Second Quarter Interim Report

Dated: August 8, 2012

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, 2011 and 2010, the Company's management discussion and analysis ("MD&A") for the year ended December 31, 2011 as well as the Company's condensed consolidated financial statements and notes as at and for the three and six months ended June 30, 2012 and 2011. This MD&A is dated August 8, 2012. All amounts are denominated in Canadian dollars (CDN$) unless otherwise identified.

Selected Financial Information

(stated in thousands, except share and per share amounts)

	Three months ended June 30			Six months ended June 30		
Financial Highlights	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Revenue	44,819	30,340	48%	155,706	80,433	94%
Gross Margin[1]	14,108	11,274	25%	64,321	32,662	97%
Gross Margin as a percentage of revenue	31%	37%	(16%)	41%	41%	0%
EBITDA[1]	9,364	8,533	10%	53,606	27,459	95%
EBITDA as a percentage of revenue	21%	28%	(25%)	34%	34%	0%
Cash flow from operating activities	58,930	21,026	180%	84,647	30,641	176%
Capital expenditures	39,602	14,667	170%	76,005	29,606	157%
Net income	827	4,193	(80%)	23,835	15,537	53%
-basic net income per share[2]	0.01	0.08	(88%)	0.41	0.35	17%
-diluted net income per share[2]	0.01	0.08	(88%)	0.39	0.33	18%
Weighted average number of shares:						
-basic[2]	58,533,287	51,010,095	15%	58,533,287	44,541,870	31%
-diluted[2]	60,429,663	53,028,369	14%	60,612,851	46,533,545	30%
Outstanding common shares as at period end	58,533,287	58,533,287	0%	58,533,287	58,533,287	0%
Dividends declared	-	-	-	-	-	-
Operating Highlights						
Contract Drilling						
Canadian Operations						
Average contract drilling rig fleet	41	28	46%	40	26	54%
Drilling revenue per operating day (CDN$)	33,507	29,124	15%	34,117	28,398	20%
Drilling rig utilization rate per revenue day[3]	30%	44%	(32%)	60%	67%	(10%)
Drilling rig utilization rate per operating day[4]	27%	40%	(33%)	54%	60%	(10%)
CAODC industry average utilization rate[4]	21%	24%	(13%)	43%	46%	(7%)
United States Operations						
Average contract drilling rig fleet	5	3 [5]	67%	5	3 [5]	67%
Drilling revenue per operating day (US$)	33,560	39,970	(16%)	33,566	39,970	(16%)
Drilling rig utilization rate per revenue day[3]	89%	66% [5]	35%	94%	66% [5]	42%
Drilling rig utilization rate per operating day[4]	71%	36% [5]	97%	74%	36% [5]	106%
Well Servicing						
Average well servicing rig fleet	4	-	100%	3	-	100%
Revenue per service hour (CDN$)	579	-	100%	580	-	100%
Service rig utilization rate[6]	22%	-	100%	23%	-	100%

(1) See Financial Measures Reconciliations on page 2.
(2) Prior year amounts adjusted to reflect the 20:1 share consolidation completed on June 22, 2011.
(3) Drilling rig utilization rate per revenue day is calculated based on operating and move days.
(4) Drilling rig utilization rate per operating day is calculated on a spud to rig release basis.
(5) Calculated from the date of acquisition of the United States operations (June 10, 2011).
(6) Service rig utilization rate calculated based on full utilization being 10 hour days, 365 days per year.

Financial Position at (stated in thousands)	June 30, 2012	June 30, 2011	Change	Dec 31, 2011	Change
Working capital	65,582	23,384	180%	39,874	64%
Property and equipment	536,579	432,980	24%	473,930	13%
Total assets	699,356	543,117	29%	619,645	13%
Long term debt	171,764	116,186	48%	108,039	59%

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 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, how those activities are financed, the impact of foreign exchange, how the results are taxed, how funds are invested, and how non-cash charges and one-time gains or 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") as derived from information reported in the condensed consolidated statements of operations and comprehensive income 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 condensed consolidated statements of operations and comprehensive income (loss) to Gross Margin, EBITDA and Operating Earnings:

