Western Energy Services Corp.

Interim Consolidated Financial Statements

June 30, 2010 and 2009

(Unaudited)

Western Energy Services Corp.
Interim Consolidated Balance Sheets (Unaudited)
(thousands of Canadian dollars)

	June 30, 2010	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	$ 2,325	$ 2,386
Accounts receivable	13,607	1,022
Inventory	327	313
Prepaid expenses	496	175
Future income taxes	1,292	-
Deferred charges	207	-
Assets of discontinued operations (Note 12)	86	1,012
	18,340	4,908
Property and equipment (Note 5)	96,157	5,414
Intangible assets	470	-
Assets of discontinued operations (Note 12)	464	1,897
	$ 115,431	$ 12,219
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 6,522	$ 2,552
Current portion of long term debt (Note 6)	159	5
Liabilities of discontinued operations (Note 12)	687	1,520
	7,368	4,077
Deferred credits	371	-
Long term debt (Note 6)	4,109	17
Future income taxes	7,260	-
Liabilities of discontinued operations (Note 12)	-	48
	19,108	4,142
Shareholders' Equity		
Common shares (Note 7)	85,292	8,253
Contributed surplus	2,034	1,835
Retained earnings (deficit)	8,997	(2,011)
	96,323	8,077
	$ 115,431	$ 12,219

Commitments (Note 8)
Subsequent events (Note 13)
See accompanying notes to these consolidated financial statements

Western Energy Services Corp.

Interim Consolidated Statements of Operations, Comprehensive Income (Loss) and Retained Earnings (Deficit) (Unaudited)
(thousands of Canadian dollars)

	After comprehensive revaluation	Before comprehensive revaluation	After comprehensive revaluation	Before comprehensive revaluation
	Three Months Ended June 30, 2010	**Three Months Ended June 30, 2009**	**Six Months Ended June 30, 2010**	**Six Months Ended June 30, 2009**
Revenue	$ 13,396	$ 607	$ 17,715	$ 1,865
Expenses				
Operating	8,325	769	11,300	1,788
General and administrative	1,920	203	2,721	425
Stock based compensation	181	-	199	-
(Gain) loss on sale of assets	(1)	-	11	2
Depreciation	1,625	428	2,032	877
Interest and finance costs	213	75	303	147
Foreign exchange (gain) loss	(49)	152	(130)	68
Acquisition costs	81	-	257	-
(Gain) loss on business acquisitions	529	-	(11,094)	-
Income (loss) from continuing operations before taxes	572	(1,020)	12,116	(1,442)
Future income taxes	602	-	607	-
Net income (loss) from continuing operations	(30)	(1,020)	11,509	(1,442)
Net income (loss) from discontinued operations (Note 12)	(68)	123	(501)	(556)
Net income (loss) and comprehensive income (loss)	(98)	(897)	11,008	(1,998)
Retained earnings (deficit), beginning of period	9,095	(10,187)	(2,011)	(9,086)
Retained earnings (deficit), end of period	$ 8,997	$ (11,084)	$ 8,997	$ (11,084)
Net income (loss) per share from continuing operations				
Basic and diluted	$ -	$ (0.03)	$ 0.03	$ (0.04)
Net income (loss) per share from discontinued operations				
Basic and diluted	$ -	$ -	$ -	$ (0.02)
Net income (loss) per share				
Basic and diluted	$ -	$ (0.03)	$ 0.03	$ (0.06)
Weighted average number of shares				
Basic	527,549,161	32,246,405	361,475,586	32,246,405
Diluted	555,262,156	32,246,405	395,448,746	32,246,405

See accompanying notes to these consolidated financial statements

Western Energy Services Corp.

