Fundamental Research Corp.

Investment Analysis for Intelligent Investors

Brian Tang, CFA
Analyst

November 9, 2007

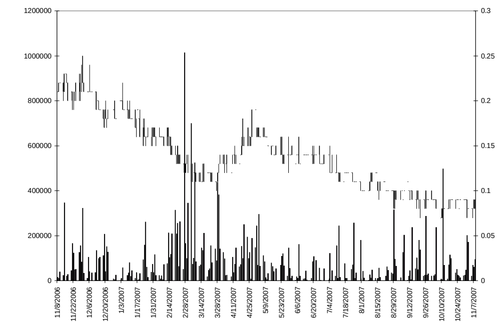
Western Energy Services Corp (TSXV: WSV) – Repositioned Company; Restructuring Showing Positive Effects

Sector/Industry: Oilfield Services **www.wesc.ca**

Market Data (as of November 8, 2007)

Current Price	$0.08
Fair Value	$0.08 ↓
Rating*	HOLD ↓
Risk*	4 – Speculative
52 Week Range	$0.07 - $0.25
Shares O/S	168.0MM
Market Cap	$10.1MM
Current Yield	N/A
P/E (forward)	N/A
P/B	1.0x
YoY Return	-57.9%
YoY TSX-V	16.6%

*See back of report for rating and risk definitions



Highlights

- Through the acquisition of Stimsol and the divestiture of various assets, the company has shifted its exposure away from drilling activity and cycles to focus on stimulation and production optimization;
- The company has built a strong management, team, simplified its structure by dissolving the Grenville JV, and has identified many opportunities for growth;
- We believe the main challenges the company faces relate to an over all slowdown in industry activity, high debt levels, financing risks, and uncertainty with regard to the recent increase in Alberta royalty rates;
- While we have chosen to be conservative in our estimates, we believe upside will come from increases in margins and expansion to new geographic areas.
- So far the restructuring has gone well as the company has demonstrated an ability to grow revenues and improve its capital structure.
- Based on our DCF and EV/EBITDA valuation, we are lowering our fair value estimate to $0.08 from $0.50, and downgrading the company to a HOLD. We are maintaining our risk rating at 4-Speculative.

Key Financial Data and Statistics

(C$ 000's)	6M0 2007	2007E	2008E
Revenues	12,172	18,378	27,609
EBITDA	698	1,268	2,268
Net Income	(2,425)	(1,647)	(941)
Assets	30,215	30,598	29,907
Debt	14,254	11,731	4,823
Equity	12,649	16,369	21,376
EPS	$ (0.01)	$ (0.01)	$ (0.01)
EBITDA Margin	5.7%	6.9%	8.2%

Western Energy Services Corp. (WSV) is a Canadian based oilfield services company. It operates primarily in West Texas and Canada. It has shifted its business away from new drilling activity to stimulation and production optimization services in order to reduce exposure to drilling cycles and gas prices.

Company Overview

Western Energy Services Corp. (WSV) is a Canadian based oilfield services company. It operates primarily in West Texas and Canada. It has shifted its business away from new drilling activity to focus on stimulation and production optimization services in order to reduce exposure to drilling cycles and gas prices.

The company has two main operating divisions – Stimsol Canada Inc and Western Energy Services of Texas Corp.

Source: Company

Update on Strategic Direction and Activity

When we initiated coverage on WSV last year, the company was just starting to implement its strategy of shifting its focus on increasing production from older wells and away from newer wells. The acquisition of StimSol Canada was the first step in this new direction. Management felt that it could carve out a niche by focusing on "everything but new drills" in an attempt to insulate itself from drilling cycles and gas prices. Once this acquisition was complete, the company consolidated all of its Canadian operations under the StimSol name.

In September 2006, the company entered the U.S. stimulation business with the acquisition of four new fluid pumpers, established fluid storage facilities, and laboratory services at its Texas location. It also used StimSol's technologies as an entry into the U.S. stimulation business. The company also consolidated its U.S. and Canadian operating centers to achieve operational synergies. WSV currently operates from 4 locations in Canada and in Texas.

