Western Energy Services Corp.

Condensed Consolidated Financial Statements

March 31, 2014 and 2013

(Unaudited)

Western Energy Services Corp.

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

	Note	March 31, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents		$ 20,687	$ 17,389
Trade and other receivables		115,970	90,519
Other current assets		5,374	5,576
		142,031	113,484
Non current assets			
Property and equipment	5	787,886	783,225
Goodwill		88,710	88,710
Other non current assets		565	1,373
		$ 1,019,192	$ 986,792
Liabilities			
Current liabilities			
Trade payables and other current liabilities		$ 55,067	$ 56,317
Dividends payable		5,538	5,504
Current portion of provisions		140	139
Current portion of long term debt	6	957	908
		61,702	62,868
Non current liabilities			
Provisions		1,923	1,957
Long term debt	6	263,119	262,877
Deferred taxes		102,877	95,665
		429,621	423,367
Shareholders' equity			
Share capital	7	414,450	411,143
Contributed surplus		6,059	6,088
Retained earnings		159,596	139,721
Accumulated other comprehensive income		8,077	5,171
Non controlling interest		1,389	1,302
		589,571	563,425
		$ 1,019,192	$ 986,792

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 March 31, 2014	Three months ended March 31, 2013
Revenue		$ 161,416	$ 98,006
Operating expenses		111,889	68,071
Gross profit		49,527	29,935
Administrative expenses		9,073	7,299
Finance costs	10	5,403	3,759
Other items		489	(1,086)
Income before income taxes		34,562	19,963
Income taxes	11	9,062	5,060
Net income		25,500	14,903
Other comprehensive income [(1)]			
Gain on translation of foreign operations		(1,873)	(941)
Loss on change in fair value of available for sale assets (net of tax)		-	1,621
Unrealized foreign exchange gain on net investment in subsidiary (net of tax)		(1,033)	(550)
Comprehensive income		$ 28,406	$ 14,773
Net income attributable to:			
Shareholders of the Company		$ 25,413	$ 14,903
Non controlling interest		87	-
Comprehensive income attributable to:			
Shareholders of the Company		$ 28,319	$ 14,773
Non controlling interest		87	-
Net income per share:			
Basic		$ 0.35	$ 0.25
Diluted		0.34	0.24
Weighted average number of shares:			
Basic	9	73,506,069	59,610,763
Diluted	9	74,282,618	60,872,610

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

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[(2)]	Non controlling interest	Total shareholders' equity
Balance at December 31, 2012		$ 322,878	$ 4,689	$ 125,579	$ 1,644	$ -	$ 454,790
Common shares:							
Issued for cash on exercise of stock options	7	58	-	-	-	-	58
Issued for cash on exercise of warrants	7	134	-	-	-	-	134
Fair value of exercised options and warrants	7	66	(66)	-	-	-	-
Stock based compensation		-	497	-	-	-	497
Dividends declared		-	-	(4,474)	-	-	(4,474)
Comprehensive income (loss)		-	-	14,903	(130)	-	14,773
Balance at March 31, 2013		323,136	5,120	136,008	1,514	-	465,778
Common shares:							
Issued common shares on acquisition	7	83,999	-	-	-	-	83,999
Issued for cash on exercise of stock options	7	134	-	-	-	-	134
Issued for cash on exercise of warrants	7	2,848	-	-	-	-	2,848
Fair value of exercised options and warrants	7	1,026	(1,026)	-	-	-	-
Stock based compensation		-	1,994	-	-	-	1,994
Dividends declared		-	-	(16,508)	-	-	(16,508)
Non controlling interest acquired		-	-	-	-	1,110	1,110
Contributions from non controlling interest		-	-	-	-	70	70
Comprehensive income		-	-	20,221	3,657	122	24,000
Balance at December 31, 2013		$ 411,143	$ 6,088	$ 139,721	$ 5,171	$ 1,302	$ 563,425
Common shares:							
Issued for cash on exercise of stock options	7	2,287	-	-	-	-	2,287
Issued for cash on exercise of warrants	7	222	-	-	-	-	222
Fair value of exercised options and warrants	7	798	(798)	-	-	-	-
Stock based compensation		-	769	-	-	-	769
Dividends declared		-	-	(5,538)	-	-	(5,538)
Comprehensive income		-	-	25,413	2,906	87	28,406
Balance at March 31, 2014		$ 414,450	$ 6,059	$ 159,596	$ 8,077	$ 1,389	$ 589,571