	Three months ended June 30		Six months ended June 30	
(stated in thousands)	**2012**	**2011**	**2012**	**2011**
Gross Margin	14,108	11,274	64,321	32,662
Add (subtract):				
Administrative expenses	(5,286)	(2,992)	(11,872)	(5,634)
Depreciation - administrative	178	82	372	136
Stock based compensation - administrative	364	169	785	295
EBITDA	9,364	8,533	53,606	27,459
Depreciation - operating	(4,941)	(2,954)	(14,605)	(7,737)
Depreciation - administrative	(178)	(82)	(372)	(136)
Operating Earnings	4,245	5,497	38,629	19,586
Stock based compensation - operating	(116)	(67)	(258)	(116)
Stock based compensation - administrative	(364)	(169)	(785)	(295)
Finance costs	(3,250)	(509)	(6,031)	(1,071)
Other items	335	(2,335)	304	(1,372)
Income taxes	(23)	2,333	(8,024)	(1,664)
(Loss) income from discontinued operations	-	(557)	-	469
Net income	827	4,193	23,835	15,537

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.

Although the drilling industry experienced strong demand for rigs in the first half of 2012, activity in the second quarter was hampered by a very wet spring and uncertain economic conditions. 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 strong by historical standards. 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. This has resulted in continued demand for drilling rigs in the western Canadian sedimentary basin, with the CAODC industry average utilization rate remaining relatively consistent at 43% in the first half of 2012 as compared to 46% in the same period of the prior year. On a year to date basis, the number of wells drilled on a rig release basis in Canada decreased by 7% in the period. However, this was offset by an increase of 8% in the industry average drilling days per well to 12.6 operating days reflecting the increased depth and complexity of the wells being drilled by the industry, which resulted in an 8% increase in metres drilled by the industry in Canada while the industry's operating days year to date have remained relatively flat. During 2012, Western's entire drilling rig fleet has been focused on drilling horizontal wells. In Canada on a year to date basis, Western averaged 16.2 operating days per well drilled in 2012 as compared to 12.3 operating days in the same period of the prior year; while in the United States on a year to date basis, Western averaged 29.9 operating days per well drilled which has a direct relationship to the depth capacity of our drilling rig fleet.

Key operational results for the second quarter 2012 include:

- During the quarter, the Company's contract drilling rig fleet increased by one due to the commissioning of a new telescopic Efficient Long Reach ("ELR") double drilling rig. As such, the Company exited the period with 41 drilling rigs in Canada along with 5 drilling rigs in the United States for a total contract drilling rig fleet of 46. Subsequent to quarter-end, the Company commissioned a telescopic ELR double drilling rig in Canada and has an additional three telescopic ELR double drilling rigs under construction which will bring the Company's drilling rig fleet to 50.
- During the quarter, the Company commissioned three well servicing rigs and as such the Company exited the period with five well servicing rigs. Currently, the Company is constructing an additional 5 well servicing rigs, which will bring the Company's well servicing rig fleet to 10.
- Second quarter revenues increased by $14.5 million (or 48%) to $44.8 million in 2012 as compared to $30.3 million in 2011. The increase reflects Western's increased market share in the contract drilling segment as the Company had an average rig count of 46 in the second quarter of 2012, a 64% increase over the prior year. In Canada, revenues in the second quarter reflect average revenue per operating day of $33,507 and a utilization rate per operating day of 27%, as compared to the industry average of 21%. In the United States, revenues in the second quarter reflect a utilization rate per operating day of 71% and average revenue per operating day of US$33,560.
- Second quarter EBITDA increased by $0.9 million (or 10%) to $9.4 million in 2012 (21% of revenue), as compared to $8.5 million in 2011 (28% of revenue). The increase in EBITDA is due to Western's growth in the contract drilling segment, however the decrease as a percentage of revenue is mainly due to higher overhead costs required to support the Company's growth and maintenance costs, for items such as budgeted recertifications and discretionary rig painting, that were planned for the second quarter to take advantage of downtime during spring breakup to help minimize loss of revenue during our busier summer and fall months. EBITDA as a percentage of revenue, after normalizing for the $2.3 million in discretionary rig painting that was incurred in the period, would have been approximately 26%.
- Administrative expenses, excluding depreciation and stock based compensation, in the second quarter of 2012 increased by $2.0 million to $4.7 million (11% of revenue) as compared to $2.7 million in 2011 (9% of revenue). The increase is due to a strengthened management team and higher staffing levels required to position the Company for future growth.
- Net income decreased by $3.4 million to $0.8 million in the second quarter of 2012 ($0.01 per basic common share) as compared to $4.2 million in the same period in the prior year ($0.08 per basic common share). The decrease in net income is mainly due to increased finance costs of $2.7 million, as a result of Western's January 2012 senior unsecured notes issuance; increased depreciation expense of $2.1 million, as a result of an increase in drilling rig operating days; and increased income taxes of $2.4 million due to a recovery in the prior year relating to tax planning associated with

the acquisition of Stoneham Drilling Trust. These factors were partially offset by reduced acquisition costs as $2.6 million was incurred in the prior year relating to the acquisition of Stoneham Drilling Trust.

