# Western Energy Services Corp.

## Consolidated Financial Statements

*December 31, 2009 and 2008*

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

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

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

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

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

April 20, 2010

Deloitte.

Deloitte & Touche LLP
3000 Scotia Centre
700 Second Street S.W.
Calgary AB T2P 0S7
Canada

Tel: (403) 267-1700
Fax: (403) 264-2871
www.deloitte.ca

# Auditors' Report

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

We have audited the consolidated balance sheets of **Western Energy Services Corp**. as at December 31, 2009 and December 22, 2009 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the period January 1, 2009 to December 22, 2009 and for the period December 23, 2009 to December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and December 22, 2009 and the results of its operations and its cash flows for the period January 1, 2009 to December 22, 2009 and for the period December 23, 2009 to December 31, 2009 in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at and for the year ended December 31, 2008 were audited by another firm of chartered accountants who expressed an opinion without reservation on those consolidated financial statements in their report dated April 21, 2009.

*Signed "Deloitte & Touche LLP"*
Calgary, Alberta
April 16, 2010

Chartered Accountants

## Western Energy Services Corp.

**Consolidated Balance Sheets**
**(thousands of Canadian dollars)**

| | After comprehensive revaluation December 31, 2009 | After comprehensive revaluation December 22, 2009 (Note 2) | Before comprehensive revaluation December 31, 2008 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash | $ 2,386 | $ 2,822 | $ 71 |
| Accounts receivable | 1,928 | 1,938 | 1,841 |
| Inventory | 353 | 353 | 332 |
| Prepaid expenses | 241 | 241 | 572 |
| Assets held for sale | - | - | 402 |
| | 4,908 | 5,354 | 3,218 |
| Property and equipment (Note 6) | 7,311 | 7,358 | 18,468 |
| Goodwill | - | - | 712 |
| | $ 12,219 | $ 12,712 | $ 22,398 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | $ 3,821 | $ 4,138 | $ 3,849 |
| Revolving credit facilities (Note 7) | - | - | 756 |
| Current portion of capital lease obligations (Note 9) | 51 | 51 | 542 |
| Current portion of long term debt (Note 8) | 205 | 205 | 9,015 |
| | 4,077 | 4,394 | 14,162 |
| Capital lease obligations (Note 9) | 65 | 65 | 764 |
| | 4,142 | 4,459 | 14,926 |
| **Shareholders' Equity** | | | |
| Common shares (Note 10) | 8,253 | 8,253 | 14,554 |
| Subscriptions received | - | - | 205 |
| Contributed surplus (Note 11) | 1,835 | - | 1,799 |
| Deficit | (2,011) | - | (9,086) |
| | 8,077 | 8,253 | 7,472 |
| | $ 12,219 | $ 12,712 | $ 22,398 |

Commitments (Note 13)
Subsequent events (Note 18)
See accompanying notes to these consolidated financial statements

Approved on behalf of the Board of Directors:

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

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

# Western Energy Services Corp.

**Consolidated Statements of Operations, Comprehensive Loss and Deficit**
**(thousands of Canadian dollars)**

| | After comprehensive revaluation | Before comprehensive revaluation | |
|---|---|---|---|
| | December 23, 2009 to December 31, 2009 | January 1, 2009 to December 22, 2009 | Year ended December 31, 2008 |
| **Revenue** | $ 184 | $ 5,462 | $ 12,732 |
| **Expenses** | | | |
| Operating | 182 | 6,322 | 10,879 |
| General and administrative | 133 | 1,025 | 1,125 |
| Stock based compensation | 1,835 | - | 138 |
| Loss on sale of assets | - | 788 | 1,582 |
| Depreciation | 47 | 2,464 | 2,687 |
| Goodwill impairment | - | 712 | - |
| Interest and finance (recovery) costs | (2) | 903 | 1,619 |
| Gain on debt settlement | - | (245) | - |
| Foreign exchange (gain) loss | - | (652) | 563 |
| Loss before taxes | (2,011) | (5,855) | (5,861) |
| Current income taxes | - | 633 | 129 |
| **Net loss and comprehensive loss** | (2,011) | (6,488) | (5,990) |
| Deficit, beginning of period | - | (9,086) | (3,096) |
| Deficit, end of period | $ (2,011) | $ (15,574) | $ (9,086) |
| Net loss per share | | | |
| Basic and diluted | $ (0.02) | $ (0.20) | $ (0.43) |
| Weighted average number of shares | | | |
| Basic and diluted | 132,031,830 | 32,246,405 | 14,035,850 |

