WESTERN ENERGY SERVICES CORP.

ANNUAL REPORT

2012

WESTERN ENERGY SERVICES CORP.

Western is an oilfield service company which provides contract drilling services in Canada through its Horizon Drilling division and in the United States through its wholly-owned subsidiary Stoneham Drilling Corporation. In addition, Western provides well servicing in Canada through its Matrix Well Servicing division.

2012

OPERATING HIGHLIGHTS

Year ended December 31	2012	2011	% Change
Contract Drilling			
CANADIAN OPERATIONS			
Average contract drilling rig fleet	41	32	28
Drilling revenue per operating day *(CDN$)*	32,212 (1)	29,885	8
Drilling rig utilization rate per revenue day (2)	60%	77%	(22)
Drilling rig utilization rate per operating day (3)	54%	70%	(23)
CAODC industry average utilization rate (3)	42%	52%	(19)
UNITED STATES OPERATIONS			
Average contract drilling rig fleet	5	4 (4)	25
Drilling revenue per operating day *(US$)*	33,315	33,038	1
Drilling rig utilization rate per revenue day (2)	85%	89% (4)	(4)
Drilling rig utilization rate per operating day (3)	68%	70% (4)	(3)
Well Servicing			
Average well servicing rig fleet	5	–	–
Revenue per service hour *(CDN$)*	596	–	–
Service rig utilization rate (5)	36%	–	–

FINANCIAL HIGHLIGHTS

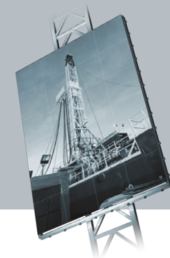
(stated in thousands of Canadian dollars except share and per share amounts)

Year ended December 31	2012	2011	% Change
Revenue	308,617	262,519	18
Gross margin	131,063	114,837	14
Gross margin as a percentage of revenue	42%	44%	(5)
EBITDA	108,931	99,324	10
EBITDA as a percentage of revenue	35%	38%	(8)
Cash flow from operating activities	104,916	59,368	77
Capital expenditures	127,231	88,869	43
Net income from continuing operations	45,178	53,882	(16)
– Basic net income per share	0.77	1.04 (6)	(26)
– Diluted net income per share	0.74	1.00 (6)	(26)
Net income	45,178	64,746	(30)
– Basic net income per share	0.77	1.25 (6)	(38)
– Diluted net income per share	0.74	1.21 (6)	(39)
Weighted average number of shares			
– Basic	58,784,692	51,595,078 (6)	14
– Diluted	60,860,359	53,640,617 (6)	13
Outstanding common shares as at period end	59,582,143	58,533,287 (6)	2
Dividends declared	8,924	–	–
Dividends declared per common share	0.15	–	–

(1) Excludes $2.2 million of standby revenue from take or pay contracts.
(2) Drilling rig utilization rate per revenue day is calculated based on operating and move days.
(3) Drilling rig utilization rate per operating day is calculated on operating days only (i.e. spud to rig release basis).
(4) Calculated from the date of acquisition of the United States operations (June 10, 2011).
(5) Service rig utilization rate calculated based on full utilization of 10 hours per day, 365 days per year.
(6) Adjusted to reflect the 20:1 share consolidation completed on June 22, 2011.

REPORT TO SHAREHOLDERS

As a service provider to the oil and gas industry, the Western team is proud of and pleased with the substantial positive changes achieved during 2012. This step change was evident throughout all facets of our business during the year and has resulted in considerable process and operating improvements and increases in our financial and operational capabilities.



OUR INDUSTRY IN 2012

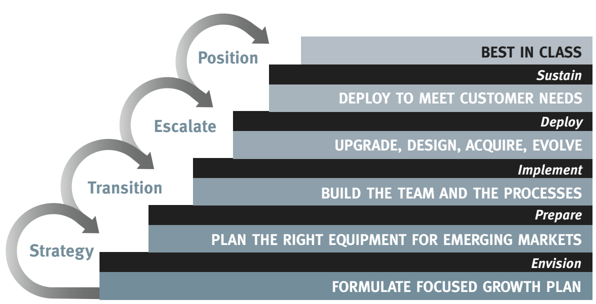
To put this year in perspective, Western's transformation into a premier oilfield service provider in 2012 was the direct result of the numerous acquisitions completed during the previous two years. With 38 drilling rigs in Canada and 5 rigs in the U.S., Western achieved strong rig utilization for the first quarter. As the traditionally slow second quarter unfolded, it became apparent that oil companies were not prepared to spend premium dollars to drill during what was a very wet quarter. At the same time, oil prices began to fall with many customers holding the view that oil may decline below $60 (WTI) a barrel. Throughout the third quarter of 2012, price concerns prevailed and although drilling activity picked up in July, it began to fade later in August with some slight pricing pressure entering the fourth quarter. With activity levels and pricing reduced, the second half of the year was a complete reverse of the first half of the year where Western was on target with its corporate budget. Ultimately, oil prices held, there were positive signs of improving natural gas prices and activity levels increased in November all of which resulted in a reasonably strong finish to the year.

Consequently – with fluctuating industry activity levels, commodity price uncertainty, differentials in pricing between WTI and various Canadian oil prices, concerns over takeaway pipeline capacity, and the uncertainty regarding approvals of foreign acquisitions – our industry is still waiting for the final pieces of the puzzle to come together relating to various infrastructure solutions and the finalization of the LNG projects that are at various stages of development by their respective partners. With so much uncertainty on so many fronts it is easy to understand the hesitation of investors to commit the capital required to create the positive capital platform required for many midsize oil companies to proceed with their strategic plans.

STEP CHANGE — SERVICING, TRANSITIONING, EVOLVING AND POSITIONING WESTERN

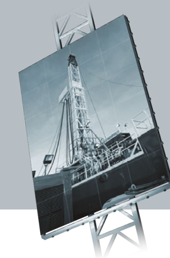
So what does this mean to Western and why all the optimism within the organization? Frankly, we believe we are just closer to the situation and are poised to seize opportunities this environment may present. Western has planned all the steps; we have designed, prepared and built the processes and the team. We are positioned well, are flexible and can deploy rapidly. Our "Step Change" has been a structured process. So what are the step changes we have introduced over the last year?

The services provided within our organization to support our field operations have been expanded to meet the increasing complexity of our operations so that we may deliver the superior service our customers have grown to expect. We are organized into two operation centres in Canada with one operation centre focused on our people working at our rigs and the second operation centre focused on maintaining our equipment, including carrying sufficient inventory of critical spare equipment to ensure efficient field operations. We now operate 50 drilling rigs in Canada and the United States. Western also introduced a new service line of truck mounted service rigs during the first quarter of 2012 that are gaining customer acceptance. We have delivered ten service rigs to date. From the corporate service side of the business, we have strengthened our safety, marketing, tax, treasury and payroll departments to support both our employees and customers.



The transitioning of our capital structure on the balance sheet early in 2012 with a high yield bond issue for $175 million maturing in seven years was of high priority. With the terming out of our debt, we now have more borrowing capacity to finance future growth opportunities. The long-term nature of the bond better matches the long-term life of the assets we operate and provides Western with greater stability through our business cycle. Operationally, with the increased number of rigs in our fleet, we have transitioned to customers requiring multiple rigs to meet their larger scale drilling programs. Both of these changes should provide our current and future shareholders with greater stability from their investment in Western.

The evolution of the equipment and technology in the drilling industry continues at a rapid pace and Western's progress has been second to none. We now operate a fleet of rigs with approximately 95% of them complete with top drives. We have been leaders in providing higher horsepower mud pumps to meet the demands of our customers seeking to optimize returns in technically complex reservoirs. Western has a sizeable number of pad wells completed and has successfully won a bid to build a contracted pad rig for the much discussed Lindberg project. All of this investment has solidified our company as a clear contender for the large resource plays expected to ramp up in northeast British Columbia.



Positioning Western as a first call, quality service company in the Canadian drilling market for technically complex wells was a major achievement during 2012. We have strengthened our corporate management team, including assembling an in-house engineering team capable of designing leading edge drilling equipment. We are well positioned with a solid base of critical spare equipment that ensures the minimization of down-time of our field equipment. We have introduced and implemented an array of new systems and procedures for both the corporate group and operations, to assure top tier service to our customers and shareholders.

SOME FACTS AND FIGURES

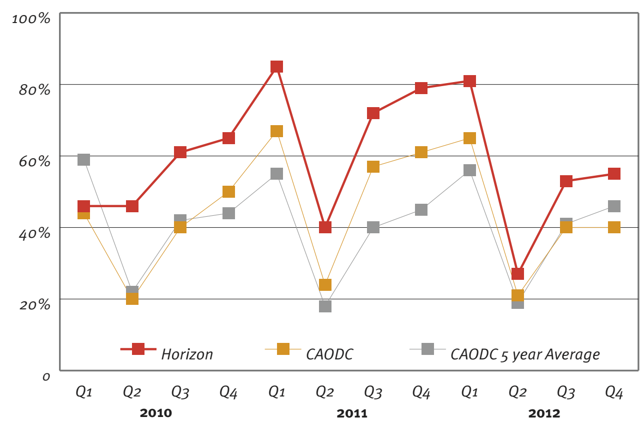
Activity in the contract drilling industry in Canada was lower in 2012 with the number of wells drilled on a rig release basis decreasing by 14% over the prior year, which resulted in the industry's operating days also decreasing by 14%. However, the industry average drilling days per well improved slightly to 12.1 days, a 6% increase, reflecting the increased depth and complexity of the wells being drilled by the industry.

Western's drilling rig utilization per operating day was 54% in Canada compared to 70% in 2011 and was 68% in the United States compared to 70% in 2011. The well servicing rig utilization rate was 36% for 2012.

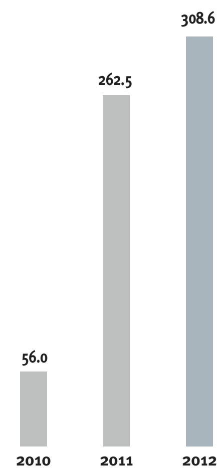
With a larger fleet size during 2012, Western delivered:

- an increase in revenue by 18% to $308.6 million in 2012 compared to $262.5 million in 2011;
- an increase in EBITDA by 10% to $108.9 million in 2012 compared to $99.3 million in 2011; and
- a decrease in net income from continuing operations by 16% to $45.2 million in 2012 compared to $53.9 million in 2011.

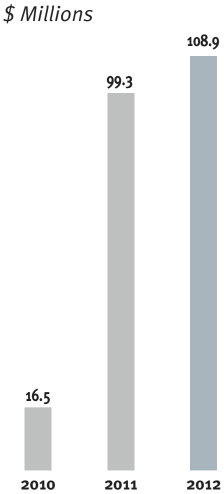
Rig Utilization



Revenue
$ Millions



EBITDA
$ Millions



GOING FORWARD – SUSTAINING MOMENTUM

The outlook for the oil and gas industry continues to be promising but it is not without challenges. The Canadian government took a balanced approach to all of the transactions announced pertaining to foreign investment of various Canadian oil and gas companies which has laid the foundation for the long awaited LNG facilities on the west coast and the development of the largely untapped natural gas in northeast British Columbia. If these projects are completed, this introduction will finally give Canada the ability to sell its energy to a second market, which is arguably larger than the United States market. Liquid rich resource plays and long reach oil wells will continue to deliver a relatively stable base to the Canadian basin, with a view that the Duvernay field will become a focus for many companies in the near term.

The hurdles are many, starting with the continuous discussions surrounding both oil and gas prices and the 'bitumen bubble'. With respect to natural gas in northeast British Columbia, it is believed that drilling will proceed regardless of the domestic natural gas prices as LNG will be marketed and sold abroad at a higher price than the current domestic price. As far as oil is concerned, the differentials relating to Canadian crude seem to be the biggest hurdle and a solution to the takeaway capacity is required to open up new markets outside of North America for our production and to gain access to the U.S. Gulf Coast refineries. With the improving Chinese and U.S. economies it is generally viewed that oil will be an important component and therefore a solution must be reached. The bottleneck may be resolved in a few ways – firstly, rail cars that continue to be introduced on a regular basis and, secondly, pipelines which are progressing through the approval stage.

Horizon Drilling Rig 34 — Top Safety Performer

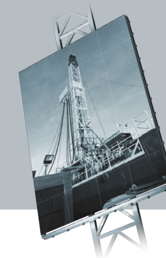
Western is well positioned in the Canadian market to participate in the northeast British Columbia development of natural gas while maintaining its strong presence throughout the rest of Western Canada. We expect our well servicing activity to be slow in the near term as a direct result of its relationship to the heavy oil differentials. We expect this will be alleviated as the summer paving season begins and there is a pick-up in demand for this product.

In a year with so many changes within an organization, management must recognize the depth of its team of men and women who have worked hard to reshape the company during 2012. Thank you for your efforts and commitment in building a best in class oilfield service company.

On behalf of the Board of Directors,

DALE E. TREMBLAY
Chairman and Chief Executive Officer

March 20, 2013



2012

SAFETY REVIEW

A safe work environment is gained with positive attitude, education, leading by example and the ability to teach and learn from one another. We believe that all employees, from the CEO to the newest person on the job are responsible for the prevention of incidents. It is only as a team that we will be able to achieve zero incidents.

