Western Energy Services Corp.

Consolidated Financial Statements

September 30, 2009

Notice to Reader: These financial statements and accompanying notes to the financial statements have not been reviewed by the Company's auditors.

Western Energy Services Corp.
Consolidated balance sheets as at

	September 30, 2009 ($) (Interim, unaudited)	December 31, 2008 ($) (Audited)
Assets		
Current assets		
Cash	**194,183**	71,259
Accounts receivable	**771,112**	1,841,065
Product inventory	**274,153**	332,950
Prepaid expenses	**201,321**	572,254
Assets held for sale	**-**	401,725
	1,440,769	3,219,253
Capital assets	**16,290,486**	18,467,669
Goodwill	**-**	711,513
	17,731,255	22,398,435
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**3,040,168**	3,849,176
Revolving credit facilities	**386,794**	755,914
Short term borrowings (Note 6)	**5,227,800**	2,490,403
Demand term loans	**4,720,393**	6,523,361
Current portion of capital lease obligations	**53,780**	93,528
Current portion of long term debt	**197,285**	448,886
	13,626,220	14,161,268
Long-term debt	**279,432**	764,408
	13,905,652	14,925,676
Shareholders' Equity		
Common shares (Note 7)	**14,554,336**	14,554,204
Subscriptions received	**205,000**	205,000
Contributed surplus	**1,799,378**	1,799,378
Deficit	**(12,733,112)**	(9,085,823)
	3,825,602	7,472,759
	17,731,254	22,398,435

These financial statements and accompanying notes to the financial statements have not been reviewed by the Company's auditors.
The accompanying notes are an integral part of these consolidated financial statements.

Western Energy Services Corp.

Interim, unaudited, consolidated statements of operations and deficit

	Three Months Ended September 30		Nine Months Ended September 30	
	2009 ($)	2008 ($)	**2009 ($)**	2008 ($)
Revenue	**1,215,502**	3,183,814	**4,319,681**	9,591,267
Expenses				
Operating	**1,043,227**	2,649,427	**4,124,654**	8,145,569
General and administrative	**531,006**	253,373	**1,081,802**	885,189
Stock based compensation	**-**	-	**-**	137,503
Foreign exchange	**(277,769)**	43,176	**(574,815)**	102,249
	1,296,464	2,945,976	**4,631,641**	9,270,510
Income (loss) from continuing operations, before amortization, interest and income taxes	**(80,962)**	237,838	**(311,960)**	320,757
Amortization & accretion	**627,909**	619,186	**1,947,625**	2,010,786
Write off of Goodwill	**711,513**	-	**711,513**	-
Loss on sale of assets	**(2,977)**	1,466,712	**(19,538)**	1,508,037
Gain on settlement of debt	**(1,639)**	-	**(1,639)**	-
Interest	**233,441**	329,610	**697,368**	1,010,233
Accretion	**-**	-	**-**	23,754
Loss before taxes	**(1,649,209)**	(2,177,670)	**(3,647,289)**	(4,232,053)
Foreign withholding tax	**-**	128,735	**-**	223,530
Future income taxes		-	**-**	-
	-	128,735	**-**	223,530
Net loss	**(1,649,209)**	(2,306,405)	**(3,647,289)**	(4,456,583)
Deficit, beginning of period	**(11,083,903)**	(5,245,126)	**(9,085,823)**	(3,095,948)
Deficit, end of period	**(12,733,112)**	(7,551,531)	**(12,733,112)**	(7,551,531)
Net loss per share				
Basic and diluted	**(0.05)**	(0.16)	**(0.11)**	(0.32)

These financial statements and accompanying notes to the financial statements have not been reviewed by the Company's auditors.

The accompanying notes are an integral part of these consolidated financial statements.

Western Energy Services Corp.

