Third Quarter Interim Report — Dated: October 31, 2012

The following discussion of the financial condition, changes in financial condition and results of operations of Western Energy Services Corp. (the "Company" or "Western") should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Company for the years ended December 31, 2011 and 2010, the Company's management discussion and analysis ("MD&A") for the year ended December 31, 2011 as well as the Company's condensed consolidated financial statements and notes as at and for the three and nine months ended September 30, 2012 and 2011. This MD&A is dated October 31, 2012. All amounts are denominated in Canadian dollars (CDN$) unless otherwise identified.

Selected Financial Information

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

	Three months ended September 30			Nine months ended September 30		
Financial Highlights	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Revenue	69,573	80,786	(14%)	225,279	161,219	40%
Gross Margin[1]	29,382	35,005	(16%)	93,703	67,667	38%
Gross Margin as a percentage of revenue	42%	43%	(2%)	42%	42%	0%
EBITDA[1]	23,944	30,392	(21%)	77,550	57,851	34%
EBITDA as a percentage of revenue	34%	38%	(11%)	34%	36%	(6%)
Cash flow from operating activities	9,248	3,391	173%	93,895	34,031	176%
Capital expenditures	30,898	24,927	24%	106,903	54,533	96%
Net income	8,251	24,893	(67%)	32,086	40,432	(21%)
-basic net income per share	0.14	0.43	(67%)	0.55	0.82 [2]	(33%)
-diluted net income per share	0.14	0.41	(66%)	0.53	0.79 [2]	(33%)
Weighted average number of shares:						
-basic	58,581,133	58,533,287	0%	58,549,352	49,256,925 [2]	19%
-diluted	60,700,338	60,618,480	0%	60,816,945	51,294,610 [2]	19%
Outstanding common shares as at period end	59,427,143	58,533,287	2%	59,427,143	58,533,287	2%
Dividends declared	4,457	-	100%	4,457	-	100%
Operating Highlights						
Contract Drilling						
Canadian Operations						
Average contract drilling rig fleet	42	39	8%	41	30	37%
Drilling revenue per operating day (CDN$)	28,952	28,016	3%	32,327	28,215	15%
Drilling rig utilization rate per revenue day[3]	58%	79%	(27%)	59%	72%	(18%)
Drilling rig utilization rate per operating day[4]	53%	72%	(26%)	53%	66%	(20%)
CAODC industry average utilization rate[4]	40%	57%	(30%)	42%	50%	(16%)
United States Operations						
Average contract drilling rig fleet	5	4	25%	5	4 [5]	25%
Drilling revenue per operating day (US$)	33,009	35,801	(8%)	33,405	36,145	(8%)
Drilling rig utilization rate per revenue day[3]	73%	88%	(17%)	87%	85% [5]	2%
Drilling rig utilization rate per operating day[4]	60%	65%	(8%)	69%	61% [5]	13%
Well Servicing						
Average well servicing rig fleet	5	-	100%	4	-	100%
Revenue per service hour (CDN$)	582	-	100%	581	-	100%
Service rig utilization rate[6]	39%	-	100%	31%	-	100%

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

Financial Position at (stated in thousands)	Sept 30, 2012	Sept 30, 2011	Change	Dec 31, 2011	Change
Working capital	62,753	36,363	73%	39,874	57%
Property and equipment	558,248	448,203	25%	473,930	18%
Total assets	727,113	584,823	24%	619,645	17%
Long term debt	176,739	108,057	64%	108,039	64%

Financial Measures Reconciliations

Western uses certain measures in this MD&A which do not have any standardized meaning as prescribed by International Financial Reporting Standards ("IFRS"). These measures may not be comparable to similar measures presented by other reporting issuers. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Company.

Gross Margin

Management believes that in addition to net income, Gross Margin is a useful supplemental measure as it provides an indication of the results generated by Western's principal operating activities prior to considering administrative expenses, 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.

EBITDA

Management believes that in addition to net income, earnings from continuing operations before interest and finance costs, taxes, depreciation and amortization, other non-cash items and one-time gains and losses ("EBITDA") as derived from information reported in the condensed consolidated statements of operations and comprehensive income is a useful supplemental measure as it provides an indication of the results generated by the Company's principal operating segments similar to Gross Margin but also factors in the cash administrative expenses incurred in the period.

Operating Earnings

Management believes that in addition to net income, Operating Earnings is a useful supplemental measure as it provides an indication of the results generated by the Company's principal operating segments similar to EBITDA but also factors in the depreciation expense charged in the period.

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

	Three months ended September 30		Nine months ended September 30	
(stated in thousands)	2012	2011	2012	2011
Gross Margin	29,382	35,005	93,703	67,667
Add (subtract):				
Administrative expenses	(5,965)	(5,093)	(17,837)	(10,727)
Depreciation - administrative	234	144	606	281
Stock based compensation - administrative	293	336	1,078	630
EBITDA	23,944	30,392	77,550	57,851
Depreciation - operating	(8,218)	(7,792)	(22,823)	(15,529)
Depreciation - administrative	(234)	(144)	(606)	(281)
Operating Earnings	15,492	22,456	54,121	42,041
Stock based compensation - operating	(126)	(66)	(384)	(182)
Stock based compensation - administrative	(293)	(336)	(1,078)	(630)
Finance costs	(3,169)	(1,333)	(9,200)	(2,404)
Other items	(477)	(779)	(173)	(2,149)
Income taxes	(3,176)	(6,053)	(11,200)	(7,717)
Income from discontinued operations	-	11,004	-	11,473
Net income	8,251	24,893	32,086	40,432

Overall Performance and Results of Operations

Western is an oilfield service company providing contract drilling services through its wholly owned subsidiaries Horizon Drilling Inc. ("Horizon") in Canada and Stoneham Drilling Corporation ("Stoneham") in the United States, which was acquired on June 10, 2011. In addition, during the first quarter of 2012, Western commenced well servicing operations through its wholly owned subsidiary Matrix Well Servicing Inc. ("Matrix"). On September 13, 2011, Western sold all of the shares owned and debt owing from its wholly owned subsidiary StimSol Canada Inc. ("StimSol"), and, as such, prior period results relating to StimSol have been reclassified as discontinued operations.

