Western Energy Services Corp.
Form 51-102F1
Management's Discussion and Analysis

The following discussion of the financial condition, changes in financial condition and results of operations of the Company should be read in conjunction with the unaudited interim consolidated financial statements for the six months ended June 30, 2009 and the audited annual consolidated financial statements for the year ended December 31, 2008 of Western Energy Services Corp. (the "Company" or “Western”) and the related notes included therein. This management's discussion and analysis ("MD&A") is dated August 28, 2009.

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

Special Note Regarding Forward-Looking Statements

This MD&A contains forward-looking statements relating to future events. Forward-looking information is information that does not relate strictly to historical or current facts, and can be identified by words such as “anticipate”, “continue”, “estimate”, “expect”, “forecast”, “may”, “will”, “project”, “should”, “believe”, or similar expressions. Such statements represent Western’s internal projections, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital expenditures, anticipated future debt, revenues or other expectations, beliefs, plans, objectives, intentions or statements about future events or performance. These statements represent management’s best projections, expectations, and estimates as of the date of this document, but undue reliance should not be placed upon them as they are derived from numerous assumptions. These assumptions are subject to known and unknown risks and uncertainties, including the business risks discussed in the MD&A, which may cause actual performance and financial results to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Such risks and uncertainties would include, without limitation:

- supply and demand for oilfield services relating to the drilling, completion and maintenance of oil and gas wells as well as services related to oilfield equipment rentals and production and ancillary services;
- competition for, among other things, capital and skilled personnel;
- general economic conditions in Canada and the United States;
- the Company's ability to raise capital;
- the Company's ability to retain access to bank and other financing;
- fluctuations in the market for oil and natural gas and related products and services;
- liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- political and economic conditions;
- failure of counter parties to perform on contracts;
- regional competition;
- demand for the Company's services;
- the Company's ability to attract and retain customers and employees;

- volatility in market prices for oil and natural gas and the effect of this volatility on the demand for oil and gas services generally; and

- uncertainties in weather and temperature affecting the duration of the service periods and the activities that can be completed.

This forward-looking information represents our views as of the date of this document and such information should not be relied upon as representing our views as of any date subsequent to the date of this document. We have attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimates expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations. There can be no assurance that forward-looking information will prove to be accurate, as results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. While we anticipate that subsequent events and developments may cause our views to change, we do not have an intention to update this forward-looking information, except as required by applicable securities laws.

Overall Performance and Results of Operation

The key operational results for the quarter ended June 30, 2009 are:

- Quarterly revenues declined 68.3% from the corresponding quarter in 2008 reflecting the bleak state of the oil and gas services sector in North America and in particular the reliance of the Company's US based operations on the development of shale gas reserves. The decline in revenues is of such a magnitude that the Company's ability to continue as a going concern is seriously in question absent a material turnaround in business activity.

- In the quarter, the Company continued with its program to further reduce costs by cutting staff, implementing salary rollbacks, selling assets determined by the Company to be surplus to its current needs and cutting certain administrative costs. However, the sale of surplus assets has been extremely difficult due to the glut of underutilized equipment currently for sale on the market. In this environment the proposed prices for surplus equipment sales are significantly lower than otherwise expected, such that such sales may not proceed, or if closed, may not result in the full repayment of the secured debt associated with the equipment.

- In the quarter the Company had a Net Loss of $896,721, compared to the $1.17 million loss experienced in the corresponding quarter in 2008. When considered in light of the magnitude of the year over year decline in revenues the loss, although unsatisfactory, could have been much larger had the Company not taken the cost cutting measures that it did.

- The poor operating conditions continue to place a major burden on the Company's liquidity position. As per the previous quarter, the Company has continued discussions with its lenders with the goal of restructuring its debt obligations. Completion of this restructuring is critical to the continued viability of the Company. Subsequent to the end of the quarter, the Company announced a conditional bank restructuring, a conditional private placement and a conditional term extension on its short term borrowings. At the date hereof, it is unclear whether the Company will be successful in meeting the conditions of this restructuring (see **Liquidity and Capital Resources** below).

- Late in the quarter, the Company began to see to see a renewed demand for its remediation services as oil and gas producers began to spend on work that had been postponed earlier in the year. This improvement is attributed by management to the material increases in crude oil prices that have occurred since the lows achieved early in the year. However, demand for the Company's services related to natural gas production has remained weak, reflecting continued low natural gas prices.

Business of the Company

The Company is a growth-oriented energy services company that provides a broad range of remedial stimulation services to upstream oil and natural gas exploration and production companies operating in Alberta, Texas, Oklahoma, New Mexico, Wyoming and Arkansas, as well as downhole tool rental services in Texas, Mexico and Central America.

