Western Energy Services Corp.

Condensed Consolidated Financial Statements

June 30, 2013 and 2012

(Unaudited)

Western Energy Services Corp.

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

	Note	June 30, 2013	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents		$ 12,261	$ 6,588
Trade and other receivables		39,028	79,782
Other current assets		5,427	38,989
		56,716	125,359
Non current assets			
Property and equipment	6	758,557	568,157
Goodwill		88,284	55,527
Other non current assets		325	405
		$ 903,882	$ 749,448
Liabilities			
Current liabilities			
Trade payables and other current liabilities		$ 27,372	$ 37,239
Dividends payable		5,501	4,469
Current portion of provisions		174	242
Current portion of long term debt	7	870	5,781
		33,917	47,731
Non current liabilities			
Provisions		2,027	2,095
Long term debt	7	232,529	186,948
Deferred taxes		87,022	57,884
		355,495	294,658
Shareholders' equity			
Share capital	8	410,951	322,878
Contributed surplus		4,677	4,689
Retained earnings		127,113	125,579
Accumulated other comprehensive income		4,454	1,644
Non controlling interest		1,192	-
		548,387	454,790
		$ 903,882	$ 749,448

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

Western Energy Services Corp.

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

	Note	Three months ended June 30 2013	Three months ended June 30 2012	Six months ended June 30 2013	Six months ended June 30 2012
Revenue		$ 50,835	$ 44,819	$ 148,841	$ 155,706
Operating expenses		42,608	35,768	110,679	106,248
Gross profit		8,227	9,051	38,162	49,458
Administrative expenses		7,578	5,286	14,877	11,872
Finance costs	11	3,995	3,250	7,754	6,031
Other items		1,044	(335)	(42)	(304)
Income (loss) before income taxes		(4,390)	850	15,573	31,859
Income taxes	12	(1,009)	23	4,051	8,024
Net income (loss)		(3,381)	827	11,522	23,835
Other comprehensive income [1]					
Gain on translation of foreign operations		(1,562)	(872)	(2,503)	(86)
Loss on change in fair value of available for sale assets (net of tax)		-	2,821	1,621	3,157
Unrealized foreign exchange gain on net investment in subsidiary (net of tax)		(1,378)	(698)	(1,928)	(37)
Comprehensive income (loss)		$ (441)	$ (424)	$ 14,332	$ 20,801
Net earnings (loss) attributable to:					
Shareholders of the Company		$ (3,394)	$ 827	$ 11,509	$ 23,835
Non controlling interest		13	-	13	-
Comprehensive income (loss) attributable to:					
Shareholders of the Company		$ (454)	$ (424)	$ 14,319	$ 20,801
Non controlling interest		13	-	13	-
Net income (loss) per share:					
Basic		$ (0.05)	$ 0.01	$ 0.18	$ 0.41
Diluted		(0.05)	0.01	0.17	0.39
Weighted average number of shares:					
Basic	10	69,594,802	58,533,287	64,630,363	58,533,287
Diluted	10	69,594,802	60,429,663	65,957,534	60,612,851

(1) Other comprehensive income includes items that may be subsequently reclassified into profit and loss.

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

Western Energy Services Corp.

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

	Note	Share capital	Contributed surplus (1)	Retained earnings	Accumulated other comprehensive income(2)	Non controlling interest	Total shareholders' equity
Balance at December 31, 2011		$ 319,698	$ 3,625	$ 89,325	$ 1,677	$ -	$ 414,325
Stock based compensation		-	1,043	-	-	-	1,043
Comprehensive income (loss)		-	-	23,835	(3,034)	-	20,801
Balance at June 30, 2012		319,698	4,668	113,160	(1,357)	-	436,169
Common shares:							
Issued for cash on exercise of stock options	8	307	-	-	-	-	307
Issued for cash on exercise of warrants	8	2,094	-	-	-	-	2,094
Fair value of exercised options and warrants	8	779	(779)	-	-	-	-
Stock based compensation		-	800	-	-	-	800
Dividends declared		-	-	(8,924)	-	-	(8,924)
Comprehensive income		-	-	21,343	3,001	-	24,344
Balance at December 31, 2012		322,878	4,689	125,579	1,644	-	454,790
Common shares:							
Issued common shares on acquisition	8	84,000	-	-	-	-	84,000
Issued for cash on exercise of stock options	8	105	-	-	-	-	105
Issued for cash on exercise of warrants	8	2,920	-	-	-	-	2,920
Fair value of exercised options and warrants	8	1,048	(1,048)	-	-	-	-
Stock based compensation		-	1,036	-	-	-	1,036
Dividends declared		-	-	(9,975)	-	-	(9,975)
Non controlling interest	5	-	-	(13)	-	1,192	1,179
Comprehensive income		-	-	11,522	2,810	-	14,332
Balance at June 30, 2013		$ 410,951	$ 4,677	$ 127,113	$ 4,454	$ 1,192	$ 548,387