Although the drilling industry experienced strong demand for rigs in the first quarter of 2012, activity in the second and third quarter was hampered by wet weather and uncertain economic conditions. While commodity price environments for crude oil and natural gas in Canada have softened in 2012 as compared to 2011, prices for crude oil have remained above the five year average. The demand for oil, along with an emphasis on liquids rich natural gas, has primarily resulted in the drilling of horizontal wells in both conventional and unconventional resource plays. This has resulted in continued demand for drilling rigs in the western Canadian sedimentary basin, with the CAODC industry utilization rate averaging 42% during the first nine month of 2012 which is higher than the five year average of 38%, but lower than the same period in the prior year when industry utilization was at a five year high averaging 50%. On a year to date basis, the number of wells drilled on a rig release basis in Canada decreased by 11% in the period, which resulted in the industry's operating days year to date in Canada decreasing by 11%. However, the industry average drilling days per well improved slightly to 11.7 days, a 3% increase, reflecting the increased depth and complexity of the wells being drilled by the industry. During 2012, Western's entire drilling rig fleet has been focused on drilling horizontal wells. In Canada on a year to date basis, Western averaged 16.8 operating days per well drilled in 2012 as compared to 13.3 operating days per well in the same period of the prior year; while in the United States on a year to date basis, Western averaged 28.0 operating days per well drilled as compared to 27.4 operating days per well in the prior year. The average time it takes to drill a well has a direct relationship to the depth capacity of our drilling rig fleet.

Key operational results for the third quarter 2012 include:

- During the quarter, the Company's contract drilling rig fleet increased due to the commissioning of two new telescopic Efficient Long Reach ("ELR") double drilling rigs. As such, the Company exited the period with 43 drilling rigs in Canada along with 5 drilling rigs in the United States for a total contract drilling rig fleet of 48. Currently, the Company has three telescopic ELR double drilling rigs under construction, including Western's first conventional/pad drilling rig, which will bring the Company's drilling rig fleet to 51. Additionally, during the quarter the Company had a fleet of 5 well servicing rigs operating with 5 more under construction, which will bring the Company's total well servicing rig fleet to 10.
- Third quarter revenues decreased by $11.2 million (or 14%) to $69.6 million in 2012 as compared to $80.8 million in 2011, as revenues in the contract drilling segment were $12.2 million lower mainly due to lower utilization in Canada. The slowdown in oilfield service activity was aided by wet weather and uncertain economic conditions which resulted in some producers reducing or delaying capital programs. Lower revenue in the contract drilling segment was partially offset by $1.0 million in well servicing revenue.
- Third quarter EBITDA decreased by $6.4 million (or 21%) to $23.9 million in 2012 (34% of revenue), as compared to $30.4 million in 2011 (38% of revenue). Similar to revenue, the decrease in EBITDA is mainly due to lower utilization in the Canadian contract drilling segment. However, cash flow from operating activities increased by $5.9 million (or 173%) to $9.2 million in 2012 mainly due to a positive $9.0 million change in non-cash working capital.
- Administrative expenses, excluding depreciation and stock based compensation, in the third quarter of 2012 increased by $0.8 million to $5.4 million (8% of revenue) as compared to $4.6 million in 2011 (6% of revenue). The increase is due to a strengthened management team and higher staffing levels required to support the Company's previous growth in the United States and Canada and to position the Company for future expansion.
- Net income decreased by $16.6 million to $8.3 million in the third quarter of 2012 ($0.14 per basic common share) as compared to $24.9 million in the same period in the prior year ($0.43 per basic common share). The decrease is mainly due to the $10.7 million gain on the sale of StimSol in the third quarter of the prior year. After normalizing for this transaction, net income decreased by $5.9 million. The normalized decrease is mainly due to the $6.4 million decrease in EBITDA, increased finance costs of $1.8 million, as a result of Western's January 2012 senior unsecured notes issuance, offset by lower income taxes of $2.9 million.
- Third quarter capital expenditures totalled $30.9 million, the majority of which related to the contract drilling segment, which incurred $25.2 million in capital expenditures. These expenditures mainly relate to Western's drilling rig build program, which incurred $12.3 million in the third quarter. The remaining capital spending in the contract

drilling segment related to ancillary drilling equipment. Additionally, $3.8 million was incurred in the well servicing segment mainly relating to Western's well servicing rig build program.

