Western Energy Services Corp.
Management's Discussion and Analysis

The following discussion of the financial condition, changes in financial condition and results of operations of Western Energy Services Corp. (the "Company" or "Western") should be read in conjunction with the audited annual consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2009 and 2008, the Company's management discussion and analysis for the year ended December 31, 2009 as well as the Company's interim consolidated financial statements and notes for the three and six months ended June 30, 2010 and 2009. This management's discussion and analysis is dated August 18, 2010.

Selected Financial Information

(stated in thousands of Canadian dollars, except per share amounts)	After comprehensive revaluation	Before comprehensive revaluation	After comprehensive revaluation	Before comprehensive revaluation
Financial Highlights	**Three Months Ended June 30, 2010**	**Three Months Ended June 30, 2009**	**Six Months Ended June 30, 2010**	**Six Months Ended June 30, 2009**
Revenue	13,396	607	17,715	1,865
EBITDA[1]	3,151	(365)	3,694	(348)
Cash from operating activities from continuing operations	3,882	230	3,717	(228)
Net income (loss) from continuing operations	(30)	(1,020)	11,509	(1,442)
- basic net income (loss) per share	-	(0.03)	0.03	(0.04)
- diluted net income (loss) per share	-	(0.03)	0.03	(0.04)
Net income (loss)	(98)	(897)	11,008[2]	(1,998)
- basic net income (loss) per share	-	(0.03)	0.03	(0.06)
- diluted net income (loss) per share	-	(0.03)	0.03	(0.06)
Weighted average number of shares				
-basic	527,549,161	32,246,405	361,475,586	32,246,405
-diluted	555,262,156	32,246,405	395,448,746	32,246,405
Outstanding common shares as at period end	527,549,161	32,246,405	527,549,161	32,246,405
Dividends declared	-	-	-	-

Operating Highlights	**Three Months Ended June 30, 2010**	**Three Months Ended June 30, 2009**	**Six Months Ended June 30, 2010**	**Six Months Ended June 30, 2009**
Contract Drilling				
Contract drilling rig fleet	11	-	11	-
Rate per drilling day	20,110	-	20,377	-
Drilling rig utilization rate	46%	-	46%[3]	-
CAODC industry average utilization rate	19%	-	26%[3]	-
Production Services				
Jobs completed	426	214	1,105	623
Average revenue per job completed	5,265	2,836	4,319	2,994

Financial Position at	**June 30, 2010**	**December 31, 2009**	**June 30, 2009[6]**
Working capital[4]	11,131	836	(1,524)
Property and equipment	96,157	5,414	17,054
Total assets	115,431	12,219	19,216
Long term debt[5]	4,268	22	10,766

(1) Non-GAAP measure. See page 2.
(2) Includes an $11.1 million nonrecurring gain on acquisitions.
(3) Utilization rates calculated from the date of acquisition of the contract drilling segment (March 18, 2010)
(4) Working capital is calculated as current assets less current liabilities, excluding the current portion of long-term debt.
(5) Long term debt includes the current portion of long-term debt.
(6) Includes results from both continuing and discontinued operations.

Non-GAAP Measures

Western uses certain measures in this discussion which do not have any standardized meaning as prescribed by Canadian generally accepted accounting principles ("GAAP") and therefore are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other reporting issuers. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Company.

EBITDA

Management believes that in addition to net earnings, earnings from continuing operations before interest, taxes, depreciation, goodwill impairment, loss on sale of assets, gain on debt settlement, gain on business acquisitions, stock based compensation, acquisition costs and foreign exchange ("EBITDA") as derived from information reported in the Consolidated Statements of Income (Loss) is a useful supplemental measure as it provides an indication of the results generated by Western's principal business activities prior to consideration of how those activities are financed, the impact of foreign exchange, how the results are taxed, how funds are invested, and how non-cash depreciation and goodwill impairment charges affect results.

