary, Alberta

**STOCK EXCHANGE LISTING**

**Toronto Stock Exchange**
Symbol: **WRG**

**TRANSFER AGENT**

**Valiant Trust Company**
Calgary, Alberta