Interim, unaudited consolidated statements of cash flows

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	**2009**	2008
	($)	($)	**($)**	($)
Operating activities				
Net loss	**(1,649,209)**	(2,306,405)	**(3,647,289)**	(4,455,583)
Items not affecting cash				
Amortization and accretion	**627,909**	619,186	**1,947,625**	2,010,786
Stock-based compensation	**-**	-	**-**	137,503
Write off of goodwill	**711,513**	-	**711,513**	-
Loss (gain) on sale of assets	**(2,977)**	1,466,715	**(19,538)**	1,508,037
Gain on settlement of debt	**(1,639)**	-	**(1,639)**	-
Accretion	**-**	-	**-**	23,754
Cash flow from operations	**(314,403)**	(220,507)	**(1,009,328)**	(775,503)
Net change in non-cash working capital (Note 9)	**230,108**	230,021	**692,315**	1,260,573
	(84,295)	9,514	**(317,013)**	485,070
Investing activities				
Proceeds on sale of equipment	**138,188**	1,581,372	**650,820**	1,815,636
Capital asset purchases	**-**	(1,039,449)	**-**	(2,590,271)
	138,188	541,923	**650,820**	(774,635)
Financing activities				
Net proceeds from (payment of) revolving credit facilities	**7,641**	113,875	**(369,120)**	282,352
Proceeds of short term borrowings	**776,018**	-	**2,229,990**	-
Proceeds from demand term loans	**-**	-	**-**	1,506,975
Payments on demand term loan	**(191,956)**	(403,428)	**(1,295,561)**	(1,220,842)
Net payments of related party notes	**-**	-	**-**	-
Proceeds from long term debt	**-**	-	**-**	37,089
Payment of long term debt	**(489,333)**	(46,094)	**(736,576)**	(186,186)
Payment of capital leases	**(2,859)**	(23,683)	**(39,748)**	(81,466)
Issue of units	**-**	(10,952)	**132**	(11,452)
	99,511	(370,282)	**(210,883)**	326,470
Increase (decrease) in cash	**153,404**	181,155	**122,924**	36,905
Cash, beginning of period	**40,779**	66,474	**71,259**	210,724
Cash, end of period	**194,183**	247,629	**194,183**	247,629

These financial statements and accompanying notes to the financial statements have not been reviewed by the Company's auditors.

The accompanying notes are an integral part of these consolidated financial statements.

1. Significant accounting policies

These interim financial statements do not conform in all aspects to the requirements of generally accepted accounting principles for annual financial statements. The disclosures provided below are incremental to those included with the most recent annual financial statements and certain disclosures, which are normally required to be included in the notes to the annual financial statements, have been condensed or omitted. These interim financial statements and notes thereto should be read in conjunction with the consolidated financial statements for the year ended December 31, 2008.

a. Basis of presentation – going concern

These consolidated financial statements have been prepared on the basis that the Company is a going concern, which presumes that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements do not include any adjustments or reclassifications that would be required if the going concern assumption is not appropriate. The ability of the Company to continue as a going concern is dependent on attaining and maintaining profitable operations, and obtaining additional financing through the issue of treasury shares, new loans or the sale of non-core assets.

The Company continues to experience operating losses and must obtain additional capital or a combination of additional capital and accommodation from its creditors to continue in operation. On November 8, 2009 the Company completed the conditional financing agreement with its senior lender which provided an additional credit facility of $1,325,000. At the same time the Company closed the $3 million private placement offering of units, consisting of, in the aggregate, $3 million principal amount of convertible secured subordinated debentures and 30 million share purchase warrants (see Note 13).

As part of the conditional agreement to refinance the Company which was completed on November 8, 2009, the senior lender and the holder of the short term borrowings as well as the Company's US based lender all agreed to suspend until December 31, 2009 the application of the working capital covenant that requires the Company to maintain a minimum current ratio of 1.25 to 1.00. If the Company is unable to attain this minimum threshold by December 31, 2009 the Company's lenders would then consider the Company to be in breach of its working capital covenant.