(1) Contributed surplus relates to stock based compensation described in Note 9.

(2) At June 30, 2013, the accumulated other comprehensive income balance consists of the translation of foreign operations and unrealized foreign exchange on net investment in subsidiary.

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

Western Energy Services Corp.

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

	Note	Three months ended June 30 2013	Three months ended June 30 2012	Six months ended June 30 2013	Six months ended June 30 2012
Operating activities					
Net income (loss)		$ (3,381)	$ 827	$ 11,522	$ 23,835
Adjustments for:					
Depreciation included in operating expenses		7,642	4,941	18,498	14,605
Depreciation included in administrative expenses		369	178	764	372
Stock based compensation included in operating expenses		218	116	372	258
Stock based compensation included in administrative expenses		321	364	664	785
Gain on sale of assets		(29)	(64)	(1,264)	(76)
Income taxes	12	(1,009)	23	4,051	8,024
Unrealized foreign exchange loss		(60)	(53)	(55)	24
Finance costs	11	3,995	3,250	7,754	6,031
Other		(70)	(45)	(140)	(84)
Cash generated from operating activities		7,996	9,537	42,166	53,774
Income taxes paid		(907)	(430)	(6,786)	(2,485)
Change in non-cash working capital		41,292	49,823	35,445	33,358
Cash flow from operating activities		48,381	58,930	70,825	84,647
Investing activities					
Additions to property and equipment	6	(18,547)	(39,602)	(36,703)	(76,005)
Proceeds on sale of property and equipment		592	183	646	475
Business acquisitions	5	(62,898)	-	(62,898)	-
Purchase of investments		-	(27,407)	-	(33,211)
Proceeds from sale of investments		-	-	34,444	-
Contributions from non controlling interest		670	-	670	-
Changes in non-cash working capital		1,128	(1,869)	1,050	(1,604)
Cash flow from (used in) investing activities		(79,055)	(68,695)	(62,791)	(110,345)
Financing activities					
Issue of common shares	8	2,833	-	3,025	-
Advance (repayment) of long term debt		21,233	(89)	10,639	(115,306)
Issuance of senior notes		-	-	-	175,000
Issue costs of senior notes		-	50	-	(4,450)
Finance costs paid		(135)	140	(7,082)	(116)
Dividends paid		(4,474)	-	(8,943)	-
Change in non-cash working capital		-	(57)	-	-
Cash flow (used in) from financing activities		19,457	44	(2,361)	55,128
(Decrease) increase in cash and cash equivalents		(11,217)	(9,721)	5,673	29,430
Cash and cash equivalents, beginning of period		23,478	39,151	6,588	-
Cash and cash equivalents, end of period		$ 12,261	$ 29,430	$ 12,261	$ 29,430
Cash and cash equivalents:					
Bank accounts		$ 12,261	$ 9,434	$ 12,261	$ 9,434
Short term investments		-	19,996	-	19,996
		$ 12,261	$ 29,430	$ 12,261	$ 29,430

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

1. Reporting entity:

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the registered office is 1700, 215 - 9th Avenue SW, Calgary, Alberta. Western is a publicly traded company that is listed on the Toronto Stock Exchange under the symbol "WRG". These condensed consolidated financial statements as at and for the three and six months ended June 30, 2013 and 2012 (the "Financial Statements") are comprised of Western, its divisions and its wholly owned subsidiaries (together referred to as the "Company"). The Company is an oilfield service company providing contract drilling services through its division, Horizon Drilling ("Horizon") in Canada, and its wholly owned subsidiary Stoneham Drilling Corporation ("Stoneham") in the United States. Subsequent to the acquisition of IROC Energy Services Corp. ("IROC") on April 22, 2013, Western provides well servicing operations through IROC Energy Services Partnership's (the "Partnership") division Eagle Well Servicing ("Eagle"). Previously, well servicing operations were conducted through Western's division Matrix Well Servicing ("Matrix"). Western also provides oilfield rental services through the Partnership's division Aero Rental Services ("AERO"). Financial and operating results for Eagle and AERO from the date of the acquisition, as well as Matrix are included in Western's production services segment.

