Western Energy Services Corp.

Consolidated Financial Statements

December 31, 2011 and 2010

To the Shareholders of Western Energy Services Corp.:

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of Western Energy Services Corp. ("Western" or the "Company"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Audit Committee is appointed by the Board of Directors, with all of its members being independent directors. The Audit Committee meets with management, as well as with the external auditors, to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the auditor's report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited independently by Deloitte & Touche LLP on behalf of the Company in accordance with generally accepted auditing standards. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements.

Dale E. Tremblay
Chief Executive Officer

Jeffrey K. Bowers
Vice President, Finance
Chief Financial Officer

March 7, 2012

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Western Energy Services Corp.:

We have audited the accompanying consolidated financial statements of Western Energy Services Corp., which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of operations and comprehensive income, consolidated statements of changes in shareholder's equity and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Western Energy Services Corp. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Chartered Accountants

March 7, 2012
Calgary, Alberta

Western Energy Services Corp.

Consolidated Balance Sheets
(thousands of Canadian dollars)

	Note	December 31, 2011	December 31, 2010	January 1, 2010
Assets				
Current assets				
Cash and cash equivalents		$ -	$ 3,475	$ 2,386
Trade and other receivables	7	83,314	28,060	127
Inventory		1,039	-	-
Prepaid expenses and other current assets	8	2,981	1,324	55
Assets of discontinued operations	23	-	3,778	2,341
		87,334	36,637	4,909
Non current assets				
Property and equipment	9	473,930	188,355	-
Goodwill	10	55,527	29,117	-
Deferred taxes	19	2,499	1,167	-
Other non current assets	8	355	-	-
Assets of discontinued operations	23	-	8,832	7,360
		$ 619,645	$ 264,108	$ 12,269
Liabilities				
Current liabilities				
Trade payables and other current liabilities	11	$ 39,075	$ 20,852	$ 1,984
Current portion of provisions	12	172	295	-
Current portion of long term debt	13	8,213	513	5
Liabilities of discontinued operations	23	-	1,821	2,111
		47,460	23,481	4,100
Non current liabilities				
Provisions	12	184	356	-
Long term debt	13	108,039	46,054	-
Deferred taxes	19	49,637	7,377	-
Liabilities of discontinued operations	23	-	7	92
		205,320	77,275	4,192
Shareholders' equity				
Share capital	14	319,698	159,895	8,253
Contributed surplus		3,625	2,359	1,835
Retained earnings (deficit)		89,325	24,579	(2,011)
Accumulated other comprehensive income		1,677	-	-
		414,325	186,833	8,077
		$ 619,645	$ 264,108	$ 12,269

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

Approved on behalf of the Board of Directors:

Rooney

John R. Rooney
Director

Dale Tremblay

Dale E. Tremblay
Director

Western Energy Services Corp.

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

	Note	Year ended December 31, 2011	Year ended December 31, 2010
Revenue		$ 262,519	$ 56,009
Operating expenses		172,530	40,130
Gross profit		89,989	15,879
Administrative expenses		16,987	6,897
Finance costs	17	3,650	883
Other items	18	677	1,600
Gain on business acquisitions	6	-	(19,653)
Income from continuing operations before taxes		68,675	26,152
Income taxes	19	14,793	2,813
Net income from continuing operations	20	53,882	23,339
Discontinued operations			
Gain on sale of StimSol (net of tax)	23	10,111	-
Income from discontinued operations (net of tax)	23	753	3,251
Net income		64,746	26,590
Translation of foreign operations		1,677	-
Comprehensive income		$ 66,423	$ 26,590
Net income per share from continuing operations(1):			
Basic		$ 1.04	$ 1.03
Diluted		$ 1.00	$ 0.96
Net income per share from discontinued operations(1):			
Basic		$ 0.21	$ 0.14
Diluted		$ 0.20	$ 0.13
Net income per share(1):			
Basic		$ 1.25	$ 1.17
Diluted		$ 1.21	$ 1.09
Weighted average number of shares(1):			
Basic		51,595,078	22,724,270
Diluted		53,640,617	24,385,704

(1) Per share amounts have been adjusted to reflect the 20:1 share consolidation completed on June 22, 2011.

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

Western Energy Services Corp.

Consolidated Statements of Changes in Shareholders' Equity
(thousands of Canadian dollars)

	Note	Share capital	Contributed surplus (1)	Retained earnings/ (deficit)	Accumulated other comprehensive income (2)	Total shareholders' equity
Balance at January 1, 2010		$ 8,253	$ 1,835	$ (2,011)	$ -	$ 8,077
Issue of common shares (net of issue costs)	14	151,642	-	-	-	151,642
Stock based compensation-continuing operations	15	-	456	-	-	456
Stock based compensation-discontinued operations	15	-	68	-	-	68
Comprehensive income		-	-	26,590	-	26,590
Balance at December 31, 2010		159,895	2,359	24,579	-	186,833
Issue of common shares (net of issue costs)	14	159,960	-	-	-	159,960
Cancellation of common shares	14	(157)	-	-	-	(157)
Stock based compensation-continuing operations	15	-	1,335	-	-	1,335
Stock based compensation-discontinued operations	15	-	(69)	-	-	(69)
Comprehensive income		-	-	64,746	1,677	66,423
Balance at December 31, 2011		$ 319,698	$ 3,625	$ 89,325	$ 1,677	$ 414,325

(1) Contributed surplus relates to stock based compensation described in Note 15.

(2) At December 31, 2011, the accumulated other comprehensive income balance consists entirely of the translation of foreign operations.

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

Western Energy Services Corp.

Consolidated Statements of Cash Flows
(thousands of Canadian dollars)

	Note	Year ended December 31, 2011	Year ended December 31, 2010
Operating activities			
Net income from continuing operations		$ 53,882	$ 23,339
Adjustments for:			
Depreciation included in operating expenses		24,541	6,942
Depreciation included in administrative expenses		446	124
Stock based compensation included in operating expenses		307	81
Stock based compensation included in administrative expenses		1,028	375
(Gain) loss on sale of assets		(1,248)	16
Income taxes	19	14,793	2,813
Gain on business acquisitions		-	(19,653)
Unrealized foreign exchange gain		(1,057)	(103)
Finance costs		3,650	883
Other		(679)	138
Cash generated from operating activities		95,663	14,955
Taxes paid		(101)	(421)
Change in non-cash working capital		(34,749)	(3,976)
Continuing operations		60,813	10,558
Discontinued operations		(1,445)	395
Cash flow from operating activities		59,368	10,953
Investing activities			
Additions to property and equipment		(88,869)	(21,282)
Proceeds on sale of property and equipment		3,474	2,926
Business acquisitions	6	(113,277)	(35,985)
Investments		(558)	-
Proceeds from sale of investments		912	-
Changes in non-cash working capital		1,448	9,385
Continuing operations		(196,870)	(44,956)
Discontinued operations		23,226	(134)
Cash flow used in investing activities		(173,644)	(45,090)
Financing activities			
Issue of common shares	14	86,336	75,000
Share issue costs	14	(4,706)	(4,116)
Drawdown (payment) of long term debt		33,387	(34,149)
Finance costs paid		(4,230)	(1,421)
Change in non-cash working capital		(20)	121
Continuing operations		110,767	35,435
Discontinued operations		34	(209)
Cash flow from financing activities		110,801	35,226
(Decrease) increase in cash and cash equivalents		$ (3,475)	$ 1,089
Cash and cash equivalents, beginning of year		$ 3,475	$ 2,386
Cash and cash equivalents, end of year		$ -	$ 3,475

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

1. Reporting entity:

Western Energy Services Corp. ("Western") is a company domiciled in Canada. The address of the registered office is 900, 606 – 4th Street SW, Calgary, Alberta. Western is a publicly traded company that is listed on the Toronto Stock Exchange under the symbol "WRG". These consolidated financial statements ("Financial Statements") as at and for the years ended December 31, 2011 and 2010, are comprised of Western and its wholly owned subsidiaries (together referred to as the "Company"). The Company operates in the contract drilling segment of the Canadian and United States oilfield service industry. Contract drilling operations in Canada are conducted through Western's wholly owned subsidiaries, Horizon Drilling Inc. ("Horizon"), which was acquired on March 18, 2010 and in the United States through Stoneham Drilling Corporation, which was acquired on June 10, 2011. In addition, the Company incorporated Matrix Well Servicing Inc. in 2011 which will operate in the well servicing industry in Canada. The Company's previous operations in the production services segment were conducted through Western's wholly owned subsidiary, StimSol Canada Inc. ("StimSol") which was sold to a third party on September 13, 2011. As a result, the Company has accounted for its production services segment as discontinued operations (see Note 23).

On June 22, 2011, the Company completed a 20:1 share consolidation of all its outstanding common shares. As such, all common shares, per common share amounts, stock option and warrant figures in the current and comparative periods have been adjusted to reflect this change.

2. Basis of preparation:

(a) Statement of compliance:

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB"). As these Financial Statements represent the Company's first annual financial statements prepared in accordance with IFRS, the Company applied IFRS 1, First-time Adoption of International Financial Reporting Standards, as at January 1, 2010. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 28.

Previously, the Company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Previous GAAP") as set out in the handbook of the Canadian Institute of Chartered Accountants ("CICA"). In 2010, the CICA handbook was revised to incorporate IFRS and require publicly accountable enterprises, such as Western, to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these Financial Statements. In these Financial Statements, the term "Previous GAAP" refers to Canadian GAAP before the adoption of IFRS. Previous GAAP differs in some areas from IFRS. In preparing these Financial Statements, management has amended certain accounting and measurement basis which were previously applied in the financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these adjustments. Note 28 contains reconciliations and descriptions of the effect of the transition from Previous GAAP to IFRS on equity, net income and comprehensive income, along with line-by-line reconciliations of the consolidated statement of operations and comprehensive income and balance sheet for the year ended December 31, 2010 as well as the January 1, 2010 transition date to IFRS (the "Transition Date").

Preparation of these Financial Statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity and areas where assumptions and estimates are significant to these Financial Statements are disclosed in Note 4.

These Financial Statements were approved for issuance by the Board of Directors on March 7, 2012.

(b) Basis of measurement:

These Financial Statements have been prepared on the historical cost basis except for the following items in the balance sheet:

(i) derivative financial instruments are measured at fair value;
(ii) financial instruments at fair value through profit or loss are measured at fair value; and
(iii) financial instruments classified as available for sale are measured at fair value.

2. Basis of preparation (continued):

(c) Functional and presentation currency:
These Financial Statements are presented in Canadian dollars, which is Western's functional currency.

