Western ENERGY SERVICES CORP.

Q2.2011

Second Quarter Interim Report

Dated: August 10, 2011

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, 2010 and 2009, the Company's management discussion and analysis ("MD&A") for the year ended December 31, 2010, the Company's condensed consolidated financial statements and notes as at and for the three months ended March 31, 2011 and 2010, as well as the Company's condensed consolidated financial statements and notes as at and for the three and six months ended June 30, 2011 and 2010. This management's discussion and analysis is dated August 10, 2011.

Selected Financial Information

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

Financial Highlights	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Revenue	32,412	13,396	87,797	17,715
EBITDA[1]	8,015	3,057	28,732	3,607
Cash flow from operating activities	21,027	3,985	30,641	3,785
Capital expenditures	14,743	3,871	29,764	3,930
Net income (loss) from continuing operations	4,290	(215)	15,806	11,317 [2]
-basic net income (loss) per share	0.08	(0.01)	0.35	0.63
-diluted net income (loss) per share	0.08	(0.01)	0.34	0.57
Net income (loss)	4,193	(283)	15,537	10,816 [2]
-basic net income (loss) per share	0.08	(0.01)	0.35	0.60
-diluted net income (loss) per share	0.08	(0.01)	0.33	0.54
Weighted average number of shares				
-basic[3]	51,010,095	26,377,458	44,541,870	18,073,780
-diluted[3]	53,028,369	26,377,458	46,533,545	19,892,157
Outstanding common shares as at period end[3]	58,533,287	26,377,458	58,533,287	26,377,458
Dividends declared	-	-	-	-

Operating Highlights				
Contract Drilling				
Contract drilling rig fleet:				
-Average	28	11	26	11 [4]
-End of period	43	11	43	11
Drilling revenue per operating day	29,207	24,278	28,713	24,383
Drilling rig utilization rate[5]	40%	46%	60%	46% [4]
CAODC industry average utilization rate[5]	24%	20%	46%	26% [4]
Production Services				
Jobs completed	277	548	1,392	1,326
Average revenue per job completed	7,480	4,093	5,290	3,599

Financial Position at	June 30, 2011	December 31, 2010	June 30, 2010
Working capital	23,384	13,154	9,467
Property and equipment	432,980	194,739	96,053
Total assets	543,117	264,106	115,327
Long term debt	116,186	46,061	4,127

(1) See Financial Measures Reconciliations on page 2.

(2) Includes an $11.1 million non-recurring gain on acquisitions.

(3) Prior year amounts restated to reflect the 20:1 share consolidation completed on June 22, 2011.

(4) Calculated from the date of acquisition of the Contract Drilling segment (March 18, 2010).

(5) Utilization rate calculated on a spud to rig release basis.

On January 1, 2011, Western adopted International Financial Reporting Standards ("IFRS") for Canadian publicly accountable enterprises. Prior to the adoption of IFRS, Western followed Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). While IFRS has many similarities to Canadian GAAP, some of Western's accounting policies have changed as a result of the transition to IFRS. The most significant accounting policy changes that have had an impact on the results of Western's operations are discussed within the applicable sections of this MD&A, and in more detail in the Transition to International Financial Reporting Standards section of this MD&A. Prior year comparative amounts have been changed to reflect results as if Western had always prepared its financial results using IFRS.

Financial Measures Reconciliations

Western uses certain measures in this MD&A which do not have any standardized meaning as prescribed by IFRS. These measures 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.

EBITDA

Management believes that in addition to net income (loss) from continuing operations, earnings from continuing operations before interest and finance costs, taxes, depreciation, other non-cash items and one-time gains and losses ("EBITDA") as derived from information reported in the condensed consolidated statements of operations and comprehensive income (loss) is a useful supplemental measure as it provides an indication of the results generated by Western's principal business activities prior to consideration of how those activities are financed, the impact of foreign exchange, how the results are taxed, how funds are invested, how non-cash charges and one-time gains or losses affect results.

Operating Earnings

Management believes that in addition to net income (loss) from continuing operations, 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 (loss) from continuing operations under IFRS as disclosed in the condensed consolidated statements of operations and comprehensive income (loss) to EBITDA and Operating Earnings.

(stated in thousands of Canadian dollars)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
EBITDA	8,015	3,057	28,732	3,607
Depreciation - operating	3,100	1,725	8,025	2,144
Depreciation - administrative	96	37	160	43
Operating earnings	4,819	1,295	20,547	1,420
Stock based compensation - operating	82	31	143	34
Stock based compensation - administrative	193	131	335	144
Finance costs	509	219	1,071	310
Other items	2,279	31	1,342	138
Gain on business acquisitions	-	529	-	(11,094)
Income taxes	(2,534)	569	1,850	571
Net income (loss) from continuing operations	4,290	(215)	15,806	11,317

Overall Performance and Results of Operations

Western is an oilfield service company with operations in two industry segments: contract drilling and production services. Operations in the contract drilling segment are conducted through Western's wholly owned subsidiary Horizon Drilling Inc. ("Horizon"), which was acquired on March 18, 2010, and Stoneham Drilling LP, which was acquired on June 10, 2011. Operations in the production services segment are conducted through Western's wholly owned subsidiary StimSol Canada Inc. ("StimSol").