The company also continued to operate in the downhole tool rental business, by expanding into Nicaragua in November 2006, through its agreement to provide downhole tools and directional services to Norwood Resources Ltd (TSXV: NRS). Nicaragua represents the third Latin American country where WSV has operated.

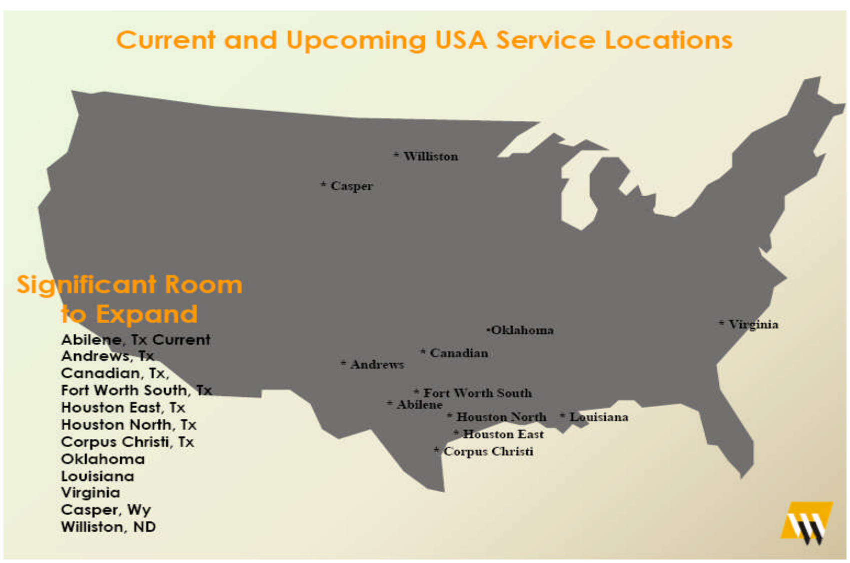
In March of this year, the company announced that it had entered into an agreement with Grenville Energy Partnership (GEP) to acquire all of GEP's oilfield service equipment for $12.5 million. This represented the end of the joint venture between GEP and WSV where WSV acted as the operator for equipment owned by GEP. The acquisition was financed with a new $4.1 million credit facility and the issuance of a convertible debenture. The transaction greatly simplifies WSV's financial statements, and eliminates what we believed to be a form of off balance sheet financing. Under the original agreement, Grenville was to purchase equipment for up to $16 million for WSV. The two shared revenues under a set formula. According to management, the recent purchase of assets by Western from Grenville was done at arm's length with both parties in agreement.

The next step WSV took in shifting its focus into the optimization of existing wells was the sale of its well testing assets to TestAlta Services Ltd. for $1.6 million in April 2007. The well testing services business is highly competitive and exposed to drilling cycles and commodity prices. By exiting this business, the company further focused the company on well optimization through stimulation services. With the proceeds of this sale, the company reinvested in additional acid and nitrogen pumping equipment. This additional equipment has allowed the company to offer a complete range of well stimulation services without having to bundle services of third parties. We believe that this move will increase the company's margins as the bundling of third party services usually serves to reduce margins.

More recently, On August 8, 2007, the company announced that it had divested of its Plata-Inca mining property in the Yukon Territories for proceeds of $1 million. We believe this was a good strategic move as it provides the company with some much needed capital, and further demonstrates management's commitment to focus the company on its core business.

Future Growth Strategy

The company's future growth strategy is to continue adding equipment in the production optimization segment. On the cost side, WSV will continue to reduce costs and inefficiencies. The company has identified a number of areas in the U.S. and Canada where it can expand. The following images summarize these areas of planned expansion.



Source: Company; *Utah not shown above

Source: Company

The company estimates that in Alberta and the U.S., the are about 362,000, and 1.8 million existing wells respectively, that have the potential to use WSV's services. This figure will continue to grow as new wells are drilled each year.

Management and Board of Directors

Since our initial report, the management of WSV has undergone some changes with new additions and departures to the team. We present a summary of the current management team and board below. We believe WSV has a solid management team comprising of individuals with many years of experience in the oilfield services industry, and in building oilfield services companies, and creating shareholder value by subsequently selling them.

