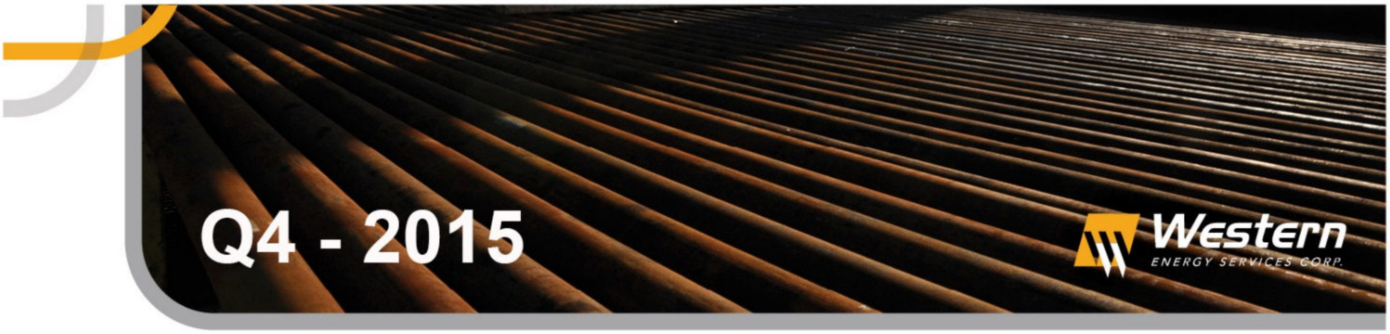

Management Discussion & Analysis 2015 — Dated: February 25, 2016

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, 2015 and 2014. This Management Discussion and Analysis ("MD&A") is dated February 25, 2016. All amounts are denominated in Canadian dollars (CDN$) unless otherwise identified.

Financial Highlights	**Three months ended December 31**		**Year ended December 31**		
(stated in thousands, except share and per share amounts)	**2015**	**2014**	**2015**	**2014**	**2013**
Revenue	42,678	139,210	227,524	507,832	379,943
Operating Revenue[1]	40,458	129,181	216,485	474,120	353,124
Gross Margin[1]	13,372	57,826	85,951	207,231	147,559
Gross Margin as a percentage of Operating Revenue	33%	45%	40%	44%	42%
Adjusted EBITDA[1]	7,573	50,419	60,545	176,777	117,423
Adjusted EBITDA as a percentage of Operating Revenue	19%	39%	28%	37%	33%
Cash flow from operating activities	11,139	47,830	90,955	181,351	114,358
Capital expenditures	3,259	31,071	33,562	108,604	95,234
Net income (loss)	(55,010)	(8,164)	(129,139)	36,450	35,246
-basic net income (loss) per share	(0.75)	(0.11)	(1.74)	0.49	0.51
-diluted net income (loss) per share	(0.75)	(0.11)	(1.74)	0.48	0.50
Weighted average number of shares					
-basic	73,655,198	74,882,690	74,238,320	74,396,701	69,032,574
-diluted	73,655,198	74,927,714	74,238,320	75,427,149	69,873,460
Outstanding common shares as at period end	73,646,292	74,866,028	73,646,292	74,866,028	73,386,191
Dividends declared	3,682	5,614	20,392	22,376	20,983
Dividends declared per common share	0.05	0.075	0.275	0.30	0.30
Operating Highlights					
Contract Drilling					
Canadian Operations					
Average contract drilling rig fleet	52	50	50	49	45
Operating Revenue per Revenue Day[1]	22,038	27,104	23,458	26,178	24,829
Operating Revenue per Operating Day[1]	24,228	29,710	25,821	28,699	27,513
Drilling rig utilization - Revenue Days[1]	22%	65%	29%	64%	61%
Drilling rig utilization - Operating Days[1]	20%	59%	26%	58%	55%
CAODC industry average utilization[1][2]	20%	45%	23%	44%	40%
United States Operations					
Average contract drilling rig fleet	5	5	5	5	5
Operating Revenue per Revenue Day (US$)[1]	31,350	28,309	29,483 [3]	26,124	22,507
Operating Revenue per Operating Day (US$)[1]	34,217	31,876	33,166 [3]	29,680	26,942
Drilling rig utilization - Revenue Days[1]	20%	95%	32%	94%	81%
Drilling rig utilization - Operating Days[1]	18%	85%	29%	83%	67%
Production Services					
Average well servicing rig fleet	66	65	66	65	48
Service rig Operating Revenue per Service Hour[1]	703	837	779	817	766
Service rig utilization[1]	25%	58%	30%	54%	45%

(1) See "Non-IFRS measures" on page 21 of this MD&A.
(2) Source: The Canadian Association of Oilwell Drilling Contractors ("CAODC"). The CAODC industry average is based on Operating Days divided by total available days.
(3) Excludes shortfall commitment and standby revenue from take or pay contracts of US$4.5 million for the year ended December 31, 2015.

Financial Position at (stated in thousands)	December 31, 2015	December 31, 2014	December 31, 2013
Working capital	70,679	78,336	50,616
Property and equipment	773,647	827,306	783,225
Total assets	876,608	1,057,118	986,792
Long term debt	264,155	264,165	262,877

Overall Performance and Results of Operations

Western is an oilfield service company focused on three core business lines: contract drilling, well servicing and oilfield rental equipment services. Western provides contract drilling services through its division, Horizon Drilling ("Horizon") in Canada, and its wholly owned subsidiary, Stoneham Drilling Corporation ("Stoneham"), in the United States ("US"). On December 28, 2015, Western wound up its partnership, Western Energy Services Partnership (the "Partnership") and rolled all of the Partnership's assets into IROC Drilling and Production Services Corp., which then changed its name to Western Production Services Corp. ("Western Production Services"). As a result, Western now provides well servicing operations in Canada through Western Production Services' division, Eagle Well Servicing ("Eagle") and oilfield rental equipment services in Canada through Western Production Services' division, Aero Rental Services ("Aero"). Financial and operating results for Horizon and Stoneham are included in Western's contract drilling segment, while Eagle and Aero's financial and operating results are included in Western's production services segment. Non-International Financial Reporting Standards ("Non-IFRS") measures are defined on page 21 of this MD&A. Abbreviations for standard industry terms are included on page 23 of this MD&A.

Western currently has a drilling rig fleet of 57 rigs specifically suited for drilling horizontal wells of increased complexity. Western is the sixth largest drilling contractor in Canada with a fleet of 52 rigs operating through Horizon. Of the Canadian fleet, 25 are classified as Cardium rigs, 19 as Montney rigs and eight as Duvernay rigs. As compared to the Cardium classified rigs, the Montney class rigs have a larger hookload, while the Duvernay class rigs have the largest hookload. Additionally, Western has five Duvernay class triple drilling rigs deployed in the United States operating through Stoneham. Western is also the fourth largest well servicing company in Canada with a fleet of 66 rigs operating through Eagle. Western's oilfield rental equipment division, which operates through Aero, provides oilfield rental equipment for frac services, well completions and production work, coil tubing and drilling services.

Crude oil and natural gas prices impact the cash flow of Western's customers, which in turn impacts the demand for Western's services. Overall performance of the Company was affected by the decline in crude oil and natural gas prices throughout 2015. While crude oil prices were strong in the first six months of 2014, they weakened significantly in the last half of 2014 and continued to weaken in 2015. Partially offsetting the decline in crude oil and natural gas prices for Western's Canadian customers was the strengthening of the US dollar in comparison to the Canadian dollar. The following table summarizes the average oil and natural gas prices, as well as the average foreign exchange rates for the three months ended December 31, 2015 and 2014 and for the years ended December 31, 2015 and 2014.

	Three months ended December 31			Year ended December 31		
	2015	2014	Change	2015	2014	Change
Average oil and natural gas prices(1)						
Oil						
West Texas Intermediate (US$/bbl)	42.18	73.15	(42%)	48.80	93.00	(48%)
Western Canadian Select (CDN$/bbl)	36.86	65.30	(44%)	44.83	82.04	(45%)
Natural Gas						
30 day Spot AECO (CDN$/mcf)	2.48	3.62	(32%)	2.71	4.50	(40%)
Average foreign exchange rates						
US dollar to Canadian dollar	1.34	1.14	18%	1.28	1.10	16%

(1) See "Abbreviations" on page 23 of this MD&A.

The significant reduction in commodity prices has resulted in a corresponding decrease in the demand for oilfield services in both Canada and the United States. The Canadian Association of Oilwell Drilling Contractors ("CAODC") reported that for drilling in Canada, the total number of Operating Days in the Western Canadian Sedimentary Basin ("WCSB") decreased approximately 50% for the year ended December 31, 2015, as compared to 2014. Similarly, as reported by Baker Hughes Incorporated, the number of active drilling rigs in the United States decreased approximately 47% in 2015 as compared to 2014. Well servicing hours were also impacted by the decline in demand, as the CAODC reported that Service Hours in the WCSB decreased approximately 40% in 2015, as compared to the prior year.

