Western Energy Services Corp.

Interim Consolidated Financial Statements

March 31, 2010 and 2009

(Unaudited)

Western Energy Services Corp.

Interim Consolidated Balance Sheets (Unaudited)
(thousands of Canadian dollars)

	March 31, 2010	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	$ 36,511	$ 2,386
Accounts receivable	17,746	1,928
Inventory	297	353
Prepaid expenses	726	241
Future income taxes	1,252	-
	56,532	4,908
Property and equipment (Note 5)	94,355	7,311
Intangible assets	565	-
	$ 151,452	$ 12,219
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 9,069	$ 3,821
Current portion of long term debt (Note 6)	190	256
	9,259	4,077
Deferred credits	355	-
Long term debt (Note 6)	38,896	65
Future income taxes	6,790	-
	55,300	4,142
Shareholders' Equity		
Common shares (Note 7)	85,204	8,253
Contributed surplus	1,853	1,835
Retained earnings (deficit)	9,095	(2,011)
	96,152	8,077
	$ 151,452	$ 12,219

Commitments (Note 8)
Subsequent events (Note 12)
See accompanying notes to these consolidated financial statements

Western Energy Services Corp.

Interim Consolidated Statements of Operations, Comprehensive Income (Loss) and Retained Earnings (Deficit) (Unaudited)
(thousands of Canadian dollars)

	After comprehensive revaluation	Before comprehensive revaluation
	Three Months Ended March 31, 2010	**Three Months Ended March 31, 2009**
Revenue	$ 4,318	$ 2,130
Expenses		
Operating	3,156	1,993
General and administrative	855	222
Stock based compensation	18	-
Gain on sale of assets	(9)	(13)
Depreciation	408	687
Interest and finance costs	96	237
Foreign exchange loss	131	105
Acquisition costs	176	-
Gain on business acquisitions	(11,624)	-
Income (loss) before taxes	11,111	(1,101)
Future income taxes	5	-
Net income (loss) and comprehensive income (loss)	11,106	(1,101)
Deficit, beginning of period	(2,011)	(9,086)
Retained earnings (deficit), end of period	$ 9,095	$ (10,187)
Net income (loss) per share		
Basic	$ 0.06	$ (0.03)
Diluted	$ 0.05	$ (0.03)
Weighted average number of shares		
Basic	193,556,748	32,246,405
Diluted	233,859,633	32,246,405

See accompanying notes to these consolidated financial statements

Western Energy Services Corp.

Interim Consolidated Statements of Cash Flows (Unaudited)
(thousands of Canadian dollars)

	After comprehensive revaluation Three Months Ended March 31, 2010	Before comprehensive revaluation Three Months Ended March 31, 2009
Operating activities		
Net income (loss)	$ 11,106	$ (1,101)
Items not affecting cash		
Depreciation	408	687
Stock-based compensation	18	-
Gain on sale of assets	(9)	(13)
Future income taxes	5	-
Deferred interest payments on shareholder loans	-	75
Gain on business acquisitions	(11,624)	-
Unrealized foreign exchange loss	125	-
Net change in non-cash working capital	116	171
	145	(181)
Investing activities		
Proceeds on sale of equipment	2,795	451
Business acquisition – Horizon Drilling Inc. (Note 4)	(35,790)	-
Additions to property and equipment	(59)	(8)
	(33,054)	443
Financing activities		
Issue of common shares, net of costs	70,795	-
Payment of long term debt	(3,761)	(278)
	67,034	(278)
Increase (decrease) in cash and cash equivalents	$ 34,125	$ (16)
Cash and cash equivalents, beginning of period	$ 2,386	$ 71
Cash and cash equivalents, end of period	$ 36,511	$ 55
Supplemental cash flow information		
Interest paid	154	77
Taxes paid	-	-
Cash and cash equivalents		
Bank accounts	$ 17,513	$ 55
Term deposits	18,998	-
	$ 36,511	$ 55

See accompanying notes to these consolidated financial statements

1. Basis of presentation

These unaudited interim consolidated financial statements for Western Energy Services Corp. ("Western" or the "Company") were prepared using accounting policies and methods of their application consistent with those used in the preparation of the Company's audited consolidated financial statements for the year ended December 31, 2009 except as noted below. These interim consolidated financial statements conform in all material respects to the requirements of generally accepted accounting principles in Canada for annual financial statements with the exception of certain note disclosures. As a result, these interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2009.