2. Basis of preparation and significant accounting policies:

Statement of compliance:

These Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board. These Financial Statements have been prepared using accounting policies and judgments which are consistent with Notes 3 and 4 of the audited annual consolidated financial statements as at December 31, 2012 and for the years ended December 31, 2012 and 2011 as filed on SEDAR at www.sedar.com and, as such, they should be read in conjunction with said statements.

As at January 1, 2013, the Company adopted the following standards:

- IFRS 10, Consolidated Financial Statements, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27, Consolidated and Separate Financial Statements, and the Standing Interpretations Committee Standard 12, Consolidation—Special Purpose Entities. Subsequent to the acquisition of IROC, a portion of the Company's operations are conducted through an arrangement where the Company and a third party each have a 50% interest. Based on the criteria outlined in IFRS 10, the Company determined that, for financial reporting purposes, the Company has control of the arrangement. As a result, the Company fully consolidated the arrangement and has recorded a non controlling interest in equity and net earnings.
- IFRS 12, Disclosure of Interests in Other Entities, applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. The Company assessed the effect of IFRS 12 on its financial results and financial position and has determined there is no material impact.
- IFRS 13, Fair Value Measurement, defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. The Company assessed the effect of IFRS 13 on its financial results and financial position and has determined there is no material impact.

These Financial Statements were approved for issuance by Western's Board of Directors on July 31, 2013.

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

3. Seasonality:

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

4. Operating segments:

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

The Company's Chief Executive Officer, President and Chief Operating Officer and Chief Financial Officer review internal management reports for these segments on at least a monthly basis.

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

The following is a summary of the Company's results by segment for the three and six months ended June 30, 2013 and 2012:

Three months ended June 30, 2013	Contract Drilling	Production Services	Corporate	Total
Revenue	$ 38,482	$ 12,353	$ -	$ 50,835
Segment profit (loss)	3,237	(279)	(1,770)	1,188
Finance costs	-	-	3,995	3,995
Income taxes	-	-	(1,009)	(1,009)
Depreciation	5,771	1,963	277	8,011
Additions to property and equipment	16,322	2,129	96	18,547

Three months ended June 30, 2012	Contract Drilling	Production Services	Corporate	Total
Revenue	$ 44,330	$ 489	$ -	$ 44,819
Segment profit (loss)	5,750	(578)	(927)	4,245
Finance costs	-	-	3,250	3,250
Income taxes	-	-	23	23
Depreciation	4,964	85	70	5,119
Additions to property and equipment	36,305	1,836	1,461	39,602

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

4. Operating segments (continued):

Six months ended June 30, 2013	Contract Drilling	Production Services	Corporate	Total
Revenue	$ 134,949	$ 13,892	$ -	$ 148,841
Segment profit (loss)	28,537	(765)	(3,451)	24,321
Finance costs	-	-	7,754	7,754
Income taxes	-	-	4,051	4,051
Depreciation	16,550	2,162	550	19,262
Additions to property and equipment	33,977	2,516	210	36,703

Six months ended June 30, 2012	Contract Drilling	Production Services	Corporate	Total
Revenue	$ 154,968	$ 738	$ -	$ 155,706
Segment profit (loss)	42,343	(1,289)	(2,425)	38,629
Finance costs	-	-	6,031	6,031
Income taxes	-	-	8,024	8,024
Depreciation	14,681	136	160	14,977
Additions to property and equipment	68,631	5,253	2,121	76,005

Goodwill	Contract Drilling	Production Services	Corporate	Total
Balance, June 30 and December 31, 2012	$ 55,527	$ -	$ -	$ 55,527
Additions: IROC acquisition (Note 5)	-	32,757	-	32,757
Balance at June 30, 2013	$ 55,527	$ 32,757	$ -	$ 88,284

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

As at June 30, 2013	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 655,794	$ 235,469	$ 12,619	$ 903,882
Total liabilities	80,178	31,914	243,403	355,495

