Western Energy Services Corp.
Management's Discussion and Analysis

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 annual consolidated financial statements of the Company for the year ended December 31, 2009 and 2008 and the related notes included therein. This management's discussion and analysis is dated April 20, 2010.

The results for the periods ended December 31, 2009 are disclosed in the financial statements as the period from January 1, 2009 to December 22, 2009, before the recapitalization and reorganization, and the period from December 23, 2009 to December 31, 2009, after the recapitalization and reorganization. The recapitalization and reorganization are described in Note 2 of our audited consolidated financial statements for the period ended December 31, 2009, as filed on SEDAR at www.sedar.com.

Comprehensive revaluation

On December 22, 2009, the Company completed a recapitalization and reorganization involving a non-brokered private placement of $7.0 million, the conversion of the Company's existing bridge lending facility, subordinated convertible debentures (including the cancellation of the related common share purchase warrants) and other specified obligations into common shares of Western Energy Services Corp., and the appointment of a new board of directors and a new management team. This transaction resulted in a realignment of Western's equity and non-equity interests. Prior to the recapitalization, the Company faced the prospect of being unable to meet obligations to creditors due to its deteriorating financial position. The outcome of the recapitalization and reorganization was a significant de-leveraging of Western's balance sheet. Total debt was reduced to approximately $0.2 million, and Western is in a significantly better position to meet current and future market challenges.

As a result of the realignment of equity and non-equity interests, Western's identifiable assets and liabilities were recorded at a new cost basis, being the fair value, as required under Canadian Institute of Chartered Accountants Handbook Section 1625 – "Comprehensive Revaluation of Assets and Liabilities". The process of undertaking such a comprehensive revaluation is commonly referred to as "fresh start accounting". The recapitalization and reorganization is described in Note 2 of our audited consolidated financial statements for the period ended December 31, 2009 as filed on SEDAR at www.sedar.com.

Outlook

Subsequent to the recapitalization and reorganization completed on December 22, 2009, as discussed above, the following significant events have occurred:

- On February 24, 2010, Western announced that due to the significant downturn in industry demand, Western has ceased operations in the United States. Western has redeployed certain of its U.S. assets to its Canadian operations and completed the sale of the remaining assets in the United States.
- On March 18, 2010, Western completed a public offering of 375 million common shares at a price of $0.20 per share for gross proceeds of $75 million. Concurrent with the closing of this equity offering, Western completed the acquisition of Horizon Drilling Inc. ("Horizon") for total consideration of approximately $66 million, including the assumption of debt, and the acquisition of Cedar Creek Drilling Ltd. ("Cedar Creek") for consideration of approximately 20.5 million common shares.
- On April 15, 2010, Western announced the increase of its credit facility with its existing lender. The credit facility will consist of a $5 million operating demand revolving loan (the "Operating Facility"), and a $45 million 364-day committed extendible revolving credit facility (the "Revolving Facility"). The purpose of the Revolving Facility is to assist the Company in completing corporate acquisitions and financing the construction of additional equipment.
- Management has determined that it will take all necessary steps to reduce its exposure to Mexico and Central America by either selling or winding up the operations.

Western believes that current market conditions in the Canadian energy sector provide an opportunity to build a new Canadian focused oilfield service provider through consolidation and that conditions are also favourable to attract qualified staff to grow the organization. It is anticipated that these factors combined with access to capital will provide Western with consolidation opportunities.

Western will be focused from both a business line and geographical perspective. Due to the experience of the management team, it is their intention to initially focus their efforts in three core business lines in Canada encompassing contract drilling, service rigs and rental and production services. The business plan will see the management team pursue strategic acquisitions focused on strengthening and adding depth to these core business lines with an emphasis on attracting business from Canadian customers engaged in unconventional resource development.