- During the third quarter, Western's Board of Directors announced their intention to implement a dividend policy that provides for an annual cash dividend of $0.30 per share. As such, the Board of Directors declared an initial quarterly dividend of $0.075 per share, which was paid on October 12, 2012, to shareholders of record at the close of business on September 28, 2012. The dividends are eligible dividends for Canadian income tax purposes. Based on Western's strong operating and financial results to date, our expectations for continued demand over the next 12 to 24 months and given our balance sheet strength, the Board of Directors felt it was appropriate to implement a quarterly dividend at this time. On a prospective basis, the declaration of dividends will be determined on a quarter-by-quarter basis by the Board of Directors. We believe that this sustainable dividend policy balances rewarding our shareholders with a significant dividend payment and the ability to continue to execute our aggressive growth plans.

Key operational results for the nine months ended September 30, 2012 include:

- Revenues for the nine month period ended September 30, 2012 increased by $64.1 million (or 40%) to $225.3 million as compared to $161.2 million in the same period of the prior year. The increase reflects Western's increased market share in the contract drilling segment following the acquisition of Stoneham Drilling Trust, which resulted in the Company's average fleet increasing to 46 rigs, a 35% increase over the prior year. In Canada, revenue per operating day averaged $32,327 and utilization per operating day averaged 53%, as compared to the industry average of 42%. In the United States, revenues reflect utilization per operating day of 69% and average revenue per operating day of US$33,405.
- For the nine months ended September 30, 2012, EBITDA increased by $19.7 million (or 34%) to $77.6 million (34% of revenue) as compared to $57.9 million (36% of revenue) in the same period of the prior year due to improved drilling day rates in Canada and the increased drilling rig fleet resulting from the Company's growth. The decrease in EBITDA as a percentage of revenue is due to lower drilling utilization and increased administrative expenses. Cash flow from operating activities increased by $59.9 million (or 176%) to $93.9 million in 2012, mainly due to the increase in EBITDA in the period coupled with a $38.5 million positive change in non-cash working capital.
- Year to date administrative expenses, excluding depreciation and stock based compensation, increased by $6.4 million to $16.2 million in 2012 (7% of revenue) as compared to $9.8 million in 2011 (6% of revenue). The increase is due to a strengthened management team and higher staffing levels required to support the Company's previous growth in the United States and Canada and to position the Company for future expansion.
- For the nine months ended September 30, 2012, net income decreased by $8.3 million to $32.1 million ($0.55 per basic common share) as compared to $40.4 million in the same period of the prior year ($0.82 per basic common share). The decrease is due to the $10.7 million gain on the sale of StimSol in the third quarter of the prior year. After normalizing for this transaction, net income increased by $2.4 million. The normalized increase is attributable to the scale achieved as a result of Western's growth strategy which has resulted in increased revenue and EBITDA, offset by increased finance costs subsequent to the January 2012 senior unsecured notes issuance and increased income taxes.
- Year to date capital expenditures totalled $106.9 million, the majority of which related to the contract drilling segment, which incurred $93.8 million in capital expenditures. These expenditures mainly relate to Western's drilling rig build program, which incurred $48.7 million in the period. The remaining capital spending in the contract drilling segment related to ancillary drilling equipment. Additionally, $9.1 million was incurred in the well servicing segment mainly related to Western's service rig build program.
- On January 30, 2012, Western completed a private offering of $175.0 million aggregate principal amount of 7⅞% senior unsecured notes due January 30, 2019 (the "Senior Notes"). The Senior Notes were issued at par. Western used the net proceeds from the offering to repay all of its outstanding indebtedness under its secured credit facilities and for general corporate purposes. As a result of the issuance of the Senior Notes, Western voluntarily reduced its revolving credit facility from $150.0 million to $125.0 million. Western's operating facility of $10.0 million remains unchanged.
- During the second quarter of 2012, the Company extended the maturity on its $125.0 million revolving credit facility by one year to June 7, 2015.

Outlook

Western currently has a drilling rig fleet of 48 rigs, with an additional 3 telescopic ELR double drilling rigs under construction. Western is the sixth largest drilling contractor in Canada with a fleet of 43 rigs. Currently, Western has five drilling rigs deployed in the United States. Additionally, as at the end of October, Western has six well servicing rigs operating in the Lloydminster area, with an additional four under construction.

Western's drilling rig fleet is specifically suited for the current market which is focused on drilling wells of increased complexity. In total, approximately 96% of Western's fleet are ELR rigs with depth ratings greater than 3,000 meters and all of Western's rigs are capable of drilling resource base horizontal wells. Approximately one third of Western's fleet is currently under long term take-or-pay contracts with an average remaining contract life of approximately 14 months, which provide a base level of revenue. These contracts typically generate 250 operating days per year in Canada, as the annual spring breakup restricts activity during the second quarter, while in the United States these contracts typically range from 330 to 365 revenue generating days per year.

Western's 2012 capital budget is expected to total approximately $155 million, which includes approximately $95 million in expansion capital and $60 million in maintenance capital. Western anticipates approximately $10 million of the 2012 capital budget will carry forward into 2013. Expansion capital in the contract drilling segment aggregates to approximately $80 million and mainly relates to Western's drilling rig build program which includes the construction of 8 telescopic ELR double drilling rigs in 2012, 5 of which have already been commissioned. Of the remaining three drilling rigs currently under construction, one is expected to be completed in both the fourth quarter of 2012 and the first quarter of 2013. The final rig under construction will be the Company's first ELR pad double drilling rig and is expected to be commissioned in the third quarter of 2013 under a long term contract with an existing customer. Expansion capital in the well servicing segment relates to the construction of five new internally guyed single service rigs, one of which has already been commissioned in the fourth quarter. The remaining four well servicing rigs are anticipated to be completed in the fourth quarter of 2012 and early in the first quarter of 2013.