See accompanying notes to these consolidated financial statements

# Western Energy Services Corp.
## Consolidated Statements of Cash Flows
## (thousands of Canadian dollars)

| | After comprehensive revaluation | Before comprehensive revaluation | |
|---|---|---|---|
| | December 23, 2009 to December 31, 2009 | January 1, 2009 to December 22, 2009 | Year ended December 31, 2008 |
| **Operating activities** | | | |
| Net loss | $ (2,011) | $ (6,488) | $ (5,990) |
| Items not affecting cash | | | |
| Depreciation | 47 | 2,464 | 2,687 |
| Goodwill impairment | - | 712 | - |
| Stock-based compensation | 1,835 | - | 138 |
| Loss on sale of assets | - | 788 | 1,582 |
| Gain on debt settlement | - | (245) | - |
| Unrealized foreign exchange gain | - | (458) | - |
| Net change in non-cash working capital | (307) | 462 | 1,704 |
| | (436) | (2,765) | 121 |
| **Investing activities** | | | |
| Proceeds on sale of equipment | - | 3,221 | 2,008 |
| Additions to property and equipment | - | (281) | (2,613) |
| | - | 2,940 | (605) |
| **Financing activities** | | | |
| Increase (payment) of long term debt | - | 29 | (23) |
| Payment of capital leases | - | (813) | (108) |
| Share subscriptions received | - | - | 205 |
| Issue of common shares, net of costs | - | - | 11 |
| Net change in non-cash working capital | - | - | 259 |
| | - | (784) | 344 |
| Decrease in cash | $ (436) | $ (609) | $ (140) |
| Cash, beginning of period | $ 2,822 | $ 71 | $ 211 |
| Cash, end of period | $ 2,386 | $ (538) | $ 71 |
| Net proceeds of recapitalization (Note 2) | - | 3,360 | - |
| Interest paid | - | 903 | 1,361 |
| Taxes paid | - | 18 | 129 |

See accompanying notes to these consolidated financial statements

## 1. Description of Business

### Before comprehensive revaluation

The Corporation was incorporated under the Alberta Business Corporations Act on March 18, 1996 as "Big Blackfoot Resources Ltd." On September 27, 2002, the Corporation filed articles of amendment to change its name to "BBF Resources Inc." and to consolidate its then outstanding common shares on the basis of one common share for each two common shares. On June 23, 2005, the Corporation filed articles of amendment to change its name to "Western Energy Services Corp." On January 1, 2006, the Corporation filed articles of amalgamation and amalgamated with its wholly-owned subsidiary, WESC Ltd. On September 5, 2008, the Corporation filed articles of amendment to consolidate its then outstanding common shares on the basis of one common share for each twelve common shares.

### Comprehensive revaluation

On December 22, 2009, the Corporation completed a capital restructuring which involved a non-brokered private placement ("the Private Placement"), the conversion of the Corporation's existing bridge lending facility, convertible debentures, and other specified obligations into common shares, and the appointment of a new board of directors and management team (See Note 2).

Western Energy Services Corp. ("Western" or the "Company") is an energy services company that provides a broad range of remedial stimulation services to upstream oil and natural gas exploration and production companies operating in Alberta, Texas and Mexico. Western operates primarily through its subsidiaries, Stimsol Canada Inc. and Western Energy Services of Texas Corp.

## 2. Basis of presentation – comprehensive revaluation

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

| | Prior to comprehensive revaluation on December 22, 2009 | Recapitalization transactions | | Comprehensive revaluation adjustments[4] | After comprehensive revaluation on December 22, 2009 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Current assets | | | | | |
| Cash | $ (538) | $ 3,360 | (1) | $ - | $ 2,822 |
| Accounts receivable | 1,938 | - | | - | 1,938 |
| Inventory | 353 | - | | - | 353 |
| Prepaid expenses | 241 | - | | - | 241 |
| | 1,994 | 3,360 | | - | 5,354 |
| Property and equipment | 14,407 | (1,678) | (3) | (5,371) | 7,358 |
| | $ 16,401 | $ 1,682 | | $ (5,371) | $ 12,712 |
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued liabilities | $ 3,970 | $ 168 | (1)(2) | $ - | $ 4,138 |
| Current portion of capital lease obligations | 51 | - | | - | 51 |
| Current portion of long term debt | 11,331 | (11,126) | (2)(3) | - | 205 |
| | 15,352 | (10,958) | | - | 4,394 |
| Capital lease obligations | 65 | - | | - | 65 |
| | 15,417 | (10,958) | | - | 4,459 |
| Shareholders' Equity | | | | | |
| Common shares | 14,554 | 7,685 | (1)(2) | (13,986) | 8,253 |
| Subscriptions received | 205 | (205) | (2) | - | - |
| Contributed surplus | 1,799 | - | | (1,799) | - |
| Deficit | (15,574) | 5,160 | (2) | 10,414 | - |
| | 984 | 12,640 | | (5,371) | 8,253 |
| | $ 16,401 | $ 1,682 | | $ (5,371) | $ 12,712 |

*Summary of adjustments:*

Recapitalization transactions:

(1) Pursuant to the Private Placement which closed on December 22, 2009, 50.5 million units of Western were issued at a price of $0.08 for proceeds of $4.0 million and 37.0 million common shares of Western were issued at a price of $0.08 for proceeds of $3.0 million, for total proceeds of $7.0 million. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase one common share at a price of $0.105 for a period of five years. Share issue costs associated with the Private Placement were approximately $0.3 million. Of the total proceeds, approximately $3.7 million was applied against debt.

(2) As a condition of the completion of the Private Placement, the holders of Western's existing bridge lending facility, subordinated convertible debentures, subscriptions received and other specified obligations (The "Subordinated Debt"), converted the existing Subordinated Debt of approximately $6.1 million in exchange for 12,285,425 common shares of the Corporation at a price of $0.50 per share. The fair value of the common shares issued was approximately $983,000 resulting in the realization of a gain on the settlement of debt of approximately $5.2 million.

(3) As part of the reorganization, Western completed approximately $1.7 million in asset sales with the proceeds applied against debt.

Comprehensive revaluation adjustments:

(4) As a result of the comprehensive revaluation, all assets and liabilities were revalued at estimated fair

values and Western’s deficit was eliminated.