The drilling industry in Canada has continued to see improved activity through the first and second quarters of 2011, specifically the demand for rigs that have the ability to drill long reach horizontal wells safely and efficiently. During the second quarter of 2011, utilization in the contract drilling segment averaged 40% as compared to an industry average of 24%.

Although the price for natural gas remains soft, oil prices on average have increased by approximately 36% and 23%, respectively for the three and six months ended June 30, 2011, as compared to the same period of the prior year. This has resulted in a 12% increase in the number of wells drilled on a rig release basis year-to-date in Canada in 2011 relative to 2010. The increased 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. During 2011, Western's entire drilling fleet has been focused on drilling horizontal wells. In addition to more wells being drilled in 2011, the industry average drilling days per well also increased in the period to average 12.9 days per well, a 13% increase over the same period of the prior year.

Key operational results for the three months ended June 30, 2011:

- Second quarter revenues increased by $19.0 million to $32.4 million in 2011 as compared to $13.4 million in 2010. The increase reflects Western's increased market share in the contract drilling segment which contributed $30.3 million in the second quarter of 2011, an increase of $19.2 million over the second quarter of 2010 as the Company's average rig fleet increased by 155% to 28 rigs as compared to 11 rigs in the prior year. Revenues in the contract drilling segment reflect average revenue per operating day in the second quarter of $29,207 and a utilization rate of 40% as compared to the industry average of 24%. Revenues in the production services segment decreased by $0.2 million to $2.1 million in the second quarter of 2011 as wet weather and forest fires in the western Canadian sedimentary basin resulted in increased downtime.

- Second quarter EBITDA (see financial measures reconciliations on page 2) increased by 162% to 8.0 million in 2011, as compared to $3.1 million in 2010. The $4.9 million increase in EBITDA is due to Western's growth in the contract drilling segment which contributed $10.1 million in the second quarter of 2011 (33% of contract drilling revenue), an increase of $6.4 million over the same period in the prior year. The increased EBITDA in the contract drilling segment was offset by a $1.0 million decrease in the production services segments EBITDA and an increase in corporate administrative costs of $0.4 million.

- Corporate administrative expenses, excluding depreciation and stock based compensation, in the second quarter of 2011 increased by $0.4 million to $1.5 million, as compared to $1.1 million in the same period of the prior year. The increase is due to higher staffing levels and costs associated with Western's continued growth through consolidation efforts in the oilfield service industry.

- Net income from continuing operations increased to $4.3 million in the second quarter of 2011 as compared to a loss of $0.2 million in the same period in the prior year. The increase is attributable to the scale achieved in the contract drilling segment which has operating earnings of $7.1 million in the second quarter of 2011, an increase of $5.0 million over the same period of the prior year.

- For the three months ended June 30, 2011 capital expenditures totalled $14.7 million the majority of which relate to the contract drilling segment, which spent $12.9 million in the second quarter. These expenditures mainly relate to Western's rig build program, which incurred $5.1 million in the second quarter with the remaining capital spending relating to ancillary drilling equipment.

- On June 8, 2011, Western increased its syndicated revolving credit facility to a $150 million committed three year extendible revolving credit facility (the "Revolving Facility"). The Revolving Facility requires interest to be paid monthly with no scheduled principal repayments unless the Revolving Facility is not extended by the maturity date. The current maturity date of the Revolving Facility is June 7, 2014. Amounts borrowed under the Revolving Facility will bear interest at the bank's prime rate or the banker's acceptance rate plus an applicable margin depending, in each case, on the ratio of consolidated debt to consolidated EBITDA. The purpose of the Revolving Facility is for

general corporate purposes including refinancing the previous credit facility as well as partially financing the acquisition of Stoneham Drilling Trust ("Stoneham").

- On June 10, 2011, the Company acquired all of the issued and outstanding units of Stoneham in exchange for a combination of cash and common shares of Western. The total transaction value was approximately $225.8 million, including the assumption of approximately $34.3 million in debt. A portion of the consideration included the issuance of approximately 196.1 million common shares of Western (9.8 million common shares post 20:1 share consolidation) at an ascribed value of $0.39 per Western common share ($7.80 per share post 20:1 share consolidation) with the remaining $115.0 million of consideration paid in cash.
- During the second quarter, Western commenced construction of five next generation well service rigs, the first of which is expected to begin operations early in the fourth quarter of 2011 and the remainder are expected to commence operations later in the fourth quarter of 2011 or during the first quarter of 2012. This moves Western towards its stated objective of entering the well servicing industry in Canada.