Maintenance capital in 2012 is higher than management's expectation of sustaining maintenance capital as it includes various onetime items relating to previous acquisitions and rotational equipment required to maximize operating days. Included in maintenance capital are various items such as critical spares, drill pipe, replacement parts and infrastructure upgrades.

In 2012, the price for natural gas has remained soft, with the AECO 30-day spot rate on average decreasing by approximately 42%. While the year over year average WTI crude oil price has remained relatively constant, increased pricing differentials in Canada have resulted in a 7% year over year decrease in the average Edmonton Par price. The lower commodity price environment for crude oil and natural gas, coupled with the uncertain economic environment, due in part to the European debt crisis, is expected to result in lower drilling activity in the fourth quarter of 2012 as compared to the same period of the prior year. As such, the Company expects lower utilization in 2012 as compared to the prior year, when industry utilization reached a five-year high. The decrease in industry activity is expected to result in only modest pricing pressure on day rates on the deeper rigs in the industry's fleet. Notwithstanding the softening commodity price environment, Western continues to believe that additional rig build opportunities in both the contract drilling and well servicing segments will be available. Currently, the largest challenges facing the drilling industry are reduced producer spending, pricing differentials on Canadian crude oil, low natural gas prices, a strengthening Canadian dollar and the challenge to attract and retain skilled labour. The Company believes Western's modern drilling rig fleet, which has an average life of less than six years, and corporate culture will provide a distinct advantage in retaining and attracting qualified individuals. Western is of the view, that its modern ELR rig fleet, strong customer base and solid reputation will provide a competitive advantage which will enable the Company to maintain its growth strategy and higher than industry utilization through a period of lower commodity prices and drilling activity.

Segmented Information

Western operates in the contract drilling segment in both Canada and the United States as well as the well servicing segment in Canada. Contract drilling includes drilling rigs along with related equipment. Well servicing includes service rigs along with related equipment for work over services and well completions.

Contract Drilling

	Three months ended Sept 30			Nine months ended Sept 30		
(stated in thousands)	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Revenue	68,526	80,786	(15%)	223,494	161,219	39%
Expenses						
Operating						
Cash operating expenses	39,246	45,781	(14%)	129,555	93,552	38%
Depreciation	8,089	7,792	4%	22,591	15,529	45%
Stock based compensation	115	66	74%	366	182	101%
Total operating expenses	47,450	53,639	(12%)	152,512	109,263	40%
Administrative						
Cash administrative expenses	3,826	2,143	79%	11,461	4,650	146%
Depreciation	109	66	65%	288	125	130%
Stock based compensation	75	52	44%	256	129	98%
Total administrative expenses	4,010	2,261	77%	12,005	4,904	145%
Gross Margin(1)	29,280	35,005	(16%)	93,939	67,667	39%
Gross Margin as a percentage of revenue	43%	43%	0%	42%	42%	0%
EBITDA(1)	25,454	32,862	(23%)	82,478	63,017	31%
EBITDA as a percentage of revenue	37%	41%	(10%)	37%	39%	(5%)
Operating Earnings(1)	17,256	25,004	(31%)	59,599	47,363	26%
Capital expenditures	25,199	23,707	6%	93,830	51,493	82%
Canadian Operations						
Contract drilling rig fleet:						
Average	42	39	8%	41	30	37%
End of period	43	37	16%	43	37	16%
Drilling revenue per operating day (CDN$)	28,952	28,016	3%	32,327	28,215	15%
Drilling rig operating days(2)	2,055	2,567	(20%)	5,928	5,368	10%
Number of meters drilled	403,414	534,888	(25%)	1,189,402	1,033,208	15%
Number of wells drilled	113	177	(36%)	352	405	(13%)
Average operating days per well	18.2	14.5	26%	16.8	13.3	26%
Drilling rig utilization rate per revenue day(3)	58%	79%	(27%)	59%	72%	(18%)
Drilling rig utilization rate per operating day(2)	53%	72%	(26%)	53%	66%	(20%)
CAODC industry average utilization rate(2)	40%	57%	(30%)	42%	50%	(16%)
United States Operations						
Contract drilling rig fleet:						
Average	5	4 (4)	25%	5	4 (4)	25%
End of period	5	5	0%	5	5	0%
Drilling revenue per operating day (US$)	33,009	35,801	(8%)	33,405	36,145	(8%)
Drilling rig operating days(2)	275	252	9%	952	274	247%
Number of meters drilled	64,151	57,128	12%	230,134	63,216	264%
Number of wells drilled	11	8	38%	34	10	240%
Average operating days per well	25.0	31.5	(21%)	28.0	27.4	2%
Drilling rig utilization rate per revenue day(3)	73%	88% (4)	(17%)	87%	85% (4)	2%
Drilling rig utilization rate per operating day(2)	60%	65% (4)	(8%)	69%	61% (4)	13%

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

During the third quarter of 2012, revenues in the contract drilling segment totalled $68.5 million; a $12.3 million (or 15%) decrease over the same period in the prior year. The decrease in revenue is due to lower activity in Canada, as operating days decreased by 20%, which was partially offset by higher revenue per operating day in Canada. In the United States, revenue remained relatively flat, as an increase in operating days was offset by a decrease in revenue per operating day. During the nine months ended September 30, 2012, revenues in the contract drilling segment totalled $223.5 million representing an increase of $62.3 million (or 39%) as compared to the same period in the prior year. The increase reflects the growth of the Company's rig fleet, following the acquisition of Stoneham Drilling Trust in June 2011 coupled with the Company's capital rig build program. Also contributing to the increase is improved day rates, partially offset by lower utilization in Canada.

