Western Energy Services Corp.

Condensed Consolidated Financial Statements

June 30, 2014 and 2013

(Unaudited)

Western Energy Services Corp.

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

	Note	June 30, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents		$ 69,488	$ 17,389
Trade and other receivables		53,415	90,519
Other current assets		5,256	5,576
		128,159	113,484
Non current assets			
Property and equipment	6	796,997	783,225
Goodwill		90,424	88,710
Other non current assets		532	1,373
		$ 1,016,112	$ 986,792
Liabilities			
Current liabilities			
Trade payables and other current liabilities		$ 49,760	$ 56,317
Dividends payable		5,609	5,504
Current portion of provisions		139	139
Current portion of long term debt	7	947	908
		56,455	62,868
Non current liabilities			
Provisions		1,887	1,957
Long term debt	7	263,293	262,877
Deferred taxes		102,278	95,665
		423,913	423,367
Shareholders' equity			
Share capital	8	422,779	411,143
Contributed surplus		4,622	6,088
Retained earnings		158,365	139,721
Accumulated other comprehensive income		5,194	5,171
Non controlling interest		1,239	1,302
		592,199	563,425
		$ 1,016,112	$ 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 June 30 2014	Three months ended June 30 2013	Six months ended June 30 2014	Six months ended June 30 2013
Revenue		$ 81,981	$ 50,835	$ 243,397	$ 148,841
Operating expenses		62,299	42,608	174,188	110,679
Gross profit		19,682	8,227	69,209	38,162
Administrative expenses		7,906	7,578	16,979	14,877
Finance costs	11	5,327	3,995	10,730	7,754
Other items		113	1,044	602	(42)
Income (loss) before income taxes		6,336	(4,390)	40,898	15,573
Income taxes	12	1,940	(1,009)	11,002	4,051
Net income (loss)		4,396	(3,381)	29,896	11,522
Other comprehensive income (1)					
Loss (gain) on translation of foreign operations		1,751	(1,562)	(122)	(2,503)
Loss on change in fair value of available for sale assets (net of tax)		-	-	-	1,621
Unrealized foreign exchange loss (gain) on net investment in subsidiary (net of tax)		1,132	(1,378)	99	(1,928)
Comprehensive income (loss)		$ 1,513	$ (441)	$ 29,919	$ 14,332
Net income (loss) attributable to:					
Shareholders of the Company		$ 4,378	$ (3,394)	$ 29,791	$ 11,509
Non controlling interest		18	13	105	13
Comprehensive income (loss) attributable to:					
Shareholders of the Company		$ 1,495	$ (454)	$ 29,814	$ 14,319
Non controlling interest		18	13	105	13
Net income (loss) per share:					
Basic		$ 0.06	$ (0.05)	$ 0.40	$ 0.18
Diluted		0.06	(0.05)	0.40	0.17
Weighted average number of shares:					
Basic	10	74,328,446	69,594,802	73,919,531	64,630,363
Diluted	10	75,733,872	69,594,802	75,440,466	65,957,534

(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 common shares on acquisition	8	83,999	-	-	-	-	83,999
Issued for cash on exercise of stock options	8	105	-	-	-	-	105
Issued for cash on exercise of warrants	8	2,920	-	-	-	-	2,920
Fair value of exercised options and warrants	8	1,048	(1,048)	-	-	-	-
Stock based compensation		-	1,036	-	-	-	1,036
Dividends declared		-	-	(9,975)	-	-	(9,975)
Non controlling interest acquired		-	-		-	1,110	1,110
Contributions from non controlling interest		-	-	-	-	70	70
Comprehensive income		-	-	11,522	2,810	-	14,332
Balance at June 30, 2013		410,950	4,677	127,126	4,454	1,180	548,387
Common shares:							
Issued for cash on exercise of stock options	8	87	-	-	-	-	87
Issued for cash on exercise of warrants	8	62	-	-	-	-	62
Fair value of exercised options and warrants	8	44	(44)	-	-	-	-
Stock based compensation		-	1,455	-	-	-	1,455
Dividends declared		-	-	(11,007)	-	-	(11,007)
Comprehensive income		-	-	23,602	717	122	24,441
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	8	8,695	-	-	-	-	8,695
Issued for cash on exercise of warrants	8	222	-	-	-	-	222
Fair value of exercised options and warrants	8	2,719	(2,719)	-	-	-	-
Stock based compensation		-	1,253	-	-	-	1,253
Dividends declared		-	-	(11,147)	-	-	(11,147)
Comprehensive income		-	-	29,791	23	105	29,919
Distributions to non controlling interest		-	-	-	-	(168)	(168)
Balance at June 30, 2014		$ 422,779	$ 4,622	$ 158,365	$ 5,194	$ 1,239	$ 592,199

(1) Contributed surplus relates to stock based compensation described in Note 9.