- Second quarter capital expenditures totalled $39.6 million, the majority of which related to the contract drilling segment, which incurred $36.3 million in capital expenditures. These expenditures mainly relate to Western's drilling rig build program, which incurred $19.1 million in the second quarter. The remaining capital spending in the contract drilling segment related to ancillary drilling equipment. Additionally, $1.7 million was incurred in the well servicing segment mainly relating to Western's well servicing rig build program.
- During the second quarter of 2012, the Company extended the maturity on its $125.0 million revolving credit facility by one year to June 7, 2015.
- Subsequent to June 30, 2012, on August 8, 2012 Western's Board of Directors announced their intention to implement a dividend policy that provides for an annual cash dividend of $0.30 per share. As such, the Board of Directors has declared an initial quarterly dividend of 7.5 cents per share, payable on October 12, 2012, to shareholders of record at the close of business on September 28, 2012. The dividends will be eligible dividends for Canadian income tax purposes. Based on Western's strong operating and financial results to date, our expectations for continued demand over the next 12-24 months and given our balance sheet strength, the Board of Directors felt it was appropriate to implement a quarterly dividend at this time. On a prospective basis, the declaration of dividends will be determined on a quarter-by-quarter basis by the Board of Directors. We believe that this sustainable dividend balances rewarding our shareholders with a significant dividend payment and the ability to continue to execute our aggressive growth plans.

Key operational results for the six months ended June 30, 2012 include:

- Revenues for the six month period ended June 30, 2012 increased by $75.3 million (or 94%) to $155.7 million as compared to $80.4 million in the same period of the prior year. The increase reflects Western's increased market share in the contract drilling segment following the acquisition of Stoneham Drilling Trust, which resulted in the Company's average fleet increasing to 45 rigs, a 73% increase over the prior year. In Canada, revenue per operating day averaged $34,117 and utilization per operating day averaged 54%, as compared to the industry average of 43%. In the United States, revenues reflect utilization per operating day of 74% and average revenue per operating day of US$33,566.
- For the six months ended June 30, 2012, EBITDA increased by $26.1 million (or 95%) to $53.6 million (34% of revenue), as compared to $27.5 million in the same period of the prior year (34% of revenue) due to the growth in the Company's contract drilling segment. EBITDA as a percentage of revenue has remained consistent in 2012 as compared to the prior year due to improved drilling day rates in Canada and the scale achieved as a result of the Company's growth, despite lower drilling utilization in Canada and higher than normal maintenance costs incurred relating to budgeted recertifications and discretionary rig painting in the second quarter, as noted above.
- Year to date administrative expenses, excluding depreciation and stock based compensation, increased by $5.5 million to $10.7 million in 2012 (7% of revenue) as compared to $5.2 million in 2011 (6% of revenue). The increase is due to a strengthened management team and higher staffing levels required to position the Company for future growth.
- For the six months ended June 30, 2012, net income increased by $8.3 million to $23.8 million ($0.41 per basic common share) as compared to $15.5 million in the same period of the prior year ($0.35 per basic common share). The increase, both on an aggregate and per share basis, is attributable to the scale achieved as a result of Western's growth strategy which has resulted in increased revenue while maintaining consistent margins, offset by increased finance costs subsequent to the January 2012 senior unsecured note issuance and increased income taxes.
- Year to date capital expenditures totalled $76.0 million, the majority of which related to the contract drilling segment, which incurred $68.6 million in capital expenditures. These expenditures mainly relate to Western's drilling rig build program, which incurred $35.8 million in the period. The remaining capital spending in the contract drilling segment related to ancillary drilling equipment. Additionally, $5.3 million was incurred in the well servicing segment mainly on the construction of Western's first five well servicing rigs, all of which commenced operations in 2012.
- 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.

Outlook

Western currently has a drilling rig fleet of 47 rigs, with an additional 3 telescopic ELR double drilling rigs under construction. Western is the sixth largest drilling contractor in Canada with a fleet of 42 rigs. Currently, Western has five drilling rigs deployed in the United States. Additionally, Western currently has five well servicing rigs operating in the Lloydminster area, with an additional five under construction.