Comprehensive revaluation

On December 22, 2009, the Company completed a recapitalization and reorganization, which had the following key elements:

- An entirely new management team and board of directors were appointed.
- Pursuant to a private placement agreement, net proceeds of $6.7 million were raised of which approximately $3.7 million was applied against debt.
- As a condition of the completion of the private placement, the holders of Western's existing bridge lending facility, subordinated convertible debentures, subscriptions received and other specified obligations, converted existing debt of approximately $6.1 million in exchange for 12,285,425 common shares of Western at a price of $0.50 per share.
- As part of the reorganization, Western also completed approximately $1.7 million in asset sales with the proceeds applied against debt.

The Company's balance sheet as at December 22, 2009 was prepared under the provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1625, Comprehensive Revaluation of Assets and Liabilities. As a result of the comprehensive revaluation, all assets and liabilities were revalued at estimated fair values and Western's deficit was eliminated.

The Company's financial information before the comprehensive revaluation has been presented to provide additional information to the reader. In reviewing the financial information for the three months ended March 31, 2009, readers are reminded that they do not reflect the effects of the financial reorganization or the application of its accounting. Detailed information on the recapitalization and reorganization and the impact of adjustments made in the comprehensive revaluation is available in the Company's audited financial statements for the year ended December 31, 2009 as filed on SEDAR at www.sedar.com.

2. Changes in accounting policies

On January 1, 2010, the Company adopted the following CICA Handbook sections:

- "Business Combinations", Section 1582, which replaced the previous business combinations standard. Under the new section, the term "business" is more broadly defined than in the previous standard, most assets acquired and liabilities assumed are measured at fair value, any interest in an acquiree owned prior to obtaining control is remeasured at fair value at the acquisition date (eliminating the need for guidance on step acquisitions), a bargain purchase results in recognition of a gain, and acquisition costs are expensed. The adoption of this standard will impact accounting treatment of future business combinations entered into after January 1, 2010.
- "Consolidated Financial Statements", Section 1601, which, together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard had no material impact on Western's consolidated financial statements.
- "Non-controlling Interests", Section 1602, which establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard has had no material impact on Western's consolidated financial statements.

The above CICA Handbook sections are converged with International Financial Reporting Standards ("IFRS"). Western will be required to report its results in accordance with IFRS beginning in 2011. The Company is currently assessing the impact of the convergence of Canadian GAAP with IFRS on Western's financial results of operations, financial position and disclosures.

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. Acquisitions

i. Horizon Drilling Inc. ("Horizon")

In March, through a series of transactions, Western acquired control of all of the issued and outstanding common shares of Horizon for cash consideration of approximately $41.4 million. The aggregate consideration for the Horizon acquisition consists of the following:

	Amount
Cash paid	$ 41,430
Assumption of bank debt (net of $5.6 million in cash acquired)	24,289
	$ 65,719

This acquisition has been accounted for using the acquisition method with an effective date of March 18, 2010, whereby the assets acquired and the liabilities assumed are recorded at their fair values with any excess of the aggregate consideration over the fair value of the identifiable net assets allocated to goodwill, and any shortage of the aggregate consideration relative to the fair value of the identifiable net assets recorded as a gain on business acquisition. As of the acquisition date, Horizon's operating results have been included in Western's revenues, expenses and capital spending. The following summarizes the allocation of the aggregate consideration for the Horizon acquisition:

	Amount
Net working capital (excluding cash)	$ 9,173
Property and equipment	71,175
Intangible assets	343
Future income tax asset	1,241
Deferred credit	(355)
Future income tax liability	(6,189)
Gain on business acquisition	(9,669)
	$ 65,719

The allocations described above are preliminary and subject to changes upon final purchase price adjustments. These adjustments may include, but are not limited to, future income tax balance adjustments on the filing of respective returns for each corporate acquisition, working capital adjustments on respective balances acquired, and transaction cost adjustments for actual cost incurred.

ii. Cedar Creek Drilling Ltd. ("Cedar Creek")

On March 18, 2010, Western acquired all of the issued and outstanding common shares of Cedar Creek in exchange for 2.66 Western common shares for each Cedar Creek common share. An aggregate of 20,517,331 common shares of Western were issued at an ascribed price of $0.30 per share, based on the closing trading price on March 17, 2010. The aggregate consideration for the Cedar Creek acquisition consists of the following:

	Amount
Common shares issued	$ 6,155
Assumption of bank debt	12,603
	$ 18,758

This acquisition has been accounted for using the acquisition method, whereby the assets acquired and the liabilities assumed are recorded at their fair values with any excess of the aggregate consideration over the fair value of the identifiable net assets allocated to goodwill, and any shortage of the aggregate consideration relative to the fair value of the identifiable net assets recorded as a gain on business acquisition. As of the acquisition date, Cedar Creek's operating results have been included in Western's revenues, expenses and capital spending. The following summarizes the allocation of the aggregate consideration for the Cedar Creek acquisition:

	Amount
Net working capital	$ 1,937
Property and equipment	19,146
Intangible assets	222
Future income tax liability	(592)
Gain on business acquisition	(1,955)
	$ 18,758

The allocations described above are preliminary and subject to changes upon final purchase price adjustments. These adjustments may include, but are not limited to, future income tax balance adjustments on the filing of respective returns for each corporate acquisition, working capital adjustments on respective balances acquired, and transaction cost adjustments for actual cost incurred.