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

	After comprehensive revaluation	Before comprehensive revaluation	After comprehensive revaluation	Before comprehensive revaluation
	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Operating activities				
Net income (loss) from continuing operations	$ (30)	$ (1,020)	$ 11,509	$ (1,442)
Items not affecting cash				
Depreciation	1,625	428	2,032	877
Stock-based compensation	181	-	199	-
(Gain) loss on sale of assets	(1)	-	11	2
Future income taxes	602	-	607	-
Amortization of deferred charges and credits	70	-	70	-
Gain loss on business acquisitions	529	-	(11,094)	-
Unrealized foreign exchange loss	(35)	-	(112)	-
Change in non-cash working capital	941	822	495	335
Continuing operations	3,882	230	3,717	(228)
Discontinued operations	(69)	(205)	(61)	(5)
	3,813	25	3,656	(233)
Investing activities				
Proceeds on sale of equipment	76	53	1,561	448
Business acquisition – Horizon Drilling Inc. (Note 4)	-	-	(35,790)	-
Additions to property and equipment	(3,871)	-	(3,930)	-
Change in non-cash working capital	817	-	946	-
Continuing operations	(2,978)	53	(37,213)	448
Discontinued operations	-	17	1,310	65
	(2,978)	70	(35,903)	513
Financing activities				
Issue of common shares, net of costs	87	-	70,883	-
Payment of long term debt	(35,077)	63	(38,546)	327
Change in non-cash working capital	(31)	-	141	-
Continuing operations	(35,021)	63	32,478	327
Discontinued operations	-	(172)	(292)	(637)
	(35,021)	(109)	32,186	(310)
Increase (decrease) in cash and cash equivalents	$ (34,186)	$ (14)	$ (61)	$ (30)
Cash and cash equivalents, beginning of period	$ 36,511	$ 55	$ 2,386	$ 71
Cash and cash equivalents, end of period	$ 2,325	$ 41	$ 2,325	$ 41
Supplemental cash flow information				
Interest paid	$ 245	$ 119	$ 401	$ 256
Taxes paid	$ 63	$ -	$ 63	$ -
Cash and cash equivalents:				
Bank accounts	$ 2,325	$ 41	$ 2,325	$ 41
	$ 2,325	$ 41	$ 2,325	$ 41

See accompanying notes to these consolidated financial statements

1. Basis of presentation

These unaudited interim consolidated financial statements for Western Energy Services Corp. ("Western" or the "Company") were prepared using accounting policies and methods of their application consistent with those used in the preparation of the Company's audited consolidated financial statements for the year ended December 31, 2009 except as noted below. These interim consolidated financial statements conform in all material respects to the requirements of generally accepted accounting principles in Canada for annual financial statements with the exception of certain note disclosures. As a result, these interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2009.

Certain comparatives have been reclassified to conform to the current period's financial statement presentation.

Comprehensive revaluation

On December 22, 2009, the Company completed a recapitalization and reorganization, which had the following key elements:

- An entirely new management team and board of directors were appointed.
- Pursuant to a private placement agreement, net proceeds of $6.7 million were raised of which approximately $3.7 million was applied against debt.
- 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, converted existing debt of approximately $6.1 million in exchange for 12,285,425 common shares of Western at a price of $0.50 per share.
- As part of the reorganization, Western also completed approximately $1.7 million in asset sales with the proceeds applied against debt.

The Company's balance sheet as at December 22, 2009 was prepared under the provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1625, Comprehensive Revaluation of Assets and Liabilities. As a result of the comprehensive revaluation, all assets and liabilities were revalued at estimated fair values and Western's deficit was eliminated.

The Company's financial information before the comprehensive revaluation has been presented to provide additional information to the reader. In reviewing the financial information for the three and six months ended June 30, 2009, readers are reminded that they do not reflect the effects of the financial reorganization or the application of its accounting. Detailed information on the recapitalization and reorganization and the impact of adjustments made in the comprehensive revaluation is available in the Company's audited financial statements for the year ended December 31, 2009 as filed on SEDAR at www.sedar.com.

2. Significant accounting policies

Deferred charges

Costs associated with the increase of the credit facility are deferred and amortized by the straight-line method over the term of the facility. The amortization is included in general and administrative expense.

Deferred Credits

The Company has received certain lease inducements related to the lease of its head office. These inducements are being amortized into income on a straight-line basis over the term of the lease. Deferred credits also include acquired out of the money contracts and are recorded at fair value and amortized by the straight-line method over the life of the contract.

Intangibles

Intangibles, which are comprised of acquired in the money contracts, are recorded at fair value and amortized by the straight-line method over the life of the contract.

Changes in accounting policies

On January 1, 2010, the Company adopted the following CICA Handbook sections:

- "Business Combinations", Section 1582, which replaced the previous business combinations standard. Under the new section, the term "business" is more broadly defined than in the previous standard, most assets acquired and liabilities assumed are measured at fair value, any interest in an acquiree owned prior to obtaining control is remeasured at fair value at the acquisition date (eliminating the need for guidance on step acquisitions), a bargain purchase results in recognition of a gain, and acquisition costs are expensed. The adoption of this standard will impact accounting treatment of future business combinations entered into after January 1, 2010.
- "Consolidated Financial Statements", Section 1601, which, together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard had no material impact on Western's consolidated financial statements.
- "Non-controlling Interests", Section 1602, which establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard has had no material impact on Western's consolidated financial statements.