Western is committed to providing and maintaining a healthy and safe environment for our employees, through a comprehensive health, safety and environmental protection program. Our policy is to provide quality products and services, while taking all reasonable steps to safeguard and protect our employees, contractors, customers, property, the public and the environment.

HEALTH AND SAFETY

In 2012, Western further refined its Health, Safety and Environment programs, emphasizing communication, training and competency within our workforce. Program improvements included new orientation, work place hazard modules, rig specific Job Task Analysis (JTA) and the continuation of the new Leading Indicator Document (LID) program that encourages active participation by all personnel in hazard identification, job observation and near miss reporting.

ENVIRONMENTAL STEWARDSHIP

Western continued its environmental stewardship, reporting any spills to Federal and Provincial regulatory bodies and maintaining an environmental management program. This program included environmental site assessments and remedial work to reduce our environmental risk exposure.

Ongoing program improvements and active participation by employees resulted in significant safety and environmental improvements for Western in 2012, bringing us one step closer to our goal and belief that an injury free workplace is attainable and sustainable.

Management Discussion & Analysis 2012 — Dated: February 27, 2013

The following discussion of the financial condition, changes in financial condition and results of operations of Western Energy Services Corp. (the "Company" or "Western") should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Company for the years ended December 31, 2012 and 2011. This Management Discussion & Analysis ("MD&A") is dated February 27, 2013. All amounts are denominated in Canadian dollars (CDN$) unless otherwise identified.

Financial Highlights	**Three months ended December 31**		**Year ended December 31**		
(stated in thousands, except share and per share amounts)	**2012**	**2011**	**2012**	**2011**	**2010**
Revenue	83,338	101,300	308,617	262,519	56,009
Gross Margin(1)	37,360	47,170	131,063	114,837	22,902
Gross Margin as a percentage of revenue	45%	47%	42%	44%	41%
EBITDA(1)	31,381	41,473	108,931	99,324	16,504
EBITDA as a percentage of revenue	38%	41%	35%	38%	29%
Cash flow from operating activities	11,021	25,337	104,916	59,368	10,953
Capital expenditures	20,328	34,336	127,231	88,869	21,282
Net income from continuing operations	13,092	24,923	45,178	53,882	23,339
-basic net income per share	0.22	0.43	0.77	1.04 (2)	1.03 (2)
-diluted net income per share	0.22	0.41	0.74	1.00 (2)	0.96 (2)
Net income	13,092	24,314	45,178	64,746	26,590
-basic net income per share	0.22	0.42	0.77	1.25 (2)	1.17 (2)
-diluted net income per share	0.22	0.40	0.74	1.21 (2)	1.09 (2)
Weighted average number of shares					
-basic	59,485,594	58,533,287	58,784,692	51,595,078 (2)	22,724,270 (2)
-diluted	60,800,390	60,549,515	60,860,359	53,640,617 (2)	24,385,704 (2)
Outstanding common shares as at period end	59,582,143	58,533,287	59,582,143	58,533,287	37,680,944 (2)
Dividends declared	4,469	-	8,924	-	-
Dividends declared per common share	0.075	-	0.15	-	-

Operating Highlights					
Contract Drilling					
Canadian Operations					
Average contract drilling rig fleet	44	37	41	32	13
Drilling revenue per operating day (CDN$)	31,904 (3)	33,199	32,212 (3)	29,885	25,349
Drilling rig utilization rate per revenue day(4)	62%	88%	60%	77%	64%
Drilling rig utilization rate per operating day(5)	55%	79%	54%	70%	58%
CAODC industry average utilization rate(5)	40%	61%	42%	52%	37%
United States Operations					
Average contract drilling rig fleet	5	5	5	4 (6)	-
Drilling revenue per operating day (US$)	33,017	30,705	33,315	33,038	-
Drilling rig utilization rate per revenue day(4)	79%	93%	85%	89% (6)	-
Drilling rig utilization rate per operating day(5)	62%	79%	68%	70% (6)	-
Well Servicing					
Average well servicing rig fleet	7	-	5	-	-
Revenue per service hour (CDN$)	614	-	596	-	-
Service rig utilization rate(7)	45%	-	36%	-	-

(1) See Financial Measures Reconciliations on page 2.
(2) Adjusted to reflect the 20:1 share consolidation completed on June 22, 2011.
(3) Excludes $2.2 million of standby revenue from take or pay contracts.
(4) Drilling rig utilization rate per revenue day is calculated based on operating and move days.
(5) Drilling rig utilization rate per operating day is calculated on operating days only (i.e. spud to rig release basis).
(6) Calculated from the date of acquisition of the United States operations (June 10, 2011).
(7) Service rig utilization rate calculated based on full utilization of 10 hours per day, 365 days per year.

Financial Position at (stated in thousands)	December 31, 2012	December 31, 2011	December 31, 2010
Working capital	77,628	39,874	13,156
Property and equipment	568,157	473,930	188,355
Total assets	749,448	619,645	264,108
Long term debt	186,948	108,039	46,054

Financial Measures Reconciliations

Western uses certain measures in this MD&A which do not have any standardized meaning as prescribed by International Financial Reporting Standards ("IFRS"). These measures which are derived from information reported in the consolidated statements of operations and comprehensive income may not be comparable to similar measures presented by other reporting issuers. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Company.

Gross Margin

Management believes that in addition to net income, Gross Margin is a useful supplemental measure as it provides an indication of the results generated by Western's principal operating activities prior to considering administrative expenses, depreciation and amortization, how those activities are financed, the impact of foreign exchange, how the results are taxed, how funds are invested, and how non-cash items and one-time gains and losses affect results.

EBITDA

Management believes that in addition to net income, earnings from continuing operations before interest and finance costs, taxes, depreciation and amortization, other non-cash items and one-time gains and losses ("EBITDA") is a useful supplemental measure as it provides an indication of the results generated by the Company's principal operating segments similar to Gross Margin but also factors in the cash administrative expenses incurred in the period.

Operating Earnings

Management believes that in addition to net income, Operating Earnings is a useful supplemental measure as it provides an indication of the results generated by the Company's principal operating segments similar to EBITDA but also factors in the depreciation expense charged in the period.

The following table provides a reconciliation of net income under IFRS as disclosed in the consolidated statements of operations and comprehensive income to Gross Margin, EBITDA and Operating Earnings:

	Three months ended December 31		Year ended December 31	
(stated in thousands)	2012	2011	2012	2011
Gross Margin	37,360	47,170	131,063	114,837
Add (subtract):				
Administrative expenses	(6,572)	(6,260)	(24,409)	(16,987)
Depreciation - administrative	365	165	971	446
Stock based compensation - administrative	228	398	1,306	1,028
EBITDA	31,381	41,473	108,931	99,324
Depreciation - operating	(9,067)	(9,012)	(31,890)	(24,541)
Depreciation - administrative	(365)	(165)	(971)	(446)
Operating Earnings	21,949	32,296	76,070	74,337
Stock based compensation - operating	(153)	(125)	(537)	(307)
Stock based compensation - administrative	(228)	(398)	(1,306)	(1,028)
Finance costs	(3,237)	(1,246)	(12,437)	(3,650)
Other items	(583)	1,472	(756)	(677)
Income taxes	(4,656)	(7,076)	(15,856)	(14,793)
Income from discontinued operations	-	(609)	-	10,864
Net income	13,092	24,314	45,178	64,746

Overall Performance and Results of Operations

Western is an oilfield service company providing contract drilling services through its wholly owned subsidiaries Horizon Drilling Inc. (“Horizon”) in Canada and Stoneham Drilling Corporation (“Stoneham”) in the United States, which was acquired on June 10, 2011. In addition, during the first quarter of 2012, Western commenced well servicing operations through its wholly owned subsidiary Matrix Well Servicing Inc. (“Matrix”). On September 13, 2011, Western sold all of the shares owned and debt owing from its wholly owned subsidiary StimSol Canada Inc. (“StimSol”), and, as such, prior period results relating to StimSol have been reclassified as discontinued operations. On January 1, 2013, Western amalgamated with Horizon and Matrix to form one legal entity. Horizon and Matrix now operate as divisions of Western.

While commodity price environments for crude oil and natural gas in Canada have softened in 2012 as compared to 2011, prices for crude oil have remained above the five year average. The demand for oil, along with an emphasis on liquids rich natural gas, has primarily resulted in the drilling of horizontal wells in both conventional and unconventional resource plays. Horizontal wells in the western Canadian sedimentary basin (“WCSB”) as a percentage of all wells drilled increased by 20% in 2012 to 66% compared to 55% in 2011. This has resulted in continued demand for drilling rigs in the WCSB, with the industry utilization rate averaging 42% during 2012, which is higher than the five year average of 40%, but lower than the prior year when industry utilization of 52% was at a five year high. The number of wells drilled on a rig release basis in Canada decreased by 14% in 2012, which resulted in the industry’s operating days in Canada decreasing by 14%. However, the industry average drilling days per well improved slightly to 12.1 days, a 6% increase, reflecting the increased depth and complexity of the wells being drilled by the industry. During 2012, Western’s entire drilling rig fleet has been focused on drilling horizontal wells. In Canada, Western averaged 17.5 operating days per well drilled in 2012 as compared to 14.1 operating days per well in the prior year reflecting the 29% increase in meters drilled per well which averaged 3,336 meters in 2012 as compared to 2,596 meters in 2011. In the United States, Western averaged 26.3 operating days per well drilled in 2012 as compared to 33.7 operating days per well in the prior year, a 22% decrease. However, the average meters drilled per well totalled 5,897 meters in 2012 in the United States, compared to 5,564 meters in 2011, a 6% increase. Days per well decreased while meters per well increased in the United States as improved drilling practices led to greater hole penetration per day. The average time it takes to drill a well has a direct relationship to the complexity and depth of the well.

Key operational results for the fourth quarter of 2012 include:

- During the quarter, the Company’s contract drilling rig fleet increased due to the commissioning of one new telescopic Efficient Long Reach (“ELR”) double drilling rig. As such, the Company exited the period with 44 drilling rigs in Canada along with 5 drilling rigs in the United States for a total contract drilling rig fleet of 49. Western currently has a drilling rig fleet of 50 rigs, with an additional telescopic ELR double drilling rig under construction which will be the Company’s first convertible pad rig. Additionally, during the quarter the Company’s well servicing fleet increased due to the commissioning of three new service rigs. As such, the Company exited 2012 with a fleet of eight well servicing rigs . Subsequent to December 31, 2012, the Company commissioned 2 more well servicing rigs, resulting in the Company’s total well servicing rig fleet increasing to 10.
- Fourth quarter revenues decreased by $18.0 million (or 18%) to $83.3 million in 2012 as compared to $101.3 million in 2011. In Canada, revenues in the contract drilling segment were $19.6 million lower mainly due to a 19% decrease in operating days coupled with a 4% decrease in revenue per operating day. In the United States, operating days were 22% lower than in the fourth quarter of 2011 partially offset by revenue per operating day increasing by 8%. The slowdown in oilfield service activity was due in part to uncertain economic conditions, increased pricing differentials on Canadian crude oil and lower natural gas prices, which resulted in reduced producer spending on capital programs as capital markets tightened. Lower revenue in the contract drilling segment was partially offset by $1.6 million in well servicing revenue.
- Fourth quarter EBITDA decreased by $10.1 million (or 24%) to $31.4 million in 2012 (38% of revenue), as compared to $41.5 million in 2011 (41% of revenue). Similar to revenue, the decrease in EBITDA is mainly due to decreased utilization in the contract drilling segment coupled with higher administrative expenses. Cash flow from operating activities decreased by $14.3 million (or 57%) to $11.0 million in 2012 mainly due to the $10.1 million decline in EBITDA as well as a $5.2 million decrease in the change in non-cash working capital.
- Administrative expenses, excluding depreciation and stock based compensation, in the fourth quarter of 2012 remained relatively consistent increasing by $0.3 million to $6.0 million (7% of revenue) as compared to $5.7 million in 2011 (6% of revenue).
- Net income decreased by $11.2 million to $13.1 million in the fourth quarter of 2012 ($0.22 per basic common share) as compared to $24.3 million in the same period in the prior year ($0.42 per basic common share). The decrease is mainly attributed to the $10.1 million decrease in EBITDA, higher finance costs of $2.0 million due to the $175.0 million issuance in senior notes in the first quarter of 2012 offset by a $0.9 million decrease in other expenses.

- The total capital expenditures in the fourth quarter of $20.3 million include $13.2 million of expansion capital, $2.7 million of maintenance capital, and $4.4 million for critical spares. The majority of the fourth quarter 2012 capital expenditures relate to the contract drilling segment, which incurred $16.4 million in capital expenditures. These expenditures mainly relate to Western's drilling rig build program, which totalled $10.1 million in the fourth quarter. The remaining capital spending in the contract drilling segment related to ancillary drilling equipment. Additionally, $3.2 million was incurred in the well servicing segment mainly relating to Western's well servicing rig build program.

