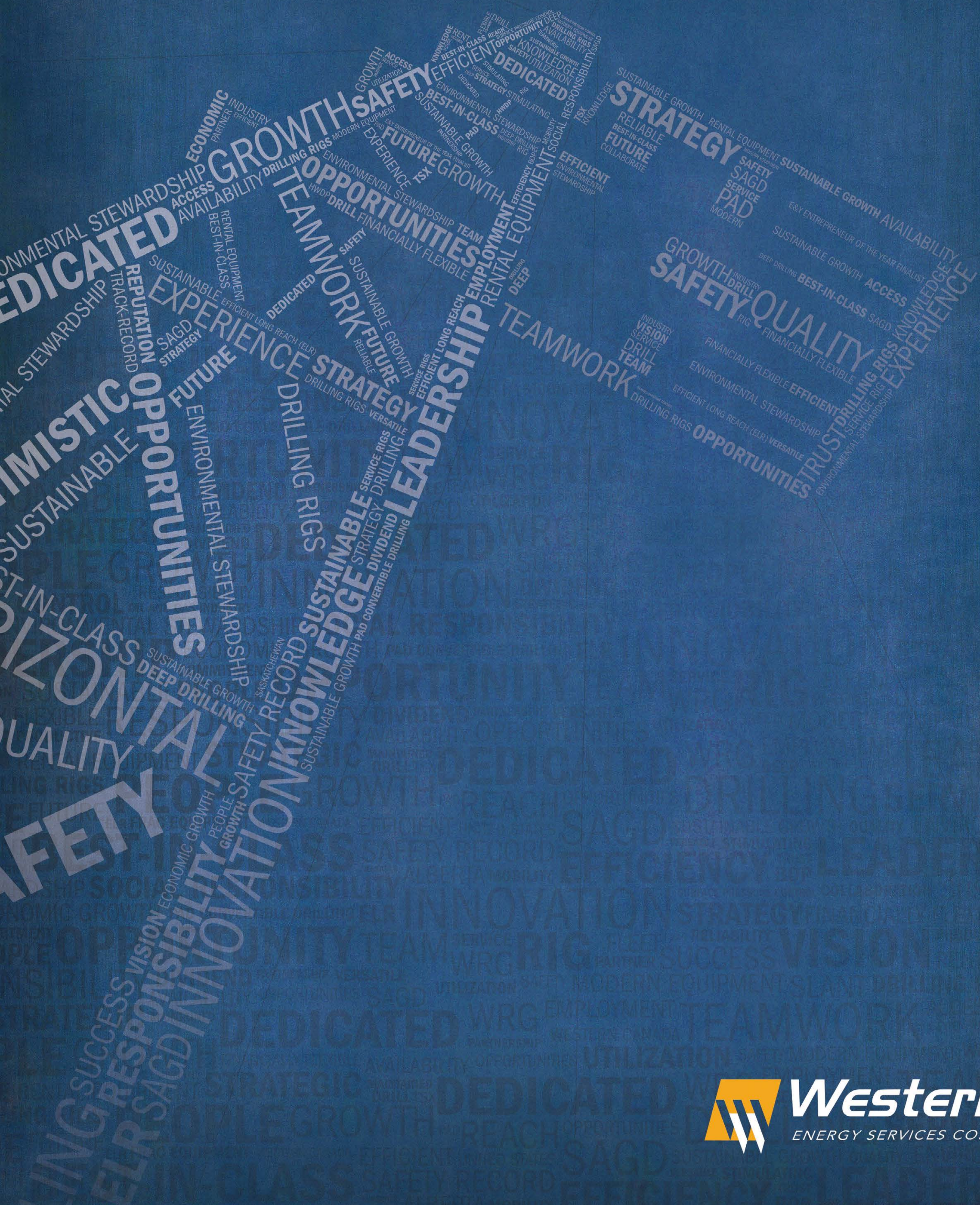
Annual Report 2013



Western
ENERGY SERVICES CORP.

SUCCESS
INNOVATION
QUALITY TEAMWORK
EFFICIENCY
LEADERSHIP
DEDICATION OPPORTUNITIES SAFE ENVIRONMENT

## Western Energy Services Corp.

Western Energy Services Corp. is an oilfield service company focused on providing exceptional products and services to its customers, and sustainable growth for shareholders.

Western's operations are comprised of three core business lines: contract drilling, well servicing, and oilfield equipment rental services.

Each business line is focused on the same key principles:

- Managing its balance sheet to allow for controlled strategic growth and positioning within the market place.
- Optimizing and managing assets to deliver quality products and services that meet the needs of an ever-changing industry.
- Attracting and training best-in-class people to deliver our products and services to our strong customer base.
- Promoting a safe and progressive work environment from office to worksite for employees, contractors, customers and communities where we work.

Western's strength in understanding the industry and market place, coupled with operational expertise and quality equipment, has resulted in Western becoming Canada's sixth largest drilling company and seventh largest well servicing company.

## Annual and Special Meeting

The Annual and Special Meeting of the Shareholders of Western Energy Services Corp. will be held on Tuesday May 6, 2014 at 3:00 pm (MST) in the McMurray Room of the Calgary Petroleum Club, 319 – 5th Avenue SW, Calgary Alberta.

Western
ENERGY SERVICES CORP.

# Report to Shareholders

Western's growth continued in 2013 with the acquisition of IROC Energy Services in the second quarter – the last piece of the original strategic plan for Western since the recapitalization in late 2009. The original vision for the company was to build a new Canadian focused oilfield service provider through organic growth and strategic consolidation, and to focus efforts in the three core business lines of contract drilling, well servicing and rental & production services. Western has realized its initial vision and ended the year with 52 drilling rigs, 65 well servicing rigs and a platform rental division.

During 2013 operations in Canada varied on a quarter by quarter basis. The first quarter ended weaker than anticipated as a result of the early completion of winter drilling programs. The second quarter was wetter than normal leading to a somewhat prolonged break-up period, and the third quarter experienced lackluster pricing and utilization. The fourth quarter was by far the strongest of the year, with an increase in activity starting mid-November and continuing through to the end of the year.

As a result of the weaker than expected first quarter and the flooding in Alberta during the second quarter, we felt it was appropriate to reduce our capital spending by approximately $35 million. This allowed us to demonstrate financial discipline while still maintaining the flexibility to meet customer expectations including, requests for equipment upgrades, as demand for our services increased in the fourth quarter.

Western finished the year with strong utilization in each of its divisions. Comparatively, the Canadian drilling industry remained flat with 40% utilization, while Western's largest division, Horizon Drilling, grew its fleet and increased its market share resulting in above industry average utilization of 55%. The premium utilization is attributed in part to the evolution of the Company's customer base which now includes a higher proportion of large independent and major exploration and production companies that are more likely to drill through cycles and have a longer term focus, coupled with Western's continued investment in its Efficient Long Reach ("ELR") fleet, which enhances the marketability of our rigs. In the third quarter, Horizon Drilling launched a telescopic double convertible pad rig which is the newest design for Horizon, incorporating the experience and knowledge gained through the construction of 11 rigs since the recapitalization.

2013 was a challenging year for Western's United States subsidiary – Stoneham Drilling. After an anchor customer dramatically cut their drilling program, we were challenged to expand our customer base to put our fleet back to work. This meant in the short term offering reduced day rates to potential new customers with the understanding that rates would be increased in the near future based on performance. While this continues to be a work in progress, we are confident that our strategy is working as utilization in the third and fourth quarters of 2013 was 88% and 87% respectively, as compared to 60% and 62% respectively in the prior year. Additionally, we have completed an ELR triple pad conversion in the Stoneham fleet and are currently upgrading Stoneham's remaining two 1500 hp ELR triples to pad rigs. These conversions will be completed by the end of the second quarter of 2014. The newly converted pad rigs will also provide us with the opportunity to obtain longer contracts and improved day rates.

The integration of the IROC businesses which included Eagle Well Servicing and Aero Rental Services, progresses on a daily basis with a focus on strengthening and adding depth to each division from health, safety and environment, to finance and all things in between – all of which takes time, dedication and energy. While the full year benefits of these divisions will not be fully realized until 2014 plays out, we have already seen the value these new business lines bring to Western's overall performance in 2013.

Eagle Well Servicing's fleet consisted of 53 well servicing rigs when Western acquired them in the second quarter of 2013. Western completed the construction of two additional rigs, and with the integration of Western's existing ten Matrix Well Servicing rigs into Eagle, Western's well servicing fleet expanded to 65 rigs at year end compared to eight rigs exiting the prior year. Eagle Well Servicing's fleet consists of 32 singles, 26 doubles and 7 slant rigs making it the seventh largest well servicing fleet in Canada and is one of the newest service rig fleets in the industry, with an average age of approximately four years. With operating facilities based throughout Alberta and Saskatchewan, Eagle is well positioned to meet the needs of the industry and continues to gain acceptance as a provider of top quality service rig equipment and personnel. A testament to this statement is a recent contract awarded to Eagle by a major steam assisted gravity drainage (SAGD) operator to modify a current rig in Eagle's fleet to the customer's specific needs for long-term work in northern Alberta. It is anticipated this rig will be deployed in the second quarter of 2014. This will be Eagle's second rig operating under a long-term contract, which is relatively unique in the service rig industry.

Aero Rental Services, which provides surface pressure control rental equipment utilized in drilling and completions activities, has also had a busy year integrating into the Western culture while continuing to grow at the same time. Prior to the acquisition, Aero had operated from one facility in Red Deer, Alberta since its inception in late 2006. Western recognized the opportunities that existed for Aero in northwestern Alberta and northeastern British Columbia and in July 2013 Western expanded its operations to Grande Prairie, Alberta. This expansion coupled with Aero's current mix of rental assets is well suited for the increased demand in all active resource plays of the Western Canadian Sedimentary Basin (WCSB), allowing Aero to better compete geographically. The benefits of this expansion will continue to evolve as 2014 unfolds.

We are pleased to report that all divisions ended the year with improved safety metrics that met or exceeded industry average. Each month we were able to generate more rig hours safely, which is critical to our success. Eagle for example, was able to end 2013 with a vast improvement in its Total Recordable Incident Frequency (TRIF), putting the company ahead of the well servicing industry as a leader in safety.

## Outlook

Western is optimistic about 2014 – we started the year with strong customer demand in all service lines. This is being driven by the below normal temperatures experienced in many parts of North America this winter, and the resulting draw on natural gas storage and corresponding price increases; the continued strength in crude oil pricing and the strengthening US dollar; and our strong customer base in unconventional LNG resource plays. We believe 2014 looks very bright.

Continuing with our fiscal discipline, we have announced a conservative capital budget for the current year which demonstrates our commitment to maintaining Western's premier drilling and service rig fleet, while expanding our strategic presence in the oilfield rental equipment market. In January, as part of this plan, Western deployed our second pad rig and an ELR telescopic double, which brings our drilling fleet to 54 rigs. Upon completion of our 2014 capital plan, approximately 10% of our drilling rig fleet will be pad rigs. In addition, Western also recently announced plans to build two new drilling rigs in 2014 - one 5,500 meter ELR AC triple drilling rig and one telescopic ELR double drilling rig.

Western's financial strength and fiscal discipline also supports our sustainable dividend program. With the recently announced quarterly dividend of $0.075 per share, payable on April 14, 2014 to shareholders of record at close of business on March 31, 2014, Western will have paid seven consecutive quarterly dividends to its shareholders since our continuing dividend program was introduced in September 2012.

As Western continues to evolve as a premier oilfield service provider, we believe we will continue to attract and retain the best people in the business. Our ability to do this comes from the experience of our team, the quality of our equipment and the focus to operate in a safe and environmentally conscious manner.

Western's financial success and operational performance is a direct result of the dedication of our employees who have the spirit to continue to make Western successful in all areas of operation and are keen to deliver the best service to our customers while providing return to our shareholders in a sustainable manner. For this contribution and loyalty I am grateful, and would like to thank each and every employee for their commitment to making Western the exceptional company that it is today and to our customers for their continued support.

Finally, I would like to thank our shareholders for their loyalty and commitment in supporting Western. I am proud of how far we have come, and remain confident that we will continue to deliver both operationally and financially in our pursuit of growth and maximum shareholder returns.

Respectfully submitted,

**Alex R.N. MacAusland**
President and CEO
Western Energy Services Corp.

March 21, 2014


## Management Discussion & Analysis 2013 — Dated: February 27, 2014

*The following discussion of the financial condition, changes in financial condition and results of operations of Western Energy Services Corp. (the "Company" or "Western") should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Company for the years ended December 31, 2013 and 2012. This Management Discussion and Analysis ("MD&A") is dated February 27, 2014. All amounts are denominated in Canadian dollars (CDN$) unless otherwise identified.*

| **Financial Highlights** | **Three months ended December 31** | | **Year ended December 31** | | |
|---|---|---|---|---|---|
| **(stated in thousands, except share and per share amounts)** | **2013** | **2012** | **2013** | **2012** | **2011** |
| Revenue | 129,713 | 83,338 | 379,943 | 308,617 | 262,519 |
| Operating Revenue(1) | 119,831 | 76,455 | 353,124 | 282,856 | 237,428 |
| Gross Margin(1) | 52,980 | 37,360 | 147,559 | 131,063 | 114,837 |
| Gross Margin as a percentage of operating revenue | 44% | 49% | 42% | 46% | 48% |
| EBITDA(1) | 43,543 | 31,381 | 117,423 | 108,931 | 99,324 |
| EBITDA as a percentage of operating revenue | 36% | 41% | 33% | 39% | 42% |
| Cash flow from operating activities | 36,866 | 11,021 | 114,358 | 104,916 | 59,368 |
| Capital expenditures | 27,529 | 20,328 | 95,234 | 127,231 | 88,869 |
| Net income | 15,797 | 13,092 | 35,246 | 45,178 | 64,746 |
| -basic net income per share | 0.22 | 0.22 | 0.51 | 0.77 | 1.25 |
| -diluted net income per share | 0.21 | 0.22 | 0.50 | 0.74 | 1.21 |
| Weighted average number of shares | | | | | |
| -basic | 73,374,219 | 59,485,594 | 69,032,574 | 58,784,692 | 51,595,078 |
| -diluted | 73,654,868 | 60,800,390 | 69,873,460 | 60,860,359 | 53,640,617 |
| Outstanding common shares as at period end | 73,386,191 | 59,582,143 | 73,386,191 | 59,582,143 | 58,533,287 |
| Dividends declared | 5,504 | 4,469 | 20,983 | 8,924 | - |
| Dividends declared per common share | 0.075 | 0.075 | 0.30 | 0.15 | - |
| **Operating Highlights** | | | | | |
| **Contract Drilling** | | | | | |
| *Canadian Operations* | | | | | |
| Average contract drilling rig fleet | 46 | 44 | 45 | 41 | 32 |
| Operating Revenue per operating day (CDN$)(2) | 28,884 | 28,867 (6) | 27,513 | 29,102 (6) | 26,909 |
| Drilling rig utilization rate per revenue day(3) | 72% | 62% | 61% | 60% | 77% |
| Drilling rig utilization rate per operating day(4) | 65% | 55% | 55% | 54% | 70% |
| CAODC industry average utilization rate(4) | 43% | 40% | 40% | 42% | 52% |
| *United States Operations* | | | | | |
| Average contract drilling rig fleet | 5 | 5 | 5 | 5 | 4 |
| Operating Revenue per operating day (US$)(2) | 26,559 | 32,356 | 26,942 | 32,742 | 31,386 (7) |
| Drilling rig utilization rate per revenue day(3) | 99% | 79% | 81% | 85% | 89% (7) |
| Drilling rig utilization rate per operating day(4) | 87% | 62% | 67% | 68% | 70% (7) |
| **Production Services** | | | | | |
| Average well servicing rig fleet | 65 | 7 | 48 | 5 | - |
| Operating Revenue per service hour (CDN$)(2) | 804 | 614 | 766 | 596 | - |
| Service rig utilization rate(5) | 53% | 45% | 45% | 36% | - |

(1) See Financial Measures Reconciliations on page 2.
(2) Operating Revenue per operating day and per service hour are calculated using Operating Revenue divided by operating days and service hours, respectively.
(3) Drilling rig utilization rate per revenue day is calculated based on operating and move days.
(4) Drilling rig utilization rate per operating day is calculated on operating days only (i.e. spud to rig release basis).
(5) Service rig utilization rate calculated based on full utilization of 10 hours per day, 365 days per year.
(6) Excludes $2.2 million of shortfall commitment revenue from take or pay contracts.
(7) Calculated from the date of acquisition of the United States operations (June 10, 2011).

| Financial Position at (stated in thousands) | December 31, 2013 | December 31, 2012 | December 31, 2011 |
|---|---|---|---|
| Working capital | 50,616 | 77,628 | 39,874 |
| Property and equipment | 783,225 | 568,157 | 473,930 |
| Total assets | 986,792 | 749,448 | 619,645 |
| Long term debt | 262,877 | 186,948 | 108,039 |

**Financial Measures Reconciliations**

Western uses certain measures in this MD&A which do not have any standardized meaning as prescribed by International Financial Reporting Standards ("IFRS"). These measures which are derived from information reported in the consolidated statements of operations and comprehensive income 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.