The services offered by Western are provided through its wholly-owned subsidiaries, Stimsol Canada Inc. ("Stimsol") and Western Energy Services of Texas Corp. ("WEST"). The services provided by Stimsol and WEST include stimulation services and fluid pumping, nitrogen services, coiled tubing services, specialty solvents and laboratory services. In addition to these services, WEST provides downhole tool rentals. Each of these services is described further below. Generally, the services offered by Western are designed to enhance the production from existing or newly drilled wells, which in turn provides increased cash flows for customers of Western.

Stimulation Services and Fluid Pumping

Western offers conventional acid pumpers and smaller pressure trucks to deliver a diverse line of acids, solvents and remediation chemicals to enhance and optimize production from existing oil and natural gas wells. Fluids may be pumped down tubing or coiled tubing and may be energized with nitrogen.

Nitrogen Services

Nitrogen is an inert gas used to energize fluids and unload well bores through tubing or coiled tubing. Western maintains a diversified fleet of transports and pumpers dispatched from strategic locations to meet customers needs. Western's personnel are experienced in all nitrogen applications.

Coiled Tubing Services

This service is a rig-less method to enter a wellbore with endless pipe in order to place fluids down a wellbore or to blow down a wellbore for cleaning purposes. Western provides shallow and intermediate depth coiled tubing services (Class I and Class II).

Downhole Tool Rentals

Western has an extensive inventory of downhole drilling equipment available for rental including drilling jars ranging in diameters from 4 ¾" to 8" as well as shock subs and stabilizers.

Specialty Solvents

Blends of wax and asphaltene abatement solvents and chemicals are offered by Stimsol and are delivered with pressure trucks.

Laboratory Services

Western has complete lab services available in Canada and the U.S. to ensure the quality control of Western's acid and solvent blends and to develop new products and packages.

Current Operating Environment

The operating environment for the oil and gas services sector, which is highly dependent on drilling activity, continued to deteriorate in the first part of the second quarter drilling activity declined to historically low levels. With the recent firming in the price of crude oil, the environment, although still extremely challenging, has stabilized. Management will continue to focus on maintaining cash and liquidity, restructuring its debt obligations and meeting the conditions of the conditional bank restructuring and private placement.

Management will continue to focus on improving its business operations in 2009, reacting to the economic slowdown in a continued proactive manner that will capitalize upon the Company’s strength of providing services to the less cyclical production side of the oil and gas industry.

Selected Annual Financial Information

Year ended (except for December 31, 2004 which is Eight Months ended)	December 31, 2008 ($)	December 31, 2007 ($)	December 31, 2006 ($)	December 31, 2005 ($)	December 31, 2004 ($)
Revenue	**12,731,894**	15,201,283	14,118,622	8,046,139	711,438
Income (loss) from continuing operations, before loss on sale, amortization, interest and income taxes	**27,692**	574,359	(533,209)	(1,914,233)	(984,629)
Cash outflow from continuing operations	**1,583,887**	1,113,645	921,005	2,059,014	905,052
Loss from continuing operations	**5,989,875**	5,520,830	3,222,375	3,487,461	1,211,364
- per share [(1)]	**0.43**	0.54	0.38	0.65	0.56
Net loss	**5,989,875**	4,525,850	4,667,951	3,487,461	1,211,364
- per share [(1)]	**0.43**	0.44	0.55	0.65	0.56
Total assets	**22,398,435**	26,902,201	19,015,931	11,299,158	8,942,819
Long term financial liabilities	**1,306,822**	1,593,660	1,973,786	392,060	875,152
Shareholder’s equity	**7,472,759**	9,505,842	7,754,008	6,481,021	3,577,144
Dividends declared	**-**	-	-	-	-

(1) Per share amounts for all periods reflect the 1 for 12 consolidation of shares that occurred in September 2008

Financial Instruments

The Company holds various financial instruments such as accounts receivable, accounts payable, revolving credit facilities, short term borrowings and long term debt. Management of the Company has decided to not use hedging to manage risks from interest rate or foreign currency fluctuations. The Company does not use derivative financial instruments. Credit risks are managed through credit or reference checks typical in the industry. In conjunction with accounting standards, the Company classified its financial instruments as follows:

- Cash is a “financial asset held for trading”, is valued at fair value and gains are losses are charged to net income during the period.
- Accounts receivable are classified as “loans and receivables” and are valued using amortized cost determined with the effective interest method. As the Company’s accounts receivable have a short term nature, their fair value approximates their carrying value.
- Accounts payable and accrued liabilities, note payable, demand term loans, and revolver and short term borrowings are “other financial liabilities” and are valued using amortized costs determined with the effective interest method. Long term debt and capital lease obligations are also “other financial liabilities” valued in the same fashion. Their fair values approximate their carrying values.
- The Company has not classified any financial instruments as “held to maturity” or “available for sale”.