Key operational results for the year ended December 31, 2012 include:

- Revenues for 2012 increased by $46.1 million (or 18%) to $308.6 million as compared to $262.5 million in the same period of the prior year. The increase reflects Western's increased rig fleet in the contract drilling segment following the acquisition of Stoneham Drilling Trust in June of 2011 and the Company's capital program, which resulted in the Company's average fleet increasing to 46 rigs, a 28% increase over the prior year. In Canada, revenue per operating day increased to $32,212 in 2012 compared to $29,885 in 2011, however utilization per operating day decreased to 54% in 2012, as compared to 70% in 2011. In the United States, utilization and day rates remained relatively consistent with utilization per operating day of 68% in 2012 compared to 70% in 2011 and average revenue per operating day of US$33,315 in 2012 compared to US$33,038 in 2011. While utilization and day rates were relatively consistent in 2012 as compared to 2011, revenue in the United States increased by $20.0 million mainly due to a full year of operations as compared to a partial year in 2011 following the acquisition of Stoneham Drilling Trust.
- EBITDA increased by $9.6 million (or 10%) to $108.9 million (35% of revenue) in 2012 as compared to $99.3 million (38% of revenue) in 2011 due to improved drilling day rates in Canada and an increased drilling rig fleet resulting from the Company's growth. EBITDA did not increase at the same rate as revenue due to lower drilling rig utilization and increased administrative expenses. Cash flow from operating activities increased by $45.5 million (or 77%) to $104.9 million in 2012, due to the year over year increase in the change in non-cash working capital of $33.3 million, coupled with the $9.6 million increase in EBITDA in the period.
- Administrative expenses, excluding depreciation and stock based compensation, increased by $6.6 million to $22.1 million in 2012 (7% of revenue) as compared to $15.5 million in 2011 (6% of revenue). The increase is due to a strengthened management team and higher staffing levels required to support the Company's previous growth in the United States and Canada and to position the Company for future expansion.
- For 2012, net income decreased by $19.6 million to $45.2 million ($0.77 per basic common share) as compared to $64.7 million in the same period of the prior year ($1.25 per basic common share). The decrease in large part is due to the $10.1 million gain recognized on the sale of StimSol in the third quarter of the prior year. After normalizing for this transaction, net income decreased by $9.5 million. The normalized decrease is mainly attributable to increased finance costs of $8.8 million subsequent to the January 2012 senior notes issuance, increased depreciation expense of $7.9 million due to increased operating days and a larger rig fleet in 2012, offset by the $9.6 million increase in EBITDA.
- Total capital expenditures of $127.2 million in 2012 include $72.9 million in expansion capital, $31.8 million in maintenance capital and $22.5 million in critical spares. The majority of the 2012 capital expenditures related to the contract drilling segment, which incurred $110.3 million, or 87% of the capital program. These expenditures mainly relate to Western's drilling rig build program, which incurred $58.7 million in the period. The remaining capital spending in the contract drilling segment related to ancillary drilling equipment. Additionally, $12.4 million was incurred in the well servicing segment mainly related to Western's service rig build program.
- On January 30, 2012, Western completed a private offering of $175.0 million aggregate principal amount of 7⅞% senior unsecured notes due January 30, 2019 (the "Senior Notes"). The Senior Notes were issued at par. Western used the net proceeds from the 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 Senior Notes, Western voluntarily reduced its revolving credit facility from $150.0 million to $125.0 million. Western's operating facility of $10.0 million remains unchanged.
- During the second quarter, the Company extended the maturity on its $125.0 million revolving credit facility by one year to June 7, 2015.

Subsequent Events

- Subsequent to year end on February 21, 2013, the Company entered into an Arrangement Agreement whereby, subject to certain conditions, the Company will acquire all of the issued and outstanding shares of IROC Energy Services Corp. ("IROC") in exchange for a combination of cash and common shares of Western. The total transaction value is approximately $193.7 million, including the assumption of approximately $36.6 million in debt and IROC transaction costs. A portion of the consideration will be paid for in shares of the Company at an ascribed value of $7.63 per Western share. In accordance with IFRS 3, Business Combinations, the actual consideration will be determined based on the closing price of Western's shares immediately before the acquisition. The transaction is expected to be completed by way of a Plan of Arrangement under the Business Corporations Act of Alberta and is subject to normal stock exchange, court and regulatory approvals and the approval by at least 66 2/3 percent of the outstanding shares of IROC and any applicable minority shareholder approval requirements voted on at a special meeting of the shareholders of IROC, which is expected to be held prior to the end of April 2013.
- During the third quarter, Western's Board of Directors announced the implementation of a dividend policy that provides for an annual cash dividend of $0.30 per share. As such, the Board of Directors declared the following dividends during the year:
    - $0.075 per share, which was paid on October 12, 2012 to shareholders of record at the close of business on September 28, 2012;
    - $0.075 per share, which was paid on January 11, 2013, to shareholders of record at the close of business on December 31, 2012.

  Subsequent to year end, on February 27, 2013, the Board of Directors of Western declared a quarterly dividend of $0.075 per share, payable on April 12, 2013 to shareholders of record at the close of business on March 28, 2013. On a prospective basis, the declaration of dividends will be determined on a quarter-by-quarter basis by the Board of Directors.

Outlook

Western currently has a drilling rig fleet of 50 rigs, with an additional telescopic ELR double drilling rig under construction which will be the Company's first convertible pad rig. Western is the sixth largest drilling contractor in Canada with a fleet of 45 rigs. Currently, Western has five drilling rigs deployed in the United States. Additionally, Western has 10 well servicing rigs operating in Canada in the Lloydminster area.

Western's drilling rig fleet is specifically suited for the current market which is focused on drilling horizontal wells of increased complexity. In total, 96% of Western's fleet are ELR rigs with depth ratings greater than 3,000 meters and all of Western's rigs are capable of drilling resource based horizontal wells. Approximately one quarter of Western's fleet is currently under long term take-or-pay contracts with an average remaining contract life of approximately 14 months, which provide a base level of revenue. These contracts typically generate 250 operating days per year in Canada, as the annual spring breakup restricts activity during the second quarter, while in the United States these contracts typically range from 330 to 365 revenue generating days per year.

Western expects capital spending in 2013 to total $80 million including $20 million of carry forward capital from 2012 and $60 million relating to Western's 2013 capital budget. Western's 2013 capital budget includes approximately $28 million in expansion capital, $20 million in maintenance capital and $12 million in critical spare equipment. Expansion capital in the contract drilling segment aggregates to approximately $19 million and mainly relates to increasing our drilling rig fleet's pumping capacity in Canada and adding rig moving systems to certain drilling rigs in the United States, as well as additional drill pipe and other drilling equipment. Maintenance capital in 2013 of $20 million includes $10 million in drilling equipment, $6 million in drill pipe and $4 million relating to equipment recertifications.

Approximately $20 million remaining from Western's 2012 capital program is expected to be spent in 2013 mainly relating to the completion of two telescopic ELR double drilling rigs, one of which has already been commissioned. Western will finance its 2013 capital expenditure budget substantially from operating cash flows while maintaining our conservative balance sheet going into 2013 and positioning the Company for future opportunities.

In 2012, the price for natural gas has remained soft, with the AECO 30-day spot rate on average decreasing by approximately 35% as compared to the prior year. While the year over year average WTI crude oil price has remained relatively constant, increased pricing differentials in Canada, as a result of pipeline infrastructure constraints and refining capacity limitations, have resulted in a 9% year over year decrease in the average Edmonton Par price. The lower commodity price environment for crude oil and natural gas, coupled with the uncertain economic environment, due in part to the European debt crisis, is expected to result in similar levels of drilling activity in 2013 as compared to 2012. As such, the Company expects similar utilization in 2013 as compared to the prior year. Notwithstanding the softening commodity price environment, Western continues to believe that additional rig build opportunities in the contract drilling segment will be available as liquefied natural gas projects gain approval, drilling activity increases in the Duvernay and Montney resource plays in Alberta and northwest British Columbia, coupled with increased foreign investment in Canada. Currently, the largest challenges facing the drilling industry are producer spending constraints, pricing differentials on Canadian crude oil, low natural gas prices, a strong Canadian dollar and the challenge to attract and retain skilled labour. The Company believes Western's modern drilling rig fleet, which has an average age of approximately six years, and corporate culture will provide a distinct advantage in retaining and attracting qualified individuals. Western is of the view, that its modern ELR rig fleet, strong customer base and solid reputation provides a competitive advantage which will enable the Company to continue its growth strategy and higher than industry utilization through a period of lower commodity prices and drilling activity.

Segmented Information

Western operates in the contract drilling segment in both Canada and the United States as well as the well servicing segment in Canada. Contract drilling includes drilling rigs along with related equipment. Well servicing includes service rigs along with related equipment for production and work over services in addition to well completions. Certain comparative figures in the segmented information discussion have been reclassified to be consistent with the current year presentation. Please refer to page 12 for an analysis of the fourth quarter 2012 results.

Contract Drilling

	Three months ended December 31		Year ended December 31	
(stated in thousands)	**2012**	**2011**	**2012**	**2011**
Revenue	81,723	101,300	305,217	262,519
Expenses				
Operating				
Cash operating expenses	44,665	53,951	174,220	147,503
Depreciation	8,886	9,011	31,477	24,540
Stock based compensation	135	124	501	306
Total operating expenses	53,686	63,086	206,198	172,349
Administrative				
Cash administrative expenses	4,425	1,994	15,886	6,644
Depreciation	87	81	375	206
Stock based compensation	(39)	82	217	211
Total administrative expenses	4,473	2,157	16,478	7,061
Gross Margin(1)	37,058	47,349	130,997	115,016
Gross Margin as a percentage of revenue	45%	47%	43%	44%
EBITDA(1)	32,633	45,355	115,111	108,372
EBITDA as a percentage of revenue	40%	45%	38%	41%
Operating Earnings(1)	23,660	36,263	83,259	83,626
Capital expenditures	16,463	31,461	110,293	82,954
Canadian Operations				
Contract drilling rig fleet:				
Average	44	37	41	32
End of period	44	38	44	38
Drilling revenue per operating day (CDN$)	31,904 (2)	33,199	32,212 (2)	29,885
Drilling rig operating days(3)	2,198	2,706	8,127	8,074
Number of meters drilled	357,439	451,987	1,546,841	1,485,195
Number of wells drilled	112	167	464	572
Average operating days per well	19.6	16.2	17.5	14.1
Drilling rig utilization rate per revenue day(4)	62%	88%	60%	77%
Drilling rig utilization rate per operating day(3)	55%	79%	54%	70%
CAODC industry average utilization rate(3)	40%	61%	42%	52%
United States Operations				
Contract drilling rig fleet:				
Average	5	5	5	4 (5)
End of period	5	5	5	5
Drilling revenue per operating day (US$)	33,017	30,705	33,315	33,038
Drilling rig operating days(3)	286	365	1,238	640
Number of meters drilled	68,947	42,509	277,180	105,725
Number of wells drilled	12	9	47	19
Average operating days per well	23.8	40.6	26.3	33.7
Drilling rig utilization rate per revenue day(4)	79%	93%	85%	89% (5)
Drilling rig utilization rate per operating day(3)	62%	79%	68%	70% (5)

(1) See Financial Measures Reconciliations on page 2.
(2) Excludes $2.2 million of standby revenue from take or pay contracts.
(3) Utilization rate per operating day and drilling rig operating days are calculated on operating days only (i.e. spud to rig release basis).
(4) Utilization rate per revenue day is calculated based on operating and move days.
(5) Calculated from the date of acquisition of the United States operations (June 10, 2011).

During the year ended December 31, 2012, revenues in the contract drilling segment totalled $305.2 million, a $42.7 million (or 16%) increase over the same period in the prior year. The increase is due to a higher number of operating days in 2012 for both Canadian and United States operations compared to 2011 as a result of the Company's average fleet increasing to 46 rigs, a 28% increase over the prior year, in addition to higher day rates in Canada.

For the year ended December 31, 2012, Canadian operations performed strongly during the winter drilling season at the start of the year, but were impacted by a longer spring breakup and lower activity through the remainder of the year. As a result, utilization per operating day decreased to 54% in 2012, as compared to 70% in 2011. However, the Company's utilization remained 29% above the CAODC industry average of 42%. Despite modest pricing pressure in the latter half of 2012, strong demand for the Company's ELR drilling rigs resulted in revenue per operating day increasing by 8% to $32,212 in 2012 as compared to $29,885 in the prior year. Additionally, approximately $2.2 million in standby revenue relating to take or pay contracts, which has been excluded from the revenue per operating day, was recorded in the fourth quarter of 2012.

In the United States, operating days increased by 598 days (or 93%) in the period due to a full year of contribution from the United States operations following the acquisition of Stoneham Drilling Trust in June 2011; however, utilization decreased slightly to 68% for the year due to lower activity levels in the Williston basin of North Dakota in the second half of 2012 due to increased competition and reduced customer budgets. The drop in the Williston basin rig count is due to the natural progression of multi well pads as customers look for cost synergies in pad drilling as they switch their focus from delineation and land retention to development of their properties in the area. For the year ended December 31, 2012, revenue per operating day remained relatively consistent increasing by 1% to US$33,315.

During 2012, EBITDA in the contract drilling segment increased by $6.7 million (or 6%) to $115.1 million (38% of the segment's revenue), as compared to $108.4 million (41% of the segment's revenue) in 2011. EBITDA as a percentage of revenue has decreased in 2012 as compared to the prior year, despite improved day rates in Canada, due to lower utilization as well as an increased allocation of corporate administrative expenses required to support the Company's growth.

Total capital expenditures of $110.3 million in the contract drilling segment for the year ended December 31, 2012 include $60.7 million related to expansion capital, $27.2 million related to maintenance capital and $22.4 million related to critical spares. Of the capital expenditures incurred during the year, $58.7 million relates to the Company's rig build program with the remaining capital spending relating to ancillary drilling equipment, including additional top drives, loaders and drill pipe.