2. Recent accounting pronouncements:

These interim financial statements follow the same accounting policies and methods as the most recent annual financial statements, except for the adoption of the following Canadian Institute of Chartered Accountants' pronounced change to accounting standards effective for 2009:

Goodwill and Intangible Assets; The CICA has issued a new standard for recognition, measurement, presentation and disclosure of goodwill and intangible assets which may affect the financial disclosures and results of operations of the Company for interim and

annual periods beginning January 1, 2009. The Company's accounting policies with respect to goodwill and intangibles were unchanged on adoption of this standard.

With the completion of the third quarter of 2009, it now appears that the cash flow projections upon which the valuation of goodwill is based will not be attained. Consequently all of the goodwill, totalling $711,513, has been written off in the Company's financial statements for the three and nine month periods ending September 30, 2009.

3. Seasonality

The Company's operations are often weather dependent, which has a seasonal impact, particularly in Canada. During, the first quarter, the frozen conditions allow oil and gas companies to move heavy equipment to otherwise inaccessible areas and the resulting demand for services such as those provided by the Company is high. The second quarter is normally a slower period due to wet conditions creating weight restrictions on roads and reducing the mobility of heavy equipment which slows activity levels in the industry. The third and fourth quarters are usually representative of average activity levels.

4. Revolving Credit Facilities

As at September 30, 2009 the Company had a revolving line of credit, established with a US based lender with interest at the greater of US Prime plus 2% or 10% subject to a monthly minimum of US$4,000. The line of credit is capped at the lesser of US$1,000,000 or 80% of eligible accounts receivable in its US subsidiary. At September 30, 2009 US$4,521 (CAD$4,910) was drawn under this line of credit (at December 31, 2008 US$284,462 (CAD$347,840). This facility is cross collateralized with USD demand term loans (Note 5) and secured by the land, building, specific equipment and accounts receivable of the Company's US subsidiary pursuant to a security agreement covering all assets of the US subsidiary, and excluding all non specified equipment and is also secured by a guarantee by the Company. At September 30, 2009 the undrawn availability under this line of credit was US$1,310 (CAD$1,422). With the completion of the conditional financing agreement on November 8, 2009 this revolving credit facility has been repaid in full and cancelled.

The Company has a line of credit with a Canadian lender capped at the lesser of $500,000 or 75% of the eligible accounts receivable in its Canadian subsidiary. This loan bears interest at prime plus 1.75%, operates as an overdraft facility where cash received reduces the principal outstanding and the Company can draw unused funds up to the cap and is cross collateralized with Canadian demand term loans (see Note 5). At September 30, 2009 $381,884 (December 31, 2008 - $408,074) was drawn under this line of credit. At September 30, 2009 the undrawn availability under this line of credit was $46,472.

5. Demand Term Loans

The Company has a Canadian demand term loan with interest of Prime plus 1.75% and a balance as of September 30, 2009 of $3,879,733 (December 31, 2008 - $4,547,287).

This banking facility is secured by all present and after acquired property of the Company and its Canadian subsidiary. During the quarter the bank suspended the requirement for principal payments until September 30, 2009. This period of “interest only” payments was then subsequently extended to December 31, 2009. After the expiration of the interest only period the loan will be amortized over a period of 48 months.

As at September 30, 2009 the Company had demand term loans with a US based lender in the amount of $1,348,067 (December 31, 2008 – $1,976,074), which loans are denominated in US dollars (US$1,241,200) (December 31, 2008 - US$1,616,024), bear interest at the greater of US Prime plus 2% or 10%, are repayable with weekly principal payments of US$8,200. The loans are cross collateralized with a line of credit as well as a charge over property and equipment of the Company’s US based subsidiary having a net book value of $US 2,013,465. With the completion of the conditional financing agreement on November 8, 2009 this revolving credit facility has been repaid and cancelled.

