Annual Report
Management's Discussion & Analysis
and Consolidated Financial Statements
Year End 2010

Letter to Shareholders

The Growth of a Business – People, Performance, Profits

New business concepts are created every day, often going unnoticed. Until these concepts take a recognizable form, they are often viewed as insignificant. Things change and evolve as new opportunities develop. Western Energy Services Corp. ("Western" or the "Company") was one of those business concepts and has experienced all of this and more over the past sixteen months.

Western was recapitalized and revalued on December 22, 2009 with $12 million in total assets. Along with the pumping business, the Company has now grown to be the seventh largest drilling company in Canada with $265 million in assets at December 31, 2010, a 2070% growth in twelve months.

People

How does a new management team create such a dynamic company in such a short period of time? With the attraction of exceptional employees and individuals who are not intimidated by the expectation of involvement in all aspects of change required to reposition the Company to meet the new vision.

The year began with a limited number of employees operating substantially in Alberta including small operations in the United States, Mexico, and Central America. Operations were analyzed resulting in the closure of unprofitable locations. Equipment that could not be utilized was sold and the remaining equipment transferred back to Canada. Along with the downsizing of operations came the evaluation of people. The hard decision of transitioning employees was necessary and it was then time for Western to begin its evolution.

The Western corporate office operated from several temporary locations while the process of developing a new team began. Management began building a new corporate office team as well as gaining control of the Company's finances and operations. A Vice President and Controller were hired for StimSol Canada Inc. ("StimSol"), a wholly owned subsidiary of Western, and were soon tasked with rebuilding the business.

With StimSol rebuilding and providing the only source of cash, the corporate group had to act quickly. They began looking at the acquisitions that would ultimately create the contract drilling segment. Management identified two companies whom they felt would be the best foundation to build upon. The strategy was to acquire a platform with proven operating staff and systems upon which the Company could rapidly grow; this platform company was Horizon Drilling Inc. ("Horizon"). Horizon's management included a Vice President, Controller, Sales Manager, Safety personnel, and a Field Operations team. At the same time, Cedar Creek Drilling Ltd. was acquired and the two groups were integrated to form a new contract drilling operation on March 18, 2010.

The contract drilling team displayed the ability to react quickly as the business exceled during spring break up, traditionally the slowest period in the contract drilling industry. With the growth of its customer base, it became evident that additional rigs were required to meet demand. Western soon

followed up with the acquisition of Impact Drilling Ltd. ("Impact") on August 25, 2010 and was integrated into Horizon. The acquisition of Impact added four rigs to the fleet, bringing Horizon's total rig count to fifteen. As in the previous acquisitions, Impact's rigs were fully crewed. While closing this acquisition, Western began discussions with Pantera Drilling Income Trust ("Pantera"), the acquisition closed on December 17, 2010. Pantera added an additional seven rigs to the fleet as well as a team of proven employees who were integrated into Horizon just prior to the first quarter, the busiest period for the contract drilling industry.

This newly assembled group was thrust into a market that proved to be one of the busiest in the contract drilling industry's recent history. The team was able to operate through the winter season obtaining a utilization rate of 85% in the first quarter of 2011, a tremendous accomplishment considering the limited time to prepare for this high activity level.

Performance

The StimSol operations were underperforming when we first took over the business; activity levels as well as inventories were low and cash flow was negative. The new management team made significant improvements in StimSol's 2010 operating results and the team should be recognized for their accomplishments.

Western invested $3.5 million into StimSol in 2010, acquiring two cement and acid units ("C&A") and re-purposing their lowest utilized pressure truck and adding it to their increasingly sought after C&A fleet, growing from two to five units. StimSol added to their pressure truck fleet with two newly manufactured acid compatible high pressure units. To better control costs and in anticipation of growing the volume of product sales, it was identified that third party trucking could be significantly reduced by adding a transportation division to haul the majority of its solvents from our suppliers and between our operating bases. In 2010, StimSol's fleet grew 42%, from twelve to seventeen units.

In early 2010, StimSol repositioned itself with its customer base and built new relationships with producers as the Company grew. A marketing plan was created to outline the new direction. The plan identified the importance of having a significant part of the Company's revenue coming directly from producers, which meant actively marketing more specialized solvent and acid blends to those customers. The focus shifted to product sales which had the greatest growth potential, was highly underserviced, had higher margins, and needed less capital investment than growing the pumping fleet.

This new focus started with the development of a Calgary sales team where the majority of production and stimulation decisions by producers are made. Soon procurement departments took notice that StimSol provided an alternative to the larger pumping companies with their specialized chemical stimulation programs and StimSol's product sales began to increase. As demand increased for StimSol's equipment supporting product sales, it became apparent which type of units StimSol required to build the proper fleet. Finally, to further increase utilization and the corresponding revenue, units were better distributed within StimSol's existing branches. StimSol opened a location in Estevan, Saskatchewan, which has been very busy with C&A work and has a great potential for future product sales.

The contract drilling industry in Canada has continued to see improved activity throughout 2010, specifically the demand for rigs that have the ability to drill long reach horizontal wells safely and effectively. Since Western acquired the contract drilling segment on March 18, 2010, utilization averaged 58% compared to an industry average of 37%.

Early in 2010, Western implemented its plan to become an industry leader in drilling and service rigs, oilfield rentals, and the existing pumping business. The Company acquired four drilling companies in 2010. With this new fleet of efficient long-reach ("ELR") rigs, Horizon is among the leading drillers of horizontal wells in the Canadian contract drilling industry.

By February 2011, Western had assembled a fleet of twenty-four drilling rigs, with an average fleet age of four years. The targeted acquisitions have positioned the Company with a fleet of rigs specifically focused on the resource plays in the western Canadian sedimentary basin, including the Montney, Cardium, Viking, Horn River, Shaunavon and Bakken.

The fleet consists of two ELR Range III AC electric, top drive triples, four ELR Range III AC electric top drive singles, eleven modern ELR telescopic doubles with a depth rating of 3,400 meters, four ELR Range III mechanical top drive singles and one AC Range III single and 1 conventional single. The entire fleet was crewed and operational during the peak drilling season, including a newly built 4,500 telescopic double which was delivered to the field at the end of February 2011 which has exceeded all performance expectations since being activated.

Four companies, twenty-four drilling rigs, an aggregate of approximately 500 employees came together to form one company in less than ten months. All four acquisitions were integrated with very few issues, a result of planning that was at the forefront and included all aspects of the business, corporate, operations, human resources, and safety.

Operationally, 87% of Horizon's fleet is in strong demand in today's market. Horizon prides itself on presenting to its customers a versatile fleet that is capable of meeting current requirements. Horizon spent the majority of their capital budget in 2010 on upgrading existing equipment to meet customer demands. Pumping pressure and volumes are in constant demand, so in 2010, the 1300 horse power pump was introduced as a standard for Horizon; two 1000 horse power pumps along with six 1300 horse power pumps were added. Top drives were also considered of strategic importance and at years end, seventeen of twenty-two rigs were outfitted with top drives. The demand to drill horizontal wells requires heavy weight drill pipe and ancillary equipment, which Horizon has a solid inventory, a very important service in the eyes of our customers.

In 2010, Western committed significant resources to the Health, Safety and Environment department's growth, allowing it to effectively manage the growing needs of a company with twenty-four drilling rigs and a fleet of pressure pumping and acid units. Both Horizon and StimSol's safety programs went through extensive improvements that included Job Safety Analysis (JSA) development, orientation re-alignment, National Safety Code (NSC) and safe work procedure development. These improvements resulted in both divisions passing the new, tougher external Certificate of Recognition (COR) audits successfully. Environmental improvements included compliance and engineering review of existing

chemical tank farms and the refinement of reporting and tracking of all spills. Aggressive plans have been developed for 2011 to further improve the Health, Safety and Environment component of the organization.

Profits

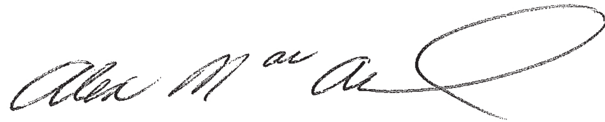
It was a tremendous year for Western, a newly recapitalized oilfield service company, attracting a strong workforce dedicated to delivering superior results. The industry in Canada continued to see improved activity throughout the year. The total number of wells drilled on a rig release basis in 2010 increased to 12,145 or 45% higher than 2009 levels. Compared to Horizon's 13.4 drilling days per well, industry average drilling days per well increased in 2010 to 9.8 days per well compared to 9.3 days in 2009 and 8.0 days in 2008 which reflects the increased longer reach horizontal drilling. The increased activity and horizontal drilling translated into strong year end results for Western in both divisions. Western recorded consolidated revenue of $67.5 million, an EDITBA of $19.6 million, and net income of $27.0 million inclusive of $19.6 million of gain on acquisitions. This was a tremendous accomplishment even though the contract drilling operations commenced only nine months before.

We are very excited with our most recent announcement of the proposed acquisition of Stoneham Drilling Trust ("Stoneham"). The transaction is expected to close by mid June 2011 and will transition Western to be the sixth largest contract drilling company in Canada with 43 rigs.

The growth of a company does not simply happen by chance, Western works closely with and appreciates the advice from many third party professionals. We would like to recognize them, along with our dedicated employees, supportive customers and shareholders for their support over the last several months. Without their support, Western would not have evolved into the organization it is today and would not be positioned for our planned future growth tomorrow.

On behalf of the Board of Directors,

Dale E. Tremblay
Chief Executive Officer
Western Energy Services Corp.



Alex MacAusland
President & Chief Operating Officer
Western Energy Services Corp.

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 annual consolidated financial statements and accompanying notes of the Company for the years ended December 31, 2010 and 2009, and the related notes included therein. This management's discussion and analysis ("MD&A") is dated April 13, 2011.

Selected Financial Information

(stated in thousands of Canadian dollars, except share and per share amounts)	After comprehensive revaluation	After comprehensive revaluation	Before comprehensive revaluation	After comprehensive revaluation	After comprehensive revaluation	Before comprehensive revaluation
Financial Highlights	**Three months ended Dec 31, 2010**	**Dec 23, 2009 to Dec 31, 2009**	**Oct 1, 2009 to Dec 22, 2009**	**Year ended Dec 31, 2010**	**Dec 23, 2009 to Dec 31, 2009**	**Jan 1, 2009 to Dec 22, 2009**
Revenue	30,509	151	999	67,543	151	3,785
EBITDA(1)	10,392	(102)	(636)	19,568	(102)	(1,194)
Cash from operating activities from continuing operations	3,943	(424)	1,436	10,901	(424)	(1,218)
Capital expenditures	14,181	-	58	24,590	-	99
Net income (loss) from continuing operations	5,971	(1,975)	(1,051)	28,111	(1,975)	(3,984)
-basic and diluted net income (loss) per share	0.01	(0.01)	(0.03)	0.06	(0.01)	(0.12)
Net income (loss)	5,887	(2,011)	(2,840)	27,049 (2)	(2,011)	(6,488)
-basic and diluted net income (loss) per share	0.01	(0.02)	(0.09)	0.06	(0.02)	(0.20)
Weighted average number of shares						
-basic	564,408,355	132,031,830	32,246,405	454,485,404	132,031,830	32,246,405
-diluted	595,395,650	132,031,830	32,246,405	485,414,516	132,031,830	32,246,405
Outstanding common shares as at period end	753,618,882	132,031,830	132,031,830	753,618,882	132,031,830	132,031,830
Dividends declared	-	-	-	-	-	-

Operating Highlights	**Three months ended Dec 31, 2010**	**Dec 23, 2009 to Dec 31, 2009**	**Oct 1, 2009 to Dec 22, 2009**	**Year ended Dec 31, 2010**	**Dec 23, 2009 to Dec 31, 2009**	**Jan 1, 2009 to Dec 22, 2009**
Contract Drilling						
Contract drilling rig fleet:						
-Average	16.1	-	-	13.1 (4)	-	-
-End of period	22.0	-	-	22.0	-	-
Drilling revenue per operating day	27,487	-	-	25,349 (3)	-	-
Drilling rig utilization rate	65%	-	-	58% (4)	-	-
CAODC industry average utilization rate	50%	-	-	37% (4)	-	-
Production Services						
Jobs completed	885	44	315	2,951	44	1,300
Average revenue per job completed	4,435	3,422	3,170	3,909	3,422	2,912

Financial Position at	**December 31, 2010**	**December 31, 2009**
Working capital	15,117	831
Property and equipment	195,286	5,414
Total assets	264,653	12,219
Long term debt	46,054	17

(1) Non-GAAP measure. See page 2.

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

(3) Includes shortfall commitment revenue of $1.2 million on a take-or-pay contract.

(4) Calculated from the date of acquisition of the Contract Drilling segment (March 18, 2010). Utilization rate calculated on a spud to rig release basis.

Non-GAAP Measures

Western uses certain measures in this MD&A which do not have any standardized meaning as prescribed by Canadian generally accepted accounting principles ("GAAP") and therefore are considered non-GAAP measures. 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 (loss) from continuing operations, earnings from continuing operations before interest and finance costs, taxes, depreciation, amortization of intangibles, goodwill impairment, loss on sale of assets, gain on business acquisitions, stock-based compensation, acquisition costs and foreign exchange gain (loss) (“EBITDA”) as derived from information reported in the Consolidated Statements of Operations 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, how non-cash charges, and one-time gains or losses affect results.