**Operating Revenue**

Management believes that in addition to revenue, Operating Revenue is a useful supplemental measure as it provides an indication of the revenue generated by Western's principal operating activities, excluding third party charges.

The following table provides a reconciliation of revenue under IFRS as disclosed in the consolidated statements of operations and comprehensive income to Operating Revenue:

| | Three months ended December 31 | | Year ended December 31 | |
|---|---|---|---|---|
| **(stated in thousands)** | **2013** | **2012** | **2013** | **2012** |
| **Operating Revenue** | | | | |
| Drilling | 90,754 | 74,840 | 284,469 | 279,456 |
| Production services | 29,275 | 1,615 | 69,004 | 3,400 |
| Less: inter-company eliminations | (198) | - | (349) | - |
| | **119,831** | **76,455** | **353,124** | **282,856** |
| Third party charges | 9,882 | 6,883 | 26,819 | 25,761 |
| **Revenue** | **129,713** | **83,338** | **379,943** | **308,617** |

**Gross Margin**

Management believes that in addition to net income, Gross Margin is a useful supplemental measure as it provides an indication of the results generated by Western's principal operating activities prior to considering administrative expenses, depreciation and amortization, how those activities are financed, the impact of foreign exchange, how the results are taxed, how funds are invested, and how non-cash items and one-time gains and losses affect results.

**EBITDA**

Management believes that in addition to net income, earnings before interest and finance costs, taxes, depreciation and amortization, other non-cash items and one-time gains and losses ("EBITDA") is a useful supplemental measure as it provides an indication of the results generated by the Company's principal operating activities similar to Gross Margin but also factors in the cash administrative expenses incurred in the period.

**Operating Earnings**

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

The following table provides a reconciliation of net income under IFRS as disclosed in the consolidated statements of operations and comprehensive income to Gross Margin, EBITDA and Operating Earnings:

| | Three months ended December 31 | | Year ended December 31 | |
|---|---|---|---|---|
| **(stated in thousands)** | **2013** | **2012** | **2013** | **2012** |
| **Gross Margin** | 52,980 | 37,360 | 147,559 | 131,063 |
| Add (subtract): | | | | |
| Administrative expenses | (10,195) | (6,572) | (33,163) | (24,409) |
| Depreciation - administrative | 345 | 365 | 1,431 | 971 |
| Stock based compensation - administrative | 413 | 228 | 1,596 | 1,306 |
| **EBITDA** | 43,543 | 31,381 | 117,423 | 108,931 |
| Depreciation - operating | (15,916) | (9,067) | (47,701) | (31,890) |
| Depreciation - administrative | (345) | (365) | (1,431) | (971) |
| **Operating Earnings** | 27,282 | 21,949 | 68,291 | 76,070 |
| Stock based compensation - operating | (252) | (153) | (895) | (537) |
| Stock based compensation - administrative | (413) | (228) | (1,596) | (1,306) |
| Finance costs | (5,155) | (3,237) | (17,058) | (12,437) |
| Other items | (363) | (583) | (496) | (756) |
| Income taxes | (5,302) | (4,656) | (13,000) | (15,856) |
| **Net income** | 15,797 | 13,092 | 35,246 | 45,178 |

**Overall Performance and Results of Operations**

Western 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 in Canada 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 in Canada 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. Subsequent to December 31, 2013, the name of the Partnership was changed to Western Energy Services Partnership.

In 2013, the commodity price environment for crude oil in Canada strengthened as compared to 2012, increasing approximately 8% year over year. Additionally, the price for natural gas has improved significantly, increasing approximately 29% year over year. The demand for oil, along with an emphasis on liquids rich natural gas, has resulted in the drilling of horizontal wells in both conventional and unconventional resource plays. Horizontal wells in the Western Canadian Sedimentary Basin ("WCSB"), as a percentage of all wells drilled, increased in 2013 to 70% compared to 65% in 2012. This has resulted in continued demand in the WCSB for Efficient Long Reach ("ELR") drilling rigs, with the industry utilization rate averaging 40% during 2013, which is consistent with the five year average of 41% and the prior year when industry utilization averaged 42%. During 2013, Western's entire drilling rig fleet has been focused on drilling horizontal wells. In Canada, Western's average operating days per well drilled decreased by 4% to 16.8 operating days per well in 2013 as compared to 17.5 operating days per well in 2012. However, the average meters drilled per well increased by 2% to 3,397 in 2013 as compared to 3,334 in the prior year, reflecting increased efficiencies in Western's drilling operations. In the United States, Western averaged 26.0 operating days per well drilled in 2013 as compared to 26.3 operating days per well in the prior year, a 1% decrease. The average meters drilled per well in the United States also decreased by 3% to 5,723 meters in 2013, compared to 5,897 meters in 2012. The average time it takes to drill a well has a direct relationship to the complexity and depth of the well.

Key operational results for the fourth quarter of 2013 include:

- Fourth quarter Operating Revenues increased by $43.4 million (or 57%) to $119.8 million in 2013 as compared to $76.4 million in 2012. The increase is due to the increased size and scale of Western's production services segment following the acquisition of IROC which resulted in an approximate $27.7 million increase in Operating Revenue in the period. Additionally, Operating Revenue in the contract drilling segment increased by $15.9 million due to higher utilization in both Canada and the United States coupled with a larger average drilling rig fleet in Canada. These increases were partially offset by decreased day rates in the United States, while day rates in Canada recovered in the fourth quarter of 2013 to remain unchanged, averaging approximately $28,900 in both the fourth quarters of 2013 and 2012.

- Fourth quarter EBITDA increased by $12.1 million (or 39%) to $43.5 million in 2013 (36% of Operating Revenue), as compared to $31.4 million in 2012 (41% of Operating Revenue). The increase in EBITDA is mainly due to the $8.1 million increased contribution from the production services segment following the acquisition of IROC, coupled with a $6.9 million increase in contract drilling EBITDA. These increases were offset by a $2.9 million increase in corporate administrative expenses, mainly due to approximately $2 million in one-time personnel costs. The Company was able to effectively control costs quarter over quarter, specifically in the contract drilling segment where, on a per operating day basis, administrative expenses decreased by 37%, and operating expenses decreased by 1%. The decrease in operating expenses and administrative expenses in the fourth quarter of 2013 was due in part to an increase of $1.1 million and $0.5 million respectively, in capitalized overhead costs, which directly relate to Western's capital program. Normalizing for the increased capitalized overhead costs, operating expenses per operating day remained constant year over year and administrative expenses per operating day decreased 28% compared to the fourth quarter of 2012. However, EBITDA as a percentage of Operating Revenue decreased compared to the prior year by approximately 500 bps mainly due to approximately $2.2 million of contracted shortfall commitment revenue recognized in 2012.
- Administrative expenses, excluding depreciation and stock based compensation, in the fourth quarter of 2013 increased $3.4 million to $9.4 million (8% of Operating Revenue) as compared to $6.0 million in the fourth quarter of 2012 (8% of Operating Revenue) mainly due to the previously mentioned one-time personnel costs, as well as the increased administrative expenses associated with the acquisition of IROC, partially offset by an increase in capitalized overhead of $0.5 million. Normalizing for the impact of these items, administrative expenses as a percentage of Operating Revenue was 6% in the fourth quarter of 2013 as compared to 8% in the same period of the prior year.
- Net income increased by $2.7 million to $15.8 million in the fourth quarter of 2013 ($0.22 per basic common share) as compared to net income of $13.1 million in the same period in the prior year ($0.22 per basic common share). The increase is mainly attributed to the increase in EBITDA of $12.1 million, partially offset by an increase in depreciation expense of $6.8 million due to increased activity, an increase of $1.9 million in finance costs due to the $90.0 million senior notes issued in September 2013 and increases in stock based compensation, income tax expense and other items totalling $0.7 million.
- Fourth quarter capital expenditures of $27.5 million include $23.3 million of expansion capital, $3.8 million of maintenance capital and $0.4 million for critical spares. The majority of the fourth quarter 2013 capital expenditures relate to the contract drilling segment, which incurred $24.5 million of capital expenditures. These expenditures mainly relate to Western's drilling rig build program, which totalled $12.7 million in the period relating to the construction of three drilling rigs, one of which was commissioned in the fourth quarter of 2013 with the remaining two rigs commissioned in the first quarter of 2014. The remaining capital spending in the contract drilling segment related to ancillary drilling equipment. Additionally, $2.9 million was incurred in the production services segment mainly relating to the purchase of additional oilfield rental equipment.

Key operational results for the year ended December 31, 2013 include:

- Operating Revenues for 2013 increased by $70.2 million (or 25%) to $353.1 million as compared to $282.9 million in the same period of the prior year. The increase is mainly due to a $65.6 million increase in Operating Revenue in the production services segment following the IROC acquisition completed on April 22, 2013. The remaining increase is attributed to improved utilization and an increased drilling rig fleet in the Canadian contract drilling segment.
- EBITDA increased by $8.5 million (or 8%) to $117.4 million (33% of Operating Revenue) in 2013, as compared to $108.9 million (39% of Operating Revenue) in 2012. The increase in EBITDA is mainly attributed to the $18.1 million increased contribution from the production services segment following the acquisition of IROC coupled with improved utilization and an increased drilling rig fleet in Canada. These increases were partially offset by lower drilling day rates in both Canada and the United States, however Western continues to effectively control costs. In the contract drilling segment operating expenses per operating day have decreased by approximately 3% and administrative expenses have decreased approximately 8%.
- During 2013, administrative expenses, excluding depreciation and stock based compensation, increased $8.0 million to $30.1 million (9% of Operating Revenue) as compared to $22.1 million (8% of Operating Revenue) in 2012. The increase is mainly due to the increased administrative expenses associated with the acquisition of IROC which closed during spring break up in the second quarter of 2013, when Operating Revenue is seasonally low, and approximately $2 million in one-time personnel costs.

- For the year ended December 31, 2013, net income decreased by $9.9 million to $35.2 million ($0.51 per basic common share) as compared to $45.2 million ($0.77 per basic common share) in 2012. The decrease in net income reflects increased depreciation of $16.3 million due to increased activity in both contract drilling and production services, increased finance costs of $4.6 million due to the additional $90.0 million in senior notes issued in September 2013, offset by the increase in EBITDA of $8.5 million and a decrease in income taxes of $2.9 million.
- Total capital expenditures of $95.2 million in 2013 include $78.7 million of expansion capital, $10.3 million of maintenance capital and $6.2 million for critical spares. The majority of the 2013 capital expenditures relate to the contract drilling segment, which incurred $86.5 million in capital expenditures. These expenditures mainly relate to Western's drilling rig build program, which totalled $47.5 million in 2013 relating to the commissioning of three drilling rigs during the year and an additional two rigs which were commissioned in the first quarter of 2014. The remaining capital spending in the contract drilling segment related to ancillary drilling equipment. Additionally, $8.2 million was spent in the production services segment in 2013 mainly relating to the purchase of additional oilfield rental equipment and the completion of the Company's well servicing rig build program.
- On April 22, 2013, the Company acquired all of the issued and outstanding shares of IROC in exchange for a combination of cash and common shares of Western. The total transaction value was approximately $176.3 million, including the assumption of $29.4 million in debt. A portion of the consideration included the issuance of approximately 12.4 million common shares of Western at an ascribed price of $6.80 per Western common share with the remaining $62.9 million of consideration paid in cash. IROC's well servicing fleet totalled 53 rigs, consisting of 22 singles, 25 doubles and 6 slant rigs. At the acquisition date, IROC had two well servicing rigs under construction: a double, which was commissioned in June 2013 and a slant rig, which was commissioned in July 2013. Additionally, IROC's assets included approximately $35 million in oilfield rental equipment and three coiled tubing units. The three coiled tubing units owned by IROC were not operated by Western after the acquisition and were sold in the third quarter of 2013 for proceeds of approximately $4.2 million.
- On September 18, 2013 Western completed a private offering of $90.0 million aggregate principal amount of 7⅞% senior unsecured notes due January 30, 2019 which were issued at $1,016.25 per $1,000.00 principal amount plus accrued interest from and including July 30, 2013. Western used the net proceeds from the offering to repay all of its outstanding indebtedness under its secured credit facilities, which was incurred as a result of the acquisition of IROC, and for general corporate purposes.
- On October 18, 2013, Western extended the maturity date of its $125.0 million extendible revolving credit facility (the "Revolving Facility") to October 18, 2017. There were no other material changes to the terms of the Revolving Facility.

**Subsequent Events**

- On February 27, 2014, the Board of Directors of Western declared a quarterly dividend of $0.075 per share, payable on April 14, 2014 to shareholders of record at the close of business on March 31, 2014. On a prospective basis, the declaration of dividends will be determined on a quarter-by-quarter basis by the Board of Directors.

**Outlook**

Western's operations are focused on three core business lines: contract drilling, well servicing and oilfield equipment rental services. Western currently has a drilling rig fleet of 54 rigs, with an average age of approximately six years. Western is the sixth largest drilling contractor in Canada with a fleet of 49 rigs operating through Horizon. Additionally, Western has five ELR triple drilling rigs deployed in the United States operating through Stoneham. Western is also the seventh largest well servicing company in Canada with a fleet of 65 rigs operating through Eagle. Western's well servicing fleet is one of the newest in the WCSB, with an average age of approximately four years. Western's oilfield equipment rental division operates through Aero, which provides oilfield rental equipment to meet our customer's needs in drilling and various completion processes such as fracturing, coil tubing and steam assisted gravity drainage ("SAGD") operations for oil and gas producers and oilfield service companies.

