Western Energy Services Corp.

Condensed Consolidated Financial Statements

September 30, 2012 and 2011

(Unaudited)

Western Energy Services Corp.

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

	Note	September 30, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		$ 9,026	$ -
Trade and other receivables		61,987	83,314
Investments and other current assets		37,997	4,020
		109,010	87,334
Non current assets			
Property and equipment	5	558,248	473,930
Goodwill		55,527	55,527
Deferred taxes		3,497	2,499
Other non current assets		831	355
		$ 727,113	$ 619,645
Liabilities			
Current liabilities			
Trade payables and other current liabilities		$ 41,236	$ 39,075
Dividend payable		4,457	-
Current portion of provisions		275	172
Current portion of long term debt	6	289	8,213
		46,257	47,460
Non current liabilities			
Provisions		2,130	184
Long term debt	6	176,739	108,039
Deferred taxes		56,929	49,637
		282,055	205,320
Shareholders' equity			
Share capital	7	322,287	319,698
Contributed surplus		4,457	3,625
Retained earnings		116,954	89,325
Accumulated other comprehensive income		1,360	1,677
		445,058	414,325
		$ 727,113	$ 619,645

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

Western Energy Services Corp.

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

	Note	Three months ended Sept 30 2012	Three months ended Sept 30 2011	Nine months ended Sept 30 2012	Nine months ended Sept 30 2011
Revenue		$ 69,573	$ 80,786	$ 225,279	$ 161,219
Operating expenses		48,535	53,639	154,783	109,263
Gross profit		21,038	27,147	70,496	51,956
Administrative expenses		5,965	5,093	17,837	10,727
Finance costs	10	3,169	1,333	9,200	2,404
Other items		477	779	173	2,149
Income from continuing operations before income taxes		11,427	19,942	43,286	36,676
Income taxes	11	3,176	6,053	11,200	7,717
Income from continuing operations	12	8,251	13,889	32,086	28,959
Discontinued operations					
Gain on sale of StimSol (net of tax)		-	(10,661)	-	(10,661)
Income from discontinued operations (net of tax)		-	(343)	-	(812)
Net income		8,251	24,893	32,086	40,432
Gain on change in fair value of available for sale assets (net of tax)		(5,406)	-	(2,249)	-
Loss (gain) on translation of foreign operations		1,507	(4,063)	1,421	(3,669)
Unrealized foreign exchange loss on net investment in subsidiary (net of tax)		1,182	-	1,145	-
Comprehensive income		$ 10,968	$ 28,956	$ 31,769	$ 44,101
Income per share from continuing operations:					
Basic		$ 0.14	$ 0.24	$ 0.55	$ 0.59
Diluted		$ 0.14	$ 0.23	$ 0.53	$ 0.56
Income per share from discontinued operations:					
Basic		$ -	$ 0.19	$ -	$ 0.23
Diluted		$ -	$ 0.18	$ -	$ 0.23
Net income per share:					
Basic		$ 0.14	$ 0.43	$ 0.55	$ 0.82
Diluted		$ 0.14	$ 0.41	$ 0.53	$ 0.79
Weighted average number of shares:					
Basic	9	58,581,133	58,533,287	58,549,352	49,256,925
Diluted	9	60,700,338	60,618,480	60,816,945	51,294,610

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

Western Energy Services Corp.

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

	Note	Share capital	Contributed surplus (1)	Retained earnings	Accumulated other comprehensive income (loss)(2)	Total shareholders' equity
Balance at December 31, 2010		$ 159,895	$ 2,359	$ 24,579	$ -	$ 186,833
Issue of common shares (net of issue costs)		159,960	-	-	-	159,960
Cancellation of common shares		(157)	-	-	-	(157)
Stock based compensation		-	812	-	-	812
Stock based compensation - discontinued operations		-	(68)	-	-	(68)
Comprehensive income		-	-	40,432	3,669	44,101
Balance at September 30, 2011		319,698	3,103	65,011	3,669	391,481
Stock based compensation		-	523	-	-	523
Stock based compensation - discontinued operations		-	(1)	-	-	(1)
Comprehensive income (loss)		-	-	24,314	(1,992)	22,322
Balance at December 31, 2011		319,698	3,625	89,325	1,677	414,325
Issued for cash on exercise of stock options	7	127	-	-	-	127
Issued for cash on exercise of warrants	7	1,832	-	-	-	1,832
Fair value of exercised options and warrants	7	630	(630)	-	-	-
Stock based compensation		-	1,462	-	-	1,462
Dividends declared		-	-	(4,457)	-	(4,457)
Comprehensive income (loss)		-	-	32,086	(317)	31,769
Balance at September 30, 2012		$ 322,287	$ 4,457	$ 116,954	$ 1,360	$ 445,058