Canadian operations in the third quarter of 2012 were impacted by a slowdown in oilfield service activity aided by wet weather, resulting in difficulty preparing and getting to leases, and uncertain economic conditions which resulted in some customers cancelling or delaying drilling programs. As such, utilization per operating day decreased to 53% as compared to 72% in the same period of the prior year. Despite the decrease in activity, the Company's utilization was 33% higher than the CAODC industry average of 40%. The positive impact on pricing that resulted from the strong demand realized during the last half of 2011 and the first quarter of 2012, continued and resulted in revenue per operating day increasing by 3% to $28,952 as compared to $28,016 in the same period of the prior year. For the nine months ended September 30, 2012, Canadian operations performed strongly during the winter drilling season, but were impacted by a longer spring breakup and lower activity through the summer months. As a result, utilization per operating day decreased to 53% in 2012, as compared to 66% in the same period of the prior year. However, the Company's utilization remained 26% above the CAODC industry average of 42%. Strong demand for the Company's ELR drilling rigs resulted in revenue per operating day increasing by 15% to $32,327 in 2012 as compared to $28,215 in the prior year.

In the United States, utilization per operating day averaged 60% in the third quarter of 2012 as compared to 65% in the same period of the prior year. While operating days increased by 23 days (or 9%) in the period, utilization decreased due to an increased rig fleet as Western moved two drilling rigs into the United States in the third quarter of 2011. As compared to the same period in the prior year, revenue per operating day decreased by 8% in the third quarter of 2012 to US$33,009 as the previously mentioned movement of two drilling rigs in the prior year was reimbursed by the customer. For the nine months ended September 30, 2012, utilization per operating day in the United States averaged 69%, an improvement of 13% over the prior year when operations commenced subsequent to the acquisition of Stoneham Drilling Trust on June 10, 2011. Revenue per operating day in the United States averaged US$33,405, a decrease of US$2,740 (or 8%) as compared to the prior year. As noted above, the decrease is due to the mobilization revenue earned on deploying rigs from Canada in the prior year which was reimbursed by the customer.

During the third quarter of 2012, EBITDA in the contract drilling segment decreased by $7.4 million (or 23%) to $25.5 million (37% of the segment's revenue), as compared to $32.9 million (41% of the segment's revenue) in the same period of the prior year. For the nine months ended September 30, 2012, EBITDA in the contract drilling segment increased by $19.5 million (or 31%) to $82.5 million (37% of the segment's revenue) as compared to $63.0 million in 2011 (39% of the segment's revenue). EBITDA as a percentage of revenue has decreased in 2012 as compared to the prior year, despite improved day rates in Canada, due to lower utilization as well as an increased allocation of corporate administrative expenses required to support the Company's growth.

Capital expenditures in the contract drilling segment totalled $25.2 million and $93.8 million, respectively for the three and nine months ended September 30, 2012. Of the capital expenditures incurred for the three and nine months ended September 30, 2012, $12.3 million and $48.7 million, respectively relate to the Company's rig build program with the remaining capital spending relating to ancillary drilling equipment, including additional top drives, loaders and drill pipe.

Well Servicing

(stated in thousands)	Three months ended Sept 30 2012	2011	Change	Nine months ended Sept 30 2012	2011	Change
Revenue	1,047	-	100%	1,785	-	100%
Expenses						
Operating						
Cash operating expenses	945	-	100%	2,021	-	100%
Depreciation	129	-	100%	232	-	100%
Stock based compensation	11	-	100%	18	-	100%
Total operating expenses	1,085	-	100%	2,271	-	100%
Administrative						
Cash administrative expenses	429	-	100%	1,244	-	100%
Depreciation	17	-	100%	50	-	100%
Stock based compensation	(53)	-	100%	(39)	-	100%
Total administrative expenses	393	-	100%	1,255	-	100%
Gross Margin(1)	102	-	100%	(236)	-	(100%)
EBITDA(1)	(327)	-	100%	(1,480)	-	(100%)
Operating Earnings(1)	(473)	-	100%	(1,762)	-	(100%)
Capital expenditures	3,822	992	285%	9,075	2,639	244%
Well servicing rig fleet:						
Average	5	-	100%	4	-	100%
End of period	5	-	100%	5	-	100%
Revenue per service hour (CDN$)	582	-	100%	581	-	100%
Total service hours	1,799	-	100%	3,072	-	100%
Service rig utilization rate(2)	39%	-	100%	31%	-	100%

(1) See Financial Measures Reconciliations on page 2.

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

During 2012, the Company began operations in its well servicing subsidiary, Matrix, in the Lloydminster area. These operations are in the start-up phase of development and Matrix has been focused on the construction and commissioning of its first 10 well servicing rigs, of which 5 were operating in the third quarter; establishing a presence in the Lloydminster area; and hiring management, field, and office support staff. As such, revenue of $1.0 million and $1.8 million for the three and nine months ended September 30, 2012, respectively and EBITDA of negative $0.3 million and negative $1.5 million for the three and nine months ended September 30, 2012, respectively do not reflect a normalized period of activity. Operating results improved in the third quarter of 2012, with service hours increasing by 113% to 1,799, reflecting a utilization rate of 39%, as compared to the second quarter of 2012 when utilization averaged 22%. Additionally, utilization improved every month during the quarter, with September averaging 48%. As Matrix continues to establish their operations and obtains the necessary scale, the Company believes utilization rates and margins will continue to improve.