Western's drilling rig fleet is specifically suited for the current market which is focused on drilling horizontal wells of increased complexity. In total, 94% of Western's fleet are ELR drilling rigs with depth ratings greater than 3,000 meters and all of Western's rigs are capable of drilling resource based horizontal wells. Approximately 41% of Western's fleet is currently under long term take-or-pay contracts, an increase from the third quarter of 2013 when approximately one third of the fleet was under long term contracts. The increase is due to improved demand for high quality deep drilling rigs such as Western's. The average remaining term on these contracts is approximately 2.2 years, which provides a base level of revenue. These contracts typically generate 250 operating days per year in Canada, as spring breakup restricts activity during the second quarter, while in the United States these contracts typically range from 330 to 365 revenue generating days per year.

Western's approved capital spending for 2014 totals approximately $104 million, which is comprised of $21 million of carry forward capital from 2013, $52 million relating to Western's previously announced 2014 budget and the additional $31 million announced today for the construction of one 5,500m ELR AC triple drilling rig and one 4,500m telescopic ELR double drilling rig. In total, Western's 2014 capital plan includes approximately $62 million in expansion capital and $42 million in maintenance capital, including $10 million for critical spare equipment. The $21 million of carry forward from Western's 2013 capital program is mainly related to the completion in January 2014 of one telescopic Efficient Long Reach double drilling rig in Canada, as well as the completion of two additional 1,500 hp AC pad conversions in the United States. Western believes the 2014 capital budget provides a prudent use of cash resources and ensures that it has the flexibility to execute on strategic opportunities as they arise. This budget demonstrates the Company's commitment to maintaining Western's premier drilling and service rig fleet while expanding Western's strategic presence in the oilfield rental equipment market. Western will continue to evaluate and expand its operations in a prudent manner and make any required adjustments to its capital program as these opportunities unfold in 2014.

During 2013, the price for light crude oil improved with the Edmonton Par price increasing 8% year over year, however the price for heavy crude oil, such as the Western Canadian Select price, increased by only 1% year over year. Natural gas prices have also improved; although they remain low by historical standards, the AECO 30-day spot rate increased on average by 29% in 2013 as compared to 2012. The increased commodity price environment and improving economic conditions in North America led to increased oilfield services activity in the fourth quarter of 2013, which has further improved through the first two months of 2014. Western believes oilfield services activity in 2014 and beyond will improve, providing additional drilling rig build opportunities at attractive rates that meet our return on investment criteria. Activity is expected to continue improving as liquefied natural gas projects gain approval, crude oil transportation capacity increases through rail and pipeline development, drilling activity increases in the Duvernay and Montney resource plays in Alberta and northeast British Columbia, and as foreign investment continues to flow into Canada. Currently, the largest challenges facing the oilfield services industry are producer spending constraints, pricing differentials on Canadian crude oil, historically low natural gas prices, and the challenge to attract and retain skilled labour. The Company believes Western's modern drilling and well servicing rig fleet and corporate culture will provide a distinct advantage in retaining and attracting qualified individuals. Western is of the view, that its modern fleet, strong customer base and solid reputation provide a competitive advantage which will enable the Company to continue its growth strategy and higher than industry average utilization.

**Segmented Information**

Western operates in the contract drilling segment in both Canada and the United States as well as the production servicing segment in Canada. Contract drilling includes drilling rigs along with related equipment. Production services includes well servicing rigs and related equipment as well as oilfield rental equipment.

**Contract Drilling**

| (stated in thousands) | Three months ended December 31 2013 | 2012 | Year Ended December 31 2013 | 2012 |
|---|---|---|---|---|
| Revenue | | | | |
| Operating revenue | 90,754 | 74,840 | 284,469 | 279,456 |
| Third party charges | 7,973 | 6,883 | 23,553 | 25,761 |
| Total revenue | 98,727 | 81,723 | 308,022 | 305,217 |
| Expenses | | | | |
| Operating | | | | |
| Cash operating expenses | 55,586 | 44,665 | 182,800 | 174,220 |
| Depreciation | 11,533 | 8,886 | 37,778 | 31,477 |
| Stock based compensation | 173 | 135 | 687 | 501 |
| Total operating expenses | 67,292 | 53,686 | 221,265 | 206,198 |
| Administrative | | | | |
| Cash administrative expenses | 3,573 | 4,425 | 16,059 | 15,886 |
| Depreciation | 65 | 87 | 328 | 375 |
| Stock based compensation | 108 | (39) | 278 | 217 |
| Total administrative expenses | 3,746 | 4,473 | 16,665 | 16,478 |
| Gross Margin(1) | 43,141 | 37,058 | 125,222 | 130,997 |
| Gross Margin as a percentage of operating revenue | 48% | 50% | 44% | 47% |
| EBITDA(1) | 39,568 | 32,633 | 109,163 | 115,111 |
| EBITDA as a percentage of operating revenue | 44% | 44% | 38% | 41% |
| Operating Earnings(1) | 27,970 | 23,660 | 71,057 | 83,259 |
| Capital expenditures | 24,452 | 16,463 | 86,525 | 110,293 |
| **Canadian Operations** | | | | |
| Contract drilling rig fleet: | | | | |
| Average | 46 | 44 | 45 | 41 |
| End of period | 47 | 44 | 47 | 44 |
| Operating revenue per operating day (CDN$) | 28,884 | 28,867 (4) | 27,513 | 29,102 (4) |
| Drilling rig operating days(3) | 2,754 | 2,198 | 9,098 | 8,127 |
| Number of meters drilled | 506,950 | 357,439 | 1,844,099 | 1,546,841 |
| Number of wells drilled | 150 | 112 | 543 | 464 |
| Average operating days per well | 18.3 | 19.6 | 16.8 | 17.5 |
| Drilling rig utilization rate per revenue day(2) | 72% | 62% | 61% | 60% |
| Drilling rig utilization rate per operating day(3) | 65% | 55% | 55% | 54% |
| CAODC industry average utilization rate(3) | 43% | 40% | 40% | 42% |
| **United States Operations** | | | | |
| Contract drilling rig fleet: | | | | |
| Average | 5 | 5 | 5 | 5 |
| End of period | 5 | 5 | 5 | 5 |
| Operating revenue per operating day (US$) | 26,559 | 32,356 | 26,942 | 32,742 |
| Drilling rig operating days(3) | 402 | 286 | 1,228 | 1,238 |
| Number of meters drilled | 94,784 | 68,947 | 268,964 | 277,180 |
| Number of wells drilled | 17 | 12 | 47 | 47 |
| Average operating days per well | 24.4 | 23.8 | 26.0 | 26.3 |
| Drilling rig utilization rate per revenue day(2) | 99% | 79% | 81% | 85% |
| Drilling rig utilization rate per operating day(3) | 87% | 62% | 67% | 68% |

(1) See Financial Measures Reconciliations on page 2.
(2) Utilization rate per revenue day is calculated based on operating and move days.
(3) Utilization rate per operating day and drilling rig operating days are calculated on operating days only (i.e. spud to rig release basis).
(4) Excludes $2.2 million of shortfall commitment revenue from take or pay contracts.

During the year ended December 31, 2013, Operating Revenues in the contract drilling segment totalled $284.5 million; a $5.0 million (or 2%) increase over the prior year, due to increased operating days in Canada, partially offset by slightly lower activity in the United States, $2.2 million in contracted shortfall commitment revenue earned in the prior year and lower pricing in both Canada and the United States. In Canada, an increased average drilling rig fleet of 45 rigs in the current year, compared to 41 in 2012, and steady demand for the Company's contract drilling services resulted in increased operating days, as compared to the prior year. The Company's utilization in Canada increased to 55% in 2013, as compared to 54% in 2012, which coupled with the 10% increase in the Company's drilling rig fleet resulted in operating days increasing by 12% to 9,098 in 2013 as compared to 8,127 in the prior year. The Company's 2013 utilization in Canada of 55% reflects an approximate 1,500 bps premium to the Canadian Association of Oilwell Drilling Contractors ("CAODC") industry average of 40%. The Company's utilization premium over the CAODC average has improved by approximately 300 bps over the 1,200 bps spread in the prior year. This increase is attributed to the evolution of the Company's customer base which now includes a higher proportion of large independent and major exploration and production companies that drill through cycles and have a long term focus, coupled with Western's continued investment in our ELR fleet, which enhances the marketability of our rigs. For the year ended December 31, 2013, Operating Revenue per operating day in Canada decreased by $1,589 (or 5%) to $27,513 as compared to $29,102 in the prior year. This decrease is attributable to increased pricing pressure due to continued low industry average utilization through the first three quarters of 2013. However, prices increased in the fourth quarter of 2013 to comparable levels in the fourth quarter of the prior year.

Third party charges in Canada per operating day for the year ended December 31, 2013 totalled $2,536 compared to $3,082 in the prior year. The decrease in third party charges is partially due to the evolution of the Company's customer base, which now includes a higher proportion of large independent and major exploration and production companies that prefer to pay directly for items such as fuel, and a number of other significant flow through charges that were incurred in the prior year.

In the United States, operating days for the year ended December 31, 2013 remained constant decreasing 1% to 1,228 days, as compared to 1,238 days in 2012. Similarly, utilization for 2013 of 67% remained consistent with the 2012 average of 68%. While utilization during the first six months of 2013 was lower, due to drilling program changes from our largest customer in the United States, this was offset by higher utilization realized in the third and fourth quarters of 2013 as work with new customers was obtained, though at lower rates than previously realized. As such, Operating Revenues per operating day decreased to US$26,942 for the year ended December 31, 2013 compared to US$32,742 per operating day in the prior year, an 18% decrease. During 2013, Western added the first moving system to its drilling rig fleet in the United States and intends to add two additional moving systems as part of the 2014 capital budget, which coupled with an improved customer mix, is expected to increase the marketability and day rates of Western's United States based rigs.

During 2013, EBITDA in the contract drilling segment decreased by $5.9 million (or 5%) to $109.2 million (38% of the segment's Operating Revenue), as compared to $115.1 million (41% of the segment's Operating Revenue) in 2012. The decrease in EBITDA and EBITDA as a percentage of Operating Revenue is attributed to lower day rates and decreased contracted shortfall commitment revenue in 2013 as compared to 2012, offset by the increase in operating days.

In 2013, cash administrative expenses, excluding depreciation and stock based compensation, remained consistent at $16.1 million compared to $15.9 million in 2012. While cash administrative expenses increased in 2013 due to increased employee related expenses, which were required to support the larger drilling rig fleet, this increase was partially offset by an increase of approximately $0.5 million in capitalized overhead costs, which were directly related to the Company's capital program. On a per operating day basis, cash administrative expenses decreased approximately 8% year over year. Normalizing for the $0.5 million increase in capitalized overhead, on a per operating day basis cash administrative expenses decreased approximately 5% year over year.

Depreciation expense in the contract drilling segment for the year ended December 31, 2013 increased by $6.3 million to $37.8 million, due to increased operating days and additional capital invested for items such as increasing the pumping capacity of the fleet and adding moving systems to select rigs, as well as an increase in ancillary equipment which is depreciated on a straight-line basis. As a result, on a per operating day basis, depreciation expense increased approximately 9% year over year.

Total capital expenditures of $86.5 million in the contract drilling segment for the year ended December 31, 2013 include $72.2 million related to expansion capital, $8.1 million related to maintenance capital and $6.2 million related to critical spares. Of the expansion capital incurred during 2013, $47.5 million relates to the Company's rig build program which commissioned three drilling rigs in 2013 and an additional two commissioned in the first quarter of 2014, with the remaining capital spending relating to ancillary drilling equipment, including mud pumps and generator upgrades.

**Production Services**

| (stated in thousands) | Three months ended December 31 2013 | 2012 | Year ended December 31 2013 | 2012 |
|---|---|---|---|---|
| Revenue | | | | |
| Operating revenue | 29,275 | 1,615 | 69,004 | 3,400 |
| Third party charges | 1,909 | - | 3,266 | - |
| Total revenue | 31,184 | 1,615 | 72,270 | 3,400 |
| Expenses | | | | |
| Operating | | | | |
| Cash operating expenses | 21,346 | 1,313 | 49,934 | 3,334 |
| Depreciation | 4,383 | 181 | 9,923 | 413 |
| Stock based compensation | 79 | 18 | 208 | 36 |
| Total operating expenses | 25,808 | 1,512 | 60,065 | 3,783 |
| Administrative | | | | |
| Cash administrative expenses | 1,876 | 479 | 5,875 | 1,723 |
| Depreciation | - | 14 | - | 64 |
| Stock based compensation | 126 | 9 | 182 | (30) |
| Total administrative expenses | 2,002 | 502 | 6,057 | 1,757 |
| Gross Margin(1) | 9,838 | 302 | 22,336 | 66 |
| Gross margin as a percentage of operating revenue | 34% | 19% | 32% | 2% |
| EBITDA(1) | 7,962 | (177) | 16,461 | (1,657) |
| EBITDA as a percentage of operating revenue | 27% | (11%) | 24% | (49%) |
| Operating Earnings(1) | 3,579 | (372) | 6,538 | (2,134) |
| Capital expenditures | 2,948 | 3,283 | 8,200 | 12,358 |
| Well servicing rig fleet: | | | | |
| Average | 65 | 7 | 48 | 5 |
| End of period | 65 | 8 | 65 | 8 |
| Operating revenue per service hour (CDN$) | 804 | 614 | 766 | 596 |
| Total service hours | 31,403 | 2,633 | 77,879 | 5,705 |
| Service rig utilization rate(2) | 53% | 45% | 45% | 36% |

(1) See Financial Measures Reconciliations on page 2.

(2) Utilization rate calculated based on full utilization of 10 hours per day, 365 days per year.

Subsequent to the acquisition of IROC on April 22, 2013, the Company's well servicing fleet increased significantly to 65 rigs at December 31, 2013 as compared to 10 rigs immediately prior to the acquisition and 8 rigs at December 31, 2012. Previously, Western's well servicing rigs operated through Matrix. Subsequent to the acquisition of IROC, the Company's well servicing rigs, including the Matrix well servicing rigs, operate through Eagle. Additionally, with the acquisition of IROC, Western acquired approximately $35 million in oilfield rental equipment, which is operated through Aero. As a result of these changes, Operating Revenue for the year ended December 31, 2013 increased significantly to $69.0 million as compared to $3.4 million in 2012 when Western had just commenced well servicing operations. EBITDA also improved following the IROC acquisition to $16.5 million for the year ended December 31, 2013; a significant improvement from the negative EBITDA in the same period of the prior year.