(2) At June 30, 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 June 30 2014	Three months ended June 30 2013	Six months ended June 30 2014	Six months ended June 30 2013
Operating activities					
Net income (loss)		$ 4,396	$ (3,381)	$ 29,896	$ 11,522
Adjustments for:					
Depreciation included in operating expenses		11,329	7,642	29,209	18,498
Depreciation included in administrative expenses		439	369	884	764
Stock based compensation included in operating expenses		195	218	417	372
Stock based compensation included in administrative expenses		289	321	836	664
Gain on sale of assets		(83)	(29)	(137)	(1,264)
Income taxes	12	1,940	(1,009)	11,002	4,051
Unrealized foreign exchange loss (gain)		70	(60)	86	(55)
Finance costs	11	5,327	3,995	10,730	7,754
Other		(33)	(70)	707	(140)
Cash generated from operating activities		23,869	7,996	83,630	42,166
Income taxes paid		(185)	(907)	(369)	(6,786)
Change in non-cash working capital		48,228	41,292	27,285	35,445
Cash flow from operating activities		71,912	48,381	110,546	70,825
Investing activities					
Additions to property and equipment	6	(27,026)	(18,547)	(46,389)	(36,703)
Proceeds on sale of property and equipment		341	592	710	646
Business acquisitions		-	(62,898)	-	(62,898)
Proceeds on sale of investments		-	-	-	34,444
Contributions from (distributions to) non controlling interests		(168)	670	(168)	670
Changes in non-cash working capital		2,906	1,128	(764)	1,050
Cash flow used in investing activities		(23,947)	(79,055)	(46,611)	(62,791)
Financing activities					
Issue of common shares	8	6,408	2,833	8,917	3,025
Advance (repayment) of long term debt		(237)	21,233	(410)	10,639
Finance costs received (paid)		202	(135)	(9,302)	(7,082)
Dividends paid		(5,537)	(4,474)	(11,041)	(8,943)
Cash flow from (used in) financing activities		836	19,457	(11,836)	(2,361)
Increase (decrease) in cash and cash equivalents		48,801	(11,217)	52,099	5,673
Cash and cash equivalents, beginning of period		20,687	23,478	17,389	6,588
Cash and cash equivalents, end of period		$ 69,488	$ 12,261	$ 69,488	$ 12,261
Cash and cash equivalents:					
Bank accounts		$ 29,488	$ 12,261	$ 29,488	$ 12,261
Short term investments		40,000	-	40,000	-
		$ 69,488	$ 12,261	$ 69,488	$ 12,261

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 June 30, 2014 and for the three and six months ended June 30, 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.

These Financial Statements were approved for issuance by Western's Board of Directors on July 30, 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 well servicing 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 service companies as well.

Senior Management 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 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.

(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, 2014 and 2013:

Three months ended June 30, 2014	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 58,280	$ 24,443	$ -	$ (742)	$ 81,981
Operating earnings (loss)	10,809	2,647	(1,196)	-	12,260
Finance costs	-	-	5,327	-	5,327
Depreciation	8,199	3,289	280	-	11,768
Additions to property and equipment (1)	24,547	248	54	-	24,849

Three months ended June 30, 2013	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 38,482	$ 12,353	$ -	$ -	$ 50,835
Operating earnings (loss)	3,199	(279)	(1,732)	-	1,188
Finance costs	-	-	3,995	-	3,995
Depreciation	5,771	1,963	277	-	8,011
Additions to property and equipment (1)	16,515	170,629	137	-	187,281

Six months ended June 30, 2014	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 181,583	$ 62,822	$ -	$ (1,008)	$ 243,397
Operating earnings (loss)	46,552	9,839	(2,908)	-	53,483
Finance costs	-	-	10,730	-	10,730
Depreciation	21,910	7,626	557	-	30,093
Additions to property and equipment (1)	41,355	3,133	61	-	44,549

Six months ended June 30, 2013	Contract Drilling	Production Services	Corporate	Inter-segment Elimination	Total
Revenue	$ 134,949	$ 13,892	$ -	$ -	$ 148,841
Operating earnings (loss)	28,537	(765)	(3,451)	-	24,321
Finance costs	-	-	7,754	-	7,754
Depreciation	16,550	2,162	550	-	19,262
Additions to property and equipment (1)	34,225	171,016	373	-	205,614

(1) Additions include the purchase of property and equipment, finance lease additions and property and equipment acquired through business acquisitions.