3. Significant accounting policies:

The significant accounting policies set out below have been applied consistently to all periods presented in these Financial Statements and in preparing the opening IFRS balance sheet at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

(a) Basis of consolidation:
These Financial Statements include the accounts of Western and its subsidiaries, which are entities over which Western has control. Control exists when Western has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The financial results of Western's subsidiaries are included in the Financial Statements from the date that control commences until the date that control ceases. The accounting policies of Western's subsidiaries have been aligned with the policies adopted by Western. When Western ceases to control a subsidiary, the financial statements of that subsidiary are de-consolidated.

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing these Financial Statements.

(b) Foreign currency transactions and operations:
The Canadian dollar is Western's functional and presentation currency. Each of the Company's subsidiaries functional currency is determined individually and items included in the financial statements of each subsidiary are measured using that functional currency.

Transactions in foreign currencies are translated to the respective functional currencies of Western and its subsidiaries at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate in effect on the balance sheet date with any resulting foreign exchange gain or loss recognized in net income. Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rate in effect on the date of the transaction. Foreign currency gains and losses on transactions are reported on a net basis and recognized in other items within net income.

The Company currently has a foreign operation with a functional currency that is different than Canadian dollars. For the purposes of presenting consolidated financial statements, the assets and liabilities of this foreign operation are translated to Canadian dollars using exchange rates in effect on the balance sheet date. Income and expenses are translated at the average exchange rates for the period. Exchange differences arising from this translation are recognized in other comprehensive income.

(c) Business combinations:
The Company uses the acquisition method to account for business acquisitions. The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a gain on acquisition is recognized immediately in net income.

Goodwill is allocated as of the date of the business combination to the Company's reporting segments that are expected to benefit from the business combination and represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which can be no higher than the operating segment level. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill is measured at cost less accumulated impairment losses.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

3. Significant accounting policies (continued):

(d) Financial instruments:

Recognition and measurement:

All financial instruments are measured at fair value upon initial recognition of the transaction. Measurement in subsequent periods is dependent on whether the instrument is classified as “financial asset or financial liability at fair value through profit or loss”, “available-for-sale financial assets”, “held-to-maturity investments”, “loans and receivables”, or “other financial liabilities”.

The Company derecognizes a financial asset when the contractual right to the cash flows from the asset expires, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets:

(i) Financial assets at fair value through profit or loss

Cash is held for trading within the fair value through profit or loss category. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income.

(ii) Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value adjusted for any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The Company’s trade and other receivables are categorized as loans and receivables.

(iii) Available for sale:

From time to time, the Company may have certain equity investments in publicly traded entities. Investments that have a quoted price in an active market are measured at fair value with changes in fair value recognized in other comprehensive income. When the investment is ultimately sold, any gains or losses are recognized in net income and any unrealized gains or losses previously recognized in other comprehensive income are reversed.

The Company has the following non-derivative financial liabilities:

(i) Other financial liabilities:

Trade and other payables, finance lease obligations, mortgages and credit facilities are classified as “other financial liabilities”. Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Transaction costs incurred with respect to the credit facilities are deferred and amortized using the straight-line method over the term of the facility. The asset is recognized in other assets on the balance sheet while the amortization is included in finance costs within net income.

3. Significant accounting policies (continued):

(d) Financial instruments (continued):

Derivative financial instruments:

From time to time, the Company may hold derivative financial instruments to mitigate its foreign currency risk exposures. Derivatives are measured at fair value and changes therein are recognized in net income. Directly attributable transaction costs are recognized in net income as incurred. Forward foreign currency derivative contracts are classified as "fair value through profit or loss" and are measured at fair value. Any change in fair value is recorded through net income.

Equity instruments:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Embedded derivatives:

Derivatives embedded in other instruments or host contracts are separated from the host contract and accounted for separately when their economic characteristics and risks are not closely related to the host contract. Embedded derivatives are recorded on the balance sheet at estimated fair value and changes in the fair value are recorded through net income.

(e) Cash and cash equivalents:

Cash and cash equivalents is comprised of cash balances and short term investments with original maturities of three months or less.

(f) Property and equipment:

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and borrowing costs on qualifying assets.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are included in the cost of those assets, until such time as the assets are substantially available for their intended use. All other borrowing costs are recognized in net income in the period which they are incurred.

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. Costs associated with certifications and overhauls of the drilling rigs are capitalized and depreciated over the anticipated period between certifications, while the carrying amount of a replaced part, previous certification or overhaul is derecognized. The costs of the day-to-day servicing of property and equipment (i.e. repairs and maintenance) are recognized in net income as incurred.

Depreciation is calculated based on the cost of the asset, less its residual value.

Depreciation is recognized in net income either on a unit of production or straight-line basis over the estimated useful lives of each class of assets. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term in which case, the estimated useful life of the asset is used. Land is not depreciated.

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

3. Significant accounting policies (continued):

(f) Property and equipment (continued):

The estimated useful lives for the current and comparative periods are as follows:

	Expected life	**Residual values**	**Depreciation method**
Building	25 years	-	Straight-line
Drilling rigs and related equipment:			
Drilling rigs	1,600 to 5,000 drilling operating days	10-20%	Unit-of-production
Drill pipe	1,600 drilling operating days	10%	Unit-of-production
Major inspections and overhauls	1,000 drilling operating days	-	Unit-of-production
Ancillary drilling equipment	5 to 10 years	-	Straight-line
Well servicing rigs and related equipment	22,000 to 44,000 service hours	10-20%	Unit-of-production
Shop and office equipment	1 to 5 years	-	Straight-line
Vehicles	3 years	20%	Straight-line

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted if appropriate.

An item of property and equipment is derecognized when it is either disposed of or when it is determined that no further economic benefit is expected from the item's future use or disposal. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized in other items within net income.

(g) Intangible assets:

Intangible assets include the identifiable intangible assets that have been acquired by the Company through business combinations which have finite useful lives. These assets are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization is calculated based on the cost of the asset less its residual value. Amortization is recognized in net income on a straight-line basis over the estimated useful life of the intangible asset from the date it is available for use. Amortization methods, useful lives and residual values of intangible assets are reviewed at least annually and adjusted if appropriate.

An intangible asset is derecognized when it is either disposed of or when it is determined that no further economic benefit is expected from the item's future use or disposal. Gains and losses on disposal of an intangible asset are determined by comparing the proceeds from disposal with the carrying amount of the intangible asset, and are recognized in other items within net income.

At December 31, 2011, the Company had no intangible assets.

(h) Inventory:

Inventory is measured at the lower of cost and net realizable value. The cost of inventory is based on the average cost method, and includes expenditures incurred in acquiring the inventory, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Write downs of inventory are reversed if there has been a change in the estimates used to determine the recoverable amount and the decrease in impairment write down can be objectively related to an event occurring after the impairment was recognized.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

(i) Impairment:

(i) Financial assets:

Financial assets are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

3. Significant accounting policies (continued):

(i) Impairment (continued):

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is an indication of impairment. If an indication exists, then the asset's carrying amount is assessed for impairment. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time, unless there is an indication of impairment.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the business combination.

An impairment loss is recognized in net income if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and the decrease in impairment loss can be objectively related to an event occurring after the impairment was recognized. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Such reversal is recognized in net income.

(j) Employee benefits:

(i) Short-term employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Stock based compensation awards:

The grant date fair value of stock based compensation awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the vesting period. The amount recognized as an expense is based on the estimate of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate.

(k) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost within net income.

3. Significant accounting policies (continued):

(l) Revenue:
The Company's services are sold based upon service orders or contracts with customers that include fixed or determinable prices based upon daily or hourly rates and recoverable costs. Revenue is recognized when there is persuasive evidence that an arrangement exists, the service has been provided, the rate is fixed or determinable, and the collection of the amounts billed to the customer is reasonably assured. The Company considers persuasive evidence to exist when a formal contract is signed or customer acceptance is obtained. Contract terms do not include a provision for significant post-service delivery obligations. Revenue from contracts of long or medium terms are recorded using the percentage-of-completion method, as services are provided, and collection is reasonably assured.

(m) Leased assets and payments:
At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. Leases which result in the Company assuming substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition of a finance lease, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments under the lease agreement. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between finance expense and the reduction of the outstanding liability. Finance expense is allocated to each period during the lease term using the effective interest rate method.

All other leases that are determined not to be finance leases are considered operating leases. Payments made under operating leases are recognized in net income on a straight-line basis over the term of the lease. Lease inducements received are recognized as a reduction to the total lease expense, over the term of the lease.

(n) Finance income and finance costs:
Finance income comprises interest income on cash and cash equivalent balances. Interest income is recognized as it accrues in net income.

Finance costs comprise interest expense on borrowings, costs associated with securing debt instruments, and unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition or construction of a qualifying asset are recognized in net income when incurred.

(o) Income tax:
Income tax expense is comprised of current and deferred income taxes. Income tax is recognized in net income except to the extent that it relates to items recognized in equity on the consolidated balance sheet.

Current income tax is calculated using tax rates which are enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions on the basis of amounts expected to be paid to taxation authorities.

Deferred income taxes are recognized, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the respective entity's financial statements. Deferred income taxes are determined using tax rates which are enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities are recognized for all taxable temporary differences, except for temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible balances can be utilized. All deferred tax assets are analyzed at each reporting period and reduced to the extent that it is no longer probable that the asset will be recovered.

3. Significant accounting policies (continued):

(p) Earnings per share:
The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the Company's net income or loss by the weighted average number of common shares outstanding during the reporting period. Diluted EPS is determined by adjusting the net income or loss and the weighted average number of common shares outstanding for the effects of all potentially dilutive common shares, which comprise in-the-money stock options and warrants granted. Diluted EPS is calculated using the treasury stock method where the deemed proceeds of the exercise of options or warrants and the average unrecognized stock based compensation expense are considered to be used to reacquire common shares at an average share price for the reporting period. The average market value of Western's shares for purposes of calculating the dilutive effect of stock options is based on quoted market prices for the period during which the options were outstanding in the reporting period.

(q) Segment reporting:
An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' results are reviewed regularly by the Company's Chief Executive Officer ("CEO") to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(r) New standards and interpretations not yet adopted:
A number of new standards, amendments to standards and interpretations are not yet effective for the period ended December 31, 2011, and have not been applied in preparing these Financial Statements.

A summary of new standards that have not been adopted which may impact the Company in the future are as follows:

- Amendments to IFRS 7, Financial Instruments: Disclosures were issued in October 2010. Those amendments improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier application permitted. The Company is assessing the effect of the changes to IFRS 7 on its financial statement disclosures.