John Halliwell (Chairman) – Since 1995, John has been the president of Anacort Capital Inc., a private investment firm. From 1994-2004, he was the president and CEO of WSV's predecessor company, BFF Resources. He has also held senior executive positions with Penn West Petroleum and Petro Canada.

Jim McQuarrie (President & Chief Executive Officer) – Jim has over 30 years of Canadian Oilfield Service Industry experience. From 1976 to 1988, Jim worked in various progressive service industry positions for companies which included Dresser Titan, Nitrogas Services, Halliburton and Canadian Oilfield Stimulation Services.

Jim founded StimCo Services Ltd. in 1988, and with the development of this very successful stimulation company, Jim gained valuable management knowledge allowing him to move on after the sale to Sanjel Cementers. He then went on to found Tankmaster Rentals in 1996 which was sold in 1997.

Furthering his experience, Jim then made substantial contributions to the startup of Onstream Compression Rentals, and then on to become President of HavaTank Rentals which was sold in the fall of 2004. Jim then spent time as an independent business consultant helping private business owners to grow and develop their businesses before assuming the position with Western Energy Services Corp.

Jon Garner, B.Sc., (Vice President & Chief Operating Officer) – Jon is a recent addition to the team since our initial report. He has over 26 years of Canadian Oilfield Service Industry experience. He was a founding partner of Stinger Wellhead Protection Ltd., and then went on to play major roles in the development of StimCo Services Ltd, Redmen Services Ltd., and Ceda Reactor. He then assisted in the continued growth of StimSol Canada Inc. He brings to the company, industry expertise in well stimulation and remedial cementing technologies that will assist in the further growth of Western Energy Services Corp.

Nick Pohorelic, CA (Chief Financial Officer) – Nick has over 20 years of business experience. Nick worked with Deloitte Touche for 11 years where he provided audit services and a variety of financial services to clients. In 1997 he became the CFO for Underbalanced Drilling Systems, a publicly traded company, specializing in an innovative low cost replacement for nitrogen in high volume, underbalanced drilling applications. Nick's entrepreneurial experience includes serving as an independent financial consultant where he helped clients with financial management including Trinidad Drilling for whom he provided over 1,200 consulting hours in support of their IPO and forecasting. Nick first joined Western Energy Services when the company was in its infancy and became its second shareholder.

Herb Ellis (Vice President - Canadian Business Development) – Herb is a recent addition to the team since our initial report. He has over 26 years of Canadian Oilfield Industry Experience. He started his career with in the Agricultural Industry, as a technologist for UGG. Herb then completed his chemical technology diploma at Nait, then on to the analytical industry working for Chemex and Core Laboratories, as a station and accounts manager for 12 years. He then spent 4 years as an accounts manager and 2 years as Vice President of the Solvent and fluids division at Trysol Canada. Since then, Herb has spent 6 years as Manager/President of the company. He founded StimSol Canada. Herb brings extensive marketing, technical and Managerial experience to Western Energy Services Corp.

Bruce Alford (Director) – Mr. Alford is a partner in the Calgary law firm of Burnet, Duckworth & Palmer LLP. He has served as a director of the corporation since October of 2004. Mr. Alford is a director of several other private and public companies. Mr. Alford is a member of Western’s audit and compensation committees.

Clarence Chow (Director) – Mr. Chow is the President of AGS Capital Management Ltd., which management a number of investment funds specializing in energy and mining interests. He is a director of several companies and is a director and past Chairman of the Canadian Petroleum Institute. Mr. Chow brings considerable private and public company experience to Western. Companies that have benefited from his expertise include Morrison Petroleums Ltd, Alberta and Southern Gas Company Ltd, and Mountain Energy Ltd.

Summary of Current Services

In order for investors to gain a better understanding of WSV's products and services, we believe that it is important to first give an overview of the life cycle of a typical hydrocarbon well so that investors can gain a better understanding of where exactly WSV has chosen to focus its operations.