(1) Contributed surplus relates to stock based compensation described in Note 8.

(2) At September 30, 2012, the accumulated other comprehensive income balance consists of the translation of foreign operations, unrealized foreign exchange on net investment in subsidiary, and the change in fair value of available for sale assets.

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

Western Energy Services Corp.

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

	Note	Three months ended Sept 30 2012	Three months ended Sept 30 2011	Nine months ended Sept 30 2012	Nine months ended Sept 30 2011
Operating activities					
Income from continuing operations		$ 8,251	$ 13,889	$ 32,086	$ 28,959
Adjustments for:					
Depreciation included in operating expenses		8,218	7,792	22,823	15,529
Depreciation included in administrative expenses		234	144	606	281
Stock based compensation included in operating expenses		126	66	384	182
Stock based compensation included in administrative expenses		293	336	1,078	630
Loss (gain) on sale of assets		152	243	76	(1,204)
Income taxes	11	3,176	6,053	11,200	7,717
Unrealized foreign exchange (gain) loss		(23)	121	1	155
Finance costs		3,169	1,333	9,200	2,404
Other		(172)	(101)	(256)	(298)
Cash generated from operating activities		23,424	29,876	77,198	54,355
Income taxes paid		(83)	(1)	(2,568)	(100)
Change in non-cash working capital		(14,093)	(23,120)	19,265	(19,206)
Continuing operations		9,248	6,755	93,895	35,049
Discontinued operations		-	(3,364)	-	(1,018)
Cash flow from operating activities		9,248	3,391	93,895	34,031
Investing activities					
Additions to property and equipment	5	(30,898)	(24,927)	(106,903)	(54,533)
Proceeds on sale of property and equipment		405	-	880	2,539
Business acquisitions		-	7	-	(113,277)
Purchase of investments		-	-	(33,211)	(558)
Proceeds from sale of investments		-	-	-	912
Changes in non-cash working capital		1,682	1,529	78	(2,646)
Continuing operations		(28,811)	(23,391)	(139,156)	(167,563)
Discontinued operations		-	20,829	-	21,430
Cash flow used in investing activities		(28,811)	(2,562)	(139,156)	(146,133)
Financing activities					
Issue of common shares		1,959	-	1,959	86,336
Share issue costs		-	-	-	(4,706)
Drawdown (repayment) of long term debt		3,915	(4,768)	(111,391)	29,624
Issuance of senior notes	6	-	-	175,000	-
Issue costs of senior notes		(205)	-	(4,655)	-
Finance costs paid		(6,510)	(1,373)	(6,626)	(2,640)
Change in non-cash working capital		-	(3)	-	(20)
Continuing operations		(841)	(6,144)	54,287	108,594
Discontinued operations		-	44	-	33
Cash flow (used in) from financing activities		(841)	(6,100)	54,287	108,627
(Decrease) increase in cash and cash equivalents		(20,404)	(5,271)	9,026	(3,475)
Cash and cash equivalents, beginning of period		29,430	5,271	-	3,475
Cash and cash equivalents, end of period		$ 9,026	$ -	$ 9,026	$ -