Well Servicing

(stated in thousands)	Three months ended December 31 2012	2011	Year ended December 31 2012	2011
Revenue	1,615	-	3,400	-
Expenses				
Operating				
Cash operating expenses	1,313	179	3,334	179
Depreciation	181	1	413	1
Stock based compensation	18	1	36	1
Total operating expenses	1,512	181	3,783	181
Administrative				
Cash administrative expenses	479	450	1,723	450
Depreciation	14	6	64	6
Stock based compensation	9	63	(30)	63
Total administrative expenses	502	519	1,757	519
Gross Margin[(1)]	302	(179)	66	(179)
EBITDA[(1)]	(177)	(629)	(1,657)	(629)
Operating Earnings[(1)]	(372)	(636)	(2,134)	(636)
Capital expenditures	3,283	2,833	12,358	5,472
Well servicing rig fleet:				
Average	7	-	5	-
End of period	8	-	8	-
Revenue per service hour (CDN$)	614	-	596	-
Total service hours	2,633	-	5,705	-
Service rig utilization rate[(2)]	45%	-	36%	-

(1) See Financial Measures Reconciliations on page 2.

(2) Utilization rate calculated based on full utilization of 10 hours per day, 365 days per year.

During 2012, the Company began operations in its well servicing division, Matrix, in Canada in the Lloydminster area. The Lloydminster well servicing market was targeted by Western as it is less capital intensive and the Company believes the fundamentals for heavy oil, which is the main focus in the area, will remain strong in the long term. Additionally, the well servicing market in the Lloydminster area typically remains more active during the second quarter, when spring breakup is impacting the rest of the industry in western Canada. Matrix's operations are in the start-up phase of development and have been focused on the construction and commissioning of its first 10 well servicing rigs, of which 8 were operating by December 31, 2012; establishing a presence in the Lloydminster area; and hiring management, field, and office support staff. As such, revenue of $3.4 million and EBITDA of negative $1.7 million for the year ended December 31, 2012 do not reflect a normalized period of activity. Matrix's revenue per service hour of $596 may be lower than some of our competitors operating in other geographic areas, as the Lloydminster well servicing market is mainly focused on heavy oil production work, which is highly competitive and less capital intensive, and typically results in lower hourly rates. As Matrix continues to establish their operations and obtains the necessary scale, the Company believes utilization rates and margins will continue to improve.

Capital expenditures of $12.4 million for the year ended December 31, 2012 mainly relate to expansion capital associated with the Company's well servicing rig build program which was substantially complete at year-end, with the final 2 rigs being commissioned in the first quarter of 2013.

Corporate

(stated in thousands)	Three months ended December 31 2012	2011	Year ended December 31 2012	2011
Administrative				
Cash administrative expenses	1,075	3,253	4,523	8,419
Depreciation	264	78	532	234
Stock based compensation	258	253	1,119	754
Total administrative expenses	1,597	3,584	6,174	9,407
Finance costs	3,237	1,246	12,437	3,650
Other items	583	(1,472)	756	677
Income taxes				
Current tax expense	276	1,635	5,090	585
Deferred tax expense	4,380	5,441	10,766	14,208
Total income taxes	4,656	7,076	15,856	14,793
Capital expenditures	582	42	4,580	443

For the year ended December 31, 2012, corporate administrative expenses, excluding depreciation and stock based compensation, decreased by $3.9 million or 46%, as compared to 2011. The decrease in corporate administrative expenses is due to an increased allocation of administrative expenses to Western's subsidiaries, offset by increased staffing levels required to position the Company for future growth.

For 2012, finance costs increased by $8.8 million to $12.4 million as compared to the prior year. The increase is due to the issuance of $175.0 million aggregate principal amount of 7⅞% senior unsecured notes on January 30, 2012, which resulted in an increased average debt balance outstanding for the year ended December 31, 2012 of $169.6 million as compared to an average debt balance outstanding of $77.4 million in the prior year. Additionally, the issuance of the Senior Notes increased the Company's effective interest rate to approximately 8% from approximately 5% previously.

Other items for the year ended December 31, 2012, totalled $0.8 million, unchanged from 2011. In 2012 other items mainly relate to net losses on the sale of certain non core assets. In the prior year, other items mainly consisted of acquisition costs associated with the acquisition of Stoneham of $3.3 million which were partially offset by net foreign exchange gains of $1.4 million and net gains on the sale of certain non core assets of $1.2 million.

For 2012, income taxes totalled $15.9 million reflecting an effective tax rate of approximately 26% compared to 2011 when income taxes totalled $14.8 million which represented an effective tax rate of approximately 22%. The change in effective tax rates from 2011 is mainly due to favourable adjustments relating to tax planning in 2011 associated with the acquisition of Stoneham Drilling Trust which resulted in realizing previously unrecognized tax losses leading to a lower effective tax rate.

Corporate capital expenditures of $4.6 million for the year ended December 31, 2012 relate to leasehold and system improvements.

Liquidity and Capital Resources

On January 30, 2012, Western completed a private offering of $175.0 million aggregate principal amount of 7⅞% senior unsecured notes due January 30, 2019. In conjunction with the closing of the Senior Notes, Western voluntarily reduced its revolving credit facility from $150.0 million to $125.0 million. Western's operating facility of $10.0 million remains unchanged. During the second quarter of 2012, Western extended the maturity date of its revolving credit facility by one year to June 7, 2015. As at December 31, 2012, Western had cash and cash equivalents of $6.6 million, resulting in a consolidated net debt balance of $186.1 million, an increase of $69.9 million as compared to December 31, 2011 due to capital expenditures of $127.2 million, the purchase of investments of $33.2 million, cash interest payments of $6.4 million and dividend payments of $4.5 million, exceeding cash flow from operating activities of $104.9 million. At December 31, 2012, Western had a working capital balance of $77.6 million, a $37.7 million increase as compared to December 31, 2011, due to Western's $6.6 million in cash and cash equivalents at the end of the year, the fair value of Western's investments of $35.1 million, partially offset by a $3.5 million decrease in trade and other receivables due to lower activity in the fourth quarter of 2012, and the dividends payable of $4.5 million. At December 31, 2012, Western had approximately $114.5 million in available credit facilities and is in compliance with all debt covenants. As such, cash from operations coupled with Western's working capital, cash balances and available credit facilities are expected to be sufficient to cover Western's financial obligations including the 2013 capital budget.

Fourth Quarter 2012

Selected Financial Information

Financial Highlights	**Three months ended December 31**	
(stated in thousands, except share and per share amounts)	**2012**	**2011**
Revenue	83,338	101,300
Gross Margin(1)	37,360	47,170
Gross Margin as a percentage of revenue	45%	47%
EBITDA(1)	31,381	41,473
EBITDA as a percentage of revenue	38%	41%
Cash flow from operating activities	11,021	25,337
Capital expenditures	20,328	34,336
Net income	13,092	24,314
-basic net income per share	0.22	0.42
-diluted net income per share	0.22	0.40
Weighted average number of shares		
-basic	59,485,594	58,533,287
-diluted	60,800,390	60,549,515
Outstanding common shares as at period end	59,582,143	58,533,287
Dividends declared	4,469	-
Dividends declared per common share	0.075	-
Operating Highlights		
Contract Drilling		
Canadian Operations		
Average contract drilling rig fleet	44	37
Contract drilling rig fleet - end of period	44	38
Drilling revenue per operating day (CDN$)	31,904 (2)	33,199
Drilling rig operating days(3)	2,198	2,706
Number of meters drilled	357,439	451,987
Number of wells drilled	112	167
Average operating days per well	19.6	16.2
Drilling rig utilization rate per revenue day(4)	62%	88%
Drilling rig utilization rate per operating day(3)	55%	79%
CAODC industry average utilization rate	40%	61%
United States Operations		
Average contract drilling rig fleet	5	5
Contract drilling rig fleet - end of period	5	5
Drilling revenue per operating day (US$)	33,017	30,705
Drilling rig operating days(3)	286	365
Number of meters drilled	68,947	42,509
Number of wells drilled	12	9
Average operating days per well	23.8	40.6
Drilling rig utilization rate per revenue day(4)	79%	93%
Drilling rig utilization rate per operating day(3)	62%	79%
Well Servicing		
Average well servicing rig fleet	7	-
Well servicing rig fleet - end of period	8	-
Revenue per service hour (CDN$)	614	-
Total service hours	2,633	-
Service rig utilization rate(5)	45%	-

(1) See Financial Measures Reconciliations on page 2.
(2) Excludes $2.2 million of standby revenue from take or pay contracts.
(3) Drilling rig utilization rate per operating day is calculated on operating days only (i.e. spud to rig release basis).
(4) Drilling rig utilization rate per revenue day is calculated based on operating and move days.
(5) Service rig utilization rate calculated based on full utilization of 10 hours per day, 365 days per year.

Contract Drilling

During the fourth quarter of 2012, revenues in the contract drilling segment totalled \$81.7 million; a \$19.6 million (or 19%) decrease over the same period in the prior year. The decrease in revenue is due to lower activity in Canada and the United States, as operating days decreased by 19% and 22% respectively. Revenue per operating day in Canada was \$31,904 in the fourth quarter of 2012 compared to \$33,199 for the same period in the prior year (4% decrease) due to overall lower pricing in the market as a result of decreased industry activity. Additionally, approximately \$2.2 million in standby revenue relating to take or pay contracts, which has been excluded from the revenue per operating day, was recorded in the fourth quarter of 2012.

Canadian operations in the fourth quarter of 2012 were impacted by a slowdown in oilfield service activity as uncertain economic conditions and lower commodity prices resulted in reduced producer spending on capital programs. As such, utilization per operating day decreased to 55% as compared to 79% in the same period of the prior year. Despite the decrease in activity, the Company's utilization was 38% higher than the CAODC industry average of 40%.

In the United States, utilization per operating day averaged 62% in the fourth quarter of 2012 as compared to 79% in the same period of the prior year. While operating days decreased by 79 days (or 22%) in the period due to reduced activity and increased competition in the Williston basin of North Dakota, revenue per operating day increased 8% to US\$33,017 from US\$30,705 in 2011. The decline in activity in the Williston basin is mainly due to the natural progression of multi well pads as customers switch their focus from delineation and land retention to developing their properties in the area.

During the fourth quarter of 2012, EBITDA in the contract drilling segment decreased by \$8.9 million (or 21%) to \$32.6 million (40% of the segment's revenue), as compared to \$41.5 million (41% of the segment's revenue) in the same period of the prior year due to lower activity levels and an increased allocation of corporate administrative expenses required to support the Company's growth.

Well Servicing

During the fourth quarter of 2012, revenues in the well servicing segment totaled \$1.6 million and EBITDA totaled negative \$0.2 million. During the quarter, Matrix had 2,633 service hours which represented an average utilization of 45%, which was higher than the third quarter of 2012, which had 1,799 service hours and an average utilization of 39%. Revenue per service rig hour increased from \$582 in the third quarter of 2012 to \$614 in the fourth quarter of 2012, a 5% increase. As Matrix continues to gain experience and improve their operations, the Company believes utilization will continue to increase.

Corporate

During the fourth quarter of 2012, corporate administrative expenses, excluding depreciation and stock based compensation, decreased \$2.2 million (or 67%) to \$1.1 million as compared to \$3.3 million in the fourth quarter of 2011. The decrease is mainly attributed to an increased allocation of administrative expenses to Western's operating divisions, offset by higher staffing levels.

For the fourth quarter of 2012, interest expense increased by \$2.0 million to \$3.2 million as compared to \$1.2 million in the same period of the prior year. This increase is mainly attributed to the issuance of our Senior Notes in January 2012 resulting in higher interest rates and a higher average debt balance outstanding.

For the fourth quarter of 2012 and 2011, income taxes totalled \$4.6 million and \$7.1 million respectively, which reflected effective tax rates of approximately 26% and 22% respectively. The increase in the effective tax rate in the fourth quarter of 2012 as compared to the same period of the prior year is due to the recognition of previously unrecognized tax losses in the prior year which lowered the effective tax rate.

Consolidated

Revenue and EBITDA decreased by \$18.0 million and \$10.1 million to \$83.3 million and \$31.4 million, respectively in the fourth quarter of 2012 as compared to \$101.3 million and \$41.5 million, respectively in 2011. The decrease is mainly due to lower activity in the contract drilling segment.

Net income decreased by \$11.2 million to \$13.1 million in the fourth quarter of 2012 as compared to \$24.3 million in the same period in the prior year. The decrease is mainly attributed to the \$10.1 million decrease in EBITDA, higher finance costs of \$2.0 million due to the issuance our Senior Notes in the first quarter of 2012 offset by a \$0.9 million decrease in other expenses.

Summary of Quarterly Results

In addition to other market factors, quarterly results of Western are markedly affected by weather patterns throughout its operating area in Canada. Historically, the first quarter of the calendar year is very active, followed by a much slower second quarter due to what is known in the Canadian oilfield service industry as spring breakup. As a result of this, the variation of Western's results on a quarterly basis, particularly in the first and second quarters, can be dramatic year over year independent of other demand factors. The following is a summary of selected financial information of the Company for the last eight completed quarters.