The following is a brief description of the various stages in the life cycle of a well (the first three steps relate to exploration while the last steps are related to development and production):

1. **Seismic Survey –** This is conducted in order to map subsurface rock formations to find oil and gas. It is estimated that about 5% of an average E&P's capex budget will go towards seismic.
2. **Drilling –** If seismic surveys identify a good underground target, an E&P will begin drilling. Drilling is usually contracted out to an oilfield services firm, and takes up the largest part of an E&P's capex budget.
3. **Interpret Drilling Results –** After drilling is completed, E&P's will then evaluate the economic potential of the well. At this point, the E&P will decide whether to abandon the well or complete further testing such as a flow-test. Typically, oil field service companies are involved in this process as well.
4. **Completion –** Involves various steps to get a well ready for production such as cracking or fracturing. This is done to improve well flows. It is important to note that many of the services discussed at this stage can be done on older wells as well in order to increase flows (i.e. remedial work). While completion is not an area of focus for WSV, the performance of remedial work is.
5. **Artificial Lift -** These are installed when a well cannot produce economically by its own means.
6. **Gathering –** This involves transporting gas to market.
7. **Servicing –** Just like any other piece of mechanical equipment, wells need to be serviced regularly to replace worn out parts including lifts and pumps. This step in the cycle is also where services are performed to optimize and enhance production. WSV focuses on this stage of the well life cycle.
8. **Reclamation and Abandonment –** This involves filling in holes and addressing environmental requirements when all of a well's hydrocarbons have been extracted.

Given the changes in the company since our initial report, we now provide an overview of the company's existing service offering.

Stimulation Services - Western has a fleet of conventional acid pumpers and pressure trucks used to deliver a diverse line of acids, solvents and remediation chemicals used to enhance and optimize production from existing oil and gas wells. Fluids may be pumped down tubing or coiled tubing and can be energized with nitrogen.

Source: Company

These solvent and chemicals are used to remove waxes, asphaltenes, sludges, and scales. This segment of WSV's business is not correlated to drilling rig activity. In fact, demand for these services is often higher during times of slower drilling. Slower drilling results from lower current and expected commodity prices. When this happens, E&Ps often shift their focus and budgets to optimizing production from existing wells.

The company has a proprietary blend of various acids, solvents, and specialized chemicals that can be used in a wide range of applications.

Nitrogen Services - Western maintains a diversified fleet of pumpers in strategic locations. Personnel are experienced in all applications. Nitrogen pumped into a wellbore improves the safe recovery of fluids by lightening or displacing them, while reducing the potential of formation damage. Nitrogen increases the ease with which oil or gas from a well flow to the surface. Due to its properties as an inert gas, it is intrinsically safe, meaning there is no risk of it causing an explosion or fire. Also, because it is abundant, it is easily accessible and widely used in the oilfield.

Source: Company

Coiled Tubing Services – WSV specializes in providing shallow and intermediate depth coiled tubing services (Class 1 and Class 2). Coil tubing is a rig-less services used to enter wellbores with endless pipe and place fluids downhole, or to blow down the wellbore to clean it out.

Source: Company

Downhole Tool Rentals -Western has an extensive inventory of downhole drilling equipment including drilling jars ranging from 4 3/4" to 8" in diameter, as well as shock stubs and stabilizers.

Industry Outlook

As WSV operates in Texas and the U.S., it is necessary for us to review the outlook for drilling and commodity prices in the U.S. and Canada. Drilling activity in the WCSB continues to be weak as the table below shows.