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

1. **Reporting entity:**

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the registered office is 1700, 215 - 9th Avenue SW, Calgary, Alberta. Western is a publicly traded company that is listed on the Toronto Stock Exchange under the symbol "WRG". These condensed consolidated financial statements (the "Financial Statements") as at September 30, 2012 and for the three and nine months ended September 30, 2012 and 2011 are comprised of Western and its wholly owned subsidiaries (together referred to as the "Company"). The Company operates in the Canadian and United States oilfield service industry through its contract drilling and well servicing segments. Contract drilling operations in Canada are conducted through Western's wholly owned subsidiaries, Horizon Drilling Inc. ("Horizon"), and in the United States through Stoneham Drilling Corporation ("Stoneham"), which was acquired on June 10, 2011. In addition, beginning in 2012, the Company operates in the well servicing segment in Canada through Western's wholly owned subsidiary, Matrix Well Servicing Inc. ("Matrix"). On September 13, 2011, Western sold all of the shares owned and debt owing from its wholly owned subsidiary, StimSol Canada Inc. ("StimSol"), and as such prior period results relating to StimSol have been reclassified as discontinued operations.

2. **Basis of preparation and significant accounting policies:**

Statement of compliance:

These Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with IAS 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board. These Financial Statements have been prepared using accounting policies and judgements which are consistent with Notes 3 and 4 of the audited annual consolidated financial statements as at December 31, 2011 and for the years ended December 31, 2011 and 2010 as filed on SEDAR at www.sedar.com and, as such, they should be read in conjunction with said statements.

These Financial Statements were approved for issuance by Western's Board of Directors on October 31, 2012.

3. **Seasonality:**

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

4. **Operating segments:**

The Company operates in the Canadian and United States oilfield service industry through its contract drilling and well servicing segments. In June 2011, the Company entered the United States through the acquisition of Stoneham Drilling Trust. Contract drilling includes drilling rigs along with related auxiliary equipment and provides contract drilling services to oil and natural gas exploration and production companies. During the first quarter of 2012, the Company began operations in the well servicing segment in Canada. Well servicing includes service rigs along with related equipment for work over services and well completions.

The Company's Chief Executive Officer ("CEO") 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 the internal management reports that are reviewed by the Company's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Segment profit is calculated as revenue less cash operating expenses, cash administrative expenses and depreciation expense.

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

4. Operating segments (continued):

The following is a summary of the Company's results by segment for the three and nine months ended September 30, 2012 and 2011:

Three months ended September 30, 2012	Contract Drilling	Well Servicing	Corporate	Total
Continuing Operations:				
Revenue	$ 68,526	$ 1,047	$ -	$ 69,573
Segment profit (loss)	17,256	(473)	(1,291)	15,492
Finance costs	(223)	(56)	3,448	3,169
Income taxes	3,390	(171)	(43)	3,176
Depreciation	8,198	146	108	8,452
Additions to property and equipment	25,199	3,822	1,877	30,898

Three months ended September 30, 2011	Contract Drilling	Well Servicing	Corporate	Total
Continuing Operations:				
Revenue	$ 80,786	$ -	$ -	$ 80,786
Segment profit (loss)	25,003	-	(2,547)	22,456
Finance costs	(124)	-	1,457	1,333
Income taxes	(600)	-	6,653	6,053
Depreciation	7,859	-	77	7,936
Additions to property and equipment	23,707	992	228	24,927

Nine months ended September 30, 2012	Contract Drilling	Well Servicing	Corporate	Total
Continuing Operations:				
Revenue	$ 223,494	$ 1,785	$ -	$ 225,279
Segment profit (loss)	59,599	(1,762)	(3,716)	54,121
Finance costs	(715)	(111)	10,026	9,200
Income taxes	11,682	(566)	84	11,200
Depreciation	22,879	282	268	23,429
Additions to property and equipment	93,830	9,075	3,998	106,903

Nine months ended September 30, 2011	Contract Drilling	Well Servicing	Corporate	Total
Continuing Operations:				
Revenue	$ 161,219	$ -	$ -	$ 161,219
Segment profit (loss)	47,363	-	(5,322)	42,041
Finance costs	(144)	-	2,548	2,404
Income taxes	5,183	-	2,534	7,717
Depreciation	15,654	-	156	15,810
Additions to property and equipment	51,493	2,639	401	54,533

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

4. Operating segments (continued):

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

As at September 30, 2012	Contract Drilling	Well Servicing	Corporate	Total
Total assets	$ 658,929	$ 16,095	$ 52,089	$ 727,113
Total liabilities	88,127	3,559	190,369	282,055