Key operational results for the three months ended December 31, 2015 include:

- Fourth quarter Operating Revenue decreased by $88.8 million (or 69%) to $40.4 million in 2015 as compared to $129.2 million in 2014. In the contract drilling segment, Operating Revenue decreased by $67.9 million (or 72%) to $27.0 million in the fourth quarter of 2015 as compared to $94.9 million in the fourth quarter of 2014; while in the production services segment, Operating Revenue decreased by $20.9 million (or 61%) to $13.5 million as compared to $34.4 million in the fourth quarter of 2014. The decrease in Operating Revenue is due to lower utilization and pricing in both the contract drilling and production services segments as described below:
    - Drilling rig utilization – Operating Days in Canada decreased to 20% in the fourth quarter of 2015 as compared to 59% in the fourth quarter of 2014, reflecting a 65% decrease in Operating Days. The Cardium class rigs were impacted the most by the decreased drilling activity and increased competition in the industry resulting in a 77% decrease in Operating Days; whereas Operating Days for the Montney and Duvernay class rigs were also impacted but to a lesser extent decreasing by 62% and 38% respectively, in the fourth quarter of 2015. Fourth quarter 2015 drilling rig utilization – Operating Days of 20% was consistent with the CAODC industry average during the quarter, as compared to the 1,400 basis points ("bps") premium to the industry average realized in the fourth quarter of 2014. The change relative to the CAODC industry average is partially due to a number of Western's customers, who typically have substantial drilling programs, significantly cutting their capital spending in 2015. Additionally, changes in the industry rig mix, as competitors continue to decommission older and shallower rigs in the WCSB, and add predominantly higher specification rigs that directly compete with Western's drilling rig fleet, impacts Western's relative utilization as compared to the CAODC industry average;
    - Additionally, lower activity and increased competition resulted in downward pricing pressure, which reduced Operating Revenue per Revenue Day in the contract drilling segment in Canada by approximately 19%. Pricing pressure was generally more significant for the Cardium class rigs and less so for the Montney and Duvernay class rigs;
    - In the United States, drilling rig utilization – Operating Days decreased to 18% in the fourth quarter of 2015, as compared to 85% in the same period of the prior year, due to reduced activity resulting from the decreased commodity price environment. However, in the United States, Operating Revenue per Revenue Day increased by approximately 11% in the fourth quarter of 2015, as one of Western's upgraded rigs worked throughout the quarter on a long term contract; and
    - Well servicing utilization decreased to 25% in the fourth quarter of 2015 as compared to 58% in the same period of the prior year. Reduced activity, coupled with a 16% decrease in well servicing hourly rates, due to pricing pressure in all areas, resulted in a $18.0 million (or 63%) decrease in well servicing Operating Revenue in the period.
- Fourth quarter Adjusted EBITDA totalled $7.6 million in 2015, a $42.8 million (or 85%) decrease, as compared to $50.4 million in the fourth quarter of 2014. Included in Adjusted EBITDA is approximately $1.5 million in one-time items, including severance and uncollectible accounts receivable. Normalizing for these items, Adjusted EBITDA would have been $9.1 million in the fourth quarter. The year over year decrease in Adjusted EBITDA is due to lower utilization and pricing in both the contract drilling and production services segments.
- Administrative expenses, excluding depreciation and stock based compensation, in the fourth quarter of 2015 decreased by $1.6 million (or 22%) to $5.8 million as compared to $7.4 million in the fourth quarter of 2014. The decrease in administrative expenses is due to lower employee related costs and cost control measures implemented throughout 2015.
- While the Company continues to actively market all of its drilling rigs, during the fourth quarter of 2015, the Company evaluated its property and equipment and decommissioned $26.6 million of largely Cardium class spare equipment that is no longer in use in the contract drilling segment.
- As a result of the declining commodity price environment and reduced outlook for current and future oilfield services activity and pricing, the Company completed an impairment test for each of its cash generating units ("CGU") as at December 31, 2015. Based on the results of these tests, it was determined that property and equipment in the Company's contract drilling and well servicing CGUs were impaired by $19.0 million and $22.9 million respectively.
- Net income decreased by $46.8 million to a loss of $55.0 million in the fourth quarter of 2015 (a loss of $0.75 per basic common share) as compared to a loss of $8.2 million in the same period in 2014 (a loss of $0.11 per basic common share). The decrease in net income in 2015 can be attributed to the following:
    - A $42.8 million decrease in Adjusted EBITDA due to lower utilization and pricing in both the contract drilling and production services segments;

- Losses on asset decommissioning of $26.6 million mainly in the contract drilling segment, coupled with impairment losses on property and equipment of $19.0 million and $22.9 million recorded in the contract drilling and well servicing segments respectively;
- A $0.7 million increase in finance costs and other items;

Offsetting the above mentioned items are the following:

- A decrease in depreciation expense of $8.1 million due to lower activity levels;
- A $27.1 million decrease in income tax expense due to lower taxable income; and
- Prior year loss on asset decommissioning of property and equipment and goodwill impairment losses recorded in the fourth quarter of 2014 totalling $7.2 million and $22.7 million respectively.

Normalizing for the one-time items, including after tax property and equipment impairments and decommissioning losses, severance and uncollectible accounts receivable, net income would have totalled a loss of $4.6 million.

- Fourth quarter 2015 capital expenditures of $3.3 million included $1.8 million of expansion capital and $1.5 million of maintenance capital. In total, capital spending in the fourth quarter of 2015 decreased by 89% from the $31.1 million incurred in the fourth quarter of 2014. The majority of fourth quarter 2015 capital expenditures relate to the contract drilling segment, which incurred $2.0 million in capital. These expenditures mainly relate to maintenance capital incurred in the period. Additionally, $1.2 million was incurred in the production services segment mainly relating to maintenance capital and the purchase of additional oilfield rental equipment.
- For the three months ended December 31, 2015, 39,100 common shares for a total cost of $0.2 million were repurchased, cancelled and charged to share capital under the Company's normal course issuer bid (the "NCIB"). On December 18, 2015, Western renewed its NCIB, which has been filed with and accepted by the Toronto Stock Exchange. Pursuant to the renewed NCIB, Western may purchase up to 4,550,000 common shares of the Company before the renewed NCIB expires on December 17, 2016.

Key operational results for the year ended December 31, 2015 include:

- Operating Revenue for 2015 decreased by $257.6 million (or 54%) to $216.5 million as compared to $474.1 million in the prior year. Operating Revenue in the contract drilling segment decreased by $199.9 million (or 57%) to $150.2 million as compared to $350.1 million in the prior year; while in the production services segment, Operating Revenue decreased by $58.8 million (or 47%) to $66.6 million in 2015 as compared to $125.4 million in the prior year. The decrease in Operating Revenue is due to the lower utilization and pricing in both the contract drilling and production services segments as described below:
  - Drilling rig utilization – Operating Days in Canada decreased to 26% for the year ended December 31, 2015 as compared to 58% in the prior year, reflecting 55% fewer Operating Days as the decreased commodity price environment resulted in significant reductions in the capital spending programs of Western's customers. In 2015, Operating Days for Western's Cardium class rigs decreased by 68% as compared to 2014 and were impacted to a greater extent by the competitive environment; whereas Operating Days for Western's Montney class rigs decreased by 52% while the Duvernay class rigs increased marginally by 1% as compared to the prior year. Drilling rig utilization – Operating Days of 26% for the year ended December 31, 2015 reflects an approximate 300 bps premium to the CAODC industry average of 23%, as compared to the 1,400 bps premium realized in 2014. The premium decrease relative to the CAODC industry average is due to a number of Western's customers, who typically have substantial drilling programs, significantly cutting their capital spending in 2015. Additionally, changes in the industry rig mix, as competitors continue to decommission older and shallower rigs in the WCSB, while the majority of new additions are higher specification rigs that directly compete with Western's drilling rig fleet, impacts Western's relative utilization as compared to the CAODC industry average;
  - Additionally, lower activity and increased competition led to downward pricing pressure on day rates and resulted in Operating Revenue per Revenue Day in the contract drilling segment in Canada decreasing by 10% in 2015. Pricing pressure was generally more significant for the Cardium class rigs and less so for the Montney and Duvernay class rigs;
  - In the United States in 2015, drilling rig utilization – Operating Days decreased to 29% as compared to 83% in the prior year. However, Operating Revenue per Revenue Day in the United States increased by approximately 13% for the year ended December 31, 2015 as one of Western's upgraded rigs worked throughout the year on a long term contract. Included in Operating Revenue in the contract drilling segment for the year ended December 31, 2015 is US$4.5 million in shortfall commitment and standby revenue on idle but contracted rigs in the United States; and

- Well servicing utilization decreased by 2,400 bps to 30% in 2015, as compared to 54% in the prior year. The decrease in utilization coupled with a 5% decrease in well servicing hourly rates, due to pricing pressure in all areas, resulted in a $49.0 million (or 47%) year over year decrease in well servicing Operating Revenue in 2015.

- Adjusted EBITDA decreased by $116.3 million (or 66%) to $60.5 million in 2015, as compared to $176.8 million in 2014. The decrease in Adjusted EBITDA is due to lower activity and pricing across all of Western's divisions, partially offset by Western's cost structure, with approximately 80% of costs being variable, and effective reductions of fixed overhead costs. Normalizing for the US$4.5 million in shortfall commitment and standby revenue, one-time costs of $3.1 million, including severance and uncollectible accounts receivable, Adjusted EBITDA would have totalled $58.1 million in 2015.
- Administrative expenses in 2015, excluding depreciation and stock based compensation, decreased by $5.0 million (or 16%) to $25.4 million, as compared to $30.4 million in 2014. The decrease in administrative expenses is due to lower employee related costs and cost control measures.
- While the Company continues to actively market all of its drilling rigs, during the fourth quarter of 2015, the Company evaluated its property and equipment and decommissioned $26.6 million of largely Cardium class spare equipment that is no longer in use in the contract drilling segment.
- As a result of the declining commodity price environment and reduced outlook for current and future oilfield services activity and pricing, the Company completed an impairment test for each of its CGUs as at December 31, 2015. Based on the results of these tests, it was determined that property and equipment in the Company's contract drilling and well servicing CGUs were impaired by $19.0 million and $22.9 million respectively.
- As a result of the declining commodity price environment and reduced outlook for oilfield services activity and pricing, the Company recorded a $71.3 million goodwill impairment loss in the third quarter of 2015. $59.1 million of the goodwill impairment loss was recorded in the contract drilling segment, representing the full amount of goodwill allocated to the segment. Additionally, $12.2 million of the goodwill impairment loss was recorded in the production services segment, representing the full amount of goodwill allocated to the oilfield rental division.
- Net income decreased by $165.5 million to a loss of $129.1 million for the year ended December 31, 2015 (a loss of $1.74 per basic common share) as compared to net income of $36.4 million ($0.49 per basic common share) for the same period in 2014. The decrease in net income is mainly attributed to the following:
    - A $116.3 million decrease in Adjusted EBITDA due to lower activity and pricing across all of Western's divisions;
    - Losses on goodwill impairment of $59.1 million and $12.2 million in the contract drilling and production services segments respectively; and
    - Losses on asset decommissioning of $26.6 million mainly in the contract drilling segment, coupled with impairment losses on property and equipment of $19.0 million and $22.9 million recorded in the contract drilling and well servicing segments respectively.