3. Seasonality

The Company's operations are often weather dependent, which has a seasonal impact, particularly in Canada. During the first quarter, the 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.

4. Acquisitions

i. Horizon Drilling Inc. ("Horizon")

In March, through a series of transactions, Western acquired control of all of the issued and outstanding common shares of Horizon for cash consideration of approximately $41.4 million. The aggregate consideration for the Horizon acquisition consists of the following:

		Amount
Cash paid	$	41,430
Assumption of bank debt (net of $5.6 million in cash acquired)		24,289
	$	65,719

This acquisition has been accounted for using the acquisition method with an effective date of March 18, 2010, whereby the assets acquired and the liabilities assumed are recorded at their fair values with any excess of the aggregate consideration over the fair value of the identifiable net assets allocated to goodwill, and any shortage of the aggregate consideration relative to the fair value of the identifiable net assets recorded as a gain on business acquisition. As of the acquisition date, Horizon's operating results have been included in Western's revenues, expenses and capital spending. The following summarizes the allocation of the aggregate consideration for the Horizon acquisition:

		Amount
Net working capital (excluding cash)	$	8,588
Property and equipment		71,175
Intangible assets		343
Future income tax asset		1,241
Deferred credit		(355)
Future income tax liability		(6,082)
Gain on business acquisition		(9,191)
	$	65,719

The allocations described above are preliminary and subject to changes upon final purchase price adjustments. These adjustments may include, but are not limited to, future income tax balance adjustments on the filing of respective returns for each corporate acquisition, working capital adjustments on respective balances acquired, and transaction cost adjustments for actual cost incurred. In the three month period ended June 30, 2010, an adjustment was made to the purchase price allocation of approximately $477,000, resulting in a decrease in the net working capital and future income tax liability acquired, and a decrease to the gain on business acquisition.

ii. Cedar Creek Drilling Ltd. ("Cedar Creek")

On March 18, 2010, Western acquired all of the issued and outstanding common shares of Cedar Creek in exchange for 2.66 Western common shares for each Cedar Creek common share. An aggregate of 20,517,331 common shares of Western were issued at an ascribed price of $0.30 per share, based on the closing trading price on March 17, 2010. The aggregate consideration for the Cedar Creek acquisition consists of the following:

		Amount
Common shares issued	$	6,155
Assumption of bank debt		12,603
	$	18,758

This acquisition has been accounted for using the acquisition method, whereby the assets acquired and the liabilities assumed are recorded at their fair values with any excess of the aggregate consideration over the fair value of the identifiable net assets allocated to goodwill, and any shortage of the aggregate consideration relative to the fair value of the identifiable net assets recorded as a gain on business acquisition. As of the acquisition date, Cedar Creek's operating results have been included in Western's revenues, expenses and capital spending.

The following summarizes the allocation of the aggregate consideration for the Cedar Creek acquisition:

		Amount
Net working capital	$	1,885
Property and equipment		19,146
Intangible assets		222
Future income tax liability		(592)
Gain on business acquisition		(1,903)
	$	18,758

The allocations described above are preliminary and subject to changes upon final purchase price adjustments. These adjustments may include, but are not limited to, future income tax balance adjustments on the filing of respective returns for each corporate acquisition, working capital adjustments on respective balances acquired, and transaction cost adjustments for actual cost incurred. In the three month period ended June 30, 2010, an adjustment was made to the purchase price allocation of approximately $52,000, resulting in a decrease in the net working capital acquired and a decrease to the gain on business acquisition.

5. Property and equipment

	June 30, 2010		
	Cost	Accumulated Depreciation	Net book value
Land	$ 374	$ -	$ 374
Buildings	1,279	18	1,261
Drilling rigs and related equipment	90,448	1,521	88,927
Oilfield service	5,436	363	5,073
Shop and office equipment	225	33	192
Vehicles under capital lease	370	40	330
	$ 98,132	$ 1,975	$ 96,157

	December 31, 2009		
	Cost	Accumulated Depreciation	Net book value
Oilfield service	$ 5,380	$ 37	$ 5,343
Shop and office equipment	61	2	59
Vehicles under capital lease	12	-	12
	$ 5,453	$ 39	$ 5,414

6. Long-term debt

	June 30, 2010	December 31, 2009
Revolving credit facility	$ 3,000	$ -
Bank loans – mortgages	1,142	-
Capital lease obligations	126	22
	4,268	22
Less current portion	(159)	(5)
Total	$ 4,109	$ 17

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 and Cedar Creek. As at June 30, 2010, the Company had approximately $42 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 credit 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	June 30, 2010
Current assets to current liabilities	1.25 to 1.00 or more	2.54
Funded Debt to EBITDA	2.5 to 1.0 or less	0.12
Funded Debt to capitalization	0.60 to 1.0 or less	0.02
Revolving Facility balance to net book value of fixed assets	Less than 45%	3%

As at June 30, 2010, the Company is in compliance with all covenants related to its facilities as required.