Three months ended	Dec 31, 2012	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011	Sep 30, 2011	Jun 30, 2011	Mar 31, 2011
(stated in thousands, except per share amounts)								
Revenue	83,338	69,573	44,819	110,887	101,300	80,786	30,340	50,093
Gross Margin(1)	37,360	29,382	14,108	50,213	47,170	35,005	11,274	21,388
EBITDA(1)	31,381	23,944	9,364	44,242	41,473	30,392	8,533	18,926
Cash flow from operating activities	11,021	9,248	58,930	25,717	25,337	3,391	21,026	9,614
Income from continuing operations	13,092	8,251	827	23,008	24,923	13,891	4,750	10,318
per share - basic(2)	0.22	0.14	0.01	0.39	0.43	0.24	0.09	0.27
per share - diluted(2)	0.22	0.14	0.01	0.38	0.41	0.23	0.09	0.26
Net income	13,092	8,251	827	23,008	24,314	24,893	4,193	11,344
per share - basic(2)	0.22	0.14	0.01	0.39	0.42	0.43	0.08	0.30
per share - diluted(2)	0.22	0.14	0.01	0.38	0.40	0.41	0.08	0.28
Total assets	749,448	727,113	699,356	706,061	619,645	584,823	543,117	329,114
Long term financial liabilities(3)	186,948	176,739	171,764	171,570	108,039	108,057	116,186	28,030
Dividends declared	4,469	4,457	-	-	-	-	-	-

(1) See Financial Measures Reconciliations on page 2.

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

(3) Long term financial liabilities consist of long term debt.

Revenue has steadily increased over the last eight quarters due to the Company's continued growth in size through the acquisition of Stoneham Drilling Trust in the second quarter of 2011 and the Company's capital program which has added nine drilling rigs to Western's fleet over the last eight quarters. The exception to the growth in revenue occurred in the second quarters of 2012 and 2011, which were impacted by spring breakup, and the third and fourth quarters of 2012, which were impacted by lower activity levels in the oilfield services industry.

EBITDA has followed a similar trend to revenue, steadily increasing due to the acquisition of Stoneham Drilling Trust and the Company's significant capital program and impacted by the reduced activity associated with spring break up in the second quarters of 2012 and 2011 as well as lower activity in the third and fourth quarters of 2012. This trend reflects strong margins, above industry average utilization rates and economies of scale that have been achieved as a result of Western's consolidation strategy.

Net income has fluctuated throughout the last eight quarters due to the cyclical nature of the oilfield service industry, as well as the gain on the sale of StimSol in the third quarter of 2011.

Total assets of the Company have increased throughout the last eight quarters due to the growth of the Company through the acquisition of Stoneham Drilling Trust in the second quarter of 2011 and the Company's capital spending program which added assets of $88.9 million in 2011 and $127.2 million in 2012.

Goodwill

Goodwill represents the excess, at the date of acquisition, of the purchased price of the business acquired over the fair value of the net tangible and intangible assets acquired. A continuity of Western's goodwill balance as at December 31, 2012 is as follows:

(stated in thousands)	Amount
December 31, 2010	$ 29,117
Stoneham Drilling Trust acquisition	26,410
December 31, 2011 and 2012	$ 55,527

The goodwill balance at December 31, 2010 relates to the Pantera Drilling Trust acquisition completed in 2010. The goodwill acquired as part of the Stoneham acquisition in 2011 is attributable to the purchase price being approximately 113% of the replacement cost of the assets acquired.

Discontinued Operations

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 the sale of StimSol. No cash taxes were owed on this transaction.

The net income from discontinued operations for the years ended December 31, 2012 and 2011 is as follows:

(stated in thousands)	Year ended December 31, 2012	Year ended December 31, 2011
Revenue from discontinued operations	$ -	$ 12,930
Operating expenses	-	10,528
Gross profit	-	2,402
Administrative expenses	-	1,300
Finance costs	-	1
Other items	-	38
Income before tax from discontinued operations	-	1,063
Income tax expense	-	310
Income from discontinued operations	-	753
Gain on sale of StimSol (net of tax)	-	10,111
Net income from discontinued operations	$ -	$ 10,864

There were no assets and liabilities from discontinued operations at December 31, 2012 or December 31, 2011.

Contractual Obligations

In the normal course of business, the Company incurs contractual obligations. The expected maturities of the Company's contractual obligations are as follows:

	Payments due by period						
(stated in thousands)	2013	2014	2015	2016	2017	Thereafter	Total
Senior Notes	$ -	$ -	$ -	$ -	$ -	$ 175,000	$ 175,000
Senior Notes interest	13,781	13,781	13,781	13,781	13,781	20,672	89,577
Trade payables	37,239	-	-	-	-	-	37,239
Operating leases	3,696	3,241	2,433	2,413	2,279	16,267	30,329
Revolving facility	-	-	15,000	-	-	-	15,000
Operating facility	5,460	-	-	-	-	-	5,460
Purchase commitments	7,602	-	-	-	-	-	7,602
Finance leases	351	191	28	-	-	-	570
Total	$ 68,129	$ 17,213	$ 31,242	$ 16,194	$ 16,060	$ 211,939	$ 360,777

Outstanding Share Data

	February 27, 2013	December 31, 2012	December 31, 2011
Common shares outstanding	59,655,921	59,582,143	58,533,287
Warrants outstanding	1,464,032	1,527,811	2,525,000
Stock options outstanding	2,685,400	2,522,733	2,101,000

Off Balance Sheet Arrangements

As at December 31, 2012, Western had no off balance sheet arrangements in place.

Transactions with Related Parties

During the year ended December 31, 2012, the Company entered into sales transactions totaling approximately $5.9 million (2011: $5.6 million) with a customer who shares a common Director with the Company. These related party transactions, which have been recorded in 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 are similar to those negotiated with third parties. All outstanding balances are to be settled in cash, and none of the balances are secured. At December 31, 2012, approximately $0.4 million (December 31, 2011: $2.9 million) is outstanding in trade and other receivables.

Financial Instruments

Fair Values

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 and cash equivalents 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, the Senior Notes 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, including the Senior Notes, 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.

(ii) 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.

(iii) 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.

Credit Risk

The Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risk. The Company's practice is to manage credit risk by performing a detailed analysis of the credit worthiness of new customers before the Company's standard payment terms are offered. Additionally, the Company constantly reviews individual customer trade receivables, taking into consideration payment history and the aging of the receivable to monitor collectability.

Interest Rate Risk

The Company is exposed to interest rate risk on debt subject to floating interest rates, such as the Company's credit facilities.

Foreign Exchange Risk

The Company is exposed to foreign exchange fluctuations in relation to its US dollar capital expenditures and US operations. The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short term imbalances. From time-to-time the Company may use forward foreign currency contracts to hedge against these fluctuations.

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. To manage liquidity risk, the Company forecasts operational results and capital spending on a regular basis. Variances between actual results and forecast are continually monitored to assess the Company's ability to meet its financial obligations.

Recent Pronouncements and Amendments

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended December 31, 2012, and have not been applied in preparing Western's financial statements for the year ended December 31, 2012.

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

- 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; however, any changes are not expected to be material.
- 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 but does not anticipate any material changes.
- 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 and anticipates the application of the new standard may affect certain amounts in the financial statements resulting in more extensive disclosures.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

The Chief Executive Officer ("CEO") and Vice President, Finance & Chief Financial Officer ("CFO") of Western are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") for the Company.

DC&P is designed to provide reasonable assurance that material information relating to the Company is made known to the CEO and CFO by others, particularly in the period in which the annual filings are being prepared, and that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified in securities legislation, and includes controls and procedures designed to ensure that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

In accordance with the requirements of National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings", an evaluation of the effectiveness of DC&P and ICFR was carried out under the supervision of the CEO and CFO at December 31, 2012. Based on this evaluation, the CEO and CFO have concluded that, subject to the inherent limitations noted below, the Company's DC&P and ICFR are effectively designed and operating as intended.

The Company's management, including the CEO and CFO, does not expect that the Company's DC&P and ICFR will prevent or detect all misstatements or instances of fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues, misstatements or instances of fraud, if any, within the Company have been detected.

There was no change to the Company's ICFR that occurred during the most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

Critical Accounting Estimates

This Management's Discussion and Analysis of the Company's financial condition and results of operations is based on its consolidated financial statements which were prepared in accordance with IFRS. The presentation of these financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of provisions at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates and judgements are based on historical experience and on various assumptions that are believed to be reasonable under the circumstances. Anticipating future events cannot be done with certainty, therefore these estimates may change as new events occur, more experience is acquired and as the Company's operating environment changes. The Company's key accounting estimates relate to business combinations, impairment, depreciation, current and deferred taxes and the determination of the fair value of stock options.

The accounting estimates believed to be the most difficult, subjective or have complex judgements and which are the most critical to the reporting of results of operations and financial positions are as follows:

Business Combinations

The Company assesses 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.

Impairment

The Company assesses impairment at each reporting date by evaluating conditions specific to the organization that may lead to impairment of assets. Where an impairment indicator exists, or annually in the case of goodwill, the recoverable amount of the asset or cash generating unit is determined. Value-in-use and fair value less cost to sell calculations performed in assessing the recoverable amounts incorporate a number of key estimates. As at December 31, 2012, the Company completed its assessments and did not identify indicators of impairment for the long-lived assets of the Company.

Depreciation

The Company's property and equipment is depreciated based upon estimates of useful lives and salvage values. These estimates are based on industry practice and the Company's own experience and may change as more experience is gained, market conditions shift or new technological advancements are made.

The componentization of the Company's property and equipment, specifically drilling rig equipment and well servicing rig equipment, is based on management's judgment as to which components constitute a significant cost in relation to the entire item. The componentization process also requires management's judgement in assessing whether individual components have similar consumption patterns and useful lives.

Income taxes

Preparation of the consolidated 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 tax assets. To the extent that such recovery is not probable, recognized deferred tax assets must be reduced to the recoverable amount. 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.

Share-based payments

Stock based compensation expense associated with stock options granted is based on various assumptions, using the Black-Scholes option-pricing model to calculate an estimate of fair value. The inputs into the model include interest rates, expected life, expected volatility, expected forfeitures and share prices and these inputs affect the estimated fair value calculated. Determining the estimated expected life, volatility and forfeitures requires judgement.

Business Risks

For a comprehensive listing of the Company's business risks please see the most recent Annual Information Form as filed on SEDAR at www.sedar.com. The Company's primary business risks are as follows:

- The Company's business relies on the oil and gas exploration and production industry which is subject to a number of risks including general economic conditions, fluctuations in demand and supply of production components, fluctuations in commodity prices, competition and increases in operating costs. In addition, changes may occur in government regulations, including regulations relating to foreign acquisitions, prices, taxes, royalties, land tenure, allowable production, importing and exporting of oil and natural gas and environmental protection for the oil and gas industry as a whole. Risks affecting the oil and gas exploration and production industry may also affect the Company's business. The exact effect of these risks cannot be accurately predicted.
- In addition to global economic events and uncertainty, the capacity within North America to ship commodities to market introduces uncertainties in levels of activity and pricing for oil and natural gas production.
- The Company is vulnerable to market prices. Fixed costs, including costs associated with operations, leases, labour costs and depreciation account for a significant portion of the Company's expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, or other factors could significantly affect its revenues and financial results.
- Competition among related service companies is significant. Some competitors are larger and have greater revenues than the Company and overall greater financial resources. The Company's ability to generate revenues depends on its ability to attract and win contracts and to perform services.
- Currently, the Company is focused on providing services in the western Canadian sedimentary basin as well as certain geographic areas in the United States, which may expose the Company to more extreme market fluctuations relating to items such as weather and general economic conditions which may be more extreme than the broader industry conditions.
- The success of the Company is dependent upon the efforts and abilities of its management team. The loss of any member of the management team could have a material adverse effect upon the business and prospects of the Company.
- The Company's business is subject to the operating risks inherent to the oilfield service industry. On occasion, substantial liabilities to third parties may be incurred. The Company will have the benefit of insurance maintained by it and industry standard contracts, however, it may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.

- The oilfield service industry has experienced a high degree of invention and innovation. It is possible that new technology will be developed which will compete with the Company's products and services.
- A portion of the operations of the Company are in the United States which subject the Company to currency fluctuations and different tax and regulatory laws.

Forward-Looking Statements and Information

This MD&A contains certain statements or disclosures relating to Western that are based on the expectations of Western as well as assumptions made by and information currently available to Western which may constitute forward-looking information under applicable securities laws. All such statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that Western anticipates or expects may, or will occur in the future (in whole or part) should be considered forward-looking information. In some cases, forward-looking information can be identified by terms such as "forecast", "future," "may", "will", "expect", "anticipate,", "believe", "potential", "enable", "plan", "continue", "contemplate", "pro-forma", or other comparable terminology.

In particular, forward-looking information in this MD&A include, under the heading "Outlook" the statements: "Western expects capital spending in 2013 to total $80 million including $20 million of carry forward capital from 2012 and $60 million relating to Western's 2013 capital budget, Western's 2013 capital budget includes approximately $28 million in expansion capital, $20 million in maintenance capital and $12 million in critical spare equipment" and "Western will finance its 2013 capital expenditure budget substantially from operating cash flows while maintaining our conservative balance sheet going into 2013 and positioning the Company for future opportunities." and, "The lower commodity price environment for crude oil and natural gas, coupled with the uncertain economic environment, due in part to the European debt crisis, is expected to result in similar levels of drilling activity in 2013 as compared to 2012. As such, the Company expects similar utilization in 2013 as compared to the prior year." and, "Western is of the view, that its modern ELR rig fleet, strong customer base and solid reputation provides a competitive advantage which will enable the Company to continue its growth strategy and higher than industry utilization through a period of lower commodity prices and drilling activity."