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

(2) At March 31, 2014, the accumulated other comprehensive income balance consists of the translation of foreign operations and unrealized foreign exchange on net investment in subsidiary.

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

Western Energy Services Corp.

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

	Note	Three months ended March 2014	Three months ended March 2013
Operating activities			
Net income		$ 25,500	$ 14,903
Adjustments for:			
Depreciation included in operating expenses		17,880	10,856
Depreciation included in administrative expenses		445	395
Stock based compensation included in operating expenses		222	154
Stock based compensation included in administrative expenses		547	343
Gain on sale of assets		(54)	(1,235)
Income taxes	11	9,062	5,060
Unrealized foreign exchange loss		16	5
Finance costs	10	5,403	3,759
Other		740	(70)
Cash generated from operating activities		59,761	34,170
Income taxes paid		(184)	(5,879)
Change in non-cash working capital		(20,943)	(5,847)
Cash flow from operating activities		38,634	22,444
Investing activities			
Additions to property and equipment	5	(20,129)	(18,156)
Proceeds on sale of property and equipment		369	54
Proceeds on sale of investments		-	34,444
Changes in non-cash working capital		(2,904)	(78)
Cash flow (used in) from investing activities		(22,664)	16,264
Financing activities			
Issue of common shares	7	2,509	192
Repayment of long term debt		(173)	(10,594)
Finance costs paid		(9,504)	(6,947)
Dividends paid		(5,504)	(4,469)
Cash flow used in financing activities		(12,672)	(21,818)
Increase in cash and cash equivalents		3,298	16,890
Cash and cash equivalents, beginning of period		17,389	6,588
Cash and cash equivalents, end of period		$ 20,687	$ 23,478
Cash and cash equivalents:			
Bank accounts		$ 10,687	$ 13,478
Short term investments		10,000	10,000
		$ 20,687	$ 23,478

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 as at and for the three months ended March 31, 2014 and 2013 (the "Financial Statements") are comprised of Western, its divisions and its wholly owned subsidiaries (together referred to as the "Company"). The Company is an oilfield service company providing contract drilling services through its division, Horizon Drilling ("Horizon") in Canada, and its wholly owned subsidiary Stoneham Drilling Corporation ("Stoneham") in the United States. Subsequent to the acquisition of IROC Energy Services Corp. ("IROC") on April 22, 2013, Western provides well servicing operations through Western Energy Services Partnership's (the "Partnership") division Eagle Well Servicing ("Eagle"). Previously, well servicing operations were conducted through Western's division Matrix Well Servicing ("Matrix"). Western also provides oilfield rental services through the Partnership's division Aero Rental Services ("Aero"). Financial and operating results for Eagle and Aero from the date of the acquisition, as well as Matrix are included in Western's production services segment.

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 International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board. These Financial Statements have been prepared using accounting policies and judgments which are consistent with Notes 3 and 4 of the audited annual consolidated financial statements as at December 31, 2013 and for the years ended December 31, 2013 and 2012 as filed on SEDAR at www.sedar.com and, as such, they should be read in conjunction with said statements.

As at January 1, 2014, the Company adopted the following standards:

- IAS 36, Impairment of Assets – Amendments to IAS 36 require entities to disclose the recoverable amount of an impaired Cash Generating Unit ("CGU"). The Company assessed the effect of IAS 36 on its financial results and financial position and will adopt these disclosures in the annual financial statements.
- IFRIC 21, Levies – Interpretation of IAS 37, Provisions, Contingent Liabilities and Assets, sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event. The interpretation clarifies that the obligation that gives rise to the liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company assessed the effect of IFRIC 21 on its consolidated balance sheets and consolidated statements of operations and comprehensive income and has determined there is no material impact.