Key operational results for the six months ended June 30, 2011:

- First half revenues increased by $70.1 million to $87.8 million in 2011 as compared to $17.7 million in 2010. The increase reflects Western's increased market share in the contract drilling segment which contributed $80.4 million year-to-date, an increase of $67.5 million over the first half of 2010 when operations in the contract drilling segment commenced on March 18, 2010. Revenues in the contract drilling segment reflect average revenue per operating day of $28,713 and a utilization rate of 60% as compared to the industry average of 46%. The remaining $2.6 million increase in revenue is due to increased utilization and improved pricing in Western's production services segment which completed 5% more jobs in the first half of 2011 at an average price per job 47% higher than the same period of the prior year.
- For the six months ended June 30, 2011, EBITDA (see financial measures reconciliations on page 2) increased by 697% to $28.7 million, as compared to $3.6 million in 2010. The $25.1 million increase in EBITDA is due Western's growth in the contract drilling segment which contributed $30.2 million year-to-date in 2011 (37% of contract drilling revenue), an increase of $26.1 million over the same period in the prior year. EBITDA in the production services segment increased by $0.1 million to $1.3 million in 2011 (17% of production services revenues) as increased revenue was offset by higher overhead costs. Offsetting the increased EBITDA in Western's two operating segments was an increase in corporate administrative costs of $1.1 million.
- Corporate administrative expenses, excluding depreciation and stock based compensation, in the first half of 2011 increased by $1.1 million to $2.7 million, as compared to $1.6 million in the same period of the prior year. The increase is due to higher staffing levels and costs associated with Western's continued growth through consolidation efforts in the oilfield service industry.
- For the six months ended June 30, 2011 net income from continuing operations increased by $4.5 million to $15.8 million as compared to $11.3 million in the same period of the prior year. The increase is attributable to the scale achieved in the contract drilling segment, which began operations on March 18, 2010; however net income from continuing operations did not increase by the same margin as EBITDA due to a one-time gain of $11.1 million realized on the acquisitions of Horizon and Creek Creek Drilling Ltd. in the prior year.
- In 2011, first half capital expenditures totalled $29.8 million, the majority of which relate to the contract drilling segment which spent $27.8 million year-to-date. These expenditures mainly relate to the purchase of a mechanical telescopic double drilling rig from a private company for $7.0 million as well as $7.8 million incurred as part of Western's rig build program, with the remaining capital spending relating to ancillary drilling equipment.
- On March 29, 2011 Western completed a public offering for 192,500,000 common shares (9,625,000 common shares post 20:1 share consolidation) at a price of $0.39 per share ($7.80 per share post 20:1 share consolidation) for gross proceeds of approximately $75.1 million. On April 1, 2011, the underwriters of the public offering exercised an over-allotment option and pursuant thereto acquired an additional 28,875,000 common shares (1,443,750 common shares post 20:1 share consolidation) at $0.39 per share ($7.80 per share post 20:1 share consolidation) for gross proceeds of approximately $11.3 million. The underwriters were paid commissions of approximately $4.3 million with respect to the public offering.

Outlook

Western has a drilling rig fleet of 43 rigs, with an additional 4 rigs currently under construction. Currently, Western is the sixth largest drilling contractor in Canada with a fleet of 38 drilling rigs. As a result of the acquisition of Stoneham on June 10, 2011, Western has re-entered the United States market with the intention of building a strong presence initially in the Williston basin of North Dakota. Currently, Western has 5 drilling rigs deployed in the United States.

Western's drilling rig fleet is specifically suited for the current market which is moving towards drilling wells of increased complexity. In total, approximately 91% of Western's fleet are Efficient Long Reach ("ELR") rigs with depth ratings greater than 3,000 meters and all of Western's rigs are capable of drilling horizontal wells. Currently, approximately 50% of Western's fleet is under long term take-or-pay contracts, which provide a base level of revenue. These contracts typically generate 250 utilization days per year in Canada, as the annual spring breakup restricts activity during the second quarter, while in the United States these contracts typically generate 365 utilization days per year.

As a result of strong customer demand, Western's capital budget has been increased to approximately $100 million, including the construction of 4 fit for purpose telescopic ELR double drilling rigs, one of which is expected to be completed in the third quarter and another in the fourth quarter of 2011, with the remaining two expected to be delivered in the first quarter of 2012. Long term take-or-pay contracts for all 4 rig builds were signed prior to commencing construction. Western believes that with continued strong pricing environments for oil and natural gas liquids, additional rig build opportunities will be available. Additionally, during the second quarter, Western commenced construction of five next generation well service rigs, the first of which is expected to begin operations early in the fourth quarter of 2011 and the remainder are expected to commence operations later in the fourth quarter of 2011 or during the first quarter of 2012. This moves Western towards its stated objective of entering the well servicing industry in Canada.

Drilling activity in Canada and the United States has been substantially higher in 2011 as compared to the last number of years. Furthermore, the Company's utilization rates have consistently been above industry average, including during the second quarter of 2011 when wet weather and forest fires hindered operations in western Canada, due to our modern rig fleet, strong customer base and solid reputation. Western believes that customers targeting oil and liquids-rich natural gas wells will continue to drive demand and lead to high levels of utilization. Additionally, strong commodity market conditions have provided some of our customers with improved cash flow allowing them to increase their drilling programs. The increased demand for drilling rig services in the market has led to improved day rates, which are expected to hold through the winter of 2012.