Western's drilling rig fleet is specifically suited for the current market which is focused on drilling wells of increased complexity. In total, approximately 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 base horizontal wells. Approximately 50% of Western's fleet is currently under long term take-or-pay contracts with an average remaining contract life of approximately 1.5 years, 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's 2012 capital spending is expected to total approximately $140 million, which includes approximately $80 million in expansion capital and $60 million in maintenance capital. Expansion capital in the contract drilling segment aggregates to approximately $65 million and mainly relates to Western's drilling rig build program which includes the completion of seven telescopic ELR double drilling rigs in 2012, four of which have already been commissioned. Of the remaining three drilling rigs currently under construction, one is expected to be completed in each of the next three quarters. Expansion capital in the well servicing segment relates to the construction of five new internally guyed single service rigs, which are anticipated to be completed in the latter part of the fourth quarter of 2012 and early in the first quarter of 2013. Maintenance capital relates to various items such as rotational equipment, drill pipe, replacement parts and infrastructure upgrades.

In 2012, the price for natural gas has remained soft, with the AECO 30-day spot rate on average decreasing by approximately 42%. While the year over year average WTI crude oil price has remained constant, pricing differentials in Canada have increased and as such the year over year average Edmonton Par price has decreased by approximately 7%. 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 a modest decrease in drilling activity in the second half of 2012 as compared to the same period of the prior year. As such, the Company expects lower utilization in 2012 as compared to the prior year, when industry utilization reached a five-year high. However, the Company does not expect significant pricing pressure on day rates on the deeper rigs in the industry's fleet. Notwithstanding the softening commodity price environment, Western continues to believe that additional rig build opportunities in both the contract drilling and well servicing segments will be available. Currently, the largest challenges facing the drilling industry are pricing differentials on Canadian crude oil, low natural gas prices, and the challenge to attract and retain skilled labour. The Company believes Western's modern drilling rig fleet, which has an average life of less than six years, and corporate culture will provide a distinct advantage in attracting qualified individuals. Western is of the view, that it's modern ELR rig fleet, strong customer base and solid reputation will provide a competitive advantage which will enable the Company to maintain its growth strategy and above industry average 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 work over services and well completions.

Contract Drilling

	Three months ended June 30			Six months ended June 30		
(stated in thousands)	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Revenue	44,330	30,340	46%	154,968	80,433	93%
Expenses						
Operating						
Cash operating expenses	30,146	19,066	58%	90,308	47,771	89%
Depreciation	4,873	2,954	65%	14,502	7,737	87%
Stock based compensation	111	67	66%	251	116	116%
Total operating expenses	35,130	22,087	59%	105,061	55,624	89%
Administrative						
Cash administrative expenses	3,470	1,213	186%	7,636	2,507	205%
Depreciation	91	39	133%	179	58	209%
Stock based compensation	84	47	79%	182	78	133%
Total administrative expenses	3,645	1,299	181%	7,997	2,643	203%
Gross Margin(1)	14,184	11,274	26%	64,660	32,662	98%
Gross Margin as a percentage of revenue	32%	37%	(14%)	42%	41%	2%
EBITDA(1)	10,714	10,061	6%	57,024	30,155	89%
EBITDA as a percentage of revenue	24%	33%	(27%)	37%	37%	0%
Operating Earnings(1)	5,750	7,068	(19%)	42,343	22,360	89%
Capital expenditures	36,305	12,853	182%	68,631	27,786	147%
Canadian Operations						
Contract drilling rig fleet:						
Average	41	28	46%	40	26	54%
End of period	41	40	3%	41	40	3%
Drilling revenue per operating day (CDN$)	33,507	29,124	15%	34,117	28,678	19%
Drilling rig operating days(2)	998	1,011	(1%)	3,873	2,774	40%
Number of meters drilled	241,162	221,670	9%	785,988	498,320	58%
Number of wells drilled	55	95	(42%)	239	229	4%
Average operating days per well	18.0	10.7	68%	16.2	12.3	32%
Drilling rig utilization rate per revenue day(3)	30%	44%	(32%)	60%	67%	(10%)
Drilling rig utilization rate per operating day(2)	27%	40%	(33%)	54%	60%	(10%)
CAODC industry average utilization rate(2)	21%	24%	(13%)	43%	46%	(7%)
United States Operations						
Contract drilling rig fleet:						
Average	5	3 (4)	67%	5	3 (4)	67%
End of period	5	3	67%	5	3	67%
Drilling revenue per operating day (US$)	33,560	39,970	(16%)	33,566	39,970	(16%)
Drilling rig operating days(2)	322	23	1,300%	677	23	2,843%
Number of meters drilled	73,677	6,088	1,110%	165,983	6,088	2,626%
Number of wells drilled	11	2	450%	23	2	1,050%
Average operating days per well	30.0	14.9	101%	29.9	14.9	101%
Drilling rig utilization rate per revenue day(3)	89%	66% (4)	35%	94%	66% (4)	42%
Drilling rig utilization rate per operating day(2)	71%	36% (4)	97%	74%	36% (4)	106%