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

	After comprehensive revaluation	**Before comprehensive revaluation**	**After comprehensive revaluation**	**Before comprehensive revaluation**
(stated in thousands of Canadian dollars)	**Three Months Ended June 30, 2010**	**Three Months Ended June 30, 2009**	**Six Months Ended June 30, 2010**	**Six Months Ended June 30, 2009**
EBITDA	3,151	(365)	3,694	(348)
Add (deduct):				
Depreciation	(1,625)	(428)	(2,032)	(877)
Stock based compensation	(181)	-	(199)	-
Gain (loss) on sale of assets	1	-	(11)	(2)
Gain (loss) on business acquisitions	(529)	-	11,094	-
Acquisition costs	(81)	-	(257)	-
Foreign exchange gain (loss)	49	(152)	130	(68)
Interest and finance costs	(213)	(75)	(303)	(147)
Future income taxes	(602)	-	(607)	-
Net income (loss) from continuing operations	(30)	(1,020)	11,509	(1,442)

Operating Earnings (Loss)

Management believes that in addition to net income (loss), operating earnings (loss) is a useful supplemental measure as it provides an indication of the results generated by the Company's principle operating segments prior to consideration of how those activities are financed or how the results are taxed.

(stated in thousands of Canadian dollars)	After comprehensive revaluation Three Months Ended June 30, 2010	Before comprehensive revaluation Three Months Ended June 30, 2010	After comprehensive revaluation Six Months Ended June 30, 2010	Before comprehensive revaluation Six Months Ended June 30, 2010
Operating earnings (loss)	1,526	(793)	1,662	(1,225)
Add (deduct):				
Stock based compensation	(181)	-	(199)	-
Gain (loss) on sale of assets	1	-	(11)	(2)
Gain (loss) on business acquisitions	(529)	-	11,094	-
Acquisition costs	(81)	-	(257)	-
Foreign exchange gain (loss)	49	(152)	130	(68)
Interest and finance costs	(213)	(75)	(303)	(147)
Future income taxes	(602)	-	(607)	-
Net income (loss) from continuing operations	(30)	(1,020)	11,509	(1,442)

Overall Performance and Results of Operations

Western is an energy services company with operations in two business units: contract drilling and production services. Operations in the contract drilling business unit are conducted through Western's wholly own subsidiary Horizon Drilling Inc., which was acquired on March 18, 2010. Operations in the production services business unit are conducted through Western's wholly own subsidiary StimSol Canada Inc.

The drilling industry in Canada has continued to see improved activity throughout 2010, specifically the demand for assets that have the ability to drill long reach horizontal wells safely and efficiently. During the second quarter of 2010, industry average utilization was 19%, as compared to 11% in the prior year. Utilization in Western's contract drilling segment averaged an industry leading 46% in the second quarter of 2010.

Although the price for natural gas remains soft, oil prices have increased by 31% over 2009 levels. This has resulted in a 65% increase in the number of oil wells drilled in Canada in 2010 relative to 2009. This increased demand for oil, along with an emphasis on liquids rich natural gas, has primarily resulted in the drilling of horizontal wells in both conventional and unconventional resource plays. Since the acquisition of Horizon Drilling Inc. ("Horizon") and Cedar Creek Drilling Ltd. ("Cedar Creek") on March 18, 2010, Western's entire drilling fleet has been drilling horizontal wells, with approximately 75% drilling for oil.

In Western's production services segment, formations such as the Bakken, Horn River, and Montney continue to see increased demand for fracturing and pressure pumping services. As unconventional light and heavy oil plays continue to require more involved completions, demand for Western's production services continues to grow.

The key operational results for the three months ended June 30, 2010 are:

- Revenues increased by $12.8 million, or 2,107%, to $13.4 million in the second quarter of 2010 as compared to $0.6 million in the same period of the prior year. The increase reflects the acquisition of Horizon and Cedar Creek on March 18, 2010, which accounted for contract drilling revenue of $11.2 million in the second quarter of 2010. The contract drilling segment's revenue per operating day averaged $20,110 and the utilization rate averaged 46% as compared to the industry average of 19%. The remaining $1.6 million increase in revenue is due to increased utilization in Western's production services segment which completed 99% more jobs in the second quarter of 2010 at an average revenue per job 86% higher than in the second quarter of 2009.