Currently the industry is experiencing a shortage of qualified people; however Western's fleet is fully crewed with qualified personnel. We believe our modern fleet and corporate culture will provide a distinct advantage in attracting qualified individuals. Western has a proven track record for delivering high quality equipment and well trained, highly skilled crews to its customers who rely on the Company to drill increasingly complex long reach horizontal wells. As such, Western is well positioned for future growth.

Segmented Information

As at June 30, 2011, Western operated in two main industry segments, contract drilling and production services. Contract drilling includes drilling rigs along with related equipment with operations in both Canada and the United States. The production services segment operates in Canada and includes various oilfield services relating to stimulation and fluid pumping, nitrogen services, specialty solvents and laboratory services.

Segment Review of Contract Drilling

(stated in thousands of Canadian dollars)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Revenue	30,340	11,153	80,433	12,943
Expenses				
Operating				
Cash operating expenses	19,066	6,938	47,771	8,209
Depreciation	2,954	1,552	7,737	1,789
Stock based compensation	68	23	117	25
Total operating expenses	22,088	8,513	55,625	10,023
Administrative				
Cash administrative expenses	1,213	543	2,507	700
Depreciation	39	10	58	12
Stock based compensation	47	28	78	31
Total administrative expenses	1,299	581	2,643	743
EBITDA(1)	10,061	3,672	30,155	4,034
Operating earnings(1)	7,068	2,110	22,360	2,233
Capital expenditures	12,853	2,030	27,786	2,066
EBITDA as a percentage of revenue	33%	33%	37%	31%
Canadian Operations				
Contract drilling rig fleet:				
Average	28	11	26	11 (2)
End of period	40	11	40	11
Drilling revenue per operating day	29,124	24,278	28,678	24,383
Drilling rig operating days(3)	1,011	459	2,774	531 (2)
Number of meters drilled	221,670	86,031	498,320	99,539
Drilling rig utilization rate(3)	40%	46%	60%	46% (2)
CAODC industry average utilization rate(3)	24%	20%	46%	26% (2)
US Operations				
Contract drilling rig fleet:				
Average(4)	3	-	3	-
End of period	3	-	3	-
Drilling revenue per operating day	32,290	-	32,290	-
Drilling rig operating days(4)	27	-	27	-
Number of meters drilled	6,088	-	6,088	-
Drilling rig utilization rate(3)(4)	43%	-	43%	-

(1) See Financial Measures Reconciliations on page 2.

(2) Calculated from the date of acquisition of the Contract Drilling segment (March 18, 2010).

(3) Utilization rate and drilling rig operating days are calculated on a spud to rig release basis.

(4) Calculated from the date of acquisition of the US Operations (June 10, 2011).

Revenues in the contract drilling segment for the three months ended June 30, 2011 totalled $30.3 million, an increase of $19.1 million compared to $11.2 million in the prior year. The increase is due to a number of factors including the increase in the Company's rig fleet to an average of 28 rigs in the second quarter of 2011 as compared to an average of 11 rigs in the prior year. Additionally, revenues in the second quarter of 2011 reflect average revenue per operating day of $29,207, a 20% improvement over the prior year, and a utilization rate of 40%, which was 67% higher than the industry average. Compared to the prior year, utilization decreased by 13% over the second quarter of 2010 due to downtime associated with

a prolonged spring breakup and forest fires as well as above average rainfall and flooding conditions in parts of the western Canadian sedimentary basin. During the second quarter, the Company drilled 96 wells for a total of 227,758 meters drilled.

During the six months ended June 30, 2011, revenues in the contract drilling segment totalled $80.4 million, an increase of $67.5 million compared to the same period in the prior year. The increase reflects a number of factors including six months of operations in 2011, while in the prior year operations in the contract drilling segment commenced on March 18, 2010; an increase in the average drilling rig fleet to 26 from 11 in 2010; an 18% increase in the average revenue per operating day to $28,713 in the first half of 2011; and a utilization rate of 60% as compared to 46% in the prior year, and an industry average of 46%. During the first half of 2011, the Company drilled 230 wells for a total of 504,408 meters drilled.

During the three and six months ending June 30, 2011, EBITDA increased significantly as a result of the higher revenues in the contract drilling segment. As a result, EBITDA totalled $10.1 million (33% of the segment's revenue) in the second quarter of 2011, a $6.4 million increase over the prior year, and $30.2 million (37% of the segment's revenue) in the first half of 2011, a $26.1 million increase over the prior year, reflecting strong margins, above industry average utilization rates and economies of scale that have been realized as a result of Western's growth through consolidation strategy.

Capital expenditures in the contract drilling segment totalled $12.9 million in the second quarter and $27.8 million in the first half of 2011, while asset sales totalled $0.1 million in the second quarter and $2.5 million in the first half of 2011. Of the capital expenditures incurred in the second quarter, $5.1 million relate to the Company's rig build program, with the remaining capital spending relating to ancillary drilling equipment. Of the capital expenditures incurred during the six months ended June 30, 2011, $7.0 million relate to the purchase of a mechanical telescopic double drilling rig from a private company, $7.8 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 heavy weight drill pipe.