5. Property and equipment

	March 31, 2010		
	Cost	Accumulated Depreciation	Net book value
Land	$ 471	$ -	$ 471
Buildings	1,612	3	1,609
Drilling rigs and related equipment	88,468	221	88,247
Oilfield service	3,924	216	3,708
Shop and office equipment	206	10	196
Vehicles under capital lease	129	5	124
	$ 94,810	$ 455	$ 94,355

	December 31, 2009		
	Cost	Accumulated Depreciation	Net book value
Land	$ 97	$ -	$ 97
Buildings	334	1	333
Oilfield service	6,754	44	6,710
Shop and office equipment	61	2	59
Vehicles under capital lease	112	-	112
	$ 7,358	$ 47	$ 7,311

6. Long-term debt

	March 31, 2010	December 31, 2009
Term loans	37,756	-
Bank loans – mortgages	1,158	205
Capital lease obligations	172	116
	39,086	321
Less current portion	(190)	(256)
Total	38,896	65

Subsequent to period end, Western increased its credit facilities and initially used the increased credit facilities to consolidate the indebtedness acquired in the acquisitions of Horizon and Cedar Creek (Note 12).

7. Common shares

a. Authorized

Unlimited number of common shares

b. Issued

Common shares	Shares	Amount
Balance, December 31, 2009	**132,031,830**	**$ 8,253**
Issued for cash – March 18, 2010	375,000,000	75,000
Issued on acquisition of Cedar Creek	20,517,331	6,155
Issue costs	-	(4,204)
Balance, March 31, 2010	**527,549,161**	**85,204**

c. Share option plan

The Company's share option plan provides for share options to assist directors, officers, employees and consultants of the Company and its affiliates to participate in the growth and development of the Company. Subject to the specific provisions of the share option plan, eligibility, grant, vesting and terms of options and the number of options are to be determined by the Board of Directors at the time of grant. The share option plan allows the Board of Directors to issue up to 10% of the Company's outstanding shares as stock options.

	Share options outstanding	Weighted average exercise price
Balance, December 31, 2009	**170,003**	**$ 2.370**
Granted – March 22, 2010	18,400,000	0.285
Balance, March 31, 2010	**18,570,003**	**0.304**

(1) Diluted weighted average common shares outstanding for the three months ended March 31, 2010 does not include the share impact of 18,570,003 share options, as the impact would be anti-dilutive.

	March 31, 2010		
Exercise price ($/share)	**Number of options outstanding**	**Weighted average contractual life (years)**	**Number of options exercisable**
0.285	18,400,000	5.0	-
1.320	82,502	2.0	82,502
3.360	87,501	0.9	87,501
	18,570,003	**5.0**	**170,003**

The options granted in 2010 have been valued using a Black-Scholes option pricing model. The following assumptions were used to determine the fair value of the share options on their date of grant:

Risk-free interest rate	2.0%
Average expected life	3.0 years
Maximum life	5.0 years
Average vesting period	3.0 years
Expected dividend	nil
Expected share price volatility	60%

The average fair value of the share options issued in 2010 was $0.12 per share option. For the three month period ended March 31, 2010, Western recorded $18,000 in stock-based compensation expense.

d. Warrants

	Warrants outstanding	Weighted average exercise price
Balance, December 31, 2009 and March 31, 2010	50,500,000	$ 0.105

Pursuant to the private placement completed on December 22, 2009, 50,500,000 warrants were issued to management and the Board of Directors entitling the holder to purchase one common share at a price of $0.105 for a period of five years.

8. Commitments

The Company has commitments for office and shop premises and various operating vehicles and equipment leases which require payments for the next five years ending March 31, 2010 as follows:

	2010	2011	2012	2013	2014 and beyond
Operating leases	517	558	409	328	387
Capital commitments	672	-	-	-	-
Purchase commitments	68	-	-	-	-
Total	1,257	558	409	328	387

9. Financial Instruments

The Company's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, and long term debt. The carrying amount of cash, accounts receivable, and accounts payable and accrued liabilities approximates their fair values due to their short-term nature. Long term debt instruments are at interest rates that approximate market rates and are considered by management to approximate fair values.