The acquisitions of Horizon and Cedar Creek provided Western with a fleet of 11 drilling rigs which are, on average, less than 4 years old, have modern designs, move and rig-up efficiently and have a premium customer base. Western believes these assets should be in demand as exploration and development of key resource plays requiring horizontal drilling continues to increase. Western also anticipates very little integration risk with Horizon and Cedar Creek as management is familiar with the assets and believes operational efficiencies can be achieved with the larger scale that these acquisitions bring. These acquisitions also provide Western with immediate cash flow and key human resource capabilities.

With the increase in Western's credit facilities, as noted above, Western has been able to repay all the debt assumed in the acquisitions of Horizon and Cedar Creek and consolidate its debt with one lender. Western intends to employ a conservative balance sheet strategy going forward by maintaining a conservative debt to annualized EBITDA ratio.

Overall Performance and Results of Operations

The Company operates in the oil and gas services sector in Canada and, until recently, the United States and specializes in the delivery of acidizing and solvent well remediation services as well as nitrogen and fluid pumping services. The operating environment for the oil and gas services sector is highly dependent on drilling activity and commodity prices of both oil and natural gas. Overall, 2009 represented a challenging year for the oilfield services industry as North American natural gas supplies increased and demand was reduced as a result of the global recession. However, activity levels in the last half of 2009 did improve as oil prices improved.

Selected Financial Information

	After comprehensive revaluation	**Before comprehensive revaluation**		
(stated in thousands of Canadian dollars, except per share amounts)	**Dec 23, 2009 to Dec 31, 2009**	**Jan 1, 2009 to Dec 22, 2009**	**Year ended Dec 31, 2008**	**Year ended Dec 31, 2007**
Revenue	184	5,462	12,732	15,201
EBITDA[(2)]	(131)	(1,885)	728	623
Cash from operating activities	(436)	(2,765)	121	(1,639)
Net loss from continuing operations	(2,011)	(6,488)	(5,990)	(5,521)
- per share [(1)]	(0.02)	(0.20)	(0.43)	(0.54)
Total assets	12,219	12,712	22,398	26,902
Long term financial liabilities	65	65	764	1,000
Outstanding common shares	132,031,830	132,031,830	32,246,405	14,000,652
Dividends declared	-	-	-	-

(1) Per share amounts for all periods reflect the 1 for 12 consolidation of shares that occurred in September 2008.
(2) Non-GAAP measure. See page 10.

The key operational results for the year ended December 31, 2009 are:

- For all of 2009, Western's revenues decreased by $7.1 million or 56% to $5.6 million ($184,000 for the 9 day period ended December 31, 2009 and $5.5 million for the 356 day period ended December

22, 2009) as compared to $12.7 million for the year ended December 31, 2008. The decrease in revenues is directly attributable to a drop in US based revenues and in particular the decreased activity levels in the Barnett shale area of north Texas serviced from the Company's Abilene base. Subsequent to year end, due to the downturn in industry demand, the Company ceased its operations in the US. Revenues from the US operations decreased by $5.4 million or 80% year-over-year, while revenues from international operations decreased by $0.7 million or 68% as compared to the year ended December 31, 2008. Revenues from our Canadian operations, decreased by $1.0 million or 20% on an annualized basis, mainly due to a decrease in the number of jobs completed coupled with a decrease in the average revenue per job completed. In 2009, the number of jobs completed decreased by 11% to 1,244 as compared to 1,398 jobs completed in 2008. Additionally, the average revenue per job decreased by 11% to $3,149 in 2009 as compared to $3,541 in 2008. During the first quarter of 2010, Western has experienced renewed demand for its well remediation services, with a 63% increase in the number of jobs completed in the first quarter of 2010 relative to the same period in the prior year.