(1) See Financial Measures Reconciliations on page 2.
(2) Utilization rate per operating day and drilling rig operating days are calculated on a spud to rig release basis.
(3) Utilization rate per revenue day is calculated based on operating and move days.
(4) Calculated from the date of acquisition of the United States operations (June 10, 2011).

During the three and six months ended June 30, 2012, revenues in the contract drilling segment totalled $44.3 million and $155.0 million, respectively representing increases of $14.0 million (or 46%) and $74.5 million (or 93%), respectively as compared to the same periods in the prior year. The increase in revenues for both the three and six months ended June 30, 2012, reflects the growth of the Company's rig fleet, following the acquisition of Stoneham Drilling Trust in June 2011 coupled with the Company's capital rig build program, as well as improved day rates, partially offset by lower utilization in Canada.

Canadian operations in the second quarter of 2012 were impacted by spring breakup, which was longer than the prior year, due to higher rainfall and the slower start-up of summer drilling programs. As such, utilization per operating day decreased to 27% as compared to 40% in the same period of the prior year. Despite the decrease in activity, the Company's utilization was 29% higher than the CAODC industry average of 21%. The positive impact on pricing that resulted from the strong demand realized during the last half of 2011 and the first quarter of 2012, carried forward into the second quarter of 2012 and resulted in revenue per operating day increasing by 15% to $33,507 as compared to $29,124 in the same period of the prior year. For the six months ended June 30, 2012, Canadian operations performed strongly during the winter drilling season, but as noted above, were impacted by a longer spring breakup. As a result, utilization per operating day decreased to 54% in 2012, as compared to 60% in the same period of the prior year. However, the Company's utilization remained 26% above the CAODC industry average of 43% in the period. Strong demand for the Company's ELR drilling rigs resulted in revenue per operating day increasing by 19% to $34,117 in 2012 as compared to $28,678 in the prior year.

Operations in the United States commenced subsequent to the acquisition of Stoneham Drilling Trust on June 10, 2011 and as such, results for the three and six months ended June 30, 2012 reflect a full period of activity, while the comparable periods of the prior year only include 21 days. During the second quarter of 2012, utilization per operating day in the United States averaged 71%, an improvement of 97% over the prior year. Revenue per operating day in the United States averaged US$33,560, a decrease of US$6,410 (or 16%) as compared to the prior year due to mobilization revenue earned in the second quarter of 2011 relating to deploying rigs from Canada into the United States which increased revenue per operating day. For the six months ended June 30, 2012, utilization per operating day in the United States averaged 74%, an improvement of 106% over the prior year. Revenue per operating day in the United States averaged US$33,566, a decrease of US$6,404 (or 16%) as compared to the same period in the prior year. As noted above, the decrease is due to the mobilization revenue earned on deploying rigs from Canada in the prior year.

During the second quarter of 2012, EBITDA in the contract drilling segment increased by $0.6 million (or 6%) to $10.7 million (24% of the segment's revenue), as compared to $10.1 million in 2011 (33% of the segment's revenue). Despite higher day rates in Canada, the decrease in EBITDA as a percentage of revenue is due to lower utilization, higher overhead costs as well as an increased allocation of corporate administrative expenses required to support the Company's growth and significant maintenance costs, for items such as budgeted recertifications and discretionary rig painting. During the quarter, the Company incurred $2.3 million in costs relating to the painting of eight drilling rigs. Five of the rigs were painted in conjunction with completing required recertifications, while the remaining three rigs were painted due to favourable location and move costs factors. The timing of the discretionary rig painting was planned for the second quarter to take advantage of downtime during spring breakup to help minimize loss of revenue during our busier summer and fall months. EBITDA as a percentage of revenue, after normalizing for the $2.3 million in rig painting, would have been approximately 29%. For the six months ended June 30, 2012, EBITDA in the contract drilling segment increased by $26.9 million (or 89%) to $57.0 million (37% of the segment's revenue), as compared to $30.2 million in 2011 (37% of the segment's revenue). EBITDA as a percentage of revenue has remained consistent in 2012 as compared to the prior year, despite lower utilization in Canada and higher than normal maintenance costs incurred on budgeted recertifications and discretionary rig painting in the second quarter as noted above, due to improved day rates in Canada and the scale achieved as a result of the Company's growth strategy.