  Offsetting the above mentioned items are the following factors increasing 2015 net income:
    - A decrease in depreciation expense of $24.3 million due to lower activity levels;
    - A decrease in income tax expense of $34.8 million due to lower taxable income;
    - The prior year loss on asset decommissioning and goodwill impairment losses recorded in the fourth quarter of 2014 totalling $7.2 million and $22.7 million respectively; and
    - A decrease of $1.4 million in finance costs and other items such as gains and losses on foreign exchange, asset sales and derivatives.

  Normalizing for the one-time items, including after tax impairments and decommissioning losses, shortfall commitment and standby revenue, severance and uncollectible accounts receivable, net income for 2015 would have totalled a loss of $5.8 million.
- 2015 capital expenditures of $33.6 million include $23.0 million of expansion capital and $10.6 million of maintenance capital, representing a 69% decrease from the $108.6 million incurred in 2014. The majority of the capital expenditures in 2015 relate to the contract drilling segment, which incurred $26.3 million in capital. These expenditures mainly relate to the completion of Western's 2014 drilling rig build program, which totaled $20.1 million in the period relating to the construction of three Duvernay class drilling rigs. The remaining capital spending in the contract drilling segment relates to maintenance capital. Additionally, capital expenditures totalled $7.1 million in the production services segment and related to the construction of one slant well servicing rig which was part of Western's 2014 rig build program, the purchase of additional oilfield rental equipment, and maintenance capital of $4.0 million.
- For the year ended December 31, 2015, 1,297,300 common shares for a total cost of $6.7 million were repurchased, cancelled and charged to share capital, or contributed surplus as applicable, under the Company's NCIB.

Dividend Suspension

Given the current commodity price environment and limited visibility for oilfield service activity, the Board of Directors has suspended the Company's quarterly dividend until further notice. This reduction will allow Western to preserve its liquidity while providing the Company with the financial flexibility to pursue further growth opportunities.

Outlook

Currently, 7 of Western's 57 drilling rigs (or 12%) are operating under long term take-or-pay contracts providing a base level of future revenue, with 4 of these contracts expected to expire in 2016 and 3 expected to expire in 2017. These contracts each typically generate between 250 and 350 Revenue Days per year.

Western's revised capital budget for 2016 is expected to total $7 million and is comprised of $2 million of expansion capital and $5 million of maintenance capital. The following table summarizes the capital spending incurred in 2015 and the revised 2016 capital budget:

Capital Expenditures (stated in millions)	Revised 2015 Budget Announced October 29, 2015	Capital Expenditures Year Ended December 31, 2015	Cancellations 2015	Carry Forward Capital Spending 2016	2016 Budget Announced December 16, 2015	Cancellations 2016	Revised 2016 Budget Announced February 25, 2016
Expansion	23	(23)	-	-	6	(4)	2
Maintenance	15	(11)	(4)	-	12	(7)	5
Total Capital Expenditures	**38**	**(34)**	**(4)**	**-**	**18**	**(11)**	**7**

Capital spending in 2015 totalled $34 million, a decrease from the previously announced revised 2015 capital budget of $38 million as an additional $4 million in maintenance capital expenditures were cancelled in the fourth quarter of 2015, due to the decrease in oilfield service activity. No capital from the revised 2015 budget was carried forward into 2016. The initial 2016 capital budget of $18 million announced in the fourth quarter of 2015 has been reduced by $11 million and now totals $7 million, comprised of $2 million of expansion capital and $5 million of maintenance capital. Expansion capital in the revised 2016 budget relates to additional oilfield rental equipment. Maintenance capital includes $3 million in the contract drilling segment and $2 million in the production services segment.

Western believes the revised 2016 capital budget provides a prudent use of cash resources and will allow it to maintain its balance sheet strength in the current market conditions. This budget also demonstrates the Company's commitment to maintaining Western's premier drilling and well servicing rig fleets, while remaining responsive to customer requirements, and expanding Western's strategic presence in the oilfield rental equipment market. Western will continue to manage its operations in a disciplined manner and make any required adjustments to its capital program as customer demand changes.

Subsequent to December 31, 2015, crude oil and natural gas prices have continued to deteriorate to levels not seen in over a decade. This continued pressure on commodity prices has resulted in continued year-over-year reductions to the capital spending plans for the majority of Western's customers. In many cases, the capital spending reductions have been significant. As a result, active drilling rig counts in both Canada and the United States are expected to be at or near 30 year lows in 2016. Activity levels throughout the oilfield service industry in the first quarter of 2016 are expected to be significantly lower as compared to the same period in the prior year, when the effect of the lower commodity price environment had not fully impacted Western's activity levels and pricing. Lower activity and pricing pressure will continue to impact Western's Adjusted EBITDA and cash flow from operating activities. Western's variable cost structure, under which approximately 80% of operating and administrative costs are variable, the suspension of the Company's quarterly dividend and a prudent capital budget will aid in preserving balance sheet strength. Within the current market, the Company's objective is to manage expenses within cash flow from operating activities. At December 31, 2015, Western's Net Debt to trailing 12 month Adjusted EBITDA ratio was 3.4. In addition to $58.4 million in cash and cash equivalents at December 31, 2015, Western has $175 million undrawn on the Company's revolving credit facility (the "Revolving Facility"), which does not mature until December 17, 2018, $20 million available on the Company's operating demand revolving loan (the "Operating Facility"), and no principal repayments due on the $265 million Senior Notes until they mature on January 30, 2019.

The Company's credit facilities contain certain financial covenants including an interest coverage ratio of 2.0 to 1.0 or greater. At December 31, 2015, the Company's interest coverage ratio was 2.8 to 1.0. The continued deterioration of the commodity price environment subsequent to year end and the corresponding impact on the demand for oilfield services activity has caused a number of oilfield service companies to seek covenant relief from their lenders. Western's interest coverage ratio is sensitive to the prolonged decline in oilfield services activity and failing to comply with this covenant could lead to restrictions on the Company's ability to access its credit facility in the future. At December 31, 2015, Western is in compliance with all debt covenants; however, due to estimates that oilfield services activity will remain low throughout 2016, Western is in discussions with its banking syndicate for relief to the existing banking covenants. Currently, there is no risk of a cross default with the Company's Senior Notes as the credit facility remains undrawn. In addition to suspending the Company's quarterly dividend and reducing capital spending to preserve balance sheet strength, the Company has taken a proactive approach to reducing administrative and fixed overhead costs including reducing fixed headcount since the beginning of 2015 by a third and implementing a 10% company-wide wage rollback to salaried employees and director's fees, as well as reducing various other office related costs.

Oilfield service activity in Canada will be impacted by the development of resource plays in Alberta and northeast British Columbia including those related to liquefied natural gas projects, increased crude oil transportation capacity through rail and pipeline development and foreign investment into Canada. Currently, the largest challenge facing the oilfield service industry is customer spending constraints as a result of lower commodity prices. Western's view is that its modern drilling and well servicing rig fleets, strong customer base, reputation, and disciplined cash management provide a competitive advantage which will enable the Company to manage through the current slowdown in oilfield services activity.

Segmented Information

Western operates in the contract drilling segment in both Canada and the United States as well as in the production services segment in Canada. Contract drilling includes drilling rigs along with related equipment. Production services includes well servicing rigs and related equipment as well as oilfield rental equipment.