During the three and six months ended June 30, 2010, the Company incurred interest expense equal to approximately $213,000 (2009 - $75,000) and $303,000 (2009 - $147,000), respectively, on its long term debt. The Company paid an average of 4.13% (2009-5.08%) and 4.08% (2009-5.10%) on its borrowings for the three and six months ended June 30, 2010, respectively.

7. Common shares

a. Authorized

Unlimited number of common shares

b. Issued

Common shares	Shares		Amount
Balance, December 31, 2009	132,031,830	$	8,253
Issued for cash – March 18, 2010	375,000,000		75,000
Issued on acquisition of Cedar Creek	20,517,331		6,155
Issue costs	-		(4,116)
Balance, June 30, 2010	527,549,161	$	85,292

c. 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	Weighted average exercise price
Balance, December 31, 2009	170,003	$ 2.370
Granted	18,550,000	0.285
Cancelled	(1,075,001)	0.532
Balance, June 30, 2010	17,645,002	$ 0.290

(1) Diluted weighted average common shares outstanding for the three months and six months ended June 30, 2010 does not include the share impact of 17,645,002 share options, as the impact would be anti-dilutive.

	June 30, 2010		
Exercise price ($/share)	Number of options outstanding	Weighted average contractual life (years)	Number of options exercisable
0.285	17,600,000	4.73	-
1.320	24,168	1.75	24,168
3.360	20,834	0.63	20,834
	17,645,002	4.73	45,002

The options granted in 2010 have been valued using a Black-Scholes option pricing model. The following assumptions were used to determine the fair value of the share options on their date of grant:

Risk-free interest rate	2.0%
Average expected life	3.0 years
Maximum life	5.0 years
Average vesting period	3.0 years
Expected dividend	nil
Expected share price volatility	60%

The average fair value of the share options issued in 2010 was $0.12 per share option. For the three and six months ended June 30, 2010, the Company recorded approximately $181,000 and $199,000 respectively, in stock based compensation expense.

d. Warrants

	Warrants outstanding	Weighted average exercise price
Balance, December 31, 2009 and June 30, 2010	50,500,000	$ 0.105

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.

8. 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 June 30, 2010 as follows:

	2010	2011	2012	2013	2014 and beyond
Operating leases	$ 401	$ 955	$ 811	$ 754	$ 575
Capital commitments	2,435	-	-	-	-
Purchase commitments	140	-	-	-	-
Total	$ 2,976	$ 955	$ 811	$ 754	$ 575

9. Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and long term debt. Cash and cash equivalents are carried at fair value. The carrying amount of accounts receivable, and accounts payable and accrued liabilities approximates their fair values due to their short-term nature. Long term debt instruments bear interest at rates that approximate market rates and therefore, their carrying values approximate fair values.

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. For the revolving credit facility, a one percent change in interest rates would have an approximately $34,000 and $50,000 impact on interest expense for the three and six months ended June 30, 2010, respectively. Other 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 three and six months ended June 30, 2010, 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 $0.1 million.

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 maximum exposure to credit risk is equal to the carrying value of the financial assets which reflects management's assessment of the credit risk. At June 30, 2010, approximately 88% of the Company's trade accounts receivable from continuing operations is less than 90 days overdue. During the three and six months ended June 30, 2010, there have been no changes to the allowance for doubtful accounts provision from continuing operations.

The table below provides an analysis of our accounts receivable aging:

	June 30, 2010
Trade accounts receivable	
Current	$ 6,845
Outstanding for 31 to 60 days	1,554
Outstanding for 61 to 90 days	1,969
Outstanding for over 90 days	1,386
Less: allowance for doubtful accounts	(134)
Other accounts receivable	1,987
Total	$ 13,607

For the three months ended June 30, 2010, the Company had four significant customers comprising 17.0%, 14.6%, 12.3% and 10.1%, respectively of total revenue. The combined total of the four significant customers represented 54.0% of total revenue in the three month period. No other single customer represents greater than 10% of the Company's total revenue in the three month period.