## 3. Significant accounting policies

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

### a. Consolidation

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

### b. Revenue recognition

Revenue is recognized at the time the product is delivered or the service is provided on a daily, hourly or job basis. Revenue from contracts of long or medium terms are recorded on the percentage of completion method, with losses fully provided for as they become apparent. Under this method, revenues are accrued on work-in progress based upon the ratio of costs incurred to total estimated costs.

### c. Inventory

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

### d. Property and equipment

The Company’s equipment is recorded at cost and amortized based upon estimates of useful lives and salvage values, which vary from 0% to 20% of the purchase cost.

Property and equipment are depreciated as follows:

| | Expected life | Salvage value | Basis of depreciation |
|---|---|---|---|
| Buildings | 30 years | - | straight-line |
| Oilfield service equipment | 0.5 to 10 years | 20% | straight-line |
| Vehicles under capital lease | 2 to 3 years | 15% | straight-line |
| Shop and office equipment | 1 to 5 years | - | straight-line |

### e. Goodwill

Goodwill is the amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company’s reporting segments that are expected to benefit from the business combination. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

### f. Impairment of long-lived assets

Management performs impairment testing of its property and equipment whenever events or changes in circumstances indicate that the carrying value of an asset, or a group of assets, may not be recoverable. Long lived assets are tested for impairment by comparing the estimate of undiscounted future cash flows to the carrying amount of the assets, or group of assets. If the carrying value is not recoverable from the expected undiscounted future cash flows, a loss is measured as the amount by which the asset’s carrying value exceeds fair value, and is recorded in the period.

### g. Financial instruments

All financial instruments are initially recorded at fair value on the consolidated balance sheet. The Company has classified each financial instrument into the following categories: assets or liabilities held for trading, assets held to maturity, assets available for sale, loans and receivables and other liabilities. Measurement of

these financial instruments subsequent to their initial recognition, along with the accounting treatment for any change in their measurement is based on their classification. Unrealized gains and losses on held for trading instruments are recognized in earnings, while gains and losses on available for sale financial assets are recognized in other comprehensive income and transferred to earnings when realized. The other classifications of financial instruments are recorded at amortized cost using the effective interest method.

Transaction costs incurred on the issuance of debt are classified with the related debt instrument. These costs are amortized using the effective interest rate method over the life of the related debt instrument.

The Company has made the following classifications:

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

**h. Earnings per share**

Earnings per share are calculated using the weighted average number of shares outstanding for the period. Diluted earnings per share are calculated using the treasury stock method where the deemed proceeds of the exercise of options or warrants and the average unrecognized stock-based compensation are considered to be used to reacquire shares at an average share price for the period.

**i. Income taxes**

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

**j. Stock based compensation**

The Company follows the fair value method of accounting, using a Black-Scholes option pricing model, whereby, the fair value of the stock option is determined on the date of grant, and amortized over the options' vesting period, with a corresponding increase recorded as contributed surplus. All forfeited options are cancelled by the Company immediately and no stock-based compensation is recorded on these options in future periods and any unvested stock based compensation in the current period is reversed. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital.

**k. Foreign exchange**

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

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

**4. Changes in Accounting Policies**

The Canadian Institute of Chartered Accountants ("CICA") issued the following new Handbook Sections, which were effective for interim and annual periods beginning on or after January 1, 2009.

**a.** The Company adopted Section 3064, Goodwill and Intangible Assets and the amended Section 1000, Financial Statement Concepts clarifying the criteria for recognizing assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized with assets. The adoption of this section did not have a material impact on the results of the Company's operations or financial position.

**b.** On January 20, 2009 the Emerging Issues Committee ("EIC") issued a new abstract EIC 173 "Credit risk and the fair value of financial assets and financial liabilities". This abstract concludes that an entity's own credit risk

and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is to apply to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this abstract did not have a significant impact on the Company's financial statements.

**c.** In June 2009, the CICA amended Section 3862 to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The Company adopted this standard prospectively effective December 31, 2009. The adoption of this standard did not have a material impact on the financial statements of the Company.

**d.** In July 2009, the CICA amended section 3855, "Financial Instruments – Recognition and Measurement", in relation to the impairment of financial assets. Amendments to this section have revised the definition of "loans and receivables" and provided that certain conditions have been met, permits reclassification of financial assets from the held-for trading and available-for-sale categories into the loans and receivables category. The amendments also provide one method of assessing impairment for all financial assets regardless of classification. The Company adopted this standard prospectively effective December 31, 2009. The adoption of the amendments of this standard did not have a material impact on the financial statements of the Company.

## 5. New Accounting Pronouncements

The CICA issued the following new Handbook Sections, which are effective for interim and annual periods beginning on or after January 1, 2011.

**a.** In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. Management is currently assessing the impact of the adoption of this section on the results of the Company's operations, financial position and disclosures.

**b.** In January 2009, the CICA issued Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. Management is currently assessing the impact of the adoption of these sections on the results of the Company's operations or financial position.