Summary of Quarterly Results

Three months ended	June 30, 2009 ($)	March 31, 2009 ($)	December 31, 2008 ($)	September 30, 2008 ($)	June 30, 2008 ($)	March 31, 2008 ($)	December 31, 2007 ($)	September 30, 2007 ($)
Revenue	974,308	2,129,871	3,140,627	3,183,814	3,071,372	3,336,081	3,029,342	4,142,846
(Loss) income before loss on sale, amortization, interest, and income taxes	(36,623)	(190,764)	(293,026)	237,838	(32,402)	115,282	(508,497)	243,071
Loss from continuing operations	(896,721)	(1,101,360)	(1,574,438)	(2,306,405)	(1,168,489)	(980,689)	(3,095,946)	(884,110)
Per share (1)	(0.03)	(0.03)	(0.11)	(0.16)	(0.08)	(0.07)	(0.30)	(0.10)
Income (loss)	(896,721)	(1,101,360)	(1,574,438)	(2,306,405))	(1,168,489)	(980,689)	(3,095,946)	110,870
Per share (1)	(0.03)	(0.03)	(0.11)	(0.16)	(0.08)	(0.07)	(0.30)	0.01

Liquidity and Capital Resources

The Company continues to experience operating losses, has minimal cash and a significant working capital deficit and must obtain additional capital or a combination of additional capital and accommodation from its creditors to continue as a going concern. Subsequent to June 30, 2009, the Company entered into a conditional letter agreement with the Company's bankers, providing for, among other things, a further advance of $1,325,000, an interest only repayment period until September 30, 2009, and a re-amortization of the Company's senior debt facility over a period of 48 months. As part of this conditional debt restructuring, the term of the short term borrowings of the Company was extended for a period of 24 months and the interest rate on the loan was reduced from 12% to 7% effective July 1, 2009.

In conjunction with and conditional upon completion of the bank financing, the Company has also raised $3 million via a 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 is a related party transaction under MI 61-101 such that the TSX Venture Exchange ("TSXV") requires Western to obtain such shareholder approval on a disinterested basis. The Company intends to obtain such approval by way of written consents from at least 50.1% of its disinterested shareholders.

Satisfying the conditions associated with these facilities and completing the refinancing as contemplated in the conditional agreements is critical to the Company continuing as a going concern. As at the date hereof, the Company had made progress towards satisfying the conditions related to these facilities but it is still uncertain as to whether the Company will be able to satisfy all of the conditions of the refinancing.

In connection with negotiating the restructured bank facility, the Company's senior lender advised the Company that it considered the Company to be in breach of its working capital covenant under its existing facility. However, as part of the conditional agreement to refinance the Company, the Company's senior lender, the holder of the short term borrowings and its US based lender have all agreed to forebear in respect of this matter, pending completion of the refinancing by the Company.

In order to improve the Company's working capital, position the following steps are being taken:

- Certain capital assets surplus to its current needs have been identified and independently valued. Assets deemed superfluous to the long term strategy of the Company will be sold if and when acceptable purchase transactions can be identified.

- The Company has continued to manage its costs during this down cycle in the oil and natural gas exploration and development industry with additional staffing cuts and salary rollbacks in the quarter.

The Company experienced a cash outflow of $267,193 from continuing operations during the second quarter of 2009 ($416,880 outflow Q2 2008). When combined with changes in non-cash working capital, total cash flow inflow from operating activities during Q2 2009 was $24,240 compared to a net inflow of $261,121 during the same period in 2008. Non-cash working capital was used by the Company primarily to fund its operating losses as the combined results of investing and financing activities were an inflow of $70,376 for Q2 2009.

During the second quarter, the Company borrowed $536,634 from insiders which was used to partially fund the $0.6 million of principal that was repaid on debt owed to third party institutional lenders in the Quarter.

Transactions with Related Parties

During the six months ended June 30, 2009:

- The Company obtained legal services from a firm in which a director is a partner. At June 30, 2009 $240,721 was outstanding to this firm for legal services 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 certain officers and directors of the Company. Both the sales and lease amounts were conducted at fair market values and for no gain or loss to the Company. 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.

- The Company borrowed a further $1,378,509 from 1063645 Alberta Ltd. in 2009 ($841,875 in Q1 and $536,634 in Q2), a company controlled by a director of the Company under the same terms as previously existing short term borrowing.