Operating Earnings (Loss)

Management believes that in addition to net income (loss) from continuing operations, operating earnings (loss) is a useful supplemental measure as it provides an indication of the results generated by the Company’s principal operating segments prior to consideration of how those activities are financed or how the results are taxed.

The following table provides a reconciliation of net income (loss) under GAAP as disclosed in the Consolidated Statements of Operations to EBITDA and Operating Earnings (Loss).

	After comprehensive revaluation	After comprehensive revaluation	Before comprehensive revaluation	After comprehensive revaluation	After comprehensive revaluation	Before comprehensive revaluation
(stated in thousands of Canadian dollars)	**Three months ended Dec 31, 2010**	**Dec 23, 2009 to Dec 31, 2009**	**Oct 1, 2009 to Dec 22, 2009**	**Year ended Dec 31, 2010**	**Dec 23, 2009 to Dec 31, 2009**	**Jan 1, 2009 to Dec 22, 2009**
EBITDA	10,392	(102)	(636)	19,568	(102)	(1,194)
Depreciation	2,659	38	347	6,683	38	1,651
Operating earnings (loss)	7,733	(140)	(983)	12,885	(140)	(2,845)
Amortization of intangibles	375	-	-	565	-	-
Stock-based compensation	188	1,835	-	554	1,835	-
Loss on sale of assets	128	-	606	139	-	608
Interest and finance costs	366	-	(152)	887	-	85
Foreign exchange loss (gain)	287	-	(436)	159	-	(203)
Acquisition costs	1,141	-	-	1,586	-	-
Gain on business acquisitions	161	-	-	(19,653)	-	-
Goodwill impairment	-	-	-	-	-	599
Current income taxes	-	-	50	-	-	50
Future income taxes	(884)	-	-	537	-	-
Net income (loss) from continuing operations	5,971	(1,975)	(1,051)	28,111	(1,975)	(3,984)

Overall Performance and Results of Operations

Western is an oilfield service company with operations in two industry segments: contract drilling and production services. Operations in the contract drilling segment are conducted through Western's wholly owned subsidiary Horizon Drilling Inc. ("Horizon"), which was acquired on March 18, 2010. Operations in the production services segment are conducted through Western's wholly owned subsidiary StimSol Canada Inc. ("StimSol").

The drilling industry in Canada has continued to see improved activity throughout 2010, specifically the demand for rigs that have the ability to drill long reach horizontal wells safely and efficiently. Since Western acquired the contract drilling segment on March 18, 2010, utilization averaged 58% as compared to an industry average of 37%.

Although the price for natural gas remains soft, oil prices on average have increased by 18% over 2009 levels. This has resulted in a 45% increase in the number of wells spudded in Canada in 2010 relative to 2009. 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 2010, Western's entire drilling fleet has been drilling horizontal wells.

In Western's production services segment, formations such as the Bakken, Cardium, and Montney continue to see increased demand for fracturing and pressure pumping services. As unconventional light and heavy oil plays continue to require more involved completions, demand for Western's production services continues to grow. Going forward the Company's focus will be on specializing in providing small to medium size acid and solvent packages. This focus will allow the Company to offer a complete package of transportation, pumping and chemical services in western Canada.

The key operational results for the fourth quarter 2010 are:

- On December 17, 2010, Western acquired all of the issued and outstanding units of Pantera Drilling Income Trust ("Pantera") in exchange for shares of Western. Pantera unitholders received 21.9048 common shares of Western for each income trust unit of Pantera held, resulting in the issuance of approximately 226 million Western shares. The total transaction value is approximately $93.2 million, including the assumption of debt and an ascribed value of $0.33 per Western share, which was the price of Western's shares immediately before closing. Upon completion of the transaction, current Western shareholders own approximately 72% of the combined entity and Pantera unitholders collectively own approximately 28% on a fully diluted basis. The Pantera assets consist of the following:
    - 5 telescopic Efficient Long-Reach ("ELR") doubles with a depth rating of 3,600 metres;
    - 1 telescopic ELR double with a depth rating of 3,000 metres;
    - 1 telescopic single rig with a depth rating of 1,600 metres;
    - 3 top drives; and
    - Spare tubulars, matting and ancillary equipment.
- On December 15, 2010, Western syndicated its credit facilities and increased the aggregate limit from $50 million to $75 million. The credit facilities now consist of a $65 million committed 364 day extendible revolving credit facility and a $10 million demand operating credit facility. The credit facilities require interest to be paid monthly with no scheduled principal repayments unless the 364 day extendible revolving credit facility is not extended. The extension date ("Term-Out Date") is December 13, 2011. If not extended, the revolving credit facility is capped and is repayable over the ensuing two year period by quarterly repayments of 1/8th of the amount outstanding at the Term-Out Date with the final payment covering the remaining balance due two years from the Term-Out Date. These payments would commence 12 months after the Term-Out Date.

- Fourth quarter revenues increased by $29.4 million to $30.5 million in 2010 as compared to $1.1 million in 2009 ($1.0 million and $0.1 million before and after the comprehensive revaluation respectively). The increase reflects the acquisitions completed by Western in the contract drilling segment in 2010, which contributed $26.6 million in revenue in the fourth quarter as average revenue per operating day in the fourth quarter was $27,487 and the utilization rate averaged 65% as compared to the industry average of 50%. The remaining $2.8 million increase in revenue is due to increased utilization and improved pricing in Western's production services segment which completed 147% more jobs in the fourth quarter of 2010 at an average revenue per job 39% higher than in the fourth quarter of 2009.
- Fourth quarter EBITDA (see non-GAAP measures on page 2) totalled positive $10.4 million in 2010, as compared to negative $0.7 million in 2009 (negative $0.6 million and negative $0.1 million before and after the comprehensive revaluation respectively). The $11.1 million increase in EBITDA is due to the acquisitions completed by Western in the contract drilling segment in 2010, which collectively contributed $10.9 million to EBITDA in the fourth quarter of 2010 (or 41% of contract drilling revenue). EBITDA in the production services segment totalled $1.1 million in the fourth quarter of 2010 (or 27% of production services revenue), an increase of $0.8 million over the prior year, which was offset by an increase in corporate general and administrative costs.
- Corporate general and administrative expenses in the fourth quarter increased by $0.6 million to $1.6 million in 2010, as compared to $1.0 million in 2009 ($0.9 million and $0.1 million before and after the comprehensive revaluation respectively). The increase is due to higher staffing levels and costs associated with Western's continued consolidation efforts in the Canadian oilfield service industry.
- Net income from continuing operations in the fourth quarter of 2010 totalled $6.0 million as compared to a net loss of $3.0 million in 2009 (net losses of $1.0 million and $2.0 million before and after the comprehensive revaluation respectively). The $9.0 million increase in net income in the fourth quarter of 2010 reflects operating earnings from the contract drilling segment of $8.5 million, a $1.0 million increase in operating earnings in the production services segment, offset by a $0.5 million increase in corporate and other costs.
- Fourth quarter capital expenditures totalled $14.2 million in 2010, while asset sales totalled $2.8 million. The majority of the capital expenditures incurred in the fourth quarter related to the contract drilling segment, which spent $13.8 million in the period. These expenditures mainly related to the construction of a telescopic ELR double drilling rig commissioned in the first quarter of 2011 as well as upgrades to the rigs acquired from Impact Drilling Ltd. ("Impact").

The key operational results for the year ended December 31, 2010 are:

- On March 18, 2010, Western completed a public offering of 375 million common shares at a price of $0.20 per share for gross proceeds of $75 million. Concurrent with the closing of this equity offering, Western completed the acquisition of Horizon for total consideration of approximately $65.7 million, including the assumption of $24.2 million in debt, and the acquisition of Cedar Creek Drilling Ltd. ("Cedar Creek") for consideration of approximately 20.5 million Western shares at an ascribed value of $0.30 per Western share, which was the price of Western shares immediately before closing, and the assumption of approximately $12.6 million in debt. Each of Horizon and Cedar Creek were, at the time of acquisition, privately held companies engaged in the operation of contract drilling rigs in the western Canadian sedimentary basin. The Horizon assets consist of the following:
  - 2 AC triples with a depth rating of 4,500 metres and 1,200 hp drawworks;
  - 4 AC Range III singles with a depth rating of 3,000 metres and 1,100 hp drawworks;
  - 1 AC Range III single with a depth rating of 2,000 metres and 600 hp drawworks; and
  - 1 conventional single with a depth rating of 1,200 metres and 350 hp drawworks.

All of the drilling rigs acquired from Horizon have top drives and are capable of drilling horizontal wells. In addition, the Horizon assets include 3 surface setter rigs, 2 rig camps, an office and shop facility and additional rig equipment. The Cedar Creek assets include 3 telescopic double drilling rigs with a depth rating of 3,600 metres and 750 hp drawworks. All of the Cedar Creek drilling rigs are well suited for horizontal drilling. In addition, the assets of Cedar Creek include a spare 1,000 hp triplex mud pump, an additional string of drill pipe and additional rig equipment.

- On August 25, 2010 Western, through its wholly owned subsidiary Horizon, acquired all of the outstanding securities of Impact by way of a plan of arrangement under the Business Corporations Act (Alberta). The total cost of the acquisition, including the assumption of debt, was approximately $19.8 million. The Impact assets consist of the following:

    - 3 Range III top drive telescopic single drilling rigs;
    - 1 top drive single drilling rig; and
    - Various ancillary drilling equipment.

  All four drilling rigs have top drives and pipe handling systems and are capable of drilling horizontal wells. Western has upgraded these drilling rigs to increase their horizontal depth capability to match comparable drilling rigs in the Western drilling fleet.

- Revenues increased by $63.6 million to $67.5 million in 2010 as compared to $3.9 million in 2009 ($3.8 million and $0.1 million before and after the comprehensive revaluation respectively). The increase reflects the acquisition of Horizon and Cedar Creek on March 18, 2010, the acquisition of Impact on August 25, 2010, and to a lesser extent the acquisition of Pantera on December 17, 2010 which collectively accounted for contract drilling revenue of $56.0 million in 2010. Since its acquisition on March 18, 2010, the contract drilling segment's revenue per operating day averaged $25,349 and the utilization rate averaged 58% as compared to the industry average of 37%. The remaining $7.6 million increase in revenue is due to increased utilization and improved pricing in Western's production services segment which completed 120% more jobs in 2010 at an average revenue per job 33% higher than in 2009.

- Western's EBITDA (see non-GAAP measures on page 2) was positive $19.6 million in 2010, as compared to negative $1.3 million in 2009 (negative $1.2 million and negative $0.1 million before and after the comprehensive revaluation respectively). The $20.9 million increase in EBITDA is due to the acquisition of Horizon and Cedar Creek on March 18, 2010, Impact on August 25, 2010, and to a lesser extent the acquisition of Pantera on December 17, 2010, which collectively contributed $20.5 million to EBITDA in 2010 (or 37% of contract drilling revenue). EBITDA in the production services segment totalled $3.0 million (or 26% of production services revenue), an increase of $2.6 million over the prior year, which was offset by an increase in corporate general and administrative costs.

- Corporate general and administrative expenses increased by $2.3 million to $4.0 million in 2010, as compared to $1.7 million in 2009 ($1.6 million and $0.1 million before and after the comprehensive revaluation respectively). The increase is due to higher staffing levels and costs associated with Western's continued consolidation efforts in the Canadian oilfield service industry.

- Net income from continuing operations in 2010 totalled $28.1 million as compared to a net loss of $6.0 million in 2009 (net losses of $4.0 million and $2.0 million before and after the comprehensive revaluation respectively). The increase in net income 2010 reflects operating earnings from the contract drilling segment of $14.7 million, a $3.6 million increase in operating earnings in the production services segment, and aggregate gains on the acquisitions of Horizon, Cedar Creek and Impact of $19.7 million, offset by a $3.9 million increase in corporate and other costs, including a $2.3 million increase in corporate general and administrative expenses and $0.5 million in future tax expense.

- Capital expenditures in 2010 totalled $24.6 million, while asset sales totalled $4.4 million. Capital expenditures in the contract drilling segment totalled $21.0 million, which included expenditures related to the construction of a telescopic ELR double drilling rig which was commissioned in the first quarter of 2011.

Capital expenditures in the production services segment totalled $3.3 million, including the purchase of 3 cementing and acidizing trucks during 2010, while corporate additions totalled $0.3 million.

- Subsequent to year end, on March 29, 2011 Western completed a public offering for 192,500,000 common shares at a price of $0.39 per share 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 at $0.39 per share for gross proceeds of approximately $11.3 million. The underwriters were paid commissions of approximately $4.3 million with respect to that public offering. Western will use the proceeds for working capital requirements and to temporarily reduce bank indebtedness under its credit facilities, which may be subsequently redrawn and applied as needed to fund Western's general working capital purposes and strategic acquisitions of assets or businesses.
- Subsequent to year end, on April 7, 2011 the Company announced that it had entered into an Arrangement Agreement whereby, subject to certain conditions, the Company will acquire all of the issued and outstanding units of Stoneham Drilling Trust ("Stoneham") in exchange for a combination of cash and common shares of Western. The total transaction value is approximately $245 million, including the assumption of approximately $53 million in debt and transaction costs. A portion of the consideration will be paid for in shares of the Company at an ascribed value of $0.39 per Western share. In accordance with IFRS 3, Business Combinations, the actual consideration will be determined based on the closing price of Western's shares immediately before the acquisition. The transaction is expected to be completed by way of a Plan of Arrangement under the Business Corporations Act of Alberta and is subject to normal stock exchange, court and regulatory approvals and the approval by at least 66 2/3 percent of the outstanding units of Stoneham voted at the special meeting. A special meeting of the unitholders of Stoneham will be held in mid-June to vote on the transaction.