- Amendment to IAS 12, Income Taxes, deferred taxes and recovery of underlying assets. The amendment is effective for annual periods beginning on or after January 1, 2012, with earlier application permitted. The Company is assessing the effect of the changes to IAS 12 on its financial results and financial position.

- IFRS 9, Financial Instruments was issued in November 2009. The standard is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39, Financial Instruments: Recognition and Measurement. However, some changes were made to the fair value option for financial liabilities to address the issue of an entity's own credit risk. The Company is assessing the effect of IFRS 9 on its financial results and financial position; however, any changes are not expected to be material.

- IFRS 10, Consolidated Financial Statements, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation—Special Purpose Entities, and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is assessing the effect of the changes to IFRS 10 on its financial results and financial position.

3. Significant accounting policies (continued):

(r) New standards and interpretations not yet adopted (continued):

- IFRS 11, Joint Arrangements, establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes current IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities - Non-Monetary Contributions by Venturers, and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is assessing the effect of the changes to IFRS 11 on its financial results and financial position.

- IFRS 12, Disclosure of Interests in Other Entities, applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is assessing the effect of the changes to IFRS 12 on its financial statement disclosures.

- IFRS 13, Fair Value Measurement, defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is assessing the effect of the changes to IFRS 13 on its financial results and financial position.

- Amendments to existing standards, including IAS 27, Separate Financial Statements, and IAS 28, Investments in Associates and Joint Ventures. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13. The Company is assessing the effect of the changes to these standards on its financial results and financial position.

- IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in other comprehensive income into two groups, based on whether or not items may be reclassified to net income in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual years beginning on or after July 1, 2012 with earlier application permitted. The Company is assessing the effect of the changes to IAS 1 on its financial statement presentation.

4. Critical accounting judgements and key sources of estimation uncertainty:

The preparation of the Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies (described in Note 3) and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Key sources of estimation uncertainty:

A number of the Company’s accounting policies and disclosures require key assumptions concerning the future, and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities or disclosures within the next fiscal year. Where applicable, further information about the assumptions made is disclosed in the notes specific to that asset or liability.

4. Critical accounting judgements and key sources of estimation uncertainty (continued):

(a) Impairment

An evaluation of whether or not an asset is impaired involves consideration of whether indicators of impairment exist. Factors which could indicate impairment exists include: significant underperformance of an asset relative to historical or projected operating results, significant changes in the manner in which an asset is used or in the Company's overall business strategy, or significant negative industry or economic trends. In some cases, these events are clear. However, in many cases, a clearly identifiable event indicating possible impairment does not occur. Instead, a series of individually insignificant events occur over a period of time leading to an indication that an asset may be impaired. Events can occur in these situations that may not be known until a date subsequent to their occurrence. Management continually monitors the Company's segments, the markets, and the business environment, and makes judgements and assessments about conditions and events in order to conclude whether a possible impairment exists.

Property and equipment:

The fair value of property and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of equipment is based on market and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

The value in use calculation associated with property and equipment used for impairment assessments involves significant estimates and assumptions, including those associated with future cash flows of the CGU, discount rates and asset useful lives.

Goodwill:

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value.

(b) Property and equipment

Property and equipment are depreciated over their estimated useful lives while factoring in an asset's expected residual value as determined by management. All estimates of useful lives and residual values are set out in Note 3 (f). Assessing the reasonableness of the estimated useful life, residual value and the appropriate depreciation methodology requires judgement and is based on management's experience and knowledge of the industry.

(c) Income taxes

Preparation of the Financial Statements involves determining an estimate of, or provision for, income taxes in each of the jurisdictions in which the Company operates. The process also involves making an estimate of taxes currently payable and taxes expected to be payable or recoverable in future periods, referred to as deferred taxes. Deferred taxes result from the effects of temporary differences due to items that are treated differently for tax and accounting purposes. The tax effects of these differences are reflected in the consolidated balance sheet as deferred tax assets and liabilities. An assessment must also be made to determine the likelihood that the Company's future taxable income will be sufficient to permit the recovery of deferred income tax assets. To the extent that such recovery is not probable, recognized deferred tax assets must be reduced.

Judgement is required in determining the provision for income taxes and recognition of deferred tax assets and liabilities. Management must also exercise judgement in its assessment of continually changing tax interpretations, regulations and legislation, to ensure deferred tax assets and liabilities are complete and fairly presented. The effects of differing assessments and applications could be material.

4. Critical accounting judgements and key sources of estimation uncertainty (continued):

(d) Determination of functional currency.
The determination of the functional currency is a matter of determining the primary economic environment in which an entity operates. IAS 21, The Effects of Changes in Foreign Exchange Rates, sets out a number of factors to apply in making the determination of the functional currency. However, applying the factors in IAS 21 does not always result in a clear indication of functional currency. Where IAS 21 factors indicate differing functional currencies within a subsidiary, the Company uses judgement in the ultimate determination of that subsidiary's functional currency. Judgement was applied in the determination of the functional currency of certain of the Company's operating entities.

(e) Stock based awards:
The fair value of employee stock options is measured using a Black Scholes option pricing model. Measurement inputs include the share price on the grant date, the exercise price of the instrument, the expected volatility, the weighted average expected life of the instruments, the expected dividends, and the risk-free interest rate. Service and non-market performance conditions are not taken into account in determining fair value. The stock based compensation recognized is also determined based on management's grant date estimate of the forfeitures that are expect to occur over the life of the stock options. The number of options that actually vest could differ from those estimated and any changes are recognized prospectively as they occur.

(f) Derivatives:
The fair value of forward foreign exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on the Government of Canada bond rate).

Fair values reflect the credit risk of the instrument including adjustments reflecting the credit risk of the Company and counterparty when appropriate. These calculations are complex and require significant judgement around the selection of market inputs that are subject to factors outside of management's control.

(g) Non-derivative financial liabilities:
As detailed in the Company's accounting policy, the Company records its financial instruments at fair value on inception with changes in fair value recorded when required by the Company's classification of such instruments. Calculation of fair value of the Company's financial instruments are complex and requires judgement around the selection of market inputs and is based on many variables including but not limited to credit spreads and interest rate spreads which are factors outside management's control. Fair value for disclosure purposes, is calculated based on the present value of future principal and interest payments, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5. Operating segments:

The Company operates in the Canadian and United States oilfield service industry through its contract drilling segment. In June 2011, the Company entered into the United States through the acquisition of Stoneham Drilling Trust ("Stoneham"). Contract drilling includes drilling rigs along with related auxiliary equipment and provides contract drilling services to oil and natural gas exploration and production companies. The Company's CEO reviews internal management reports for this segment on at least a monthly basis.

Information regarding the results of the segment is included below. Performance is measured based on segment profit, as included in the internal management reports that are reviewed by the Company's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Segment profit is calculated as revenue less cash operating expenses less cash administrative expenses less depreciation expense.

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

5. Operating segments (continued):

The following is a summary of the Company's results by segment for the years ended December 31, 2011 and 2010:

Year ended December 31, 2011	Contract Drilling	Corporate & Other	Total
Continuing Operations:			
Revenue	$ 262,519	$ -	$ 262,519
Segment profit (loss)	83,626	(9,289)	74,337
Finance costs	43	3,607	3,650
Income taxes	12,430	2,363	14,793
Depreciation	24,746	241	24,987
Expenditures on capital items	82,954	5,915	88,869

Year ended December 31, 2010	Contract Drilling[(1)]	Corporate & Other	Total
Continuing Operations:			
Revenue	$ 56,009	$ -	$ 56,009
Segment profit (loss)	13,591	(4,153)	9,438
Finance costs	259	624	883
Income taxes	2,813	-	2,813
Depreciation	6,975	91	7,066
Expenditures on capital items	20,976	306	21,282

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

Goodwill	Contract Drilling	Corporate & Other	Total
Balance, January 1, 2010	$ -	$ -	$ -
Additions: Pantera acquisition (Note 6)	29,117	-	29,117
Balance, December 31, 2010	29,117	-	29,117
Additions: Stoneham acquisition (Note 6)	26,410	-	26,410
Balance, December 31, 2011	$ 55,527	$ -	$ 55,527

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

As at December 31, 2011	Contract Drilling	Corporate & Other	Total
Total assets	$ 609,026	$ 10,619	$ 619,645
Total liabilities	$ 92,052	$ 113,268	$ 205,320

As at December 31, 2010	Contract Drilling	Corporate & Other	Total
Total assets	$ 249,110	$ 2,388	$ 251,498
Total liabilities	$ 26,723	$ 48,724	$ 75,447

As at January 1, 2010	Contract Drilling	Corporate & Other	Total
Total assets	$ -	$ 2,568	$ 2,568
Total liabilities	$ -	$ 1,989	$ 1,989

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

5. Operating segments (continued):

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

	Year ended December 31, 2011	Year ended December 31, 2010
Continuing operations:		
Segment profit	$ 74,337	$ 9,438
Add (deduct):		
Stock based compensation	(1,335)	(456)
Finance costs	(3,650)	(883)
Other items	(677)	(1,600)
Gain on business acquisitions	-	19,653
Income from continuing operations before taxes	$ 68,675	$ 26,152

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

As at and for the year ended December 31, 2011	Canada	United States[1]	Total
Revenue	$ 241,290	$ 21,229	$ 262,519
Property and equipment	390,134	83,796	473,930
Total assets	$ 525,955	$ 93,690	$ 619,645

(1) The Company's United States operations were acquired on June 10, 2011.

As at and for the year ended December 31, 2010	Canada	United States	Total
Revenue	$ 56,009	$ -	$ 56,009
Property and equipment	188,355	-	188,355
Total assets	$ 250,148	$ 1,350	$ 251,498

As at January 1, 2010	Canada	United States	Total
Property and equipment	$ -	$ -	$ -
Total assets	$ 2,568	$ -	$ 2,568

6. Business acquisitions:

Stoneham Drilling Trust

On June 10, 2011, Western acquired all of the issued and outstanding income trust units of Stoneham in exchange for cash consideration equal to $115.0 million and 9,803,678 common shares of Western at an ascribed price of $7.80 per share, based on the closing trading price of Western on June 9, 2011.

The acquisition of Stoneham enabled the Company to continue its growth strategy as an oilfield service provider in the Canadian oilfield service industry as well as to re-enter the United States oilfield service market. The acquisition provided the Company with an increased market share through access to Stoneham's assets and operational personnel. The Company also expects reduced unit costs through economies of scale.