Well servicing utilization improved to 45% in 2013, a 900 bps improvement from the same period in the prior year. For comparison purposes, on a pro forma basis, Eagle and Matrix's utilization in 2012 averaged 59%. The year over year decrease in activity on a pro forma basis is due to lower industry activity levels in the WCSB. As a result of the increased well servicing rig fleet subsequent to the acquisition of IROC, well servicing hours increased substantially to 77,879 in 2013 as compared to 5,705 in the prior year. Furthermore, Operating Revenue per service hour increased by 29% in 2013 to average $766 as compared to $596 in 2012. The increase in Operating Revenue per service hour is attributed to the increased size of the Company's well servicing operations as Eagle operates in a number of different geographic locations, whereas the Company previously operated solely in the Lloydminster area which is highly competitive, less capital intensive and typically results in lower hourly rates. For the year ended December 31, 2013, Operating Revenue in the Aero division totalled $9.3 million.

During 2013, capital expenditures in the production services segment totalled $8.2 million and mainly relate to expansion capital associated with the purchase of additional oilfield rental equipment as well as the Company's well servicing rig build program.

**Corporate**

| | Three months ended December 31 | | Year ended December 31 | |
|---|---|---|---|---|
| **(stated in thousands)** | **2013** | **2012** | **2013** | **2012** |
| Administrative | | | | |
| Cash administrative expenses | 3,987 | 1,075 | 8,201 | 4,523 |
| Depreciation | 280 | 264 | 1,103 | 532 |
| Stock based compensation | 179 | 258 | 1,136 | 1,119 |
| Total administrative expenses | 4,446 | 1,597 | 10,440 | 6,174 |
| Finance costs | 5,155 | 3,237 | 17,058 | 12,437 |
| Other items | 363 | 583 | 496 | 756 |
| Income taxes | | | | |
| Current tax expense | 231 | 276 | 520 | 5,090 |
| Deferred tax expense | 5,071 | 4,380 | 12,480 | 10,766 |
| Total income taxes | 5,302 | 4,656 | 13,000 | 15,856 |
| Capital expenditures | 129 | 582 | 509 | 4,580 |

Corporate administrative expenses for the year ended December 31, 2013 increased by $3.7 million to $8.2 million as compared to $4.5 million in the same period in the prior year, due to approximately $2 million in one-time personnel costs, as well as increased staffing levels and overhead required to support the Company's growth.

During 2013, finance costs on a consolidated basis increased by $4.6 million year over year, largely due to higher debt levels following the acquisition of IROC on April 22, 2013 and the resulting issuance of the $90.0 million in principal amount of senior notes on September 18, 2013, and one additional month of interest in 2013 on the $175.0 million senior notes that were issued on January 30, 2012.

Other items for the year ended December 31, 2013, represent a net expense of $0.5 million as gains on the sale of Western's investments in the first quarter of 2013 of $1.2 million as well as foreign exchange gains of $0.4 million, were largely offset by $2.1 million in costs associated with the acquisition of IROC.

For the year ended December 31, 2013, income taxes on a consolidated basis totalled $13.0 million representing an effective tax rate of 26.9% as compared to 26.0% in 2012. The inclusion of $2.1 million in IROC acquisition costs, which are non deductible for tax purposes, resulted in a higher effective tax rate for the year. Additionally, the effective tax rate for 2013 was impacted by an increase in the corporate tax rate in British Columbia to 11% in 2013 as compared to 10% in 2012.

**Liquidity and Capital Resources**

As at December 31, 2013, Western had cash and cash equivalents of $17.4 million, resulting in a consolidated net debt balance of $246.4 million, an increase of $60.3 million as compared to December 31, 2012 mainly due to the acquisition of IROC in April 2013 which included cash consideration of $62.9 million for the IROC common shares plus an additional $29.4 million for the assumption of IROC's debt. Additionally, Western incurred capital expenditures of $95.0 million, paid dividends of $19.9 million, made cash interest payments of $12.9 million, and paid income taxes of $7.0 million. These cash outflows were partially offset by cash generated from operating activities of $115.5 million, the sale of investments of $34.4 million, an increase of $10.6 million in non-cash working capital, the sale of assets of $4.7 million and $3.2 million raised on the exercise of stock options and warrants.

At December 31, 2013, Western had a working capital balance of $50.6 million, a $27.0 million decrease as compared to December 31, 2012 mainly due to improved accounts receivable collections as days sales outstanding decreased from 86 days at December 31, 2012 to 61 days at December 31, 2013, coupled with the sale of investments in 2013. On September 18, 2013, the Company issued $90.0 million in principal amount senior notes for gross proceeds of $91.5 million that were used to repay the outstanding balance on the revolving credit facility. At December 31, 2013, the Company has $265.0 million in senior notes outstanding. During the fourth quarter of 2013, the Company extended the maturity date of the revolving credit facility from a committed three year term to a committed four year term. The maturity date on the revolving credit facility is now October 18, 2017. At December 31, 2013, Western had approximately $135.0 million in available credit facilities and is in compliance with all debt covenants. As a result of the IROC acquisition, Western's pro forma net debt to trailing 12 month EBITDA is 1.9. As such, cash from operations coupled with Western's working capital, cash balances and available credit facilities are expected to be sufficient to cover Western's financial obligations including the 2014 capital budget.

For the year ended December 31, 2013, the Company had a significant customer comprising 10.8% of the Company's total revenue. This customer is a publicly traded company with a market capitalization in excess of $35 billion. Except as previously mentioned, no other single customer represented greater than 10% of the Company's total revenue for the years ended December 31, 2013 and 2012. Year over year, the Company's significant customers may change.

**Fourth Quarter 2013**

**Selected Financial Information**

| **Financial Highlights** | **Three months ended December 31** | |
|---|---|---|
| **(stated in thousands, except share and per share amounts)** | **2013** | **2012** |
| Total Revenue | 129,713 | 83,338 |
| Operating Revenue | 119,831 | 76,455 |
| Gross Margin(1) | 52,980 | 37,360 |
| Gross Margin as a percentage of operating revenue | 44% | 49% |
| EBITDA(1) | 43,543 | 31,381 |
| EBITDA as a percentage of operating revenue | 36% | 41% |
| Cash flow from operating activities | 36,866 | 11,021 |
| Capital expenditures | 27,529 | 20,328 |
| Net income | 15,797 | 13,092 |
| -basic net income per share | 0.22 | 0.22 |
| -diluted net income per share | 0.21 | 0.22 |
| Weighted average number of shares | | |
| -basic | 73,374,219 | 59,485,594 |
| -diluted | 73,654,868 | 60,800,390 |
| Outstanding common shares as at period end | 73,386,191 | 59,582,143 |
| Dividends declared | 5,504 | 4,469 |
| Dividends declared per common share | 0.075 | 0.075 |
| **Operating Highlights** | | |
| **Contract Drilling** | | |
| *Canadian Operations* | | |
| Average contract drilling rig fleet | 46 | 44 |
| Contract drilling rig fleet - end of period | 47 | 44 |
| Operating revenue per operating day (CDN$)(2) | 28,884 | 28,867 (6) |
| Drilling rig operating days(4) | 2,754 | 2,198 |
| Number of meters drilled | 506,950 | 357,439 |
| Number of wells drilled | 150 | 112 |
| Average operating days per well | 18.3 | 19.6 |
| Drilling rig utilization rate per revenue day(3) | 72% | 62% |
| Drilling rig utilization rate per operating day(4) | 65% | 55% |
| CAODC industry average utilization rate(4) | 43% | 40% |
| *United States Operations* | | |
| Average contract drilling rig fleet | 5 | 5 |
| Contract drilling rig fleet - end of period | 5 | 5 |
| Operating revenue per operating day (US$)(2) | 26,559 | 32,356 |
| Drilling rig operating days(4) | 402 | 286 |
| Number of meters drilled | 94,784 | 68,947 |
| Number of wells drilled | 17 | 12 |
| Average operating days per well | 24.4 | 23.8 |
| Drilling rig utilization rate per revenue day(3) | 99% | 79% |
| Drilling rig utilization rate per operating day(4) | 87% | 62% |
| **Production Services** | | |
| Average well servicing rig fleet | 65 | 7 |
| Well servicing rig fleet - end of period | 65 | 8 |
| Operating revenue per service hour (CDN$)(2) | 804 | 614 |
| Total service hours | 31,403 | 2,633 |
| Service rig utilization rate(5) | 53% | 45% |

(1) See Financial Measures Reconciliations on page 2.
(2) Operating Revenue per operating day and per service hour are calculated using Operating Revenue divided by operating days and service hours, respectively.
(3) Drilling rig utilization rate per revenue day is calculated based on operating and move days.
(4) Drilling rig utilization rate per operating day and drilling rig operating days are calculated on operating days only (i.e. spud to rig release basis).
(5) Service rig utilization rate calculated based on full utilization of 10 hours per day, 365 days per year.
(6) Excludes $2.2 million of shortfall commitment revenue from take or pay contracts.

**Contract Drilling**

During the fourth quarter of 2013, Operating Revenues in the contract drilling segment totalled $90.7 million; a $15.9 million (or 21%) increase over the same period in the prior year. The increase in Operating Revenue is due to higher activity in Canada and the United States as operating days increased 25% and 41% respectively. Operating Revenue per operating day in Canada recovered to approximately $28,900 in 2013, unchanged from the same period in 2012.

Canadian operations in the fourth quarter of 2013 were impacted by increased activity, as customers started their winter drilling programs without significant delays. The Company's utilization rate in Canada improved 1,000 bps to average 65% in the fourth quarter of 2013 compared to 55% in the same period as the prior year. The Company's fourth quarter utilization rate reflects an approximate 2,200 bps premium to the CAODC industry average of 43% and an improvement over the Company's approximate 1,500 bps premium over the CAODC industry average of 40% in the fourth quarter of 2012.

In the United States, Operating Revenue per operating day decreased approximately 18% to US$26,559 in the fourth quarter of 2013 from US$32,356 in the same period in the prior year due to increased competition, reflecting a shift to pad drilling in the Williston Basin. However, the decrease in day rates was offset partially by increased utilization. In the United States in the fourth quarter of 2013, utilization was 87% compared to 62% in the fourth quarter of 2012. The increased utilization can be attributed to Western's increased marketing efforts, strong operational performance, and the addition of the Company's first 1,500 hp AC ELR triple pad rig conversion, with two additional 1,500 hp AC ELR pad rig conversions under construction, to the United States fleet.

During the fourth quarter of 2013, EBITDA in the contract drilling segment increased $7.0 million (or 21%) to $39.6 million (44% of Operating Revenue), as compared to $32.6 million (44% of Operating Revenue) in the same period of the prior year when $2.2 million of contracted shortfall commitment revenue was recognized. Normalizing for the prior year's contracted shortfall commitment revenue, EBITDA in the fourth quarter of 2013 increased by $9.1 million (or 30%) due to higher activity levels, as Western was able to effectively control costs in the period.

**Production Services**

During the fourth quarter of 2013, Operating Revenue in the production services segment totalled $29.3 million; a $27.7 million (or 1,713%) increase over the same period in the prior year. The increase in Operating Revenue can be attributed to the acquisition of IROC in April 2013, which resulted in a higher average well servicing rig fleet of 65 in the fourth quarter of 2013 compared to 7 in the same period of the prior year. Total service hours in the fourth quarter of 2013 were 31,403 compared to 2,633 in 2012 as a result of the larger well servicing rig fleet. Well servicing utilization averaged 53% in the fourth quarter of 2013 as compared to 45% in the prior year, when Western's well servicing operations were still in the start up phase. For comparison purposes, on a pro forma basis, Eagle and Matrix's utilization averaged 61% in the fourth quarter of 2012. The year over year decrease in activity on a pro forma basis is due to lower industry activity levels in the WCSB.

Operating Revenue per service hour also increased to $804 per service hour in the fourth quarter of 2013 compared to $614 in the same period of the prior year. The increase in Operating Revenue per service hour is attributed to the increased size of the Company's well servicing operations as Eagle operates in a number of different geographic locations, whereas the Company previously operated solely in the Lloydminster area which is highly competitive, less capital intensive and typically results in lower hourly rates. Eagle's Operating Revenue per service hour increased from $743 in the third quarter of 2013 to $804 in the fourth quarter of 2013 mainly due to increased pricing that was effective October 1, 2013, coupled with increased boiler revenue in the quarter.

**Corporate**

During the fourth quarter of 2013, corporate administrative expenses, excluding depreciation and stock based compensation, increased $2.9 million to $4.0 million as compared to $1.1 million in the fourth quarter of 2012. The increase is mainly attributed to one-time personnel costs incurred in the quarter. Normalizing for these one-time costs, corporate administrative expenses increased $1.0 million in the fourth quarter of 2013 as compared to the same period in the prior year due to increased staffing levels and overhead required to support the increased growth in the production services segment.

Finance costs in the fourth quarter of 2013 increased $2.0 million to $5.2 million as compared to $3.2 million in the same period of the prior year. This increase is mainly attributed to the issuance of $90 million in additional senior notes in September 2013 following the acquisition of IROC, resulting in higher interest expense for the fourth quarter of 2013.

For the fourth quarter of 2013 and 2012, income taxes totalled $5.3 million and $4.7 million respectively, which reflected effective tax rates of approximately 25.1% and 26.2% respectively.

**Consolidated**

Operating Revenue increased by $43.4 million (or 57%) to $119.8 million in the fourth quarter of 2013 compared to $76.4 million in the same period of the prior year. Included in Operating Revenue in the fourth quarter of 2012 is $2.2 million of contracted shortfall commitment revenue. Normalizing for the contracted shortfall commitment revenue, Operating Revenue increased $45.6 million (or 61%). The increase in Operating Revenue can mainly be attributed to the acquisition of IROC in April 2013 and increased activity in the contract drilling segment in the fourth quarter of 2013, as day rates in Canada remained constant with 2012 levels at approximately $28,900 per operating day.

EBITDA increased by $12.1 million in the fourth quarter of 2013 to $43.5 million as compared to $31.4 million in the fourth quarter of 2012. Included in EBITDA in the fourth quarter of 2013 is approximately $2 million in one-time personnel costs, as well as an increase of $1.6 million in capitalized overhead. In addition, EBITDA in the fourth quarter of 2012 includes $2.2 million of contracted shortfall commitment revenue. Normalizing for these items, EBITDA increased $14.7 million (or 50%). The increase in EBITDA can mainly be attributed to the increased contribution from the production services segment following the acquisition of IROC, coupled with the increased size and activity in the contract drilling segment in the fourth quarter of 2013.