Contract Drilling

Financial Highlights	**Three months ended December 31**		**Year ended December 31**	
(stated in thousands)	**2015**	**2014**	**2015**	**2014**
Revenue				
Operating Revenue[1]	26,978	94,877	150,252	350,105
Third party charges	1,414	7,898	7,627	26,502
Total revenue	28,392	102,775	157,879	376,607
Expenses				
Operating				
Cash operating expenses	18,975	58,031	93,120	216,065
Depreciation	5,871	12,745	26,340	46,712
Stock based compensation	93	203	391	587
Total operating expenses	24,939	70,979	119,851	263,364
Administrative				
Cash administrative expenses	3,477	3,896	14,380	17,314
Depreciation	94	58	364	238
Stock based compensation	(10)	85	412	362
Total administrative expenses	3,561	4,039	15,156	17,914
Gross Margin[1]	9,417	44,744	64,759	160,542
Gross Margin as a percentage of Operating Revenue	35%	47%	43%	46%
Adjusted EBITDA[1]	5,940	40,848	50,379	143,228
Adjusted EBITDA as a percentage of Operating Revenue	22%	43%	34%	41%
Operating Earnings[1]	(25)	28,045	23,675	96,278
Capital expenditures	2,037	27,366	26,314	94,647

	Three months ended December 31		**Year ended December 31**	
Operating Highlights	**2015**	**2014**	**2015**	**2014**
Canadian Operations				
Contract drilling rig fleet:				
Average	52	50	50	49
End of period	52	49	52	49
Operating Revenue per Revenue Day[1]	22,038	27,104	23,458	26,178
Operating Revenue per Operating Day[1]	24,228	29,710	25,821	28,699
Operating Days[1]	955	2,724	4,748	10,478
Number of meters drilled	220,296	503,189	1,038,946	2,041,842
Number of wells drilled	66	133	289	606
Average Operating Days per well	14.5	20.5	16.4	17.3
Drilling rig utilization - Revenue Days[1]	22%	65%	29%	64%
Drilling rig utilization - Operating Days[1]	20%	59%	26%	58%
CAODC industry average utilization[1][2]	20%	45%	23%	44%
United States Operations				
Contract drilling rig fleet:				
Average	5	5	5	5
End of period	5	5	5	5
Operating Revenue per Revenue Day (US$)[1]	31,350	28,309	29,483 [3]	26,124
Operating Revenue per Operating Day (US$)[1]	34,217	31,876	33,166 [3]	29,680
Operating Days[1]	84	385	526	1,506
Number of meters drilled	18,985	102,290	138,891	360,105
Number of wells drilled	3	18	24	65
Average Operating Days per well	25.5	21.4	21.9	23.2
Drilling rig utilization - Revenue Days[1]	20%	95%	32%	94%
Drilling rig utilization - Operating Days[1]	18%	85%	29%	83%

(1) See "Non-IFRS measures" on page 21 of this MD&A.

(2) Source: CAODC. The CAODC industry average is based on Operating Days divided by total available days.

(3) Excludes shortfall commitment and standby revenue from take or pay contracts of US$4.5 million for the year ended December 31, 2015.

For the year ended December 31, 2015, Operating Revenue in the contract drilling segment totalled $150.2 million, a $199.9 million decrease (or 57%), as compared to the year ended December 31, 2014. Included in Operating Revenue in 2015 is US$4.5 million of shortfall commitment and standby revenue on idle but contracted rigs in the United States. Reduced demand for contract drilling services in both Canada and the United States, due to the decreased commodity price environment, led to significantly lower year over year activity and has put downward pressure on day rates in Canada and the United States. However, changes in the Company's active rig mix, weighted to the Montney and Duvernay class rigs in the fleet, which command higher day rates, helped to offset some of the decrease in average day rates.

During the year ended December 31, 2015, Adjusted EBITDA in the contract drilling segment decreased by $92.9 million (or 65%) to $50.4 million, as compared to $143.2 million in 2014, mainly due to the decrease in Operating Days in both Canada and the United States, coupled with a 10% decrease in Operating Revenue per Revenue Day in Canada. The decrease in activity in both Canada and the United States and the decrease in pricing in Canada, were partially offset by the increase in Operating Revenue per Revenue Day in the United States, the US$4.5 million in shortfall commitment and standby revenue on idle but contracted rigs and cost control measures in both Canada and the United States.

For the year ended December 31, 2015, cash administrative expenses decreased 17% to $14.4 million, compared to $17.3 million in the prior year, mainly due to lower employee costs and effective cost control measures.

Depreciation expense for the year ended December 31, 2015 decreased by $20.2 million to $26.7 million due to the decrease in Operating Days in 2015 as compared to 2014, as the majority of depreciation expense is calculated on a per Operating Day basis.

Capital expenditures in the contract drilling segment totalled $26.3 million in 2015, and include $19.9 million related to expansion capital and $6.4 million related to maintenance capital, representing a 72% decrease from the $94.6 million incurred in 2014. Of the expansion capital incurred for 2015, substantially all relates to the completion of the Company's 2014 rig build program related to the construction of three Duvernay class drilling rigs, all of which were commissioned during the third quarter of 2015.

As a result of the declining commodity price environment and reduced outlook for drilling activity and pricing, the Company recorded a $59.1 million goodwill impairment loss in the third quarter of 2015 in the contract drilling segment, representing the full amount of goodwill allocated to the segment. Additionally, while the Company continues to actively market all of its drilling rigs, in the fourth quarter of 2015, the Company recorded decommissioning losses on property and equipment in the contract drilling segment of $26.5 million largely related to Cardium class spare equipment that is no longer in use, as well as impairment losses on property and equipment of $19.0 million.

Canadian Operations

During the year ended December 31, 2015, drilling rig utilization – Operating Days in Canada decreased to 26% as compared to 58% in 2014. The decrease in utilization is due to lower demand, resulting in a 55% decrease in the Company's Operating Days to 4,748 days in 2015, as compared to 10,478 days in 2014. The majority of the reduction in Operating Days relates to Western's Cardium class rigs which typically operate in highly competitive conventional resource plays. Operating Days on these drilling rigs decreased by 68% in 2015 as compared to 2014, while Operating Days on Western's Montney and Duvernay class rigs were impacted to a lesser extent, decreasing by 52% and increasing by 1% respectively. Additionally, the first quarter of 2014 benefited from a strong start up of customer capital programs following a strong fourth quarter of 2013, whereas 2015 was impacted by customer capital spending cuts, resulting in an early end to first quarter activity, a delayed start to the summer drilling season, and lower year over year activity in every quarter of 2015.

The Company's drilling rig utilization – Operating Days in Canada of 26% for 2015 reflects an approximate 300 bps premium to the CAODC industry average of 23%, as compared to the 1,400 bps premium realized for 2014. The decrease in the Company's utilization premium from 2014 is partially due to a reduction in the industry rig count from 804 rigs at December 31, 2014 to 765 rigs at December 31, 2015 as competitors continue to decommission older shallower rigs given the current market conditions. From the end of 2014 to the end of 2015, 61 drilling rigs were added to the industry fleet with 100 drilling rigs being removed by decommissioning or movement out of the WCSB, for a net reduction of 39 drilling rigs year over year. Of the rigs added year over year, the majority of new additions are higher specification drilling rigs that directly compete with Western's Montney and Duvernay class rig fleet, which impacts Western's utilization premium to the industry average. Subsequent to December 31, 2015, industry rig counts continued to decrease to 693 at February 25, 2016, an additional 9% decline. Additionally, the change relative to the CAODC industry average is partially due to a number of Western's customers, who typically have substantial drilling programs, significantly cutting their capital spending in 2015. The Company's utilization premium for 2015, as compared to the CAODC industry average, is attributable to the efforts by the Company's marketing group to reposition the Company's rigs with new customers, thereby broadening the Company's customer base and preserving Western's premium to the CAODC average.

For the year ended December 31, 2015, Operating Revenue per Revenue Day in Canada totalled $23,458 compared to $26,178 in the prior year, a 10% decrease. While downward pricing pressure decreased day rates in all rig categories in Canada, Operating Days on the Company's Duvernay and Montney class rigs, which command higher day rates, increased as a percentage of the Company's total Operating Days. The increased proportion of Operating Days from these drilling rigs, specifically in the first quarter of 2015, partially offset some of the industry pricing pressure resulting in only a 10% decrease in Operating Revenue per Revenue Day in 2015. Pricing pressure was generally more significant for the Cardium class rigs and less so for the Montney and Duvernay class rigs. Third party charges per Revenue Day decreased for the year ended December 31, 2015 to approximately $1,300 per Revenue Day as compared to approximately $2,200 per Revenue Day for 2014, mainly due to lower fuel prices.

United States Operations

For the year ended December 31, 2015, Operating Days decreased by 980 days (or 65%) resulting in drilling rig utilization – Operating Days decreasing to 29% compared to 83% in the prior year. The decrease in 2015 is due to reduced activity resulting from the decreased commodity price environment. In the Williston basin in North Dakota where the Company operates in the United States, drilling rig counts decreased by approximately 70% to 53 active drilling rigs at December 31, 2015, as compared to 179 active drilling rigs at December 31, 2014.

For the year ended December 31, 2015, Operating Revenue per Revenue Day in the United States increased by 13% to US$29,483, as one of Western's upgraded rigs worked throughout the year on a long term contract. The increased day rates and shortfall commitment and standby revenue on idle but contracted rigs of US$4.5 million partially offset the decline in utilization for the year ended December 31, 2015.

Production Services

	Three months ended December 31		Year ended December 31	
(stated in thousands)	**2015**	**2014**	**2015**	**2014**
Revenue				
Operating Revenue[(1)]	13,525	34,447	66,550	125,404
Third party charges	806	2,131	3,412	7,210
Total revenue	14,331	36,578	69,962	132,614
Expenses				
Operating				
Cash operating expenses	10,376	23,496	48,770	85,925
Depreciation	2,562	3,995	11,133	15,279
Stock based compensation	142	197	406	424
Total operating expenses	13,080	27,688	60,309	101,628
Administrative				
Cash administrative expenses	1,578	1,839	6,694	7,710
Depreciation	102	114	415	425
Stock based compensation	127	104	384	398
Total administrative expenses	1,807	2,057	7,493	8,533
Gross Margin[(1)]	3,955	13,082	21,192	46,689
Gross margin as a percentage of Operating Revenue	29%	38%	32%	37%
Adjusted EBITDA[(1)]	2,377	11,243	14,498	38,979
Adjusted EBITDA as a percentage of Operating Revenue	18%	33%	22%	31%
Operating Earnings (Loss)[(1)]	(287)	7,134	2,950	23,275
Capital expenditures	1,188	3,616	7,109	13,707
Well servicing rig fleet:				
Average	66	65	66	65
End of period	66	65	66	65
Service rig Operating Revenue per Service Hour[(1)]	703	837	779	817
Service Hours[(1)]	15,352	34,456	71,225	127,768
Service rig utilization [(1)]	25%	58%	30%	54%

(1) See "Non-IFRS measures" on page 21 of this MD&A.