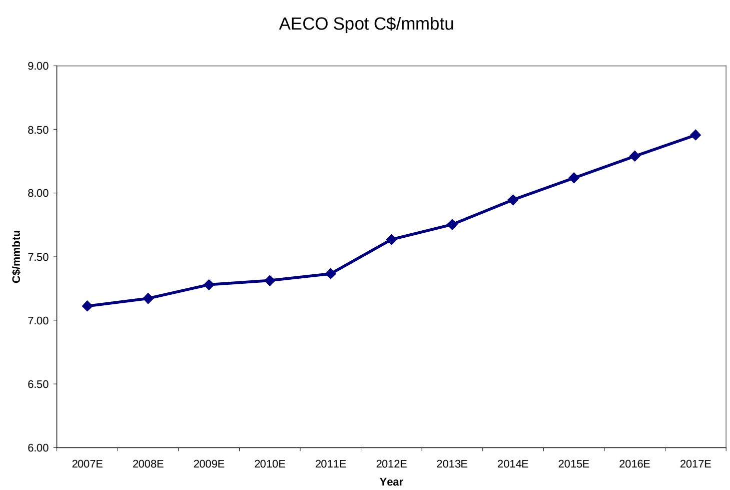
Alberta Rigs

	Q1		Q2		Q3		YTD	
	AVG	Utilization	AVG	Utilization	AVG	Utilization	AVG	Utilization
2007 Available	663		723		708		698	
2007 Drilling	391	58.9%	97	13.3%	238	33.6%	242	34.6%
2006 Available	580		643		624		616	
2006 Drilling	522	89.9%	233	36.2%	384	61.5%	379	61.6%

Source: CAODC, FRC

Drilling rig utilization in Q2 2007 was only 13.3% compared to 36.2% in Q2 2006. This decline in utilization has continued into Q3. As the table above shows, Q3 utilization is only at 33.6% versus 61.5% during the same time last year. Year to date, rig utilization is only at 34.6% versus 61.6% last year.

There are a number of reasons for the decline in activity including: a decrease in natural gas prices relative to 2005, an increase in LNG imports, and a strong Canadian dollar. We had originally expected industry activity to increase in the later half of 2007. However, after a review of current and expected industry activity, and an analysis of the announced 2008 budgets for many of the producers, we now believe that industry conditions will not improve until the later half of 2008 or even 2009. We continue to believe that natural gas fundamentals are strong in the long run, and will support higher prices as the graph below shows.



Source: GLJA

Although natural gas prices are expected to keep increasing, they are not expected to reach 2005 levels till at least 2013-2014. The outlook for Henry Hub, the benchmark for natural gas prices in the U.S., is similar to that of Canada. In contrast, the drilling activity in the U.S. has been quite different than that experienced in Canada. U.S. data has shown that drilling activity in the U.S. was actually at record high levels.

However, recent data shows that U.S. activity is starting to decline which we believe may signal the start of a trend in reduction in activity though it is too early to tell. As mentioned, WSV is relatively insulated from drilling activity because of it shift in focus to stimulation services. The table below shows that service rig utilization, an indicator of workover activity, is declining as well albeit at a less severe rate than drilling rig activity.

Average Monthly Service Rig Count

		Working	Down	Total	%	07/06 Change
2007	August	565	501	1066	53.0%	-20.0%
	July	608	454	1062	57.0%	-15.6%
	June	501	559	1060	47.2%	-23.2%
	May	387.2	665.3	1052.5	36.7%	-13.2%
	April	311.6	735.2	1046.8	29.7%	-7.8%
	March	692	349	1041	66.4%	-8.1%
	February	816.7	206.5	1023.2	79.8%	-3.0%
	January	791	216	1007	78.5%	-5.3%
2006	August	706	297	1003	70.4%	
	July	720	278	998	72.1%	
	June	652	342	994	65.6%	
	May	446	502	948	47.0%	
	April	338	636	974	34.7%	
	March	753	220	973	77.3%	
	February	842	118	960	87.7%	
	January	835	199	954	87.5%	

Source: CAODC, FRC

What the above table indicates to us is that all segments of the Canadian oilfield services industry are experiencing a slowdown.

Increases in Royalties in Alberta

Compounding the issue of weak drilling activity in Canada is the recent decision by the Government of Alberta to raise royalty rates on hydrocarbon projects in that province. While the impact varies depending on the type of project, and depth of well, we believe it will still result in a further reduction in overall utilization rates and fewer wells drilled across the province.

As a result of the way the announced royalty changes are structured, the impact will be felt less on companies involved in deeper drilling, and lower productivity wells. We believe that since Western has shifted its focus to remedial work, and because of its Texas operations, the impact of higher royalties will be felt less though we believe that all companies, including WSV, will feel some impact.

Financial Analysis

Since the company has gone through a lot of changes in terms of acquisitions and divestitures since we initiated coverage, we do not feel that an analysis comparing most recent and historical results will give us much insight into the company's prospects going forward. The company reports results under two segments: Well Services and Tool Rentals.