- Net loss from continuing operations decreased by $1.0 million to $30,000 in the second quarter of 2010 as compared to a net loss from continuing operations of $1.0 million in the second quarter of 2009. The decreased loss reflects operating earnings from the contract drilling segment of $2.2 million, a $0.9 million increase in operating earnings in the production services segment, offset by an increase of $2.1 million in corporate and other costs, including a $0.5 million reduction to the aggregate gains on business acquisitions of Horizon and Cedar Creek and $0.6 million in future income tax expense.
- During the second quarter of 2010, Western's EBITDA (see non-GAAP measures on page 2) was positive $3.2 million, as compared to negative $0.4 million in the same period of the prior year. The $3.6 million increase in EBITDA is due to the acquisition of Horizon and Cedar Creek, which contributed $3.7 million to EBITDA in the second quarter of 2010 (or 33% of contract drilling revenue), and an increase in the production services segment EBITDA of $0.6 million to $0.5 million (or 21% of production services revenue) offset by an increase in corporate general and administrative costs of $0.8 million.
- During 2010, Western announced that it would be ceasing its current operations in the United States and internationally. Subsequent to the announcement, Western has redeployed certain of its U.S. assets to its Canadian operations and completed the sale of the remaining assets in the United States and expects to complete the sale of the remaining assets in its international operations in the third quarter of 2010.
- During the second quarter of 2010, corporate general and administrative expenses totalled $1.0 million, an increase of $0.8 million over the same period of the prior year. The increase is due to higher staffing levels and costs associated with Western's initial recapitalization and continued consolidation efforts in the Canadian oil and gas services industry.
- On April 15, 2010, Western announced the increase of its credit facility with its existing lender. The credit facility consists of a $5 million operating demand revolving loan (the "Operating Facility"), and a $45 million 364-day committed extendible revolving credit facility (the "Revolving Facility"). The purpose of the Revolving Facility is to assist the Company in completing corporate acquisitions and financing the construction of additional equipment. In addition, the Revolving Facility was initially used to consolidate certain indebtedness acquired from Horizon and Cedar Creek. As at June 30, 2010, the Company had approximately $42 million in available credit under the Revolving Facility and $5 million under the Operating Facility. These loans require interest to be paid monthly with no scheduled principal repayment unless the Revolving Facility is not extended. If not extended, the Revolving Facility is capped and repayable over the ensuing two year period by monthly principal and interest payments.

Outlook

The drilling industry in Canada is moving towards drilling wells of increased complexity. With the acquisition of Horizon and Cedar Creek on March 18, 2010, Western acquired equipment which is specifically suited for today's drilling environment. Horizon's Range 3 Singles ("R3S") series rigs are specifically designed with integrated top-drives, triplex mud pumps, mechanized pipe handling equipment and range III tubulars. Horizon's telescopic doubles are also of modern design including the necessary hook load capabilities, triplex mud pumps and are equipped with top-drives at the customer's request. Horizon's triples are also designed with integrated top-drives, triplex mud pumps, mechanized pipe handling equipment including iron derrickman and range III tubulars. Horizon has a proven track record for delivering high quality equipment and well trained, highly skilled crews to its customers who trust Horizon to drill these increasingly complex long reach horizontal wells. This fits well with the increased demand for drilling horizontal wells, which totalled 43% of the total wells drilled in western Canada in 2010, representing a 147% increase over the same period of the prior year. Western continues to experience high demand from its customers for its equipment and expects this trend to continue.

With the expected closing of the acquisition of Impact Drilling Ltd. ("Impact"), Western will increase its fleet of R3S series rigs by three and expects similar demand for this equipment, as well as acquiring one mechanical single rig.

Western's production services segment will continue to grow its fleet of pressure trucks in Saskatchewan, as well as focus on increasing stimulation chemical revenue for this region. Western is gaining market share in the chemical business and will continue to make this a priority going forward. Our plan is to increase the number of chemical depots we have, increase our storage capability, and increase our in house transportation department to provide better service to our customers and keep transportation costs down.

Capital expenditures are expected to be approximately $21 million for 2010, with approximately $2 million for upgrade and maintenance capital to existing equipment and $19 million for expansion capital. The capital expansion program includes the construction of a top drive telescopic double drilling rig with hoisting and pumping capabilities to drill long reach horizontal wells. The rig is expected to be commissioned during the first quarter of 2011. With the acquisition of Impact, Western intends to spend approximately $3 million on the assets acquired in order to increase their horizontal drilling capabilities. Western's production services segment expansion plan for 2010 is to increase its fleet by 40%. This growth will allow the production services segment to expand its customer base and expand into additional geographic areas that have been identified as strong growth areas.