## 6. Property and equipment

| | December 31, 2009 | | | December 22, 2009 |
|---|---|---|---|---|
| | Cost | Accumulated Depreciation | Net book value | Fair value |
| Land | $ 97 | $ - | $ 97 | $ 97 |
| Buildings | 334 | 1 | 333 | 334 |
| Oilfield service | 6,754 | 44 | 6,710 | 6,754 |
| Shop and office equipment | 61 | 2 | 59 | 61 |
| Vehicles under capital lease | 112 | - | 112 | 112 |
| | $ 7,358 | $ 47 | $ 7,311 | $ 7,358 |

| | December 31, 2008 | | |
|---|---|---|---|
| | Cost | Accumulated Depreciation | Net book value |
| Land | $ 143 | $ - | $ 143 |
| Buildings | 619 | 38 | 581 |
| Oilfield service | 22,441 | 4,769 | 17,672 |
| Shop and office equipment | 474 | 402 | 72 |
| Vehicles under capital lease | 459 | 459 | - |
| | $ 24,136 | $ 5,668 | $ 18,468 |

## 7. Revolving credit facilities

As at December 31, 2009, Western has a $4.0 million demand revolving loan with a Canadian lender for working capital purposes, available by way of multiple advances in minimum draw amounts of $100,000. Additionally, Western has a $2.0 million demand revolving loan with a Canadian lender to finance day-to-day operations. The credit facilities are secured by a general security agreement creating a first priority security interest in all present and after acquired personal property of Western and a floating charge over all of Western's present and after acquired real property. Both demand revolving loans bear interest at the bank's prime rate plus 2.75%. As at December 31, 2009, the effective interest rate on these facilities was 5%, no amounts were drawn on either of these facilities and Western was in compliance with all financial covenants pertaining to these credit facilities. Subsequent to December 31, 2009, the Company increased its credit facility (Note 18).

During the fourth quarter of 2009, the Company completed the previously announced refinancing provided by the Company's senior lender. This new credit facility provided a further advance of $1,325,000 which was used to repay other lenders and consolidate all bank debt with the senior lender. The new facility with the senior lender provided for an interest only repayment period until December 31, 2009, and a reamortization of the Company's senior debt facility over a period of 48 months commencing on that date. On December 22, 2009, subsequent to completing the recapitalization and reorganization, Western used a portion of the proceeds from the non-brokered Private Placement to repay this loan in full (Note 2).

As at December 31, 2008, the Company's US subsidiary had a revolving line of credit, established with a US based lender with interest calculated at the greater of US prime plus 2% or 10% subject to a monthly minimum payment of US$4,000. The line of credit was capped at the lesser of US$1,000,000 or 80% of eligible accounts receivable in the Company's US subsidiary. At December 31, 2008, US$284,462 (CAD$347,840) was drawn under this line of credit. This facility is cross collateralized with the US dollar demand term loans (Note 8) and secured by the land, building, specific equipment and accounts receivable of the Company's US subsidiary pursuant to a security agreement covering all assets of the US subsidiary, and excluding all non specified equipment and is also secured by a guarantee by the Company. As of December 31, 2008, this facility had an effective interest rate of 10%. With the completion of the financing agreement on November 9, 2009, this revolving credit facility was repaid in full and cancelled (Note 8).

As at December 31, 2008, Western had a line of credit with a Canadian lender capped at the lesser of $500,000 or 75% of the eligible accounts receivable in its Canadian subsidiary. This loan bears interest at prime plus 2.75%, operates as an overdraft facility where cash received reduces the principal outstanding and the Company can draw unused funds up to the cap. The line of credit is cross collateralized with the Canadian demand term loans (Note 8). At December 31, 2008, $408,074 was drawn under this line of credit. As of December 31, 2008, this facility had an effective interest rate of 6.25%. On December 22, 2009, subsequent to completing the recapitalization and reorganization, Western used a portion of the proceeds from the non-brokered Private Placement to repay the credit facility in full (Note 2).

## 8. Long-term debt

As at December 31, 2009, Western has an outstanding mortgage of approximately US$195,000 (CDN - $205,000) on a building in the United States that was scheduled to mature on August 10, 2010. This mortgage bears interest at 10.0%. Subsequent to December 31, 2009, the balance on this mortgage was paid in full.

On November 9, 2009 the Company closed a $3 million private placement offering of units ("Unit Offering) consisting of, in the aggregate, $3 million principal amount of convertible secured subordinated debentures (the "Debentures") and 30 million share purchase warrants. The Unit offering was placed with a syndicate of investors lead by 1063645 Alberta Ltd, a company controlled by a former director of the Company. The proceeds of this loan were used to pay down trade payables, long term debt and long term lease commitments. As part of the debt restructuring the term of the borrowings of the Company was extended for a period of 24 months to August 31, 2011 and the interest rate on the loan was reduced from 12% to 7% effective July 1, 2009. As part of the reorganization and recapitalization completed on December 22, 2009, the Debentures were settled with common shares and the share purchase warrants were cancelled.

As at December 31, 2008, Western had an outstanding loan balance of $2,490,403 with 1063645 Alberta Ltd., a company controlled by a former director of the Company. This facility bears interest at 12%, is secured by a first charge on the Company’s downhole tools and certain well service equipment, as well as a second charge against other well service equipment and a corporate guarantee. In October 2009 the term of this loan was conditionally extended for a period of 24 months until August 31, 2011 and the interest rate reduced to 7% per annum. On December 22, 2009, as part of completing the reorganization and recapitalization, Western converted the balance of this loan into common shares of Western at a price of $0.50 per common share (Note 2).