**Summary of Quarterly Results**

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

| Three months ended | Dec 31, 2013 | Sep 30, 2013 | Jun 30, 2013 | Mar 31, 2013 | Dec 31, 2012 | Sep 30, 2012 | Jun 30, 2012 | Mar 31, 2012 |
|---|---|---|---|---|---|---|---|---|
| (stated in thousands, except per share amounts) | | | | | | | | |
| Revenue | 129,713 | 101,389 | 50,835 | 98,006 | 83,338 | 69,573 | 44,819 | 110,887 |
| Operating Revenue(1) | 119,831 | 96,473 | 48,010 | 88,810 | 76,458 | 76,455 | 40,655 | 100,747 |
| Gross Margin(1) | 52,980 | 37,547 | 16,087 | 40,945 | 37,360 | 29,382 | 14,108 | 50,213 |
| EBITDA(1) | 43,543 | 30,297 | 9,199 | 34,384 | 31,381 | 23,944 | 9,364 | 44,242 |
| Cash flow from operating activities | 36,866 | 6,667 | 48,381 | 22,444 | 11,021 | 9,248 | 58,930 | 25,717 |
| Net income (loss) | 15,797 | 7,927 | (3,381) | 14,903 | 13,092 | 8,251 | 827 | 23,008 |
| per share - basic | 0.22 | 0.11 | (0.05) | 0.25 | 0.22 | 0.14 | 0.01 | 0.39 |
| per share - diluted | 0.21 | 0.11 | (0.05) | 0.24 | 0.22 | 0.14 | 0.01 | 0.38 |
| Total assets | 986,792 | 947,836 | 903,882 | 748,112 | 749,448 | 727,113 | 699,356 | 706,061 |
| Long term financial liabilities(2) | 262,877 | 263,050 | 232,529 | 182,068 | 186,948 | 176,739 | 171,764 | 171,570 |
| Dividends declared | 5,504 | 5,502 | 5,501 | 4,474 | 4,469 | 4,457 | - | - |

(1) See Financial Measures Reconciliations on page 2.

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

Revenue was strong in the first quarter of 2012. Following spring breakup in 2012 and until the second quarter of 2013, revenues continuously increased each quarter due to the cyclical nature of the oilfield service industry, however not to the previous highs realized in the first quarter of 2012, due to slower activity in the oilfield service industry. Revenues in the third and fourth quarters of 2013 have increased significantly following spring breakup due to the acquisition of IROC in April 2013 and increased activity in the oilfield service industry.

EBITDA has followed a similar trend to revenue, steadily increasing after spring breakup into the third and fourth quarters of 2012 and 2013. EBITDA is generally highest in the first quarter when activity is the highest. EBITDA in the most recent quarters has not been as high as the first quarter of 2012 due to lower activity and general economic uncertainty as producers reduced their capital budgets, however EBITDA has shown continuous improvement into the fourth quarter of 2013.

Net income has fluctuated throughout the last eight quarters due to the cyclical nature of the oilfield service industry and has been impacted by higher depreciation rates and increased finance costs.

Total assets of the Company have increased throughout the last eight quarters due to the Company's capital spending program. During the second quarter of 2013, the significant increase in the Company's total assets was due to the acquisition of IROC.

### Goodwill

Goodwill represents the excess, at the date of acquisition, of the purchase price of a business acquired over the fair value of the net tangible and intangible assets acquired. A continuity of Western's goodwill balance as at December 31, 2013 is as follows:

| (stated in thousands) | Amount |
|---|---|
| December 31, 2012 | $ 55,527 |
| IROC acquisition | 33,183 |
| December 31, 2013 | $ 88,710 |

### Contractual Obligations

In the normal course of business the Company incurs contractual obligations. The expected maturities of the Company's contractual obligations as at December 31, 2013 are as follows:

| (stated in thousands) | 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Senior Notes | $ - | $ - | $ - | $ - | $ - | $ 265,000 | $ 265,000 |
| Senior Notes interest | 20,869 | 20,869 | 20,869 | 20,869 | 20,869 | 10,434 | 114,779 |
| Trade payables and other current liabilities | 56,317 | - | - | - | - | - | 56,317 |
| Dividends payable | 5,504 | - | - | - | - | - | 5,504 |
| Operating leases | 4,187 | 4,024 | 3,037 | 2,401 | 2,374 | 14,168 | 30,191 |
| Purchase commitments | 17,281 | - | - | - | - | - | 17,281 |
| Other long term debt | 984 | 417 | 156 | 1 | - | - | 1,558 |
| Total | $ 105,142 | $ 25,310 | $ 24,062 | $ 23,271 | $ 23,243 | $ 289,602 | $ 490,630 |

### Outstanding Share Data

| | February 27, 2014 | December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| Common shares outstanding | 73,475,331 | 73,386,191 | 59,582,143 |
| Warrants outstanding | 93,453 | 108,261 | 1,527,811 |
| Stock options outstanding | 4,921,267 | 4,425,598 | 2,522,733 |

### Off Balance Sheet Arrangements

As at December 31, 2013, Western had no off balance sheet arrangements in place.

### Transactions with Related Parties

During the year ended December 31, 2013, the Company had no transactions with related parties.

### Financial Instruments

*Fair Values*

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

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

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

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

The asset is recognized in other assets on the balance sheet while a change in the value of the embedded derivative is included in other items within net income.

The Company has the following non-derivative financial assets:

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

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

(ii) Loans and receivables:

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

(iii) Available for sale:

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

The Company has the following non-derivative financial liabilities:

(i) Other financial liabilities:

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

(ii) Equity instruments:

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

*Credit Risk*

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

*Interest Rate Risk*

The Company is exposed to interest rate risk on debt subject to floating interest rates, such as the Company's credit facilities.

*Foreign Exchange Risk*

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

*Liquidity Risk*

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

**Recent Pronouncements and Amendments**

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended December 31, 2013, and have not been applied in preparing these Financial Statements.

The following new standards have not been adopted and may impact the Company in the future:

- IFRS 9, Financial Instruments was issued in November 2009. The standard is effective for annual periods beginning on or after January 1, 2014, with earlier application permitted. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39, Financial Instruments: Recognition and Measurement. However, some changes were made to the fair value option for financial liabilities to address the issue of an entity's own credit risk. The Company is assessing the effect of IFRS 9 on its financial results and financial position; however, any changes are not expected to be material.
- IAS 36, Impairment of Assets – Amendments to IAS 36, requires entities to disclose the recoverable amount of an impaired Cash Generating Unit. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014 and require retrospective application. This standard is not expected to have a material impact on the Company's financial statements.
- IFRIC 21, Levies - Interpretation of IAS 37 Provisions, contingent liabilities and assets, sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event. The interpretation clarifies that the obligation that gives rise to the liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This standard is not expected to have a significant impact on the Company's financial statements.

**Disclosure Controls and Procedures and Internal Controls Over Financial Reporting**

The President & Chief Executive Officer ("CEO") and Senior Vice President, Finance & Chief Financial Officer ("CFO") of Western are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") for the Company.

DC&P is designed to provide reasonable assurance that material information relating to the Company is made known to the CEO and CFO by others, particularly in the period in which the annual filings are being prepared, and that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified in securities legislation, and includes controls and procedures designed to ensure that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

In accordance with the provisions of NI 52-109, the CEO and CFO have limited the scope of their design of the Company's DC&P and ICFR to exclude controls, policies and procedures of IROC. Western acquired 100% of the outstanding common shares of IROC on April 22, 2013. IROC's contribution to the Company's audited consolidated financial statements for the quarter and year ended December 31, 2013 were approximately 23% and 18% respectively, of the consolidated Operating Revenues and approximately 5% and 6% respectively, of consolidated pre-tax earnings.

Additionally, at December 31, 2013, IROC's current assets and current liabilities were approximately 17% and 16% of consolidated current assets and liabilities respectively, and its non-current assets and non-current liabilities were approximately 19% and 7% of consolidated non-current assets and non-current liabilities respectively.

The scope limitation is primarily based on the time required to assess IROC's DC&P and ICFS in a manner consistent with Western's other operations.

Further details related to the acquisition are disclosed in Note 6 of the Company's notes to the audited consolidated financial statements as at and for the year ended December 31, 2013.

In accordance with the requirements of National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings" ("NI 52-109"), an evaluation of the effectiveness of DC&P and ICFR was carried out under the supervision of the CEO and CFO at December 31, 2013. Based on this evaluation, the CEO and CFO have concluded that, subject to the previously noted scope limitation and the inherent limitations noted below, the Company's DC&P and ICFR are effectively designed and operating as intended.

The Company's management, including the CEO and CFO, does not expect that the Company's DC&P and ICFR will prevent or detect all misstatements or instances of fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues, misstatements or instances of fraud, if any, within the Company have been detected.

There have been no changes to the Company's ICFR that occurred during the most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

**Critical Accounting Estimates**

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

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

*Business Combinations*

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

*Impairment*

The Company assesses impairment at each reporting date by evaluating conditions specific to the organization that may lead to impairment of assets. Where an impairment indicator exists, or annually in the case of goodwill, the recoverable amount of the asset or cash generating unit is determined. Value-in-use and fair value less cost to sell calculations performed in assessing the recoverable amounts incorporate a number of key estimates. As at December 31, 2013, the Company completed its assessments and did not identify indicators of impairment for the long-lived assets of the Company.

*Depreciation*

The Company's property and equipment is depreciated based upon estimates of useful lives and salvage values. These estimates are based on industry practice and the Company's own experience and may change as more experience is gained, market conditions shift or new technological advancements are made.

The componentization of the Company's property and equipment, specifically drilling rig equipment and well servicing rig equipment, is based on management's judgment as to which components constitute a significant cost in relation to the entire item. The componentization process also requires management's judgement in assessing whether individual components have similar consumption patterns and useful lives.

*Income taxes*

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

*Share-based payments*

Stock based compensation expense associated with stock options granted is based on various assumptions, using the Black-Scholes option pricing model to calculate an estimate of fair value. The inputs into the model include interest rates, expected life, expected volatility, expected forfeitures, expected dividends and share prices and these inputs affect the estimated fair value calculated. Determining the estimated expected life, volatility, forfeitures and expected dividends requires judgement.

**Business Risks**

For a comprehensive listing of the Company's business risks please see the most recent Annual Information Form for the year ended December 31, 2013 as filed on SEDAR at www.sedar.com. The Company's primary business risks are as follows:

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

**Forward-Looking Statements and Information**

This MD&A contains certain statements or disclosures relating to Western that are based on the expectations of Western as well as assumptions made by and information currently available to Western which may constitute forward-looking information under applicable securities laws. All such statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that Western anticipates or expects may, or will occur in the future (in whole or part) should be considered forward-looking information. In some cases forward-looking information can be identified by terms such as "forecast", "future," "may", "will", "expect", "anticipate,", "believe", "potential", "enable", "plan", "continue", "contemplate", "pro forma", or other comparable terminology.

In particular, forward-looking information in this MD&A includes, but is not limited to, statements relating to, future dividends; the demand for Company's services and equipment; the terms of existing and future drilling contracts in Canada and the US; the Company's expansion and maintenance capital plans for 2014, expectations as to the increase in crude oil transportation capacity through rail and pipeline development, expectations as to the necessary approvals for liquefied natural gas projects, the expectation of increase in drilling activity in the Duvernay and Montney resource plays, and the

Company’s expected sources of funding to support such capital plans; the Company’s expected utilization for its drilling and well servicing divisions; industry activity levels and pricing; commodity pricing; and forward looking statements under the heading “Critical Accounting Estimates”.

The material assumptions in making forward-looking statements are disclosed in this MD&A under the headings “Overall Performance and Results of Operations”, “Subsequent Events”, “Outlook”, “Liquidity and Capital Resources” and “Critical Accounting Estimates”, and include, but are not limited to, assumptions relating to, demand levels and pricing for oilfield services; fluctuations in the price and demand for oil and natural gas; commodity pricing; general economic and financial market conditions; the Company’s ability to finance its operations; the effects of seasonal and weather conditions on operations and facilities; changes in laws or regulations; currency exchange fluctuations and the ability of the Company to attract and retain skilled labour and qualified management and other unforeseen conditions which could impact the use of services supplied by Western and Western’s ability to respond to such conditions.

Although Western believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information as Western cannot give any assurance that they will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, general industry, economic, market and business conditions. Readers are cautioned that the foregoing list of risks, uncertainties and assumptions are not exhaustive. Additional information on these and other risk factors that could affect Western’s operations and financial results are included in Western’s annual information form which may be accessed through the SEDAR website at www.sedar.com. The forward-looking statements and information contained in this MD&A are made as of the date hereof and Western does not undertake any obligation to update publicly or revise any forward-looking statements and information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

**Additional data**

The Annual Information Form containing additional information relating to the Company is filed on SEDAR at www.sedar.com.

# Western Energy Services Corp.

## Consolidated Financial Statements

*December 31, 2013 and 2012*

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

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of Western Energy Services Corp. ("Western" or the "Company"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where appropriate, reflect management's best estimates and 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 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"
**Alex R.N. MacAusland**
President &
Chief Executive Officer

"Signed"
**Jeffrey K. Bowers**
Senior Vice President, Finance &
Chief Financial Officer

February 27, 2014

Deloitte.

Deloitte LLP
700, 850 - 2nd Street S.W.
Calgary AB  T2P 0R8
Canada

Tel:  (403) 267-1700
Fax: (587) 774-5379
www.deloitte.ca

**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, 2013 and 2012, and the consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Western Energy Services Corp. as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP.

Chartered Accountants

February 27, 2014
Calgary, Alberta

## Western Energy Services Corp.

Consolidated Balance Sheets
(thousands of Canadian dollars)

| | Note | December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | | $ 17,389 | $ 6,588 |
| Trade and other receivables | 7 | 90,519 | 79,782 |
| Other current assets | 8 | 5,576 | 38,989 |
| | | 113,484 | 125,359 |
| Non current assets | | | |
| Property and equipment | 9 | 783,225 | 568,157 |
| Goodwill | 10 | 88,710 | 55,527 |
| Other non current assets | 8 | 1,373 | 405 |
| | | $ 986,792 | $ 749,448 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Trade payables and other current liabilities | 11 | $ 56,317 | $ 37,239 |
| Dividends payable | | 5,504 | 4,469 |
| Current portion of provisions | 12 | 139 | 242 |
| Current portion of long term debt | 13 | 908 | 5,781 |
| | | 62,868 | 47,731 |
| Non current liabilities | | | |
| Provisions | 12 | 1,957 | 2,095 |
| Long term debt | 13 | 262,877 | 186,948 |
| Deferred taxes | 19 | 95,665 | 57,884 |
| | | 423,367 | 294,658 |
| **Shareholders' equity** | | | |
| Share capital | 14 | 411,143 | 322,878 |
| Contributed surplus | | 6,088 | 4,689 |
| Retained earnings | | 139,721 | 125,579 |
| Accumulated other comprehensive income | | 5,171 | 1,644 |
| Non controlling interest | | 1,302 | - |
| | | 563,425 | 454,790 |
| | | $ 986,792 | $ 749,448 |

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

Approved on behalf of the Board of Directors:

“Signed”
Ronald P. Mathison
Director, Chairman of the Board

“Signed”
Lorne A. Gartner
Director, Chairman of the Audit Committee

## Western Energy Services Corp.

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

| | Note | Year ended December 31, 2013 | Year ended December 31, 2012 |
|---|---|---|---|
| **Revenue** | | $ 379,943 | $ 308,617 |
| Operating expenses | | 280,980 | 209,981 |
| **Gross profit** | | 98,963 | 98,636 |
| Administrative expenses | | 33,163 | 24,409 |
| Finance costs | 17 | 17,058 | 12,437 |
| Other items | 18 | 496 | 756 |
| **Income before income taxes** | | 48,246 | 61,034 |
| Income taxes | 19 | 13,000 | 15,856 |
| **Net income** | | 35,246 | 45,178 |
| **Other comprehensive income** (1) | | | |
| (Gain) loss on translation of foreign operations | | (3,034) | 905 |
| Loss (gain) on change in fair value of available for sale assets (net of tax) | | 1,621 | (1,621) |
| Unrealized foreign exchange (gain) loss on net investment in subsidiary (net of tax) | | (2,114) | 749 |
| **Comprehensive income** | | $ 38,773 | $ 45,145 |
| **Net income attributable to:** | | | |
| Shareholders of the Company | | $ 35,124 | $ 45,178 |
| Non controlling interest | | 122 | - |
| **Comprehensive income attributable to:** | | | |
| Shareholders of the Company | | $ 38,651 | $ 45,145 |
| Non controlling interest | | 122 | - |
| Net income per share: | | | |
| Basic | | $ 0.51 | $ 0.77 |
| Diluted | | 0.50 | 0.74 |
| Weighted average number of shares: | | | |
| Basic | 16 | 69,032,574 | 58,784,692 |
| Diluted | 16 | 69,873,460 | 60,860,359 |