The following summarizes the major classes of consideration transferred at the acquisition date:

As at June 10, 2011	Amount
Cash paid	$ 115,000
Shares issued	76,469
Assumption of bank debt (net of $1.7 million in cash acquired)	34,277
	$ 225,746

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

6. Business acquisitions (continued):

This acquisition has been accounted for using the acquisition method on June 10, 2011, whereby the assets acquired and the liabilities assumed were recorded at their fair values with the surplus of the aggregate consideration relative to the fair value of the identifiable net assets recorded as goodwill. The Company assessed the fair values of the net assets acquired based on management's best estimate of market value, which takes into consideration the condition of the assets acquired, current industry conditions and the discounted future cash flows expected to be received from the assets as well as the amount it is expected to cost to settle the outstanding liabilities. Subsequent to the acquisition date, Stoneham'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 Stoneham acquisition:

As at June 10, 2011		Amount
Net working capital (excluding cash)	$	7,625
Property and equipment		220,716
Goodwill (Note 10)		26,410
Finance leases		(320)
Provisions		(338)
Deferred tax liability		(28,347)
	$	225,746

Trade receivables, included in net working capital, are comprised of gross contractual amounts due of $17.9 million, all of which has been collected.

The Company estimates that had the acquisition closed on January 1, 2011, $133.3 million of revenue for the year ended December 31, 2011 would have been attributable to Stoneham's assets. Included in this estimated amount is $83.4 million of revenue recognized by the Company subsequent to the acquisition date relating to Stoneham's assets. The Company cannot reasonably determine the net income amount attributable to Stoneham's assets had the acquisition closed on January 1, 2011 or from the acquisition date, due to the fact that Stoneham's management and cost structure has been changed and integrated into the Company's operations.

The Company assessed the acquisition for intangible assets and concluded that none existed. The allocations described above are preliminary and subject to changes upon finalization of purchase price adjustments. These adjustments may include, but are not limited to, deferred tax balance adjustments on the filing of tax returns and final working capital adjustments on the respective balances acquired. For the year ended December 31, 2011, adjustments were made to the purchase price allocation resulting in a decrease in net working capital of $1.6 million, an increase in property and equipment equal to $1.5 million and a decrease in the deferred tax liability of $0.2 million which aggregated to a net decrease in goodwill of $0.1 million.

Goodwill on the Stoneham acquisition is attributable to the price paid for Stoneham's newly constructed modern rig fleet in competitive market conditions. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company incurred costs related to the acquisition of Stoneham of $3.3 million relating to due diligence and severance costs as well as external legal and advisory fees, which were expensed within other items in the period incurred.

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

6. Business acquisitions (continued):

2010 Business Acquisitions

In 2010, Western completed the acquisitions of Horizon, Cedar Creek Drilling Ltd. ("Cedar Creek"), Impact Drilling Ltd. ("Impact"), and Pantera Drilling Trust ("Pantera") (the "2010 Acquisitions") in exchange for cash and/or shares of Western, as well as the assumption of bank debt.

On March 18, 2010, Western acquired control of all of the issued and outstanding common shares of Horizon for cash consideration of approximately $41.4 million. Western recorded a gain on business acquisition of $9.1 million which is representative of the Company's ability to acquire certain oilfield service equipment under favourable market conditions.

On March 18, 2010, Western acquired all of the issued and outstanding common shares of Cedar Creek in exchange for 0.133 Western common shares for each Cedar Creek common share. An aggregate of 1,025,866 common shares of Western were issued at an ascribed price of $6.00 per share, based on Western's closing trading price on March 17, 2010. The acquisitions of both Horizon and Cedar Creek enabled the Company to enter and begin operations in the contract drilling segment of the Canadian oilfield service industry. Western recorded a gain on business acquisition of $2.0 million which is representative of the Company's ability to acquire certain oilfield service equipment under favourable market conditions.

On August 25, 2010, Western acquired all of the issued and outstanding common shares of Impact for cash consideration of approximately $247,000. The acquisition of Impact enabled the Company to continue its growth strategy as an oilfield service provider in the Canadian oilfield service industry. The acquisition provided the Company with an increased market share through access to Impact's assets and operational personnel. The Company also reduced unit costs through economies of scale. Western recorded a gain on business acquisition of $8.5 million which is representative of the Company's ability to recognize certain tax assets of Impact together with favourable market conditions.

On December 17, 2010, Western acquired all of the issued and outstanding income trust units of Pantera in exchange for common shares of Western. Pantera unitholders received 1.095 common shares of Western for each income trust unit of Pantera. An aggregate of 11,303,486 common shares of Western were issued at an ascribed price of $6.60 per share, based on Western's closing trading price as at December 16, 2010. The acquisition of Pantera enabled the Company to continue its growth strategy as an oilfield service provider in the Canadian oilfield service industry. The acquisition provided the Company with an increased market share through access to Pantera's assets and operational personnel. The Company also reduced unit costs through economies of scale.

The following summarizes the major classes of consideration transferred for the 2010 acquisitions at the date of their respective acquisitions:

	Horizon	Cedar Creek	Impact	Pantera	Total
Cash paid	$ 41,430	$ -	$ 247	$ -	$ 41,677
Shares issued	-	6,155	-	74,603	80,758
Assumption of bank debt[1]	24,289 [1]	12,603	19,554 [1]	18,574	75,020
	$ 65,719	$ 18,758	$ 19,801	$ 93,177	$ 197,455

[1] For Horizon and Impact, the Company assumed debt net of cash of $5.6 and $0.1 million, respectively.

These acquisitions have been accounted for using the acquisition method, whereby the assets acquired and the liabilities assumed were recorded at their fair values with any surplus of the aggregate consideration relative to the fair value of the identifiable net assets recorded as goodwill and any shortage recorded as a gain on business acquisition.

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

6. Business acquisitions (continued):

The following summarizes the allocation of the aggregate consideration for the 2010 Acquisitions:

	Horizon	Cedar Creek	Impact	Pantera	Total
Net working capital	$ 8,510	$ 1,990	$ 185	$ 4,158	$ 14,843
Property and equipment	71,175	19,146	24,519	61,631	176,471
Intangible assets (Note 10)	343	222	-	-	565
Goodwill (Note 10)	-	-	-	29,117	29,117
Deferred tax asset (liability)	(4,841)	(592)	3,730	(1,677)	(3,380)
Deferred credit	(355)	-	(101)	(52)	(508)
Gain on business acquisition	(9,113)	(2,008)	(8,532)	-	(19,653)
	$ 65,719	$ 18,758	$ 19,801	$ 93,177	$ 197,455

Trade receivables, included in net working capital, for the 2010 Acquisitions are comprised of gross contractual amounts due of $28.7 million, all of which has been collected.

Goodwill on the Pantera acquisition is attributable to the exchange ratio between Western's common shares and Pantera's income trust units being negotiated based on a value of $4.20 per Western common share; however, the consideration exchanged was valued based on a price per Western common share of $6.60, representing the price immediately before closing the acquisition. This resulted in additional consideration of approximately $27.1 million, and a corresponding increase in the goodwill recognized. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company incurred costs related to the 2010 Acquisitions of $1.6 million relating to due diligence, as well as external legal and advisory fees, which were expensed within other items in 2010.

7. Trade and other receivables:

	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	$ 68,588	$ 26,490	$ 83
Accrued trade receivables	14,162	798	-
Other receivables	564	847	119
Allowance for doubtful accounts	-	(75)	(75)
Total	$ 83,314	$ 28,060	$ 127

The Company's exposure to credit risk related to trade and other receivables is disclosed in Note 21.

8. Other assets:

	December 31, 2011	December 31, 2010	January 1, 2010
Prepaid expenses	$ 1,744	$ 745	$ 55
Deposits	987	147	-
Deferred charges	605	252	-
Investments	-	180	-
Total	$ 3,336	$ 1,324	$ 55
Current	$ 2,981	$ 1,324	$ 55
Non current	355	-	-
	$ 3,336	$ 1,324	$ 55

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

9. Property and equipment:

	Land	Buildings	Drilling rigs and related equipment	Well servicing equipment	Shop and office equipment	Vehicles under finance leases	Total
Cost or deemed cost:							
Balance at January 1, 2010	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Acquisitions: business combinations	374	1,279	174,504	-	132	182	176,471
Additions	-	62	20,402	-	347	471	21,282
Disposals	-	-	(2,933)	-	-	-	(2,933)
Balance at December 31, 2010	$ 374	$ 1,341	$ 191,973	$ -	$ 479	$ 653	$ 194,820
Balance at January 1, 2011	$ 374	$ 1,341	$ 191,973	$ -	$ 479	$ 653	$ 194,820
Acquisitions: business combinations	4,600	1,800	213,871	-	125	320	220,716
Additions	-	203	82,097	5,358	1,211	-	88,869
Capitalized Interest	-	-	369	82	-	-	451
Disposals	-	-	(2,945)	-	-	(262)	(3,207)
Impact of foreign exchange	-	-	3,113	-	(2)	-	3,111
Balance at December 31, 2011	$ 4,974	$ 3,344	$ 488,478	$ 5,440	$ 1,813	$ 711	$ 504,760
Depreciation:							
Balance at January 1, 2010	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Depreciation for the year	-	49	6,291	-	124	37	6,501
Disposals	-	-	(36)	-	-	-	(36)
Balance at December 31, 2010	$ -	$ 49	$ 6,255	$ -	$ 124	$ 37	$ 6,465
Balance at January 1, 2011	$ -	$ 49	$ 6,255	$ -	$ 124	$ 37	$ 6,465
Depreciation for the year	-	109	24,285	1	421	171	24,987
Disposals	-	-	(547)	-	-	(103)	(650)
Impact of foreign exchange	-	-	28	-	-	-	28
Balance at December 31, 2011	$ -	$ 158	$ 30,021	$ 1	$ 545	$ 105	$ 30,830
Carrying amounts:							
At January 1, 2010	$ -	$ -	$ -		$ -	$ -	$ -
At December 31, 2010	$ 374	$ 1,292	$ 185,718	$ -	$ 355	$ 616	$ 188,355
At December 31, 2011	$ 4,974	$ 3,186	$ 458,457	$ 5,439	$ 1,268	$ 606	$ 473,930

Assets under construction:
Included in property and equipment at December 31, 2011 are assets under construction of $25.4 million (December 31, 2010: $11.5 million; January 1, 2010: $Nil) of which $22.0 million relates to the contract drilling segment including the construction of four Efficient Long Reach telescopic double drilling rigs as well as ancillary drilling equipment and $3.4 million relates to the construction of well servicing rigs.

For the year ended December 31, 2011, the Company has capitalized $0.5 million (2010: $0.1 million) of specific borrowing costs related to the construction of qualifying assets based on a capitalization rate of approximately 4.3%.

