Western Energy Services Corp.
Condensed Consolidated Financial Statements
June 30, 2012 and 2011
(Unaudited)

Western Energy Services Corp.

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

	Note	June 30, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		$ 29,430	$ -
Trade and other receivables		40,759	83,314
Investments and other current assets		32,179	4,020
		102,368	87,334
Non current assets			
Property and equipment	5	536,579	473,930
Goodwill		55,527	55,527
Deferred taxes		4,011	2,499
Other non current assets		871	355
		$ 699,356	$ 619,645
Liabilities			
Current liabilities			
Trade payables and other current liabilities		$ 35,361	$ 39,075
Current portion of provisions		177	172
Current portion of long term debt	6	1,248	8,213
		36,786	47,460
Non current liabilities			
Provisions		106	184
Long term debt	6	171,764	108,039
Deferred taxes		54,531	49,637
		263,187	205,320
Shareholders' equity			
Share capital	7	319,698	319,698
Contributed surplus		4,668	3,625
Retained earnings		113,160	89,325
Accumulated other comprehensive income (loss)		(1,357)	1,677
		436,169	414,325
		$ 699,356	$ 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 (Loss) (Unaudited)
(thousands of Canadian dollars except share and per share amounts)

	Note	Three months ended June 30 2012	Three months ended June 30 2011	Six months ended June 30 2012	Six months ended June 30 2011
Revenue		$ 44,819	$ 30,340	$ 155,706	$ 80,433
Operating expenses		35,768	22,087	106,248	55,624
Gross profit		9,051	8,253	49,458	24,809
Administrative expenses		5,286	2,992	11,872	5,634
Finance costs	10	3,250	509	6,031	1,071
Other items		(335)	2,335	(304)	1,372
Income from continuing operations before taxes		850	2,417	31,859	16,732
Income taxes	11	23	(2,333)	8,024	1,664
Net income from continuing operations	12	827	4,750	23,835	15,068
Loss (income) from discontinued operations (net of tax)		-	557	-	(469)
Net income		827	4,193	23,835	15,537
Change in fair value of available for sale assets (net of tax)		2,821	16	3,157	-
Translation of foreign operations		(872)	394	(86)	394
Unrealized foreign exchange on net investment in subsidiary (net of tax)		(698)	-	(37)	-
Comprehensive income (loss)		$ (424)	$ 3,783	$ 20,801	$ 15,143
Net income per share from continuing operations:					
Basic		$ 0.01	$ 0.09	$ 0.41	$ 0.34
Diluted		$ 0.01	$ 0.09	$ 0.39	$ 0.32
Net income (loss) per share from discontinued operations:					
Basic		$ -	$ (0.01)	$ -	$ 0.01
Diluted		$ -	$ (0.01)	$ -	$ 0.01
Net income per share:					
Basic		$ 0.01	$ 0.08	$ 0.41	$ 0.35
Diluted		$ 0.01	$ 0.08	$ 0.39	$ 0.33
Weighted average number of shares:					
Basic		58,533,287	51,010,095	58,533,287	44,541,870
Diluted		60,429,663	53,028,369	60,612,851	46,533,545

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)

	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	-	411	-	-	411
Stock based compensation - discontinued operations	-	67	-	-	67
Comprehensive income (loss)	-	-	15,537	(394)	15,143
Balance at June 30, 2011	319,698	2,837	40,116	(394)	362,257
Stock based compensation	-	924	-	-	924
Stock based compensation - discontinued operations	-	(136)	-	-	(136)
Comprehensive income	-	-	49,209	2,071	51,280
Balance at December 31, 2011	319,698	3,625	89,325	1,677	414,325
Stock based compensation	-	1,043	-	-	1,043
Comprehensive income (loss)	-	-	23,835	(3,034)	20,801
Balance at June 30, 2012	$ 319,698	$ 4,668	$ 113,160	$ (1,357)	$ 436,169