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

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

## Western Energy Services Corp.

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

| | Note | Share capital | Contributed surplus [1] | Retained earnings | 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 |
| Common shares: | | | | | | | |
| Issued for cash on exercise of stock options | 14 | 307 | - | - | - | - | 307 |
| Issued for cash on exercise of warrants | 14 | 2,094 | - | - | - | - | 2,094 |
| Fair value of exercised options and warrants | 14 | 779 | (779) | - | - | - | - |
| Stock based compensation | | - | 1,843 | - | - | - | 1,843 |
| Dividends declared | | - | - | (8,924) | - | - | (8,924) |
| Comprehensive income (loss) | | - | - | 45,178 | (33) | - | 45,145 |
| Balance at December 31, 2012 | | 322,878 | 4,689 | 125,579 | 1,644 | - | 454,790 |
| Common shares: | | | | | | | |
| Issued common shares on acquisition | 14 | 83,999 | - | - | - | - | 83,999 |
| Issued for cash on exercise of stock options | 14 | 192 | - | - | - | - | 192 |
| Issued for cash on exercise of warrants | 14 | 2,982 | - | - | - | - | 2,982 |
| Fair value of exercised options and warrants | 14 | 1,092 | (1,092) | - | - | - | - |
| Stock based compensation | | - | 2,491 | - | - | - | 2,491 |
| Dividends declared | | - | - | (20,982) | - | - | (20,982) |
| Non controlling interest acquired | 6 | - | - | - | - | 1,110 | 1,110 |
| Contributions from non controlling interest | | - | - | - | - | 70 | 70 |
| Comprehensive income | | - | - | 35,124 | 3,527 | 122 | 38,773 |
| Balance at December 31, 2013 | | $ 411,143 | $ 6,088 | $ 139,721 | $ 5,171 | $ 1,302 | $ 563,425 |

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

(2) At December 31, 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 consolidated financial statements.

## Western Energy Services Corp.

Consolidated Statements of Cash Flows
(thousands of Canadian dollars)

| | Note | Year ended December 31, 2013 | Year ended December 31, 2012 |
|---|---|---|---|
| **Operating activities** | | | |
| Net income | | $ 35,246 | $ 45,178 |
| Adjustments for: | | | |
| Depreciation included in operating expenses | | 47,701 | 31,890 |
| Depreciation included in administrative expenses | | 1,431 | 971 |
| Stock based compensation included in operating expenses | | 895 | 537 |
| Stock based compensation included in administrative expenses | | 1,596 | 1,306 |
| Loss on sale of assets | | 1,137 | 368 |
| Gain on sale of investments | | (1,234) | - |
| Income taxes | 19 | 13,000 | 15,856 |
| Unrealized foreign exchange gain | | (13) | (7) |
| Finance costs | 17 | 17,058 | 12,437 |
| Other | | (1,308) | 60 |
| Cash generated from operating activities | | 115,509 | 108,596 |
| Income taxes paid | | (6,965) | (2,253) |
| Change in non-cash working capital | | 5,814 | (1,427) |
| Cash flow from operating activities | | 114,358 | 104,916 |
| **Investing activities** | | | |
| Additions to property and equipment | 9 | (95,234) | (127,231) |
| Proceeds on sale of property and equipment | | 4,757 | 2,776 |
| Business acquisitions | 6 | (62,898) | - |
| Purchase of investments | | - | (33,211) |
| Proceeds from sale of investments | | 34,446 | - |
| Changes in non-cash working capital | | 4,059 | (6,567) |
| Cash flow used in investing activities | | (114,870) | (164,233) |
| **Financing activities** | | | |
| Issue of common shares | 14 | 3,174 | 2,401 |
| Repayment of long term debt | | (49,823) | (96,006) |
| Issuance of senior notes | | 91,463 | 175,000 |
| Issue costs of senior notes | | (1,332) | (4,655) |
| Finance costs paid | | (12,893) | (6,378) |
| Dividends paid | | (19,946) | (4,457) |
| Contributions from non controlling interest | | 70 | - |
| Change in non-cash working capital | | 600 | - |
| Cash flow from financing activities | | 11,313 | 65,905 |
| Increase in cash and cash equivalents | | 10,801 | 6,588 |
| Cash and cash equivalents, beginning of year | | 6,588 | - |
| Cash and cash equivalents, end of year | | $ 17,389 | $ 6,588 |
| Cash and cash equivalents: | | | |
| Bank accounts | | $ 7,889 | $ 6,588 |
| Short term investments | | 9,500 | - |
| | | $ 17,389 | $ 6,588 |

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

**1. Reporting entity:**

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the registered office is 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 consolidated financial statements as at and for the years ended December 31, 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. Subsequent to December 31, 2013, the Partnership was renamed to Western Energy Services Partnership.

**2. Basis of preparation:**

(a) Statement of compliance:

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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

These Financial Statements were approved for issuance by Western's Board of Directors on February 27, 2014.

(b) Basis of measurement:

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

(i) derivative financial instruments are measured at fair value;
(ii) financial instruments at fair value through profit or loss are measured at fair value; and
(iii) financial instruments classified as available for sale are measured at fair value.

(c) Functional and presentation currency:

These Financial Statements are presented in Canadian dollars, which is Western's functional currency.

**3. Significant accounting policies:**

The significant accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, unless otherwise indicated.

(a) Basis of consolidation:

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

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

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, Consolidated Financial Statements, the Company determined that, for financial reporting purposes, the Company has control of the arrangement. As a result, the Company fully consolidates the arrangement and has recorded a non controlling interest in equity and net income.

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

(b) Foreign currency transactions and operations:
The Canadian dollar is Western's functional and presentation currency. Each of the Company's subsidiaries functional currency is determined individually and items included in the financial statements of each subsidiary are measured using that functional currency. Transactions in foreign currencies are translated to the respective functional currencies of Western and its subsidiaries at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate in effect on the balance sheet date with any resulting foreign exchange gain or loss recognized in net income. Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rate in effect on the date of the transaction. Foreign currency gains and losses on transactions are reported on a net basis and recognized in other items within net income.

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

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

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

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

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

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

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

The Company has the following non-derivative financial assets:

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

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

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

(d) Financial instruments (continued):

(ii) Loans and receivables:

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

(iii) Available for sale:

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

The Company has the following non-derivative financial liabilities:

(i) Other financial liabilities:

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

(ii) Equity instruments:

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

(e) Cash and cash equivalents:
Cash and cash equivalents are comprised of cash balances and short term investments with original maturities of three months or less.

(f) Investments:
Investments are classified as available for sale with changes in fair value recognized in other comprehensive income. When the investments are ultimately sold, any gains or losses are reversed and recognized through net income.

(g) Embedded derivatives:
Derivatives embedded in other instruments or host contracts are separated from the host contract and accounted for separately when their economic characteristics and risks are not closely related to the host contract. Embedded derivatives are recorded on the balance sheet at estimated fair value and changes in the fair value are recorded through net income. The asset is recognized in other assets on the balance sheet while changes in the value of the embedded derivatives are included in other items within net income.

(h) Property and equipment:
Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

(h) Property and equipment (continued):

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

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

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

The estimated useful lives of each class of asset for the current and comparative periods are as follows:

| | Expected life | Residual values | Depreciation method |
|---|---|---|---|
| Buildings | 25 years | - | Straight-line |
| Drilling rigs and related equipment: | | | |
| Drilling rigs | 1,600 to 5,000 drilling operating days | 10-20% | Unit-of-production |
| Drill pipe | 1,600 drilling operating days | 10% | Unit-of-production |
| Major inspections and overhauls | 1,000 drilling operating days | - | Unit-of-production |
| Ancillary drilling equipment | 5 to 10 years | - | Straight-line |
| Well servicing rigs and related equipment | 22,000 to 44,000 service hours | 10-20% | Unit-of-production |
| Rental Equipment | 1 to 30 years | - | Straight-line |
| Shop and office equipment | 1 to 10 years | - | Straight-line |
| Vehicles | 3 years | 20% | Straight-line |

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

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

(i) Inventory:

Inventory is measured at the lower of cost and net realizable value. Write downs of inventory are reversed if there has been a change in the estimates used to determine the recoverable amount and the decrease in impairment write down can be objectively related to an event occurring after the impairment was recognized.

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

(j) Impairment:

(i) Financial assets:

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

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

(j) Impairment (continued):

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is an indication of impairment. If an indication exists, then the asset's carrying amount is assessed for impairment. For goodwill the recoverable amount is estimated each year at the same time, unless there is an indication of impairment.

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

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

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

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

(k) Employee benefits:

(i) Short-term employee benefits:

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

(ii) Stock based compensation awards:

The grant date fair value of stock based compensation awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the vesting period. The amount recognized as an expense is based on the estimate of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. Upon exercise of the stock based compensation award, the consideration paid by the employee is included in share capital and the related contributed surplus associated with the stock compensation award exercised is reclassed into share capital.

(l) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost within net income. Also, a provision is recognized if an inducement or incentive is associated with a lease, such as a free rent period on an office lease or cash payments received for leasehold improvements. Lease inducements received are recognized as a reduction to the total lease expense, over the term of the lease.

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

(m) Revenue:

The Company's services are sold based upon purchase orders or contracts with customers that include fixed or determinable prices based upon daily or hourly rates and recoverable costs. Revenue is recognized when there is persuasive evidence that an arrangement exists, the service has been provided, the rate is fixed or determinable, and 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 is recorded using the percentage-of-completion method, as services are provided, and collection is reasonably assured.

(n) Leased assets and payments:

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

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

All other leases that are determined not to be finance leases are considered operating leases. Payments made under operating leases are recognized in net income on a straight-line basis over the term of the lease.

(o) Finance income and finance costs:

Finance income comprises interest income on cash and cash equivalent balances. Interest income is recognized as it accrues in net income.

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

(p) Income tax:

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

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

Deferred income taxes are recognized, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the respective entity's financial statements.

Deferred income taxes are determined using tax rates which are enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

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

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

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

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

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

(s) New standards and interpretations not yet adopted:
A number of new standards, amendments to standards and interpretations are not yet effective for the period ended December 31, 2013, and have not been applied in preparing these Financial Statements.

The following new standards have not been adopted which may impact the Company in the future:

- IFRS 9, Financial Instruments, was issued in November 2009. The standard is effective for annual periods beginning on or after January 1, 2014, with earlier application permitted. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39, Financial Instruments: Recognition and Measurement. However, some changes were made to the fair value option for financial liabilities to address the issue of an entity's own credit risk. The Company is assessing the effect of IFRS 9 on its financial results and financial position; however, any changes are not expected to be material.
- IAS 36, Impairment of Assets – Amendments to IAS 36 require entities to disclose the recoverable amount of an impaired CGU. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014 and require retrospective application. This standard is not expected to have a material impact on the Company's financial statements.
- IFRIC 21, Levies – Interpretation of IAS 37, Provisions, Contingent Liabilities and Assets, sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event. The interpretation clarifies that the obligation that gives rise to the liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This standard is not expected to have a significant impact on the Company's financial statements.

(t) Standards adopted in the year:
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.

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

(t) Standards adopted in the year (continued):

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 consolidated balance sheets and consolidated statements of operations and comprehensive income and has determined there is no material impact.

- IFRS 13, Fair Value Measurement, which 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.

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

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies (described in Note 3) and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Key sources of estimation uncertainty:

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

(a) Impairment:

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

Property and equipment:

The fair value of property and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of equipment is based on market and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

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

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

(a) Impairment (continued):

Goodwill:

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

(b) Property and equipment:

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

(c) Income taxes:

Preparation of the Financial Statements involves determining an estimate of, or provision for, income taxes in each of the jurisdictions in which the Company operates. The process also involves making an estimate of taxes currently payable and taxes expected to be payable or recoverable in future periods, referred to as deferred taxes. Deferred taxes result from the effects of temporary differences due to items that are treated differently for tax and accounting purposes. The tax effects of these differences are reflected in the consolidated balance sheet as deferred tax assets and liabilities.

An assessment must also be made to determine the likelihood that the Company's future taxable income will be sufficient to permit the recovery of deferred income tax assets. To the extent that such recovery is not probable, recognized deferred tax assets must be reduced. Judgment is required in determining the provision for income taxes and recognition of deferred tax assets and liabilities. Management must also exercise judgment in its assessment of continually changing tax interpretations, regulations and legislation, to ensure deferred tax assets and liabilities are complete and fairly presented. The effects of differing assessments and applications could be material.

(d) Determination of functional currency:

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

(e) Stock based awards:

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

(f) Non-derivative financial liabilities:

As detailed in the Company's accounting policy, the Company records its financial instruments at fair value on inception with changes in fair value recorded when required by the Company's classification of such instruments. Calculation of fair value of the Company's financial instruments are complex and requires judgment around the selection of market inputs and is based on many variables including but not limited to credit spreads and interest rate spreads which are factors outside management's control.

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

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

(f) Non-derivative financial liabilities (continued):

Fair value for disclosure purposes is calculated based on the present value of future principal and interest payments, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

**5. Operating segments:**

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

Senior Management reviews internal management reports for these segments on at least a monthly basis.