These Financial Statements were approved for issuance by Western's Board of Directors on May 1, 2014.

3. Seasonality:

The Company's operations are often weather dependent, which has a seasonal effect. During the first quarter, the environment in the field is conducive to oilfield activities including frozen conditions allowing 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 production services segments. Contract drilling includes drilling rigs along with related ancillary equipment and provides services to oil and natural gas exploration and production companies. Production services include service rigs and related equipment as well as oilfield rental equipment and provides services to oil and natural gas exploration and production companies and in the case of oilfield rental equipment, to other oilfield services companies as well.

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

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

4. Operating segments (continued):

Information regarding the results of the segments are included below. Performance is measured based on operating earnings, as included in internal management reports. Operating earnings 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. Operating earnings is calculated as revenue less cash operating expenses, cash administrative expenses and depreciation expense.

The following is a summary of the Company's results by segment for the three months ended March 31, 2014 and 2013:

Three months ended March 31, 2014	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 123,303	$ 38,379	$ -	$ (266)	$ 161,416
Operating earnings (loss)	35,743	7,192	(1,712)	-	41,223
Finance costs	-	-	5,403	-	5,403
Depreciation	13,711	4,337	277	-	18,325
Additions to property and equipment (1)	17,574	2,885	7	-	20,466

Three months ended March 31, 2013	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 96,467	$ 1,539	$ -	$ -	$ 98,006
Operating earnings (loss)	25,338	(486)	(1,719)	-	23,133
Finance costs	(78)	3	3,834	-	3,759
Depreciation	10,779	199	273	-	11,251
Additions to property and equipment (1)	17,710	387	236	-	18,333

(1) Additions include the purchase of property and equipment and finance lease additions.

Goodwill	Contract Drilling	Production Services	Total
Balance at December 31, 2012	$ 55,527	$ -	$ 55,527
Additions: IROC acquisition	-	33,183	33,183
Balance at December 31, 2013 and March 31, 2014	$ 55,527	$ 33,183	$ 88,710

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

As at March 31, 2014	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 748,836	$ 242,813	$ 27,543	$ 1,019,192
Total liabilities	116,965	42,820	269,836	429,621

As at March 31, 2013	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 701,032	$ 18,800	$ 28,280	$ 748,112
Total liabilities	91,352	700	190,282	282,334

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

4. Operating segments (continued):

A reconciliation of operating earnings to income before income taxes is as follows:

	Three months ended March 31, 2014	Three months ended March 31, 2013
Operating earnings	$ 41,223	$ 23,133
Add (deduct):		
Stock based compensation	(769)	(497)
Finance costs	(5,403)	(3,759)
Other items	(489)	1,086
Income before income taxes	$ 34,562	$ 19,963

Segmented information by geographic area is as follows:

As at and for the period ended March 31, 2014	Canada	United States	Total
Revenue	$ 150,263	$ 11,153	$ 161,416
Property and equipment	685,499	102,387	787,886
Total assets	906,904	112,288	1,019,192

As at and for the period ended March 31, 2013	Canada	United States	Total
Revenue	$ 91,361	$ 6,645	$ 98,006
Property and equipment	490,320	86,475	576,795
Total assets	651,888	96,224	748,112

Significant customers:

For the three months ended March 31, 2014, the Company had one significant customer comprising 12.2% of the Company's total revenue. The trade receivable balances related to this customer as at March 31, 2014 represented 10.5% of the Company's total trade and other receivables. This customer is a publicly traded company with a market capitalization in excess of $45 billion. For the three months ended March 31, 2013, the Company had three significant customers comprising 12.2%, 11.1% and 10.1%, respectively of the Company's total revenue.