Outlook

The drilling industry in Canada is moving towards drilling wells of increased complexity. Currently, the Company is the seventh largest drilling company in Canada with a fleet of twenty-four drilling rigs which are specifically suited for today's drilling environment. Horizon's ELR single rigs are specifically designed with integrated top-drives, triplex mud pumps, mechanized pipe handling equipment and range III tubulars. Horizon's telescopic ELR doubles are also of modern design including the necessary hook load capabilities, triplex mud pumps and are equipped with top-drives at the customer's request. Horizon's ELR triples are also designed with integrated top-drives, triplex mud pumps, mechanized pipe handling equipment including iron derrickman and range III tubulars.

With the strong market for oil and natural gas liquids, and the depressed market for natural gas, our customers are targeting oil and liquids-rich natural gas wells. Of the seventy-three wells drilled by the Company in the fourth quarter of 2010, 70% targeted oil, which is a trend that is expected to continue. The increased demand for oil and natural gas liquids has also led to an increase in the drilling of horizontal wells. During 2010, 42% of the wells drilled in western Canada were horizontal wells, representing a 43% increase over the prior year, all of which fits well with the Company's current rig fleet with respect to pumping capabilities, top-drive requirements, and depth capacities.

Currently the industry is experiencing a shortage of qualified people; however our fleet is fully crewed with qualified personnel. We believe our modern fleet and corporate culture will provide a distinct advantage in attracting qualified individuals. Horizon has a proven track record for delivering high quality equipment and well trained, highly skilled crews to its customers who rely on Horizon to drill increasingly complex long reach horizontal wells. As such, Horizon is well positioned for future growth.

During 2010, the Company's utilization rates have consistently been above industry average, due to our modern rig fleet, strong customer base, and solid reputation. We expect this trend to continue into 2011. Additionally, with the integration of Western's acquisitions throughout 2010, Horizon has been able to justify performance-based rates to our customers by delivering a solid product, adding capital and adapting to our changing customer needs. During the first quarter of 2011, Horizon's rig fleet was fully contracted resulting in utilization of 85%, continuing to exceed industry utilization by approximately 25%. Currently during spring break-up, which started near the end of March, Horizon has approximately 45% of the fleet working in this period which typically reflects low utilization.

As previously announced by the Company, total capital expenditures are expected to be approximately $50 million in 2011. Subsequent to the successful completion of the proposed acquisition of Stoneham, 2011 capital spending will be reassessed.

The Company has successfully integrated Horizon, Cedar Creek, Impact and Pantera, acquired an additional drilling rig from a private company early in 2011, as well as completed the construction of and crewed a fit for purpose telescopic ELR double drilling rig in the first quarter of 2011. By maintaining an above average utilization rate, improved contract drilling day rates and low personnel turnover, the Company has established a strong platform to be able to integrate future acquisitions.

Western continues to focus its efforts on consolidating within the Canadian oilfield service industry. Management believes the current market conditions in the Canadian oilfield service sector still provide opportunity to grow through acquisition and organic growth into three core business lines comprised of contract drilling, service rigs, and rental and production services.

Comprehensive revaluation

On December 22, 2009, the Company completed a recapitalization and reorganization involving a non-brokered private placement of $7.0 million, the conversion of the Company's existing bridge lending facility, subordinated convertible debentures (including the cancellation of the related common share purchase warrants) and other specified obligations into common shares of Western, and the appointment of a new board of directors and a new management team. This transaction resulted in a realignment of Western's equity and non-equity interests. Prior to the recapitalization, the Company faced the prospect of being unable to meet obligations to creditors due to its deteriorating financial position. The outcome of the recapitalization and reorganization was a significant de-leveraging of Western's balance sheet. Total debt was reduced to approximately $0.2 million, significantly improving Westerns financial position to meet current and future market challenges.

As a result of the realignment of equity and non-equity interests, Western's identifiable assets and liabilities were recorded at a new cost basis, being fair value, as required under Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1625 – "Comprehensive Revaluation of Assets and Liabilities". The process of undertaking such a comprehensive revaluation is commonly referred to as "fresh start accounting". The recapitalization and reorganization is described in Note 1 of our audited consolidated financial statements for the period ended December 31, 2010 as filed on SEDAR at www.sedar.com.

Segmented Information

As at December 31, 2010, Western operates in two main industry segments, contract drilling and production services. Subsequent to the discontinuation of the United States and international geographic operations in the second quarter of 2010, the Company only operates in Canada. Contract drilling includes drilling rigs along with related equipment. Production services include various oilfield services relating to stimulation and fluid pumping, nitrogen services, specialty solvents and laboratory services.

Segment Review of Contract Drilling Services

(stated in thousands of Canadian dollars)	Year ended Dec 31, 2010[1]	
Revenue	56,009	
Expenses		
Operating	33,108	
General and administrative	2,354	
EBITDA[2]	20,547	
Depreciation	5,835	
Operating earnings[2]	14,712	
Capital expenditures	20,976	
EBITDA as a percentage of revenue	37%	
Contract drilling rig fleet:		
-Average	13.1	(4)
-End of period	22.0	
Drilling revenue per operating day	25,349	(3)
Drilling rig operating days	2,210	(4)
Number of meters drilled	415,814	
Drilling rig utilization rate	58%	(4)
CAODC industry average utilization rate	37%	(4)

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

(2) Non-GAAP measure. See page 2.

(3) Includes shortfall commitment revenue of $1.2 million on a take-or-pay contract.

(4) Calculated from the date of acquisition of the Contract Drilling segment (March 18, 2010). Utilization rate and Drilling rig operating days are calculated on a spud to rig release basis.

With the acquisitions of Horizon and Cedar Creek on March 18, 2010, the Company began operations in its contract drilling segment with a fleet of 11 drilling rigs. On August 25, 2010, the Company completed the acquisition of Impact, which increased the drilling fleet by four to a total of 15 rigs. On December 17, 2010, the Company completed the acquisition of Pantera, which increased the drilling rig fleet by 7 to a total of 22 rigs. This aggressive growth strategy has resulted in the Company becoming the seventh largest contract drilling company in Canada. For the period March 18, 2010 to December 31, 2010, revenues from the contract drilling segment totalled $56.0 million reflecting average revenue per operating day of $25,349 and a utilization rate of 58%, as compared to the industry average of 37%. During 2010, the company drilled 165 wells for a total of 415,814 metres drilled.

For the period March 18, 2010 to December 31, 2010, contract drilling EBITDA of $20.5 million represents 37% of contract drilling revenue. The contract drilling segment's EBITDA as a percentage of contract drilling revenue reflects strong margins, above industry average utilization rates and $1.2 million of revenue related to commitment shortfalls on a take-or-pay contract.

For the period March 18, 2010 to December 31, 2010, capital expenditures in the contract drilling segment totalled $21.0 million, which was partially offset by the sale of certain property and equipment for proceeds of $2.9 million in the period. Of the capital expenditures incurred in the contract drilling segment $8.7 million relates to the construction of a fit for purpose telescopic ELR double drilling rig, which was commissioned in the first quarter of 2011, $4.4 million relates to upgrades completed on the rigs acquired from Impact, and $1.9 million relates to the

purchase of heavy weight drill pipe, with the remaining capital spending relating to ancillary drilling and completion equipment. Asset sales mainly related to noncore assets acquired in the acquisition of Impact that were subsequently sold.

Segment Review of Production Services

	After comprehensive revaluation	After comprehensive revaluation	Before comprehensive revaluation
(stated in thousands of Canadian dollars)	**Year ended Dec 31, 2010**	**Dec 23, 2009 to Dec 31, 2009**	**Jan 1, 2009 to Dec 22, 2009**
Revenue	11,534	151	3,785
Expenses			
Operating	6,913	106	3,178
General and administrative	1,591	20	229
EBITDA(1)	3,030	25	378
Depreciation	759	38	1,650
Operating earnings(1)	2,271	(13)	(1,272)
Capital expenditures	3,308	-	99
EBITDA as a percentage of revenue	26%	17%	10%
Jobs completed	2,951	44	1,300
Revenue per job completed	3,909	3,422	2,912

(1) Non-GAAP measure. See page 2.

Production services revenue increased by $7.6 million, or 193%, to $11.5 million in 2010. The increase reflects improved demand for fluid and pumping services, an increase in the Company's customer base and increased customer confidence due in part to the change in management and recapitalization that was completed in December 2009. As a result, the number of jobs completed in 2010 increased by 120% to 2,951 as compared to 1,344 in 2009, coupled with a 33% improvement in the average revenue per job completed. During the third quarter of 2010, the Company successfully entered the southeast Saskatchewan market, which continues to provide positive operating results.

Production services EBITDA increased by $2.6 million, or 652%, to $3.0 million in 2010. The production services segment's EBITDA represents 26% of revenue as compared to 10% in the same period of the prior year. The increased EBITDA as a percentage of revenue reflects stronger margins as a result of improved operations management and efficiencies coupled with increased activity in the oil and gas industry.

During 2010, capital expenditures in the production services segment totalled $3.3 million, which was offset by the sale of certain noncore assets for total proceeds of $1.5 million. The production services segment's capital spending was focused on the acquisition of an additional 3 cementing and acidizing trucks in 2010, accounting for $1.5 million of the capital expenditures incurred.

Corporate

(stated in thousands of Canadian dollars)	After comprehensive revaluation Year ended Dec 31, 2010	After comprehensive revaluation Dec 23, 2009 to Dec 31, 2009	Before comprehensive revaluation Jan 1, 2009 to Dec 22, 2009
Expenses			
General and administrative	4,009	127	1,572
Stock-based compensation	554	1,835	-
Interest and finance costs	887	-	85
Acquisition costs	1,586	-	-
Gain on business acquisition	(19,653)	-	-
Depreciation	89	-	1
Capital expenditures	306	-	-

Corporate general and administrative expenses increased by $2.3 million to $4.0 million in 2010. The increase is due to higher staffing levels and costs associated with Western's initial recapitalization and continued consolidation efforts in the Canadian oilfield service industry.

Stock-based compensation expense recorded in 2010 relates to stock options granted in 2010. Stock-based compensation of $1.8 million was recorded in 2009 after the comprehensive revaluation relating to the issuance of 50.5 million warrants granted to management as part of the recapitalization of Western.

Interest and finance costs in 2010 totalled $0.9 million, which mainly relates to interest and finance costs incurred on Western's outstanding credit facilities.

With the early adoption of CICA Handbook Section 1582 effective January 1, 2010, acquisition costs and gains on business acquisitions are recorded through net income. In 2010, Western recorded acquisition costs of $1.6 million related to costs incurred on the acquisitions of Horizon, Cedar Creek, Impact and Pantera. Additionally, in 2010, Western recorded aggregate gains of $19.7 million on the acquisitions of Horizon, Cedar Creek and Impact.

Corporate depreciation expense of $0.1 million in 2010 relates to computer and office equipment used in Western's corporate head office.

Liquidity and Capital Resources

On March 18, 2010, Western completed a public offering of 375 million common shares at a price of $0.20 per share for gross proceeds of $75 million which was used to acquire Horizon and pay down the debt of Horizon and Cedar Creek. Each of Horizon and Cedar Creek were, at the time of acquisition, privately held companies engaged in the operation of contract drilling rigs in the western Canadian sedimentary basin. These acquisitions provided Western with immediate cash flow and key human resource capabilities.

On August 25, 2010, Western completed the acquisition of Impact for total consideration of $19.8 million, including the assumption of debt. The acquisition of Impact was funded entirely using Western's credit facilities.

On December 17, 2010, Western completed the acquisition of Pantera by issuing approximately 226 million common shares at an ascribed price of $0.33 per common share in exchange for all the issued and outstanding income trust units of Pantera and assumed approximately $18.6 million in debt.

On April 15, 2010, Western increased its credit facilities with its existing lender to $50 million from the previous limit of $6 million. On December 15, 2010, Western syndicated its credit facilities and increased the aggregate limit from $50 million to $75 million. The credit facilities now consist of a $65 million committed 364 day extendible revolving credit facility and a $10 million demand operating credit facility. The credit facilities require interest to be paid monthly with no scheduled principal repayments unless the 364 day extendible revolving credit facility is not extended. The extension date ("Term-Out Date") is December 13, 2011. If not extended, the

revolving credit facility is capped and is repayable over the ensuing two year period by quarterly repayments of 1/8th of the amount outstanding at the Term-Out Date with the final payment covering the remaining balance due two years from the Term-Out Date. These payments would commence 12 months after the Term-Out Date. Amounts borrowed under the credit facilities bear interest at the Company's option of either the bank's prime rate plus 1.25% to 2.5% or the banker's acceptance rate plus 225 bps to 350 bps depending, in each case, on the ratio of consolidated debt to consolidated EBITDA. As at December 31, 2010, Western is in compliance with all covenants related to its credit facilities.

As at December 31, 2010, Western had a positive working capital balance of $15.1 million, an $8.7 million improvement from the $6.4 million balance as at September 30, 2010 and a $14.3 million improvement from the $0.8 million balance at December 31, 2009. The increase from September 30, 2010 is largely due to a $3.4 million increase in cash and reclassifying approximately $3.3 million from current portion of long term debt to long term debt upon increasing and syndicating Western's credit facilities. As well, the $15.3 million increase in accounts receivable was largely offset by a $15.0 million increase in accounts payable. Long term debt at December 31, 2010 was $46.1 million, a $25.4 million increase over the September 30, 2010 balance due to the acquisition of Pantera and increased capital spending in the fourth quarter of 2010, specifically on the construction of a top drive telescopic ELR double drilling rig which was commissioned during the first quarter of 2011, which was financed through a combination of operating cash flow and available lines of credit. Western expects cash from operating activities together with the credit available under the existing credit facilities will be sufficient to fund operations and the 2011 capital program. Western intends to continue to employ a conservative debt to annualized EBITDA ratio.