The Company has assessed the indicators of impairment surrounding property and equipment and did not identify any indicators of impairment at December 31, 2011 or 2010.

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

10. Intangible assets and goodwill:

	Goodwill	Drilling contracts	Total
Cost or deemed cost:			
Balance at January 1, 2010	$ -	$ -	$ -
Acquisitions through business combinations - Pantera (Note 6)	29,117	565	29,682
Disposals	-	-	-
Balance at December 31, 2010	$ 29,117	$ 565	$ 29,682
Balance at January 1, 2011	$ 29,117	$ 565	$ 29,682
Acquisitions through business combinations - Stoneham (Note 6)	26,410	-	26,410
Disposals	-	-	-
Balance at December 31, 2011	$ 55,527	$ 565	$ 56,092
Depreciation:			
Balance at January 1, 2010	$ -	$ -	$ -
Amortization for the year	-	565	565
Disposals	-	-	-
Balance at December 31, 2010	$ -	$ 565	$ 565
Balance at January 1, 2011	$ -	$ 565	$ 565
Amortization for the year	-	-	-
Disposals	-	-	-
Balance at December 31, 2011	$ -	$ 565	$ 565
Carrying amounts			
At January 1, 2010	$ -	$ -	$ -
At December 31, 2010	$ 29,117	$ -	$ 29,117
At December 31, 2011	$ 55,527	$ -	$ 55,527

For impairment testing purposes, goodwill has been fully allocated to the Company's cash-generating units that are expected to benefit from the synergies of the business combinations which resulted in the initial recognition of the goodwill. These cash-generating units are based on the type of drilling rig and are all within the Company's contract drilling segment.

The recoverable amounts of these cash-generating units is determined based on a value in use calculation which uses cash flow projections based on a five year forecast which incorporates the Company's financial budgets approved by the Directors for the following fiscal year and a discount rate of 13% per annum (2010: 13%).

Cash flow projections during the five year forecast period are based on the same expected margins and price inflation used throughout the budget period. The cash flows beyond that five year period have been extrapolated using a 3% per annum growth rate. Management believes that any reasonable possible change in the key assumptions on which the recoverable amounts are based would not cause the aggregate carrying amount to exceed of the cash-generating units.

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

11. Trade payables and other current liabilities:

	December 31, 2011	December 31, 2010	January 1, 2010
Trade payables	$ 7,768	$ 6,081	$ 814
Accrued trade payables	18,286	9,486	-
Derivatives	-	16	-
Non-trade payables and accrued expenses	13,021	5,269	1,170
Total	$ 39,075	$ 20,852	$ 1,984

The Company's exposure to currency and liquidity risk related to trade payables and other current liabilities is disclosed in Note 21.

12. Provisions:

	Onerous contracts	Other	Total
Balance at January 1, 2010	$ -	$ -	$ -
Additions in the year	654	190	844
Provisions used during the year	(185)	(28)	(213)
Accretion of provisions	20	-	20
Balance at December 31, 2010	$ 489	$ 162	$ 651
Balance at January 1, 2011	$ 489	$ 162	$ 651
Additions in the year	338	-	338
Provisions used during the year	(622)	(41)	(663)
Accretion of provisions	30	-	30
Balance at December 31, 2011	$ 235	$ 121	$ 356
Current	$ 131	$ 41	$ 172
Non current	$ 104	$ 80	$ 184
	235	121	356

At December 31, 2011, the Company has provisions relating to out of the money office lease contracts where the expected cost of fulfilling these contracts exceeds their future benefit to the Company. In addition, the Company has recognized a provision for the deferral of certain office lease inducements received. All provisions are amortized on a straight-line basis over the life of their respective lease contracts.

13. Long term debt:

This note provides information about the contractual terms of the Company's long term debt instruments. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see Note 21.

	December 31, 2011	December 31, 2010	January 1, 2010
Current:			
Operating facility	$ 7,144	$ -	$ -
Bank mortgage	1,044	67	-
Finance lease obligations	25	446	5
Total current portion of long term debt	8,213	513	5
Non current:			
Revolving facility	108,000	45,000	-
Bank mortgage	-	1,044	-
Finance lease obligations	39	10	-
Total non current portion of long term debt	108,039	46,054	-
Total long term debt	$ 116,252	$ 46,567	$ 5

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

13. Long term debt (continued):

On June 8, 2011, Western amended and increased its syndicated credit facilities. The credit facilities consist of a $10 million operating demand revolving loan (the "Operating Facility"), and a $150 million committed three year extendible revolving credit facility (the "Revolving Facility"). 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. The current maturity date of the Revolving Facility is June 7, 2014.

Amounts borrowed under the Operating and Revolving Facilities bear interest at the bank's prime rate or the banker's acceptance rate plus an applicable margin depending, in each case, on the ratio of consolidated debt to consolidated EBITDA. The credit facilities are secured by the assets of Western. As of December 31, 2011, the Company had $42.0 million in available credit under the Revolving Facility and $2.9 million under the Operating Facility. See Note 27 for changes made to the credit facilities subsequent to year end.

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

	Covenant
Maximum Consolidated Senior Debt to Consolidated EBITDA Ratio (1)(2)(3)	3.0 to 1.0 or less
Maximum Consolidated Debt to Consolidated Capitalization Ratio	0.6 to 1.0 or less
Minimum Consolidated EBITDA to Consolidated Interest Expense Ratio	2.5 to 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) The Maximum Consolidated Senior Debt to Consolidated EBITDA ratio will reduce to 2.75 to 1.0 after the first anniversary of the agreement and to 2.50 to 1.0 after the second anniversary date of the agreement.

(3) Consolidated EBITDA is defined as consolidated net income (loss), plus interest, income taxes, depreciation and amortization and any other non-cash items or extraordinary or non-recurring losses, less gain on sale of property and equipment and any other non-cash items or extraordinary or non-recurring gains that are included in the calculation of consolidated net income.

As at December 31, 2011 and December 31, 2010, the Company was in compliance with all covenants related to its credit facilities.

The bank mortgage is secured by land and a building with a carrying amount of $1.5 million and is due on July 3, 2012 (December 31, 2010: $1.7 million; January 1, 2010 $Nil) (see Note 9).

During the year ended December 31, 2011, the Company incurred interest and financing costs of approximately $4.2 million (year ended December 31, 2010: $1.4 million) on its long term debt. The Company paid an average of 4.4% on its borrowings for the year ended December 31, 2011 (year ended December 31, 2010: 4.3%).

14. Common shares:

On June 22, 2011, the Company completed a 20:1 share consolidation of all its outstanding common shares. As such, all common shares, per common share amounts, stock option and warrant figures in the current and comparative periods have been adjusted to reflect this change.

At December 31, 2011, the Company was authorized to issue an unlimited number of common shares.

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

14. Common shares:

The following table summarizes the movements in Western's share capital:

Common shares	Issued and outstanding shares (1)		Amount
Balance, January 1, 2010	6,601,592	$	8,253
Issued for cash - March 18, 2010	18,750,000		75,000
Issued on acquisition of Cedar Creek (Note 6)	1,025,866		6,155
Issued on acquisition of Pantera (Note 6)	11,303,486		74,603
Issue costs	-		(4,116)
Balance, December 31, 2010	37,680,944		159,895
Issued for cash - March 29, 2011	9,625,000		75,075
Issued for cash - April 1, 2011	1,443,750		11,261
Issued on acquisition of Stoneham (Note 6)	9,803,678		76,469
Cancellation of common shares	(20,085)		(157)
Issue costs net of deferred tax	-		(2,845)
Balance, December 31, 2011	58,533,287	$	319,698

(1) Adjusted to reflect the 20:1 share consolidation completed on June 22, 2011.

15. 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 shares as stock options.

The following table summarizes the movements in Western's outstanding stock options:

	Stock options outstanding (1)		Weighted average exercise price (1)
Balance, January 1, 2010	8,500	$	47.40
Granted	1,115,000		5.70
Expired/Forfeited	(90,917)		9.58
Balance, December 31, 2010	1,032,583		5.70
Granted	1,358,500		7.86
Expired/Forfeited	(290,083)		6.87
Balance, December 31, 2011	2,101,000	$	6.94

(1) Adjusted to reflect the 20:1 share consolidation completed on June 22, 2011.

For the years ended December 31, 2011 and 2010, no stock options were cancelled.

The following table summarizes the details of Western's outstanding stock options:

As at December 31, 2011: Exercise price ($/share) (1)	Number of options outstanding (1)	Weighted average contractual life remaining (years)	Number of options exercisable
5.70-7.31	1,045,000	3.41	-
7.32-8.75	1,056,000	4.59	-
	2,101,000	4.00	-

(1) Adjusted to reflect the 20:1 share consolidation completed on June 22, 2011.

The average fair value of the stock options granted in 2011 was $2.58 per stock option (2010: $2.28 per stock option). For the year ended December 31, 2011, the Company recorded approximately $1.3 million in stock based compensation expense (2010: $0.5 million).

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

15. Stock based compensation (continued):

The accounting fair value as at the date of grant is calculated in accordance with a Black Scholes methodology using the following inputs:

	2011	2010
Risk-free interest rate	1%	2%
Average forfeiture rate	20%	15%
Average expected life	2.0 years	3.0 years
Maximum life	5.0 years	5.0 years
Average vesting period	2.0 years	3.0 years
Expected dividend	nil	nil
Expected share price volatility	60%	60%

The following table summarizes the movements of Western's outstanding warrants:

	Warrants outstanding (1)	Weighted average exercise price (1)
Balance at: Dec 31, 2011 and 2010 and Jan 1, 2010	2,525,000	$ 2.10

(1) Adjusted to reflect the 20:1 share consolidation completed on June 22, 2011.

Pursuant to the private placement completed on December 22, 2009, 2,525,000 warrants were issued entitling the holder to purchase one common share at a price of $2.10 for a period of five years. The warrants expire on December 22, 2014.

16. Earnings per share:

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

	Year ended December 31, 2011 (1)	Year ended December 31, 2010 (1)
Issued common shares, beginning of period	37,680,944	6,601,592
Effect of shares issued-March 18, 2010	-	15,658,151
Effect of shares issued-December 17, 2010	-	464,527
Effect of shares issued-March 29, 2011	7,330,822	-
Effect of shares issued-April 1, 2011	1,087,757	-
Effect of shares issued-June 10, 2011	5,506,175	-
Effect from the cancellation of shares	(10,620)	-
Weighted average number of common shares (basic)	51,595,078	22,724,270
Dilutive effect of stock options and warrants	2,045,539	1,661,434
Weighted average number of common shares (diluted)	53,640,617	24,385,704

(1) Adjusted to reflect the 20:1 share consolidation completed on June 22, 2011.