Capital expenditures in the contract drilling segment totalled $36.3 million and $68.6 million, respectively for the three and six months ended June 30, 2012. Of the capital expenditures incurred for the three and six months ended June 30, 2012, $19.1 million and $35.8 million, respectively relate 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 June 30 2012	2011	Change	Six months ended June 30 2012	2011	Change
Revenue	489	-	100%	738	-	100%
Expenses						
Operating						
Cash operating expenses	565	-	100%	1,077	-	100%
Depreciation	68	-	100%	103	-	100%
Stock based compensation	5	-	100%	7	-	100%
Total operating expenses	638	-	100%	1,187	-	100%
Administrative						
Cash administrative expenses	417	-	100%	814	-	100%
Depreciation	17	-	100%	33	-	100%
Stock based compensation	10	-	100%	13	-	100%
Total administrative expenses	444	-	100%	860	-	100%
Gross Margin(1)	(76)	-	100%	(339)	-	(100%)
EBITDA(1)	(493)	-	100%	(1,153)	-	(100%)
Operating Earnings(1)	(578)	-	100%	(1,289)	-	(100%)
Capital expenditures	1,836	1,647	11%	5,253	1,647	219%
Well servicing rig fleet:						
Average	4	-	100%	3	-	100%
End of period	5	-	100%	5	-	100%
Revenue per service hour (CDN$)	579	-	100%	580	-	100%
Total service hours	844	-	100%	1,274	-	100%
Service rig utilization rate(2)	22%	-	100%	23%	-	100%

(1) See Financial Measures Reconciliations on page 2.

(2) Utilization rate calculated based on full utilization being 10 hour days, 365 days per year.

During 2012, the Company began operations in its well servicing subsidiary, Matrix, in the Lloydminster area. These operations are in the start-up phase of development and Matrix has been focused on the commissioning of its first five well servicing rigs, establishing a presence in the Lloydminster area, and hiring management, field, and office support staff. As such, revenue of $0.5 million and $0.7 million for the three and six months ended June 30, 2012, respectively and EBITDA of negative $1.2 million for the three and six months ended June 30, 2012, respectively do not reflect a normalized period of activity. As Matrix establishes their operations and obtains the necessary scale, the Company believes that it will achieve utilization rates and margins consistent with industry average.

Capital expenditures of $1.8 million and $5.3 million for the three and six months ended June 30, 2012, respectively mainly relate to the completion of the Company's initial five well servicing rigs, three of which were commissioned in the second quarter of 2012.

Corporate

(stated in thousands)	Three months ended June 30 2012	2011	Change	Six months ended June 30 2012	2011	Change
Administrative						
Cash administrative expenses	857	1,528	(44%)	2,265	2,696	(16%)
Depreciation	70	43	63%	160	78	105%
Stock based compensation	270	122	121%	590	217	172%
Total administrative expenses	1,197	1,693	(29%)	3,015	2,991	1%
Finance costs	3,250	509	539%	6,031	1,071	463%
Other items	(335)	2,335	(114%)	(304)	1,372	(122%)
Income taxes						
Current tax (recovery) expense	(89)	7	(1,371%)	4,232	(1,051)	(503%)
Deferred tax expense (recovery)	112	(2,340)	(105%)	3,792	2,715	40%
Total income taxes	23	(2,333)	(101%)	8,024	1,664	382%
Capital expenditures	1,461	167	775%	2,121	173	1,126%

For the three and six months ended June 30, 2012, corporate administrative expenses, excluding depreciation and stock based compensation, decreased by $0.7 million and $0.4 million, respectively as compared to the same periods in the prior year. While the Company has strengthened its management team and increased staffing levels required to position the Company for future growth, the decrease in corporate administrative expenses is due to an increased allocation of administrative expenses to Western's operating subsidiaries.