These forward-looking statements and information are based on certain key expectations and assumptions made by Western, including the assumption that its cash flow during 2013 will be sufficient to cover its budgeted expansion and maintenance capital expenditures, that its rig utilization rates will not materially decrease from 2012 levels and that its modern rig fleet will allow it to continue its growth strategy and maintain a higher utilization than industry averages.

In addition, the MD&A contains the following statements which are set forth in the paragraph immediately preceding the section headed "Outlook". "Subsequent to year end on February 21, 2013, the Company entered into an Arrangement Agreement whereby, subject to certain conditions, the Company will acquire all of the issued and outstanding shares of IROC Energy Services Corp. ("IROC") in exchange for a combination of cash and common shares of Western." and, "The transaction is expected to be completed by way of a Plan of Arrangement under the Business Corporations Act (Alberta) and is subject to normal stock exchange, court and regulatory approvals and the approval by at least 66 2/3 percent of the outstanding shares of IROC and any applicable minority shareholder approval requirements voted on at a special meeting of the shareholders of IROC, which is expected to be held prior to the end of April 2013."

Readers are cautioned that there are a number of conditions that must be met, including the approval of the shareholders of IROC before the above-described transaction can be completed.

The forward-looking information assumes the completion of the above-described transaction and there is no assurance that all of the conditions to the above-described transaction will be met and therefore there is a risk that the above-described transaction will not be completed and if completed the expected benefits may not materialize.

As such, many factors could cause the performance or achievement of Western or IROC to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Because of the risks, uncertainties and assumptions contained herein, readers should not place undue reliance on these forward-looking statements.

Although Western believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information as Western cannot give any assurance that they will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, general economic, market and business conditions. Readers are cautioned that the foregoing list of risks and uncertainties is not exhaustive. Additional information on these and other risk factors that could affect Western's operations and financial results are included in Western's annual information form and the other disclosure documents filed by Western with securities regulatory authorities which may be accessed through the SEDAR website at www.sedar.com. The forward-looking statements and information contained in this MD&A are made as of the date hereof and Western does not undertake any obligation to update publicly or revise and forward-looking statements and information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Additional data

Additional information relating to the Company is filed on SEDAR at www.sedar.com.

Western Energy Services Corp.

Consolidated Financial Statements

December 31, 2012 and 2011

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 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

February 27, 2013

Deloitte.

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, 2012 and 2011, and the consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, 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, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP.
Chartered Accountants

February 27, 2013
Calgary, Alberta

Western Energy Services Corp.

Consolidated Balance Sheets
(thousands of Canadian dollars)

	Note	December 31, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		$ 6,588	$ -
Trade and other receivables	7	79,782	83,314
Investments and other current assets	8	38,989	4,020
		125,359	87,334
Non current assets			
Property and equipment	9	568,157	473,930
Goodwill	10	55,527	55,527
Deferred taxes	19	-	2,499
Other non current assets	8	405	355
		$ 749,448	$ 619,645
Liabilities			
Current liabilities			
Trade payables and other current liabilities	11	$ 37,239	$ 39,075
Dividends payable		4,469	-
Current portion of provisions	12	242	172
Current portion of long term debt	13	5,781	8,213
		47,731	47,460
Non current liabilities			
Provisions	12	2,095	184
Long term debt	13	186,948	108,039
Deferred taxes	19	57,884	49,637
		294,658	205,320
Shareholders' equity			
Share capital	14	322,878	319,698
Contributed surplus		4,689	3,625
Retained earnings		125,579	89,325
Accumulated other comprehensive income		1,644	1,677
		454,790	414,325
		$ 749,448	$ 619,645

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

Approved on behalf of the Board of Directors:

John R. Rooney
Director

Dale E. Tremblay
Director

Western Energy Services Corp.

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

	Note	Year ended December 31, 2012	Year ended December 31, 2011
Revenue		$ 308,617	$ 262,519
Operating expenses		209,981	172,530
Gross profit		98,636	89,989
Administrative expenses		24,409	16,987
Finance costs	17	12,437	3,650
Other items	18	756	677
Income from continuing operations before income taxes		61,034	68,675
Income taxes	19	15,856	14,793
Income from continuing operations	20	45,178	53,882
Discontinued operations			
Gain on sale of StimSol (net of tax)		-	(10,111)
Income from discontinued operations (net of tax)		-	(753)
Net income		45,178	64,746
Gain on change in fair value of available for sale assets (net of tax)		(1,621)	-
Loss (gain) on translation of foreign operations		905	(1,677)
Unrealized foreign exchange loss on net investment in subsidiary (net of tax)		749	-
Comprehensive income		$ 45,145	$ 66,423
Income per share from continuing operations:			
Basic		$ 0.77	$ 1.04
Diluted		$ 0.74	$ 1.00
Income per share from discontinued operations:			
Basic		$ -	$ 0.21
Diluted		$ -	$ 0.20
Net income per share:			
Basic		$ 0.77	$ 1.25
Diluted		$ 0.74	$ 1.21
Weighted average number of shares:			
Basic	16	58,784,692	51,595,078
Diluted	16	60,860,359	53,640,617

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

Western Energy Services Corp.

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

	Note	Share capital	Contributed surplus (1)	Retained earnings	Accumulated other comprehensive income(2)	Total shareholders' equity
Balance at December 31, 2010		$ 159,895	$ 2,359	$ 24,579	$ -	$ 186,833
Issue of common shares (net of issue costs)	14	159,960	-	-	-	159,960
Cancellation of common shares	14	(157)	-	-	-	(157)
Stock based compensation		-	1,335	-	-	1,335
Stock based compensation - discontinued operations		-	(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
Issued for cash on exercise of stock options	14	307	-	-	-	307
Issued for cash on exercise of warrants	14	2,094	-	-	-	2,094
Fair value of exercised options and warrants	14	779	(779)	-	-	-
Stock based compensation		-	1,843	-	-	1,843
Dividends declared		-	-	(8,924)	-	(8,924)
Comprehensive income (loss)		-	-	45,178	(33)	45,145
Balance at December 31, 2012		$ 322,878	$ 4,689	$ 125,579	$ 1,644	$ 454,790

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

(2) At December 31, 2012, the accumulated other comprehensive income balance consists of the translation of foreign operations, unrealized foreign exchange on net investment in subsidiary, and the change in fair value of available for sale assets.

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

Western Energy Services Corp.

Consolidated Statements of Cash Flows
(thousands of Canadian dollars)

	Note	Year ended December 31, 2012	Year ended December 31, 2011
Operating activities			
Income from continuing operations		$ 45,178	$ 53,882
Adjustments for:			
Depreciation included in operating expenses		31,890	24,541
Depreciation included in administrative expenses		971	446
Stock based compensation included in operating expenses		537	307
Stock based compensation included in administrative expenses		1,306	1,028
Loss (gain) on sale of assets		368	(1,248)
Income taxes	19	15,856	14,793
Unrealized foreign exchange gain		(7)	(1,057)
Finance costs		12,437	3,650
Other		60	(679)
Cash generated from operating activities		108,596	95,663
Income taxes paid		(2,253)	(101)
Change in non-cash working capital		(1,427)	(34,749)
Continuing operations		104,916	60,813
Discontinued operations		-	(1,445)
Cash flow from operating activities		104,916	59,368
Investing activities			
Additions to property and equipment	9	(127,231)	(88,869)
Proceeds on sale of property and equipment		2,776	3,474
Business acquisitions		-	(113,277)
Purchase of investments		(33,211)	(558)
Proceeds from sale of investments		-	912
Changes in non-cash working capital		(6,567)	1,448
Continuing operations		(164,233)	(196,870)
Discontinued operations		-	23,226
Cash flow used in investing activities		(164,233)	(173,644)
Financing activities			
Issue of common shares	14	2,401	86,336
Share issue costs		-	(4,706)
(Repayment) drawdown of long term debt		(96,006)	33,387
Issuance of senior notes	13	175,000	-
Issue costs of senior notes		(4,655)	-
Finance costs paid		(6,378)	(4,230)
Dividends paid		(4,457)	-
Change in non-cash working capital		-	(20)
Continuing operations		65,905	110,767
Discontinued operations		-	34
Cash flow from financing activities		65,905	110,801
Increase (decrease) in cash and cash equivalents		6,588	(3,475)
Cash and cash equivalents, beginning of year		-	3,475
Cash and cash equivalents, end of year		$ 6,588	$ -

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 1700, 215 - 9th Avenue SW, Calgary, Alberta. Western is a publicly traded company that is listed on the Toronto Stock Exchange under the symbol "WRG". These consolidated financial statements (the "Financial Statements") as at and for the years ended December 31, 2012 and 2011 are comprised of Western and its wholly owned subsidiaries (together referred to as the "Company"). The Company operates in the Canadian and United States oilfield service industry through its contract drilling and well servicing segments. Contract drilling operations in Canada are conducted through Western's wholly owned subsidiaries, Horizon Drilling Inc. ("Horizon"), and in the United States through Stoneham Drilling Corporation ("Stoneham"), which was acquired on June 10, 2011. In addition, beginning in 2012, the Company operates in the well servicing segment in Canada through Western's wholly owned subsidiary, Matrix Well Servicing Inc. ("Matrix"). On September 13, 2011, Western sold all of the shares owned and debt owing from its wholly owned subsidiary, StimSol Canada Inc. ("StimSol"), and as such prior period results relating to StimSol have been reclassified as discontinued operations (see Note 23). On January 1, 2013, Western amalgamated with Horizon and Matrix to form one legal entity. Horizon Drilling and Matrix Well Servicing now operate as divisions of Western.

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.

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 Western's Board of Directors on February 27, 2013.

(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.

(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, 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 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.

3. Significant accounting policies (continued):

(b) Foreign currency transactions and operations (continued):

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 the 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, 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.

(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 and cash equivalents 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.

3. Significant accounting policies (continued):

Recognition and measurement (continued):

(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, the Senior Notes 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, including the Senior Notes, 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.

(ii) 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.

(iii) 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) Investments:

Investments are classified as available for sale with changes in fair value recognized in other comprehensive income. When the investments are ultimately sold, any gains or losses are reversed and recognized through net income.

(g) 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.

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

3. Significant accounting policies (continued):

(g) Property and equipment (continued):

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 and well servicing 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.

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

	Expected life	**Residual values**	**Depreciation method**
Buildings	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.

(h) Inventory:

Inventory is measured at the lower of cost and net realizable value. 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 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 a loss event has occurred after the initial recognition of the asset, and the loss event had a negative effect on the estimated future cash flows of the 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 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. Upon exercise of the stock based compensation award, the consideration paid by the employee is included in share capital and the related contributed surplus associated with the stock compensation award exercised is reclassed into share capital.

(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 Company's 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 stock options or warrants and the 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, President and Chief Operating Officer and Chief Financial Officer ("Senior Management"), to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to Senior Management 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, 2012, 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:

- 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; however, any changes are not expected to be material.

- 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; however, any changes are not expected to be material.

- 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.

3. Significant accounting policies (continued):

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

The Company is assessing the effect of the changes to IFRS 13 on its financial results and financial position and anticipates the application of the new standard may affect certain amounts in the financial statements resulting in more extensive disclosures.

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.

(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 (g). 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.

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

Key sources of estimation uncertainty (continued):

(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.

(d) Determination of functional currency:

The determination of 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 expected to occur over the life of the stock options. The number of stock options that actually vest could differ from the estimated number of awards expected to vest and any differences between the actual and estimated forfeitures are recognized prospectively as they occur.

(f) 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 and well servicing segments. In June 2011, the Company entered the United States through the acquisition of Stoneham Drilling Trust. Contract drilling includes drilling rigs along with related ancillary equipment and provides contract drilling services to oil and natural gas exploration and production companies. During the first quarter of 2012, the Company began operations in the well servicing segment in Canada. Well servicing includes service rigs along with related ancillary equipment for work over services and well completions.

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

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

5. Operating segments (continued):

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

The following is a summary of the Company's results by segment for the years ended December 31, 2012 and 2011:

Year ended December 31, 2012	Contract Drilling	Well Servicing	Corporate	Total
Continuing Operations:				
Revenue	$ 305,217	$ 3,400	$ -	$ 308,617
Segment profit (loss)	83,259	(2,134)	(5,055)	76,070
Finance costs	(929)	(188)	13,554	12,437
Income taxes	16,368	(666)	154	15,856
Depreciation	31,854	476	531	32,861
Additions to property and equipment	110,293	12,358	4,580	127,231

Year ended December 31, 2011	Contract Drilling	Well Servicing	Corporate	Total
Continuing Operations:				
Revenue	$ 262,519	$ -	$ -	$ 262,519
Segment profit (loss)	83,626	(636)	(8,653)	74,337
Finance costs	43	(82)	3,689	3,650
Income taxes	12,430	(220)	2,583	14,793
Depreciation	24,746	8	233	24,987
Additions to property and equipment	82,954	5,472	443	88,869

Goodwill	Contract Drilling	Well Servicing	Corporate	Total
Balance at December 31, 2012 and 2011	$ 55,527	$ -	$ -	$ 55,527

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

As at December 31, 2012	Contract Drilling	Well Servicing	Corporate	Total
Total assets	$ 683,608	$ 19,241	$ 46,599	$ 749,448
Total liabilities	86,808	1,317	206,533	294,658

As at December 31, 2011	Contract Drilling	Well Servicing	Corporate	Total
Total assets	$ 609,026	$ 5,930	$ 4,689	$ 619,645
Total liabilities	92,052	3,072	110,196	205,320

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

	Year ended December 31, 2012	Year ended December 31, 2011
Continuing operations:		
Segment profit	$ 76,070	$ 74,337
Deduct:		
Stock based compensation	(1,843)	(1,335)
Finance costs	(12,437)	(3,650)
Other items	(756)	(677)
Income from continuing operations before income taxes	$ 61,034	$ 68,675

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

5. Operating segments (continued):

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

As at and for the year ended December 31, 2012	Canada	United States	Total
Revenue	$ 267,397	$ 41,220	$ 308,617
Property and equipment	483,257	84,900	568,157
Total assets	654,066	95,382	749,448

As at and for the year ended December 31, 2011	Canada	United States	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

Significant customers:
For the year ended December 31, 2012, the Company had no single customer representing greater than 10% of the Company's total revenue. For the year ended December 31, 2011, the Company had one significant customer comprising 11% of total revenue.