At December 31, 2011, 1,096,000 options (December 31, 2010: 1,032,583 options) were excluded from the annual diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

17. Finance costs:

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

	Year ended December 31, 2011	Year ended December 31, 2010
Interest expense on long term debt	$ 3,400	$ 693
Amortization of debt financing fees	346	183
Interest income	(126)	(13)
Accretion of provisions	30	20
Total finance costs	$ 3,650	$ 883

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

18. Other items:

Other items recognized in the consolidated statements of operations and comprehensive income are comprised of the following:

	Year ended December 31, 2011	Year ended December 31, 2010
Acquisition costs	$ 3,349	$ 1,587
Foreign exchange gain	(1,418)	(19)
Change in fair value of derivatives	(6)	16
(Gain) loss on sale of assets	(1,248)	16
Total other items	$ 677	$ 1,600

19. Income taxes:

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

	Year ended December 31, 2011	Year ended December 31, 2010
Income taxes:		
Current tax expense	$ 585	$ -
Deferred tax expense	14,208	2,813
Total income taxes	$ 14,793	$ 2,813

The following summarizes the income taxes recognized directly into equity:

	Year ended December 31, 2011	Year ended December 31, 2010
Share issue costs	$ 1,861	$ -
	$ 1,861	$ -

The following provides a reconciliation of net income before tax from continuing operations to income taxes recognized in the consolidated statements of operations and comprehensive income:

		Year ended December 31, 2011		Year ended December 31, 2010
Income from continuing operations before tax		$ 68,675		$ 26,152
Expected tax using corporate tax rates	27.22%	$ 18,693	28.05%	$ 7,336
Stock based compensation		354		128
Gain on business combinations		-		(5,503)
Non-deductible expenses		130		705
Change in effective tax rate on temporary differences		-		(888)
Change in estimate		(745)		-
Change in previously unrecognized tax assets		(3,341)		785
Other		(298)		250
Total income taxes		$ 14,793		$ 2,813

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

19. Income taxes (continued):

The following table details the nature of the Company's temporary differences:

	December 31, 2011	December 31, 2010	January 1, 2010
Property and equipment	$ (63,780)	$ (15,623)	$ 609
Deferred charges	73	-	-
Provisions	89	-	-
Timing differences on accruals	310	-	-
Foreign exchange on inter-company loan	(305)	-	-
Share issue costs	1,617	912	133
Other tax pools	595	226	-
Tax loss carry-forwards	14,263	11,616	60
Previously unrecognized tax asset	-	(3,341)	(802)
Net deferred taxes	$ (47,138)	$ (6,210)	$ -

Movements of the Company's temporary differences for the year ended December 31, 2011 is as follows:

	Balance Dec 31, 2010	Acquired in business combinations	Recognized in equity	Recognized in net income	Impact of foreign exchange	Balance Dec 31, 2011
Property and equipment	$ (15,623)	$ (42,586)	$ -	$ (4,881)	$ (690)	$ (63,780)
Deferred charges	-	-	-	73	-	73
Provisions	-	-	-	89	-	89
Timing differences on accruals	-	657	-	(377)	30	310
Foreign exchange on inter-company loan	-	-		(305)		(305)
Share issue costs	912	-	1,861	(1,157)	1	1,617
Other tax pools	226	380	-	(15)	4	595
Tax loss carry-forwards	11,616	13,202	-	(10,976)	421	14,263
Previously unrecognized tax asset	(3,341)	-	-	3,341	-	-
Net deferred taxes	$ (6,210)	$ (28,347)	$ 1,861	$ (14,208)	$ (234)	$ (47,138)

Movements of the Company's temporary differences for the year ended December 31, 2010 is as follows:

	Balance Jan 1, 2010	Acquired in business combinations	Recognized in equity	Recognized in net income	Impact of foreign exchange	Balance Dec 31, 2010
Property and equipment	$ 609	$ (12,993)	$ -	$ (3,239)	$ -	$ (15,623)
Intangibles	-	(141)	-	141	-	-
Deferred charges	-	-	-	-	-	-
Provisions	-	101	-	(101)	-	-
Timing differences on accruals	-	(351)	-	351	-	-
Share issue costs	133	-	-	779	-	912
Other tax pools	-	11	-	215	-	226
Tax loss carry-forwards	60	9,993	-	1,580	(17)	11,616
Previously unrecognized tax asset	(802)	-	-	(2,539)	-	(3,341)
Net deferred taxes	$ -	$ (3,380)	$ -	$ (2,813)	$ (17)	$ (6,210)

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

19. Income taxes (continued):

The Company's unrecognized deductible temporary differences are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Deductible temporary differences	$ -	$ 897	$ 742
Tax losses	-	2,444	60
	$ -	$ 3,341	$ 802

As at December 31, 2011, the Company has non-capital losses from continuing operations available for carry forward totaling $38.0 million (December 31, 2010: $45.0 million; January 1, 2010: $5.5 million), of which $1.3 million (December 31, 2010: $41.8 million; January 1, 2010: $5.5 million) relates to Canadian entities, and $36.7 million (December 31, 2010: $3.2 million; January 1, 2010: $Nil) relates to an entity in the United States. The unused tax losses may be applied to reduce future taxable income and future income taxes payable, and will expire as follows:

	Canada	United States
2012	$ -	$ -
2013	-	-
2014	-	-
2015	-	-
2016 and beyond	1,294	36,667
Total	$ 1,294	$ 36,667

20. Costs by nature:

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

	Year ended December 31, 2011	Year ended December 31, 2010
Depreciation of property and equipment	$ 24,987	$ 7,066
Employee benefits: salaries and benefits	98,986	24,800
Employee benefits: stock based compensation	1,335	456
Repairs and maintenance	13,162	3,332
Third party charges	25,091	3,724

21. 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, and long term debt. Cash and cash equivalents, investments in equity securities and derivatives are carried at fair value. The carrying amount of trade receivables and trade payables and other current 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.

Interest rate risk:

The Company is exposed to interest rate risk on certain debt instruments, such as the Operating and Revolving Facilities, to the extent the prime interest rate changes and/or the Company's interest rate margin changes. For the credit facilities, a one percent change in interest rates would have had an approximately $0.8 million impact on interest expense for the year ended December 31, 2011. Other long term debt, such as the bank mortgage, are subject to fixed rates.

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

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

Foreign exchange risk:

The Company is exposed to foreign currency fluctuations in relation to its United States dollar capital expenditures and international operations. From time to time, the Company may use forward foreign currency contracts to hedge against these fluctuations. At December 31, 2011, portions of the Company's cash and cash equivalents, trade payables and accrued liabilities were denominated in United States dollars and subject to foreign exchange fluctuations which are recorded within net income. In addition, Western's United States subsidiary is subject to foreign currency translation adjustments upon consolidation, which is recorded separately within other comprehensive income. For the year ended December 31, 2011, the increase or decrease in net income before taxes for each one percent change in foreign exchange rates between the Canadian and United States dollars is estimated to be less than $0.1 million.

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 trade receivables. 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 December 31, 2011, approximately 99% of the Company's trade receivables from continuing operations were less than 90 days old. During the year ended December 31, 2011, there have been no significant changes to the allowance for doubtful accounts provision. The Company believes the unimpaired amounts more than 90 days old are still collectible based on historic payment behavior and an analysis of the underlying customers' ability to pay.

The table below provides an analysis of the Company's trade receivables aging:

	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables			
Current	$ 38,435	$ 13,553	$ -
Outstanding for 31 to 60 days	22,614	10,228	-
Outstanding for 61 to 90 days	6,741	2,310	-
Outstanding for over 90 days	798	399	83
Less: allowance for doubtful accounts	-	(75)	(75)
Accrued trade receivables	14,162	798	-
Other receivables	564	847	119
Total	$ 83,314	$ 28,060	$ 127

Impairment losses:

The allowance for doubtful accounts in respect of trade and other receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly. At December 31, 2011, the Company expects to recover all of its trade and other receivables.

Significant customers:

For the year ended December 31, 2011, the Company had one significant customer comprising 11% of total revenue. This customer's trade receivable balance at December 31, 2011 represented 3% of the Company's total trade and other receivable balance. No other single customer represents greater than 10% of the Company's total revenue in the year ended December 31, 2011.

For the year ended December 31, 2010, the Company had one significant customer comprising 16% of total revenue. No other single customer represents greater than 10% of the Company's total revenue in the year ended December 31, 2010.

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

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

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 oilfield service industry.

The table below provides an analysis of the expected maturities of the Company's outstanding obligations:

	Carrying amount	Due prior to December 31 2012	2013	2014	2015	2016
Financial liabilities:						
Operating facility	$ 7,144	$ 7,144	$ -	$ -	$ -	$ -
Revolving facility	108,000	-	-	108,000	-	-
Bank mortgage	1,044	1,044	-	-	-	-
Trade and other current liabilities	39,075	39,075	-	-	-	-
Total	$ 155,263	$ 47,263	$ -	$ 108,000	$ -	$ -

Cash flows included in the maturity analysis may occur significantly earlier, or at significantly different amounts.

Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing returns.

The Company may use derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors. The Company does not apply hedge accounting in order to manage volatility within the statements of operations and comprehensive income.

Fair value:

Financial assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgement 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 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.

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

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

Capital management:

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

	December 31, 2011	December 31, 2010	January 1, 2010
Operating facility	$ 7,144	$ -	$ -
Revolving facility	108,000	45,000	-
Bank mortgage	1,044	1,111	-
Finance lease obligations	64	456	5
Total debt	116,252	46,567	5
Shareholders' equity	414,325	186,833	8,077
Less: cash and cash equivalents	-	(3,475)	(2,386)
Total capitalization	$ 530,577	$ 229,925	$ 5,696

Management is focused on several objectives while managing the capital structure of the Company, specifically:

- Ensuring the Company has the financing capacity to continue to execute on opportunities to increase overall market share through strategic acquisitions or organic growth that add value for the Company's shareholders;
- Maintaining a strong capital base to ensure that investor, creditor and market confidence are secured;
- Maintaining balance sheet strength, ensuring the Company's strategic objectives are met, while retaining an appropriate amount of leverage; and
- 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.

The Company 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 December 31, 2011, the Company had $44.9 million in available credit under its credit facilities and was in compliance with all debt covenants (see Note 13). There were no changes in the Company's approach to capital management during the year ended December 31, 2011. Subsequent to year-end, the Company issued $175 million of 7⅞% senior unsecured notes. See Note 27 for details.