The Company's production services segment includes Eagle's well servicing fleet, which currently totals 66 rigs, as well as Aero's oilfield rental equipment. For the year ended December 31, 2015, Operating Revenue decreased by $58.8 million (or 47%) to $66.6 million, compared to $125.4 million in the prior year. For 2015, Eagle's contribution to Operating Revenue in the production services segment decreased by $48.9 million (or 47%) to $55.5 million as compared to $104.4 million in the prior year, whereas Aero's contribution to Operating Revenue in the production services segment decreased by $9.9 million (or 47%) to $11.1 million, compared to $21.0 million in the prior year. The decrease in Operating Revenue for both Eagle and Aero in 2015, as compared to 2014, is due to reduced customer spending resulting from the decreased commodity price environment, leading to lower pricing and activity.

Service Hours have decreased by 56,543 for the year ended December 31, 2015 to 71,225 (30% utilization) as compared to 127,768 (54% utilization) in the prior year. Service rig Operating Revenue per Service Hour decreased by 5% for the year ended December 31, 2015 to $779 compared to $817 in the prior year. While Eagle has experienced pricing pressure across all operating areas, average hourly rates have declined marginally year over year, as an increased proportion of Service Hours were completed in geographic areas that generate higher hourly rates.

Adjusted EBITDA decreased to $14.5 million during 2015 from $39.0 million in 2014. The lower EBITDA in 2015 was due to the decreased commodity price environment which impacted the demand and pricing for the Company's services and was partially offset by lower employee costs and cost control measures. During 2015, cash administrative expenses, which exclude depreciation and stock based compensation, decreased by 13% to $6.7 million as compared to $7.7 million in the prior year.

Depreciation expense in 2015 decreased by 27%, to $11.5 million, reflecting fewer Service Hours compared to the prior year as the majority of Eagle's depreciation expense is calculated on a per Service Hour basis.

During the year ended December 31, 2015, capital expenditures in the production services segment totalled $7.1 million and included expansion capital of $3.1 million mainly related to the construction of one slant well servicing rig carried forward from Western's 2014 rig build program and the purchase of additional oilfield rental equipment. Additionally, maintenance capital of $4.0 million was incurred in 2015. Total capital expenditures of $7.1 million in 2015 represented a 48% decrease from the $13.7 million incurred in 2014. During the first quarter of 2015, Eagle commissioned the slant well servicing rig previously under construction and now has a fleet of 66 well servicing rigs.

As a result of the declining commodity price environment and reduced outlook for oilfield rental activity, the Company recorded a $12.2 million goodwill impairment loss in the third quarter of 2015 in the production services segment, representing the full amount of goodwill allocated to the oilfield rental division. Additionally, in the fourth quarter of 2015, the Company recorded impairment losses on property and equipment of $22.9 million related to the Eagle well servicing rigs.

Corporate

	Three months ended December 31		**Year ended December 31**	
(stated in thousands)	**2015**	**2014**	**2015**	**2014**
Administrative				
Cash administrative expenses	744	1,672	4,332	5,430
Depreciation	420	272	1,215	1,113
Stock based compensation	804	884	2,724	2,067
Total administrative expenses	1,968	2,828	8,271	8,610
Finance costs	5,412	4,897	20,441	20,782
Other items	(221)	(670)	(1,709)	(286)
Income taxes				
Current tax (recovery) expense	(2,692)	3,670	(8,732)	9,457
Deferred tax (recovery) expense	(18,581)	2,114	(3,816)	12,853
Total income tax (recovery) expense	(21,273)	5,784	(12,548)	22,310
Operating loss(1)	(1,164)	(1,944)	(5,547)	(6,543)
Capital expenditures	34	89	139	250

(1) See "Non-IFRS measures" on page 21 of this MD&A.

Corporate cash administrative expenses, which exclude depreciation and stock based compensation, for the year ended December 31, 2015 decreased by 20% to $4.3 million as compared to the prior year, mainly due to lower employee related costs.

For the year ended December 31, 2015, finance costs on a consolidated basis decreased by $0.3 million to $20.4 million, mainly due to higher capitalized interest related to Western's rig build program in 2015, as compared to 2014. The Company had an effective interest rate on its borrowings of 8.2% in both 2015 and 2014.

Other items for the year ended December 31, 2015 reflect net gains of $1.7 million consisting of gains and losses on foreign exchange, asset sales and derivatives.

For the year ended December 31, 2015, income taxes on a consolidated basis totalled a recovery of $12.5 million representing an effective tax rate of 8.9% as compared to a tax rate of 38.0% in 2014. The current tax recovery for 2015 of $8.7 million is mainly due to the recognition of tax losses during the year, expected to be carried back to prior taxation years. In 2015, the effective tax rate was impacted by the goodwill impairment loss of $71.3 million recorded in the third quarter of 2015 and by the increase in the Alberta corporate tax rate to 12% from 10% previously, which received Royal Assent in the second quarter of 2015, and resulted in an approximate $6.0 million increase to deferred income tax expense in the year. The effective tax rate for 2015 was also impacted by a higher proportion of taxable income earned in the United States which has higher corporate tax rates. Normalizing for these items, the Company's effective tax rate for the year ended December 31, 2015 is approximately 26.5%.

Liquidity and Capital Resources

The Company's liquidity needs in the short term and long term can be sourced in several ways including: available cash balances, funds from operations, borrowing against existing credit facilities, new debt instruments, equity issuances and proceeds from the sale of assets. As at December 31, 2015, Western had cash and cash equivalents of $58.4 million, a decrease of $4.3 million from December 31, 2014. As a result, Western's consolidated Net Debt balance at December 31, 2015 was $206.5 million, an increase of $3.9 million as compared to December 31, 2014. During the year ended December 31, 2015, Western had Adjusted EBITDA of $60.5 million and a positive change in non-cash working capital of $24.6 million mainly due to the collection of prior year receivables, which was offset by capital expenditures of $33.6 million, dividend payments of $22.3 million, cash interest payments of $19.8 million, income tax payments of $8.4 million and shares repurchased under the Company's NCIB of $6.7 million.

As at December 31, 2015, Western had a working capital balance of $70.7 million, a $7.6 million decrease as compared to December 31, 2014. Currently, the Company has $265.0 million in Senior Notes outstanding and $195.0 million in undrawn credit facilities. The Company's credit facilities contain certain financial covenants including an interest coverage ratio of 2.0 to 1.0 or greater. At December 31, 2015, the Company's interest coverage ratio was 2.8 to 1.0. The continued deterioration of the commodity price environment subsequent to year end and the corresponding impact on the demand for oilfield services activity has caused a number of oilfield service companies to seek covenant relief from their lenders. Western's interest coverage ratio is sensitive to reduced cash flow resulting from the prolonged decline in oilfield services activity and failing to comply with this covenant could lead to restrictions on the Company's ability to access its credit facility in the future. At December 31, 2015, Western is in compliance with all debt covenants; however, due to the estimates that oilfield services activity will remain low throughout 2016, Western is currently in discussions with its banking syndicate for relief to the existing banking covenants. As at December 31, 2015, Western's Net Debt to trailing 12 month Adjusted EBITDA is 3.4 with no scheduled long term debt repayments until January 2019. As such, cash from operations coupled with Western's working capital, including cash balances, and available credit facilities are expected to be sufficient to cover Western's financial obligations including the revised 2016 capital budget.

For the years ended December 31, 2015 and 2014, the Company had one customer comprising 10.7% and 13.1% respectively, of the Company's total revenue. The trade receivable balance relating to this customer as at December 31, 2015 represented 2.8% of the Company's total trade and other receivables. This customer is a publicly traded company with a market capitalization in excess of $30 billion at December 31, 2015. The Company's significant customers may change from period to period.

Fourth Quarter 2015

Selected Financial Information

Financial Highlights	**Three months ended December 31**	
(stated in thousands, except share and per share amounts)	**2015**	**2014**
Total Revenue	42,678	139,210
Operating Revenue	40,458	129,181
Gross Margin(1)	13,372	57,826
Gross Margin as a percentage of operating revenue	33%	45%
EBITDA(1)	7,573	50,419
EBITDA as a percentage of operating revenue	19%	39%
Cash flow from operating activities	11,139	47,830
Capital expenditures	3,259	31,071
Net loss	(55,010)	(8,164)
-basic net loss per share	(0.75)	(0.11)
-diluted net loss per share	(0.75)	(0.11)
Weighted average number of shares		
-basic	73,655,198	74,882,690
-diluted	73,655,198	74,927,714
Outstanding common shares as at period end	73,646,292	74,866,028
Dividends declared	3,682	5,614
Dividends declared per common share	0.05	0.075

Operating Highlights		
Contract Drilling		
Canadian Operations		
Average contract drilling rig fleet	52	50
Contract drilling rig fleet - end of period	52	49
Operating Revenue per Revenue Day (CDN$)(1)	22,038	27,104
Operating Revenue per Operating Day (CDN$)(1)	24,228	29,710
Operating Days(1)	955	2,724
Number of meters drilled	220,296	503,189
Number of wells drilled	66	133
Average operating days per well	14.5	20.5
Drilling rig utilization - Revenue Day(1)	22%	65%
Drilling rig utilization - Operating Day(1)	20%	59%
CAODC industry average utilization rate(2)	20%	45%
United States Operations		
Average contract drilling rig fleet	5	5
Contract drilling rig fleet - end of period	5	5
Operating Revenue per Revenue Day (US$)(1)	31,350	28,309
Operating Revenue per Operating Day (US$)(1)	34,217	31,876
Operating Days(1)	84	385
Number of meters drilled	18,985	102,290
Number of wells drilled	3	18
Average operating days per well	25.5	21.4
Drilling rig utilization - Revenue Day(1)	20%	95%
Drilling rig utilization - Operating Day(1)	18%	85%
Production Services		
Average well servicing rig fleet	66	65
Well servicing rig fleet - end of period	66	65
Service rig Operating Revenue per Service Hour (CDN$)(1)	703	837
Service Hours(1)	15,352	34,456
Service rig utilization(1)	25%	58%

(1) See "Non-IFRS measures" on page 21 of this MD&A.