As part of the conditional agreement to refinance the Company which was completed on November 8, 2009, the senior lender and the holder of the short term borrowings as well as the Company’s US based lender all agreed to suspend until December 31, 2009 the application of working capital covenants that require the Company to maintain a minimum current ratio of 1.25 to 1.00. If the Company is unable to attain this minimum threshold by December 31, 2009 the Company’s lenders would then consider the Company to be in breach of its working capital covenant.

6. Short term borrowings

During the third quarter of 2009, the Company borrowed a further $1,283,425 from 1063645 Alberta Ltd., a company controlled by a director of the Company, which loan was measured at the exchange amount. The total balance owing to 1063535 Alberta Ltd. was $5,227,800 at September 30, 2009. This facility which bears interest at 12% is secured by a first charge on the Company’s downhole tools and certain well service equipment, as well as a second charge against other well service equipment and a corporate guarantee.

The term of this loan was conditionally extended for a period of 24 months until August 31, 2011 and the interest rate reduced to 7% per annum. Conditions of the extension require the Company to attain by December 31, 2009 and thereafter maintain a minimum current ratio of 1.25 to 1.00. If the Company is unable to attain this minimum threshold by December 31, 2009 the Company’s lenders would then consider the Company to be in breach of its working capital covenants.

7. Shareholder’s equity

a. Share consolidation

On September 5, 2008 the Company effected a share consolidation on the basis of one new common share for each 12 shares then held by shareholders. References

to the number of shares for prior periods have been adjusted to reflect the consolidation.

b. **Per share amounts**
Basic loss per share was calculated using a weighted average of 32,246,405 shares outstanding for the three months ended September 30, 2009 and 14,000,579 shares outstanding for the three months ended September 30, 2008.

When the effect of exercising or converting equity instruments is anti-dilutive, they have not been included in the calculation of diluted loss per share.

c. **Expiries**
During the three months ended March 31, 2009 2,548,805 share purchase warrants expired.

8. Related party transactions

During the nine months ended September 30, 2009 the Company recorded legal fees for services provided by a firm in which a director is a partner in the amount of $nil. At September 30, 2009 $268,213 was outstanding and is recorded within accounts payable.

The Company sold and leased back its land and building located near Red Earth Creek, Alberta and certain pumping equipment to a company controlled by an officer and the directors of the Company. Both the sales and lease amounts were conducted at fair market values. The Company also continued to lease its facilities near Grand Prairie Alberta from the same related company, under the terms of the existing 5 year lease.

All related party transactions in the normal course of operations have been measured at the exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties.

9. Changes in non-cash working capital

	Three Months Ended September 30		Nine Months Ended September 30	
	2009 ($)	2008 ($)	**2009 ($)**	2008 ($)
Accounts receivable	**39,069**	(300,787)	**1,069,953**	183,934
Accounts payable	**66,172**	618,801	**(807,368)**	971,033
Product Inventory	**(6,939)**	131,345	**58,797**	373,778
Prepaid Expense	**131,806**	(219,338)	**370,933**	(268,172)
	230,108	230,021	**692,315**	1,260,573

10. Segmented Information

The Company operates in two industry segments, Well Service and Down Hole Tool Rentals.

Three months ended September 30, 2009

	Well Service ($)	Tool Rental ($)	**Total ($)**
Revenue	1,117,081	98,421	**1,215,502**
Operating costs	978,441	64,786	**1,043,227**
Operating margin	138,640	66,635	**172,275**
Expenses			
General and administrative			**531,006**
Stock based compensation			**-**
Amortization			**627,909**
Interest			**233,441**
Other			**429,128**
Loss from continuing operations, before taxes			**1,649,209**
Goodwill	-	-	**-**
Capital assets	14,450,009	1,840,477	**16,290,486**
Expenditures on capital items	-	-	**-**