As at September 30, 2011	Contract Drilling	Well Servicing	Corporate	Total
Total assets	$ 575,243	$ 2,696	$ 3,888	$ 581,827
Total liabilities	81,530	452	110,044	192,026

A reconciliation of segment profit to income from continuing operations is as follows:

	Three months ended Sept 30		Nine months ended Sept 30	
	2012	2011	2012	2011
Continuing operations:				
Segment profit	$ 15,492	$ 22,456	$ 54,121	$ 42,041
Add (deduct):				
Stock based compensation	(419)	(402)	(1,462)	(812)
Finance costs	(3,169)	(1,333)	(9,200)	(2,404)
Other items	(477)	(779)	(173)	(2,149)
Income taxes	(3,176)	(6,053)	(11,200)	(7,717)
Income from continuing operations	$ 8,251	$ 13,889	$ 32,086	$ 28,959

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

As at and for the period ended September 30, 2012	Canada	United States	Total
Revenue: three months ended	$ 60,547	$ 9,026	$ 69,573
Revenue: nine months ended	193,425	31,854	225,279
Property and equipment	473,373	84,875	558,248
Total assets	634,214	92,899	727,113

As at and for the period ended September 30, 2011	Canada	United States	Total
Revenue: three months ended	$ 71,912	$ 8,874	$ 80,786
Revenue: nine months ended	151,462	9,757	161,219
Property and equipment	397,584	50,619	448,203
Total assets	521,607	60,220	581,827

Significant customers:

For the three months ended September 30, 2012, the Company had two significant customers comprising 13.4% and 12.5%, respectively of the Company's total revenue. The trade receivable balances related to these customers at September 30, 2012 represents 5.6% and 10.0%, respectively of the Company's total trade and other receivable balance. No other single customer represents greater than 10% of the Company's total revenue for the three month period. For the nine months ended September 30, 2012, the Company had one significant customer comprising 10.5% of the Company's total revenue. The trade receivable balance related to this customer at September 30, 2012 represents 10.0% of the Company's total trade and other receivable balance. No other single customer represents greater than 10% of the Company's total revenue for the nine month period.

For the three months ended September 30, 2011, the Company had no single customer representing greater than 10% of the Company's total revenue. For the nine months ended September 30, 2011, the Company had one significant customer comprising 13.3% of the Company's total revenue. No other single customer represents greater than 10% of the Company's total revenue for the nine month period.

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

5. Property and equipment:

	Land	Buildings	Drilling rigs and related equipment	Well servicing equipment	Shop and office 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	-	6	93,466	9,036	4,395	-	106,903
Non-cash additions [(1)]	-	-	1,448	115	2,290	865	4,718
Disposals	-	-	(1,235)	-	-	(22)	(1,257)
Impact of foreign exchange	-	-	(3,423)	-	(3)	(1)	(3,427)
Balance at September 30, 2012	$ 4,974	$ 3,303	$ 578,734	$ 14,591	$ 8,542	$ 1,553	$ 611,697
Depreciation:							
Balance at December 31, 2011	$ -	$ 158	$ 30,021	$ 1	$ 545	$ 105	$ 30,830
Depreciation for the period	-	107	22,336	213	577	196	23,429
Disposals	-	-	(298)	-	-	(3)	(301)
Impact of foreign exchange	-	-	(509)	-	-	-	(509)
Balance at September 30, 2012	$ -	$ 265	$ 51,550	$ 214	$ 1,122	$ 298	$ 53,449
Carrying amounts:							
At December 31, 2011	$ 4,974	$ 3,139	$ 458,457	$ 5,439	$ 1,315	$ 606	$ 473,930
At September 30, 2012	$ 4,974	$ 3,038	$ 527,184	$ 14,377	$ 7,420	$ 1,255	$ 558,248

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

Assets under construction:
Included in property and equipment at September 30, 2012 are assets under construction of $19.7 million (December 31, 2011: $25.4 million) of which $15.0 million relates to the contract drilling segment including the construction of two telescopic Efficient Long Reach double drilling rigs as well as ancillary drilling equipment and $4.7 million relating to the construction of well servicing rigs.