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

(2) At June 30, 2012, the accumulated other comprehensive income (loss) 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 June 30 2012	Three months ended June 30 2011	Six months ended June 30 2012	Six months ended June 30 2011
Operating activities					
Net income from continuing operations		$ 827	$ 4,750	$ 23,835	$ 15,068
Adjustments for:					
Depreciation included in operating expenses		4,941	2,954	14,605	7,737
Depreciation included in administrative expenses		178	82	372	136
Stock based compensation included in operating expenses		116	67	258	116
Stock based compensation included in administrative expenses		364	169	785	295
Gain on sale of assets		(64)	(269)	(76)	(1,447)
Income taxes	11	23	(2,333)	8,024	1,664
Unrealized foreign exchange (gain) loss		(53)	(5)	24	33
Finance costs		3,250	509	6,031	1,071
Other		(45)	(83)	(84)	(192)
Cash generated from operating activities		9,537	5,841	53,774	24,481
Income taxes paid		(430)	(2)	(2,485)	(100)
Change in non-cash working capital		49,823	13,678	33,358	3,914
Continuing operations		58,930	19,517	84,647	28,295
Discontinued operations		-	1,509	-	2,346
Cash flow from operating activities		58,930	21,026	84,647	30,641
Investing activities					
Additions to property and equipment	5	(39,602)	(14,667)	(76,005)	(29,606)
Proceeds on sale of property and equipment		183	109	475	2,539
Business acquisitions		-	(113,284)	-	(113,284)
Purchase of investments		(27,407)	(184)	(33,211)	(558)
Proceeds from sale of investments		-	912	-	912
Changes in non-cash working capital		(1,869)	827	(1,604)	(4,175)
Continuing operations		(68,695)	(126,287)	(110,345)	(144,172)
Discontinued operations		-	500	-	600
Cash flow used in investing activities		(68,695)	(125,787)	(110,345)	(143,572)
Financing activities					
Issue of common shares		-	11,261	-	86,336
Share issue costs		-	(552)	-	(4,706)
(Payment) drawdown of long term debt		(89)	52,486	(115,306)	34,392
Issuance of senior notes	6	-	-	175,000	-
Issue costs of senior notes		50	-	(4,450)	-
Finance income (costs paid)		140	(763)	(116)	(1,267)
Change in non-cash working capital		(57)	(65)	-	(17)
Continuing operations		44	62,367	55,128	114,738
Discontinued operations		-	(11)	-	(11)
Cash flow from financing activities		44	62,356	55,128	114,727
(Decrease) increase in cash and cash equivalents		(9,721)	(42,405)	29,430	1,796
Cash and cash equivalents, beginning of period		39,151	47,676	-	3,475
Cash and cash equivalents, end of period		$ 29,430	$ 5,271	$ 29,430	$ 5,271
Cash and cash equivalents:					
Bank accounts		$ 9,434	$ 5,271	$ 9,434	$ 5,271
Short term investments		19,996	-	19,996	-
		$ 29,430	$ 5,271	$ 29,430	$ 5,271

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 900, 606 – 4th Street 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 June 30, 2012 and for the three and six months ended June 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 August 8, 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 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 six months ended June 30, 2012 and 2011:

Three months ended June 30, 2012	Contract Drilling	Well Servicing	Corporate	Total
Continuing Operations:				
Revenue	$ 44,330	$ 489	$ -	$ 44,819
Segment profit (loss)	5,750	(578)	(927)	4,245
Finance costs	(296)	(7)	3,553	3,250
Income taxes	(133)	(188)	344	23
Depreciation	4,964	85	70	5,119
Additions to property and equipment	36,305	1,836	1,461	39,602

Three months ended June 30, 2011	Contract Drilling	Well Servicing	Corporate	Total
Continuing Operations:				
Revenue	$ 30,340	$ -	$ -	$ 30,340
Segment profit (loss)	7,068	-	(1,571)	5,497
Finance costs	26	-	483	509
Income taxes	1,786	-	(4,119)	(2,333)
Depreciation	2,993	-	43	3,036
Additions to property and equipment	12,853	1,647	167	14,667

Six months ended June 30, 2012	Contract Drilling	Well Servicing	Corporate	Total
Continuing Operations:				
Revenue	$ 154,968	$ 738	$ -	$ 155,706
Segment profit (loss)	42,343	(1,289)	(2,425)	38,629
Finance costs	(492)	(55)	6,578	6,031
Income taxes	8,292	(395)	127	8,024
Depreciation	14,681	136	160	14,977
Additions to property and equipment	68,631	5,253	2,121	76,005

Six months ended June 30, 2011	Contract Drilling	Well Servicing	Corporate	Total
Continuing Operations:				
Revenue	$ 80,433	$ -	$ -	$ 80,433
Segment profit (loss)	22,360	-	(2,774)	19,586
Finance costs	(20)	-	1,091	1,071
Income taxes	5,783	-	(4,119)	1,664
Depreciation	7,795	-	78	7,873
Additions to property and equipment	27,786	1,647	173	29,606

(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 June 30, 2012	Contract Drilling	Well Servicing	Corporate	Total
Total assets	$ 625,698	$ 12,012	$ 61,646	$ 699,356
Total liabilities	81,199	2,038	179,950	263,187

As at June 30, 2011	Contract Drilling	Well Servicing	Corporate	Total
Total assets	$ 526,847	$ 1,688	$ 4,201	$ 532,736
Total liabilities	66,958	6	111,896	178,860