As at June 30, 2012	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 625,698	$ 12,012	$ 61,646	$ 699,356
Total liabilities	81,199	2,038	179,950	263,187

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

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Segment profit	$ 1,188	$ 4,245	$ 24,321	$ 38,629
Add (deduct):				
Stock based compensation	(539)	(480)	(1,036)	(1,043)
Finance costs	(3,995)	(3,250)	(7,754)	(6,031)
Other items	(1,044)	335	42	304
Income (loss) before income taxes	$ (4,390)	$ 850	$ 15,573	$ 31,859

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

4. Operating segments (continued):

Segmented information by geographic area is as follows:

As at and for the period ended June 30, 2013	Canada	United States	Total
Revenue: three months ended	$ 44,565	$ 6,270	$ 50,835
Revenue: six months ended	135,926	12,915	148,841
Property and equipment	668,827	89,730	758,557
Total assets	804,675	99,207	903,882

As at and for the period ended June 30, 2012	Canada	United States	Total
Revenue: three months ended	$ 33,917	$ 10,902	$ 44,819
Revenue: six months ended	132,878	22,828	155,706
Property and equipment	451,488	85,091	536,579
Total assets	602,477	96,879	699,356

Significant customers:
For the three months ended June 30, 2013, the Company had three significant customers comprising 15.7%, 15.5% and 11.6% respectively, of the Company's total revenue. The trade receivable balances related to these customers as at June 30, 2013 represented 13.8%, 12.9% and 3.3% respectively, of the Company's total trade and other receivable balance. For the six months ended June 30, 2013, the Company had two significant customers comprising 12.7% and 10.7% respectively, of the Company's total revenue. The trade receivable balance related to these customers as at June 30, 2013 represented 13.8% and 12.9% respectively, of the Company's total trade and other receivable balance.

For the three months ended June 30, 2012, the Company had two significant customers comprising 16.1% and 13.7% respectively, of the Company's total revenue. For the six months ended June 30, 2012, the Company had no single customer representing greater than 10% of the Company's total revenue.

5. Business acquisition and non controlling interest:

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

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

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

As at April 22, 2013	Amount
Cash paid	$ 62,934
Shares issued	84,000
Assumption of bank debt (net of $36 in cash acquired)	29,410
	$ 176,344

This acquisition has been accounted for using the acquisition method on April 22, 2013, whereby the assets acquired and the liabilities assumed were recorded at their fair values with the surplus of the aggregate consideration relative to the fair value of the identifiable net assets recorded as goodwill. The Company assessed the fair values of the net assets acquired based on management's best estimate of market value, which takes into consideration the condition of the assets acquired, current industry conditions and the discounted future cash flows expected to be received from the assets as well as the amount it is expected to cost to settle the outstanding liabilities. Subsequent to the acquisition date, IROC's operating results have been included in Western's revenues, expenses and capital spending.

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

5. Business acquisition and non controlling interest (continued):

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

As at April 22, 2013		Amount
Net working capital (excluding cash)	$	723
Property and equipment		168,500
Goodwill		32,757
Deferred tax liability		(24,526)
Non controlling interest		(1,110)
	$	176,344

Trade receivables, included in net working capital, are comprised of contractual amounts due of $21.1 million.

The Company estimates that had the acquisition closed on January 1, 2013, $46.7 million of revenue for the six month period ended June 30, 2013 would have been attributable to IROC's assets. Included in this estimated amount is $12.2 million of revenue recognized by the Company subsequent to the acquisition date relating to IROC's assets. The Company cannot reasonably determine the net income amount attributable to IROC's assets had the acquisition closed on January 1, 2013 or from the acquisition date, due to the fact that IROC's management and cost structure has been changed and integrated into the Company's operations.

The Company assessed the acquisition for intangible assets and concluded that none existed. 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, the allocation of fair values between assets acquired, deferred tax balance adjustments on the filing of tax returns and final working capital adjustments on the respective balances acquired.

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

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

Included in the IROC acquisition is an agreement between IROC and a third party (the "Arrangement") to construct and operate a well servicing rig. IROC conducts a portion of its operations through this agreement where IROC and the third party each have a 50% interest. Based on the criteria outlined in IFRS 10, the Company determined that, for financial reporting purposes, IROC had control of the Arrangement owned 50% by the Company. As a result of this determination, the Company recorded the Arrangement using full consolidation, with the third party's 50% share in the equity and net earnings of the Arrangement reported as non controlling interest.