6. Business acquisitions:

Stoneham Drilling Trust

On June 10, 2011, Western acquired all of the issued and outstanding income trust units of Stoneham Drilling Trust (the "Trust") 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 the Trust 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 the Trust's assets and operational personnel.

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

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, the Trust'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 Drilling Trust 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

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

6. Business acquisitions (continued):

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 the Trust's assets. Included in this estimated amount is $83.4 million of revenue recognized by the Company subsequent to the acquisition date relating to the Trust's assets. The Company cannot reasonably determine the net income amount attributable to the Trust's assets had the acquisition closed on January 1, 2011 or from the acquisition date, due to the fact that the Trust'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. 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 2011.

7. Trade and other receivables:

	December 31, 2012	December 31, 2011
Trade receivables	$ 66,911	$ 68,588
Accrued trade receivables	11,589	14,162
Other receivables	1,282	564
Total	$ 79,782	$ 83,314

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

8. Other assets:

	December 31, 2012	December 31, 2011
Current:		
Investments	$ 35,064	$ -
Prepaid expenses	1,808	1,744
Inventory	1,450	1,039
Deposits	508	987
Deferred charges and other	159	250
Total current portion of other assets	38,989	4,020
Non current:		
Deferred charges and other	405	355
Total non current portion of other assets	405	355
Total other assets	$ 39,394	$ 4,375

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

9. Property and equipment:

	Land	Buildings	Contract drilling equipment	Well servicing equipment	Shop and office equipment	Vehicles under finance leases	Total
Cost:							
Balance at December 31, 2010	$ 374	$ 1,341	$ 191,973	$ -	$ 479	$ 653	$ 194,820
Acquisitions: business combinations	4,600	1,800	213,871	-	125	320	220,716
Additions	-	156	82,097	5,358	1,258	-	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	$ 3,297	$ 488,478	$ 5,440	$ 1,860	$ 711	$ 504,760
Additions	-	339	109,530	12,310	5,052	-	127,231
Non-cash additions (1)	-	-	1,394	194	2,290	1,034	4,912
Disposals	-	-	(3,587)	-	(44)	(22)	(3,653)
Impact of foreign exchange	-	-	(2,352)	-	(1)	(1)	(2,354)
Balance at December 31, 2012	$ 4,974	$ 3,636	$ 593,463	$ 17,944	$ 9,157	$ 1,722	$ 630,896
Depreciation:							
Balance at December 31, 2010	$ -	$ 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
Depreciation for the period	-	143	31,107	383	954	274	32,861
Disposals	-	-	(488)	-	(18)	(3)	(509)
Impact of foreign exchange	-	-	(442)	-	-	(1)	(443)
Balance at December 31, 2012	$ -	$ 301	$ 60,198	$ 384	$ 1,481	$ 375	$ 62,739
Carrying amounts:							
At December 31, 2011	$ 4,974	$ 3,139	$ 458,457	$ 5,439	$ 1,315	$ 606	$ 473,930
At December 31, 2012	$ 4,974	$ 3,335	$ 533,265	$ 17,560	$ 7,676	$ 1,347	$ 568,157

(1) Non-cash additions consist of capitalized interest, finance leases, and lease inducements.

Assets under construction:
Included in property and equipment at December 31, 2012 are assets under construction of $12.4 million (December 31, 2011: $25.4 million) of which $9.6 million relates to the contract drilling segment including the construction of a telescopic Efficient Long Reach double drilling rig as well as ancillary drilling equipment and $2.8 million relating to the construction of well servicing rigs and ancillary equipment.

The Company has assessed the indicators of impairment surrounding property and equipment and did not identify any indicators of impairment at December 31, 2012 or 2011.

10. Goodwill:

	Goodwill
Balance at December 31, 2012 and 2011	$ 55,527

For impairment testing purposes, goodwill has been 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 was 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 Board of Directors for the following fiscal year and a discount rate of 13% per annum.

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

10. Goodwill (continued):

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 2% per annum growth rate.

11. Trade payables and other current liabilities:

	December 31, 2012	December 31, 2011
Trade payables	$ 4,429	$ 7,768
Accrued trade payables and expenses	32,810	31,307
Total	$ 37,239	$ 39,075

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	Lease inducements	Total
Balance at December 31, 2010	$ 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
Additions in the year	-	2,312	2,312
Provisions used during the year	(145)	(200)	(345)
Accretion of provisions	14	-	14
Balance at December 31, 2012	$ 104	$ 2,233	$ 2,337
Current	$ 104	$ 138	$ 242
Non current	-	2,095	2,095
	$ 104	$ 2,233	$ 2,337

At December 31, 2012, the Company has recognized a provision for the deferral of certain office lease inducements received and are amortized on a straight-line basis over the life of their respective lease contracts. In addition, 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.

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, 2012	December 31, 2011
Current:		
Operating Facility [a]	$ 5,460	$ 7,144
Bank mortgage	-	1,044
Finance lease obligations	321	25
Total current portion of long term debt	5,781	8,213
Non current:		
Revolving Facility [a]	15,000	108,000
Finance lease obligations	505	39
Senior Notes [b]	175,000	-
Less: net unamortized issue costs on Senior Notes	(3,557)	-
Total non current portion of long term debt	186,948	108,039
Total long term debt	$ 192,729	$ 116,252

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

13. Long term debt (continued):

(a) Credit facilities:

Western's credit facilities consist of a $10.0 million operating demand revolving loan (the "Operating Facility"), and a $125.0 million committed three year extendible revolving credit facility (the "Revolving Facility"). In June 2012, the maturity date on the Revolving Facility was extended to June 7, 2015. The Operating Facility principal balance is due on demand with interest paid monthly. The Revolving Facility requires interest to be paid monthly with no scheduled principal repayments unless the Revolving Facility is not extended by the maturity date.

Amounts borrowed under the Operating and Revolving Facilities bear interest at the bank's prime rate, US base rate, LIBOR, or the banker's acceptance rate plus an applicable margin depending, in each case, on the ratio of Consolidated Debt to Consolidated EBITDA as defined by the relevant agreement. The credit facilities are secured by the assets of Western and its subsidiaries. As at December 31, 2012, the Company had $110.0 million in available credit under the Revolving Facility and $4.5 million under the Operating Facility.

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

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

(1) In the event of a material acquisition during any fiscal quarter, the ratio shall increase by 0.50 for 90 days following the material acquisition.
(2) Consolidated EBITDA in the credit facilities is defined as consolidated net income (loss), plus interest, income taxes, depreciation and amortization and any other non-cash items or extraordinary or non-recurring losses, less 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, 2012 and December 31, 2011, the Company was in compliance with all covenants related to its credit facilities.

(b) Senior Notes:

On January 30, 2012, the Company completed a private placement of $175.0 million 7⅞% senior unsecured notes (the "Senior Notes"). The Senior Notes were issued at par value and are due on January 30, 2019. The Senior Notes contain certain early redemption options which the Company has the option to redeem all or a portion of the Senior Notes at various redemption prices, which include the principal amount plus accrued and unpaid interest, if any, to the applicable redemption date. Interest is payable semi-annually on January 30 and July 30. These Senior Notes are unsecured, ranking equal in right of payment to all existing and future unsecured indebtedness, and have been guaranteed by the Company's current and future subsidiaries. The Senior Notes Indenture contains certain restrictions relating to items such as making restricted payments and incurring additional debt.

At December 31, 2012, the fair value of the Senior Notes was approximately $180.3 million.

14. Share capital:

At December 31, 2012, the Company was authorized to issue an unlimited number of common shares. The following table summarizes Western's common shares:

	Issued and outstanding shares		Amount
Balance at December 31, 2010	37,680,944	$	159,895
Issued for cash	11,068,750		86,336
Issued on acquisition of Stoneham	9,803,678		76,469
Cancellation of common shares	(20,085)		(157)
Issue costs net of deferred tax	-		(2,845)
Balance at December 31, 2011	58,533,287	$	319,698
Issued for cash on exercise of stock options	51,667		307
Issued for cash on exercise of warrants	997,189		2,094
Fair value of exercised stock options and warrants	-		779
Balance at December 31, 2012	59,582,143	$	322,878

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

14. Share capital (continued):

In 2012, the Board of Directors of Western implemented a dividend policy which provides for an annual cash dividend of $0.30 per share. For the year ended December 31, 2012, the Company declared dividends of $8.9 million (December 31, 2011: nil) and had dividends payable of $4.5 million at December 31, 2012 (December 31, 2011: nil).

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 common shares as stock options.

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

	Stock options outstanding	Weighted average exercise price
Balance at December 31, 2010	1,032,583	$ 5.70
Granted	1,358,500	7.86
Expired/Forfeited	(290,083)	6.87
Balance at December 31, 2011	2,101,000	$ 6.94
Granted	755,900	7.44
Exercised	(51,667)	5.93
Expired/Forfeited	(282,500)	7.17
Balance at December 31, 2012	2,522,733	$ 7.08

For the years ended December 31, 2012 and 2011, no stock options were cancelled. The average fair value of the stock options granted in 2012 was $2.17 per stock option (2011: $2.58 per stock option). For the year ended December 31, 2012, the Company recorded approximately $1.8 million in stock based compensation expense (December 31, 2011: $1.3 million).

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

As at December 31, 2012 Exercise price ($/share)	Number of options outstanding	Weighted average contractual life remaining (years)	Number of options exercisable
5.70-7.31	1,111,167	2.83	303,342
7.32-8.79	1,411,566	3.94	296,836
	2,522,733	3.45	600,178

As at December 31, 2012, Western had 600,178 (December 31, 2011: nil options) exercisable stock options outstanding at a weighted average exercise price equal to $6.95 (December 31, 2011: $nil) per stock option.

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

	2012	2011
Risk-free interest rate	1%	1%
Average forfeiture rate	21%	20%
Average expected life	2.0 years	2.0 years
Maximum life	5.0 years	5.0 years
Average vesting period	2.0 years	2.0 years
Expected dividend	4%	nil
Expected share price volatility	60%	60%

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

15. Stock based compensation (continued):

Warrants:

The following table summarizes Western's outstanding warrants:

	Warrants outstanding	Weighted average exercise price
Balance at December 31, 2011 and 2010	2,525,000	$ 2.10
Exercised	(997,189)	2.10
Balance at December 31, 2012	1,527,811	$ 2.10

Each warrant entitles the holder to purchase one common share of Western. 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, 2012	Year ended December 31, 2011
Issued common shares, beginning of year	58,533,287	37,680,944
Effect of shares issued	251,405	13,914,134
Weighted average number of common shares (basic)	58,784,692	51,595,078
Dilutive effect of stock options and warrants	2,075,667	2,045,539
Weighted average number of common shares (diluted)	60,860,359	53,640,617

At December 31, 2012, 1,603,566 options (December 31, 2011: 1,096,000 options) were excluded from the 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, 2012	Year ended December 31, 2011
Interest expense on long term debt	$ 12,687	$ 3,400
Amortization of debt financing fees and provisions	829	376
Interest and other income	(1,079)	(126)
Total finance costs	$ 12,437	$ 3,650

For the year ended December 31, 2012, the Company incurred interest and financing costs of approximately $13.6 million (December 31, 2011: $4.2 million), which includes capitalized interest of $1.2 million (December 31, 2011: $0.5 million) on its long term debt (see Note 13). The Company had an effective interest rate of 8.4% on its borrowings for the year ended December 31, 2012 (December 31, 2011: 4.9%).