During 2010, Western generated operating cash flow from continuing operations of positive $10.9 million as compared to negative cash flow of $1.6 million in the same period of the prior year (negative $1.2 million and negative $0.4 million before and after the comprehensive revaluation). The increase in operating cash flow from continuing operations is mainly attributed to the acquisitions of Horizon and Cedar Creek on March 18, 2010, Impact on August 25, 2010, and to a lesser extent Pantera on December 17, 2010, which contributed operating cash flow in the contract drilling segment of $12.7 million in 2010, while operating cash flow contributed by Western's production services segment of $1.0 million was offset by negative cash flow from corporate activities of $2.8 million.

Subsequent to year end, on March 29, 2011 Western completed a public offering for 192,500,000 common shares at a price of $0.39 per share 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 at $0.39 per share for gross proceeds of approximately $11.3 million. The underwriters were paid commissions of approximately $4.3 million with respect to that public offering. Western will use the proceeds for working capital requirements and to temporarily reduce bank indebtedness under its credit facilities, which may be subsequently redrawn and applied as needed to fund Western's general working capital purposes and strategic acquisitions of assets or businesses.

During 2010, Western announced that it would be ceasing its current operations in the United States and internationally and has subsequently classified these as discontinued operations. Western has redeployed certain assets held in the United States to its Canadian operations and completed the sale of the remaining assets in the United States. During 2010, Western has completed asset sales of $4.4 million, including the sale of $1.7 million in U.S. assets.

Discontinued Operations

During the second quarter of 2010, management determined its United States and international production services divisions 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. Results from discontinued operations as follows:

	After comprehensive revaluation	After comprehensive revaluation	Before comprehensive revaluation
(stated in thousands of Canadian dollars)	**Year ended Dec 31, 2010**	**Dec 23, 2009 to Dec 31, 2009**	**Jan 1, 2009 to Dec 22, 2009**
Revenue from discontinued operations	55	33	1,677
Net loss before tax from discontinued operations	(971)	(36)	(1,921)
Income tax expense	91	-	583
Net loss from discontinued operations	(1,062)	(36)	(2,504)

The following table provides additional information with respect to amounts included in the December 31, 2010 and 2009 consolidated balance sheets as assets and liabilities of discontinued operations.

(stated in thousands of Canadian dollars)	**December 31, 2010**	**December 31, 2009**
Current assets:		
Accounts receivable	34	906
Prepaid expenses	4	106
Total current assets	38	1,012
Long term assets:		
Property and equipment	28	1,897
Total long term assets	28	1,897
Current liabilities:		
Accounts payable and accrued liabilities	476	1,520
Total current liabilities	476	1,520
Long term liabilities:		
Long term debt	-	48
Total long term liabilities	-	48

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. 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 break up. 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.

	After comprehensive revaluation					Before comprehensive revaluation			
Three months ended (stated in thousands of Canadian dollars, except per share amounts)	Dec 31, 2010	Sep 30, 2010	Jun 30, 2010	Mar 31, 2010	Dec 31, 2009[1]	Dec 22, 2009[1]	Sep 30, 2009	Jun 30, 2009	Mar 31, 2009
Revenue	30,509	19,320	13,396	4,318	151	999	921	607	1,258
EBITDA[2]	10,392	5,429	3,151	596	(102)	(636)	(226)	(365)	33
Cash from (used in) operating activities	3,153	3,129	3,813	(158)	(436)	(2,373)	(184)	25	(233)
Income (loss) from continuing operations	5,971	10,523	(30)	11,647	(1,975)	(1,051)	(1,507)	(1,020)	(406)
per share - basic	0.01	0.02	-	0.06	(0.01)	(0.03)	(0.05)	(0.03)	(0.01)
per share - diluted	0.01	0.02	-	0.05	(0.01)	(0.03)	(0.05)	(0.03)	(0.01)
Income (loss)	5,887	10,154	(98)	11,106	(2,011)	(2,840)	(1,650)	(897)	(1,101)
per share - basic	0.01	0.02	-	0.06	(0.02)	(0.09)	(0.05)	(0.03)	(0.03)
per share - diluted	0.01	0.02	-	0.05	(0.02)	(0.09)	(0.05)	(0.03)	(0.03)
Total assets	264,653	143,698	115,431	151,452	12,219	12,712	17,731	19,216	20,629
Long term financial liabilities	53,928	25,115	11,740	46,041	65	65	279	566	650
Dividends declared	-	-	-	-	-	-	-	-	-

(1) The fourth quarter of 2009 has been split into two periods to reflect Western's results before and after the comprehensive revaluation completed on December 22, 2009.

(2) Non-GAAP measure. See page 2.

Fourth Quarter 2010

Selected Financial Information			
(stated in thousands of Canadian dollars, except share and per share amounts)	After comprehensive revaluation	After comprehensive revaluation	Before comprehensive revaluation
Financial Highlights	**Three months ended Dec 31, 2010**	**Dec 23, 2009 to Dec 31, 2009**	**Oct 1, 2009 to Dec 22, 2009**
Revenue	30,509	151	999
EBITDA[(1)]	10,392	(102)	(636)
Cash from operating activities from continuing operations	3,943	(424)	1,436
Capital expenditures	14,181	-	58
Net income (loss) from continuing operations	5,971	(1,975)	(1,051)
-basic and diluted net income (loss) per share	0.01	(0.01)	(0.03)
Net income (loss)	5,887	(2,011)	(2,840)
-basic and diluted net income (loss) per share	0.01	(0.02)	(0.09)
Weighted average number of shares			
-basic	564,408,355	132,031,830	32,246,405
-diluted	595,395,650	132,031,830	32,246,405
Outstanding common shares as at period end	753,618,882	132,031,830	132,031,830
Dividends declared	-	-	-

Operating Highlights	**Three months ended Dec 31, 2010**	**Dec 23, 2009 to Dec 31, 2009**	**Oct 1, 2009 to Dec 22, 2009**
Contract Drilling			
Contract drilling rig fleet:			
-Average	16.1	-	-
-End of period	22.0	-	-
Drilling revenue per operating day	27,487	-	-
Drilling rig utilization rate	65%	-	-
CAODC industry average utilization rate	50%	-	-
Production Services			
Jobs completed	885	44	315
Average revenue per job completed	4,435	3,422	3,170

(1) Non-GAAP measure. See page 2.

During the fourth quarter of 2010, the Company's revenues increased by $29.4 million to $30.5 million as compared to $1.1 million in the same period of the prior year ($1.0 million and $0.1 million before and after the comprehensive revaluation respectively). Further, revenue increased by $11.2 million, or 58%, from the third quarter of 2010. The increase is mainly due to revenues in the contract drilling segment totalling $26.6 million in the fourth quarter reflecting an average revenue per operating day of $27,487 and a utilization rate of 65% as compared to the an industry average of 50%. This represents a significant improvement over the third quarter of 2010, when contract drilling revenues totalled $16.5 million reflecting an average revenue per operating day of $23,165 and a utilization rate of 61%. The 19% improvement in revenue per operating day in the fourth quarter, as compared to the third quarter, reflects higher day rates as industry demand increases and increased rental income heading into the winter drilling season. During the fourth quarter of 2010, production services revenue increased by $2.8 million, or 242%, to $3.9 million as compared to the same period in the prior year. The increase reflects improved market conditions in the oil and gas industry as well as improved customer confidence due in part to the change in management and recapitalization that was completed in December 2009. As a result, the number of jobs completed in the fourth quarter of 2010 increased by 147% to 885 as compared to 359 in the same

period of the prior year, coupled with a 39% improvement in the average revenue per job completed as compared to the same period in the prior year.

During the fourth quarter of 2010, the Company's EBITDA increased by $11.1 million to positive $10.4 million, or 34% of consolidated revenue, from negative $0.7 million in the same period of the prior year ($0.6 million and $0.1 million before and after the comprehensive revaluation respectively). Further, EBITDA in the fourth quarter of 2010 increased by $5.0 million, or 91%, from the third quarter of 2010. EBITDA in the contract drilling segment totalled $10.9 million in the fourth quarter representing 41% of contract drilling revenue as compared to $5.6 million, or 34% of contract drilling revenue, in the third quarter. The increase in EBITDA reflects higher utilization, price increases and economies of scale realized on the integration of the Company's acquired in 2010. During the fourth quarter of 2010, production services EBITDA increased by $0.8 million, or 300%, to $1.1 million as compared to the same period in the prior year. The production services segment's EBITDA represents 27% of revenue as compared to 23% in the same period of the prior year. The increased EBITDA as a percentage of revenue reflects increased pricing as a result of improved operations management and efficiencies coupled with increased activity in the oil and gas industry.

During the fourth quarter of 2010, the Company's net income from continuing operations increased by $9.0 million to $6.0 million as compared to a net loss of $3.0 million in the same period of the prior year ($1.0 million and $2.0 million before and after the comprehensive revaluation respectively). The increase in net income reflects operating earnings from the contract drilling segment of $8.5 million and a $1.0 million increase in operating earnings in the production services segment, while increased corporate general and administrative expenses and other costs of $1.0 million together with costs on the acquisition of Pantera of $1.1 million were offset by a $1.6 million decrease in stock based compensation expense.

Capital expenditures in the fourth quarter of 2010 totalled $14.2 million, which was partially offset by the sale of certain property and equipment for proceeds of $2.8 million. Capital expenditures in the fourth quarter of the prior year, both before and after the comprehensive revaluation, were nominal. Of the capital spending incurred in the fourth quarter of 2010, $7.3 million relates to the construction of a fit for purpose telescopic ELR double drilling rig, which was commissioned in the first quarter of 2011, an additional $3.5 million relates to upgrades completed on the rigs acquired from Impact, with the remaining capital spending relating to ancillary equipment in both the contract drilling and production services segment.

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 of Canadian dollars)	**Total**	**2011**	**2012 to 2013**	**2014 to 2015**	**2016 and beyond**
Operating leases	$ 4,442	$ 1,626	$ 2,241	$ 575	$ -
Capital commitments	3,665	3,649	16	-	-
Purchase commitments	389	389	-	-	-
Total	**$ 8,496**	**$ 5,664**	**$ 2,257**	**$ 575**	**$ -**

Outstanding Share Data

	April 13, 2011	December 31, 2010	December 31, 2009
Common shares outstanding	974,993,882	753,618,882	132,031,830
Warrants outstanding	50,500,000	50,500,000	50,500,000
Stock options outstanding	22,401,667	20,651,667	170,003

Off Balance Sheet Arrangements

As at December 31, 2010, Western had no off balance sheet arrangements in place.

Transactions with Related Parties

During the fourth quarter of 2010, Western sold auxiliary drilling equipment acquired as part of the Impact acquisition, via a bid process, for $2.6 million to a company that shares common directors with Western. The agreed upon sales price was deemed to be at fair value.

Changes in Accounting Policies

The following new Canadian accounting standards were released in 2009 with an effective date of January 1, 2011 with early adoption permitted. Western has elected to early adopt these standards effective January 1, 2010:

- Section 1582 "Business Combinations" requires most assets acquired and liabilities assumed, including contingent consideration to be measured at fair value and that all acquisition costs be expensed. The adoption of this standard impacted the accounting for the business combinations completed in 2010. See Note 3 of the December 31, 2010 audited financial statements filed on SEDAR at www.sedar.com.
- Section 1602 "Non-controlling Interests" requires that non-controlling interests be recognized as a separate component of equity and that net earnings be calculated without a deduction for non-controlling interest. The adoption of this standard did not have a material impact on the financial statements of the Company.
- Section 1601 "Consolidated Financial Statements" establishes standards for the preparation of consolidated financial statements. The adoption of this standard did not have a material impact on the financial statements of the Company.

Financial Instruments

Fair Values

The Company's cash and investments are the only financial assets or liabilities 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.

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 United States and international operations, which were discontinued during 2010.

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.

International Financial Reporting Standards ("IFRS")

In February 2008, the CICA's Accounting Standards Board confirmed the transition timing for publicly accountable enterprises in Canada to adopt International Financial Reporting Standards ("IFRS"). Accordingly, the Company adopted IFRS on January 1, 2011, including reporting for interim periods in fiscal 2011.

The Company's transition project included three phases:

- Phase 1 – Diagnostic;
- Phase 2 – Development; and
- Phase 3 – Implementation.

A Project Management Team was set up and the Company engaged external advisers to assist with the transition. The project team has been involved in discussions with the Company's external auditors throughout this project. The project team has also held several IFRS information sessions for key internal stakeholders, management and the Audit Committee. These sessions provided an overview of the key IFRS standards that are expected to have the greatest impact to Western's business and the impact those changes are expected to have on Western's IFRS financial statements.

Western completed the Diagnostic phase in the third quarter of 2010, which involved a high level review of the major differences between current Canadian GAAP and IFRS and the creation of a project plan. The key areas that have the highest impact to the Company under IFRS include property and equipment; IFRS 1 - first time adoption of IFRS; financial statement presentation and disclosures; and asset impairments. Other areas that were affected by the transition to IFRS for Western include share-based payments, provisions, leases and income taxes. However, the quantitative impact of the differences in these areas are not anticipated to be material to Western's IFRS financial statements.