Capital Structure and Cash Flows - On October 1, 2007, the company announced that it had the completed a non-brokered private placement raising \$6 million by issuing 60 million units at \$0.10 per unit. Each unit is comprised of one common share and half of a non-transferable common share purchase warrant. Each warrant is exercisable at \$0.16 for a period of 18 months from the date of issuance to purchase one common share of WSV. The units are subject to a four-month hold period from the date of issuance expiring on January 29, 2008. The company used about $5.7 million of the proceeds from this financing to retire part of the WSV's convertible debenture, and the rest is to be used for capital expenditures.

Mainly as a result of the Grenville transaction, the company's capital assets have increased from $13.7 million at year-end, to $24.5 million at the end of the third quarter. However, as the purchase of assets from Grenville was recorded as a non-cash transaction, there is no resulting cash flow in the cash flow statement related to this purchase.

We believe that this is a critical time for the company in terms of cash flow with over $7 million in debt coming due in the next two fiscal years. However, the company has demonstrated its ability to refinance debt and/or negotiate favorable terms. For example, it recently extended, by one year, a $2 million bridge loan that was due this year with a reduction in the interest rate from 21% to 12%, and secured an additional $500,000 line of credit, all during a period of slow industry activity. We expect that free cash flow in 2007 will be insufficient to repay the debt coming due, and have assumed that the company will raise an additional $3.8 million in equity. We also believe that the company will have to raise an additional $5.9 million in FY2008, after which time we believe that the company will become free cash flow positive. Earlier in the year, on August 8, 2007, the company also announced that it had sold its Plata-Inca mining property, located in the Yukon Territory, for much needed cash proceeds of C$1 million. Recently, the company also sold two inactive shallow coiled tubing units for US$1.44 million.

Revenues - According to the company's presentation material, it estimates that it has a less than 1% market shares in frac fluids and a 20% share in value added solvents in Canada. We believe that the locations identified by management earlier in our report are evidence that it still has significant room to expand in Canada and the U.S. Simsol revenues in Canada have grown at an impressive CAGR of about 58.6% from 2000-2006. Note that they have continued to grow despite years when the price of gas declined year over year (2001-2002 and 2005-2006). The company believes it can grow revenues by about $862,667 for each pumper its adds in Western Canada. The company plans to add three new pumpers this year.

In Texas, the company has grown revenues from about $250,000 per month, to about $425,000 by adding kill units (pumpers with trailers).

We have assumed that the company will continue to grow at historical rates for the next two years, and then modeled for growth to gradually decline through to our terminal period. The table below summarizes our revenue forecast for the next two years.

Western Energy Services Corp - Segmented Results
($000s)

	9MO 2006	9MO 2007	2007E	2008E
Revenue				
Well Service	9,230	10,674	15,383	24,613
Tool Rental	1,209	1,498	2,995	2,996
Total	10,439	12,172	18,378	27,609

Note that the company's actually revenue target for FY2008 is $49 million. This is based on more aggressive capex estimates, and we have chosen to be more conservative in our models given the outlook for the industry. We assume that capex for 2007 will be $5.8 million, and then $1 million thereafter for maintenance purposes. The company has confirmed that it does expect growth even with minimal capex.

Margins – For the 9 months ended September 30, 2007, the company achieved segmented operating margins of 18.2% for the well service segment and 28.6% for tool rentals. Going forward, the company expects to achieve field margins of 25-30% for its services segment. For conservatism, we assume margins in well services will be 18.3% for the remainder of the year, and increase to 20% after that. We also assume that tool rental margins remain constant at 28.6%. Margins could very well increase beyond our assumptions due to the company using less third party bundling. However, at this time, we chose to wait for more evidence of improving margins before making adjustments to our model.

Net Income and EPS estimates – Based on the above assumptions, our 2007, and 2008, net income and EPS estimates for the company are a loss of $1.6 million (-$0.01 EPS), and $941,000 million (-$0.01 EPS) respectively.

Valuation

We have valued the company based on our DCF model and EV/EBITDA multiples. The result of our DCF model is shown below.