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Continuing operations:				
Segment profit	$ 4,245	$ 5,497	$ 38,629	$ 19,586
Add (deduct):				
Stock based compensation	(480)	(236)	(1,043)	(411)
Finance costs	(3,250)	(509)	(6,031)	(1,071)
Other items	335	(2,335)	304	(1,372)
Income taxes	(23)	2,333	(8,024)	(1,664)
Net income from continuing operations	$ 827	$ 4,750	$ 23,835	$ 15,068

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

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

As at and for the period ended June 30, 2011	Canada	United States	Total
Revenue: three months ended	$ 29,457	$ 883	$ 30,340
Revenue: six months ended	79,550	883	80,433
Property and equipment	381,529	45,938	427,467
Total assets	482,259	50,477	532,736

Significant customers:

For the three months ended June 30, 2012, the Company had two significant customers comprising 16.1% and 13.7%, respectively of the Company's total revenue. The trade receivable balances related to these customers at June 30, 2012 represents 10.8% and 8.3%, 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 six months ended June 30, 2012, the Company had no single customer representing greater than 10% of the Company's total revenue.

For the three months ended June 30, 2011, the Company had three significant customers comprising 24.2%, 15.0% and 14.4%, respectively of the Company's total revenue. No other single customer represents greater than 10% of the Company's total revenue for the three month period. For the six months ended June 30, 2011, the Company had two significant customers comprising 16.9% and 11.9%, respectively of the Company's total revenue. No other single customer represents greater than 10% of the Company's total revenue for the six 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	68,401	5,220	2,378	-	76,005
Non-cash additions:							
Capitalized interest	-	-	555	57	-	-	612
Finance leases	-	-	-	-	-	715	715
Disposals	-	-	(511)	-	-	(22)	(533)
Impact of foreign exchange	-	-	506	-	-	-	506
Balance at June 30, 2012	$ 4,974	$ 3,303	$ 557,429	$ 10,717	$ 4,238	$ 1,404	$ 582,065
Depreciation:							
Balance at December 31, 2011	$ -	$ 158	$ 30,021	$ 1	$ 545	$ 105	$ 30,830
Depreciation for the period	-	72	14,335	94	360	116	14,977
Disposals	-	-	(131)	-	-	(3)	(134)
Impact of foreign exchange	-	-	(187)	-	-	-	(187)
Balance at June 30, 2012	$ -	$ 230	$ 44,038	$ 95	$ 905	$ 218	$ 45,486
Carrying amounts:							
At December 31, 2011	$ 4,974	$ 3,139	$ 458,457	$ 5,439	$ 1,315	$ 606	$ 473,930
At June 30, 2012	$ 4,974	$ 3,073	$ 513,391	$ 10,622	$ 3,333	$ 1,186	$ 536,579

Assets under construction:
Included in property and equipment at June 30, 2012 are assets under construction of $31.4 million (December 31, 2011: $25.4 million) of which $29.7 million relates to the contract drilling segment including the construction of four telescopic Efficient Long Reach double drilling rigs as well as ancillary drilling equipment and $1.7 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.

	June 30, 2012	December 31, 2011
Current:		
Operating Facility [a]	$ -	$ 7,144
Bank mortgage	1,010	1,044
Finance lease obligations	238	25
Total current portion of long term debt	1,248	8,213
Non current:		
Revolving Facility [a]	-	108,000
Finance lease obligations	419	39
Senior Notes [b]	175,000	-
Less: net unamortized issue costs on Senior Notes	(3,655)	-
Total non current portion of long term debt	171,764	108,039
Total long term debt	$ 173,012	$ 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 June 30, 2012, 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 is defined as consolidated net income (loss), plus interest, income taxes, depreciation and amortization and any other non-cash items or extraordinary or non-recurring losses, less gain on sale of property and equipment and any other non-cash items or extraordinary or non-recurring gains that are included in the calculation of consolidated net income.

As at June 30, 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, commencing on July 30, 2012. 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 June 30, 2012, the fair value of the embedded derivative has not materially changed since the issuance of the Senior Notes.

At June 30, 2012, the fair value of the Senior Notes was approximately $176.8 million.

7. Share capital:

At June 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 at: December 31, 2011 and June 30, 2012	58,533,287	$ 319,698

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

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	170,000	7.86
Expired/Forfeited	(75,000)	7.75
Balance, June 30, 2012	2,196,000	$ 6.98

For the three and six months ended June 30, 2012, no stock options were cancelled. As at June 30, 2012, Western had 420,011 exercisable stock options outstanding at a weighted average exercise price equal to $6.41 per stock option.