Western continues to focus its efforts on consolidating the Canadian oil and gas services industry. Management believes the current market conditions in the Canadian energy services sector still provide opportunity to diversify via acquisition and organic growth into three core business lines comprised of contract drilling, service rigs and rental and production services.

With the addition of four drilling rigs from the acquisition of Impact and the construction of another drilling rig, Western has aggressively become the ninth largest drilling contractor in Canada, with a fleet of 16 drilling rigs.

Comprehensive revaluation

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

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

Segmented Information

As at June 30, 2010, Western operates in two main industry segments, contract drilling and production services. Subsequent to the discontinuation of the United States and international geographic operations in 2010, the Company only operates in Canada. Contract drilling includes drilling rigs along with related equipment. Production services include various oilfield services relating to stimulation and fluid pumping, nitrogen services, specialty solvents and laboratory services.

Segment Review of Contract Drilling Services

(stated in thousands of Canadian dollars)	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010(1)
Revenue	11,153	12,943
Expenses		
Operating	6,846	8,210
General and administrative	639	705
EBITDA(1)	3,668	4,028
Depreciation	1,430	1,657
Operating earnings(1)	2,238	2,371
Operating earnings as a percentage of revenue	20%	18%
Drilling revenue per operating day	20,110	20,377
Western's utilization rate	46%	46%(2)
CAODC industry average utilization rate	19%	26%(2)

(1) Contract Drilling segment acquired March 18, 2010
(2) Utilization rates calculated from the date of acquisition of the contract drilling segment (March 18, 2010)
(3) Non-GAAP measure. See page 2.

With the completion of the acquisitions of Horizon and Cedar Creek on March 18, 2010, the Company began operations in its contract drilling segment. For the three months ended June 30, 2010, the Company's contract drilling revenue was $11.2 million reflecting average revenue per operating day of $20,110 and a utilization rate of 46%, as compared to the industry average of 19%. During the second quarter, the Company drilled 28 wells for a total of 86,031 metres drilled. For the period March 18, 2010 to June 30, 2010, the Company's contract drilling revenue was $12.9 million reflecting average revenue per day of $20,377 and a utilization rate of 46%, as compared to the industry average of 26%. During this period, the Company drilled 30 wells for a total of 99,539 metres drilled. The Company's utilization, which has been substantially higher than the industry average in 2010, reflects the high quality of the assets, highly skilled rig crews and the strong customer base acquired from Horizon and Cedar Creek.

For the three months ended June 30, 2010, contract drilling EBITDA of $3.7 million represents 33% of revenue. For the period March 18, 2010 to June 30, 2010, contract drilling EBITDA of $4.0 million represents 31% of revenue. The contract drilling segment's EBITDA as a percentage of revenue reflects strong margins, industry leading utilization rates, and for the three and six months ended June 30, 2010, $1.2 million of revenue related to commitment shortfalls on a take-or-pay contract.

Segment Review of Production Services

	Three Months Ended June 30			Six Months Ended June 30		
(stated in thousands of Canadian dollars)	**2010**	**2009**	**% Change**	**2010**	**2009**	**% Change**
Revenue	2,243	607	270%	4,772	1,865	156%
Expenses						
Operating	1,479	771	92%	3,090	1,790	73%
General and administrative	303	11	2,655%	529	34	1,456%
EBITDA(1)	461	(175)	363%	1,153	41	2,712%
Depreciation	172	428	(60%)	352	876	(60%)
Operating earnings (loss)(1)	289	(603)	148%	801	(835)	196%
Operating earnings (loss) as a percentage of revenue	13%	(99%)	112%	17%	(45%)	62%
Jobs completed	426	214	99%	1,105	623	77%
Revenue per job completed	5,265	2,836	86%	4,319	2,994	44%

(1) Non-GAAP measure. See page 2.