For the six months ended June 30, 2010, the Company had four significant customers comprising 14.5%, 12.6%, 11.9% and 10.5%, respectively of total revenue. The combined total of the four significant customers represented 49.5% of total revenue in the six month period. No other single customer represents greater than 10% of the Company's total revenue in the six month period.

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, 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.

e. Fair Value

Financial assets and liabilities recorded at fair value in the consolidated balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels based on the amount of subjectivity associated with the inputs in the fair determination of these assets and liabilities are as follows:

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

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

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

The Company's cash and cash equivalents is the only financial asset or liability measured using fair value and is a level 1 measurement.

10. Capital management

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

	June 30, 2010	December 31, 2009
Revolving credit facilities	$ 3,000	$ -
Bank loans – mortgages	1,142	-
Capital lease obligations	126	22
Total debt	4,268	22
Share capital	85,292	8,253
Less: cash	(2,325)	(2,386)
Total capitalization	$ 87,235	$ 5,889

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. As at June 30, 2010, the Company had $47 million in available credit under its credit facilities and is in compliance with all debt covenants (see Note 6).

11. Segmented information

As at June 2010, Western operates in two main industry segments, Contract Drilling and Production Services. Subsequent to the discontinuation of the United States and International geographic operations (Note 12), the Company operates in one geographic region. Contract drilling includes drilling rigs along with related equipment. Production services include various oilfield services relating to stimulation and fluid pumping, nitrogen services, specialty solvents and laboratory services.

Three months ended June 30, 2010	Contract Drilling(1)	Production Services	Corporate	**Total**
Continuing operations:				
Revenue	$ 11,153	$ 2,243	$ -	$ 13,396
Segment profit (loss)	2,238	289	(1,001)	1,526
Depreciation	1,430	172	23	1,625
Total assets	106,288	7,823	770	114,881
Expenditures on capital items	$ 2,030	$ 1,572	$ 269	$ 3,871

1) Contract drilling segment acquired on March 18, 2010 (Note 4).

Three months ended June 30, 2009	Contract Drilling(1)	Production Services	Corporate	**Total**
Continuing operations:				
Revenue	$ -	$ 607	$ -	$ 607
Segment profit (loss)	-	(603)	(190)	(793)
Depreciation	-	428	-	428
Total assets	-	11,723	29	11,752
Expenditures on capital items	$ -	$ -	$ -	$ -

1) Contract drilling segment acquired on March 18, 2010 (Note 4).

Six months ended June 30, 2010	Contract Drilling(1)	Production Services	Corporate	**Total**
Continuing operations:				
Revenue	$ 12,943	$ 4,772	$ -	$ 17,715
Segment profit (loss)	2,371	801	(1,510)	1,662
Depreciation	1,657	352	23	2,032
Total assets	106,288	7,823	770	114,881
Expenditures on capital items	$ 2,066	$ 1,593	$ 271	$ 3,930

1) Contract drilling segment acquired on March 18, 2010 (Note 4).

Six months ended June 30, 2009	Contract Drilling(1)	Production Services	Corporate	**Total**
Continuing operations:				
Revenue	$ -	$ 1,865	$ -	$ 1,865
Segment profit (loss)	-	(835)	(390)	(1,225)
Depreciation	-	876	1	877
Total assets	-	11,723	29	11,752
Expenditures on capital items	$ -	$ -	$ -	$ -

1) Contract drilling segment acquired on March 18, 2010 (Note 4).

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

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Continuing operations:				
Total segment profit (loss)	$ 1,526	$ (793)	$ 1,662	$ (1,225)
Add (deduct)				
Stock based compensation	(181)	-	(199)	-
Gain on sale of assets	1	-	(11)	(2)
Interest and finance costs	(213)	(75)	(303)	(147)
Foreign exchange gain (loss)	49	(152)	130	(68)
Acquisition costs	(81)	-	(257)	-
Gain on business acquisitions	(529)	-	11,094	-
Income (loss) before taxes	$ 572	$ (1,020)	$ 12,116	$ (1,442)

12. Discontinued operations

During the period ended June 30, 2010, management determined its United States and International production services divisions, included in the Production Services segment, would be disposed of in order for the Company to focus on its core business operations in western Canada. The disposal groups consisted of certain fixed assets consisting of a building, field equipment and shop equipment used in the production services industry.