22. Commitments:

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

	2012	2013	2014	2015	2016	Thereafter	Total
Operating leases	$ 2,922	$ 3,753	$ 3,309	$ 2,464	$ 2,453	$ 18,488	$ 33,389
Capital commitments	48,426	23	17	-	-	-	48,466
Purchase commitments	15,496	-	-	-	-	-	15,496
Total	$ 66,844	$ 3,776	$ 3,326	$ 2,464	$ 2,453	$ 18,488	$ 97,351

The Company believes that these commitments will be financed through a combination of cash flow generated from operating activities and available credit facilities.

Operating leases:

The Company has offices, vehicles and oil and gas service equipment under operating leases. The leases typically run for a period of one to ten years, with an option to renew the lease after that date.

Purchase and capital commitments:

The Company has agreements in place to purchase certain capital and other operational items with third parties.

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

23. Discontinued operations:

During 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 property and equipment including a building, field equipment and shop equipment used in the production services segment. During the year ended December 31, 2011, there were no significant transactions within the disposal group as the respective entities are being wound up.

On September 13, 2011, the Company sold its Canadian wholly owned subsidiary StimSol, the remainder of its production services segment, to a third party for gross proceeds equal to approximately $24.0 million. As a result of the net proceeds exceeding the carrying value of StimSol's net assets less cost to sell, the Company recognized a $10.1 million gain on sale of StimSol. No cash taxes were owed on this transaction.

The net income from discontinued operations for the years ended December 31, 2011 and 2010 is as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Revenue	$ 12,930	$ 11,589
Operating expenses	10,528	8,233
Gross profit	2,402	3,356
Administrative expenses	1,300	2,161
Finance costs	1	33
Other items	38	239
Income before tax from discontinued operations	1,063	923
Income tax expense (recovery)	310	(2,328)
Income from discontinued operations	753	3,251
Gain on sale of StimSol (net of tax)	10,111	-
Net income from discontinued operations	$ 10,864	$ 3,251

Assets and liabilities from discontinued operations as at December 31, 2011, December 31, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Current assets			
Trade and other receivables	$ -	$ 3,195	$ 1,801
Inventory	-	463	353
Prepaid expenses and other current assets	-	120	187
Total current assets	$ -	$ 3,778	$ 2,341
Non current assets			
Property and equipment	$ -	$ 6,412	$ 7,360
Deferred tax asset	-	2,420	-
Total non current assets	$ -	$ 8,832	$ 7,360
Current liabilities			
Trade and other payables	$ -	$ 1,778	$ 1,837
Current portion of provisions	-	20	-
Current portion of long term debt	-	23	274
Total current liabilities	$ -	$ 1,821	$ 2,111
Non current liabilities			
Long term debt	$ -	$ 7	$ 92
Total non current liabilities	$ -	$ 7	$ 92

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

23. Discontinued operations (continued):

The cash flows from discontinued operations for the years ended December 31, 2011 and 2010 were as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Operating Activities		
Net income from discontinued operations	$ 10,864	$ 3,251
Adjustments for:		
Depreciation in operating expenses	395	746
Depreciation in administrative expenses	34	36
Stock based compensation in operating expenses	(25)	25
Stock based compensation in administrative expenses	(44)	43
Gain on sale of StimSol	(10,111)	-
Income taxes expense	310	(2,328)
Finance costs	1	33
Other	21	206
Cash generated from operating activities	1,445	2,012
Taxes paid	(227)	-
Change in non-cash working capital	(2,663)	(1,617)
Cash flow (used in) from operating activities	(1,445)	395
Investing activities		
Net proceeds on sale of StimSol	22,546	-
Additions to property and equipment	(584)	(3,308)
Proceeds on sale of property and equipment	785	3,174
Changes in non-cash working capital	479	-
Cash flow from (used in) investing activities	23,226	(134)
Financing activities		
Drawdown (payment) of long term debt	34	(201)
Finance costs paid	-	(8)
Cash flow from (used in) financing activities	34	(209)
Increase in cash and cash equivalents	$ 21,815	$ 52

24. Related party transactions:

During the year ended December 31, 2011, the Company entered into sales transactions totaling approximately $5.6 million (2010: $Nil) with a customer who shares a common Director with the Company. These related party transactions, which have been recorded within the Company's revenue, are in the normal course of operations, have been measured at the agreed exchange amount, which is the amount of consideration established and agreed to by the related parties, and which is similar to those negotiated with third parties. All outstanding balances are to be settled with cash, and none of the balances are secured. At December 31, 2011, approximately $2.9 million (December 31, 2010: $Nil; January 1, 2010: $Nil) is outstanding in trade and other receivables.

25. Key management personnel:

During the year ended December 31, 2011, the Company paid compensation to key management personnel as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Short-term employee benefits	$ 2,559	$ 1,400
Stock based compensation(1)	499	279
	$ 3,058	$ 1,679

(1) The total fair value of stock options granted to key management personnel for the year ended December 31, 2011 was equal to $0.9 million (2010: $1.1 million) which is being recognized in net income over the options' vesting period.

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

26. Subsidiaries:

Details of the Company's material subsidiaries at the end of the reporting periods are as follows:

		Ownership interest (%)		
	Country of incorporation	December 31, 2011	December 31, 2010	January 1, 2010
Horizon Drilling Inc.	Canada	100	100	-
Stoneham Drilling Corporation	USA	100	100	-
Matrix Well Servicing Inc.	Canada	100	-	-
StimSol Canada Inc.	Canada	-	100	100

27. Subsequent events:

On January 30, 2012, the Company completed a private placement of $175 million aggregate principal amount of 7⅞% senior unsecured notes (the "Notes") due 2019. The Company used the net proceeds from the Notes offering to repay all of its outstanding indebtedness under its secured credit facilities and for general corporate purposes. As a result of the issuance of the Notes, the Company voluntarily reduced its Revolving Facility from $150 million to $125 million. Western's Operating Facility of $10 million remains unchanged. As a result of the issuance of the Notes, the Company's financial covenants related to the Maximum Consolidated Senior Debt to Consolidated EBITDA ratio decreased to 2.0 to 1.0 or less.

28. Explanation of transition to IFRS:

As stated in Note 2(a), these are the Company's first Financial Statements prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied in preparing the Financial Statements for the year ended December 31, 2011, the comparative information presented in these Financial Statements for the year ended December 31, 2010 and in the preparation of an opening IFRS balance sheet at January 1, 2010 (the Company's Transition Date).

In accordance with IFRS, the Company has complied with the requirements of IFRS 1. IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date. However, it also provides for certain optional exemptions and certain mandatory exceptions for first-time IFRS adopters.

Set forth below are the IFRS 1 applicable optional exemptions and mandatory exceptions applied in the Company's conversion from Previous GAAP to IFRS.

IFRS optional exemptions elected:

1. Business combinations - IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected to apply IFRS 3 to business combinations that occurred prospectively from the Transition Date and as such business combinations completed before the Transition Date have not been restated.

2. Deemed Cost - IFRS 1 provides the option for an entity to revalue property, plant and equipment ("PP&E") at fair value on the Transition Date and use this fair value as the deemed transition cost. This election applies to individual assets.

   The Company has elected to apply this exemption to its entire property and equipment balance at the Transition Date. The result is that no adjustment was required to arrive at the IFRS deemed cost values given that the Company had previously fair valued its balance sheet on December 22, 2009 under Previous GAAP. At December 22, 2009, due to the financial restructuring that occurred on that date, the Company applied CICA Handbook S. 1625, Comprehensive Revaluation of Assets and Liabilities, which resulted in the Company's property and equipment balance being adjusted to its respective fair value at that date. In addition, there was no difference in depreciation expense for the period between December 23, 2009 and January 1, 2010 between Previous GAAP and IFRS. Therefore, the December 31, 2009 property and equipment balance under Previous GAAP represented its fair value and deemed cost on January 1, 2010 under IFRS.

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

28. Explanation of transition to IFRS (continued):

In connection with the application of CICA Handbook S. 1625 on December 22, 2009, the Company reset its contributed surplus and its deficit to zero with the corresponding adjustment applied against share capital. In total, share capital was reduced by approximately $14.0 million as the $15.8 million deficit balance was eliminated which was offset by the elimination of $1.8 million in contributed surplus.

Considering IFRS 1 requirements, these adjustments were deemed appropriate, as all adjusted amounts were within the Company's net equity accounts and therefore the total equity value was not impacted and as such the opening balance sheet is a fair presentation of the Company's financial position as at January 1, 2010.

3. Stock based compensation - IFRS 2, Share-based Payment, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. IFRS 1 provides the option to not retrospectively apply the requirements of IFRS 2 to equity instruments that have vested prior to the Transition Date. As a result of the transition method elected, there was no adjustment to equity instruments granted after November 7, 2002 that had vested prior to January 1, 2010.

4. Compound financial instruments - IFRS 1 provides the exemption that allows an entity to use its previous GAAP's accounting treatment for compound financial instruments where the liability has been settled prior to January 1, 2010. Historically, Western issued convertible debt which would have been accounted for differently under IFRS. As a result of the Company electing to utilize this exemption, compound instruments entered into and settled prior to January 1, 2010 were not adjusted on transition to IFRS.

IFRS mandatory exceptions applicable to the Company:
Estimates - Hindsight was not used to create or revise estimates. The estimates previously made by the Company under Previous GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Reconciliation of Previous GAAP to IFRS:
In preparing its IFRS balance sheets, the Company has adjusted amounts previously reported in financial statements prepared in accordance with Previous GAAP. An explanation of how the transition from Previous GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity:

		December 31, 2010	January 1, 2010
Shareholders' equity under Previous GAAP		$ 187,322	$ 8,077
Differences increasing (decreasing) reported shareholders' equity:			
Property and equipment - depreciation	(a)	(576)	-
Provisions	(b)	(56)	-
Income taxes	(d)	144	-
Discontinued operations	(e)	(1)	-
Total shareholders' equity under IFRS		$ 186,833	$ 8,077

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

28. Explanation of transition to IFRS (continued):

Reconciliation of net income and comprehensive income:

			Year ended December 31, 2010
Net income and comprehensive income under Previous GAAP		$	27,049
Differences increasing (decreasing) reported net income:			
Property and equipment - depreciation	(a)		(576)
Provisions	(b)		(56)
Stock based compensation	(c)		26
Income taxes	(d)		144
Discontinued operations	(e)		3
Total net income and comprehensive income under IFRS		$	26,590

Notes to the reconciliation of Previous GAAP to IFRS:

(a) Property and equipment:

IAS 16, Property, plant and equipment, is effective as of January 1, 2010 and is applicable to all items of property and equipment at that date. The transition rules in IAS 16 and IFRS 1 as applied by the Company resulted in the following:

- Property and equipment were fair valued at the Transition Date which then became the item's deemed cost to be depreciated moving forward and resulted in no change in the carrying value due to the fact that items were previously fair valued under Previous GAAP as at December 22, 2009. There was no difference in depreciation expense between Previous GAAP and IFRS for the period between December 23, 2009 and January 1, 2010.
- The identification of certain significant components of property and equipment has resulted in a change to the estimated useful life of certain items of property and equipment in 2010 under IFRS. The change in estimate has resulted in adjustments to the carrying value and depreciation expense previously booked under Previous GAAP in 2010.