Western is currently in the process of completing the Development phase of the project and has moved into the Implementation phase in 2011. The project team is in the process of finalizing management recommendations on changes in accounting policies and receiving approval from the Audit Committee and the Board of Directors. As well, draft IFRS financial statements are currently being completed by the project team. Overall the project is on track and there are no issues anticipated in completing the project on time.

The following are key areas identified on the transition to IFRS:

Property and Equipment

The Company determined that accounting for property and equipment will be impacted on the transition to IFRS. Subject to the Board of Directors approval and review by Western's external auditors, management has designed an approach to determine how to componentize its property and equipment, determine assets lives and residual values for depreciation purposes. The Company has completed the implementation and testing of the applicable modifications to its accounting system to facilitate these proposed changes. It is anticipated that the change in depreciation from the application of componentization under IFRS will increase Western's consolidated depreciation expense by approximately 10% in 2010. The increase in depreciation expense is reflective of the componentization of the Company's drilling rigs into twenty-one components, where each component is assigned one of three different useful lives, which better reflect the shorter useful lives of specific assets on the rig. The increase in depreciation expense also includes the additional depreciation recognized on critical spare parts of equipment under IFRS which previously were not depreciated under Canadian GAAP.

Under IFRS, the Company can select either the cost model or the revaluation model as the measurement basis for property and equipment. Management has determined that the cost model is the most appropriate alternative for recognition and measurement of ongoing asset transactions after its transition to IFRS.

The deemed cost IFRS 1 exemption allows an entity to use the fair value as an asset's deemed cost for property and equipment on the transition date to IFRS. This exemption provides relief to entities from adjustments resulting from the retrospective application of IFRS for property and equipment as the deemed cost on transition effectively becomes the historical cost for the opening balance sheet under IFRS. The Company expects to use this exemption for its property and equipment assets on hand at transition. The anticipated financial statement impact on transition is expected to be limited given the application of fresh start accounting under Canadian GAAP in December 2009 when the Company's property and equipment balances were adjusted to their fair value at that time.

IFRS 1 – First-time Adoption of IFRS
Other IFRS 1 first-time adoption exemptions and elections available upon transition to IFRS which provide relief from retrospective application of IFRS that are being considered by the Company are as follows:

- Business combinations – the Company expects to elect to use Canadian GAAP for any business combinations that were completed prior to January 1, 2010;

- Share-based payment transactions – the Company expects to elect to use this exemption which allows any share-based payments vesting before January 1, 2010 to be exempt from IFRS 2 "Share-based Payment";

- Compound financial instruments – the Company expects to elect to use this exemption which allows an entity to use its Canadian GAAP accounting treatment for compound financial instruments which were settled prior to January 1, 2010.

Overall, the transition to IFRS is not expected to have any material adjustments to Western's financial statements or accounts on January 1, 2010. The Company has identified certain leases that have been classified as finance leases under IFRS versus an operating lease classification under Canadian GAAP. The quantitative impact of this change results in an increase to the Company's assets and liabilities on transition that is not considered significant. The Company does not expect to have any other adjustments on transition to IFRS due to the fact that fresh start accounting was applied under Canadian GAAP on December 22, 2009. Although the concept of fresh start accounting is not found or applicable under IFRS, the result of applying this Canadian GAAP concept was that the Company's balance sheet was fair valued on December 22, 2009 which limited the likelihood of accounting adjustments arising between IFRS and Canadian GAAP on the January 1, 2010 transition date. As well, selecting certain optional IFRS 1 exemptions also contributed to the minimal accounting differences on transition to IFRS for the Company.

Financial Statement Presentation and Disclosure
IFRS requirements for financial statement presentation and disclosure are currently being reviewed in conjunction with the preparation of draft IFRS financial statements and notes. Drafting of the first quarter 2011 IFRS-compliant financial statements will be completed in April and May of 2011.

Asset Impairments
Management is in the process of finalizing an approach for identifying cash-generating units, allocating goodwill and assessing the value in use of its assets. Given that fair values were assigned to the Company's assets in December 2009, together with a strong operational and financial performance by the Company in 2010, the associated impact of this standard on transition to IFRS and throughout 2010 is expected to be limited.

Other

Other areas where the Company expects quantitative adjustments between IFRS and Canadian GAAP to be present under IFRS include share-based payments, provisions and accounting for income taxes. Subject to the Board of Directors approval and review by Western's external auditors, the Company expects the following adjustments in the 2010 comparative period from its previously reported Canadian GAAP financial statements:

- The accounting difference relating to incorporating a forfeiture rate in the initial determination and recognition of stock-based payment expense under IFRS is expected to result in a decrease in the expense by approximately 5%. The offset of this decrease will flow through contributed surplus. The Company's previous accounting policy under Canadian GAAP was to account for forfeitures as they occur.
- An additional provision has been setup due to an onerous contract identified by the Company in 2010 and is not expected to be significant or material. The effect of this onerous contract will be an increase in the Company's liabilities and expense which will reverse over the remaining term of the contract.
- The impact of these other adjustments together with the adjustments to depreciation expense and property and equipment discussed above, are expected to decrease the consolidated tax expense and deferred tax liability in 2010 by approximately 10% to 15%.

Other Development and Implementation Phase Activities

Other activities integral to the Development and Implementation phase are as follows:

- Addressing the impact of proposed IFRS changes on its various information systems for internal and external reporting purposes;
- Preparing changes to existing business processes, if necessary;
- Providing the necessary training to key internal stakeholders;
- Monitoring the resultant impact on the Company's disclosure controls and procedures ("DC&P") as well as the Company's internal control over financial reporting ("ICFR"); and
- Monitoring corporate governance over the project.

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, which exposes the Company to market fluctuations in specific locations which may be more extreme than the overall 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 has a limited history of operations. Failure to achieve projected rates of market penetration or commercial acceptance could significantly affect its success.
- 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 costs and 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. General economic conditions, fluctuations in demand and supply of production components, fluctuations in commodity prices, competition and increases in operating costs are some of them. In addition, changes may occur in government regulation, 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 services 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, and all of the discontinued operations of the Company, are in the United States and Mexico which subject the Company to currency fluctuations and different tax and regulatory laws.

Forward-looking statements

Certain statements contained in this Management Discussion and Analysis constitute forward-looking statements or information. These statements relate to future events or future performance of Western. All Statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "should', "believe" and similar expressions are intended to identify forward-looking statements.

In particular, such forward-looking statements include: in the last paragraph under the heading Overall Performance and Results of Operations - the statements "Subsequent to year end, on April 7, 2011 the Company announced that it had entered into an Arrangement Agreement whereby subject to certain conditions, the Company will acquire all of the issued and outstanding units of Stoneham Drilling Trust ("Stoneham") in exchange for a combination of cash and common shares of Western." and "The transaction is expected to be completed by way of Plan of Arrangement under the Business Corporations Act of Albert and is subject to normal stock exchange, court and regulatory approvals and the approval by at least 66 2/3 percent of the outstanding units of Stoneham votes at the special meeting. A special meeting of the unitholders of Stoneham will be held in mid-June to vote on the transaction". The foregoing statements assume completion of the plan of arrangement transaction with Stoneham (the "Transaction"). Readers are cautioned that there are a number of conditions that must be met, including the approval of the security holders of Stoneham before the Transaction can be completed. There is no assurance that all of the conditions to the Transaction will be met and therefore there is a risk that the Transaction will not be completed. Under the heading Outlook the statements: "During 2010, the Company's utilization rates have consistently been above industry average, due to our modern rig fleet, strong customer base and solid reputation. We expect this trend to continue into 2011;" and "As previously announced by the Company, total capital expenditures are expected to be approximately $50 million in 2011. Subsequent to the successful completion of the proposed acquisition of Stoneham, 2011 capital spending will be reassessed". Those foregoing statements are based on the assumption that the high levels of activity and usage of Western's assets and services experienced in 2010 will continue into 2011. There is a risk that such activity could decrease back to levels experienced prior to 2010, and, as such Western's revenue and profit expectations could be negatively affected which could affect capital expenditures.

As such, many factors could cause the performance or achievement of Western to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Because of the risks, uncertainties and assumptions contained herein, readers should not place undue reliance on these forward-looking statements.

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, 2010 and 2009

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 generally accepted accounting principles in Canada and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality.

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

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

The consolidated financial statements have been audited independently by Deloitte & 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.

(Signed) "Dale E. Tremblay"

Dale E. Tremblay
Chief Executive Officer

April 13, 2011

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, 2010 and 2009, and the consolidated statements of operations and deficit, comprehensive income (loss) and retained earnings (deficit), and cash flows for the year ended December 31 2010 and for the period January 1, 2009 to December 22, 2009 and for the period December 23, 2009 to December 31, 2009, and the notes to the consolidated financial statements.

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 Canadian generally accepted accounting principles, 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, 2010 and 2009 and the results of its operations and its cash flows for the year ended December 31, 2010 and for the period January 1, 2009 to December 22, 2009 and for the period December 23, 2009 to December 31, 2009, in accordance with Canadian generally accepted accounting principles.

Emphasis of matter
Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes that Western Energy Services Corp. has adopted CICA Handbook Section 1582, Business Combinations, effective January 1, 2010 which has impacted the accounting of all business acquisitions during the reporting period. The standard has been prospectively applied as required by the standard.

Deloitte & Touche LLP

Chartered Accountants
April 13, 2011
Calgary, Alberta

Western Energy Services Corp.

Consolidated Balance Sheets
(thousands of Canadian dollars)

	December 31, 2010	December 31, 2009
Assets		
Current assets		
Cash	$ 3,475	$ 2,386
Accounts receivable	31,221	1,022
Inventory	463	313
Prepaid expenses	1,007	175
Investments	180	-
Future income taxes (Note 11)	1,884	-
Deferred charges	252	-
Current portion of assets of discontinued operations (Note 13)	38	1,012
	38,520	4,908
Property and equipment (Note 4)	195,286	5,414
Future incomes taxes (Note 11)	1,702	-
Goodwill (Notes 3 and 5)	29,117	-
Assets of discontinued operations (Note 13)	28	1,897
	$ 264,653	$ 12,219
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 22,175	$ 2,552
Current portion of long term debt (Note 6)	513	5
Current portion of deferred credits	239	-
Current portion of liabilities of discontinued operations (Note 13)	476	1,520
	23,403	4,077
Deferred credits	353	-
Long term debt (Note 6)	46,054	17
Future income taxes (Note 11)	7,521	-
Liabilities of discontinued operations (Note 13)	-	48
	77,331	4,142
Shareholders' equity		
Common shares (Note 7)	159,895	8,253
Contributed surplus	2,389	1,835
Retained earnings (deficit)	25,038	(2,011)
	187,322	8,077
	$ 264,653	$ 12,219

Commitments (Note 8)
Subsequent events (Note 15)
See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board of Directors:

(Signed) "John R. Rooney"
John R. Rooney
Director

(Signed) "Dale E. Tremblay"
Dale E. Tremblay
Director

Western Energy Services Corp.

Consolidated Statements of Operations, Comprehensive Income (Loss) and Retained Earnings (Deficit)
(thousands of Canadian dollars, except share and per share amounts)

	After comprehensive revaluation **Year ended December 31, 2010**	After comprehensive revaluation **December 23, 2009 to December 31, 2009**	Before comprehensive revaluation **January 1, 2009 to December 22, 2009**
Revenue	$ 67,543	$ 151	$ 3,785
Expenses			
Operating	40,021	106	3,178
General and administrative	7,954	147	1,801
Depreciation	6,683	38	1,651
Amortization of intangibles	565	-	-
Stock-based compensation	554	1,835	-
Loss on sale of assets	139	-	608
Interest and finance costs	887	-	85
Net foreign exchange loss (gain)	159	-	(203)
Acquisition costs	1,586	-	-
Gain on business acquisitions (Note 3)	(19,653)	-	-
Goodwill impairment	-	-	599
Income (loss) from continuing operations before taxes	28,648	(1,975)	(3,934)
Income taxes			
Current income taxes (Note 11)	-	-	50
Future income taxes (Note 11)	537	-	-
Net income (loss) from continuing operations	28,111	(1,975)	(3,984)
Net loss from discontinued operations (Note 13)	(1,062)	(36)	(2,504)
Net income (loss) and comprehensive income (loss)	27,049	(2,011)	(6,488)
Deficit, beginning of period	(2,011)	-	(9,086)
Retained earnings (deficit), end of period	$ 25,038	$ (2,011)	$ (15,574)
Net income (loss) per share from continuing operations:			
Basic and diluted	$ 0.06	$ (0.01)	$ (0.12)
Net loss per share from discontinued operations:			
Basic and diluted	$ -	$ -	$ (0.08)
Net income (loss) per share:			
Basic and diluted	$ 0.06	$ (0.02)	$ (0.20)
Weighted average number of shares:			
Basic	454,485,404	132,031,830	32,246,405
Diluted	485,414,516	132,031,830	32,246,405

See accompanying notes to these consolidated financial statements.

Western Energy Services Corp.