Segment Review of Production Services

(stated in thousands of Canadian dollars)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Revenue	2,072	2,243	7,364	4,772
Expenses				
Operating				
Cash operating expenses	2,175	1,382	5,139	3,079
Depreciation	146	173	288	355
Stock based compensation	14	8	26	9
Total operating expenses	2,335	1,563	5,453	3,443
Administrative				
Cash administrative expenses	418	394	954	529
Depreciation	13	4	23	8
Stock based compensation	24	14	40	15
Total administrative expenses	455	412	1,017	552
EBITDA(1)	(521)	467	1,271	1,164
Operating earnings(1)	(680)	290	960	801
Capital expenditures	75	1,572	157	1,594
EBITDA as a percentage of revenue	(25%)	21%	17%	24%
Jobs completed	277	548	1,392	1,326
Revenue per job completed	7,480	4,093	5,290	3,599

(1) See Financial Measures Reconciliations on page 2.

Production services revenue decreased by $0.2 million, or 8%, to $2.1 million in the second quarter of 2011 as compared to the same period in the prior year. The decrease reflects a prolonged spring breakup, forest fires, above average rainfall and flooding in certain parts of the western Canadian sedimentary basin. As a result, the number of jobs completed in the quarter decreased by 49% to 277 from 548 in the prior year. However, the decrease in activity was partially offset by an increase in the revenue completed per job by 83% to $7,480 from $4,093 in the same period of the prior year. The increase in revenue per job completed is due to StimSol beginning to offer a high concentrated acid blend to support fracing operations, which provide higher revenue per job than StimSol's traditional pumping services.

For the six months ended June 30, 2011, revenue in the production services segment increased by $2.6 million to $7.4 million as compared to the same period in the prior year. The increase is due to high activity levels in the first quarter of 2011 more than offsetting the lower levels of activity in the second quarter as noted above.

Production services EBITDA was negative $0.5 million in the second quarter of 2011, as compare to positive $0.5 million in the same period of the prior year. EBITDA decreased by $1.0 million, more than the $0.2 million decrease in revenue due to increased overhead costs in the production services segment required to support the segment's growing and diversified operations. During the six months ended June 30, 2011, EBITDA increased by $0.1 million to $1.3 million, representing 17% of the segment's revenue, as compared to $1.2 million in the prior year, representing 24% of the segment's revenue. The decrease in EBITDA as a percentage of revenue is attributable to the lower earnings in the second quarter of 2011 as discussed above.

During the three and six months ended June 30, 2011, the production services segment incurred nominal capital expenditures totalling $0.1 million and $0.2 million, respectively while asset sales totalled $0.6 million and $0.8 million, respectively.

Corporate and other

(stated in thousands of Canadian dollars)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Expenses				
Administrative				
Cash administrative expenses	1,525	1,082	2,694	1,591
Depreciation	44	23	79	23
Stock based compensation	122	89	217	98
Total administrative expenses	1,691	1,194	2,990	1,712
Finance costs	509	219	1,071	310
Other items	2,279	31	1,342	138
Gain on business acquisitions	-	529	-	(11,094)
Capital expenditures	1,815	269	1,821	270

During the three and six months ended June 30, 2011, administrative expenses, excluding depreciation and stock based compensation, increased by $0.4 million and $1.1 million, respectively as compared to the same periods in the prior year. The increase is due to higher staffing levels and costs associated with Western's continued growth through consolidation in the oilfield service industry.

Finance costs increased by $0.3 million in the second quarter of 2011 to $0.5 million and by $0.8 million to $1.1 million in the first half of 2011 as compared to the same periods in the prior year. The increase is due to a higher average debt balance outstanding following the acquisitions completed by Western.

Other items, which totalled $2.3 million in the second quarter of 2011, mainly consist of acquisition costs associated with the acquisition of Stoneham of $2.6 million, partially offset by gains on the sale of certain assets for $0.3 million. For the six months ended June 30, 2011, other items totalled $1.3 million consisting of acquisition costs of $2.7 million which were partially offset by gains on the sale of certain assets of $1.5 million.

The $11.1 million gain on business acquisitions in 2010 relates to the acquisitions of Horizon and Cedar Creek Drilling Ltd. ("Cedar Creek") on March 18, 2010 which were accounted for using IFRS 3, *Business Combinations*.

Liquidity and Capital Resources

On March 29, 2011 Western completed a public offering for 192,500,000 common shares (9,625,000 common shares post 20:1 share consolidation) at a price of $0.39 per share ($7.80 per share post 20:1 share consolidation) for gross proceeds of approximately $75.1 million. On April 1, 2011, the underwriters of the public offering exercised an over-allotment option and pursuant thereto acquired an additional 28,875,000 common shares (1,443,750 common shares post 20:1 share consolidation) at $0.39 per share ($7.80 per share post 20:1 share consolidation) for gross proceeds of approximately $11.3 million. The underwriters were paid commissions of approximately $4.3 million with respect to the public offering.