Warrants:

The following table summarizes Western's outstanding warrants:

	Warrants outstanding	Weighted average exercise price
Balance at: December 31, 2011 and June 30, 2012	2,525,000	$ 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 June 30		Six months ended June 30	
	2012	2011	2012	2011
Weighted average number of common shares (basic)	58,533,287	51,010,095	58,533,287	44,541,870
Dilutive effect of stock options and warrants	1,896,376	2,018,274	2,079,564	1,991,675
Weighted average number of common shares (diluted)	60,429,663	53,028,369	60,612,851	46,533,545

For the three and six months ended June 30, 2012, 1,253,500 and 1,191,000 options, respectively (three and six months ended June 30, 2011: 662,500 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 (loss) are comprised of the following:

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Interest expense on long term debt	$ 3,304	$ 365	$ 5,906	$ 859
Amortization of debt financing fees	185	199	433	265
Interest income	(244)	(72)	(316)	(77)
Accretion of provisions	5	17	8	24
Total finance costs	$ 3,250	$ 509	$ 6,031	$ 1,071

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

10. Finance costs (continued):

During the three and six months ended June 30, 2012, the Company incurred interest and financing costs of approximately $3.6 million and $6.6 million, respectively (three and six months ended June 30, 2011: $0.6 million and $1.2 million, respectively), which includes capitalized interest of $0.3 million and $0.6 million, respectively (three and six months ended June 30, 2011: $0.1 million and $0.1 million, respectively) on its long term debt (see Note 6). The Company had an effective interest rate of 8.3% and 7.9%, respectively on its borrowings for the three and six months ended June 30, 2012. For the three and six months ended June 30, 2011, the effective rate on the revolver was 4.5%. Taking into consideration stand by fees and amortization of deferred financing costs on a lower average debt balance resulted in an effective rate of 8.6% and 6.1% for the three and six months ended June 30, 2011.

11. Income taxes:

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Income taxes:				
Current tax (recovery) expense	$ (89)	$ 7	$ 4,232	$ (1,051)
Deferred tax expense (recovery)	112	(2,340)	3,792	2,715
Total income taxes	$ 23	$ (2,333)	$ 8,024	$ 1,664

At June 30, 2012, the Company has gross loss carry forwards equal to $5.2 million in Canada, which expire between 2031 and 2032. In the United States, the Company has US$27.8 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 (loss) by function. The following table presents significant expenses by nature:

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Depreciation of property and equipment	$ 5,119	$ 3,036	$ 14,977	$ 7,873
Employee benefits: salaries and benefits	20,549	12,538	62,269	31,383
Employee benefits: stock based compensation	480	236	1,043	411
Repairs and maintenance	5,345	2,284	10,347	5,103
Third party charges	4,165	2,889	14,305	8,109

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 credit facilities and Senior Notes. Cash and cash equivalents, investments and embedded derivatives are carried at fair value. The carrying amounts of trade and other receivables, trade payables, and other current liabilities approximates their fair values due to their short term nature. The fair value of investments is based on their respective trading prices on June 30, 2012. 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 for accounting purposes. Fair value disclosure of the Senior Notes is based on their respective trading price on June 30, 2012. The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2011.

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

13. Financial risk management and financial instruments (continued):

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 June 30, 2012 is as follows:

	Note	June 30, 2012	December 31, 2011
Operating Facility	6	$ -	$ 7,144
Revolving Facility	6	-	108,000
Bank mortgage	6	1,010	1,044
Finance lease obligations	6	657	64
Senior Notes	6	175,000	-
Total debt		176,667	116,252
Shareholders' equity		436,169	414,325
Less: cash and cash equivalents		(29,430)	-
Total capitalization		$ 583,406	$ 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	$ 1,880	$ 3,603	$ 3,273	$ 2,468	$ 2,457	$ 18,494	$ 32,175
Capital commitments	46,735	191	81	-	-	-	47,007
Purchase commitments	24,341	-	-	-	-	-	24,341
Senior Notes	-	-	-	-	-	175,000	175,000
Senior Notes interest	6,891	13,781	13,781	13,781	13,781	28,711	90,726
Total	$ 79,847	$ 17,575	$ 17,135	$ 16,249	$ 16,238	$ 222,205	$ 369,249

15. Subsequent events:

On August 8, 2012, the Board of Directors of Western approved the implementation of a dividend policy which provides for an annual cash dividend of $0.30 per share. As such, the Board of Directors declared an initial quarterly cash dividend of $0.075 per share, payable on October 12, 2012, to shareholders of record at the close of business on September 28, 2012. The dividends will be eligible dividends for Canadian income tax purposes.