Consolidated Statements of Cash Flows
(thousands of Canadian dollars)

	After comprehensive revaluation	After comprehensive revaluation	Before comprehensive revaluation
	Year ended December 31, 2010	**December 23, 2009 to December 31, 2009**	**January 1, 2009 to December 22, 2009**
Operating activities			
Net income (loss) from continuing operations	$ 28,111	$ (1,975)	$ (3,984)
Items not affecting cash:			
Depreciation	6,683	38	1,651
Amortization of intangibles	565	-	-
Stock-based compensation	554	1,835	-
Loss on sale of property and equipment	139	-	608
Future income taxes	537	-	-
Goodwill impairment	-	-	599
Amortization of deferred charges and credits	271	-	-
Gain on business acquisitions	(19,653)	-	-
Unrealized foreign exchange loss	94	-	-
Change in non-cash working capital	(6,400)	(322)	(92)
Continuing operations	10,901	(424)	(1,218)
Discontinued operations	(964)	(12)	(1,547)
	9,937	(436)	(2,765)
Investing activities			
Proceeds on sale of property and equipment	4,412	-	537
Business acquisitions (Note 3)	(35,988)	-	-
Additions to property and equipment	(24,590)	-	(99)
Changes in non-cash working capital	9,385	-	-
Continuing operations	(46,781)	-	438
Discontinued operations	1,694	-	2,502
	(45,087)	-	2,940
Financing activities			
Issue of common shares, net of issue costs	70,884	-	-
Repayment of long term debt	(34,166)	-	(492)
Debt issue costs	(436)	-	-
Change in non-cash working capital	121	-	-
Continuing operations	36,403	-	(492)
Discontinued operations	(164)	-	(292)
	36,239	-	(784)
Increase (decrease) in cash	1,089	(436)	(609)
Cash, beginning of period	2,386	2,822	71
Cash (bank indebtedness), end of period	$ 3,475	$ 2,386	$ (538)
Supplemental cash flow information			
Net proceeds of recapitalization (Note 1)	-	-	3,360
Interest paid	991	11	420
Taxes paid	421	-	-

See accompanying notes to these consolidated financial statements.

Western Energy Services Corp.

Notes to the consolidated financial statements

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

1. Description of business and basis of presentation

Western Energy Services Corp. ("Western" or the "Company") is an oilfield service company with operations in two industry segments: contract drilling and production services. Operations in the contract drilling segment are conducted through Western's wholly owned subsidiary Horizon Drilling Inc., which was acquired on March 18, 2010. Operations in the production services segment are conducted through Western's wholly owned subsidiary StimSol Canada Inc.

The comparative results from discontinued operations have been reclassified to conform to the current period's financial statement presentation (see Note 13).

Comprehensive revaluation

On December 22, 2009, Western completed a recapitalization and reorganization of the Company, whereby an entirely new management team and board of directors was appointed. Additionally, there was a substantial realignment of the interests of Western's creditors and shareholders. Accordingly, Western has accounted for the recapitalization and reorganization as a comprehensive revaluation of assets and liabilities whereby the Company's assets and liabilities were revalued at their fair value and the Company's retained earnings and contributed surplus were eliminated, with the difference being recorded in shareholders' equity. The effect of the comprehensive revaluation is outlined in the table below:

	Prior to comprehensive revaluation on December 22, 2009	Recapitalization transactions		Comprehensive revaluation adjustments [4]	After comprehensive revaluation on December 22, 2009
Assets:					
Current assets	$ 1,994	$ 3,360	(1)	$ -	$ 5,354
Property and equipment	14,407	(1,678)	(3)	(5,371)	7,358
	16,401	1,682		(5,371)	12,712
Liabilities:					
Current liabilities	4,021	168	(1)(2)	-	4,189
Current portion of long term debt	11,331	(11,126)	(1)(2)(3)	-	205
Capital lease obligations	65	-		-	65
	15,417	(10,958)		-	4,459
Shareholders' equity:					
Common shares	14,554	7,685	(1)(2)	(13,986)	8,253
Subscriptions received	205	(205)	(2)	-	-
Contributed surplus	1,799	-		(1,799)	-
Deficit	(15,574)	5,160	(2)	10,414	-
	984	12,640		(5,371)	8,253
	$ 16,401	$ 1,682		$ (5,371)	$ 12,712

Summary of adjustments:

Recapitalization transactions:

(1) Pursuant to the Private Placement which closed on December 22, 2009, 50.5 million units of Western were issued at a price of $0.08 for proceeds of $4.0 million and 37.0 million common shares of Western were issued at a price of $0.08 for proceeds of $3.0 million, for total proceeds of $7.0 million. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase one common share at a price of $0.105 for a period of five years. Share issue costs associated with the Private Placement were approximately $0.3 million. Of the total proceeds, approximately $3.7 million was applied against debt.
(2) As a condition of the completion of the Private Placement, the holders of Western's existing bridge lending facility, subordinated convertible debentures, subscriptions received and other specified obligations (The "Subordinated Debt"), converted the existing Subordinated Debt of approximately $6.1 million in exchange for 12,285,425 common shares of the Company at a price of $0.50 per share. The fair value of the common shares issued was approximately $983,000 resulting in the realization of a gain on the settlement of debt of approximately $5.2 million.
(3) As part of the reorganization, Western completed approximately $1.7 million in property and equipment sales with the proceeds applied against debt.

Comprehensive revaluation adjustment:

(4) As a result of the comprehensive revaluation, all assets and liabilities were revalued at estimated fair values and Western's deficit as at December 22, 2009 after above adjustments was eliminated.

2. Significant accounting policies

Western prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingencies. Significant estimates used in the preparation of the financial statements include, but are not limited to, purchase price allocations on business acquisitions, depreciation of property and equipment, valuation of long-lived assets and goodwill, allowance for doubtful accounts, accruals for long-term incentive plans, accruals for general liability claims and income taxes, and the assumptions used in the valuation of equity instruments such as stock options. Actual results could differ significantly from these estimates.

a. Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All inter-company accounts and transactions have been eliminated.

b. Revenue recognition

(i) Services:

Services for both contract drilling and production services are generally sold based upon service orders or contracts with customers that include fixed or determinable prices based upon daily, hourly or job 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 and 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 on the percentage-of-completion method, as services are provided, and collection is reasonably assured.

(ii) Product Sales:
Revenue on product sales in the production services segment is recognized when there is persuasive evidence that an arrangement exists, the goods have been delivered and title transfers to the customer, the customer assumes risk and rewards of ownership, and collection from the customer is reasonably assured.

c. Inventory

Inventory, comprised of supplies and chemicals to be used in operations, is valued at the lower of cost and net realizable value, using the average cost method, where cost is determined as costs of purchase, costs of conversions and other costs incurred in bringing the inventories to their present location and condition. The reversal of any write down of inventory arising from an increase in net realizable value shall be recognized as a reduction in operating expenses in the period in which the reversal occurs.

d. Property and equipment

The Company's property and equipment is recorded at cost less salvage value and amortized based upon estimates of useful lives. Property and equipment is depreciated as follows:

	Expected life	Basis of depreciation
Buildings	25 years	straight-line
Production services equipment	0.5 to 10 years	straight-line
Drilling rig equipment	4,000 operating days	unit-of-production
Drill pipe and drill collars	1,500 operating days	unit-of-production
Vehicles under capital lease	3 years	straight-line
Shop and office equipment	1 to 5 years	straight-line

Costs including interest related to equipment under construction are capitalized when incurred. No depreciation is recorded on assets under construction until those assets are substantially complete and ready for use. Land is not depreciated.

e. Impairment of long lived assets

On a periodic basis management assesses the carrying value of long lived assets for indications of impairment. Indications of impairment include an ongoing lack of profitability and significant changes in technology. An impairment loss is recognized when the carrying value of a long lived asset exceeds the total undiscounted cash flows expected from its use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

f. Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less any liabilities assumed, based on their fair values. 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.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that goodwill might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting segment is compared to its fair value. When the fair value of a reporting segment exceeds its carrying amount, goodwill of the reporting segment is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of the reporting segment exceeds its fair value, in which case the implied fair value of the reporting segment's goodwill is compared with its carrying amount to

measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of the goodwill is determined in a business combination, using the fair value of the reporting segment as if it was the purchase price. When the carrying amount of the reporting segment's goodwill exceeds the implied fair value of the goodwill, an impairment equal to the excess is recognized in net income.

g. Financial instruments

All financial instruments are initially recorded at fair value in the consolidated balance sheet. The Company has classified each financial instrument into the following categories: assets or liabilities held for trading, assets held to maturity, assets available for sale, loans and receivables and other liabilities. Measurement of these financial instruments subsequent to their initial recognition, along with the accounting treatment for any change in their measurement is based on their classification. Unrealized gains and losses on held for trading instruments are recognized in earnings, while gains and losses on available for sale financial assets are recognized in other comprehensive income and transferred to earnings when realized. The other classifications of financial instruments are recorded at amortized cost using the effective interest method.

The Company has made the following classifications:

- Cash is classified as 'held for trading' and is measured at fair value. Any change in fair value is recorded through earnings.
- Accounts receivable is classified as 'loans and receivables', and is measured at amortized cost using the effective interest method.
- Accounts payable and accrued liabilities and the credit facilities are classified as 'other financial liabilities' and are measured at amortized cost using the effective interest method. Long term debt and capital lease obligations are also 'other financial liabilities' valued in the same fashion.
- Investments are classified as 'available for sale' and are measured at fair value. Any change in fair value is recorded through other comprehensive income.
- The Company has not classified any financial instruments as 'held to maturity'.

h. Net income (loss) per share

Net income (loss) per share is calculated using the weighted average number of shares outstanding for the period. Diluted net income (loss) per share is calculated using the treasury stock method where the deemed proceeds on the exercise of options or warrants and the average unrecognized stock-based compensation are considered to be used to reacquire shares at an average share price for the period.

i. Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences, which are the differences between the carrying amount of an asset or liability and its tax basis. Future tax balances are reflected at the substantively enacted tax rates which are expected to apply when the temporary differences between the accounting and tax balances of the Company's assets and liabilities are reversed. Future tax assets are recorded only when the Company assesses that the realization of these assets is more likely than not.

j. Stock-based compensation

The Company applies the fair value method of accounting for stock based awards, whereby the fair value of the stock-based payment is determined on the date of grant using a Black-Scholes option pricing model and recognized over the vesting period, with a corresponding increase recorded as contributed surplus. All forfeited stock-based payments are cancelled by the Company immediately and no stock-based compensation is recorded on these stock based awards in future periods and any recognized stock-based

compensation expensed in the past periods relating to these awards are reversed. Upon the exercise of the stock-based awards, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase in common shares.

k. Foreign exchange

Monetary assets and liabilities relating to foreign denominated transactions are initially recorded at the rate of exchange in effect at the transaction date. Gains and losses resulting from subsequent changes in foreign exchange rates are recorded in net income for the period.

Western's investment in its foreign subsidiaries, which are all considered integrated foreign operations, are translated using the temporal method. Gains and losses resulting from this translation are included in net income in the period.

l. Deferred charges

Costs associated with obtaining the credit facilities are deferred and amortized on a straight-line basis over the term of the facility. The amortization is included in interest and finance costs.

m. Deferred credits

The Company has received certain lease inducements related to the lease of its head office. These inducements are amortized into income on a straight-line basis over the term of the lease. Deferred credits also include out of the money contracts acquired through business acquisitions and are recorded at fair value and amortized on a straight-line basis over the life of the contract.

n. Intangible assets

Intangible assets are comprised of acquired in-the-money contracts. Intangible assets have determinable useful lives and are amortized on a straight line basis over the estimated lives of the assets. The amortization methods and estimated contract lengths are reviewed annually. The carrying amounts of intangible assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Intangibles are not recoverable if their carrying amounts exceed the sum of the undiscounted cash flows expected to result from their use and eventual disposition. If intangibles are not recoverable, an impairment loss is recognized in an amount by which their carrying amount exceeds their fair value, with fair value determined based on discounted estimated net cash flows.

Changes in accounting policies

On January 1, 2010, the Company early adopted the following CICA Handbook sections:

- "Business Combinations", Section 1582, which replaced the previous business combinations standard. Under the new section, the term "business" is more broadly defined than in the previous standard, most assets acquired and liabilities assumed are measured at fair value, any interest in an acquiree owned prior to obtaining control is remeasured at fair value at the acquisition date (eliminating the need for guidance on step acquisitions), measurement of shares is based on the closing date, a gain on business acquisition results when the fair value of the assets acquired less liabilities assumed exceeds the consideration paid, and acquisition costs are expensed. The adoption of this standard impacted the accounting treatment of business combinations entered into after January 1, 2010 (see Note 3). Adoption of Section 1582 resulted in transaction costs of $1.6 million being expensed in the period, rather than being capitalized as part of the purchase price allocations and gain on business acquisitions of $19.7 million were recognized in income. The impact of these items, results in a $0.04 increase in basic and diluted earnings per share for the year ended December 31, 2010.

- "Consolidated Financial Statements", Section 1601, which, together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard had no material impact on Western's consolidated financial statements.
- "Non-controlling Interests", Section 1602, which establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net income and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard had no material impact on Western's consolidated financial statements.

3. Business acquisitions

i. Pantera Drilling Income Trust ("Pantera")

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 21.9048 common shares of Western for each income trust unit of Pantera. An aggregate of 226,069,721 common shares of Western were issued at an ascribed price of $0.33 per share, based on the closing trading price of Western 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 costs through economies of scale.

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

As at December 17, 2010 (date of acquisition)		Amount
Shares issued	$	74,603
Assumption of bank debt		18,574
	$	93,177

This acquisition has been accounted for using the acquisition method on December 17, 2010, 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. As of the acquisition date, Pantera'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 Pantera acquisition:

As at December 17, 2010		Amount
Net working capital	$	4,158
Property and equipment		61,631
Deferred credit		(52)
Future income tax liability		(1,677)
Goodwill (Note 5)		29,117
	$	93,177

Trade receivables comprise gross contractual amounts due of $8.6 million, all of which was expected to be collectible at the acquisition date.