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

4. Operating segments (continued):

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	55,527	33,183	88,710
Additions: IROC acquisition (Note 5)	-	1,714	1,714
Balance at June 30, 2014	$ 55,527	$ 34,897	$ 90,424

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

As at June 30, 2014	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 713,034	$ 226,508	$ 76,570	$ 1,016,112
Total liabilities	111,768	38,031	274,114	423,913

As at June 30, 2013	Contract Drilling	Production Services	Corporate	Total
Total assets	$ 655,794	$ 235,469	$ 12,619	$ 903,882
Total liabilities	80,178	31,914	243,403	355,495

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

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Operating earnings	$ 12,260	$ 1,188	$ 53,483	$ 24,321
Add (deduct):				
Stock based compensation	(484)	(539)	(1,253)	(1,036)
Finance costs	(5,327)	(3,995)	(10,730)	(7,754)
Other items	(113)	(1,044)	(602)	42
Income before income taxes	$ 6,336	$ (4,390)	$ 40,898	$ 15,573

Segmented information by geographic area is as follows:

As at and for the period ended June 30, 2014	Canada	United States	Total
Revenue: three months ended	$ 70,489	$ 11,492	$ 81,981
Revenue: six months ended	220,752	22,645	243,397
Property and equipment	691,691	105,306	796,997
Total assets	899,509	116,603	1,016,112

As at and for the period ended June 30, 2013	Canada	United States	Total
Revenue: three months ended	$ 44,565	$ 6,270	$ 50,835
Revenue: six months ended	135,926	12,915	148,841
Property and equipment	668,827	89,730	758,557
Total assets	804,675	99,207	903,882

4. Operating segments (continued):

Significant customers:

For the three months ended June 30, 2014, the Company had two significant customers comprising 17.1% and 10.2% respectively, of the Company's total revenue. The trade receivable balances related to these customers as at June 30, 2014 represented 12.1% and 10.7% respectively, of the Company's total trade and other receivables. Both of these customers are publicly traded companies with market capitalizations each in excess of $10 billion at June 30, 2014. One of the previously noted significant customers was also a significant customer for the six months ended June 30, 2014 comprising 13.9% of the Company's total revenue. The trade receivable balances related to this customer as at June 30, 2014 represented 12.1% of the Company's total trade and other receivables.

For the three months ended June 30, 2013, the Company had three significant customers comprising 15.7%, 15.5% and 11.6%, respectively, of the Company's total revenue. For the six months ended June 30, 2013, the Company had two significant customers comprising 12.7% and 10.7% respectively, of the Company's total revenue.

5. Business acquisitions:

IROC Energy Services Corp. ("IROC")

On April 22, 2013, Western acquired all of the issued and outstanding common shares of IROC as described in Note 6 on the December 31, 2013 audited financial statements. In the three and six months ended June 30, 2014, adjustments were made to the fair values of the assets acquired in the acquisition. The impact of these adjustments on the purchase price allocation resulted in an increase in net working capital of $0.2 million, an increase in the deferred tax liability of $0.6 million and a decrease in property and equipment equal to $2.5 million which aggregated to a net increase in goodwill of $1.7 million. As at June 30, 2014, the purchase price allocation is final.

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

6. 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
Acquisition: business combination (note 5)	-	-	-	(2,453)	-	-	(2,453)
Additions	-	10	40,947	5,128	304	-	46,389
Finance lease additions	-	-	-	-	-	613	613
Disposals	-	-	(505)	(334)	-	(143)	(982)
Impact of foreign exchange	-	-	(166)	-	2	-	(164)
Balance at June 30, 2014	$ 5,089	$ 3,799	$ 724,268	$ 190,022	$ 12,125	$ 2,929	$ 938,232
Accumulated 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	-	87	21,533	7,183	980	310	30,093
Disposals	-	-	(154)	(149)	-	(106)	(409)
Impact of foreign exchange	-	-	(52)	-	(1)	-	(53)
Balance at June 30, 2014	$ -	$ 550	$ 118,723	$ 16,722	$ 4,270	$ 970	$ 141,235
Carrying amounts:							
At December 31, 2013	$ 5,089	$ 3,326	$ 586,596	$ 177,993	$ 8,528	$ 1,693	$ 783,225
At June 30, 2014	$ 5,089	$ 3,249	$ 605,545	$ 173,300	$ 7,855	$ 1,959	$ 796,997

Assets under construction:

Included in property and equipment at June 30, 2014 are assets under construction of $17.2 million (December 31, 2013: $16.5 million) which includes two drilling rig builds and one slant well servicing rig build, 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)

7. Long term debt:

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

	June 30, 2014	December 31, 2013
Current:		
Other long term debt - current portion [1]	$ 947	$ 908
Total current portion of long term debt	947	908
Non current:		
Senior Notes	265,000	265,000
Less: net unamortized premium and issue costs on Senior Notes	(2,381)	(2,635)
Other long term debt - non current portion [1]	674	512
Total non current portion of long term debt	263,293	262,877
Total long term debt	$ 264,240	$ 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 June 30, 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 June 30, 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 June 30, 2014, the fair value of the Senior Notes was approximately $280.6 million (December 31, 2013: $270.3 million).