Capital expenditures of $3.8 million and $9.1 million for the three and nine months ended September 30, 2012, respectively mainly relate to the Company's well servicing rig build program.

Corporate

(stated in thousands)	Three months ended Sept 30 2012	2011	Change	Nine months ended Sept 30 2012	2011	Change
Administrative						
Cash administrative expenses	1,183	2,470	(52%)	3,448	5,166	(33%)
Depreciation	108	78	38%	268	156	72%
Stock based compensation	271	284	(5%)	861	501	72%
Total administrative expenses	1,562	2,832	(45%)	4,577	5,823	(21%)
Finance costs	3,169	1,333	138%	9,200	2,404	283%
Other items	477	779	(39%)	173	2,149	(92%)
Income taxes						
Current tax (recovery) expense	582	-	100%	4,814	(1,050)	(558%)
Deferred tax expense	2,594	6,053	(57%)	6,386	8,767	(27%)
Total income taxes	3,176	6,053	(48%)	11,200	7,717	45%
Capital expenditures	1,877	228	723%	3,998	401	897%

For the three and nine months ended September 30, 2012, corporate administrative expenses, excluding depreciation and stock based compensation, decreased by $1.3 million and $1.7 million, respectively as compared to the same periods in the prior year. While the Company has strengthened its management team and increased staffing levels required to position the Company for future growth, the decrease in corporate administrative expenses is due to an increased allocation of administrative expenses to Western's operating subsidiaries.

For the three and nine months ended September 30, 2012, finance costs increased by $1.8 million and $6.8 million, respectively as compared to the same periods in the prior year. These increases are due to the issuance of $175.0 million aggregate principal amount of 7⅞% senior unsecured notes on January 30, 2012, which resulted in an increased average debt balance outstanding for the three and nine months ended September 30, 2012 to $176.1 million and $169.6 million, respectively as compared to an average debt balance outstanding for the three and nine months ended September 30, 2011 of $118.4 million and $66.5 million, respectively. Additionally, the issuance of the Senior Notes increased the Company's effective interest rate to approximately 8% from approximately 5% previously.

Other items for the three and nine months ended September 30, 2012 mainly relate to foreign exchange losses on US denominated cash balances, as the United States dollar has weakened relative to the Canadian dollar during the period. In the prior year, other items for the three and nine months ended September 30, 2011 mainly relate to costs associated with the acquisition of Stoneham Drilling Trust of $0.6 million and $3.3 million, respectively. Additionally, during the third quarter of the prior year the Company had a net loss on the sale of assets of $0.2 million, while for the nine months ended September 30, 2011, the Company had a net gain on the sale of assets of $1.2 million.

For the three and nine months ended September 30, 2012, income taxes totalled $3.2 million and $11.2 million, respectively, reflecting effective tax rates of approximately 28% and 26%, respectively. Currently, Horizon is the Company's only subsidiary that is in a cash taxable position.

Capital expenditures of $1.9 million and $4.0 million, respectively for three and nine months ended September 30, 2012 relate to leasehold and system improvements.

Liquidity and Capital Resources

On January 30, 2012, Western completed a private offering of $175.0 million aggregate principal amount of 7⅞% senior unsecured notes due January 30, 2019. In conjunction with the closing of the Senior Notes, Western voluntarily reduced its revolving credit facility from $150.0 million to $125.0 million. Western's operating facility of $10.0 million remains unchanged. During the second quarter of 2012, Western extended the maturity date of its revolving credit facility by one year to June 7, 2015. As at September 30, 2012, Western had cash and cash equivalents of $9.0 million, resulting in a consolidated net debt balance of $168.0 million, an increase of $51.7 million as compared to December 31, 2011 due to capital expenditures of $106.9 million and the purchase of investments of $33.2 million, exceeding cash flow from operating activities of $94.0 million. At September 30, 2012, Western had a working capital balance of $62.8 million, a $22.9 million increase as compared to December 31, 2011, mainly due to Western's $9.0 million in cash and cash equivalents at the end of the third quarter; the fair value of Western's investments of $35.8 million; and partially offset by a $21.3 million decrease in trade and other receivables due to lower activity in the third quarter of 2012. At September 30, 2012, Western had approximately $130 million in available credit facilities and is in compliance with all debt covenants. As such, cash from operations coupled with Western's cash balances and available credit facilities are expected to be sufficient to cover Western's financial obligations including the 2012 capital budget.