As at December 31, 2008, Western had a Canadian demand term loan with interest of prime plus 2.75% and a balance of $4,547,287. This banking facility is secured by all present and after acquired property of the Company and its Canadian subsidiary. During the third quarter of 2009, the bank suspended the requirement for principal payments until September 30, 2009. This period of “interest only” payments was then subsequently extended to December 31, 2009. After the expiration of the interest only period the loan was to be amortized over a period of 48 months. As of December 31, 2008, this loan has an effective interest rate of 6.25%.

As at December 31, 2008, Western had demand term loans with a US based lender in the amount of $1,976,074, which are denominated in US dollars (US$1,616,024), bear interest at the greater of US Prime plus 2% or 10%, and are repayable with weekly principal payments of US$11,200. The loans are cross collateralized with a line of credit as well as a charge over property and equipment of the Company’s US based subsidiary having a net book value of US$2,187,601. As of December 31, 2008, these loans have an effective interest rate of approximately 10%.

On December 22, 2009, subsequent to completing the reorganization and recapitalization, the Company used a portion of the proceeds from the non-brokered private placement of $7.0 million to repay the Canadian demand term loan in full and reduce the US demand term loans to US$195,000 (CDN$205,000) (Note 2).

## 9. Capital lease obligations

As at December 31, 2009, Western has capital leases on vehicles outstanding totaling $116,000 (December 31, 2008 - $1.3 million) of which $51,000 was current (December 31, 2008 - $0.5 million) with maturity dates ranging from June 2010 to April 2013 and interest rates ranging from 5.9% to 9.8%. All leases are secured by their corresponding vehicle which have aggregate carrying values of $112,000 at December 31, 2009.

## 10. Common shares

### a. Authorized

Unlimited number of common shares

### b. Issued

| Common shares (Note 10e) | Shares | | Amount |
|---|---|---|---|
| **Balance, December 31, 2007** | **14,000,652** | **$** | **10,909** |
| Issued for cash (Note 10f) | 230,045 | | 69 |
| Issued on conversion of Note (Note 10g) | 18,015,708 | | 3,635 |
| Issue costs | - | | (59) |
| **Balance, December 31, 2008** | **32,246,405** | **$** | **14,554** |
| Private placement - December 22, 2009 (Note 10c) | 87,500,000 | | 7,000 |
| Issued on reorganization – December 22, 2009 (Note 10d) | | | |
| Issued on conversion of debt | 11,875,425 | | 950 |
| Issued on conversion of share subscriptions (Note 10h) | 410,000 | | 33 |
| Issue costs – December 22, 2009 | - | | (298) |
| Comprehensive revaluation (Note 2) | - | | (13,986) |
| **Balance, December 22, 2009** | **132,031,830** | **$** | **8,253** |
| **Balance, December 31, 2009** | **132,031,830** | **$** | **8,253** |

### c. Private Placement

On December 22, 2009, the Company completed a reorganization involving a non-brokered private placement of 50.5 million units at a price of $0.08 for proceeds of $4.0 million and 37.0 million common shares at a price of $0.08 for proceeds of $3.0 million. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase one common share at a price of $0.105 for a period of five years.

### d. Debt and share subscriptions converted to Common Shares

As a condition of the completion of the private placement on December 22, 2009, the holders of the Company's existing bridge lending facility, subordinated convertible debentures, and other specified obligations (The "Subordinated Debt"), converted the existing Subordinated Debt of approximately $6.1 million in exchange for common shares of the Company at a price of $0.50 per share. As the price of Western's common shares was trading at $0.08 at the time of the transaction, approximately $983,000 was recorded as share capital and a gain of $5.2 million was recorded immediately prior to the comprehensive revaluation (Note 2).

### e. Share consolidation

On September 5, 2008 the Company effected a share consolidation on the basis of one new common share for each twelve shares then held by shareholders. After the consolidation there were 14,000,652 common shares outstanding, which replaced the 168,006,952 shares that were outstanding immediately prior to the consolidation.

References to the number of shares and per share amounts for prior periods have been adjusted to reflect the consolidation.

The Company's outstanding share options and warrants were affected by the share consolidation such that their exercise prices were increased by a factor of 12 and the number of options or warrants outstanding were decreased to $1/12^{th}$ of their pre-consolidation balance.

### f. Rights offering

In October 2008 the Company issued 230,045 common shares pursuant to a rights offering. The terms of the offering were that each shareholder was granted one right for each common share and could purchase an additional common share for each 4 rights at a price of $0.30 per share. As at December 31, 2009, the options to purchase additional commons shares had expired.

### g. Conversion of Note

On December 29, 2008, the holder of the Company's convertible note, converted all of the outstanding principal and interest due under the note into common shares of the Company at the aggregate amount of $3,634,526 resulting in the issuance of 18,015,708 common shares.

**h. Share subscriptions**

During 2008 the Company received share subscriptions amounting to $205,000. As part of the Private Placement completed on December 22, 2009, these share subscriptions were converted to Common Shares at a price of $0.50. The fair value of the common shares issued was approximately $33,000 resulting in the realization of a gain on the settlement of the share subscriptions of approximately $172,000.

**i. Escrow**

The acquisition of mining properties in 1997 resulted in common shares of the Company being held in escrow. The shares held in escrow at December 31, 2008, totaled 32,946, and were released in April and October of 2009.