Proposed Transactions

As of the date hereof, the Company has no proposed transactions except that it has received $205,000 in proceeds for share subscriptions under a private placement for which it has not yet issued shares. The placement has not yet been priced.

Subsequent to June 30, 2009, the Company entered into a conditional letter agreement with the Company's bankers, providing for, among other things, a further advance of $1,325,000, an interest only repayment period until September 30, 2009, and a re-amortization of the Company's senior debt facility over a period of 48 months. As part of this conditional debt restructuring, the term of the short term borrowings of the Company was extended for a period of 24 months and the interest rate on the loan was reduced from 12% to 7% effective July 1, 2009.

In conjunction with and conditional upon completion of the bank financing, the Company has also raised $3 million via a private placement offering of units ("Unit Offering), consisting of, in the aggregate, $3 million principal amount of convertible secured subordinated debentures and 30 million share purchase warrants. The Unit Offering is a related party transaction under MI 61-101 such that the TSXV requires Western to obtain such shareholder approval on a disinterested basis. The Company intends to obtain such approval by way of written consents from at least 50.1% of its disinterested shareholders.

Change in Accounting Policies

During the six months ended June 30, 2009, the Company adopted the Canadian Institute of Chartered Accountants' ("CICA") pronounced change to accounting standards effective for 2009.

Goodwill and Intangibles; 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.

Recent Accounting Pronouncements

International Financial Reporting Standards; The CICA Accounting Standards Board has adopted a strategic plan for the direction of accounting standards which includes converging accounting standards in Canada for public companies with

International Financial Reporting Standards by the end of 2011. The Company continues to monitor and assess the impact of this proposed convergence.

Business Risks

A discussion of the business risks applicable to the Company is available in the MD&A for the year ended December 31, 2008. No material risks have been identified that are not listed in that discussion.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

As a venture issuer, Western is not required to certify the design and evaluation of internal controls over financial reporting (“ICFR”) and disclosure controls and procedures (“DC&P”). However, as part of our corporate governance practices, Western has designed ICFR and DC&P. There has been no formal evaluation of the operation of these controls and inherent limitations on the ability of the certifying officers to design and implement on a cost effective basis ICFR and DC&P may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filing and other reports provided under securities legislation.

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal Controls over Financial Reporting

The Company has designed and implemented ICFR's in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Due to its size, corporate structure, and decentralized operations the Company has identified certain weaknesses in its ICFR's.

These weaknesses include:

- Due to a limited number of staff, which is typical for the size of the Company, it is not feasible to achieve adequate segregation of duties of its employees. This weakness and its associated risks are mitigated, in part, by senior management overview.

- The Company relies upon key personnel to oversee or perform certain functions, sometimes without review. For example, the Company’s CFO is the only employee with detailed knowledge of GAAP and he plays an instrumental role in the preparation of the consolidation of the Company’s results and financial reporting. This weakness and its associated risks are mitigated, in part, by the oversight of the Audit Committee of the board of directors and of the Company’s external auditors. The Company will consider hiring external consultants to assist with the implementation of future complex GAAP pronouncements.

- The Company does not have sufficient detailed internal expertise in areas, which may cause errors in the planning, conduct and reporting of non-routine accounting and domestic and international tax transactions. This weakness and its associated risks are mitigated, in part, through the use of outside consultants as needs are identified.

Taking into account the present stage of the Company’s development and the mitigating controls implemented respecting the above weaknesses, management has concluded that the hiring of additional personnel for the purpose of more completely addressing these weaknesses is not warranted at this time.

There have been no changes in the Company’s systems of internal control over financial reporting that would materially affect, or is reasonably likely to materially affect, the Company’s internal controls over financial reporting.

Additional Data

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

Summary of Equity Instruments as at August 28, 2009:

1. **Authorized share capital:**

   Unlimited number of voting common shares without nominal or par value.
   Unlimited number of non-voting preferred shares issuable in series.

2. **Shares issued and outstanding:**

   There were 32,246,405 common shares outstanding, with a recorded value of $14,554,336.

3. **Options outstanding:**

   There were 412,917 options outstanding to purchase common shares, with a recorded value of $434,215. The range of exercise prices and expiry dates for outstanding options are as follows:

Exercise Price ($)	Number	Number Exercisable	Range of Expiry Date
1.32	169,167	169,167	2012
2.28	52,083	52,083	2009
3.36	175,000	175,000	2011
3.48	16,667	11,113	2011

   Options have an exercise price equal to the market price at the date of grant. No stock options were granted during 2008 or to date in 2009.

4. **Warrants outstanding**

   The Company currently has no warrants outstanding.

5. **Escrowed shares**

   There are 16,473 common shares held in escrow, which shares will be released in October 2009.