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

5. Property and equipment:

	Land	Buildings	Contract drilling equipment	Production services equipment	Office and shop equipment	Vehicles under finance leases	Total
Cost:							
Balance at December 31, 2012	$ 4,974	$ 3,636	$ 593,463	$ 17,944	$ 9,157	$ 1,722	$ 630,896
Acquisitions: business combinations	115	145	-	166,283	1,508	405	168,456
Additions	-	8	86,446	7,713	1,067	-	95,234
Finance lease additions	-	-	-	-	-	608	608
Disposals	-	-	(2,129)	(4,259)	(62)	(287)	(6,737)
Impact of foreign exchange	-	-	6,212	-	149	11	6,372
Balance at December 31, 2013	5,089	3,789	683,992	187,681	11,819	2,459	894,829
Additions	-	10	17,312	2,702	105	-	20,129
Finance lease additions	-	-	-	-	-	337	337
Disposals	-	-	(360)	(70)	8	(31)	(453)
Impact of foreign exchange	-	-	3,327	-	20	6	3,353
Balance at March 31, 2014	$ 5,089	$ 3,799	$ 704,271	$ 190,313	$ 11,952	$ 2,771	$ 918,195
Depreciation:							
Balance at December 31, 2012	$ -	$ 301	$ 60,198	$ 384	$ 1,481	$ 375	$ 62,739
Depreciation for the year	-	162	37,274	9,356	1,848	492	49,132
Disposals	-	-	(639)	(52)	(47)	(105)	(843)
Impact of foreign exchange	-	-	563	-	9	4	576
Balance at December 31, 2013	-	463	97,396	9,688	3,291	766	111,604
Depreciation for the period	-	43	13,525	4,117	492	148	18,325
Disposals	-	-	(120)	(1)	2	(19)	(138)
Impact of foreign exchange	-	-	507	-	9	2	518
Balance at March 31, 2014	$ -	$ 506	$ 111,308	$ 13,804	$ 3,794	$ 897	$ 130,309
Carrying amounts:							
At December 31, 2013	$ 5,089	$ 3,326	$ 586,596	$ 177,993	$ 8,528	$ 1,693	$ 783,225
At March 31, 2014	$ 5,089	$ 3,293	$ 592,963	$ 176,509	$ 8,158	$ 1,874	$ 787,886

Assets under construction:

Included in property and equipment at March 31, 2014 are assets under construction of $17.6 million (December 31, 2013: $16.5 million) which includes two pad rig conversions as well as ancillary drilling and well servicing equipment.

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

6. Long term debt:

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

	March 31, 2014	December 31, 2013
Current:		
Other long term debt - current portion [1]	$ 957	$ 908
Total current portion of long term debt	957	908
Non current:		
Senior Notes	265,000	265,000
Less: net unamortized premium and issue costs on Senior Notes	(2,509)	(2,635)
Other long term debt - non current portion [1]	628	512
Total non current portion of long term debt	263,119	262,877
Total long term debt	$ 264,076	$ 263,785

(1) Other long term debt consists of finance lease obligations and a note payable.

Credit facilities:

Western's credit facilities consist of a $10.0 million operating demand revolving loan (the "Operating Facility") and a $125.0 million committed four year extendible revolving credit facility (the "Revolving Facility"). The maturity date on the Revolving Facility is October 18, 2017. The Operating Facility principal balance is due on demand with interest paid monthly. The Revolving Facility requires interest to be paid monthly with no scheduled principal repayments unless the Revolving Facility is not extended by the maturity date.

Amounts borrowed under the Operating and Revolving Facilities bear interest at the bank's Canadian prime rate, US base rate, LIBOR, or the banker's acceptance rate plus an applicable margin depending, in each case, on the ratio of Consolidated Debt to Consolidated EBITDA as defined by the relevant agreement. The credit facilities are secured by the assets of Western and its subsidiaries. As at March 31, 2014 the Company had $125.0 million in available credit under the Revolving Facility and $10.0 million under the Operating Facility.