Information regarding the results of the segments are 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 years ended December 31, 2013 and 2012:

| Year ended December 31, 2013 | Contract Drilling | Production Services | Corporate | Inter-segment Elimination | Total |
|---|---|---|---|---|---|
| Revenue | $ 308,022 | $ 72,270 | $ - | $ (349) | $ 379,943 |
| Segment profit (loss) | 71,057 | 6,538 | (9,304) | - | 68,291 |
| Finance costs | - | - | 17,058 | - | 17,058 |
| Depreciation | 38,106 | 9,923 | 1,103 | - | 49,132 |
| Additions to property and equipment (1) | 86,911 | 176,777 | 610 | - | 264,298 |

(1) Additions include the purchase of property and equipment, non-cash capital asset additions and property and equipment acquired through business acquisitions.

| Year ended December 31, 2012 | Contract Drilling | Production Services | Corporate | Inter-segment Elimination | Total |
|---|---|---|---|---|---|
| Revenue | $ 305,217 | $ 3,400 | $ - | $ - | $ 308,617 |
| Segment profit (loss) | 83,259 | (2,134) | (5,055) | - | 76,070 |
| Finance costs | (929) | (188) | 13,554 | - | 12,437 |
| Depreciation | 31,854 | 476 | 531 | - | 32,861 |
| Additions to property and equipment (1) | 112,420 | 12,724 | 6,999 | - | 132,143 |

(1) Additions include the purchase of property and equipment and non-cash capital asset additions.

| Goodwill | Contract Drilling | Production Services | Total |
|---|---|---|---|
| Balance at December 31, 2012 and 2011 | $ 55,527 | $ - | $ 55,527 |
| Additions: IROC acquisition (Note 6) | - | 33,183 | 33,183 |
| Balance at December 31, 2013 | $ 55,527 | $ 33,183 | $ 88,710 |

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

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

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

| As at December 31, 2013 | Contract Drilling | Production Services | Corporate | Total |
|---|---|---|---|---|
| Total assets | $ 726,591 | $ 235,309 | $ 24,892 | $ 986,792 |
| Total liabilities | 109,359 | 35,901 | 278,107 | 423,367 |

| As at December 31, 2012 | Contract Drilling | Production Services | Corporate | Total |
|---|---|---|---|---|
| Total assets | $ 683,608 | $ 19,241 | $ 46,599 | $ 749,448 |
| Total liabilities | 86,808 | 1,317 | 206,533 | 294,658 |

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

| | Year ended December 31, 2013 | Year ended December 31, 2012 |
|---|---|---|
| Segment profit | $ 68,291 | $ 76,070 |
| Add (deduct): | | |
| Stock based compensation | (2,491) | (1,843) |
| Finance costs | (17,058) | (12,437) |
| Other items | (496) | (756) |
| Income before income taxes | $ 48,246 | $ 61,034 |

Segmented information by geographic area is as follows:

| As at and for the year ended December 31, 2013 | Canada | United States | Total |
|---|---|---|---|
| Revenue | $ 345,308 | $ 34,635 | $ 379,943 |
| Property and equipment | 691,351 | 91,874 | 783,225 |
| Total assets | 885,195 | 101,597 | 986,792 |

| As at and for the year ended December 31, 2012 | Canada | United States | Total |
|---|---|---|---|
| Revenue | $ 267,397 | $ 41,220 | $ 308,617 |
| Property and equipment | 483,257 | 84,900 | 568,157 |
| Total assets | 654,066 | 95,382 | 749,448 |

Significant customers:

For the year ended December 31, 2013, the Company had one significant customer comprising 10.8% of the Company's total revenue. The trade receivable balances related to this customer as at December 31, 2013 represented 7.1% of the Company's total trade and other receivables. This customer is a publicly traded company with a market capitalization in excess of $35 billion. For the year ended December 31, 2012, the Company had no single customer representing greater than 10% of the Company's total revenue.

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

6. **Business acquisitions:**

**IROC Energy Services Corp.**

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.

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 | | 83,999 |
| Assumption of bank debt (net of $36 in cash acquired) | | 29,411 |
| | $ | 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.

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

| As at December 31, 2013 | | Amount |
|---|---|---|
| Net working capital (excluding cash) | $ | 176 |
| Property and equipment | | 168,456 |
| Goodwill | | 33,183 |
| Deferred tax liability | | (24,361) |
| Non controlling interest | | (1,110) |
| | $ | 176,344 |

Trade receivables net of the allowance for doubtful accounts, included in net working capital, are comprised of contractual amounts due of $21.1 million, all of which has been collected as at December 31, 2013.

The Company estimates that had the acquisition closed on January 1, 2013, $106.6 million of revenue for the year ended December 31, 2013 would have been attributable to IROC's assets. Included in this estimated amount is $68.2 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.

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

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

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 income of the Arrangement reported as a non controlling interest.

**7. Trade and other receivables:**

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Trade receivables | $ 74,131 | $ 66,911 |
| Accrued trade receivables | 15,191 | 11,589 |
| Other receivables | 1,453 | 1,282 |
| Allowance for doubtful accounts | (256) | - |
| Total | $ 90,519 | $ 79,782 |

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

**8. Other assets:**

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Current: | | |
| Investments | $ - | $ 35,064 |
| Prepaid expenses | 2,856 | 1,808 |
| Inventory | 2,040 | 1,450 |
| Deposits | 551 | 508 |
| Deferred charges and other | 129 | 159 |
| Total current portion of other assets | 5,576 | 38,989 |
| Non current: | | |
| Deferred charges and other | 1,373 | 405 |
| Total non current portion of other assets | 1,373 | 405 |
| Total other assets | $ 6,949 | $ 39,394 |

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

## 9. 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 | 115 | 145 | - | 166,283 | 1,508 | 405 | 168,456 |
| Additions | - | 8 | 86,446 | 7,713 | 1,067 | - | 95,234 |
| Non-cash additions (2) | - | - | - | - | - | 608 | 608 |
| Disposals | - | - | (2,129) | (4,259) | (62) | (287) | (6,737) |
| Impact of foreign exchange | - | - | 6,212 | - | 149 | 11 | 6,372 |
| Balance at December 31, 2013 | $ 5,089 | $ 3,789 | $ 683,992 | $ 187,681 | $ 11,819 | $ 2,459 | $ 894,829 |
| **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 | - | 162 | 37,274 | 9,356 | 1,848 | 492 | 49,132 |
| Disposals | - | - | (639) | (52) | (47) | (105) | (843) |
| Impact of foreign exchange | - | - | 563 | - | 9 | 4 | 576 |
| Balance at December 31, 2013 | $ - | $ 463 | $ 97,396 | $ 9,688 | $ 3,291 | $ 766 | $ 111,604 |
| **Carrying amounts:** | | | | | | | |
| At December 31, 2012 | $ 4,974 | $ 3,335 | $ 533,265 | $ 17,560 | $ 7,676 | $ 1,347 | $ 568,157 |
| At December 31, 2013 | $ 5,089 | $ 3,326 | $ 586,596 | $ 177,993 | $ 8,528 | $ 1,693 | $ 783,225 |

(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 December 31, 2013 are assets under construction of $16.5 million (December 31, 2012: $12.4 million) which include costs incurred to date for the construction of a telescopic Efficient Long Reach double drilling rig as well as ancillary drilling and well servicing equipment.

The Company has assessed the indicators of impairment surrounding property and equipment and did not identify any indicators of impairment at December 31, 2013 or 2012.

## 10. Goodwill:

| | Goodwill |
|---|---|
| Balance at December 31, 2012 and 2011 | $ 55,527 |
| Additions: IROC acquisition (Note 6) | 33,183 |
| Balance at December 31, 2013 | $ 88,710 |

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

**10. Goodwill (continued):**

For impairment testing purposes, goodwill has been allocated to the Company's cash-generating units that are expected to benefit from the synergies of the business combinations which resulted in the initial recognition of the goodwill. These cash-generating units are based on the type of drilling rig, well servicing rig and rental equipment within the Company's contract drilling services and production services divisions.

The recoverable amounts of these cash-generating units was determined based on a value in use calculation which uses cash flow projections based on a five year forecast which incorporates the Company's financial budgets approved by the Board of Directors for the following fiscal year and a pre-tax discount rate of 13% per annum. Cash flow projections during the five year forecast period are based on the same expected margins and price inflation used throughout the budget period. The cash flows beyond that five year period have been extrapolated using a 2% per annum growth rate. The results of the tests indicated that there was no impairment, on a CGU basis, at December 31, 2013. The most sensitive inputs to the model are the discount rate and the growth rate. The impairment test's sensitivity to these inputs is as follows: All else being equal, a 0.5% increase in the discount rate would not have changed the results of the analysis. All else being equal, a 0.5% decrease in the growth rates would not have changed the results of the analysis.

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

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Trade payables | $ 14,073 | $ 4,429 |
| Accrued trade payables and expenses | 42,244 | 32,810 |
| Total | $ 56,317 | $ 37,239 |

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

**12. Provisions:**

| | Onerous contracts | Lease inducements | Total |
|---|---|---|---|
| Balance at December 31, 2011 | $ 235 | $ 121 | $ 356 |
| Additions in the year | - | 2,312 | 2,312 |
| Provisions used during the year | (145) | (200) | (345) |
| Accretion of provisions | 14 | - | 14 |
| Balance at December 31, 2012 | $ 104 | $ 2,233 | $ 2,337 |
| Provisions used during the year | (108) | (137) | (245) |
| Accretion of provisions | 4 | - | 4 |
| Balance at December 31, 2013 | $ - | $ 2,096 | $ 2,096 |

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Current | $ 139 | $ 242 |
| Non current | 1,957 | 2,095 |
| | $ 2,096 | $ 2,337 |

At December 31, 2013, the Company has recognized a provision for the deferral of an office lease inducement received which is amortized on a straight-line basis over the life of the contract. In addition, the Company previously had onerous contract provisions related to out of the money office lease contracts where the expected cost of fulfilling these contracts exceeded their future benefit to the Company. As at December 31, 2013, these out of the money office lease contracts have all expired.

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

**13. Long term debt:**

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

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Current: | | |
| Operating Facility [(a)] | $ - | $ 5,460 |
| Other long term debt - current portion [(1)] | 908 | 321 |
| Total current portion of long term debt | 908 | 5,781 |
| Non current: | | |
| Revolving Facility [(a)] | - | 15,000 |
| Senior Notes [(b)] | 265,000 | 175,000 |
| Less: net unamortized premium and issue costs on Senior Notes | (2,635) | (3,557) |
| Other long term debt - non current portion [(1)] | 512 | 505 |
| Total non current portion of long term debt | 262,877 | 186,948 |
| Total long term debt | $ 263,785 | $ 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 four year extendible revolving credit facility (the "Revolving Facility"). The maturity date on the Revolving Facility is October 18, 2017. 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 Canadian 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 December 31, 2013, the Company had $125.0 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 gains on sale of property and equipment and any other non-cash items or extraordinary or non-recurring gains that are included in the calculation of consolidated net income.

As at December 31, 2013 and 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. On September 18, 2013, the Company completed a private placement of an additional $90.0 million principal amount Senior Notes which were issued at $1,016.25 per $1,000 principal amount plus accrued interest from and including, July 30, 2013 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.

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

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

(b) Senior Notes (continued):

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 December 31, 2013, the fair value of the Senior Notes was approximately $270.3 million.

**14. Share capital:**

At December 31, 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 | 31,666 | | 192 |
| Issued for cash on exercise of warrants | 1,419,550 | | 2,982 |
| Fair value of exercised stock options and warrants | - | | 1,092 |
| Issued on acquisition of IROC (Note 6) | 12,352,832 | | 83,999 |
| Balance at December 31, 2013 | 73,386,191 | $ | 411,143 |

For the year ended December 31, 2013, the Company declared dividends of $21.0 million (December 31, 2012: $8.9 million) representing an annual cash dividend of $0.30 per share and had dividends payable of $5.5 million at December 31, 2013 (December 31, 2012: $4.5 million).

**15. Stock based compensation:**

Stock options:

The Company's stock option plan provides for stock options to be issued to directors, officers, employees and consultants of the Company so that they may participate in the growth and development of Western. Subject to the specific provisions of the stock option plan, eligibility, vesting period, terms of the options and the number of options granted are to be determined by the Board of Directors at the time of grant. The stock option plan allows the Board of Directors to issue up to 10% of the Company's outstanding 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 |
| Forfeited | (282,500) | | 7.17 |
| Balance at December 31, 2012 | 2,522,733 | | 7.08 |
| Granted | 2,335,000 | | 7.03 |
| Exercised | (31,666) | | 6.06 |
| Forfeited | (400,469) | | 7.48 |
| Balance at December 31, 2013 | 4,425,598 | $ | 7.02 |

For the years ended December 31, 2013 and 2012, no stock options were cancelled. The average fair value of the stock options granted in 2013 was $1.92 per stock option (2012: $2.17 per stock option). For the year ended December 31, 2013, the Company recorded approximately $2.5 million in stock based compensation expense (December 31, 2012: $1.8 million).

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

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

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

| As at December 31, 2013<br>Exercise price<br>($/share) | Number of options outstanding | Weighted average contractual life remaining (years) | Number of options exercisable |
|---|---|---|---|
| 5.70-7.41 | 2,988,666 | 3.39 | 741,486 |
| 7.42-8.79 | 1,436,932 | 3.40 | 548,023 |
| | 4,425,598 | 3.40 | 1,289,509 |

As at December 31, 2013, Western had 1,289,509 (December 31, 2012: 600,178 options) exercisable stock options outstanding at a weighted average exercise price equal to $6.96 (December 31, 2012: $6.95) per stock option.

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

| | 2013 | 2012 |
|---|---|---|
| Risk-free interest rate | 1% | 1% |
| Average forfeiture rate | 22% | 21% |
| Average expected life | 2.0 years | 2.0 years |
| Maximum life | 5.0 years | 5.0 years |
| Average vesting period | 2.0 years | 2.0 years |
| Expected dividend | 4% | 4% |
| Expected share price volatility | 60% | 60% |

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 | (1,419,550) | 2.10 |
| Balance at December 31, 2013 | 108,261 | $ 2.10 |

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

**16. Earnings per share:**

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

| | Year ended December 31, 2013 | Year ended December 31, 2012 |
|---|---|---|
| Issued common shares, beginning of period | 59,582,143 | 58,533,287 |
| Effect of shares issued | 9,450,431 | 251,405 |
| Weighted average number of common shares (basic) | 69,032,574 | 58,784,692 |
| Dilutive effect of stock options and warrants | 840,886 | 2,075,667 |
| Weighted average number of common shares (diluted) | 69,873,460 | 60,860,359 |

At December 31, 2013, 3,382,765 options (December 31, 2012: 1,603,566 options) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

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

**17. Finance costs:**

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

| | Year ended December 31, 2013 | Year ended December 31, 2012 |
|---|---|---|
| Interest expense on long term debt | $ 16,553 | $ 12,687 |
| Amortization of debt financing fees and provisions | 729 | 829 |
| Interest and dividend income | (224) | (1,079) |
| Total finance costs | $ 17,058 | $ 12,437 |

For the year ended December 31, 2013, the Company incurred interest and financing costs of approximately $18.3 million (December 31, 2012: $13.6 million), which includes capitalized interest of $1.2 million (December 31, 2012: $1.2 million) on its long term debt (see Note 13). The Company had an effective interest rate of 7.3% on its borrowings for the year ended December 31, 2013 (December 31, 2012: 8.4%).