- For the 9 day period ended December 31, 2009, Western realized a net loss of $2.0 million, mainly due to $1.8 million in stock based compensation expense related to the issuance of 50.5 million warrants as part of the recapitalization transaction. For the 356 day period ended December 22, 2009, Western realized a net loss of $6.5 million as compared to a net loss of $5.9 million for the year ended December 31, 2008.
- For all of 2009, Western's EBITDA (see non-GAAP measures on page 10) was negative $2.0 million, as compared to a positive EBITDA of $0.7 million for the year ended December 31, 2008. The decrease in EBITDA, is due to a $7.1 million decrease in revenues, as US based revenues decreased significantly, partially offset by $4.4 million decrease in operating expenses.
- On November 9, 2009, the Company completed a debt restructuring with its lenders. As a result of the restructuring, all of the Company's bank debt was held by its senior lender with all but $182,000 of the balance of the Company's term debt obligations being held by a company controlled by a former director.
- On December 22, 2009, the Company completed a reorganization involving a non-brokered private placement of $7.0 million, the conversion of the Company's existing bridge lending facility, subordinated convertible debentures (including the cancellation of the related common share purchase warrants) and other specified obligations into common shares of Western, and the appointment of a new board of directors and a new management team. The proceeds from the private placement were used initially to repay the Company's bank debt obligations and for general corporate purposes.
- To improve the Company's liquidity position, during 2009, Western completed the sale of assets for proceeds of approximately $3.2 million. Almost all of those assets were assets used in Western's U.S. based operations. Subsequent to December 31, 2009, Western announced that due to the significant downturn in industry demand, Western would be ceasing its current operations in the United States. Western has redeployed certain of its U.S. assets to its Canadian operations and completed the sale of the remaining assets in the United States. During the first quarter of 2010, Western has completed additional asset sales, including the sale of the remaining U.S. assets, for total proceeds of approximately $3.5 million.
- Subsequent to period end, on March 18, 2010, Western completed a public offering of 375 million common shares at a price of $0.20 per share for gross proceeds of $75 million. Concurrent with the closing of this equity offering, Western completed the acquisition of Horizon for total consideration of approximately $66 million, including the assumption of debt, and the acquisition of Cedar Creek for consideration of approximately 20.5 million common shares. Each of Horizon and Cedar Creek were, at the time of acquisition, privately held companies engaged in the operation of contract drilling rigs in the Western Canadian sedimentary basin.

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 energy services industry as spring break up. 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.

	After comprehensive revaluation	Before comprehensive revaluation							
Three months ended (stated in thousands of Canadian dollars, except per share amounts)	Dec 31, 2009[2]	Dec 22, 2009[2]	Sept 30, 2009	June 30, 2009	March 31, 2009	Dec 31, 2008	Sept 30, 2008	June 30, 2008	March 31, 2008
Revenue	184	1,142	1,216	974	2,130	3,141	3,184	3,071	3,336
EBITDA[3]	(131)	(1,001)	(357)	(442)	(85)	168	281	40	239
Cash from operating activities	(436)	(2,421)	(187)	24	(181)	(364)	10	261	214
Income (loss)	(2,011)	(2,841)	(1,649)	(897)	(1,101)	(1,534)	(2,306)	(1,168)	(981)
Per share [1]	(0.02)	(0.09)	(0.05)	(0.03)	(0.03)	(0.12)	(0.16)	(0.08)	(0.07)
Total assets	12,219	12,712	17,731	19,216	20,629	22,398	23,905	25,963	27,843
Long term financial liabilities	65	65	279	566	650	764	807	850	921
Dividends declared	-	-	-	-	-	-	-	-	-

(1) Per share amounts for all periods reflect the 1 for 12 consolidation of shares that occurred in September 2008.
(2) 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.
(3) Non-GAAP measure. See page 10.

Fourth Quarter 2009

During the fourth quarter of 2009, Western completed a recapitalization and reorganization of the Company. The reorganization resulted in an entirely new Board of Directors and management team, while the recapitalization resulted in all but $0.2 million of Western's debt being settled through a combination of cash payments and the issuance of common shares.