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

8. 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	1,288,241	8,695
Issued for cash on exercise of warrants	105,743	222
Fair value of exercised stock options and warrants	-	2,719
Balance at June 30, 2014	74,780,175	$ 422,779

During the three and six months ended June 30, 2014, the Company declared dividends of $5.6 million and $11.1 million respectively. During the three and six months ended June 30, 2013, $5.5 million and $10.0 million in dividends were declared, respectively, and for the year ended December 31, 2013, $21.0 million in dividends were declared. The Company had dividends payable of $5.6 million as at June 30, 2014 (December 31, 2013: $5.5 million).

9. 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	707,000	7.91
Exercised	(1,288,241)	6.75
Forfeited	(283,500)	7.59
Balance at June 30, 2014	3,560,857	$ 7.25

For the three and six months ended June 30, 2014, no stock options were cancelled. As at June 30, 2014, Western had 917,604 (December 31, 2013: 1,289,509) exercisable stock options outstanding at a weighted average exercise price equal to $7.01 (December 31, 2013: $6.96) per stock option.

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

9. 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 June 30, 2014	2,518	$ 2.10

Each warrant entitles the holder to purchase one common share of Western. Subsequent to June 30, 2014, the remaining warrants have all been exercised.

10. Earnings per share:

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

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Issued common shares, beginning of period	73,840,827	59,655,921	73,386,191	59,582,143
Effect of shares issued	487,619	9,938,881	533,340	5,048,220
Weighted average number of common shares (basic)	74,328,446	69,594,802	73,919,531	64,630,363
Dilutive effect of stock options and warrants	1,405,426	-	1,520,935	1,327,171
Weighted average number of common shares (diluted)	75,733,872	69,594,802	75,440,466	65,957,534

For the three and six months ended June 30, 2014, 52,500 options (three and six months ended June 30, 2013: 4,362,455 and 3,336,766 options respectively) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

11. Finance costs:

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

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Interest expense on long term debt	$ 5,266	$ 3,818	$ 10,518	$ 7,440
Amortization of debt financing fees and provisions	170	188	333	521
Interest and dividend income	(109)	(11)	(121)	(207)
Total finance costs	$ 5,327	$ 3,995	$ 10,730	$ 7,754

For the three and six months ended June 30, 2014, the Company incurred interest and financing costs of approximately $5.4 million and $10.9 million (three and six months ended June 30, 2013: $4.2 million and $8.0 million respectively), which includes capitalized interest of $0.1 million and $0.2 million respectively (three and six months ended June 30, 2013: $0.2 million and $0.3 million respectively), on its long term debt (see Note 7). The Company had an effective interest rate of 8.3% on its borrowings for the three and six months ended June 30, 2014 (three and six months ended June 30, 2013: 6.5% and 7.5% respectively).

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

12. Income taxes:

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

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Current tax expense (recovery)	$ 981	$ (668)	$ 3,801	$ -
Deferred tax expense (recovery)	959	(341)	7,201	4,051
Total income taxes	$ 1,940	$ (1,009)	$ 11,002	$ 4,051

As at June 30, 2014, the Company has gross loss carry forwards equal to approximately US$42.4 million in the United States which expire between 2026 and 2035 and approximately $5.9 million in Canada which expire by 2034.

13. 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 June 30		Six months ended June 30	
	2014	2013	2014	2013
Depreciation of property and equipment (Note 6)	$ 11,768	$ 8,011	$ 30,093	$ 19,262
Employee benefits: salaries and benefits	37,411	23,537	102,885	66,435
Employee benefits: stock based compensation	484	539	1,253	1,036
Repairs and maintenance	4,892	3,236	12,529	8,109
Third party charges	4,629	3,219	16,418	11,145

14. 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 June 30, 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)

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

Capital management:

The capital structure of the Company at June 30, 2014 is as follows:

	Note	June 30, 2014	December 31, 2013
Other long term debt	7	$ 1,621	$ 1,420
Senior Notes	7	265,000	265,000
Total debt		266,621	266,420
Shareholders' equity		592,199	563,425
Less: cash and cash equivalents		(69,488)	(17,389)
Total capitalization		$ 789,332	$ 812,456

15. Commitments:

As at June 30, 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	49,760	-	-	-	-	-	49,760
Dividends payable	5,609	-	-	-	-	-	5,609
Operating leases	2,189	4,315	3,266	2,493	2,463	14,205	28,931
Purchase commitments	27,307	702	-	-	-	-	28,009
Other long term debt	669	657	347	88	-	-	1,761
Total	$ 95,968	$ 26,543	$ 24,482	$ 23,450	$ 23,332	$ 289,639	$ 483,414

16. Subsequent events:

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