For the three months ended June 30, 2010, production services revenue increased by $1.6 million, or 270%, to $2.2 million over the same period of the prior year. The increase reflects improved demand for fluid and pumping services, as the number of jobs completed increased by 99% to 426 as compared to 214 jobs completed in the same period of the prior year, coupled with an 86% improvement in the average revenue per job completed in the second quarter of 2010 as compared to the same period in the prior year. For the six months ended June 30, 2010, production services revenue increased by $2.9 million, or 156%, to $4.8 million over the same period in the prior year, as the number of jobs completed increased by 77% to 1,105 as compared to 623 in the prior year and average revenue per job completed increased by 44% in 2010 as compared to the same period in the prior year. Additionally in 2010, the Company for the first time has entered into long term projects as a result of increased demand for its services.

Production services EBITDA for the three months ended June 30, 2010 increased by $0.6 million, or 363%, to $0.5 million over the same period of the prior year. For the six months ended June 30, 2010, EBITDA increased by $1.1 million, or 2,712%, to 1.2 million. For the three and six months ended June 30, 2010, the production services segment's EBITDA represents 21% and 24% of revenue, respectively, a substantial improvement over the prior year. The increase in production services reflects improved margins and increased activity in the oil and gas industry.

Corporate

	Three Months Ended June 30			Six Months Ended June 30		
(stated in thousands of Canadian dollars)	**2010**	**2009**	**% Change**	**2010**	**2009**	**% Change**
Expenses						
General and administrative	978	192	409%	1,487	391	280%
Stock based compensation	181	-	100%	199	-	100%
Interest and finance costs	213	75	184%	303	147	106%
Acquisition costs	81	-	100%	257	-	100%
(Gain) loss on business acquisition	529	-	100%	(11,094)	-	100%
Depreciation	23	-	100%	23	1	2,200%

Corporate general and administrative expenses increased by $0.8 million and $1.1 million for the three and six months ended June 30, 2010 respectively, as compared to the same period in the prior year. The increase is due to higher staffing levels and costs associated with Western's initial recapitalization and continued consolidation efforts in the Canadian oil and gas services industry.

Stock based compensation expense recorded for the three and six months ended June 30, 2010 relates to stock options granted in 2010. No stock based compensation was recorded for the three and six months ended June 30, 2009.

Interest and finance costs increased by $0.1 million and $0.2 million for the three and six months ended June 30, 2010, respectively, as compared to the same period in the prior year. The increase is due to significant debt balances acquired from Horizon and Cedar Creek on March 18, 2010, which were not fully repaid until mid April 2010.

With the adoption of CICA handbook section 1582 effective January 1, 2010, acquisition costs and gains on business acquisitions are recorded through net income. For the three and six months ended June 30, 2010, Western recorded acquisition costs of $0.1 million and $0.3 million, respectively, related to costs incurred on the acquisitions of Horizon and Cedar Creek. For the three months ended June 30, 2010, Western made certain adjustments to the purchase price allocations of Horizon and Cedar Creek, mainly related to tax adjustments, which resulted in the aggregate gain on these acquisitions decreasing by $0.5 million. For the six months ended June 30, 2010, the aggregate gain on the acquisitions of Horizon and Cedar Creek totalled $11.1 million.

Corporate depreciation expense of $23,000 for the three and six months ended June 30, 2010, relates to computer and office equipment used in Western's corporate head office.

Discontinued Operations

During 2010, management determined its United States and international production services divisions, included in the production services segment, would be disposed of in order for the Company to focus on its core business operations in Western Canada. The disposal groups consisted of certain fixed assets including a building, field equipment and shop equipment used in the production services segment. Results from discontinued operations for the three and six months ended June 30, 2010 and 2009 are as follows:

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Revenue from discontinued operations:				
United States	$ -	$ 286	$ -	$ 1,076
International	42	81	42	163
	$ 42	$ 367	$ 42	$1,239
Net income (loss) from discontinued operations:				
United States	$ (59)	$ 102	$ (447)	$ (593)
International	(9)	21	(54)	37
	$ (68)	$ 123	$ (501)	$ (556)

The following table provides additional information with respect to amounts included in the June 30, 2010 balance sheet as assets and liabilities of discontinued operations.