For the three and six months ended June 30, 2012, finance costs increased by $2.7 million and $5.0 million, respectively as compared to the same periods in the prior year. These increases are 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 three and six months ended June 30, 2012 to $176.0 million and $166.4 million, respectively as compared to an average debt balance outstanding for the three and six months ended June 30, 2011 of $28.8 million and $40.5 million, respectively. 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 three and six months ended June 30, 2012 mainly relate to foreign exchange gains on US denominated cash balances, as the United States dollar has strengthened relative to the Canadian dollar during the period. In the prior year, other items for the three and six months ended June 30, 2011 mainly relate to costs associated with the acquisition of Stoneham Drilling Trust of $2.6 million and $2.7 million, respectively which were partially offset by gains on the sale of assets of $0.3 million and $1.4 million, respectively.

The Company's consolidated effective income tax rate is expected to average approximately 27%. During the second quarter of 2012, income taxes totalled $23,000 which represents an effective income tax rate of approximately 3%. The lower than expected effective income tax rate is due to favourable adjustments relating to the finalization of the tax planning associated with the acquisition of Stoneham Drilling Trust. For the six months ended June 30, 2012, income taxes totalled $8.0 million which represents a 25% effective income tax rate. Currently, Horizon is the Company's only subsidiary that is in a cash taxable position.

Capital expenditures of $1.5 million and $2.1 million, respectively for three and six months ended June 30, 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 June 30, 2012, Western had cash and cash equivalents of $29.4 million, resulting in a consolidated net debt balance of $147.2 million, an increase of $31.0 million as compared to December 31, 2011 due to capital expenditures of $76.0 million and the purchase of investments of $33.2 million, which was partially offset by cash flow from operating activities of $84.6 million. At June 30, 2012, Western had a working capital balance of $65.6 million, a $25.7 million increase as compared to December 31, 2011, mainly due Western's $29.4 million in cash and cash equivalents at the end of the second quarter resulting from the Senior Note issuance in January 2012; the fair value of Western's investments of $29.6 million; and partially offset by a $42.6 million decrease in trade and other receivables due to lower activity in the second quarter of 2012. At June 30, 2012, Western had approximately $135 million in available credit facilities and is in compliance with all debt covenants. As such, cash from operations coupled with Western's cash balances and available credit facilities are expected to be sufficient to cover Western's financial obligations including the 2012 capital budget.

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	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011	Sep 30, 2011	Jun 30, 2011	Mar 31, 2011	Dec 31, 2010	Sep 30, 2010
(stated in thousands, except per share amounts)								
Revenue	44,819	110,887	101,300	80,786	30,340	50,093	26,582	16,485
Gross Margin(1)	14,108	50,213	47,170	35,005	11,274	21,388	11,766	6,405
EBITDA(1)	9,364	44,242	41,473	30,392	8,533	18,926	9,361	4,703
Cash flow from operating activities	58,930	25,717	25,337	3,391	21,026	9,614	3,518	3,452
Income from continuing operations	827	23,008	24,923	13,891	4,750	10,318	2,767	9,858
per share - basic(2)	0.01	0.39	0.43	0.24	0.09	0.27	0.10	0.37
per share - diluted(2)	0.01	0.38	0.41	0.23	0.09	0.26	0.09	0.36
Net income	827	23,008	24,314	24,893	4,193	11,344	5,739	10,035
per share - basic(2)	0.01	0.39	0.42	0.43	0.08	0.30	0.20	0.38
per share - diluted(2)	0.01	0.38	0.40	0.41	0.08	0.28	0.19	0.36
Total assets	699,356	706,061	619,645	584,823	543,117	329,114	264,108	143,399
Long term financial liabilities(3)	171,764	171,570	108,039	108,057	116,186	28,030	46,054	20,636
Dividends declared	-	-	-	-	-	-	-	-

(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, with the exception of the second quarters of 2012 and 2011, which were impacted by spring breakup, due to the Company's continued growth in size through the acquisitions of Impact Drilling Ltd. ("Impact") in the third quarter of 2010, Pantera Drilling Income Trust in the fourth quarter of 2010, Stoneham Drilling Trust in the second quarter of 2011 and the Company's capital program which has added seven drilling rigs to Western's fleet over the last eight quarters.