For the fourth quarter of 2009, Western recorded a net loss of $4.8 million ($2.0 million for the 9 day period ended December 31, 2009 and $2.8 million for the 83 days ended December 22, 2009) as compared to a net loss of $1.5 million in the fourth quarter of 2008. The increase in the net loss in the fourth quarter of 2009 is mainly due to $1.8 million in stock based compensation expense in the 9 day period ended December 31, 2009 related to the issuance of 50.5 million warrants as part of the recapitalization transaction. The remaining decrease is mainly due to increased losses in Western's US operations.

Revenue of $1.3 million in the fourth quarter of 2009 ($0.2 million for the 9 day period ended December 31, 2009 and $1.1 million for the 83 day period ended December 22, 2009), was 58% lower than in the same period in the prior year. The decrease in revenues is directly attributable to a drop in US based revenues and, in particular, the decreased activity levels in the Barnett shale area of north Texas serviced from the Company's Abilene base.

During the fourth quarter of 2009, Western realized negative EBITDA of $1.1 million ($0.1 million for the 9 day period ended December 31, 2009 and $1.0 million for the 83 day period ended December 22, 2009) as compared to positive EBITDA of $0.2 million in the fourth quarter of 2008. The decrease in EBITDA is due to a $1.8 million decrease in revenues, as US based revenues decreased significantly, partially offset by $0.4 million decrease in operating expenses and a $0.2 million decrease in general and administrative expenses.

Segmented Information

During 2009, the Company operated in two industry segments, Well Services and Down Hole Tool Rentals. Well Services activities were carried out exclusively in Canada and the United States while Down Hole Tool Rentals were carried out in Mexico and Latin America. The following table provides a breakdown of the relative revenues from these geographic regions and the property and equipment that were deployed in each region.

Results by Geographic Region:

	After comprehensive revaluation	Before comprehensive revaluation	
(stated in thousands of Canadian dollars)	December 23, 2009 to December 31, 2009	January 1, 2009 to December 22, 2009	Year ended December 31, 2008
Revenue:			
Canada	151	3,785	4,950
United States	26	1,343	6,723
International	7	334	1,059
Total Assets:			
Canada	9,242	9,735	13,667
United States	2,409	2,409	6,701
International	568	568	2,030

Goodwill Impairment

The Company assesses goodwill for impairment annually or more frequently if events or changes in circumstances warrant. At September 30, 2009, it was determined that an impairment test was required due to declines in expected future cash flows. As a result of the impairment test, the Company wrote off the entire goodwill balance of $0.7 million.

Liquidity and Capital Resources

On December 22, 2009, Western completed a reorganization involving a non-brokered private placement of $7.0 million, the conversion of Western's existing bridge lending facility, subordinated convertible debentures (including the cancellation of the related common share purchase warrants) and other specified obligations into common shares of Western, and the appointment of a new board of directors and a new management team. The proceeds from the private placement were used initially to repay the Company's bank debt obligations and for general corporate purposes.

In order to improve its working capital position during the fourth quarter of 2009, Western identified and independently valued certain redundant property and equipment; these redundant assets will be sold if and when purchasers can be identified. During 2009, Western completed the sale of certain assets for net proceeds of approximately $3.2 million. Subsequent to year end, additional asset sales for total proceeds of approximately $3.5 million have been completed.

As at December 31, 2009, Western had a positive working capital balance of $0.8 million as compared to $1.0 million at December 22, 2009 and a negative working capital balance of $10.9 million at December 31, 2008. The improved working capital position is directly attributable to the recapitalization that Western completed on December 22, 2009.

The Company experienced a cash outflow of $0.4 million for the 9 day period ended December 31, 2009. For the period January 1, 2009 to December 22, 2009, the Company experienced a cash outflow of $2.8 million as compared to a cash flow of $0.1 million for the year ended December 31, 2008. The decrease in cash flow is attributed to the slowdown in the oilfield services industry in 2009 as a result of high natural gas inventories and reduced demand due to the global recession.