The Company's credit facilities are subject to the following financial covenants:

	Covenant
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio [1][2]	2.0:1.0 or less
Maximum Consolidated Debt to Consolidated Capitalization Ratio	0.6:1.0 or less
Minimum Consolidated EBITDA to Consolidated Interest Expense Ratio	2.5:1.0 or more

(1) In the event of a material acquisition during any fiscal quarter, the ratio shall increase by 0.50 for 90 days following the material acquisition.
(2) Consolidated EBITDA in the credit facilities is defined as consolidated net income (loss), plus interest, income taxes, depreciation and amortization and any other non-cash items or extraordinary or non-recurring losses, less gains on sale of property and equipment and any other non-cash items or extraordinary or non-recurring gains that are included in the calculation of consolidated net income.

As at March 31, 2014 and December 31, 2013, the Company was in compliance with all covenants related to its credit facilities.

Senior Notes:

The Company has $265.0 million 7⅞% senior unsecured notes (the "Senior Notes") outstanding which are due on January 30, 2019. The Senior Notes contain certain early redemption options under which the Company has the option to redeem all or a portion of the Senior Notes at various redemption prices, which include the principal amount plus accrued and unpaid interest, if any, to the applicable redemption date. Interest is payable semi-annually on January 30 and July 30. The Senior Notes are unsecured, ranking equal in right of payment to all existing and future unsecured indebtedness, and have been guaranteed by the Company's current and future subsidiaries. The Senior Notes Indenture contains certain restrictions relating to items such as making restricted payments and incurring additional debt.

At March 31, 2014, the fair value of the Senior Notes was approximately $276.3 million (December 31, 2013: $270.3 million).

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

7. Share capital:

The Company is 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, 2012	59,582,143	$	322,878
Issued for cash on exercise of stock options	31,666		192
Issued for cash on exercise of warrants	1,419,550		2,982
Fair value of exercised stock options and warrants	-		1,092
Issued on acquisition of IROC	12,352,832		83,999
Balance at December 31, 2013	73,386,191		411,143
Issued for cash on exercise of stock options	348,893		2,287
Issued for cash on exercise of warrants	105,743		222
Fair value of exercised stock options and warrants	-		798
Balance at March 31, 2014	73,840,827	$	414,450

During the three months ended March 31, 2014, the Company declared dividends of $5.5 million. During the three months ended March 31, 2013, $4.5 million in dividends were declared, and for the year ended December 31, 2013, $21.0 million in dividends were declared. The Company had dividends payable of $5.5 million as at March 31, 2014 (December 31, 2013: $5.5 million).

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 at December 31, 2012	2,522,733	$	7.08
Granted	2,335,000		7.03
Exercised	(31,666)		6.06
Forfeited	(400,469)		7.48
Balance at December 31, 2013	4,425,598		7.02
Granted	647,000		7.71
Exercised	(348,893)		6.72
Forfeited	(135,166)		7.25
Balance at March 31, 2014	4,588,539	$	7.13

For the three months ended March 31, 2014, no stock options were cancelled. As at March 31, 2014, Western had 1,232,793 (December 31, 2013: 1,289,509) exercisable stock options outstanding at a weighted average exercise price equal to $6.82 (December 31, 2013: $6.96) per stock option.

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

8. Stock based compensation (continued):

Warrants:

The following table summarizes Western's outstanding warrants:

	Warrants outstanding	Weighted average exercise price
Balance at December 31, 2012	1,527,811	$ 2.10
Exercised	(1,419,550)	2.10
Balance at December 31, 2013	108,261	2.10
Exercised	(105,743)	2.10
Balance at March 31, 2014	2,518	$ 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 March 31, 2014	Three months ended March 31, 2013
Issued common shares, beginning of period	73,386,191	59,582,143
Effect of shares issued	119,878	28,620
Weighted average number of common shares (basic)	73,506,069	59,610,763
Dilutive effect of stock options and warrants	776,549	1,261,847
Weighted average number of common shares (diluted)	74,282,618	60,872,610