18. Other items:

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

	Year ended December 31, 2012	Year ended December 31, 2011
Loss (gain) on sale of assets	$ 368	$ (1,248)
Change in fair value of derivatives	386	(6)
Foreign exchange loss (gain)	2	(1,418)
Acquisition costs	-	3,349
Total other items	$ 756	$ 677

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

19. Income taxes:

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

	Year ended December 31, 2012	Year ended December 31, 2011
Current tax expense	$ 5,090	$ 585
Deferred tax expense	10,766	14,208
Total income taxes	$ 15,856	$ 14,793

The following summarizes the income taxes recognized directly into equity**:**

	Year ended December 31, 2012	Year ended December 31, 2011
Share issue costs	$ -	$ 1,861

The following summarizes the income taxes recognized directly into other comprehensive income:

	Year ended December 31, 2012	Year ended December 31, 2011
Translation differences for foreign operations	$ (107)	$ -
Available for sale financial assets	232	-
Total income taxes in other comprehensive income	$ 125	$ -

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

		Year ended December 31, 2012		Year ended December 31, 2011
Income from continuing operations before income taxes		$ 61,034		$ 68,675
Federal and provincial statutory rates	25.00%	$ 15,259	26.50%	$ 18,199
Income taxed at higher rates		1,155		494
Stock based compensation		461		354
Non-deductible expenses		194		130
Change in effective tax rate on temporary differences		24		-
Change in estimate		(59)		(745)
Change in previously unrecognized tax assets		(1,110)		(3,341)
Other		(68)		(298)
Total income taxes		$ 15,856		$ 14,793

(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, 2012	December 31, 2011
Property and equipment	$ (75,047)	$ (63,780)
Other assets	(276)	-
Deferred charges and accruals	237	78
Provisions	579	89
Long-term debt	222	-
Share issue costs	1,141	1,617
Other tax pools	490	595
Tax loss carry-forwards	14,787	14,263
Other	(17)	-
Net deferred tax liabilities	$ (57,884)	$ (47,138)

Movements of the Company's temporary differences for the year ended December 31, 2012 is as follows:

	Balance Dec 31, 2011	Recognized in other comprehensive income	Recognized in net income	Impact of foreign exchange	Balance Dec 31, 2012
Property and equipment	$ (63,780)	$ -	$ (10,840)	$ (427)	$ (75,047)
Other assets	-	232	(508)	-	(276)
Deferred charges	73	-	6	-	79
Provisions	89	-	490	-	579
Long term debt	-	-	222	-	222
Timing differences on accruals	310	-	(110)	3	203
Foreign exchange on inter-company loan	(305)	-	260	-	(45)
Share issue costs	1,617	-	(476)	-	1,141
Other tax pools	595	(107)	(23)	8	473
Tax loss carry-forwards	14,263	-	213	311	14,787
Net deferred tax liabilities	$ (47,138)	$ 125	$ (10,766)	$ (105)	$ (57,884)

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 tax liabilities	$ (6,210)	$ (28,347)	$ 1,861	$ (14,208)	$ (234)	$ (47,138)

At December 31, 2012, the Company has gross loss carry forwards equal to approximately $5.8 million in Canada, which expire between 2031 and 2032. In the United States, the Company has approximately US$33.9 million gross loss carry forwards which expire between 2028 and 2031.

At December 31, 2012 and 2011, the Company had no unrecognized deductible temporary differences.

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

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, 2012	Year ended December 31, 2011
Depreciation of property and equipment (Note 9)	$ 32,861	$ 24,987
Employee benefits: salaries and benefits	123,822	98,986
Employee benefits: stock based compensation (Note 15)	1,843	1,335
Repairs and maintenance	18,801	13,162
Third party charges	25,761	25,091

21. Financial risk management and financial instruments:

The Company's financial instruments include cash and cash equivalents, trade and other receivables, investments, trade payables and other current liabilities, derivatives and long term debt instruments such as the credit facilities and Senior Notes. Cash and cash equivalents, investments and derivatives are carried at fair value. The fair value of investments is based on their respective trading prices on December 31, 2012. The carrying amounts of trade and other receivables, trade payables, and other current liabilities approximate their fair values due to their short term nature. The credit facilities bear interest at rates that approximate market rates and therefore their carrying values approximate fair values. The Senior Notes are recorded at their amortized cost. Fair value disclosure of the Senior Notes is based on their respective trading price on December 31, 2012.

Interest rate risk:

The Company is exposed to interest rate risk on certain debt instruments, such as the Operating Facility and Revolving Facility, 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 $0.1 million impact on interest expense for the year ended December 31, 2012 (December 31, 2011: $0.8 million). Other long term debt, such as the Senior Notes and the Company's finance leases, are subject to fixed rates.

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, 2012, portions of the Company's cash balances, 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, 2012, the increase or decrease in net income and other comprehensive income for each one percent change in foreign exchange rates between the Canadian and United States dollars is estimated to be less than $0.2 million and $0.4 million, respectively (December 31, 2011: $0.1 million and $0.4 million, respectively).

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 and other 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, 2012, approximately 99% of the Company's trade receivables from continuing operations were less than 90 days old, as such, there has been no provision recorded for allowance for doubtful accounts for the years ended December 31, 2012 and 2011. The Company believes the unimpaired amounts greater than 90 days old are still collectible based on historic payment behavior and an analysis of the underlying customers' ability to pay.

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

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

Credit risk (continued):

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

	December 31, 2012	December 31, 2011
Trade receivables:		
Current	$ 37,376	$ 38,435
Outstanding for 31 to 60 days	23,370	22,614
Outstanding for 61 to 90 days	5,281	6,741
Outstanding for over 90 days	884	798
Accrued trade receivables	11,589	14,162
Other receivables	1,282	564
Total	$ 79,782	$ 83,314

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, 2012, the Company expects to recover all of its trade and other receivables; therefore, the allowance for doubtful accounts balance at December 31, 2012, is $nil (December 31, 2011: $nil).

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 cash flow from operating activities, existing credit facilities, excess working capital and debt refinancing 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 at December 31, 2012:

	Total amount	Due prior to December 31 2013	2014	2015	2016	2017	Thereafter
Financial liabilities:							
Operating facility	$ 5,460	$ 5,460	$ -	$ -	$ -	$ -	$ -
Trade and other current liabilities	37,239	37,239	-	-	-	-	-
Revolving facility	15,000	-	-	15,000	-	-	-
Senior Notes	175,000	-	-	-	-	-	175,000
Total	$ 232,699	$ 42,699	$ -	$ 15,000	$ -	$ -	$ 175,000

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 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 incur 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:

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

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

Fair value (continued):

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

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

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

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

Capital management:

The capital structure of the Company changed in 2012 to include the Senior Notes issued in January 2012. As such, the overall capitalization of the Company at December 31, 2012 is as follows:

	Note	December 31, 2012	December 31, 2011
Operating Facility	13	$ 5,460	$ 7,144
Revolving Facility	13	15,000	108,000
Bank mortgage	13	-	1,044
Finance lease obligations	13	826	64
Senior Notes	13	175,000	-
Total debt		196,286	116,252
Shareholders' equity		454,790	414,325
Less: cash and cash equivalents		(6,588)	-
Total capitalization		$ 644,488	$ 530,577

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, 2012, the Company had $114.5 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, 2012.

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

22. Commitments:

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

	2013	2014	2015	2016	2017	Thereafter	Total
Senior Notes	$ -	$ -	$ -	$ -	$ -	$ 175,000	$ 175,000
Senior Notes interest	13,781	13,781	13,781	13,781	13,781	20,672	89,577
Trade payables	37,239	-	-	-	-	-	37,239
Operating leases	3,696	3,241	2,433	2,413	2,279	16,267	30,329
Revolving facility	-	-	15,000	-	-	-	15,000
Operating facility	5,460	-	-	-	-	-	5,460
Purchase commitments	7,602	-	-	-	-	-	7,602
Finance leases	351	191	28	-	-	-	570
Total	$ 68,129	$ 17,213	$ 31,242	$ 16,194	$ 16,060	$ 211,939	$ 360,777

Senior Notes:

The Company pays interest on the Senior Notes semi-annually on January 30 and July 30. The Senior Notes are due January 30, 2019.

Trade payables:

The Company has recorded trade payables for amounts due to third parties within one year.

Operating leases:

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

Revolving facility:

As at December 31, 2012, the Company has drawn $15.0 million under the Revolving Facility, which is due for repayment in 2015.

Operating facility:

As at December 31, 2012, the Company has drawn $5.5 million under the Operating Facility, which is due on demand.

Purchase commitments:

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

Finance leases:

The Company has entered into agreements with third parties to lease vehicles.

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

23. Discontinued operations:

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, 2012 and 2011 is as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Revenue from discontinued operations	$ -	$ 12,930
Operating expenses	-	10,528
Gross profit	-	2,402
Administrative expenses	-	1,300
Finance costs	-	1
Other items	-	38
Income before tax from discontinued operations	-	1,063
Income tax expense	-	310
Income from discontinued operations	-	753
Gain on sale of StimSol (net of tax)	-	10,111
Net income from discontinued operations	$ -	$ 10,864

At December 31, 2012 and 2011, there are no assets and liabilities from discontinued operations.

The cash flows from discontinued operations for the years ended December 31, 2012 and 2011 were as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Operating Activities		
Net income from discontinued operations	$ -	$ 10,864
Adjustments for:		
Depreciation in operating expenses	-	395
Depreciation in administrative expenses	-	34
Stock based compensation in operating expenses	-	(25)
Stock based compensation in administrative expenses	-	(44)
Gain on sale of StimSol	-	(10,111)
Income taxes expense	-	310
Finance costs	-	1
Other	-	21
Cash generated from operating activities	-	1,445
Taxes paid	-	(227)
Change in non-cash working capital	-	(2,663)
Cash flow used in operating activities	-	(1,445)
Investing activities		
Net proceeds on sale of StimSol	-	22,546
Additions to property and equipment	-	(584)
Proceeds on sale of property and equipment	-	785
Changes in non-cash working capital	-	479
Cash flow from investing activities	-	23,226
Financing activities		
Drawdown (payment) of long term debt	-	34
Finance costs paid	-	-
Cash flow from financing activities	-	34
Increase in cash and cash equivalents	$ -	$ 21,815

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

24. Related party transactions:

During the year ended December 31, 2012, the Company entered into sales transactions totaling approximately $5.9 million (2011: $5.6 million) 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, 2012, approximately $0.4 million (December 31, 2011: $2.9 million) is outstanding in trade and other receivables.

25. Key management personnel:

During the year ended December 31, 2012, the Company paid compensation to key management personnel as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Short-term employee benefits	$ 2,457	$ 2,559
Stock based compensation[(1)]	693	499
	$ 3,150	$ 3,058

(1) The total fair value of stock options granted to key management personnel for the year ended December 31, 2012 was equal to $0.3 million (2011: $0.9 million) which is being recognized in net income over the options' vesting period.

26. Subsidiaries:

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

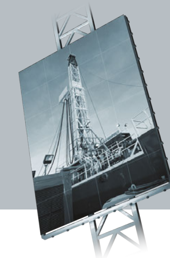
		Ownership interest (%)	
	Country of incorporation	December 31, 2012	December 31, 2011
Horizon Drilling Inc.	Canada	100	100
Stoneham Drilling Corporation	USA	100	100
Matrix Well Servicing Inc.	Canada	100	100

On January 1, 2013, Horizon and Matrix amalgamated with Western to form one legal entity.

27. Subsequent events:

On February 21, 2013, the Company entered into an Arrangement Agreement whereby, subject to certain conditions, the Company will acquire all of the issued and outstanding shares of IROC Energy Services Corp. ("IROC") in exchange for a combination of cash and common shares of Western. The total transaction value is approximately $193.7 million, including the assumption of approximately $36.6 million in debt and IROC transaction costs. A portion of the consideration will be paid for in shares of the Company at an ascribed value of $7.63 per Western share. In accordance with IFRS 3, Business Combinations, the actual consideration will be determined based on the closing price of Western's shares immediately before the acquisition. The transaction is expected to be completed by way of a Plan of Arrangement under the Business Corporations Act of Alberta and is subject to normal stock exchange, court and regulatory approvals and the approval by at least 66 2/3 percent of the outstanding shares of IROC and any applicable minority shareholder approval requirements voted on at a special meeting of the shareholders of IROC, which is expected to be held prior to the end of April 2013.

On February 27, 2013, the Board of Directors of Western declared a quarterly dividend of $0.075 per share, payable on April 12, 2013, to shareholders of record at the close of business on March 28, 2013. The dividends will be eligible dividends for Canadian income tax purposes.



CORPORATE INFORMATION

DIRECTORS

Donald D. Copeland (1)(2)
Victoria, British Columbia

Lorne A. Gartner (1)(3)
Calgary, Alberta

Steven C. Grant (1)(3)
Houston, Texas

Ronald P. Mathison (3)
Calgary, Alberta

Murray K. Mullen (2)
Calgary, Alberta

John R. Rooney (1)(3)
Calgary, Alberta

Dale E. Tremblay (2)
Calgary, Alberta

(1) *Corporate Governance and Compensation Committee Member*

(2) *Health, Safety and Environment Committee Member*

(3) *Audit Committee Member*

CORPORATE OFFICE

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OFFICERS

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Chairman and CEO

Alex MacAusland
President and COO

Jeffrey K. Bowers
Vice President Finance and CFO

Jan M. Campbell
Corporate Secretary

LEGAL COUNSEL

Borden Ladner Gervais LLP
Calgary, Alberta

AUDITOR

Deloitte LLP
Calgary, Alberta

BANKS

Royal Bank of Canada
HSBC Bank Canada
Alberta Treasury Branches

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Symbol: **WRG**

TRANSFER AGENT

Valiant Trust Company
Calgary, Alberta

ANNUAL GENERAL MEETING

The Annual General Meeting of the Shareholders of Western Energy Services Corp. will be held at 3:00 pm on May 8, 2013 in the Turner Valley Room of The Fairmont Palliser Hotel, 133 – 9th Avenue SW, Calgary, Alberta.

Western
ENERGY SERVICES CORP.