On March 18, 2010, Western completed a public offering of 375 million common shares at a price of $0.20 per share for gross proceeds of $75 million which was used to acquire Horizon and pay down the

debt of Horizon and Cedar Creek. Each of Horizon and Cedar Creek were, at the time of acquisition, privately held companies engaged in the operation of contract drilling rigs in the Western Canadian sedimentary basin. These acquisitions provide Western with immediate cash flow and key human resource capabilities.

On April 15, 2010, Western announced the increase of its credit facility with its existing lender. The credit facility will consist of a $5 million operating demand revolving loan (the "Operating Facility"), and a $45 million 364-day committed extendible revolving credit facility (the "Revolving Facility"). The purpose of the Revolving Facility is to assist the Company in completing corporate acquisitions and financing the construction of additional equipment. In addition, the Revolving Facility was initially used to consolidate certain indebtedness acquired from Horizon and Cedar Creek. After consolidation, the Company had approximately $39 million in available credit under the Revolving Facility and $5 million under the Operating Facility. These loans require interest to be paid monthly with no scheduled principal repayment unless the Revolving Facility is not extended. If not extended, the Revolving Facility is capped and repayable over the ensuing two year period by monthly principal and interest payments. Amounts borrowed under the Operating Facility will bear interest at the bank's prime rate plus 1.5% and amounts borrowed under the Revolving Facility will bear interest at the Company's option of either the bank's prime rate plus 1.5% to 2.0% or the banker's acceptance rate plus 3.0% to 3.5% depending, in each case, on the ratio of funded debt to EBITDA. Western's increased credit facility is subject to the following financial covenants:

	Covenant
Current assets to current liabilities	1.25 to 1.00 or more
Funded Debt to EBITDA	2.5 to 1.0 or less
Revolving Facility balance to net book value of fixed assets	Less than 45%

Contractual Obligations

In the normal course of business, the Company incurs contractual obligations, primarily related to short-term and long-term indebtedness. The expected maturities of the Company's contractual obligations, including interest, are as follows:

	Payments due by period				
(stated in thousands of Canadian dollars)	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Revolving credit facilities	**$ -**	$ -	$ -	$ -	$ -
Long term debt	**205**	205	-	-	-
Interest on long term debt	**12**	12	-	-	-
Operating leases	**1,724**	519	644	336	225
Capital leases	**112**	109	3	-	-
Total	**$ 2,053**	**$ 845**	**$ 647**	**$ 336**	**$ 225**

Outstanding Share Data

	Apr 20, 2010	**Dec 31, 2009**	**Dec 22, 2009**	**Dec 31, 2008**
Common shares outstanding	527,549,161	132,031,830	132,031,830	32,246,405
Warrants outstanding	50,500,000	50,500,000	50,500,000	2,548,805
Stock options outstanding	18,570,003	170,003	170,003	452,083

Off Balance Sheet Arrangements

As at December 31, 2009, Western had no off balance sheet arrangements in place.

Transactions with Related Parties

During the period January 1, 2009 to December 22, 2009, Western recorded legal fees for services provided by a firm in which a former director is a partner in the amount of $168,000 (Year ended December 31, 2008 - $212,000). At December 22, 2009, $102,000 was outstanding and was recorded in

accounts payable (December 31, 2008 - $361,000). Subsequent to the recapitalization and reorganization completed on December 22, 2009, the firm is not a related party.

Prior to the recapitalization and reorganization, Western sold and leased back its land and building located near Red Earth Creek, Alberta and certain pumping equipment to a company controlled by a former officer and the former directors of the Company. Both the sales and lease amounts were conducted at fair market values. The Company also continued to lease its facilities and tank farm in La Glasse, Alberta, which is near Grand Prairie, from the same related company, under the terms of the existing 5 year lease. Subsequent to the recapitalization and reorganization completed on December 22, 2009, this relationship no longer represents a related party.