The Company estimates that had the acquisition closed on January 1, 2010, $29.6 million of revenue (pro forma) for the year ended December 31, 2010 would have been attributable to Pantera's assets. The Company estimates that since the acquisition date $0.8 million of revenue for the period ended December 31, 2010 is attributable to Pantera's assets. The Company cannot reasonably determine the net income amount attributable to Pantera's assets had the acquisition closed on January 1, 2010 or from the date of acquisition as operations were integrated into the Company's existing operations.

The Company assessed the acquisition for intangible assets and concluded that none exist. The allocations described above are preliminary and subject to changes upon finalization of purchase price adjustments. These adjustments may include, but are not limited to, future income tax balance adjustments on the filing of tax returns and final working capital adjustments on the respective balances acquired.

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, however the consideration exchanged was valued based on a price per Western common share of $0.33, 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 acquisition of Pantera of $1.1 million relating to due diligence, as well as external legal and advisory fees, which were expensed in the period incurred.

ii. Impact Drilling Ltd. ("Impact")

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 costs through economies of scale.

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

As at August 25, 2010 (date of acquisition)		Amount
Cash paid	$	247
Assumption of bank debt (net of $0.1 million in cash acquired)		19,554
	$	19,801

This acquisition has been accounted for using the acquisition method on August 25, 2010, whereby the assets acquired and the liabilities assumed were recorded at their fair values with the shortage of the aggregate consideration relative to the fair value of the identifiable net assets recorded as a gain on business acquisition. As of the acquisition date, Impact'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 Impact acquisition:

As at August 25, 2010		Amount
Net working capital (excluding cash)	$	185
Property and equipment		24,519
Deferred credit		(101)
Future income tax asset		3,730
Gain on business acquisition		(8,532)
	$	19,801

Trade receivables comprise gross contractual amounts due of $1.2 million, all of which was expected to be collectible at the acquisition date.

The Company estimates that had the acquisition closed on January 1, 2010, $7.4 million of revenue (pro forma) for the year ended December 31, 2010 would have been attributable to Impact's assets. The Company estimates that since the acquisition date $5.9 million of revenue for the period ended December 31, 2010 is attributable to Impact's assets. The Company cannot reasonably determine the net income amount attributable to Impact's assets had the acquisition closed on January 1, 2010 or from the date of acquisition as operations were integrated into the Company's existing operations.

The Company assessed the acquisition for intangible assets and concluded that none exist. The allocations described above are preliminary and subject to changes upon final purchase price adjustments. These adjustments may include, but are not limited to, future income tax balance adjustments on the filing of tax returns and final working capital adjustments on the respective balances acquired.

The gain on business acquisition is representative of the Company's ability to recognize certain tax assets of Impact together with favourable market conditions.

The Company incurred costs related to the acquisition of Impact of $0.3 million relating to due diligence, as well as external legal and advisory fees, which were expensed in the period incurred.

iii. Cedar Creek Drilling Ltd. ("Cedar Creek")

On March 18, 2010, Western acquired all of the issued and outstanding common shares of Cedar Creek in exchange for 2.66 Western common shares for each Cedar Creek common share. An aggregate of 20,517,331 common shares of Western were issued at an ascribed price of $0.30 per share, based on the closing trading price on March 17, 2010.

The acquisition of Cedar Creek enabled the Company to enter and begin operations in the contract drilling segment of the Canadian oilfield service industry.

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

As at March 18, 2010 (date of acquisition)		Amount
Common shares issued	$	6,155
Assumption of bank debt		12,603
	$	18,758

This acquisition has been accounted for using the acquisition method on March 18, 2010, whereby the assets acquired and the liabilities assumed were recorded at their fair values with the shortage of the aggregate consideration relative to the fair value of the identifiable net assets recorded as a gain on business acquisition.

As of the acquisition date, Cedar Creek'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 Cedar Creek acquisition:

As at March 18, 2010		Amount
Net working capital	$	1,990
Property and equipment		19,146
Intangible assets (Note 5)		222
Future income tax liability		(592)
Gain on business acquisition		(2,008)
	$	18,758

Trade receivables comprise gross contractual amounts due of $4.0 million, all of which was expected to be collectible at the acquisition date.

The Company estimates that had the acquisition closed on January 1, 2010, $18.9 million of revenue (pro forma) for the year ended December 31, 2010 would have been attributable to Cedar Creek's assets. The Company estimates that since the acquisition date $15.5 million of revenue for the period ended December 31, 2010 is attributable to Cedar Creek's assets. The Company cannot reasonably determine the net income amount attributable to Cedar Creek's assets had the acquisition closed on January 1, 2010 or from the date of acquisition as operations were integrated into the Company's existing operations.

The gain on business acquisition is representative of the Company's ability to acquire certain oilfield service equipment under favourable market conditions.

The Company incurred costs related to the acquisition of Cedar Creek of $0.1 million relating to due diligence, as well as external legal and advisory fees, which were expensed in the period incurred.

iv. Horizon Drilling Inc. ("Horizon")

On March 18, 2010, through a series of transactions, Western acquired control of all of the issued and outstanding common shares of Horizon for cash consideration of approximately $41.4 million.

The acquisition of Horizon enabled the Company to enter and begin operations in the contract drilling segment of the Canadian oilfield service industry.

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

As at March 18, 2010 (date of acquisition)		Amount
Cash paid	$	41,430
Assumption of bank debt (net of $5.6 million in cash acquired)		24,289
	$	65,719

This acquisition has been accounted for using the acquisition method on March 18, 2010, whereby the assets acquired and the liabilities assumed were recorded at their fair values with the shortage of the aggregate consideration relative to the fair value of the identifiable net assets recorded as a gain on business acquisition. As of the acquisition date, Horizon'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 Horizon acquisition:

As at March 18, 2010		Amount
Net working capital (excluding cash)	$	8,510
Property and equipment		71,175
Intangible assets (Note 5)		343
Future income tax asset		1,241
Deferred credit		(355)
Future income tax liability		(6,082)
Gain on business acquisition		(9,113)
	$	65,719

Trade receivables comprise gross contractual amounts due of $14.9 million, all of which was expected to be collectible at the acquisition date.

The Company estimates that had the acquisition closed on January 1, 2010, $46.3 million of revenue (pro forma) for the year ended December 31, 2010 would have been attributable to Horizon's assets. The Company estimates that since the acquisition date $33.8 million of revenue for the period ended December 31, 2010 is attributable to Horizon's assets. The Company cannot reasonably determine the net income amount attributable to Horizon's assets had the acquisition closed on January 1, 2010 or from the date of acquisition as operations were integrated into the Company's existing operations.

The gain on business acquisition is representative of the Company's ability to acquire certain oilfield service equipment under favourable market conditions.

The Company incurred costs related to the acquisition of Horizon of $0.1 million relating to due diligence, as well as external legal and advisory fees, which were expensed in the period incurred.

4. Property and equipment

	December 31, 2010					
		Cost		Accumulated depreciation		Net book value
Land	$	934	$	-	$	934
Buildings		1,366		56		1,310
Drilling rigs and related equipment		180,753		5,682		175,071
Production services equipment		6,050		653		5,397
Shop and office equipment		653		180		473
Vehicles under capital lease		665		49		616
Assets under construction		11,485		-		11,485
	$	201,906	$	6,620	$	195,286

Of the $11.5 million in assets under construction at December 31, 2010, $8.5 million relates to the construction of a top drive telescopic efficient long-reach double drilling rig, which was commissioned in the first quarter of 2011, $2.7 million relates to rig upgrades and equipment and $0.3 million relates to construction of a pressure truck in the production services segment.

	December 31, 2009		
	Cost	Accumulated depreciation	Net book value
Production service	$ 5,380	$ 37	$ 5,343
Shop and office equipment	61	2	59
Vehicles under capital lease	12	-	12
	$ 5,453	$ 39	$ 5,414

5. Goodwill and intangible assets

	Drilling contracts	Goodwill
January 1, 2010	$ -	$ -
Additions (Note 3)	565	29,117
Amortization	(565)	-
December 31, 2010	$ -	$ 29,117

Drilling contracts with favourable terms were acquired as part of the acquisitions of Cedar Creek and Horizon on March 18, 2010. These intangible assets have been identified and recorded at their fair values as of the date of the acquisition. As at December 31, 2010, the drilling contracts were fully amortized.

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, however the consideration exchanged was valued based on a price per Western common share of $0.33, 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. At December 31, 2010, an impairment test was performed on goodwill using management's best estimate of discounted future cash flows. The test indicated that the fair value exceeded the carrying amount. As such, Western determined that there was no impairment of goodwill as at December 31, 2010.

6. Long term debt

	December 31, 2010	December 31, 2009
Revolving credit facility	$ 45,000	$ -
Bank loans - mortgages	1,111	-
Capital lease obligations	456	22
	46,567	22
Less: current portion	(513)	(5)
Total	$ 46,054	$ 17

On December 15, 2010, Western announced the increase and syndication of its credit facilities. The credit facilities consist of a $10 million operating demand revolving loan (the "Operating Facility"), and a $65 million 364-day committed extendible revolving credit facility (the "Revolving Facility"). The purpose of the Revolving Facility is to assist the Company in completing corporate acquisitions and financing the construction of additional equipment. The Operating Facility is to be used for general corporate purposes. As at December 31, 2010, the Company had $20.0 million in available credit under the Revolving Facility and $10.0 million under the Operating Facility.

The Revolving Facility requires interest to be paid monthly with no scheduled principal repayment unless the Revolving Facility is not extended. The extension date ("Term-Out Date") is December 13, 2011. If not extended at the Term-Out Date, the Revolving Facility is capped and repayable over the ensuing two year

period by quarterly repayments of 1/8th of the amount outstanding at the Term-Out Date with the final payment covering the remaining balance due two years from the Term-Out Date. These payments would commence 12 months after the Term-Out Date. The Operating Facility principal balance is due on demand with interest paid monthly. Amounts borrowed under the credit facilities will bear interest at the bank's prime rate plus 1.25% to 2.5% or the banker's acceptance rate plus 225 bps to 350 bps depending, in each case, on the ratio of consolidated debt to consolidated EBITDA. The credit facilities are secured by the assets of the Company.

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

	Covenant
Minimum Current Ratio	1.25 to 1.00 or more
Maximum Consolidated Debt to Consolidated EBITDA Ratio [(1)(2)]	2.5 to 1.0 or less
Maximum Consolidated Debt to Consolidated Capitalization Ratio	0.60 to 1.0 or less
Minimum Consolidated EBITDA to Consolidated Interest Expense Ratio	2.0 to 1.0 or more

[(1)] In the event during any fiscal quarter, Consolidated Debt has been incurred to finance a material acquisition the ratio shall increase to 3.0 to 1.0 for the fiscal quarter immediately following.

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

As at December 31, 2010, the Company is in compliance with all covenants related to its credit facilities. During the year ended December 31, 2010, the Company incurred interest and financing costs of approximately $0.9 million (January 1, 2009 to December 22, 2009 - $0.1 million, December 23, 2009 to December 31, 2009 - nil) on its long term debt. The Company incurred an average interest rate of 4.27% (January 1, 2009 to December 22, 2009 – 5.1%. December 23, 2009 to December 31, 2009 – nil).

7. Common shares

a. Authorized

Unlimited number of common shares.

b. Issued

Common shares	Shares		Amount
Balance, December 31, 2008	32,246,405	$	14,554
Private placement - December 22, 2009 (Note 1)	87,500,000		7,000
Issued on reorganization - December 22, 2009 (Note 1)			
Issued on conversion of debt	11,875,425		950
Issued on conversion of share subscriptions	410,000		33
Issue costs	-		(298)
Comprehensive revaluation (Note 1)	-		(13,986)
Balance, December 31, 2009	132,031,830	$	8,253
Issued for cash - March 18, 2010	375,000,000		75,000
Issued on acquisition of Cedar Creek (Note 3(iii))	20,517,331		6,155
Issued on acquisition of Pantera (Note 3(i))	226,069,721		74,603
Issue costs	-		(4,116)
Balance, December 31, 2010	753,618,882	$	159,895

c. Stock option plan

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

	Stock options outstanding		Weighted average exercise price
Balance, December 31, 2008	452,083	$	2.390
Expired / Forfeited	(282,080)		2.410
Balance, December 31, 2009	170,003		2.370
Granted	22,300,000		0.285
Expired / Forfeited	(1,818,336)		0.479
Balance, December 31, 2010[1]	20,651,667	$	0.285

(1) Diluted weighted average common shares outstanding for year ended December 31, 2010 does not include the share impact of 20,651,667 share options, as the impact would be anti-dilutive.

Exercise price ($/share)	Number of options outstanding	Weighted average remaining contractual life (years)	Number of options exercisable
0.285	20,650,000	4.33	-
1.32	1,667	1.24	1,667
	20,651,667	4.33	1,667

The average fair value of the stock options granted in 2010 was $0.11 per stock option at an exercise price of $0.285 per stock option. For the year ended December 31, 2010, the Company recorded approximately $0.6 million in stock-based compensation expense. The accounting fair value as at the date of grants for the year ended December 31, 2010 is calculated in accordance with a Black-Scholes model using the following inputs:

Weighted average risk-free interest rate	2%
Average expected life	3.0 years
Expected dividend	nil
Expected share price volatility	60%

d. Warrants

	Warrants outstanding		Weighted average exercise price
Balance, December 31, 2008	2,548,805	$	1.920
Expired	(2,548,805)		1.920
Granted, December 22, 2009	50,500,000		0.105
Balance, December 31, 2010 and 2009	50,500,000	$	0.105

Pursuant to the private placement completed on December 22, 2009, 50,500,000 warrants were issued entitling the holder to purchase one common share at a price of $0.105 for a period of five years (see Note 1).