6. Long term debt:

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

	September 30, 2012	December 31, 2011
Current:		
Operating Facility [(a)]	$ -	$ 7,144
Bank mortgage	-	1,044
Finance lease obligations	289	25
Total current portion of long term debt	289	8,213
Non current:		
Revolving Facility [(a)]	5,000	108,000
Finance lease obligations	442	39
Senior Notes [(b)]	175,000	-
Less: net unamortized issue costs on Senior Notes	(3,703)	-
Total non current portion of long term debt	176,739	108,039
Total long term debt	$ 177,028	$ 116,252

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

6. Long term debt (continued):

(a) Credit facilities:

Western's credit facilities consist of a $10.0 million operating demand revolving loan (the "Operating Facility"), and a $125.0 million committed three year extendible revolving credit facility (the "Revolving Facility"). In June 2012, the maturity date on the Revolving Facility was extended to June 7, 2015.

As a result of the issuance of the $175.0 million 7⅞% senior unsecured notes (the "Senior Notes") on January 30, 2012, Western voluntarily reduced its Revolving Facility from $150.0 million to $125.0 million. The Operating Facility principal balance is due on demand with interest paid monthly. The Revolving Facility requires interest to be paid monthly with no scheduled principal repayments unless the Revolving Facility is not extended by the maturity date.

Amounts borrowed under the Operating and Revolving Facilities bear interest at the bank's prime rate, US base rate, LIBOR, or the banker's acceptance rate plus an applicable margin depending, in each case, on the ratio of Consolidated Debt to Consolidated EBITDA as defined by the relevant agreement. The credit facilities are secured by the assets of Western. As at September 30, 2012, the Company had $120.0 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 is defined as consolidated net income (loss), plus interest, income taxes, depreciation and amortization and any other non-cash items or extraordinary or non-recurring losses, less gain on sale of property and equipment and any other non-cash items or extraordinary or non-recurring gains that are included in the calculation of consolidated net income.

As at September 30, 2012 and December 31, 2011, the Company was in compliance with all covenants related to its credit facilities.

(b) Senior Notes:

On January 30, 2012, the Company completed a private placement of $175.0 million Senior Notes. The Senior Notes were issued at par value and are due on January 30, 2019. The Senior Notes contain certain early redemption options 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. These 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.

The early redemption options of the Senior Notes have been determined to be an embedded derivative for accounting purposes and recorded at their fair value of approximately $0.6 million at inception. This amount has been included in the carrying value of the Senior Notes together with debt issue costs. At September 30, 2012, the fair value of the embedded derivative has not materially changed since the issuance of the Senior Notes.

At September 30, 2012, the fair value of the Senior Notes was approximately $180.0 million.

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

7. Share capital:

At September 30, 2012, 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, December 31, 2011	58,533,287	$	319,698
Issued for cash on exercise of stock options	21,667		127
Issued for cash on exercise of warrants	872,189		1,832
Fair value of exercised options and warrants	-		630
Balance, September 30, 2012	59,427,143	$	322,287

8. 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, December 31, 2011	2,101,000	$	6.94
Granted	428,900		7.50
Exercised	(21,667)		5.84
Expired/Forfeited	(166,000)		7.33
Balance, September 30, 2012	2,342,233	$	7.02

For the three and nine months ended September 30, 2012, no stock options were cancelled. As at September 30, 2012, Western had 538,506 exercisable stock options outstanding at a weighted average exercise price equal to $6.95 per stock option.

Warrants:

The following table summarizes Western's outstanding warrants:

	Warrants outstanding		Weighted average exercise price
Balance, December 31, 2011	2,525,000	$	2.10
Exercised	(872,189)		2.10
Balance, September 30, 2012	1,652,811	$	2.10

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

9. Earnings per share:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2012	2011	2012	2011
Issued common shares, beginning of period	58,533,287	58,533,287	58,533,287	37,680,944
Effect of shares issued	47,846	-	16,065	11,575,981
Weighted average number of common shares (basic)	58,581,133	58,533,287	58,549,352	49,256,925
Dilutive effect of stock options and warrants	2,119,205	2,085,193	2,267,593	2,037,685
Weighted average number of common shares (diluted)	60,700,338	60,618,480	60,816,945	51,294,610