As at December 22, 2009, Western had an outstanding loan balance of approximately $6.1 million with 1063645 Alberta Ltd., a company controlled by a former director of the Company. On December 22, 2009, as part of completing the recapitalization, the Company converted the balance of this loan into common shares of Western at a price of $0.50 per common share.

All related party transactions in the normal course of operations have been measured at the exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties. Subsequent to the recapitalization and reorganization that was completed on December 22, 2009, Western has no transactions with related parties.

Changes in Accounting Policies

The Canadian Institute of Chartered Accountants ("CICA") issued the following new Handbook Sections, which were effective for interim periods beginning on or after January 1, 2009.

- The Company adopted Section 3064, Goodwill and Intangible Assets and amended Section 1000, Financial Statement Concepts clarifying the criteria for recognizing assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized with assets. The adoption of this section did not have a material impact on the results of the Company's operations or financial position.
- On January 20, 2009 the Emerging Issues Committee ("EIC") issued a new abstract EIC 173 "Credit risk and the fair value of financial assets and financial liabilities". This abstract concludes that an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is to apply to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this abstract did not have a significant impact on the Company's financial statements.
- In June 2009, the CICA amended Section 3862 to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The Company adopted this standard prospectively effective December 31, 2009. The adoption of this standard did not have a material impact on the financial statements of the Company.
- In July 2009, the CICA amended section 3855, "Financial Instruments – Recognition and Measurement", in relation to the impairment of financial assets. Amendments to this section have revised the definition of "loans and receivables" and provided that certain conditions have been met, permits reclassification of financial assets from the held-for trading and available-for-sale categories into the loans and receivables category. The amendments also provide one method of assessing impairment for all financial assets regardless of classification. The Company adopted this standard prospectively effective December 31, 2009. The adoption of the amendments of this standard did not have a material impact on the financial statements of the Company.

Recent Accounting Pronouncements

The following new Canadian accounting standards were released in 2009 with an effective date of January 1, 2011 with early adoption permitted:

- Section 1582 "Business Combinations" will require most assets acquired and liabilities assumed, including contingent consideration to be measured at fair value and that all acquisition costs be expensed.
- Section 1602 "Non-controlling Interests" will require that non-controlling interests be recognized as a separate component of equity and that net earnings be calculated without a deduction for non-controlling interest.
- Section 1601 "Consolidated Financial Statements" establishes standards for the preparation of consolidated financial statements.

Western is currently evaluating the impact of the new Sections and will consider if the standards should be adopted in 2010. These new Canadian standards are aligned with International Financial Reporting Standards (IFRS) therefore early adoption would eliminate adjustments in the transition to IFRS.

International Financial Reporting Standards ("IFRS")

In 2008, the CICA Accounting Standards Board confirmed that IFRS will replace Canadian GAAP effective January 1, 2011 for publicly accountable enterprises. The adoption date of January 1, 2011 will require the restatement of comparative amounts beginning in January 2010, including an opening balance sheet as at January 1, 2010.

Management will evaluate the effects of all current and pending pronouncements of the International Accounting Standards Board on the financial statements of the Company and will develop a plan for implementation. The Company's implementation is anticipated to have three components:

1. Scoping and diagnostic phase – This phase includes an analysis, on a high level, of the areas of the Company's financial statements and systems that will be impacted by the conversion to IFRS;

2. Impact analysis and evaluation phase – This phase includes a detailed analysis of each item identified in the scoping and diagnostic phase to determine the impacts on the financial statements, accounting policies and procedures, internal control procedures and external agreements;

3. Implementation phase – This phase involves the implementation of all changes in the information systems and business processes approved in the impact analysis and evaluation phase. It also includes training of staff, management and the audit committee.