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

6. Property and equipment:

	Land	Buildings	Contract drilling equipment	Production services equipment	Office and shop equipment	Vehicles under finance leases	Total
Cost:							
Balance at December 31, 2011	$ 4,974	$ 3,297	$ 488,478	$ 5,440	$ 1,860	$ 711	$ 504,760
Additions	-	339	109,530	12,310	5,052	-	127,231
Non-cash additions (1)	-	-	1,394	194	2,290	1,034	4,912
Disposals	-	-	(3,587)	-	(44)	(22)	(3,653)
Impact of foreign exchange	-	-	(2,352)	-	(1)	(1)	(2,354)
Balance at December 31, 2012	4,974	3,636	593,463	17,944	9,157	1,722	630,896
Acquisition: business combination	100	160	-	166,745	957	538	168,500
Additions	-	-	33,959	2,508	236	-	36,703
Non-cash additions (2)	-	-	-	-	-	411	411
Disposals	-	-	(450)	(243)	-	(268)	(961)
Impact of foreign exchange	-	-	4,919	-	143	9	5,071
Balance at June 30, 2013	$ 5,074	$ 3,796	$ 631,891	$ 186,954	$ 10,493	$ 2,412	$ 840,620
Depreciation:							
Balance at December 31, 2011	$ -	$ 158	$ 30,021	$ 1	$ 545	$ 105	$ 30,830
Depreciation for the year	-	143	31,107	383	954	274	32,861
Disposals	-	-	(488)	-	(18)	(3)	(509)
Impact of foreign exchange	-	-	(442)	-	-	(1)	(443)
Balance at December 31, 2012	-	301	60,198	384	1,481	375	62,739
Depreciation for the period	-	81	16,107	2,017	843	214	19,262
Disposals	-	-	(107)	(97)	-	(142)	(346)
Impact of foreign exchange	-	-	399	-	6	3	408
Balance at June 30, 2013	$ -	$ 382	$ 76,597	$ 2,304	$ 2,330	$ 450	$ 82,063
Carrying amounts:							
At December 31, 2012	$ 4,974	$ 3,335	$ 533,265	$ 17,560	$ 7,676	$ 1,347	$ 568,157
At June 30, 2013	$ 5,074	$ 3,414	$ 555,294	$ 184,650	$ 8,163	$ 1,962	$ 758,557

(1) Non-cash additions consist of capitalized interest, finance leases and lease inducements.

(2) Non-cash additions consist of finance leases.

Assets under construction:

Included in property and equipment at June 30, 2013 are assets under construction of $21.8 million (December 31, 2012: $12.4 million) which includes the construction of two telescopic Efficient Long Reach double drilling rigs and two well serving rigs, as well as ancillary drilling equipment.

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

7. Long term debt:

This note provides information about the contractual terms of the Company's long term debt instruments.

	June 30, 2013	December 31, 2012
Current:		
Operating Facility [a]	$ -	$ 5,460
Other long term debt - current portion [1]	870	321
Total current portion of long term debt	870	5,781
Non current:		
Revolving Facility [a]	60,000	15,000
Senior Notes [b]	175,000	175,000
Less: net unamortized issue costs on Senior Notes	(3,270)	(3,557)
Other long term debt - non current portion [1]	799	505
Total non current portion of long term debt	232,529	186,948
Total long term debt	$ 233,399	$ 192,729

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

(a) Credit facilities:

Western's credit facilities consist of a $10.0 million operating demand revolving loan (the "Operating Facility") and a $125.0 million committed three year extendible revolving credit facility (the "Revolving Facility"). The maturity date on the Revolving Facility is June 7, 2015. The Operating Facility principal balance is due on demand with interest paid monthly. The Revolving Facility requires interest to be paid monthly with no scheduled principal repayments unless the Revolving Facility is not extended by the maturity date.

Amounts borrowed under the Operating and Revolving Facilities bear interest at the bank's prime rate, US base rate, LIBOR, or the banker's acceptance rate plus an applicable margin depending, in each case, on the ratio of Consolidated Debt to Consolidated EBITDA as defined by the relevant agreement. The credit facilities are secured by the assets of Western and its subsidiaries. As at June 30, 2013, the Company had $65.0 million in available credit under the Revolving Facility and $10.0 million under the Operating Facility.