(b) Provisions:

Under IFRS, the Company recognized a provision due to an onerous office lease in 2010, as the benefit the Company expected to receive in the future no longer exceeded the cost of fulfilling the contract.

(c) Stock based compensation:

The Company has elected to apply IFRS 2, Share-based payments, to equity instruments granted after November 7, 2002 that had not vested by the Transition Date.

Under Previous GAAP, forfeitures of awards are recognized as they occur. Under IFRS, an estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. As a result, the Company adjusted its expense to reflect this difference.

(d) Income taxes:

Deferred taxes have been adjusted to give effect to adjustments related to the change in depreciation expense from transition to IFRS throughout 2010. As at January 1, 2010, no adjustment has been made to income taxes for the change in the classification of certain lease contracts as finance leases under IFRS, as the amounts were not significant.

(e) Discontinued operations:

As discussed in Note 23, the Company sold its wholly owned subsidiary StimSol on September 13, 2011. As a result of this transaction, the production services segment has been classified as a discontinued operation in accordance with IFRS 5, Non-current assets held for sale and discontinued operations. The transition to IFRS did not impact the determination of the discontinued operations but did impact the presentation of certain

28. Explanation of transition to IFRS (continued):

IFRS adjustments relating to the discontinued operations within the Company's statements of operations and balance sheets.

Leases:

Under Previous GAAP, leases of certain vehicles were classified as operating leases. Under IFRS, these vehicles have been classified as finance leases based on whether risk and rewards transfer to the lessee. As a result, capitalized leased obligations within discontinued operations on the consolidated balance sheet have been adjusted.

Stock based compensation:

As discussed in Note 28 (c), the Company previously recognized forfeitures as they occurred under Previous GAAP which resulted in an IFRS adjustment to account for the estimate of forfeitures at the date of grant. As a result, the Company adjusted its respective expense within discontinued operations on the statements of operations to reflect this difference relating to the production services segment.

(f) Presentation reclassifications

Reclassification of depreciation, amortization of intangibles and stock based compensation:
The Company has elected to present expenses in the statements of operations and comprehensive income based on the function of the expense. As a result, depreciation, amortization of intangibles and stock based compensation expenses have been reclassified to either operating expenses or administrative expenses based on their function.

Change in accounting policies:

(i) Business combinations: Following Previous GAAP, the Company adopted CICA handbook S. 1582, Business Combinations, which is consistent with IFRS 3, Business Combinations, as at January 1, 2010. Therefore, there have been no adjustments under IFRS related to the business combinations entered into in 2010.

(ii) Asset impairment: In accordance with IFRS, for the purpose of assessing impairment of property and equipment, management has identified CGUs based on the smallest group of assets that are capable of generating largely independent cash inflows. Under Previous GAAP, property and equipment was allocated to asset groups defined as the lowest level of assets and liabilities for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. In addition, the recoverable amount for the impairment analysis is based on discounted cash flows under IFRS, unlike Previous GAAP, where the recoverable amount was originally assessed on an undiscounted basis.

(iii) Income taxes presentation: Under IFRS, all deferred taxes are classified as non-current, irrespective of the classification of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary difference.

(iv) Stock based compensation: Under IFRS, an estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. Under Previous GAAP, the Company's policy was to account for the forfeitures as they occurred.

Material adjustments to the consolidated statements of cash flows for 2010:

Consistent with the Company's accounting policy choice under IAS 7, Statement of Cash Flows, interest paid and income taxes paid have moved into the body of the consolidated statement of cash flows, whereas they were previously disclosed as supplementary information. In addition, interest paid has been classified as a financing activity. There are no other material differences between the consolidated statement of cash flows presented under IFRS and the consolidated statement of cash flows presented under Previous GAAP.

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

28. Explanation of transition to IFRS (continued):

Reconciliation of the consolidated balance sheet under IFRS:

As at January 1, 2010:

Previous GAAP accounts	Note	Previous GAAP amounts	IFRS adjustments	IFRS amounts	IFRS accounts
Assets					
Current assets					
Cash		$ 2,386	$ -	$ 2,386	Cash
Accounts receivable		127	-	127	Trade and other receivables
Inventory		-	-	-	Inventories
Prepaid expenses		55	-	55	Prepaid expenses and other current assets
Current assets of discontinued operations		2,341	-	2,341	Current assets of discontinued operations
		4,909	-	4,909	
Non-current assets					
Property and equipment		-	-	-	Property and equipment
Assets of discontinued operations	(e)	7,310	50	7,360	Assets of discontinued operations
		$ 12,219	$ 50	$ 12,269	
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$ 1,984	$ -	$ 1,984	Trade payables and other current liabilities
Current portion of long term debt		5	-	5	Current portion of long term debt
Current liabilities of discontinued operations	(e)	2,088	23	2,111	Current liabilities of discontinued operations
		4,077	23	4,100	
Non-current liabilities					
Long term debt		-	-	-	Long term debt
Future income taxes		-	-	-	Deferred taxes
Liabilities of discontinued operations	(e)	65	27	92	Liabilities of discontinued operations
		4,142	50	4,192	
Shareholders' Equity					
Common shares		8,253	-	8,253	Share capital
Contributed surplus		1,835	-	1,835	Contributed surplus
Retained earnings (deficit)		(2,011)	-	(2,011)	Retained earnings (deficit)
		8,077	-	8,077	
		$ 12,219	$ 50	$ 12,269	

(1) Previous GAAP results have been adjusted as at January 1, 2010 to reflect the results of the production services division as discontinued operations (Note 23).

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

28. Explanation of transition to IFRS (continued):

Reconciliation of the consolidated balance sheet under IFRS:

As at December 31, 2010:

Previous GAAP accounts	Note	Previous GAAP amounts	IFRS adjustments	IFRS reclassifications	IFRS amounts	IFRS accounts
Assets						
Current assets						
Cash		$ 3,475	$ -	$ -	$ 3,475	Cash
Accounts receivable		28,060	-	-	28,060	Trade and other receivables
Inventory		-	-	-	-	Inventories
Prepaid expenses		892	-	432	1,324	Prepaid expenses and other current assets
Investment		180	-	(180)	-	
Deferred charges		252	-	(252)	-	
Future income taxes		1,167	-	(1,167)	-	
Assets of discontinued operations		3,778	-	-	3,778	Assets of discontinued operations
		37,804	-	(1,167)	36,637	
Non-current assets						
Property and equipment	(a)	188,931	(576)	-	188,355	Property and equipment
Goodwill		29,117	-	-	29,117	Goodwill
Future income taxes		-	-	1,167	1,167	Deferred taxes
Assets of discontinued operations	(e)	8,803	29	-	8,832	Assets of discontinued operations
		$ 264,655	$ (547)	$ -	$ 264,108	
Liabilities						
Current liabilities						
Accounts payable and accrued liabilities		$ 20,852	$ -	$ -	$ 20,852	Trade payables and other current liabilities
Current portion of deferred credits	(b)	239	56	-	295	Current portion of provisions
Current portion of long term debt		513	-	-	513	Current portion of long term debt
Liabilities of discontinued operations	(e)	1,798	23	-	1,821	Liabilities of discontinued operations
		23,402	79	-	23,481	
Non-current liabilities						
Deferred credits		356	-	-	356	Provisions
Long term debt		46,054	-	-	46,054	Long term debt
Future income taxes	(d)	7,521	(144)	-	7,377	Deferred taxes
Liabilities of discontinued operations	(e)	-	7	-	7	Liabilities of discontinued operations
		77,333	(58)	-	77,275	
Shareholders' Equity						
Common shares		159,895	-	-	159,895	Share capital
Contributed surplus	(d)	2,389	(30)	-	2,359	Contributed surplus
Retained earnings		25,038	(459)	-	24,579	Retained earnings
		187,322	(489)	-	186,833	
		$ 264,655	$ (547)	$ -	$ 264,108	

(1) Previous GAAP results have been adjusted as at December 31, 2010 to reflect the results of the production services division as discontinued operations (Note 23).

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

28. Explanation of transition to IFRS (continued):

Reconciliation of the consolidated statement of operations and comprehensive income under IFRS:

For the year ended December 31, 2010:

Previous GAAP accounts	Note	Previous GAAP amounts	IFRS adjustments	IFRS reclassifications	IFRS amounts	IFRS accounts
Revenue		$ 56,009	$ -	$ -	$ 56,009	Revenue
Operating expenses		33,108	-	-	40,130	Operating expenses
	(f)			6,941		Operating expenses-Depreciation and amortization
	(f)			81		Operating expenses-Stock based compensation
General and administrative	(b)	6,363	35	-	6,897	Administrative expenses
	(f)			124		Administrative expenses-Depreciation
	(f)			375		Administrative expenses-Stock based compensation
Depreciation	(a)	5,924	576	(6,500)	-	
Amortization of intangibles	(f)	565	-	(565)	-	
Stock-based compensation	(c)	482	(26)	(456)	-	
Interest and finance costs	(b)	862	21	-	883	Finance costs
				1,600	1,600	Other items
Loss on sale of assets		16	-	(16)	-	Loss on sale of assets
Foreign exchange (gain) loss		(3)	-	3	-	Foreign exchange (gain) loss
Acquisition costs		1,587	-	(1,587)	-	Acquisition costs
Gain on business acquisitions		(19,653)	-	-	(19,653)	Other income-gain on business acquisitions
Income from continuing operations before taxes		26,758	(606)	-	26,152	Income from continuing operations before taxes
Future income taxes	(d)	2,957	(144)	-	2,813	Income taxes
Net income from continuing operations		23,801	(462)	-	23,339	Net income from continuing operations
Net income from discontinued operations	(e)	3,248	3	-	3,251	Net income from discontinued operations
Net income and comprehensive income		$ 27,049	$ (459)	$ -	$ 26,590	Net income and comprehensive income

(1) Previous GAAP results have been adjusted for the year ended December 31, 2010 to reflect the results of the production services division as discontinued operations (Note 23).