(2) Source: CAODC. The CAODC industry average is based on Operating Days divided by total available days.

Consolidated

Fourth quarter Operating Revenue decreased by $88.8 million (or 69%) to $40.4 million in 2015 as compared to $129.2 million in 2014. In the contract drilling segment, Operating Revenue decreased by $67.9 million (or 72%) to $27.0 million in the fourth quarter of 2015 as compared to $94.9 million in the fourth quarter of 2014; while in the production services segment, Operating Revenue decreased by $20.9 million (or 61%) to $13.5 million as compared to $34.4 million in the fourth quarter of 2014. The decrease in Operating Revenue is due to decreased utilization and pricing in both the contract drilling and production services segments.

Adjusted EBITDA decreased by $42.8 million (or 85%) to $7.6 million in 2015, as compared to $50.4 million in 2014. The decrease in Adjusted EBITDA is due to lower activity and pricing across all of Western's divisions, partially offset by Western's cost structure, with approximately 80% of costs being variable, and effective reductions of fixed overhead costs. Normalizing for one time costs of approximately $1.5 million, including severance and uncollectible accounts receivable, Adjusted EBITDA would have totalled $9.1 million in the fourth quarter of 2015.

As a result of the declining commodity price environment and reduced outlook for current and future oilfield services activity and pricing, the Company completed an impairment test for each of its CGUs as at December 31, 2015. Based on the results of these tests, it was determined that property and equipment in the Company's contract drilling and well servicing CGUs were impaired by $19.0 million and $22.9 million respectively. Additionally, the Company decommissioned $26.6 million of largely Cardium class spare drilling equipment that is no longer in use and recorded a loss on asset decommissioning in the fourth quarter of 2015.

Contract Drilling

During the fourth quarter of 2015, Operating Revenue in the contract drilling segment totalled $27.0 million, a $67.9 million decrease (or 72%), as compared to the fourth quarter of 2014. Reduced demand for the Company's contract drilling services in both Canada and the United States, due to the decreased commodity price environment, led to significantly lower year over year activity and has put downward pressure on day rates in Canada and the United States. Operating Revenue per Revenue Day in Canada decreased 19% in the fourth quarter of 2015, as compared to the fourth quarter of 2014. However, in the United States, one of Western's upgraded rigs worked throughout the quarter on a long term contract, resulting in an 11% increase in Operating Revenue per Revenue Day during the fourth quarter of 2015.

For the three months ended December 31, 2015, cash administrative expenses, which exclude depreciation and stock based compensation, decreased 10% to $3.5 million, compared to $3.9 million for the same period of the prior year. The decrease is mainly due to lower employee costs and effective cost control measures. During the fourth quarter of 2015, Adjusted EBITDA in the contract drilling segment decreased by $34.9 million (or 86%) to $5.9 million, as compared to $40.8 million in the fourth quarter of 2014, due to the decrease in Operating Days in both Canada and the United States, coupled with the decrease in Operating Revenue per Revenue Day in Canada of 19%, partially offset by the increase in Operating Revenue per Revenue Day in the United States and cost control measures in both Canada and the United States. Normalizing for one time costs of approximately $1.5 million, including severance and uncollectible accounts receivable, Adjusted EBITDA would have totalled $7.4 million.

As compared to the same period of the prior year, depreciation expense in the contract drilling segment for the fourth quarter of 2015 decreased by $6.8 million to $6.0 million due to the decrease in Operating Days in the period, as the majority of depreciation expense is calculated on a per Operating Day basis.

Capital expenditures in the contract drilling segment totalled $2.0 million in the fourth quarter of 2015 and include $1.0 million related to expansion capital and $1.0 million related to maintenance capital. In total capital expenditures in the contract drilling segment decreased by 92% in the fourth quarter of 2015 compared to the fourth quarter of 2014.

Canadian Operations

During the fourth quarter of 2015, drilling rig utilization – Operating Days in Canada decreased to 20% as compared to 59% in the fourth quarter of 2014. The decrease in utilization is due to reduced customer spending, resulting in a 65% decrease in the Company's Operating Days to 955 days in the fourth quarter of 2015, as compared to 2,724 days in the same period of the prior year. The majority of the decrease in Operating Days relates to Western's Cardium class rigs which operate in a highly competitive environment, as approximately 62% of all rigs in the WCSB are classified as Cardium class rigs. Operating Days on Western's Cardium class rigs decreased by 77% for the three months December 31, 2015, as compared to the same period in the prior year, while Operating Days on Western's Montney and Duvernay class rigs were impacted to a lesser extent, decreasing by 62% and 38% respectively. The Company's drilling rig utilization – Operating Days in Canada of 20% in the fourth quarter of 2015 was consistent with the CAODC industry average, as compared to the 1,400 bps premium realized in the fourth quarter of 2014. The change relative to the CAODC industry average is due to a number of Western's larger customers, who typically have substantial drilling programs, significantly cutting their capital spending in 2015, which resulted in a discount to the CAODC industry average. Additionally, the industry rig mix in the WCSB has changed year over year. From the end of 2014 to the end of 2015, 61 drilling rigs were added to the industry fleet with 100 drilling rigs being removed by decommissioning or movement out of the WCSB, resulting in 39 fewer drilling rigs year over year. Of the rigs added to the industry year over year, the majority of new additions are higher specification drilling rigs that directly compete with Western's drilling rig fleet, which impacts Western's utilization premium to the industry average.

For the three months ended December 31, 2015, Operating Revenue per Revenue Day in Canada totalled $22,038 compared to $27,104 in the same period of the prior year, a 19% decrease. The decreased commodity price environment and increased competition in the contract drilling industry resulted in downward pricing pressure, decreasing day rates on all rig categories in Canada. Third party charges per Revenue Day decreased in the fourth quarter of 2015 to approximately $1,300 per Revenue Day as compared to approximately $2,500 per Revenue Day in the fourth quarter of 2014, mainly due to lower fuel prices.

<u>United States Operations</u>

In the United States in the fourth quarter of 2015, Operating Days decreased by 301 days (or 78%) resulting in drilling rig utilization – Operating Days decreasing to 18% compared to 85% in the same period in the prior year. The decrease for the three month period ended December 31, 2015 is due to reduced activity resulting from the decreased commodity price environment, where in the Williston basin in North Dakota, drilling rig counts decreased by approximately 70% to 53 active drilling rigs at December 31, 2015, as compared to 179 active drilling rigs at December 31, 2014.

During the fourth quarter of 2015, Operating Revenue per Revenue Day in the United States increased by 11% to US$31,350, as one of Western's upgraded rigs worked throughout the quarter on a long term contract. The increased day rates partially offset the decline in utilization in the fourth quarter of 2015.

Production Services

During the fourth quarter of 2015, Operating Revenue decreased by $20.9 million (or 61%) to $13.5 million, compared to $34.4 million in the fourth quarter of 2014. For the quarter ended December 31, 2015, Eagle's contribution to Operating Revenue in the production services segment decreased by $18.0 million (or 63%) to $10.8 million as compared to $28.8 million in the same period of the prior year, whereas Aero's contribution to Operating Revenue in the production services segment decreased by $2.9 million (or 51%) to $2.7 million, compared to $5.6 million in the fourth quarter of 2014. The decrease in Operating Revenue for both Eagle and Aero for the three months ended December 31, 2015, as compared to the same period in the prior year, is due to reduced customer spending resulting from the decreased commodity price environment, leading to lower pricing and activity.

Service Hours have decreased by 55% in the fourth quarter of 2015 to 15,352 (25% utilization) as compared to 34,456 (58% utilization) in the same period of the prior year. Service rig Operating Revenue per Service Hour in the fourth quarter of 2015 decreased by 16% to $703 as compared to $837 in the same period of the prior year, due to pricing pressure across all of Eagle's operating areas.

Adjusted EBITDA decreased to $2.4 million during the fourth quarter of 2015 from $11.2 million in the fourth quarter of 2014 mainly due to the decreased commodity price environment impacting the demand and pricing for the Company's services, which was partially offset by lower employee costs and cost control measures. During the fourth quarter of 2015, cash administrative expenses, which exclude depreciation and stock based compensation, decreased by 11% to $1.6 million as compared to $1.8 million in the same period of the prior year.

In the three months ended December 31, 2015, depreciation expense decreased by 35% to $2.7 million mainly due to fewer Service Hours as compared to the same period of the prior year as the majority of Eagle's depreciation expense is calculated on a per Service Hour basis.

During the three months ended December 31, 2015, capital expenditures in the production services segment totalled $1.2 million, representing a 67% decrease from the $3.6 million incurred in the fourth quarter of 2014, and mainly related to maintenance capital and the purchase of additional oilfield rental equipment.

Corporate

Corporate cash administrative expenses, which exclude depreciation and stock based compensation, for the three month period ended December 31, 2015 decreased by 55% to $0.7 million due to lower employee related costs.