For the three months ended March 31, 2014, 1,355,666 options (three months ended March 31, 2013: 1,754,233) 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 March 31, 2014	Three months ended March 31, 2013
Interest expense on long term debt	$ 5,252	$ 3,622
Amortization of debt financing fees and provisions	164	333
Interest and dividend income	(13)	(196)
Total finance costs	$ 5,403	$ 3,759

For the three months ended March 31, 2014, the Company incurred interest and financing costs of approximately $5.5 million (three months ended March 31, 2013: $3.8 million), which includes capitalized interest of $0.1 million (three months ended March 31, 2013: $0.1 million), on its long term debt (see Note 6). The Company had an effective interest rate of 8.3% on its borrowings for the three months ended March 31, 2014 (three months ended March 31, 2013: 8.4%).

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

11. Income taxes:

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
Current tax expense	$ 2,820	$ 668
Deferred tax expense	6,242	4,392
Total income taxes	$ 9,062	$ 5,060

As at March 31, 2014, the Company has gross loss carry forwards equal to approximately US$42.8 million in the United States which expire between 2026 and 2035 and approximately $5.9 million in Canada which expire by 2034.

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 March 31, 2014	Three months ended March 31, 2013
Depreciation of property and equipment (Note 5)	$ 18,325	$ 11,251
Employee benefits: salaries and benefits	65,474	41,160
Employee benefits: stock based compensation	769	497
Repairs and maintenance	8,070	4,861
Third party charges	11,789	7,926

13. Financial risk management and financial instruments:

The Company's financial instruments include cash and cash equivalents, trade and other receivables, trade payables and other current liabilities, derivatives and long term debt instruments such as the credit facilities and Senior Notes. Cash and cash equivalents and derivatives are carried at fair value. The carrying amounts of trade and other receivables, trade payables, and other current liabilities approximate their fair values due to their short term nature. The credit facilities bear interest at rates that approximate market rates and therefore their carrying values approximate fair values. The Senior Notes are recorded at their amortized cost. Fair value disclosure of the Senior Notes is based on the trading price on March 31, 2014.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2013.

Financial assets and liabilities recorded at fair value in the condensed consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

Hierarchical levels based on the amount of subjectivity associated with the inputs in the fair determination of these assets and liabilities are as follows:

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

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

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

The Company's cash and cash equivalents balance and derivatives are the only financial assets or liabilities measured using fair value. The Company's cash and cash equivalents are categorized as Level I as there are quoted prices in an active market for these instruments. The estimated fair value of derivatives and the Senior Notes is based on Level II inputs as the inputs are directly observable through correlation with market data.

(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 at March 31, 2014 is as follows:

	Note	March 31, 2014	December 31, 2013
Other long term debt	6	$ 1,585	$ 1,420
Senior Notes	6	265,000	265,000
Total debt		266,585	266,420
Shareholders' equity		589,571	563,425
Less: cash and cash equivalents		(20,687)	(17,389)
Total capitalization		$ 835,469	$ 812,456

14. Commitments:

As at March 31, 2014, the Company has total commitments which require payments over the next five years based on the maturity terms as follows:

	2014	2015	2016	2017	2018	Thereafter	Total
Senior Notes	$ -	$ -	$ -	$ -	$ -	$ 265,000	$ 265,000
Senior Notes interest	10,434	20,869	20,869	20,869	20,869	10,434	104,344
Trade payables and other current liabilities	55,067	-	-	-	-	-	55,067
Dividends payable	5,538	-	-	-	-	-	5,538
Operating leases	3,186	4,082	3,083	2,405	2,374	14,168	29,298
Purchase commitments	20,698	-	-	-	-	-	20,698
Other long term debt	795	488	210	55	-	-	1,548
Total	$ 95,718	$ 25,439	$ 24,162	$ 23,329	$ 23,243	$ 289,602	$ 481,493

15. Subsequent events:

On May 1, 2014, the Board of Directors of Western declared a quarterly dividend of $0.075 per share, payable on July 14, 2014, to shareholders of record at the close of business on June 30, 2014. The dividends will be eligible dividends for Canadian income tax purposes.