	United States	International	Total
Current assets			
Accounts receivable	$ -	$ 31	$ 31
Prepaid expenses	50	5	55
Total current assets	$ 50	$ 36	$ 86
Long-term assets			
Property and equipment	$ 464	$ -	$ 464
Total long-term assets	$ 464	$ -	$ 464
Current liabilities:			
Accounts payable and accrued liabilities	$ 604	$ 83	$ 687
Total current liabilities:	$ 604	$ 83	$ 687

Summary of Quarterly Results

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

	After comprehensive revaluation			Before comprehensive revaluation					
Three months ended (stated in thousands of Canadian dollars, except per share amounts)	June 30, 2010	March 31, 2010	Dec 31, 2009[2]	Dec 22, 2009[2]	Sept 30, 2009	June 30, 2009	March 31, 2009	Dec 31, 2008	Sept 30, 2008
Revenue	13,396	4,318	151	998	921	607	1,258	1,201	1,043
EBITDA[3]	3,151	543	(102)	(635)	(212)	(365)	17	(105)	(227)
Cash from operating activities	3,813	145	(436)	(2,421)	(187)	25	(181)	(364)	10
Income (loss) from continuing operations	(30)	11,539	(1,975)	(2,665)	(892)	(1,020)	(422)	(458)	(2,156)
per share – basic[1]	-	0.06	(0.01)	(0.08)	(0.03)	(0.03)	(0.01)	(0.03)	(0.15)
per share – diluted[1]	-	0.05	(0.01)	(0.08)	(0.03)	(0.03)	(0.01)	(0.03)	(0.15)
Income (loss)	(98)	11,106	(2,011)	(2,841)	(1,649)	(897)	(1,101)	(1,534)	(2,306)
per share - basic [1]	-	0.06	(0.02)	(0.09)	(0.05)	(0.03)	(0.03)	(0.12)	(0.16)
per share - diluted[1]	-	0.05	(0.02)	(0.09)	(0.05)	(0.03)	(0.03)	(0.12)	(0.16)
Total assets	115,431	151,452	12,219	12,712	17,731	19,216	20,629	22,398	23,905
Long term financial liabilities	11,740	46,041	65	65	279	566	650	764	807
Dividends declared	-	-	-	-	-	-	-	-	-

(1) Per share amounts for all periods reflect the 1 for 12 consolidation of shares that occurred in September 2008.
(2) The fourth quarter of 2009 has been split into two periods, to reflect Western's results before and after the comprehensive revaluation completed on December 22, 2009.
(3) Non-GAAP measure. See page 2.

Liquidity and Capital Resources

On March 18, 2010, Western completed a public offering of 375 million common shares at a price of $0.20 per share for gross proceeds of $75 million which was used to acquire Horizon and pay down the debt of Horizon and Cedar Creek. Each of Horizon and Cedar Creek were, at the time of acquisition, privately held companies engaged in the operation of contract drilling rigs in the western Canadian sedimentary basin. These acquisitions provided Western with immediate cash flow and key human resource capabilities.

On April 15, 2010, Western announced the increase of its credit facility with its existing lender. The credit facility consists of a $5 million operating demand revolving loan (the "Operating Facility"), and a $45 million 364-day committed extendible revolving credit facility (the "Revolving Facility"). The purpose of the Revolving Facility is to assist the Company in completing corporate acquisitions and financing the construction of additional equipment. In addition, the Revolving Facility was initially used to consolidate certain indebtedness acquired from Horizon and Cedar Creek. As at June 30, 2010, the Company had approximately $42 million in available credit under the Revolving Facility and $5 million under the Operating Facility. These loans require interest to be paid monthly with no scheduled principal repayment unless the Revolving Facility is not extended. If not extended, the Revolving Facility is capped and repayable over the ensuing two year period by monthly principal and interest payments. Amounts borrowed under the Operating Facility will bear interest at the bank's prime rate plus 1.5% and amounts borrowed under the Revolving Facility will bear interest at the Company's option of either the bank's prime rate plus 1.5% to 2.0% or the banker's acceptance rate plus 3.0% to 3.5% depending, in each case, on the ratio of funded debt to EBITDA. Western's increased credit facility is subject to the following financial covenants:

	Covenant	As at June 30, 2010
Current assets to current liabilities	1.25 to 1.00 or more	2.54
Funded Debt to EBITDA	2.5 to 1.0 or less	0.12
Funded Debt to capitalization	0.60 to 1.0 or less	0.02
Revolving Facility balance to net book value of fixed assets	Less than 45%	3%

As at June 30, 2010, Western had a positive working capital balance of $11.1 million and $4.3 million in long-term debt. With the expected closing of the Impact acquisition in late August 2010, which will be funding entirely using Western's Revolving Facility, approximately $19.4 million will be added to long-term debt. Western intends to continue to employ a conservative debt to annualized EBITDA ratio. Additionally, the construction of a top drive telescopic double drilling rig, expected to be commissioned during the first quarter of 2011, will be financed through a combination of operating cash flow and available lines of credit.