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Revenue from discontinued operations:				
United States	$ -	$ 286	$ -	$ 1,076
International	42	81	42	163
	$ 42	$ 367	$ 42	$ 1,239
Net income (loss) before tax from discontinued operations:				
United States	$ (59)	$ 102	$ (447)	$ (593)
International	(9)	21	(54)	37
	$ (68)	$ 123	$ (501)	$ (556)
Income taxes	-	-	-	-
Net income (loss) from discontinued operations	$ (68)	$ 123	$ (501)	$ (556)

The following table provides additional information with respect to amounts included in the June 30, 2010 balance sheet as assets and liabilities of discontinued operations.

	United States	International	Total
Current assets:			
Accounts receivable	$ -	$ 31	$ 31
Prepaid expenses	50	5	55
Total current assets	$ 50	$ 36	$ 86
Long-term assets:			
Property and equipment	$ 464	$ -	$ 464
Total long-term assets	$ 464	$ -	$ 464
Current liabilities:			
Accounts payable and accrued liabilities	$ 604	$ 83	$ 687
Total current liabilities:	$ 604	$ 83	$ 687

The cash flows from discontinued operations for the three months ended June 30, 2010 are as follows:

	United States	International	Total
Operating activities:			
Net income (loss)	$ (59)	$ (9)	$ (68)
Items not affecting cash			
Depreciation	-	-	-
Gain on sale of assets	-	-	-
Unrealized foreign exchange (gain)/loss	(79)	-	(79)
Net change in non-cash working capital	94	(16)	78
	(44)	(25)	(69)
Investing Activities:			
Proceeds on sale of equipment	-	-	-
Additions of property and equipment	-	-	-
Financing Activities:			
Payment of long-term debt	-	-	-
	-	-	-
Increase (decrease) in cash and cash equivalents	$ (44)	$ (25)	$ (69)

The cash flows from discontinued operations for the three months ended June 30, 2009 are as follows:

	United States	International	Total
Operating activities:			
Net income (loss)	$ 102	$ 21	$ 123
Items not affecting cash			
Depreciation	211	-	211
Gain on sale of assets	(2)		(2)
Unrealized foreign exchange (gain)/loss	-	-	-
Net change in non-cash working capital	(544)	7	(537)
	(233)	28	(205)
Investing Activities:			
Proceeds on sale of equipment	17		17
Additions of property and equipment	-	-	-
	17	-	17
Financing Activities:			
Payment of long-term debt	(172)	-	(172)
	(172)	-	(172)
Increase (decrease) in cash and cash equivalents	$ (388)	$ 28	$ (360)

The cash flows from discontinued operations for the six months ended June 30, 2010 are as follows:

	United States	International	Total
Operating activities:			
Net income (loss)	$ (447)	$ (54)	$ (501)
Items not affecting cash			
Depreciation	-	-	-
Gain on sale of assets	(21)	-	(21)
Unrealized foreign exchange (gain)/loss	121	-	121
Net change in non-cash working capital	360	(20)	340
	13	(74)	(61)
Investing Activities:			
Proceeds on sale of equipment	1,310	-	1,310
Additions of property and equipment	-	-	-
	1,310	-	1,310
Financing Activities:			
Payment of long-term debt	(292)	-	(292)
	(292)	-	(292)
Increase (decrease) in cash and cash equivalents	$ 1,031	$ (74)	$ 957

The cash flows from discontinued operations for the six months ended June 30, 2009 are as follows:

	United States	International	Total
Operating activities:			
Net income (loss)	$ (593)	$ 37	$ (556)
Items not affecting cash			
Depreciation	471	-	471
Gain on sale of assets	(13)		(13)
Unrealized foreign exchange (gain)/loss	-	-	-
Net change in non-cash working capital	101	(8)	93
	(34)	29	(5)
Investing Activities:			
Proceeds on sale of equipment	65	-	65
Additions of property and equipment	-	-	-
	65	-	65
Financing Activities:			
Payment of long-term debt	(637)	-	(637)
	(637)	-	(637)
Increase (decrease) in cash and cash equivalents	$ (606)	$ 29	$ (577)

13. Subsequent events

On July 19, 2010, the Company announced that it had entered into a definitive arrangement agreement with Impact Drilling Ltd. ("Impact"), whereby the Company will acquire all of the outstanding securities of Impact. The total transaction value of the arrangement is approximately $19.4 million (including the acquisition of outstanding securities, assumption of debt, working capital and transaction costs). The arrangement is subject to the approval by the security holders of Impact, as well as court and regulatory approvals. It is anticipated that the arrangement is expected to close in August 2010.