On June 8, 2011, Western increased its syndicated revolving credit facility to a $150 million committed three year extendible revolving credit facility (the "Revolving Facility"). Western continues to have a $10 million demand operating facility. The Revolving Facility requires interest to be paid monthly with no scheduled principal repayments unless the Revolving Facility is not extended by the maturity date. The current maturity date of the Revolving Facility is June 7, 2014.

Amounts borrowed under the Revolving Facility will bear interest at the bank's prime rate or the banker's acceptance rate plus an applicable margin depending, in each case, on the ratio of consolidated debt to consolidated EBITDA. The Revolving Facility is secured by the assets of the Company.

As at June 30, 2011, Western had a working capital balance of $23.4 million, a decrease of $51.1 million over the $74.5 million working capital balance at March 31, 2011, and a $10.2 million improvement over the $13.2 million working capital balance as at December 31, 2010. The large working capital balance at March 31, 2011 was due to the March 29, 2011 public offering which raised net proceeds of approximately $70.9 million, of which $23.0 million was immediately applied against long term debt. The decrease in working capital at June 30, 2011 as compared to March 31, 2011 is due to the acquisition of Stoneham, where a portion of the proceeds from the March 2011 equity offering were used to fund the acquisition. The increase in working capital from year-end is mainly due to the working capital acquired as part of the Stoneham acquisition.

Long term debt at June 30, 2011 was $116.2 million, an increase of $88.2 million and $70.1 million as compared to March 31, 2011 and December 31, 2010, respectively. The increase is attributable to the acquisition of Stoneham, which included cash consideration of $115.0 million and the assumption of $34.3 million in net debt, partially offset by the equity offering completed in 2011 for net proceeds of approximately $81.6 million.

During the three and six months ended June 30, 2011, Western generated operating cash flow from continuing operations of $21.4 million and $31.1 million, respectively as compared to $4.2 million and $4.0 million, respectively in the same periods of the prior year. The increase is attributable to Western's continued growth through consolidation in the contract drilling segment, which contributed increased operating cash flow of $20.7 million and $33.8 million, respectively for the three and six months ended June 30, 2011 as compared to the same periods in the prior year.

Goodwill

A continuity of Western's goodwill balance as at June 30, 2011 is as follows:

	Amount
January 1, 2010	$ -
Pantera Drilling Income Trust ("Pantera") acquisition	29,117
December 31, 2010	$ 29,117
Stoneham acquisition	26,466
June 30, 2011	$ 55,583

The goodwill acquired as part of the Stoneham acquisition is attributable to the purchase price being approximately 110% of the replacement cost of the assets acquired. The goodwill on the Pantera acquisition is attributable to the exchange ratio between Western's common shares and Pantera's income trust units being negotiated based on a value of $0.21 per Western common share; however the consideration exchanged was valued based on a price per Western common share of $0.33, representing the price immediately before closing the acquisition. This resulted in additional consideration of approximately $27.1 million, and a corresponding increase in the goodwill recognized.

Discontinued Operations

During 2010, management determined its United States and international production services divisions, included in the production services segment, would be disposed of in order for the Company to focus on its core business operations in western Canada. The disposal groups consisted of certain property and equipment including a building, field equipment and shop equipment used in the production services segment. During the three and six months ended June 30, 2011, there were no significant transactions within the disposal group as the respective entities are being wound up.

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 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.

	IFRS						Previous GAAP		
Three months ended	Jun 30, 2011	Mar 31, 2011	Dec 31, 2010	Sep 30, 2010	Jun 30, 2010	Mar 31, 2010	Dec 31, 2009(1)(3)	Dec 22, 2009(1)(3)	Sep 30, 2009(3)
Revenue	32,412	55,385	30,508	19,321	13,396	4,318	151	999	921
EBITDA(2)	8,015	20,717	10,431	5,520	3,057	548	(102)	(636)	(226)
Cash flow from operating activities	21,027	9,614	3,153	3,129	3,985	(200)	(436)	(2,373)	(184)
Income (loss) from continuing operations	4,290	11,516	5,822	10,515	(215)	11,530	(1,975)	(1,051)	(1,507)
per share - basic(4)	0.08	0.30	0.21	0.40	(0.01)	1.19	(0.20)	(0.60)	(1.00)
per share - diluted(4)	0.08	0.29	0.20	0.38	(0.01)	0.99	(0.20)	(0.60)	(1.00)
Net income (loss)	4,193	11,344	5,738	10,036	(283)	11,099	(2,011)	(2,840)	(1,650)
per share - basic(4)	0.08	0.30	0.20	0.38	(0.01)	1.15	(0.40)	(1.80)	(1.00)
per share - diluted(4)	0.08	0.28	0.19	0.36	(0.01)	0.95	(0.40)	(1.80)	(1.00)
Total assets	543,117	329,114	264,106	143,399	115,327	151,485	12,219	12,712	17,731
Long term financial liabilities(5)	116,186	28,030	46,061	20,648	4,127	38,918	65	65	279
Dividends declared	-	-	-	-	-	-	-	-	-

(1) The fourth quarter of 2009 has been split into two periods to reflect Western's results before and after the comprehensive revaluation completed on December 22, 2009. All periods prior to December 22, 2009 are prior to the comprehensive revaluation.