**j. Share option plan**

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

| | Share options outstanding(1) | Weighted average exercise price |
|---|---|---|
| **Balance, December 31, 2007** | **598,750** | **$ 2.58** |
| Expired | (146,667) | 3.10 |
| **Balance, December 31, 2008** | **452,083** | **$ 2.39** |
| Expired | (282,080) | 2.41 |
| **Balance, December 22, 2009** | **170,003** | **$ 2.37** |
| **Balance, December 31, 2009** | **170,003** | **$ 2.37** |

1) Reflects the 1 for 12 share consolidation completed on September 5, 2008.

| | **December 31, 2009** | | |
|---|---|---|---|
| **Exercise price ($/share) (1)** | **Number of options outstanding** | **Weighted average contractual life (years)** | **Number of options exercisable** |
| 1.32 | 82,502 | 2.3 | 82,502 |
| 1.80 | - | - | - |
| 2.28 | - | - | - |
| 3.36 | 87,501 | 1.1 | 87,501 |
| 3.48 | - | - | - |
| 4.38 | **-** | **-** | **-** |
| | **170,003** | **1.7** | **170,003** |

**k. Warrants**

| | Warrants outstanding(2) | Weighted average exercise price |
|---|---|---|
| **Balance, December 31, 2007** | **3,332,882** | **$ 2.59** |
| Expired | (784,077) | 4.77 |
| **Balance, December 31, 2008** | **2,548,805** | **$ 1.92** |
| Granted | 80,500,000 | 0.103 |
| Expired/Cancelled | (32,548,805) | 0.243 |
| **Balance, December 22, 2009** | **50,500,000** | **$ 0.105** |
| **Balance, December 31, 2009** | **50,500,000** | **$ 0.105** |

(1) Diluted weighted average common shares outstanding for the period ended December 31, 2009 does not include the share impact of 50,500,000 warrants, as the impact would be anti-dilutive.

(2) Reflects the 1 for 12 share consolidation completed on September 5, 2008.

Pursuant to the Private Placement completed on December 22, 2009, 50,500,000 warrants were issued to management and the Board of Directors entitling the holder to purchase one common share at a price of $0.105 for a period of five years. The warrants have been valued using a Black-Scholes option pricing model. The following assumptions were used to determine the fair value of the warrants on their date of grant:

| | |
|---|---|
| Risk-free interest rate | 2.0% |
| Expected life | 5.0 years |
| Maximum life | 5.0 years |
| Vesting period | nil |
| Expected dividend | nil |
| Expected share price volatility | 60% |

The fair value of the warrants issued in 2009 was $0.04 per warrant. For the period ended December 31, 2009, Western recorded $1.8 million in stock-based compensation expense.

## 11. Contributed Surplus

| | |
|---|---|
| **Balance, December 31, 2007** | **$ 1,662** |
| Stock-based compensation | 137 |
| **Balance, December 31, 2008** | **$ 1,799** |
| Comprehensive revaluation (Note 2) | (1,799) |
| **Balance, December 22, 2009** | **$ -** |
| Stock-based compensation | 1,835 |
| **Balance, December 31, 2009** | **$ 1,835** |

## 12. Income Taxes

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

| | **After comprehensive revaluation** | **Before comprehensive revaluation** | |
|---|---|---|---|
| | **December 23, 2009 to December 31, 2009** | **January 1, 2009 to December 22, 2009** | **Year ended December 31, 2008** |
| Loss from continuing operations before taxes | $ (2,011) | $ (5,855) | $ (5,861) |
| Corporate income tax rate | 29.0% | 29.0% | 29.5% |
| Expected tax recovery | (583) | (1,698) | (1,729) |
| Increase (decrease) in future income taxes resulting from: | | | |
| Non-deductible interest and penalties | - | 67 | - |
| Foreign withholding taxes | - | 566 | 129 |
| Non-deductible expenses | 532 | 29 | - |
| Permanent differences relating to goodwill impairment | - | 206 | - |
| Losses expiring | - | - | 71 |
| Change in effective tax rate on temporary differences | - | 307 | 578 |
| Effect of higher tax rates in foreign jurisdictions | - | - | (516) |
| Other | 7 | 94 | (20) |
| Change in valuation allowance | 44 | 1,062 | 1,616 |
| Income tax expense | $ - | $ 633 | $ 129 |

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

| Nature of temporary differences | **After comprehensive revaluation December 31, 2009** | **After comprehensive revaluation December 22, 2009 (note 2)** | **Before comprehensive revaluation December 31, 2008** |
|---|---|---|---|
| Property and equipment | $ 4,233 | $ 4,222 | $ 2,620 |
| Non-capital losses | 2,585 | 2,552 | 3,080 |
| Share issue costs and finance fees | 133 | 133 | 145 |
| | 6,951 | 6,907 | 5,845 |
| Valuation allowance | (6,951) | (6,907) | (5,845) |
| Net future income tax asset | $ - | $ - | $ - |

As at December 31, 2009, there were US$6.6 million in unused tax losses in the United States that will expire in 2025 to 2027. As at December 31, 2009, there were $0.2 in unused tax losses in Canada that will expire as follows:

| | |
|---|---|
| 2010 | - |
| 2011 | - |
| 2012 | - |
| 2013 | - |
| 2014 and beyond | 239 |
| **Total** | **239** |

## 13. Commitments

The Company has commitments for office and shop premises and various operating vehicles and equipment leases which require payments for the next five years ending December 31, as follows:

| | 2010 | 2011 | 2012 | 2013 | 2014 and beyond |
|---|---|---|---|---|---|
| Operating leases | 519 | 396 | 248 | 207 | 354 |
| Capital leases | 109 | 3 | - | - | - |
| Debt repayments | 205 | - | - | - | - |
| Total | 833 | 399 | 248 | 207 | 354 |

## 14. Financial Instruments

The Company's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, current portion of long term debt, and capital lease obligations. The carrying amount of these financial instruments approximates their fair values due to their short-term nature.