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

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

(1) In the event of a material acquisition during any fiscal quarter, the ratio shall increase by 0.50 for 90 days following the material acquisition.
(2) Consolidated EBITDA in the credit facilities is defined as consolidated net income (loss), plus interest, income taxes, depreciation and amortization and any other non-cash items or extraordinary or non-recurring losses, less gain on sale of property and equipment and any other non-cash items or extraordinary or non-recurring gains that are included in the calculation of consolidated net income.

As at June 30, 2013 and December 31, 2012, the Company was in compliance with all covenants related to its credit facilities.

(b) Senior Notes:

During 2012, the Company completed a private placement of $175.0 million 7⅞% senior unsecured notes (the "Senior Notes"). The Senior Notes were issued at par value and are due on January 30, 2019. The Senior Notes contain certain early redemption options under which the Company has the option to redeem all or a portion of the Senior Notes at various redemption prices, which include the principal amount plus accrued and unpaid interest, if any, to the applicable redemption date. Interest is payable semi-annually on January 30 and July 30. The Senior Notes are unsecured, ranking equal in right of payment to all existing and future unsecured indebtedness, and have been guaranteed by the Company's current and future subsidiaries. The Senior Notes Indenture contains certain restrictions relating to items such as making restricted payments and incurring additional debt.

At June 30, 2013, the fair value of the Senior Notes was approximately $176.8 million.

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

8. Share capital:

At June 30, 2013, the Company was authorized to issue an unlimited number of common shares. The following table summarizes Western's common shares:

	Issued and outstanding shares		Amount
Balance at December 31, 2011	58,533,287	$	319,698
Issued for cash on exercise of stock options	51,667		307
Issued for cash on exercise of warrants	997,189		2,094
Fair value of exercised stock options and warrants	-		779
Balance at December 31, 2012	59,582,143		322,878
Issued for cash on exercise of stock options	18,333		105
Issued for cash on exercise of warrants	1,390,455		2,920
Fair value of exercised stock options and warrants	-		1,048
Issued on acquisition of IROC (Note 5)	12,352,832		84,000
Balance at June 30, 2013	73,343,763	$	410,951

During the three and six months ended June 30, 2013, the Company declared dividends of $5.5 million and $10.0 million respectively. During the three and six months ended June 30, 2012, no dividends were declared, and for the year ended December 31, 2012, $8.9 million in dividends were declared. The Company had dividends payable of $5.5 million as at June 30, 2013 (December 31, 2012: $4.5 million).

9. Stock based compensation:

Stock options:

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

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

	Stock options outstanding		Weighted average exercise price
Balance at December 31, 2011	2,101,000	$	6.94
Granted	755,900		7.44
Exercised	(51,667)		5.93
Expired/Forfeited	(282,500)		7.17
Balance at December 31, 2012	2,522,733		7.08
Granted	1,897,500		6.87
Exercised	(18,333)		5.75
Expired/Forfeited	(176,801)		7.91
Balance at June 30, 2013	4,225,099	$	6.96

For the three and six months ended June 30, 2013, no stock options were cancelled. As at June 30, 2013, Western had 959,157 exercisable stock options outstanding at a weighted average exercise price equal to $6.79 per stock option.

Warrants:

The following table summarizes Western's outstanding warrants:

	Warrants outstanding		Weighted average exercise price
Balance at December 31, 2011	2,525,000	$	2.10
Exercised	(997,189)		2.10
Balance at December 31, 2012	1,527,811		2.10
Exercised	(1,390,455)		2.10
Balance at June 30, 2013	137,356	$	2.10

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

9. Stock based compensation (continued):

Each warrant entitles the holder to purchase one common share of Western. The warrants expire on December 22, 2014.