(2) See Financial Measures Reconciliations on page 2.

(3) All 2009 periods were prepared based on Canadian GAAP.

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

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

Revenue is comprised of service revenue from the Company’s contract drilling segment as well as its production services segment. Throughout 2009 the Company had operated only in the production services segment. On March 18, 2010, the Company began operations in its contract drilling segment with the acquisition of Horizon and Cedar Creek. Subsequent to March 18, 2010, revenue has steadily increased through to the end of the first quarter of 2011 mainly due to the addition of the contract drilling segment, which has continued to grow in size through the acquisitions of Impact Drilling Ltd., Pantera and more recently Stoneham on June 10, 2011. As noted above, revenue in the second quarter of 2011 was negatively impacted by spring breakup.

EBITDA has followed a similar trend to revenue increasing throughout 2009, 2010 and the first quarter of 2011 and decreasing in the second quarter of 2011 due to decreased activity associated with spring breakup. This trend reflects strong margins, above industry average utilization rates and economies of scale that have been realized as a result of Western’s consolidation strategy.

Net income (loss) fluctuated throughout 2010 mainly due to the gain on business acquisitions that were recognized in the first and third quarters as well as the cyclical nature of the oilfield services industry. During 2011, net income increased in the first quarter, when activity levels were high, and decreased in the second quarter, when activity levels were lower due to spring breakup.

Total assets continue to increase from 2009, 2010 and the first half of 2011 due to the continued growth of the Company through the corporate acquisitions.

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 of Canadian dollars)	**Total**	**2011**	**2012**	**2013**	**2014**	**2015**	**Thereafter**
Operating leases	$ 5,645	$ 1,056	$ 1,905	$ 1,661	$ 1,023	$ -	$ -
Capital commitments	20,841	20,596	116	74	55	-	-
Purchase commitments	477	477	-	-	-	-	-
Total	**$ 26,963**	**$ 22,129**	**$ 2,021**	**$ 1,735**	**$ 1,078**	**$ -**	**$ -**

Outstanding Share Data

	August 10, 2011	June 30, 2011	December 31, 2010(1)
Common shares outstanding	58,533,287	58,533,287	37,680,944
Warrants outstanding	2,525,000	2,525,000	2,525,000
Stock options outstanding	1,585,083	1,677,583	1,032,583

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

Off Balance Sheet Arrangements

As at June 30, 2011, Western had no off balance sheet arrangements in place.

Transactions with Related Parties

During the three and six months ended June 30, 2011, the Company entered into transactions totalling approximately $30,000 and $0.3 million, respectively (three and six months ended June 30, 2010: $24,000 and $0.1 million, respectively) with a vendor who shares common Directors with the Company. These related party transactions, which have been recorded within the Company's operating expenses, 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 June 30, 2011, approximately $14,000 (June 30, 2010: Nil) of the balance is outstanding and is recorded in trade payables and other current liabilities.

Financial Instruments

Fair Values

The Company's cash and investments are the only financial assets or liabilities measured using fair value. Fair value is determined based on quoted prices in active markets for identical assets or liabilities.

Credit Risk

The Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risk.

Interest Rate Risk

The Company is exposed to interest rate risk on debt subject to floating interest rates.

Foreign Exchange Risk

The Company is exposed to foreign exchange fluctuations in relation to its US dollar capital expenditures and international 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.

Changes in Accounting Policies

Transition to International Financial Reporting Standards ("IFRS")

The Company has prepared both its first and second quarter 2011 condensed consolidated financial statements in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards, and with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Previously, the Company prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The Company's IFRS accounting policies are provided in Note 3 of the March 31, 2011 condensed consolidated financial statements. In addition, Note 22 of the March 31, 2011 condensed consolidated financial statements and Note 21 of the June 30, 2011 condensed consolidated financial statements present reconciliations between the Company's 2010 Canadian GAAP results and the 2010 IFRS results.

The adoption of IFRS has not had a material impact on the Company's operations, strategic decisions, cash flow or capital expenditures. IFRS also has not had a material impact on the Company's condensed opening balance sheet on January 1, 2010 mainly due to the election of certain IFRS 1 optional elections as well as the fact that the Company had previously applied CICA Handbook Section 1625, Comprehensive Revaluation of Assets and Liabilities, which resulted in the Company's property and equipment balance being adjusted to its respective fair value at December 22, 2009.

In connection with the application of CICA Handbook Section 1625 on December 22, 2009, the Company reset its contributed surplus and its deficit to zero with the corresponding adjustment applied against share capital. In total, share capital was reduced by approximately $14.0 million due to $15.8 million of deficit being applied against share capital which was offset by $1.8 million credit balance in contributed surplus which increased share capital. There is no specific guidance or literature on this accounting treatment under IFRS. Management has not reversed these adjustments on transition to IFRS as all adjusted amounts were within the Company's net equity accounts therefore the total equity value of the Company was not impacted and the opening balance sheet is a fair presentation of the Company's financial position as at January 1, 2010.