Three months ended September 30, 2008

	Well Service ($)	Tool Rental ($)	Total ($)
Revenue	2,789,862	393,952	**3,183,814**
Operating costs	2,470,179	179,248	**2,649,427**
Operating margin	319,683	214,704	**534,387**
Expenses			
General and administrative			**253,373**
Stock based compensation			**-**
Amortization			**619,186**
Interest			**329,610**
Loss on Sale and Other			**1,509,888**
Loss from continuing operations, before taxes			**2,177,670**
Goodwill	711,513	-	**711,513**
Capital assets	17,694,168	2,071,240	**19,765,408**
Expenditures on capital items	1,032,692	6,757	**1,039,449**

Nine months ended September 30, 2009

	Well Service ($)	Tool Rental ($)	Total ($)
Revenue	**4,031,550**	**288,131**	**4,319,681**
Operating costs	**3,934,459**	**190,195**	**4,124,654**
Operating margin	**97,091**	**97,936**	**195,027**
Expenses			
General and administrative			**1,081,802**
Stock based compensation			**-**
Amortization			**1,947,625**
Interest			**697,368**
Other			**115,521**
Loss from continuing operations, before taxes			**3,647,289**
Goodwill	**-**	**-**	**-**
Capital assets	**14,450,009**	**1,840,477**	**16,290,486**
Expenditures on capital items	**-**	**-**	**-**

Nine months ended September 30, 2008

	Well Service ($)	Tool Rental ($)	Total ($)
Revenue	8,902,484	688,783	**9,591,267**
Operating costs	7,714,742	430,827	**8,145,569**
Operating margin	1,187,742	257,956	**1,445,698**
Expenses			
General and administrative			**885,189**
Stock based compensation			**137,503**
Amortization			**2,010,786**
Interest			**1,010,233**
Loss on Sale and Other			**1,634,040**
Loss from continuing operations, before taxes			**4,232,053**
Goodwill	711,513	-	**711,513**
Capital assets	17,694,168	2,071,240	**19,765,408**
Expenditures on capital items	2,583,514	6,757	**19,765,408**

The Company has operations in Canada and the United States, however given the substantial similarities between these operations, the commonality of the client base, and the regular movement of equipment between the two regions to support the client base the Company considers North America to be a single geographic market.

Revenues by Geographic Region:

	Canada $	United States $	International $	Total $
Three months ending:				
September 30, 2009	921,274	168,877	125,350	1,215,502
September 30, 2008	878,341	2,207,052	98,421	3,183,814
Nine months ending:				
September 30, 2009	2,786,529	1,245,022	288,130	4,319,681
September 30, 2008	3,748,888	5,677,910	164,469	9,591,267

Capital Assets Deployed by Geographic Region:

	Canada $	United States $	International $	Total $
At September 30, 2009	9,897,717	4,552,292	1,840,477	16,290,486
At September 30, 2008	11,000,951	5,395,478	2,071,240	18,467,669

11. Financial instruments

a. Interest rate risk

The Company is exposed to interest rate risk on certain debt instruments to the extent of changes in the prime interest rate. Currently the Company's revolving credit facilities and demand term loans are subject to interest rate changes. For each 1% change in the interest rates an additional savings or expense of approximately $57,989 would result.

The short term borrowings and the long term debt are all subject to fixed rates.

b. Foreign exchange risk

The Corporation is exposed to foreign currency fluctuations in relation to its international operations. To date the Company has not hedged against these fluctuations. For the three months ended September 30, 2009, the increase or decrease in net earnings before taxes for each 1 percent change in foreign exchange rates between the Canadian and US Dollars is estimated to be $24,000.

c. Credit risk

Credit risk arises from cash held with banks and financial institutions, as well as credit exposure to customers in the form of outstanding accounts receivable. The Company has accounts receivable, which are due from parties outside of Canada, which may make collections more difficult. The maximum exposure to credit risk is equal to the carrying value of the financial assets which reflects management's assessment of the credit risk.

As at September 30, 2009 the Company had Accounts Receivable of $771,112. Of this total 62.8% were current, 12.1% were outstanding for 31 to 60 days, 13.7% were outstanding for 61 to 90 days and 11.3% were outstanding for over 91 days. The

Company has provided full allowance for any receivable which it considers questionable.

d. **Liquidity risk**
Liquidity risk is the risk the Company will encounter difficulties in meeting its financial liability obligations. The Company manages its liquidity risk through cash and capital management.