During the three months ended June 30, 2010, Western generated operating cash flow from continuing operations of approximately $3.9 million as compared to $0.2 million in the same period of the prior year. The increase in operating cash flow from continuing operations is mainly attributed to the acquisitions of Horizon and Cedar Creek on March 18, 2010, which contributed operating cash flow of $4.5 million in the second quarter, while operating cash flow contributed by Western's production services segment was offset by corporate general and administrative costs. The same factors led to an increase in cash flow from continuing operations for the six months ended June 30, 2010 to positive $3.7 million as compared to negative $0.2 million in the same period of the prior year.

During 2010, Western announced that it would be ceasing its current operations in the United States and internationally. Western has redeployed certain of its assets held in the United States to its Canadian operations and completed the sale of the remaining assets in the United States. During the three and six months ended June 30, 2010, Western has completed asset sales of $0.1 million and $2.9 million, respectively, including the sale of $1.3 million in U.S. assets in the first quarter of 2010. Subsequent to June 30, 2010, the remaining U.S. assets of approximately $0.4 million were sold.

Contractual Obligations

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

	Payments due by period				
(stated in thousands of Canadian dollars)	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Operating leases	**$ 3,496**	$ 401	$ 1,766	$ 1,329	$ -
Capital commitments	**2,435**	2,435	-	-	-
Purchase commitments	**140**	140	-	-	-
Total	**$ 6,071**	**$ 2,976**	**$ 1,766**	**$ 1,329**	**$ -**

Outstanding Share Data

	August 18, 2010	June 30, 2010	Dec 31, 2009
Common shares outstanding	527,549,161	527,549,161	132,031,830
Warrants outstanding	50,500,000	50,500,000	50,500,000
Stock options outstanding	18,245,002	17,645,002	170,003

Off Balance Sheet Arrangements

As at June 30, 2010, Western had no off balance sheet arrangements in place.

Transactions with Related Parties

Subsequent to the recapitalization and reorganization that was completed on December 22, 2009, Western has no transactions with related parties.

Changes in Accounting Policies

The following new Canadian accounting standards were released in 2009 with an effective date of January 1, 2011 with early adoption permitted. Western has elected to adopt these standards effective January 1, 2010:

- Section 1582 "Business Combinations" requires most assets acquired and liabilities assumed, including contingent consideration to be measured at fair value and that all acquisition costs be expensed. The adoption of this standard impacted the accounting for the business combinations completed in 2010. See Note 4 of the June 30, 2010 interim financial statements filed on SEDAR at www.sedar.com.
- Section 1602 "Non-controlling Interests" requires that non-controlling interests be recognized as a separate component of equity and that net earnings be calculated without a deduction for non-controlling interest. The adoption of this standard did not have a material impact on the financial statements of the Company.
- Section 1601 "Consolidated Financial Statements" establishes standards for the preparation of consolidated financial statements. The adoption of this standard did not have a material impact on the financial statements of the Company.

Financial Instruments

Fair Values

The Company measures and reports its financial assets and liabilities at fair value, defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. To obtain fair values, observable market prices are used if available. In some instances, observable market prices are not readily available for certain financial instruments and fair value is determined using present value or other techniques appropriate for a particular financial instrument. These techniques involve some degree of judgment and as a result are not necessarily indicative of the amounts the Company would realize in a current market exchange. The use of different assumptions or estimation techniques may have a material effect on the estimated fair value amounts. These valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect the Company's market assumptions. The Company uses a three-level hierarchy for disclosure to show the extent and level of judgement used to estimate fair value measurements:

1. Level 1 inputs – Quoted prices in active markets for identical assets or liabilities.

2. Level 2 inputs – Quoted prices in active markets for similar assets or liabilities; quoted prices in markets that are not active for identical or similar assets or liabilities; and valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly.