For the three month period ended December 31, 2015, finance costs on a consolidated basis increased by $0.5 million to $5.4 million, as no interest was capitalized by Western in the fourth quarter of 2015, as compared to the fourth quarter of 2014 when $0.4 million was capitalized related to Western's 2014 rig build program.

Other items for the three months ended December 31, 2015 reflect net gains of $0.2 million consisting of gains and losses on foreign exchange, asset sales and derivatives.

For the three months ended December 31, 2015, income taxes on a consolidated basis totalled a recovery of $21.3 million and represented an effective tax rate of 27.9%, as compared to an effective tax recovery rate of 243.1% during the three months ended December 31, 2014. Normalizing for the goodwill impairment loss of $22.7 million in the prior year, Western's effective tax rate was 28.5% in the fourth quarter of 2014. The current tax recovery for the three months ended December 31, 2015 of $2.7 million is mainly due to the recognition of tax losses during the period, expected to be carried back to prior taxation years.

Summary of Quarterly Results

In addition to other market factors, quarterly results of Western are markedly affected by weather patterns throughout its operating areas. 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", where due to the spring thaw, provincial and county road bans restrict movement of heavy equipment. As a result of this, the variation of Western's results on a quarterly basis, particularly in the first and second quarters, can be significant quarter over quarter independent of other demand factors. The following is a summary of selected financial information of the Company for the last eight completed quarters.

Three months ended	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014
(stated in thousands, except per share amounts)								
Revenue	42,678	46,959	32,037	105,850	139,210	125,225	81,981	161,416
Operating Revenue[1]	40,458	44,350	30,719	100,958	129,181	117,960	77,352	149,627
Gross Margin[1]	13,372	14,285	10,403	47,891	57,826	50,570	31,206	67,629
Adjusted EBITDA[1]	7,573	8,080	4,255	40,637	50,419	42,782	24,028	59,548
Cash flow from operating activities	11,139	(530)	41,009	39,337	47,830	22,975	71,912	38,634
Net income (loss)	(55,010)	(76,816)	(12,607)	15,294	(8,164)	14,718	4,396	25,500
per share - basic	(0.75)	(1.04)	(0.17)	0.20	(0.11)	0.20	0.06	0.35
per share - diluted	(0.75)	(1.04)	(0.17)	0.20	(0.11)	0.19	0.06	0.34
Total assets	876,608	947,137	1,025,776	1,049,145	1,057,118	1,040,973	1,016,112	1,019,192
Long term debt	264,155	264,219	264,234	264,207	264,165	263,624	263,293	263,119
Dividends declared	3,682	5,526	5,591	5,593	5,614	5,615	5,609	5,538

(1) See "Non-IFRS measures" on page 21 of this MD&A.

Revenue was impacted by lower commodity prices in 2015. Prior to the first quarter of 2015, with the exception of lower activity in the second quarter of 2014, due to the seasonal nature of the oilfield service industry in Canada, revenue was significantly higher due to the Company's capital spending program and increased activity in both the contract drilling and production services segments throughout 2014 as WTI and AECO averaged approximately US$93/bbl and $5/mcf respectively.

Adjusted EBITDA has followed a similar trend to revenue, steadily increasing after spring breakup in the second quarters through the third and fourth quarters and into the first quarter. Adjusted EBITDA is generally highest in the first quarter when activity is the highest. Adjusted EBITDA was impacted significantly in 2015 due to the decreased commodity price environment resulting in customers delaying or cancelling their capital programs. Adjusted EBITDA was strong throughout 2014 and the first quarter of 2015, with the exception of the second quarter of 2014 which was impacted by spring breakup in Canada. Following spring breakup in the second quarter of 2015, Adjusted EBITDA was significantly weaker due to the lower commodity price environment impacting the capital spending programs of Western's customers.

Net income has fluctuated throughout the last eight quarters due to the seasonal nature of the oilfield service industry in Canada. The Company recorded a net loss in the fourth quarter of 2014 due to impairment losses of $22.7 million on goodwill and decommissioning losses of $7.2 million on property and equipment. Additionally, the Company recorded a net loss in the third quarter of 2015 mainly due to goodwill impairment losses of $71.3 million and a net loss in the fourth quarter of 2015 due to property and equipment decommissioning and impairment losses totalling $68.5 million.

With the exception of the third and fourth quarters of 2015, which were impacted by significant impairment and decommissioning losses, total assets of the Company have remained relatively constant throughout the last eight quarters as capital spending has been largely offset by depreciation and the impairment losses on goodwill and decommissioning losses on property and equipment recorded in the fourth quarter of 2014.

Goodwill

Goodwill represents the excess, at the date of acquisition, of the purchase price of a business acquisition over the fair value of the net tangible assets acquired. A continuity of Western's goodwill balance at December 31, 2015 and 2014 is as follows:

(stated in thousands)	Amount
December 31, 2013	$ 88,710
Adjustment: IROC acquisition[1]	1,714
Foreign exchange adjustment	1,851
Impairment of goodwill	(22,668)
December 31, 2014	69,607
Foreign exchange adjustment	1,649
Impairment of goodwill	(71,256)
December 31, 2015	$ -

(1) On April 22, 2013, Western acquired IROC Energy Services Corp. ("IROC").

Contractual Obligations

In the normal course of business the Company incurs contractual obligations. The expected maturities of the Company's contractual obligations as at December 31, 2015 are as follows:

(stated in thousands)	2016	2017	2018	2019	2020	Thereafter	Total
Senior Notes	$ -	$ -	$ -	$ 265,000	$ -	$ -	$ 265,000
Senior Notes interest	20,869	20,869	20,869	10,434	-	-	73,041
Trade payables and other current liabilities [1]	17,931	-	-	-	-	-	17,931
Dividends payable	3,682	-	-	-	-	-	3,682
Operating leases	4,249	3,528	3,372	3,208	3,320	10,349	28,026
Purchase commitments	961	-	-	-	-	-	961
Other long term debt	892	665	73	-	-	-	1,630
Total	$ 48,584	$ 25,062	$ 24,314	$ 278,642	$ 3,320	$ 10,349	$ 390,271

(1) Trade payables and other current liabilities exclude the Company's interest accrued as at December 31, 2015 on the Senior Notes.

There have been no material changes in the contractual obligations detailed above, other than in the normal course of business, during the year ended December 31, 2015.

Outstanding Share Data

	February 25, 2016	December 31, 2015	December 31, 2014
Common shares outstanding	73,646,292	73,646,292	74,866,028
Restricted share units outstanding	753,694	759,504	304,336
Stock options outstanding	5,999,775	6,058,906	5,093,972

Off Balance Sheet Arrangements

As at December 31, 2015, Western had no off balance sheet arrangements in place.

Transactions with Related Parties

During the year ended December 31, 2015, the Company had no transactions with related parties.

Financial Instruments

Fair Values

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

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

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

Derivatives embedded in other instruments or host contracts are separated from the host contract and accounted for separately when their economic characteristics and risks are not closely related to the host contract. Embedded derivatives are recorded on the balance sheet at their estimated fair value and changes in the fair value are recorded through net income. The asset is recognized in other assets on the balance sheet while a change in the value of the embedded derivative is included in other items within net income.

The Company has the following non-derivative financial assets:

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

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

(ii) Loans and receivables:

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

(iii) Available for sale:

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

The Company has the following non-derivative financial liabilities:

(i) Other financial liabilities:

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

(ii) Equity instruments:

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

Credit Risk

The Company's trade receivables 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 trade receivable to monitor collectability. The Company records an allowance for doubtful accounts if an account is determined to be uncollectible. Any provisions recorded by the Company are reviewed regularly to determine if any of the balances provided for should be written off. The allowance for doubtful accounts could materially change as a result of fluctuations in the financial position of the Company's customers.

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, which are currently undrawn.

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. 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

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

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

In accordance with the requirements of National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings", an evaluation of the effectiveness of DC&P and ICFR was carried out under the supervision of the CEO and CFO at December 31, 2015. This evaluation was based on the framework established in the Internal Control – Integrated Framework (2013) issued in May 2013 by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO "). Based on this evaluation, the CEO and CFO have concluded that the Company's DC&P and ICFR are effectively designed and operating as intended.

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

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

Critical Accounting Estimates

This MD&A of the Company's financial condition and results of operations is based on the consolidated financial statements for the year ended December 31, 2015, 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 occur with absolute 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 share based payments.

The accounting estimates believed to be the most difficult, subjective or require complex judgements and which are the most critical to the reporting of results of operations and financial positions of the Company 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. The application of judgement is required in determining if an impairment test is required. If indicators conclude that the asset is no longer impaired, the Company will reverse impairment losses on assets. Impairment losses on goodwill are not reversed. Similar to determining if an impairment exists, judgment is required in assessing if a reversal of an impairment loss is required. 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 September 30, 2015, the Company completed its assessments and recognized a goodwill impairment loss of $71.3 million in the third quarter of 2015. As at December 31, 2015, the Company completed its assessments and recognized property and equipment impairment losses of $41.9 million in the fourth quarter of 2015. There were no reversals of previous property and equipment impairment losses in the year ended December 31, 2015. Additionally, in the fourth quarter of 2015 the Company decommissioned $26.6 million of largely Cardium class spare equipment that is no longer in use in the contract drilling segment.