8. Commitments

The Company has commitments for office and shop premises and various operating vehicles and equipment leases which require payments for the next five years as follows:

	2011	2012	2013	2014	2015 and beyond	Total
Operating leases	$ 1,626	$ 1,241	$ 1,000	$ 575	$ -	$ 4,442
Capital commitments	3,649	16	-	-	-	3,665
Purchase commitments	389	-	-	-	-	389
Total	$ 5,664	$ 1,257	$ 1,000	$ 575	$ -	$ 8,496

9. Financial instruments

The Company's consolidated financial instruments include cash, accounts receivable, investments, accounts payable and accrued liabilities, and long term debt. Cash and investments are carried at fair value. The carrying amount of accounts receivable and accounts payable and accrued liabilities approximates their fair values due to their short term nature. The long term debt is recorded at amortized cost, but as there are no transaction costs associated with our bank debt and the financing costs are included in deferred charges, there is no difference between the carrying value and the fair value.

a. Interest rate risk

The Company is exposed to interest rate risk on certain debt instruments to the extent of changes in the prime interest rate. Currently the Company's credit facilities are subject to interest rate changes. For the credit facilities, a one percent change in interest rates would have an approximately $0.1 million impact on interest expense for the year ended December 31, 2010. Other long term debt, such as capital leases, are subject to fixed rates.

b. Foreign exchange risk

The Company is exposed to foreign currency fluctuations in relation to its US dollar capital expenditures and international operations. Periodically, the Company enters into forward foreign exchange contracts to mitigate the impact of foreign exchange fluctuations. At December 31, 2010, Western had forward foreign exchange contracts outstanding totalling US $1.0 million, which were settled in January 2011. The fair value of these contracts at December 31, 2010 was nominal. For the year ended December 31, 2010, the increase or decrease in net income before taxes for each one percent change in foreign exchange rates between the Canadian and US dollars is estimated to be less than $0.1 million.

c. 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 accounts receivable. 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, 2010, approximately 98% of the Company's trade accounts receivable are less than 90 days old. During the year ended December 31, 2010, there have been no significant changes to the allowance for doubtful accounts.

The table below provides an analysis of our accounts receivable aging:

		December 31, 2010
Trade accounts receivable		
Current	$	14,897
Outstanding for 31 to 60 days		11,562
Outstanding for 61 to 90 days		2,718
Outstanding for over 90 days		470
Less: allowance for doubtful accounts		(100)
Other accounts receivable		1,674
Total	$	31,221

Other accounts receivable consists mainly of input tax credits of approximately $0.8 million and accrued revenues of approximately $0.8 million. For the year ended December 31, 2010, the Company had one significant customer comprising 16.3% of total revenue. No other single customer represents greater than 10% of the Company's total revenue for the year ended December 31, 2010.

d. Liquidity risk

Liquidity risk is the risk the Company will not meet its financial obligations as they become due. The Company manages liquidity risk through management of its capital structure, monitoring and reviewing actual and forecasted cash flows and the effect on bank covenants, and maintaining unused credit facilities where possible to ensure there is available cash resources to meet the Company's liquidity needs. The Company's existing credit facilities and cash flow from operating activities are expected to be greater than anticipated capital expenditures and the contractual maturities of the Company's financial liabilities. This expectation could be adversely affected by a material negative change in the Canadian oilfield service industry (See Notes 6 and 8).

e. Fair value

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

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

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

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

The Company's cash and investments are the only financial assets or liabilities measured using fair value. The Company's cash and investments are categorized as level 1 as there are quoted prices in an active market for these instruments.

10. Capital management

The capital structure of the Company consists of cash, credit facilities, other current and long term debt instruments and common shares. The overall capitalization of the Company is outlined below:

	December 31, 2010	December 31, 2009
Credit facilities	$ 45,000	$ -
Bank loans - mortgages	1,111	-
Capital lease obligations	456	22
Total debt	46,567	22
Shareholders' equity	187,322	8,077
Less: cash	(3,475)	(2,386)
Total capitalization	$ 230,414	$ 5,713

Management is focused on several objectives while managing the capital structure of the Company. Specifically:

- **a.** Ensuring Western has the financing capacity to continue to execute on opportunities to increase overall market share through strategic acquisitions that add value for our shareholders;
- **b.** Maintaining a strong capital base to ensure that investor, creditor and market confidence is secured;
- **c.** Maintaining balance sheet strength, ensuring Western's strategic objectives are met, while retaining an appropriate amount of leverage; and
- **d.** 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.

Western 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 credit facilities, issuing new debt or equity securities when opportunities are identified and through the disposition of underperforming assets to reduce debt. As at December 31, 2010, the Company had $30.0 million in available credit under its credit facilities and is in compliance with all debt covenants (see Note 6).

11. Income taxes

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate income tax rate to income (loss) before income taxes. The major components of these differences are explained as follows:

	After comprehensive revaluation	After comprehensive revaluation	Before comprehensive revaluation
	Year ended December 31, 2010	December 23, 2009 to December 31, 2009	January 1, 2009 to December 22, 2009
Income (loss) from continuing operations before taxes	$28,648	$ (1,975)	$ (3,934)
Corporate income tax rate	28%	29%	29%
Expected tax expense (recovery)	$ 8,021	$ (573)	$ (1,141)
Increase (decrease) in future income taxes resulting from:			
Non-deductible interest and penalties	-	-	50
Gain on business acquisitions	(5,503)	-	-
Non-deductible expenses	866	532	28
Permanent differences relating to goodwill impairment	-	-	174
Change in effective tax rate on temporary differences	(854)	-	263
Change in estimates	(582)	-	-
Other	(83)	32	115
Change in valuation allowance	(1,328)	9	561
Income tax expense	$ 537	$ -	$ 50

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of Western's future income tax assets and liabilities are as follows:

	After comprehensive revaluation	After comprehensive revaluation	Before comprehensive revaluation
Nature of temporary differences	December 31, 2010	December 31, 2009	December 22, 2009
Property and equipment	$ (15,621)	$ 2,725	$ 2,715
Non-capital losses	14,032	60	61
Share issue costs and finance fees	912	133	133
Other	83	-	-
	(594)	2,918	2,909
Valuation allowance	(3,341)	(2,918)	(2,909)
Net future income tax liability	$ (3,935)	$ -	$ -

As at December 31, 2010, the Company has non-capital losses from continuing operations available for carry forward totaling $54.6 million (2009 - $0.2 million), of which $51.4 million (2009 - $0.2 million) relates to Canadian entities, and $3.2 million (2009 – 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:

2011	$	-
2012		-
2013		-
2014		-
2015 and beyond		54,628
Total	$	54,628

12. Segmented information

As at December 31, 2010, Western operates in two main industry segments, Contract Drilling and Production Services. Subsequent to the discontinuation of the United States and international geographic operations (Note 13), the Company only operates in the Canadian geographic region. Contract drilling includes drilling rigs along with related equipment. Production services include various oilfield services relating to stimulation and fluid pumping, nitrogen services, specialty solvents and laboratory services. Segment profit (loss) is calculated by taking each segment's revenue, less operating, general and administrative and depreciation expenses.

After comprehensive revaluation Year ended December 31, 2010		Contract Drilling [1]		Production Services		Corporate		Total
Continuing operations:								
Revenue	$	56,009	$	11,534	$	-	$	67,543
Segment profit (loss)		14,712		2,271		(4,098)		12,885
Depreciation		5,835		759		89		6,683
Total assets		249,685		13,302		1,600		264,587
Goodwill		29,117		-		-		29,117
Expenditures on capital items	$	20,976	$	3,308	$	306	$	24,590

[1] Contract drilling segment acquired on March 18, 2010 (Note 3).

After comprehensive revaluation December 23, 2009 to December 31, 2009		Contract Drilling		Production Services		Corporate		Total
Continuing operations:								
Revenue	$	-	$	151	$	-	$	151
Segment loss		-		(14)		(126)		(140)
Depreciation		-		38		-		38
Total assets		-		9,109		201		9,310
Expenditures on capital items	$	-	$	-	$	-	$	-

Before comprehensive revaluation January 1, 2009 to December 22, 2009	Contract Drilling	Production Services	Corporate	Total
Continuing operations:				
Revenue	$ -	$ 3,785	$ -	$ 3,785
Segment loss	-	(1,270)	(1,575)	(2,845)
Depreciation	-	1,652	(1)	1,651
Total assets	-	8,972	80	9,052
Expenditures on capital items	$ -	$ 99	$ -	$ 99

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

	Year ended December 31, 2010	December 23, 2009 to December 31, 2009	January 1, 2009 to December 22, 2009
Continuing operations:			
Total segment profit (loss)	$ 12,885	$ (140)	$ (2,845)
Add (deduct):			
Amortization of intangibles	(565)	-	-
Stock-based compensation	(554)	(1,835)	-
Loss on sale of assets	(139)	-	(608)
Interest and finance costs	(887)	-	(85)
Foreign exchange gain (loss)	(159)	-	203
Goodwill impairment	-	-	(599)
Acquisition costs	(1,586)	-	-
Gain on business acquisitions	19,653	-	-
Income (loss) from continuing operations before taxes	$ 28,648	$ (1,975)	$ (3,934)

13. Discontinued operations

During the second quarter of 2010, the Company determined its United States and international production services divisions 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.

	Year ended December 31, 2010	December 23, 2009 to December 31, 2009	January 1, 2009 to December 22, 2009
Revenue from discontinued operations	$ 55	$ 33	$ 1,677
Net loss before tax from discontinued operations	$ (971)	$ (36)	$ (1,921)
Income tax expense	91	-	583
Net loss from discontinued operations	$ (1,062)	$ (36)	$ (2,504)

The following table provides additional information with respect to amounts included in the December 31, 2010 and 2009 balance sheets as assets and liabilities of discontinued operations:

	December 31, 2010	December 31, 2009
Current assets:		
Accounts receivable	$ 34	$ 906
Prepaid expenses	4	106
Total current assets	38	1,012
Long term assets:		
Property and equipment	28	1,897
Total long term assets	$ 28	$ 1,897
Current liabilities:		
Accounts payable and accrued liabilities	$ 476	$ 1,520
Total current liabilities	476	1,520
Long term liabilities:		
Long term debt	-	48
Total long term liabilities	$ -	$ 48

The cash flows from discontinued operations for periods ended December 31, 2010, December 31, 2009 and December 22, 2009 are as follows:

	Year ended December 31, 2010	December 23, 2009 to December 31, 2009	January 1, 2009 to December 22, 2009
Operating activities:			
Net loss	$ (1,062)	$ (36)	$ (2,504)
Items not affecting cash:			
Depreciation	3	8	812
Loss on sale of assets	1	-	179
Goodwill impairment	-	-	113
Unrealized foreign exchange gain	(80)	-	(458)
Gain on debt settlement	-	-	(245)
Net change in non-cash working capital	174	16	556
	(964)	(12)	(1,547)
Investing activities:			
Proceeds on sale of property and equipment	1,694	-	2,684
Additions of property and equipment	-	-	(182)
	1,694	-	2,502
Financing activities:			
Repayment of long term debt	(164)	-	(292)
	(164)	-	(292)
Increase (decrease) in cash and cash equivalents	$ 566	$ (12)	$ 663

14. Related party transactions

Western sold auxiliary drilling equipment acquired as part of the Impact acquisition, via a bid process, for $2.6 million to a company that shares common directors with Western. The transaction was in the normal course of operations and has been measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties and which, in the opinion of management, are considered similar to those negotiable with third parties.

15. Subsequent events

On January 5, 2011, Western purchased a mechanical, telescopic double drilling rig from a private company for $7.0 million, which was financed entirely through debt.

On March 29, 2011, Western completed a public offering for 192,500,000 common shares at a price of $0.39 per share 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 at $0.39 per share for gross proceeds of approximately $11.3 million. The underwriters were paid commissions of approximately $4.3 million with respect to that public offering. Western will use the proceeds for working capital requirements and to temporarily reduce bank indebtedness under its credit facilities, which may be subsequently redrawn and applied as needed to fund Western's general working capital purposes and strategic acquisitions of assets or businesses.

On March 31, 2011, Western sold auxiliary drilling equipment for approximately $2.5 million.

On April 7, 2011, the Company announced that it had entered into an Arrangement Agreement whereby, subject to certain conditions, the Company will acquire all of the issued and outstanding units of Stoneham Drilling Trust ("Stoneham") in exchange for a combination of cash and common shares of Western. The total transaction value is approximately $245 million, including the assumption of approximately $53 million in debt and transaction costs. A portion of the consideration will be paid for in shares of the Company at an ascribed value of $0.39 per Western share. In accordance with IFRS 3, *Business Combinations*, the actual consideration will be determined based on the closing price of Western's shares immediately before the acquisition. The transaction is expected to be completed by way of a Plan of Arrangement under the Business Corporations Act of Alberta and is subject to normal stock exchange, court and regulatory approvals and the approval by at least 66 2/3 percent of the outstanding units of Stoneham voted at the special meeting. A special meeting of the unitholders of Stoneham will be held in mid-June to vote on the transaction.

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