Until recently, management's focus has been on the recapitalization and reorganization and completing the acquisitions of Horizon and Cedar Creek. Management will now be working to complete the scoping and diagnostic phase which it expects will be accomplished in the second quarter of 2010. The Company will also be meeting with its IT consultants to determine what changes, if any, need to be made to its information systems and will also be working internally and with its external auditors to identify the impacts on all other matters. The audit committee will also continue to receive regular progress reports on the IFRS conversion going forward.

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 within projected times and costs.

- Currently the Company is focused on providing services to a limited geographic market, which exposes the Company to market fluctuations in specific locations which may be more extreme than the overall 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.
- The Company has a limited history of operations. Failure to achieve projected rates of market penetration or commercial acceptance could significantly affect its success.
- The Company's business is subject to the operating risks inherent to the oil and gas service industry. On occasion, substantial liabilities to third parties may be incurred. The Company will have the benefit of insurance maintained by it, 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. General economic conditions, fluctuations in demand and supply of production components, competition and increases in operating costs are some of them. In addition, changes may occur in government regulation, 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 Company's business. The exact effect of these risks cannot be accurately predicted.
- The oil and gas 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 are in the United States, Mexico and Latin America, which subject the Company to currency fluctuations and different tax and regulatory laws.

Non-GAAP Measures

Western uses certain measures in this discussion which do not have any standardized meaning as prescribed by Canadian generally accepted accounting principles ("GAAP") and therefore are considered non-GAAP measures. 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 earnings, earnings before interest, taxes, depreciation, goodwill impairment, loss on sale of assets, gain on debt settlement, stock based compensation and foreign exchange (“EBITDA”) as derived from information reported in the Consolidated Statements of 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, and how non-cash depreciation and goodwill impairment charges affect results.

The following table provides a reconciliation of net earnings under GAAP as disclosed in the Consolidated Statements of Loss to EBITDA.

	After comprehensive revaluation	Before comprehensive revaluation	
(stated in thousands of Canadian dollars)	**December 23, 2009 to December 31, 2009**	**January 1, 2009 to December 22, 2009**	**Year ended December 31, 2008**
EBITDA	(131)	(1,885)	728
Add (deduct):			
Depreciation	(47)	(2,464)	(2,687)
Stock based compensation	(1,835)	-	(138)
Loss on sale of assets	-	(788)	(1,582)
Gain on debt settlement	-	245	-
Goodwill impairment	-	(712)	-
Foreign exchange	-	652	(563)
Interest expense	2	(903)	(1,619)
Income taxes	-	(633)	(129)
Net Loss	(2,011)	(6,488)	(5,990)

Forward-looking statements

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

Under the heading “Outlook” there are statements to the effect that current market conditions in the Canadian energy sector provide an opportunity to build a new Canadian focused oilfield services provider through consolidation and that conditions are also favourable to attract qualified staff to grow the organization and those factors along with access to capital will provide the company with consolidation opportunities. Also, under the heading “Outlook” there are statements pertaining to the intentions of the Corporation with respect to seeking opportunities in three core business lines in Canada, encompassing contract drilling, service rigs and rental and production services and that the business plan will see the

management team pursue strategic acquisitions focused on strengthening and adding depth to the core businesses.

Those statements assume that the Company will be able to attract enough additional capital or credit to allow for anticipated acquisitions and that those acquisitions, if made, would be accretive. There is a risk that, due to a number of factors, adequate additional capital and credit may not become available to the Company and even if such capital does become available, there is further risk that opportunities that are accretive may either not be available or, if completed, are ultimately not accretive.

In addition, the Company states that the 11 drilling rigs that it has recently acquired should be in demand as exploration and development of key resource plays requiring horizontal drilling continues to increase. The foregoing assumes that the demand for horizontal drilling and the Company's rigs should continue to increase. There are numerous risks that could result in the demand for horizontal drilling and the Company's rigs not to increase or which demand could decrease.

As such, many factors could cause the performance or achievement of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements.

Additional Data

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