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

IFRS optional exemptions elected:

1. Business combinations - IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from January 1, 2010 ("the Transition Date"). The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected to apply IFRS 3 to business combinations that occurred prospectively from the Transition Date and as such business combinations completed before the Transition Date have not been restated.

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

   The Company has elected to apply this exemption to its entire PP&E balance on the Transition Date. The result is that no adjustment was required to arrive at the IFRS deemed cost values given that the Company had previously fair valued its balance sheet on December 22, 2009 under Canadian GAAP due to the financial restructuring of the Company and application of CICA Handbook Section 1625, described above, on this date. In addition, there was no difference in depreciation expense for the period between December 23, 2009 and January 1, 2010 between Canadian GAAP and IFRS. Therefore, the December 31, 2009 property and equipment balance previously reported under Canadian GAAP represented its fair value and deemed cost on January 1, 2010 under IFRS.

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

4. Compound financial instruments - IFRS 1 provides the exemption that allows an entity to use its previous GAAP's accounting treatment for compound financial instruments where the liability has been settled prior to the Transition Date. Historically, Western issued convertible debt which would have been accounted for differently under IFRS. As a

result of the Company electing to utilize this exemption, compound instruments entered into and settled prior to the Transition Date were not adjusted on transition to IFRS.

IFRS mandatory exceptions applicable to the Company:

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

Significant IFRS accounting policy changes:

(a) Business combinations: Following Canadian GAAP, the Company adopted CICA Handbook Section 1582, Business Combinations, which is consistent with IFRS 3 as at January 1, 2010. Therefore, there have been no significant adjustments under IFRS related to the business combinations that closed in 2010.

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

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

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

The following provides summary reconciliations of Western's 2010 Canadian GAAP and IFRS results:

Reconciliation of Earnings
(Thousands of Canadian dollars)

		2010				
	Note	Q1	Q2	Q3	Q4	Annual
Net income and comprehensive income under Canadian GAAP		$ 11,106	$ (98)	$ 10,154	$ 5,887	$ 27,049
Differences increasing (decreasing) reported net income:						
PP&E - Depreciation	(a)	(11)	(133)	(188)	(244)	(576)
Provisions	(b)	-	(104)	24	24	(56)
Leases	(c)	(1)	-	-	-	(1)
Stock based compensation	(d)	2	19	(1)	10	30
Income taxes	(e)	3	33	47	61	144
Total net income and comprehensive income under IFRS		$ 11,099	$ (283)	$ 10,036	$ 5,738	$ 26,590

Notes to reconciliation of Canadian GAAP to IFRS:

(a) Property and equipment:

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

- Property and equipment were fair valued at the Transition Date which then became the items deemed cost to be depreciated moving forward and resulted in no change in the carrying value due to the fact that items were previously fair valued under Canadian GAAP as at December 22, 2009. There was no difference in depreciation expense for the period between December 23, 2009 and January 1, 2010 between Canadian GAAP and IFRS.

- The identification of certain significant components of property and equipment has resulted in a change to the estimate of the useful life of certain items of property and equipment in 2010 under IFRS. The change in estimate has resulted in adjustments to the carrying value and depreciation expense previously booked under Canadian GAAP in 2010.

(b) Provisions:

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

(c) Leases:

Under Canadian GAAP, leases of certain vehicles were classified as operating leases. Under IFRS, these vehicles have been classified as finance leases based on whether risk and rewards transfer to the lessee. As a result, property and equipment together with leased obligations on the balance sheet have been adjusted.

(d) Stock based compensation:

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

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

(e) Income taxes

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

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 are 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 judgments 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 impairment, depreciation, current and deferred taxes, determination of the fair value of stock options and valuation of derivatives.

The accounting estimates believed to be the most difficult, subjective or complex judgments 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 for goodwill, the recoverable amount of the asset or cash generating unit is determined. Value-in-use calculations performed in assessing the recoverable amounts incorporate a number of key estimates.

During the second quarter of 2011, the Company completed its assessments and did not identify indicators for impairment of the carrying value of long-lived assets of the Company. As at December 31, 2010 and January 1, 2010, the Company completed its assessments and did not identify indicators of impairment of the carrying value of long-lived assets of the Company.

Componentization of property and equipment:
The identification of certain significant components of property and equipment has resulted in a change to the estimation of the useful life of some items of property and equipment in 2010 under IFRS. Management has made estimates with respect to the useful lives of items of property and equipment based on historical experience. The change in estimate has resulted in adjustments to the carrying value and depreciation expense previously booked under Canadian GAAP in 2010.

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

Business Risks

The following business risks are applicable to the Company's business:

- Competition among related service companies is significant. Many competitors are substantially larger and have substantially 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, 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 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 costs and expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, or other factors could significantly affect its revenues and financial results.
- 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 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 business may also affect the Company's business. The exact effect of these risks cannot be accurately predicted.
- The oilfield services 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, and all of the discontinued operations of the Company, are in the United States and Mexico which subject the Company to currency fluctuations and different tax and regulatory laws.

Additional data

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