10. Earnings per share:

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

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Issued common shares, beginning of period	59,655,921	58,533,287	59,582,143	58,533,287
Effect of shares issued	9,938,881	-	5,048,220	-
Weighted average number of common shares (basic)	69,594,802	58,533,287	64,630,363	58,533,287
Dilutive effect of stock options and warrants	-	1,896,376	1,327,171	2,079,564
Weighted average number of common shares (diluted)	69,594,802	60,429,663	65,957,534	60,612,851

For the three and six months ended June 30, 2013, 4,362,455 and 3,336,766 options and warrants respectively, (three and six months ended June 30, 2012: 1,253,000 and 1,191,000 options respectively) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

11. Finance costs:

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

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Interest expense on long term debt	$ 3,818	$ 3,304	$ 7,440	$ 5,906
Amortization of debt financing fees and provisions	188	190	521	441
Interest and dividend income	(11)	(244)	(207)	(316)
Total finance costs	$ 3,995	$ 3,250	$ 7,754	$ 6,031

For the three and six months ended June 30, 2013, the Company incurred interest and financing costs of approximately $4.2 million and $8.0 million respectively, (three and six months ended June 30, 2012: $3.6 million and $6.6 million respectively), which includes capitalized interest of $0.2 million and $0.3 million respectively, (three and six months ended June 30, 2012: $0.3 million and $0.6 million respectively), on its long term debt (see Note 7). The Company had an effective interest rate of 7.3% and 7.7% respectively, on its borrowings for the three and six months ended June 30, 2013, (three and six months ended June 30, 2012: 8.3% and 7.9% respectively).

12. Income taxes:

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

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Current tax expense	$ (668)	$ (89)	$ -	$ 4,232
Deferred tax expense	(341)	112	4,051	3,792
Total income taxes	$ (1,009)	$ 23	$ 4,051	$ 8,024

As at June 30, 2013, the Company has gross loss carry forwards equal to approximately US$38.3 million in the United States which expire between 2028 and 2033 and approximately $5.6 million in Canada which expire between 2030 and 2032.

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

13. Costs by nature:

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

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Depreciation of property and equipment (Note 6)	$ 8,011	$ 5,119	$ 19,262	$ 14,977
Employee benefits: salaries and benefits	23,537	20,549	66,435	62,269
Employee benefits: stock based compensation (Note 9)	539	480	1,036	1,043
Repairs and maintenance	3,236	5,345	8,109	10,347
Third party charges	2,807	4,165	10,733	14,305

14. Financial risk management and financial instruments:

The Company's financial instruments include cash and cash equivalents, trade and other receivables, trade payables and other current liabilities, derivatives and long term debt instruments such as the credit facilities and Senior Notes. Cash and cash equivalents and derivatives are carried at fair value. The carrying amounts of trade and other receivables, trade payables, and other current liabilities approximate their fair values due to their short term nature. The credit facilities bear interest at rates that approximate market rates and therefore their carrying values approximate fair values. The Senior Notes are recorded at their amortized cost. Fair value disclosure of the Senior Notes is based on their respective trading price on June 30, 2013.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2012.

Financial assets and liabilities recorded at fair value in the condensed consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

Hierarchical levels based on the amount of subjectivity associated with the inputs in the fair determination of these assets and liabilities are as follows:

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

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

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

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

Capital management:

The capital structure of the Company at June 30, 2013 is as follows:

	Note	June 30, 2013	December 31, 2012
Operating Facility	7	$ -	$ 5,460
Revolving Facility	7	60,000	15,000
Other long term debt	7	1,669	826
Senior Notes	7	175,000	175,000
Total debt		236,669	196,286
Shareholders' equity		548,387	454,790
Less: cash and cash equivalents		(12,261)	(6,588)
Total capitalization		$ 772,795	$ 644,488

There were no changes to the Company's approach to managing its capital since December 31, 2012.

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

15. Commitments:

As at June 30, 2013, the Company has total commitments which require payments for the next five years based on the maturity terms as follows:

	2013	2014	2015	2016	2017	Thereafter	Total
Senior Notes	$ -	$ -	$ -	$ -	$ -	$ 175,000	$ 175,000
Senior Notes interest	6,891	13,781	13,781	13,781	13,781	20,672	82,687
Trade payables	27,372	-	-	-	-	-	27,372
Operating leases	2,528	4,302	3,413	2,856	2,401	16,348	31,848
Revolving facility	-	-	60,000	-	-	-	60,000
Purchase commitments	19,175	-	-	-	-	-	19,175
Other long term debt	605	841	310	-	-	-	1,756
Total	$ 56,571	$ 18,924	$ 77,504	$ 16,637	$ 16,182	$ 212,020	$ 397,838

16. Subsequent events:

On July 31, 2013, the Board of Directors of Western declared a quarterly dividend of $0.075 per share, payable on October 15, 2013, to shareholders of record at the close of business on September 30, 2013. The dividends will be eligible dividends for Canadian income tax purposes.