The Company's demand term loans are payable over time subject to amortization schedules but are due on demand. During the quarter the maturity date of the Company's short term borrowings was extended to August 31, 2011 and the interest rate reduced to 7% per annum. Conditions of the extension require the Company to attain by December 31, 2009 and thereafter maintain a minimum current ratio of 1.25 to 1.00. If the Company is unable to attain this minimum threshold by December 31, 2009 the Company's lenders would then consider the Company to be in breach of its working capital covenant. Satisfying the conditions associated with these facilities is critical to the Company continuing as a going concern. As at the issuance date of these statements the Company had made progress towards meeting the required minimum current ratio but it was still unclear whether the Company would be able to fully satisfy this covenant by the December 31, 2009 deadline.

12. Capital management

The capital structure of the Company consists of cash, revolving credit facilities, other current debt instruments, long-term debt, and shareholders' equity. The Company's objective of managing capital, given the cyclical and seasonal nature of the oil and gas services business, is to preserve the Company's financial flexibility to maximize returns for shareholders. This objective is achieved by managing the capital generated from internal sources; balancing the need to fund growth initiatives versus the cost of new capital; monetizing underutilized equipment and anticipating future capital requirements using conservative estimates. The Company's demand term loans are subject to the Company maintaining: a minimum current ratio of 1.25 to 1.00, calculated monthly; a ratio of debt to tangible net worth within a limit of 2.50 to 1.00, calculated monthly; a ratio of EBITDA to funded debt repayment within a limit of 1.15 to 1.00, calculated annually; and a ratio of outstanding funded debt to appraised value of assets over which the lender has a first charge of no more than 50 percent. Conditions of the extension of the demand term loans require the Company to attain by December 31, 2009 and thereafter maintain a minimum current ratio described above. If the Company is unable to attain this minimum threshold by December 31, 2009 the Company's lenders would then consider the Company to be in breach of its working capital covenant. The Company is in current compliance with the other 3 covenants noted.

13. Subsequent Events

Subsequent to September 30, 2009 the Company completed the previously announced refinancing provided by the Company's senior lender. This new credit facility has provided a further advance of $1,325,000 which has been used to repay other lenders and consolidate all bank debt with the senior lender. The new facility with the senior

lender provides for an interest only repayment period until December 31, 2009, and a reamortization of the Company's senior debt facility over a period of 48 months commencing on that date.

In conjunction with the bank financing, the Company has also closed a $3 million private placement offering of units ("Unit Offering), consisting of, in the aggregate, $3 million principal amount of convertible secured subordinated debentures (the "Debentures") and 30 million share purchase warrants (the "Warrants"). The Unit Offering was considered a related party transaction under Multilateral Instrument 61-101 and has received the requisite approval of the disinterested shareholders as required by the TSXV. The proceeds of this loan have been used to pay down trade payables, long term debt and long term lease commitments.

The Debentures are convertible into common shares of the Company at the option of the holder any time prior to maturity at the conversion price of $0.10 per share for the first eight months from the date of issue (the "Initial Period"), $0.15 per share for the eight months following the Initial Period (the "Subsequent Period"), and $0.20 per share for the eight months following the Subsequent Period. Each Warrant entitles the holder to acquire one common share upon payment of the exercise price of $0.10 and expire 24 months from the date of issue.

As part of the debt restructuring the term of the short term borrowings of the Company were extended for a period of 24 months to August 31, 2011 and the interest rate on the loan was reduced from 12% to 7% effective July 1, 2009.

After the period, the Company entered into two conditional asset sale agreements, which, if completed, will result in net purchase proceeds to the Company of approximately $1.3 million.

14. Comparative numbers

Certain of the comparative numbers have been reclassified to be consistent with the presentation of the current period.