### a. Interest rate risk

The Company is exposed to interest rate risk on certain debt instruments to the extent of changes in the prime interest rate. Currently the Company's revolving credit facilities are subject to interest rate changes. As no balance was outstanding on the revolving credit facilities for the period December 22, 2009 to December 31, 2009, a change in interest rates would have no impact on interest expense. Long term debt is subject to fixed rates.

### b. Foreign exchange risk

The Corporation is exposed to foreign currency fluctuations in relation to its USA and international operations. To date the Company has not hedged against these fluctuations. For the period December 22, 2009 to December 31, 2009, the increase or decrease in net earnings before taxes for each one percent change in foreign exchange rates between the Canadian and US Dollars is estimated to be less than $1,000.

### c. Credit risk

Credit risk arises from cash held with banks and financial institutions, as well as credit exposure to customers in the form of outstanding accounts receivable. The Company has accounts receivable, which are due from parties outside of Canada, which may make collections more difficult. 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. The table below provides an analysis of our accounts receivable aging:

| | December 31, |
|---|---|
| Trade accounts receivable | |
| Current | 681 |
| Outstanding for 31 to 60 days | 235 |
| Outstanding for 61 to 90 days | 66 |
| Outstanding for over 90 days | 195 |
| Less: allowance for doubtful accounts | (142) |
| Other accounts receivable | 893 |
| Total | 1,928 |

For the period January 1, 2009 to December 31, 2009, Western had two significant customers representing 13.0% and 10.8% of total sales, respectively. No other single customer represents greater than 10% of Western's total revenue.

**d. 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 (Note 7), and maintaining unused credit facilities where possible to ensure there is available cash resources to meet the Company's liquidity needs. The Company's existing credit facilities and cash flow from operating activities are expected to be greater than anticipated capital expenditures and the contractual maturities of the Company's financial liabilities. This expectation could be adversely affected by a material negative change in the oil and gas services industry in Canada.

## 15. Capital management

The capital structure of the Company consists of cash, revolving credit facilities, other current debt instruments, long-term debt, and shareholders' equity. The overall capitalization of the Company is outlined below:

| | **After comprehensive revaluation December 31, 2009** | **After comprehensive revaluation December 22, 2009 (Note 2)** | **Before comprehensive revaluation December 31, 2008** |
|---|---|---|---|
| Revolving credit facilities | - | - | 756 |
| Long-term debt | 205 | 205 | 9,015 |
| Total debt | 205 | 205 | 9,771 |
| Shareholders' equity | 8,253 | 8,253 | 14,554 |
| Less: cash | (2,386) | (2,822) | (71) |
| Total capitalization | 6,072 | 5,636 | 24,254 |

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

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

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

Western's credit facility is subject to the following financial covenants (Note 7):

| | Covenant |
|---|---|
| Debt to tangible net worth | 2.50 to 1.00 or less |
| Working capital ratio | 1.25 to 1.00 or more |
| EBITDA to funded debt repayment | 1.15 to 1.00 or more |

Subsequent to December 31, 2009, the Company increased its credit facility and is now subject to new financial covenants (Note 18).

## 16. Related Party Transactions

During the period January 1, 2009 to December 22, 2009, Western recorded legal fees for services provided by a firm in which a former director is a partner in the amount of $168,000 (Year ended December 31, 2008 - $212,000). At December 22, 2009, $102,000 was outstanding and was recorded in accounts payable (December 31, 2008 - $361,000). Subsequent to the recapitalization and reorganization completed on December 22, 2009, the firm is not a related party.

Prior to the recapitalization and reorganization, Western sold and leased back its land and building located near Red Earth Creek, Alberta and certain pumping equipment to a company controlled by a former officer and the former directors of the Company. Both the sales and lease amounts were conducted at fair market values. The Company also continued to lease its facilities and tank farm in La Glasse, Alberta, which is near Grand Prairie, from the same related company, under the terms of the existing 5 year lease. Subsequent to the recapitalization and reorganization completed on December 22, 2009, this relationship no longer represents a related party.

As at December 22, 2009, Western had an outstanding loan balance of approximately $6.1 million with 1063645 Alberta Ltd., a company controlled by a former director of the Company. On December 22, 2009, as part of completing the recapitalization, the Company converted the balance of this loan into common shares of Western at a price of $0.50 per common share (Note 2).

All related party transactions in the normal course of operations have been measured at the exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties. Subsequent to the recapitalization and reorganization that was completed on December 22, 2009, Western has no transactions with related parties.