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

9. Earnings per share (continued):

For the three and nine months ended September 30, 2012, 1,407,233 and 1,344,733 options, respectively (three and nine months ended September 30, 2011: 893,500 options) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

10. Finance costs:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2012	2011	2012	2011
Interest expense on long term debt	$ 3,354	$ 1,301	$ 9,260	$ 2,180
Amortization of debt financing fees	196	41	629	306
Interest and other income	(381)	(9)	(689)	(82)
Total finance costs	$ 3,169	$ 1,333	$ 9,200	$ 2,404

During the three and nine months ended September 30, 2012, the Company incurred interest and financing costs of approximately $3.5 million and $10.1 million, respectively (three and nine months ended September 30, 2011: $1.4 million and $2.6 million, respectively), which includes capitalized interest of $0.3 million and $0.9 million, respectively (three and nine months ended September 30, 2011: $0.1 million and $0.2 million, respectively) on its long term debt (see Note 6). The Company had an effective interest rate of 8.3% and 8.0%, respectively on its borrowings for the three and nine months ended September 30, 2012 (three and nine months ended September 30, 2011: 4.6% and 5.2%, respectively).

11. Income taxes:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2012	2011	2012	2011
Income taxes:				
Current tax expense (recovery)	$ 582	$ -	$ 4,814	$ (1,050)
Deferred tax expense	2,594	6,053	6,386	8,767
Total income taxes	$ 3,176	$ 6,053	$ 11,200	$ 7,717

At September 30, 2012, the Company has gross loss carry forwards equal to approximately $7.5 million in Canada, which expire between 2031 and 2032. In the United States, the Company has approximately US$28.0 million gross loss carry forwards which expire between 2028 and 2031.

12. Costs by nature:

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2012	2011	2012	2011
Depreciation of property and equipment	$ 8,452	$ 7,936	$ 23,429	$ 15,810
Employee benefits: salaries and benefits	29,827	31,386	92,096	62,768
Employee benefits: stock based compensation	419	402	1,462	812
Repairs and maintenance	4,031	3,643	14,378	8,745
Third party charges	4,573	6,248	18,878	14,356

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

13. 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, embedded derivatives and long term debt instruments such as the credit facilities and Senior Notes. Cash and cash equivalents, investments and embedded derivatives are carried at fair value. The fair value of investments is based on their respective trading prices on September 30, 2012. The carrying amounts of trade and other receivables, trade payables, and other current liabilities approximate their fair values due to their short term nature. The credit facilities bear interest at rates that approximate market rates and therefore their carrying values approximate fair values. The Senior Notes are recorded at their amortized cost. Fair value disclosure of the Senior Notes is based on their respective trading price on September 30, 2012.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2011.

Capital management:

The capital structure of the Company changed in 2012 to include the Senior Notes issued in January 2012. As such, the overall capitalization of the Company at September 30, 2012 is as follows:

	Note	September 30, 2012	December 31, 2011
Operating Facility	6	$ -	$ 7,144
Revolving Facility	6	5,000	108,000
Bank mortgage	6	-	1,044
Finance lease obligations	6	731	64
Senior Notes	6	175,000	-
Total debt		180,731	116,252
Shareholders' equity		445,058	414,325
Less: cash and cash equivalents		(9,026)	-
Total capitalization		$ 616,763	$ 530,577

14. Commitments:

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

	2012	2013	2014	2015	2016	Thereafter	Total
Operating leases	$ 941	$ 3,609	$ 3,207	$ 2,421	$ 2,411	$ 18,546	$ 31,135
Capital commitments	26,525	354	154	25	-	-	27,058
Purchase commitments	13,161	-	-	-	-	-	13,161
Senior Notes	-	-	-	-	-	175,000	175,000
Senior Notes interest	-	13,781	13,781	13,781	13,781	28,711	83,835
Total	$ 40,627	$ 17,744	$ 17,142	$ 16,227	$ 16,192	$ 222,257	$ 330,189

15. Subsequent events:

On October 31, 2012, the Board of Directors of Western declared a quarterly dividend of $0.075 per share, payable on January 11, 2013, to shareholders of record at the close of business on December 31, 2012. The dividends will be eligible dividends for Canadian income tax purposes.