Summary of Quarterly Results

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

Three months ended	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011	Sep 30, 2011	Jun 30, 2011	Mar 31, 2011	Dec 31, 2010
(stated in thousands, except per share amounts)								
Revenue	69,573	44,819	110,887	101,300	80,786	30,340	50,093	26,582
Gross Margin(1)	29,382	14,108	50,213	47,170	35,005	11,274	21,388	11,766
EBITDA(1)	23,944	9,364	44,242	41,473	30,392	8,533	18,926	9,361
Cash flow from operating activities	9,248	58,930	25,717	25,337	3,391	21,026	9,614	3,518
Income from continuing operations	8,251	827	23,008	24,923	13,891	4,750	10,318	2,767
per share - basic(2)	0.14	0.01	0.39	0.43	0.24	0.09	0.27	0.10
per share - diluted(2)	0.14	0.01	0.38	0.41	0.23	0.09	0.26	0.09
Net income	8,251	827	23,008	24,314	24,893	4,193	11,344	5,739
per share - basic(2)	0.14	0.01	0.39	0.42	0.43	0.08	0.30	0.20
per share - diluted(2)	0.14	0.01	0.38	0.40	0.41	0.08	0.28	0.19
Total assets	727,113	699,356	706,061	619,645	584,823	543,117	329,114	264,108
Long term financial liabilities(3)	176,739	171,764	171,570	108,039	108,057	116,186	28,030	46,054
Dividends declared	4,457	-	-	-	-	-	-	-

(1) See Financial Measures Reconciliations on page 2.

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

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

Revenue has steadily increased over the last eight quarters due to the Company's continued growth in size through the acquisitions of Pantera Drilling Income Trust late in the fourth quarter of 2010, Stoneham Drilling Trust in the second quarter of 2011 and the Company's capital program which has added nine drilling rigs to Western's fleet over the last eight quarters. The exception to the growth in revenue occurred in the second quarters of 2012 and 2011, which were impacted by spring breakup, and the third quarter of 2012, which was impacted by lower activity.

EBITDA has followed a similar trend to revenue, steadily increasing due to the acquisitions completed by the Company and impacted by the reduced activity associated with spring break up in the second quarters of 2012 and 2011 as well as lower activity in the third quarter of 2012. This trend reflects strong margins, above industry average utilization rates and economies of scale that have been achieved as a result of Western's consolidation strategy.

Net income has fluctuated throughout the last eight quarters due to the gain on the sale of StimSol in the third quarter of 2011, as well as the cyclical nature of the oilfield service industry.

Total assets of the Company have increased throughout the last eight quarters due to the growth of the Company through the acquisition of Stoneham Drilling Trust in the second quarter of 2011 and the Company's capital spending program.

Contractual Obligations

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

	Payments due by period						
(stated in thousands)	2012	2013	2014	2015	2016	Thereafter	Total
Operating leases	$ 941	$ 3,609	$ 3,207	$ 2,421	$ 2,411	$ 18,546	$ 31,135
Capital commitments	26,525	354	154	25	-	-	27,058
Purchase commitments	13,161	-	-	-	-	-	13,161
Senior Notes	-	-	-	-	-	175,000	175,000
Senior Notes interest	-	13,781	13,781	13,781	13,781	28,711	83,835
Total	$ 40,627	$ 17,744	$ 17,142	$ 16,227	$ 16,192	$ 222,257	$ 330,189

Outstanding Share Data

	October 31, 2012	**September 30, 2012**	**December 31, 2011**
Common shares outstanding	59,432,143	59,427,143	58,533,287
Warrants outstanding	1,652,811	1,652,811	2,525,000
Stock options outstanding	2,497,233	2,342,233	2,101,000

Off Balance Sheet Arrangements

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

Financial Instruments

Fair Values

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

Credit Risk

The Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risk. The Company's practice is to manage credit risk by performing a detailed analysis of the credit worthiness of new customers before the Company's standard payment terms are offered. Additionally, the Company constantly reviews individual customer trade receivables, taking into consideration payment history and the aging of the receivable to monitor collectability.

Interest Rate Risk

The Company is exposed to interest rate risk on debt subject to floating interest rates, such as the Company's credit facilities.

Foreign Exchange Risk

The Company is exposed to foreign exchange fluctuations in relation to its US dollar capital expenditures and US operations. The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short term imbalances. From time-to-time the Company may use forward foreign currency contracts to hedge against these fluctuations.

Liquidity Risk

Liquidity risk is the exposure of the Company to the risk of not being able to meet its financial obligations as they become due. To manage liquidity risk, the Company forecasts operational results and capital spending on a regular basis. Variances between actual results and forecast are continually monitored to assess the Company's ability to meet its financial obligations.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

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

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

Critical Accounting Estimates

This Management's Discussion and Analysis of the Company's financial condition and results of operations is based on its condensed consolidated financial statements which were prepared in accordance with IFRS. The presentation of these financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of provisions at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates and judgements are based on historical experience and on various assumptions that are believed to be reasonable under the circumstances. Anticipating future events cannot be done with certainty, therefore these estimates may change as new events occur, more experience is acquired and as the Company's operating environment changes. The Company's key accounting estimates relate to business combinations, impairment, depreciation, current and deferred taxes and the determination of the fair value of stock options.

The accounting estimates believed to be the most difficult, subjective or have complex judgements and which are the most critical to the reporting of results of operations and financial positions are as follows:

Business Combinations

The Company assesses the fair values of the net assets acquired based on management's best estimate of market value, which takes into consideration the condition of the assets acquired, current industry conditions and the discounted future cash flows expected to be received from the assets as well as the amount it is expected to cost to settle the outstanding liabilities.

Impairment

The Company assesses impairment at each reporting date by evaluating conditions specific to the organization that may lead to impairment of assets. Where an impairment indicator exists, or annually in the case of goodwill, the recoverable amount of the asset or cash generating unit is determined. Value-in-use and fair value less cost to sell calculations performed in assessing the recoverable amounts incorporate a number of key estimates. As at September 30, 2012, the Company completed its assessments and did not identify indicators of impairment for the long-lived assets of the Company.