Depreciation

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

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

Income taxes

Preparation of the consolidated financial statements involves determining an estimate of, or provision for, income taxes in each of the jurisdictions in which the Company operates. The process also involves making an estimate of taxes currently payable and taxes expected to be payable or recoverable in future periods, referred to as deferred taxes. Deferred taxes result from the effects of temporary differences due to items that are treated differently for tax and accounting purposes. The tax effects of these differences are reflected in the consolidated balance sheet as deferred tax assets and liabilities. An assessment must also be made to determine the likelihood that the Company's future taxable income will be sufficient to permit the recovery of deferred tax assets. To the extent that such recovery is not probable, recognized deferred tax assets must be reduced to the recoverable amount. Judgement is required in determining the provision for income taxes and recognition of deferred tax assets and liabilities. Management must also exercise judgement in its assessment of continually changing tax interpretations, regulations and legislation, to ensure deferred tax assets and liabilities are complete and fairly presented. The effects of differing assessments and applications could be material.

Share based payments

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

Business Risks

For a comprehensive listing of the Company's business risks please see the most recent Annual Information Form for the year ended December 31, 2015 as filed on SEDAR at www.sedar.com. The Company's primary business risks as at December 31, 2015 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 oil and gas production, fluctuations in commodity prices, competition and increases in operating costs. In addition, changes may occur in government regulations, including regulations relating to foreign acquisitions, prices, taxes, royalties, land tenure, allowable production, importing and exporting of oil and natural gas and environmental protection for the oil and gas industry as a whole. Risks impacting the oil and gas exploration and production industry, including the ability of oil and gas companies to accumulate capital or variations in their exploration and development budgets, may also affect the Company's business. The exact impact of these risks cannot be accurately predicted.

- The low commodity price environment that existed throughout 2015 is expected to continue throughout 2016. If a low commodity price environment persists as expected, the demand for the Company's equipment and services will remain lower than normal and the Company's utilization rates and revenue will continue to be adversely affected during such time. In addition, lower utilization and revenue could result in the Company not being in compliance with certain covenants in its credit facility and under its long term note indenture, which in turn could restrict the Company's ability to access its credit facility, pay distributions and incur additional debt in the future.
- The Company's exploration and production customer's facilities and other operations emit greenhouse gases and require them to comply with legislation in those provinces and states where they operate. On November 22, 2015, the Alberta government announced new emissions regulations, including an economy wide price on carbon emissions effective January 1, 2017 and methane emission reductions. The direct or indirect costs of greenhouse gas emission reduction regulations may have a material adverse effect on the Company's business, financial condition and results of operations and cash flows, as well as impacting the Company's customer's operations.
- 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, and labour costs 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 financial results.
- Competition among oilfield service companies offering related services is significant. Some competitors are larger and have greater revenue than the Company and overall greater financial resources. The Company's ability to generate revenue depends on its ability to attract and win contracts and to perform services.
- Currently, the Company is focused on providing services in the WCSB 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.

Non-IFRS Measures

Western uses certain measures in this MD&A which do not have any standardized meaning as prescribed by IFRS. These measures which are derived from information reported in the consolidated financial statements 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. These Non-IFRS measures are identified and defined as follows:

Operating Revenue

Management believes that in addition to revenue, Operating Revenue is a useful supplemental measure as it provides an indication of the revenue generated by Western's principal operating activities, excluding flow through third party charges such as rig fuel, which at the customer's request may be paid for initially by Western, then recharged in its entirety to Western's customers.

Gross Margin

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

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

	Three months ended December 31		Year ended December 31	
(stated in thousands)	**2015**	**2014**	**2015**	**2014**
Operating Revenue				
Drilling	26,978	94,877	150,252	350,105
Production services	13,525	34,447	66,550	125,404
Less: inter-company eliminations	(45)	(143)	(317)	(1,389)
	40,458	**129,181**	**216,485**	**474,120**
Third party charges	2,220	10,029	11,039	33,712
Revenue	**42,678**	**139,210**	**227,524**	**507,832**
Less: operating expenses	(37,974)	(98,524)	(179,843)	(363,603)
Add:				
Depreciation - operating	8,433	16,740	37,473	61,991
Stock based compensation - operating	235	400	797	1,011
Gross Margin	**13,372**	**57,826**	**85,951**	**207,231**

Adjusted EBITDA

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

The following table provides a reconciliation of net income under IFRS, as disclosed in the consolidated statements of operations and comprehensive income, to earnings before interest and finance costs, taxes, depreciation and amortization ("EBITDA"), Adjusted EBITDA and Operating Earnings:

	Three months ended December 31		Year ended December 31	
(stated in thousands)	**2015**	**2014**	**2015**	**2014**
Net income (loss)	(55,010)	(8,164)	(129,139)	36,450
Add:				
Finance costs	5,412	4,897	20,441	20,782
Income tax (recovery) expense	(21,273)	5,784	(12,548)	22,311
Depreciation - operating	8,433	16,740	37,473	61,991
Depreciation - administrative	616	444	1,994	1,776
EBITDA	(61,822)	19,701	(81,779)	143,310
Add:				
Stock based compensation - operating	235	400	797	1,011
Stock based compensation - administrative	921	1,073	3,520	2,827
Loss on asset decommissioning	26,598	7,247	26,598	7,247
Impairment of property and equipment	41,862	-	41,862	-
Impairment loss on goodwill	-	22,668	71,256	22,668
Other items	(221)	(670)	(1,709)	(286)
Adjusted EBITDA	7,573	50,419	60,545	176,777
Subtract:				
Depreciation - operating	(8,433)	(16,740)	(37,473)	(61,991)
Depreciation - administrative	(616)	(444)	(1,994)	(1,776)
Operating Earnings (Loss)	(1,476)	33,235	21,078	113,010

Net Debt

The following table provides a reconciliation of long term debt under IFRS, as disclosed in the consolidated balance sheets to Net Debt:

(stated in thousands)	**December 31, 2015**	**December 31, 2014**
Long term debt	264,155	264,165
Current portion of long term debt	761	1,062
Less: cash and cash equivalents	(58,445)	(62,662)
Net Debt	**206,471**	**202,565**

Drilling rig utilization – Operating Days: Calculated based on Operating Days divided by total available days.

Drilling rig utilization – Revenue Days: Calculated based on Revenue Days divided by total available days.

Operating Days: Defined as contract drilling days, calculated on a spud to rig release basis.

Revenue Days: Defined as Operating Days plus rig mobilization days.

Service Hours: Defined as well servicing hours completed.

Service rig utilization: Calculated based on Service Hours divided by available hours, being 10 hours per day, per well servicing rig, 365 days per year.

<u>Contract Drilling Rig Classifications</u>

Cardium class rig: Defined as any contract drilling rig which has a total hookload of less than or equal to 399,999 lbs (or 177,999 daN).

Montney class rig: Defined as any contract drilling rig which has a total hookload between 400,000 lbs (or 178,000 daN) and 499,999 lbs (or 221,999 daN).

Duvernay class rig: Defined as any contract drilling rig which has a total hookload equal to or greater than 500,000 lbs (or 222,000 daN).

Abbreviations:

- Barrel (“bbl”);
- Basis point (“bps”): A 1% change equals 100 basis points and a 0.01% change is equal to one basis point;
- Canadian Association of Oilwell Drilling Contractors (“CAODC”);
- DecaNewton (“daN”);
- International Financial Reporting Standards (“IFRS”);
- Pounds (“lbs”);
- Thousand cubic feet (“mcf”);
- West Texas Intermediate (“WTI”);
- Western Canadian Sedimentary Basin (“WCSB”); and
- Western Canadian Select (“WCS”).

Forward-Looking Statements and Information

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

In particular, forward-looking information in this MD&A includes, but is not limited to, statements relating to future declaration of dividends; the future demand for the Company’s services and equipment; the terms of existing and future drilling contracts in Canada and the US and the revenue resulting therefrom (including the number of Operating Days typically generated from the Company’s contracts); the Company’s expansion and maintenance capital plans for 2016, including the ability of current capital resources to cover Western’s financial obligations and the 2016 capital budget; the Company’s expected sources of funding to support such capital plans and the Company’s ability to adjust capital spending in the remainder of 2016 if market conditions continue to change; the use and availability of the Company’s credit facilities; the Company’s ability to maintain certain covenants under its credit facility; expectations as to the increase in crude oil transportation capacity through rail and pipeline development; expectations as to the necessary approvals for liquefied natural gas projects being obtained; the expectation of continued foreign investment into the Canadian oilfield industry; the expectation that producer spending constraints will continue to be a large challenge facing the Company in 2016; and forward-looking statements under the heading “Critical Accounting Estimates”.

The material assumptions in making the forward-looking statements in this MD&A include, but are not limited to, assumptions relating to, demand levels and pricing for oilfield services; fluctuations in the price and demand for oil and natural gas; the current low levels of, and pressures on, commodity pricing; the continued business relationship between the Company and its significant customers; general economic and financial market conditions; the development of liquefied natural gas projects, crude oil transport and pipeline approval and development; the Company’s ability to finance its operations; the effects of seasonal and weather conditions on operations and facilities; the competitive environment to which the various business segments are, or may be, exposed in all aspects of their business; the ability of the Company’s various business segments to access equipment (including spare parts and new technologies); changes in laws or regulations; currency exchange fluctuations; the ability of the Company to attract and retain skilled labour and qualified management; the ability to retain and attract significant customers; and other unforeseen conditions which could impact the use of services supplied by Western including Western’s ability to respond to such conditions.

Although Western believes that the expectations and assumptions on which such forward-looking statements and information are based on 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, the risk that the demand for oilfield services will not improve for the remainder of 2016 and that commodity prices will remain low, and other general industry, economic, market and business conditions. Readers are cautioned that the foregoing list of risks, uncertainties and assumptions are 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 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 any 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

The Annual Information Form containing additional information relating to the Company is filed on SEDAR at www.sedar.com.