3. Level 3 inputs – Valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

The Company's cash and cash equivalents is the only financial asset or liability measured using fair value and is a level 1 measurement.

Credit Risk

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

Interest Rate Risk

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

Foreign Exchange Risk

The Company is exposed to foreign exchange fluctuations in relation to its United States and international operations.

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.

International Financial Reporting Standards ("IFRS")

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

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

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

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

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

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

Business Risks

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

- Competition among related service companies is significant. Many competitors are substantially larger and have substantially greater revenues than the Company and overall greater financial resources. The Company's ability to generate revenues depends on its ability to attract and win contracts and to perform services.
- Currently the Company is focused on providing services in the western Canadian sedimentary basin, which exposes the Company to market fluctuations in specific locations which may be more extreme than the overall industry conditions.
- The success of the Company is dependent upon the efforts and abilities of its management team. The loss of any member of the management team could have a material adverse effect upon the business and prospects of the Company.
- The Company has a limited history of operations. Failure to achieve projected rates of market penetration or commercial acceptance could significantly affect its success.
- The Company's business is subject to the operating risks inherent to the oil and gas service industry. On occasion, substantial liabilities to third parties may be incurred. The Company will have the benefit of insurance maintained by it and industry standard contracts, however, it may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.
- The Company is vulnerable to market prices. Fixed costs, including costs associated with operations, leases, labour costs and depreciation account for a significant portion of the Company's costs and expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, or other factors could significantly affect its revenues and financial results.
- The Company's business relies on the oil and gas exploration and production industry which is subject to a number of risks. General economic conditions, fluctuations in demand and supply of production components, competition and increases in operating costs are some of them. In addition, changes may occur in government regulation, including regulations relating to prices, taxes, royalties, land tenure, allowable production, importing and exporting of oil and natural gas and environmental protection for the oil and gas industry as a whole. Risks affecting the oil and gas exploration and production business may also affect the Company's business. The exact effect of these risks cannot be accurately predicted.
- The oil and gas services industry has experienced a high degree of invention and innovation. It is possible that new technology will be developed which will compete with the Company's products and services.
- A portion of the operations of the Company and all of the discontinued operations of the Company, are in the United States, Mexico and Latin America, which subject the Company to currency fluctuations and different tax and regulatory laws.

Forward-looking statements

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

Under the heading "Outlook" there are statements to the effect that: "With the expected closing of the acquisition of Impact, Western will increase its fleet of "range three single series" rigs by three and expects similar demand for this equipment, as well as acquiring one mechanical single rig"; "With the acquisition of Impact, Western intends to spend approximately $3 million on the assets acquired in order to increase their horizontal drilling capabilities; and, with the addition of four drilling rigs from the acquisition of Impact, and the construction of another drilling rig, Western has aggressively become the ninth largest drilling contractor in Canada, with a fleet of 16 drilling rigs."

These statements assume the completion of the acquisition of all of the outstanding securities of Impact Drilling Ltd. ("Impact") which is expected to close on or about August 25, 2010. Readers are cautioned that there are a number of conditions that must be met, including the approval of the securityholders of Impact before that acquisition can be completed. There is no assurance that all of those conditions will be met, therefore, there is a risk that the acquisition of Impact will not be completed.

Also, under the heading "Outlook" there are the statements that: "Capital expenditures are expected to be approximately $21 million for 2010, with approximately $2 million for upgrade and maintenance capital to existing equipment and $19 million for expansion capital"; and "The capital expansion program includes the construction of a top drive telescopic double drilling rig with hoisting and pumping capabilities to drill long reach horizontal wells. The rig is expected to be commissioned during the first quarter of 2011."

The foregoing statements assume that both the Impact acquisition will occur and that the construction of the proposed new drilling rig will be completed.

As stated above, there are a number of risks that the acquisition may not be completed. In addition, there are also risks that the additional drilling rig may not be built as such completion is subject to maintaining access to bank debt and/or cash flow from operations in an amount necessary to finance the completion of the additional rig and making the other capital additions that are planned.

Additional Data

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