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 condensed consolidated financial statements involves determining an estimate of, or provision for, income taxes in each of the jurisdictions in which the Company operates. The process also involves making an estimate of taxes currently payable and taxes expected to be payable or recoverable in future periods, referred to as deferred taxes. Deferred taxes result from the effects of temporary differences due to items that are treated differently for tax and accounting purposes. The tax effects of these differences are reflected in the condensed consolidated balance sheet as deferred tax assets and liabilities. An assessment must also be made to determine the likelihood that the Company's future taxable income will be sufficient to permit the recovery of deferred tax assets. To the extent that such recovery is not probable, recognized deferred tax assets must be reduced 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.

Business Risks

For a comprehensive listing of the Company's business risks please see the Annual Information Form for the period ended December 31, 2011 as filed on SEDAR at www.sedar.com. The Company's primary business risks are as follows:

- The Company's business relies on the oil and gas exploration and production industry which is subject to a number of risks including general economic conditions, fluctuations in demand and supply of production components, fluctuations in commodity prices, competition and increases in operating costs. In addition, changes may occur in government regulations, including regulations relating to 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 affecting the oil and gas exploration and production business may also affect the Company's business. The exact effect of these risks cannot be accurately predicted.
- In addition to global economic events and uncertainty, the capacity within North America to ship commodities to market introduces uncertainties in levels of activity and pricing for oil and natural gas production.
- The Company is vulnerable to market prices. Fixed costs, including costs associated with operations, leases, labour costs and depreciation account for a significant portion of the Company's expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, or other factors could significantly affect its revenues and financial results.
- Competition among related service companies is significant. Some competitors are larger and have greater revenues than the Company and overall greater financial resources. The Company's ability to generate revenues depends on its ability to attract and win contracts and to perform services.
- Currently the Company is focused on providing services in the western Canadian sedimentary basin as well as certain geographic areas in the United States, which may expose the Company to more extreme market fluctuations relating to items such as weather and general economic conditions which may be more extreme than the broader industry conditions.
- The success of the Company is dependent upon the efforts and abilities of its management team. The loss of any member of the management team could have a material adverse effect upon the business and prospects of the Company.
- The Company's business is subject to the operating risks inherent to the oilfield service industry. On occasion, substantial liabilities to third parties may be incurred. The Company will have the benefit of insurance maintained by it and industry standard contracts, however, it may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.
- The oilfield service industry has experienced a high degree of invention and innovation. It is possible that new technology will be developed which will compete with the Company's products and services.
- A portion of the operations of the Company are in the United States which subject the Company to currency fluctuations and different tax and regulatory laws.

Forward-Looking Statements and Information

This MD&A contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. All statements other than statements of historical fact contained in this MD&A may be forward-looking statements and forward-looking information. In particular, forward-looking information in this MD&A include, but are not limited to under the heading "Outlook" the statements "Western's 2012 capital budget is expected to total approximately $155 million, which includes approximately $95 million in expansion capital and $60 million in maintenance capital. Western anticipates approximately $10 million of the 2012 capital budget will carry forward into 2013. Expansion capital in the contract drilling segment aggregates to approximately $80 million and mainly relates to Western's drilling rig build program which includes the construction of eight telescopic ELR double drilling rigs in 2012, five of which have already been commissioned. Of the remaining three drilling rigs currently under construction, one is expected to be completed in both the fourth quarter of 2012 and the first quarter of 2013. The final rig under construction will be the Company's first pad rig and is expected to be commissioned in the third quarter of 2013. Expansion capital in the well servicing segment relates to the construction of five new internally guyed single service rigs, one of which has already been commissioned in the fourth quarter of 2012. The remaining four well servicing rigs are anticipated to be completed in the fourth quarter of 2012 and early in the first quarter of 2013." and the statements "The lower commodity price environment for crude oil and natural gas, coupled with the uncertain economic environment, due in part to the European debt crisis, is expected to result in lower drilling activity in the fourth quarter of 2012 as compared to the same period of the prior year. As such, the Company expects lower utilization in 2012 as compared to the prior year, when industry utilization reached a five-year high. The decrease in industry activity is expected to result in only modest pricing pressure on day rates on the deeper rigs in the industry's fleet. Notwithstanding the softening commodity price environment, Western continues to believe that additional rig build opportunities in both the contract drilling and well servicing segments will be available.", and "Western is of the view, that its modern ELR rig fleet, strong customer base and solid reputation will provide a competitive advantage which will enable the Company to maintain its growth strategy and higher than industry utilization through a period of lower commodity prices and drilling activity." These forward-looking statements and information are based on certain key expectations and assumptions made by Western, including the assumption that notwithstanding an expectation of lower utilization for its services such lowered expectations will not be severe enough to affect Western's ability to complete its currently planned expansion capital program nor will it change Western's ongoing growth strategy. Although Western believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information as Western cannot give any assurance that they will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, general economic, market and business conditions. Readers are cautioned that the foregoing list of risks and uncertainties is not exhaustive. Additional information on these and other risk factors that could affect Western's operations and financial results are included in Western's annual information form and the other disclosure documents filed by Western with securities regulatory authorities which may be accessed through the SEDAR website at www.sedar.com. The forward-looking statements and information contained in this MD&A are made as of the date hereof and Western does not undertake any obligation to update publicly or revise and forward-looking statements and information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Additional data

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