EBITDA has followed a similar trend to revenue, steadily increasing due to the acquisitions completed by the Company and impacted by the reduced activity associated with spring break up in the second quarters of 2012 and 2011. 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 gain on the business acquisition of Impact that was recognized in the third quarter of 2010, the gain on the sale of StimSol in the third quarter of 2011, as well as the cyclical nature of the oilfield service industry.

Total assets of the Company have increased throughout the last eight quarters due to the growth of the Company through corporate acquisitions and the Company's capital spending program.

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)	2012	2013	2014	2015	2016	Thereafter	Total
Operating leases	$ 1,880	$ 3,603	$ 3,273	$ 2,468	$ 2,457	$ 18,494	$ 32,175
Capital commitments	46,735	191	81	-	-	-	47,007
Purchase commitments	24,341	-	-	-	-	-	24,341
Senior Notes	-	-	-	-	-	175,000	175,000
Senior Notes interest	6,891	13,781	13,781	13,781	13,781	28,711	90,726
Total	$ 79,847	$ 17,575	$ 17,135	$ 16,249	$ 16,238	$ 222,205	$ 369,249

Outstanding Share Data

	August 8, 2012	**June 30,2012**	**December 31, 2011**
Common shares outstanding	58,533,287	58,533,287	58,533,287
Warrants outstanding	2,525,000	2,525,000	2,525,000
Stock options outstanding	2,198,833	2,196,000	2,101,000

Off Balance Sheet Arrangements

As at June 30, 2012, Western had no off balance sheet arrangements in place.

Financial Instruments

Fair Values

The Company's cash and cash equivalents, investments and embedded derivatives 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. 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. As at June 30, 2012, all of the Company's outstanding debt is at fixed rates.

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.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

As Western trades on the Toronto Stock Exchange, per National Instrument 52-109, *CERTIFICATION OF DISCLOSURE IN ISSUERS' ANNUAL AND INTERIM FILINGS,* the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Company have certified at June 30, 2012 that they have designed or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") to provide reasonable assurance that: (i) material information relating to the Company, including its consolidated subsidiaries, is made known to the CEO and the CFO by others within those entities, particularly during the periods in which the interim filings of the Company are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

The CEO and CFO do not expect that the DC&P will prevent or detect all errors, misstatements and fraud but are designed to provide reasonable assurance of achieving their objectives. A control system, no matter how well designed or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met. In addition to DC&P, the CEO and CFO have designed internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Critical Accounting Estimates

This Management's Discussion and Analysis of the Company's financial condition and results of operations is based on its condensed 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 June 30, 2012, the Company completed its assessments and did not identify indicators of impairment for the long-lived assets of the Company.

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 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 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.

Business Risks

For a comprehensive listing of the Company's business risks please see the Annual Information Form for the period ended December 31, 2011 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 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.

- 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. Many 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 forward-looking statements and forward-looking information within the meaning of applicable securities laws. All statements other than statements of historical fact contained in this MD&A may be forward-looking statements and forward-looking information. In particular, forward-looking information in this MD&A include, but are not limited to under the heading "Outlook" the statements "Western's 2012 capital spending is expected to total approximately $140 million, which includes approximately $80 million in expansion capital and $60 million in maintenance capital. Expansion capital in the contract drilling segment aggregates to approximately $65 million and mainly relates to Western's drilling rig build program which includes the completion of seven telescopic ELR double drilling rigs in 2012, four of which have already been commissioned. Of the remaining three drilling rigs currently under construction, one is expected to be completed in each of the next three years. Expansion capital in the well servicing segment relates to the construction of five new internally guyed single service rigs, which are anticipated to be completed in the latter part of the fourth quarter of 2012 and early in the first quarter of 2013." and the statements "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 a modest decrease in drilling activity in the second half of 2012 as compared to the same period of the prior year. As such, the Company expects lower utilization in 2012 as compared to the prior year, when industry utilization reached a five year high. However, the Company does not expect significant pricing pressure on day rates on the deeper rigs in the industry's fleet. Notwithstanding the softening commodity price environment, Western continues to believe that additional rig build opportunities in both the contract drilling and well servicing segments will be available." and in addition Western announced the "intention to implement a dividend policy that provides for an annual cash dividend of $0.30 per share". These forward-looking statements and information are based on certain key expectations and assumptions made by Western, including the assumption that notwithstanding an expectation of lower utilization for its services such lowered expectations will not be severe enough to affect Western's ability to complete its currently planned expansion capital program and to sustain an annual dividend of $0.30 per share. 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.