**17. Segmented Information**

Western operates in two industry segments, Well Services and Down Hole Tool Rentals.

| Dec 23, 2009 to Dec 31, 2009 | Well Services | Tool Rental | Corporate | **Total** |
|---|---|---|---|---|
| Revenue | $ 177 | $ 7 | $ | **$ 184** |
| Operating costs | 176 | 6 | - | **182** |
| Operating margin | 1 | 1 | - | **2** |
| Depreciation | 47 | - | - | **47** |
| Goodwill impairment | - | - | - | **-** |
| Income (Loss) before taxes | (46) | 1 | (1,966) | **(2,011)** |
| Goodwill | - | - | - | **-** |
| Property and equipment | 6,785 | 526 | - | **7,311** |
| Total assets | 11,651 | 568 | - | **12,219** |
| Expenditures on capital items | $ - | $ - | $ - | **$ -** |

| Jan 1, 2009 to Dec 22, 2009 | Well Services | Tool Rental | Corporate | **Total** |
|---|---|---|---|---|
| Revenue | $ 5,128 | $ 334 | $ - | **$ 5,462** |
| Operating costs | 6,075 | 247 | - | **6,322** |
| Operating margin | (947) | 87 | - | **(860)** |
| Depreciation | 2,206 | 258 | - | **2,464** |
| Goodwill impairment | 712 | - | - | **712** |
| Income (Loss) before taxes | (3,865) | (171) | (1,849) | **(5,855)** |
| Goodwill | - | - | - | **-** |
| Property and equipment | 6,832 | 526 | - | **7,358** |
| Total assets | 12,144 | 568 | - | **12,712** |
| Expenditures on capital items | $ 281 | $ - | $ - | **$ 281** |

| Year ended Dec 31, 2008 | Well Services | Tool Rental | Corporate | **Total** |
|---|---|---|---|---|
| Revenue | $ 11,673 | $ 1,059 | $ - | **$ 12,732** |
| Operating costs | 10,225 | 654 | - | **10,879** |
| Operating margin | 1,448 | 405 | - | **1,853** |
| Depreciation | 2,338 | 349 | - | **2,687** |
| Goodwill impairment | - | - | - | **-** |
| Income (Loss) before taxes | (890) | 56 | (5,027) | **(5,861)** |
| Goodwill | 712 | - | - | **712** |
| Property and equipment | 16,459 | 2,009 | - | **18,468** |
| Total assets | 20,368 | 2,030 | - | **22,398** |
| Expenditures on capital items | $ 2,606 | $ 7 | $ - | **$ 2,613** |

**Revenues by Geographic Region:**

| | Canada | United States | International | Total |
|---|---|---|---|---|
| Dec 23, 2009 to Dec 31, 2009 | $ 151 | $ 26 | $ 7 | **$ 184** |
| Jan 1, 2009 to Dec 22, 2009 | 3,785 | 1,343 | 334 | **5,462** |
| Year ended Dec 31, 2008 | $ 4,950 | $6,723 | $ 1,059 | **$12,732** |

**Total Assets Deployed by Geographic Region:**

| | Canada | United States | International | Total |
|---|---|---|---|---|
| As at December 31, 2009 | $ 9,242 | $2,409 | $ 568 | **$ 12,219** |
| As at December 22, 2009 | 9,735 | 2,409 | 568 | **12,712** |
| As at December 31, 2008 | $ 13,667 | $6,701 | $2,030 | **$ 22,398** |

## 18. Subsequent Events

On March 18, 2010, Western completed a public offering of 375 million common shares at a price of $0.20 per share for gross proceeds of $75 million. Concurrent with the closing of this equity offering, Western completed the acquisition of Horizon Drilling Inc. for total consideration of approximately $66 million, including the assumption of debt, and the acquisition of Cedar Creek Drilling Ltd. for consideration of approximately 20.5 million in common shares. The common shares issued as consideration for Cedar Creek were valued at approximately $6.2 million. Each of Horizon Drilling Inc. and Cedar Creek Drilling Ltd. were, at the time of acquisition, privately held companies engaged in the operation of contract drilling rigs in the Western Canadian sedimentary basin.

On March 22, 2010, Western issued options to purchase 18,400,000 common shares of the Company to directors, officers, employees and consultants of the Company with an exercise price of $0.285 per share, expiring five years from the date of grant with one-third of such options vesting on each of the second, third and fourth year anniversary from the date of grant.

On April 15, 2010, Western announced the increase of its credit facility with its existing lender. The credit facility will consist of a $5 million operating demand revolving loan (the “Operating Facility”), and a $45 million 364-day committed extendible revolving credit facility (the “Revolving Facility”). The purpose of the Revolving Facility is to assist the Company in completing corporate acquisitions and financing the construction of additional equipment. In addition, the Revolving Facility was initially used to consolidate certain indebtedness acquired from Horizon Drilling Inc. and Cedar Creek Drilling Ltd. After consolidation, the Company has approximately $39 million in available credit under the Revolving Facility and $5 million under the Operating Facility. These loans require interest to be paid monthly with no scheduled principal repayment unless the Revolving Facility is not extended. If not extended, the Revolving Facility is capped and repayable over the ensuing two year period by monthly principal and interest payments. Amounts borrowed under the Operating Facility will bear interest at the bank’s prime rate plus 1.5% to 2.0% or the banker’s acceptance rate plus 3.0% to 3.5% depending, in each case, on the ratio of funded debt to EBITDA. Western’s increased credit facility is subject to the following financial covenants:

| | Covenant |
|---|---|
| Current assets to current liabilities | 1.25 to 1.00 or more |
| Funded Debt to EBITDA | 2.5 to 1.0 or less |
| Revolving Facility balance to net book value of fixed assets | Less than 45% |

## 19. Comparatives

Certain comparative figures have been reclassified to conform to the current year’s presentation.