**18. Other items:**

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

| | Year ended December 31, 2013 | Year ended December 31, 2012 |
|---|---|---|
| Loss on sale of assets | $ 1,137 | $ 368 |
| (Gain) on sale of investments | (1,234) | - |
| (Gain) loss on fair value of derivatives | (608) | 386 |
| Foreign exchange (gain) loss | (419) | 2 |
| Other income | (452) | - |
| Acquisition costs | 2,072 | - |
| Total other items | $ 496 | $ 756 |

**19. Income taxes:**

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

| | Year ended December 31, 2013 | Year ended December 31, 2012 |
|---|---|---|
| Current tax expense | $ 520 | $ 5,090 |
| Deferred tax expense | 12,480 | 10,766 |
| Total income taxes | $ 13,000 | $ 15,856 |

The following summarizes the income taxes recognized directly into other comprehensive income:

| | Year ended December 31, 2013 | Year ended December 31, 2012 |
|---|---|---|
| Translation differences for foreign operations | $ 333 | $ (107) |
| Available for sale financial assets | (232) | 232 |
| Total income taxes in other comprehensive income | $ 101 | $ 125 |

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

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

The following provides a reconciliation of income before income taxes recognized in the consolidated statements of operations and comprehensive income:

| | | Year ended December 31, 2013 | | Year ended December 31, 2012 |
|---|---|---|---|---|
| Income before income taxes | | $ 48,246 | | $ 61,034 |
| Federal and provincial statutory rates | 25.2% | 12,151 | 25.0% | 15,259 |
| Income taxed at higher rates | | 29 | | 1,155 |
| Stock based compensation | | 628 | | 461 |
| Non-deductible expenses | | 516 | | 194 |
| Change in effective tax rate on temporary differences | | 349 | | 24 |
| Change in estimate | | (211) | | (59) |
| Change in previously unrecognized tax assets | | - | | (1,110) |
| Return to provision adjustment | | (320) | | - |
| Other | | (142) | | (68) |
| Total income taxes | | $ 13,000 | | $ 15,856 |

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

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Property and equipment | $ (114,690) | $ (75,047) |
| Other assets | (257) | (276) |
| Deferred charges and accruals | (1,893) | 237 |
| Provisions | 523 | 579 |
| Long-term debt | 233 | 222 |
| Share issue costs | 762 | 1,141 |
| Other tax pools | 535 | 490 |
| Tax loss carry-forwards | 19,105 | 14,787 |
| Other | 17 | (17) |
| Net deferred tax liabilities | $ (95,665) | $ (57,884) |

Movements of the Company's temporary differences for the year ended December 31, 2013 is as follows:

| | Balance Dec 31, 2012 | Recognized in other comprehensive income | Recognized in net income | Impact of foreign exchange | Acquired in business combinations | Balance Dec 31, 2013 |
|---|---|---|---|---|---|---|
| Property and equipment | $ (75,047) | $ - | $ (14,064) | $ (1,850) | $ (23,729) | $ (114,690) |
| Other assets | (276) | 232 | (213) | - | - | (257) |
| Deferred charges | 79 | - | (38) | - | - | 41 |
| Provisions | 579 | - | (56) | - | - | 523 |
| Long term debt | 222 | - | (84) | - | 95 | 233 |
| Timing differences on accruals | 203 | - | 596 | 13 | (2,365) | (1,553) |
| Foreign exchange on inter-company loan | (45) | (333) | (3) | - | - | (381) |
| Share issue costs | 1,141 | - | (500) | - | 121 | 762 |
| Other tax pools | 473 | - | (11) | 10 | 80 | 552 |
| Tax loss carry-forwards | 14,787 | - | 1,893 | 988 | 1,437 | 19,105 |
| Net deferred tax liabilities | $ (57,884) | $ (101) | $ (12,480) | $ (839) | $ (24,361) | $ (95,665) |

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

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

Movements of the Company's temporary differences for the year ended December 31, 2012 is as follows:

| | Balance Dec 31, 2011 | Recognized in other comprehensive income | Recognized in net income | Impact of foreign exchange | Balance Dec 31, 2012 |
|---|---|---|---|---|---|
| Property and equipment | $ (63,780) | $ - | $ (10,840) | $ (427) | $ (75,047) |
| Other assets | - | 232 | (508) | - | (276) |
| Deferred charges | 73 | - | 6 | - | 79 |
| Provisions | 89 | - | 490 | - | 579 |
| Long term debt | - | - | 222 | - | 222 |
| Timing differences on accruals | 310 | - | (110) | 3 | 203 |
| Foreign exchange on inter-company loan | (305) | (107) | 367 | - | (45) |
| Share issue costs | 1,617 | - | (476) | - | 1,141 |
| Other tax pools | 595 | - | (130) | 8 | 473 |
| Tax loss carry-forwards | 14,263 | - | 213 | 311 | 14,787 |
| Net deferred tax liabilities | $ (47,138) | $ 125 | $ (10,766) | $ (105) | $ (57,884) |

At December 31, 2013, the Company has gross loss carry forwards equal to approximately $5.9 million in Canada, which expire between 2026 and 2034. In the United States, the Company has approximately US$42.4 million gross loss carry forwards which expire between 2028 and 2033.

At December 31, 2013 and 2012, the Company had no unrecognized deductible temporary differences.

**20. Costs by nature:**

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

| | Year ended December 31, 2013 | Year ended December 31, 2012 |
|---|---|---|
| Depreciation of property and equipment (Note 9) | $ 49,132 | $ 32,861 |
| Employee benefits: salaries and benefits | 165,674 | 123,822 |
| Employee benefits: stock based compensation (Note 15) | 2,491 | 1,843 |
| Repairs and maintenance | 22,554 | 18,801 |
| Third party charges | 26,819 | 25,761 |

**21. Financial risk management and financial instruments:**

The Company's financial instruments include cash and cash equivalents, trade and other receivables, investments, trade payables and other current liabilities, derivatives and long term debt instruments such as the credit facilities and Senior Notes. Cash and cash equivalents, investments 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 trading price on December 31, 2013.

Interest rate risk:

The Company is exposed to interest rate risk on certain debt instruments, such as the Operating Facility and Revolving Facility, to the extent the prime interest rate changes and/or the Company's interest rate margin changes. For the credit facilities, a one percent change in interest rates would have had a $0.4 million impact on interest expense for the year ended December 31, 2013 (December 31, 2012: $0.1 million). Other long term debt, such as the Senior Notes and the Company's finance leases, are subject to fixed rates.

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

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

Foreign exchange risk:

The Company is exposed to foreign currency fluctuations in relation to its United States dollar capital expenditures and international operations. From time to time, the Company may use forward foreign currency contracts to hedge against these fluctuations. At December 31, 2013, portions of the Company's cash balances, trade payables and accrued liabilities were denominated in United States dollars and subject to foreign exchange fluctuations which are recorded within net income. In addition, Western's United States subsidiary is subject to foreign currency translation adjustments upon consolidation, which is recorded separately within other comprehensive income. For the year ended December 31, 2013, the increase or decrease in net income and other comprehensive income for each one percent change in foreign exchange rates between the Canadian and United States dollars is estimated to be less than $0.2 million and $0.5 million, respectively (December 31, 2012: $0.2 million and $0.4 million, respectively).

Credit risk:

Credit risk arises from cash held with banks and financial institutions, as well as credit exposure to customers in the form of outstanding trade and other receivables. The maximum exposure to credit risk is equal to the carrying value of the financial assets which reflects management's assessment of the credit risk.

At December 31, 2013, approximately 98% of the Company's trade receivables were less than 90 days old. The Company believes the unimpaired amounts greater than 90 days old are still collectible based on historic payment behavior and an analysis of the underlying customers' ability to pay.

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

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Trade receivables: | | |
| Current | $ 38,913 | $ 37,376 |
| Outstanding for 31 to 60 days | 28,347 | 23,370 |
| Outstanding for 61 to 90 days | 5,640 | 5,281 |
| Outstanding for over 90 days | 1,231 | 884 |
| Accrued trade receivables | 15,191 | 11,589 |
| Other receivables | 1,453 | 1,282 |
| Allowance for doubtful accounts | (256) | - |
| Total | $ 90,519 | $ 79,782 |

Impairment losses:

The allowance for doubtful accounts in respect of trade and other receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly. As part of the acquisition of IROC, the Company has recorded an allowance for doubtful accounts of $0.3 million at December 31, 2013 (December 31, 2012: $nil) related to specifically identified trade receivables that have been deemed to be uncollectible.

Liquidity risk:

Liquidity risk is the exposure of the Company to the risk of not being able to meet its financial obligations as they become due. The Company manages liquidity risk through management of its capital structure, monitoring and reviewing actual and forecasted cash flows and the effect on bank covenants, and maintaining unused credit facilities where possible to ensure there are available cash resources to meet the Company's liquidity needs.

The Company's cash flow from operating activities, existing credit facilities, excess working capital and debt refinancing are expected to be greater than anticipated capital expenditures and the contractual maturities of the Company's financial liabilities. This expectation could be adversely affected by a material negative change in the oilfield service industry.

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

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

Liquidity risk (continued):

The table below provides an analysis of the expected maturities of the Company's outstanding obligations at December 31, 2013:

| | Total amount | Due prior to December 31 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter |
|---|---|---|---|---|---|---|---|
| Financial liabilities: | | | | | | | |
| Trade and other current liabilities | $ 56,317 | $ 56,317 | $ - | $ - | $ - | $ - | $ - |
| Senior Notes | 265,000 | - | - | - | - | - | 265,000 |
| Total | $ 321,317 | $ 56,317 | $ - | $ - | $ - | $ - | $ 265,000 |

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

Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing returns.

The Company may use derivatives and also incur financial liabilities in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors. The Company does not apply hedge accounting in order to manage volatility within the statements of operations and comprehensive income.

Fair value:

Financial assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of 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 cash equivalents balance, investments and derivatives are the only financial assets or liabilities measured using fair value. The Company's cash and cash equivalents and investment balances 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 changed in 2013 to include the Senior Notes issued in 2013. As such, the overall capitalization of the Company at December 31, 2013 is as follows:

| | Note | December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| Operating Facility | 13 | $ - | $ 5,460 |
| Revolving Facility | 13 | - | 15,000 |
| Other long term debt | 13 | 1,420 | 826 |
| Senior Notes | 13 | 265,000 | 175,000 |
| Total debt | | 266,420 | 196,286 |
| Shareholders' equity | | 563,425 | 454,790 |
| Less: cash and cash equivalents | | (17,389) | (6,588) |
| Total capitalization | | $ 812,456 | $ 644,488 |

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

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

Capital Management (continued):

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

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

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

As at December 31, 2013, the Company had $135.0 million in available credit under its credit facilities and was in compliance with all debt covenants (see Note 13).

**22. Commitments:**

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

| | 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Senior Notes | $ - | $ - | $ - | $ - | $ - | $ 265,000 | $ 265,000 |
| Senior Notes interest | 20,869 | 20,869 | 20,869 | 20,869 | 20,869 | 10,434 | 114,779 |
| Trade payables and other current liabilities | 56,317 | - | - | - | - | - | 56,317 |
| Dividends payable | 5,504 | - | - | - | - | - | 5,504 |
| Operating leases | 4,187 | 4,024 | 3,037 | 2,401 | 2,374 | 14,168 | 30,191 |
| Purchase commitments | 17,281 | - | - | - | - | - | 17,281 |
| Other long term debt | 984 | 417 | 156 | 1 | - | - | 1,558 |
| Total | $ 105,142 | $ 25,310 | $ 24,062 | $ 23,271 | $ 23,243 | $ 289,602 | $ 490,630 |

Senior Notes and interest:

The Company pays interest on the Senior Notes semi-annually on January 30 and July 30. The Senior Notes are due January 30, 2019.

Trade payables and other current liabilities:

The Company has recorded trade payables for amounts due to third parties which are expected to be paid within one year.

Dividends Payable:

The Company paid a quarterly dividend equal to $0.075 per share on January 14, 2014 to shareholders of record on December 31, 2013.

Operating leases:

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

Purchase commitments:

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

Other long term debt:

The Company has other long term debt relating to leased vehicles as well as an outstanding note payable.

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

## 23. Related party transactions:

During the year ended December 31, 2013, the Company did not have any significant sales transactions with any related parties. At December 31, 2013, there are no significant balances outstanding in trade and other receivables with related parties (December 31, 2012: $nil).

## 24. Key management personnel:

During the year ended December 31, 2013, the Company paid compensation to key management personnel as follows:

| | Year ended December 31, 2013 | Year ended December 31, 2012 |
|---|---|---|
| Short-term employee benefits (1) | $ 4,819 | $ 2,457 |
| Stock based compensation (2) | 447 | 693 |
| | $ 5,266 | $ 3,150 |

(1) Includes approximately $2 million in one-time personnel costs for the year ended December 31, 2013 (December 31, 2012: $nil).
(2) The total fair value of stock options granted to key management personnel for the year ended December 31, 2013 was equal to $0.1 million (December 31, 2012: $0.3 million) which is being recognized in net income over the options' vesting period.

## 25. Subsidiaries:

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

| | | Ownership interest (%) | |
|---|---|---|---|
| | Country of incorporation | December 31, 2013 | December 31, 2012 |
| Horizon Drilling Inc. (1) | Canada | N/A | 100 |
| Stoneham Drilling Corporation | USA | 100 | 100 |
| IROC Drilling and Production Services Corp. | Canada | 100 | - |
| IROC Energy Services Partnership (2) | Canada | 100 | - |
| Matrix Well Servicing Inc. (3) | Canada | N/A | 100 |

(1) Horizon Drilling Inc. was amalgamated with Western on January 1, 2013 and now operates as a division of Western.
(2) Subsequent to December 31, 2013, IROC Energy Services Partnership was renamed to Western Energy Services Partnership.
(3) Matrix Well Servicing Inc. was amalgamated with Western on January 1, 2013 and subsequently transferred to Eagle Well Servicing on May 1, 2013.

## 26. Subsequent events:

On February 27, 2014, the Board of Directors of Western declared a quarterly dividend of $0.075 per share, payable on April 14, 2014, to shareholders of record at the close of business on March 31, 2014. The dividends will be eligible dividends for Canadian income tax purposes.

# CORPORATE INFORMATION

## DIRECTORS

**Thomas M. Alford** [1] [3]
Calgary, Alberta

**Donald D. Copeland** [2] [3]
Victoria, British Columbia

**Lorne A. Gartner** [1]
Calgary, Alberta

**Steven C. Grant** [1] [2]
Houston, Texas

**Alex R.N. MacAusland** [3]
Calgary, Alberta

**Ronald P. Mathison** [1]
Calgary, Alberta

**John R. Rooney** [1] [2]
Calgary, Alberta

1 Member of the Audit Committee

2 Member of the Corporate Governance and Compensation Committee

3 Member of the Health, Safety and Environment Committee

## OFFICERS

**Ronald P. Mathison**
Chairman of the Board

**Alex R.N. MacAusland**
President and Chief Executive Officer

**Jeffrey K. Bowers**
Sr. Vice President Finance and Chief Financial Officer

**Rick M. Harrison**
Sr. Vice President Operations

**Darcy D. Reinboldt**
Vice President Drilling Operations

**Tim J. Sebastian**
Vice President Corporate Development and General Counsel

**David G. Trann**
Vice President Finance

**Aly Khan Musani**
Vice President Operations Finance

**Jeff A. Vathje**
Vice President Human Resources

**Cordell P. Verweire**
Vice President Marketing

**Steven A. MacNabb**
Vice President Health, Safety and Environment

**Jan M. Campbell**
Corporate Secretary

## LEGAL COUNSEL

Borden Ladner Gervais LLP

## AUDITOR

Deloitte LLP

## BANKS

Royal Bank of Canada
HSBC Bank Canada
Alberta Treasury Branches

## STOCK EXCHANGE LISTING

Toronto Stock Exchange
Symbol: WRG

## TRANSFER AGENT

Valiant Trust Company

Western Energy Services Corp.

1700, 215 – 9th Avenue SW Calgary, Alberta T2P 1K3
Telephone: (403) 984-5916 Fax: (403) 984-5917

www.wesc.ca