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 are subject to interest rate changes. As no balance was outstanding on the revolving credit facilities for the three month period ended March 31, 2010, a change in interest rates would have no impact on interest expense. Long term debt is subject to fixed rates.

b. Foreign exchange risk

The Corporation is exposed to foreign currency fluctuations in relation to its USA and international operations. To date the Company has not hedged against these fluctuations. For the three month period ended March 31, 2010, the increase or decrease in net earnings before taxes for each one percent change in foreign exchange rates between the Canadian and US Dollars is estimated to be approximately $0.1 million.

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 maximum exposure to credit risk is equal to the carrying value of the financial assets which reflects management's assessment of the credit risk. The table below provides an analysis of our accounts receivable aging:

	March 31, 2010
Trade accounts receivable	
Current	6,907
Outstanding for 31 to 60 days	6,129
Outstanding for 61 to 90 days	1,104
Outstanding for over 90 days	334
Less: allowance for doubtful accounts	(144)
Other accounts receivable	3,416
Total	17,746

For the three months ended March 31, 2010, Western had one significant customers representing 19.6% of total sales. No other single customer represents greater than 10% of Western's total revenue.

d. 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. The Company manages liquidity risk through management of its capital structure, monitoring and reviewing actual and forecasted cash flows and the effect on bank covenants, and maintaining unused credit facilities where possible to ensure there is available cash resources to meet the Company's liquidity needs. The Company's existing credit facilities and cash flow from operating activities are expected to be greater than anticipated capital expenditures and the contractual maturities of the Company's financial liabilities. This expectation could be adversely affected by a material negative change in the oil and gas services industry in Canada.

10. 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 overall capitalization of the Company is outlined below:

	March 31, 2010	**December 31, 2009**
Revolving credit facilities	-	-
Long-term debt	39,086	321
Total debt	39,086	321
Shareholders' equity	85,204	8,253
Less: cash	(36,511)	(2,386)
Total capitalization	87,779	6,188

Management is focused on several objectives while managing the capital structure of the Company. Specifically:

- **a.** Ensuring Western has the financing capacity to continue to execute on opportunities to increase overall market share through strategic acquisitions that add value for our shareholders;
- **b.** Maintaining a strong capital base to ensure that investor, creditor and market confidence is secured;
- **c.** Maintaining balance sheet strength, ensuring Western's strategic objectives are met, while retaining an appropriate amount of leverage; and
- **d.** Safeguarding the entity's ability to continue as a going concern, such that it continues to provide returns for shareholders and benefits for other stakeholders.

Western manages its capital structure based on current economic conditions, the risk characteristics of the underlying assets, and planned capital requirements, within guidelines approved by its Board of Directors. Total capitalization is maintained or adjusted by drawing on existing debt facilities, issuing new debt or equity securities when opportunities are identified and through the disposition of underperforming assets to reduce debt when required.

11. Segmented Information

Western operates in two industry segments, Contract Drilling and Production Services.

Three months ended March 31, 2010	Contract Drilling(1)	Production Services	Corporate	**Total**
Revenue	$ 1,789	$ 2,529	$ -	$ 4,318
Segment profit (loss)	132	275	(508)	(101)
Depreciation	227	181	-	408
Total assets	112,348	9,149	29,955(2)	151,452
Expenditures on capital items	$ 36	$ 21	$ 2	$ 59

1) Contract drilling segment acquired on March 18, 2010 (Note 4).
2) Includes cash and cash equivalents of approximately $29.7 million.

Three months ended March 31, 2009	Contract Drilling(1)	Production Services	Corporate	**Total**
Revenue	$ -	$ 2,130	$ -	$ 2,130
Segment profit (loss)	-	(573)	(199)	(772)
Depreciation	-	687	-	687
Total assets	-	20,520	109	20,629
Expenditures on capital items	$ -	$ 8	$ -	$ 8

1) Contract drilling segment acquired on March 18, 2010 (Note 4).

A reconciliation of segment profit to income (loss) before taxes is as follows:

	Three months ended March 31	
	2010	2009
Total segment profit	(101)	(772)
Add (deduct)		
Stock based compensation	(18)	-
Gain on sale of assets	9	13
Interest and finance costs	(96)	(237)
Foreign exchange loss	(131)	(105)
Acquisition costs	(176)	-
Gain on business acquisitions	11,624	-
Income (loss) before taxes	11,111	(1,101)

Revenues by Geographic Region:

	Canada	United States	International	Total
Three months ended March 31, 2010	$ 4,318	$ -	$ -	$ 4,318
Three months ended March 31, 2009	$ 1,258	$ 790	$ 82	$ 2,130

Total Assets Deployed by Geographic Region:

	Canada	United States	International	Total
As at March 31, 2010	$ 150,733	$ 650	$ 69	$ 151,452
As at March 31, 2009	$ 13,677	$ 4,770	$ 2,182	$ 20,629

12. Subsequent Events

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

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