Western Energy - Discount Cash Flow Model
(C$ MM)

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	Terminal
Funds From Operations	1,244	2,164	3,224	3,826	4,621	4,764	4,895	4,965	5,042	5,128	5,221
Investment in Working Capital	(748)	(258)	(354)	(284)	(369)	(80)	(84)	(53)	(54)	(56)	(58)
Cash From Operations	496	1,906	2,869	3,543	4,252	4,684	4,811	4,912	4,988	5,072	5,164
Capex	(5,804)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Free Cash Flow	(5,308)	906	1,869	2,543	3,252	3,684	3,811	3,912	3,988	4,072	4,164
PV	(5,160)	786	1,449	1,759	2,009	2,032	1,877	1,720	1,566	1,427	15,763

Discount Rate	12%
Terminal Growth	3%
Sum PV (MM)	25,229
Debt (MM)	14,254
Equity Value (MM)	10,976
Share O/S (MM)	168,007
DCF Value/Share	0.07

Based on our DCF model, the company's fair value is $0.07 per share. We also valued the company applying an EV/EBITDA multiple of 8x, which is the industry average, to the company's 2008E EBITDA (we did not use 2007 as the company's debt exceeds its EV in 2007). This resulted in a fair value of $0.08.

Rating

Based on a review of the company's operating and financial results, and the value derived from two valuation models, we are downgrading the company to a HOLD and reducing our fair value to $0.08 from $0.50. We are maintaining our risk rating at 4-Speculative.

We believe that the company has done a good job of repositioning itself to reduce exposure to the drilling cycle and simplify its capital structure by dissolving its JV with Grenville. Also, the company has acquired a company that has shown historical growth even in declining environments.

However, we believe that the current conditions in terms of drilling activity, uncertainty over the impact of higher royalties, a high proportion of debt to capital, combined with the company's cash flow and debt maturity schedule will present challenges for the company. Investor's should watch for potential upside if the company can expand into new areas, increase margins and capex growth. However, at this time, we take a wait and see approach.

Risks

- Although the company has taken steps to reduce exposure to drilling activity, it is still exposed to overall oilpatch activity;
- The company has a relatively high debt to capital and what we believe to be an unfavorable debt maturity schedule relative to cash on hand and cash flow. If the company is unable to raise new equity or refinance debt, we believe it could be subject to credit problems.
- The company is indirectly exposed to commodity prices.
- Uncertainty regarding the recent decision of the Alberta Government to raise royalty rates will likely impact the overall activity in the industry.

APPENDIX

Western Energy Services Corp - Income Statement
($000s)

	9MO 2006	9MO 2007	2007E	2008E
Revenue	10,439	12,172	18,378	27,609
Expenses				
Operating	7,983	9,801	14,691	21,814
G&A	1,987	1,460	2,205	3,313
Stock Compensation	-	213	213	213
Total OP Expenses	9,971	11,474	17,110	25,340
EBITDA	468	698	1,268	2,268
Gain on Sale	214	(13)	(13)	-
FX	46	(421)	(421)	-
Depreciation	1,051	2,049	2,691	2,892
EBIT	(842)	(918)	(990)	(624)
Interest	241	1,375	1,545	824
EBT	(1,083)	(2,293)	(2,535)	(1,448)
Tax	(28)	132	(887)	(507)
Net Income	(1,055)	(2,425)	(1,647)	(941)
EPS	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)

Western Energy Services Corp - Balance Sheet
($000s)

	Q3 2007	2007E	2008E
Assets			
Current			
Cash	545	(0)	(55)
AR	2,830	2,132	3,203
Inventory	540	441	654
Prepaid Expenses	467	368	552
Total Current Assets	4,381	2,940	4,354
PPE	24,465	26,290	24,185
Deferred Charges	7	7	7
Goodwill	712	712	712
Future Income Taxes	650	650	650
Total Assets	30,215	30,598	29,907
Liabilities			
Current Liabilities			
AP	3,312	2,498	3,708
Bank Debt	390	390	390
ST Debt	2,000	2,000	-
Demand Term Loans	6,739	4,919	3,494
Convertible Note	3,434	3,014	(0)
Current Capital Lease	129	129	129
Current LT Debt	378	469	353
Total Current Liabilities	16,382	13,418	8,074
Asset Retirement Obligations	-	-	-
Capital Lease	103	103	103
LT Debt	1,080	708	355
Total Liabilities	17,565	14,229	8,531
Common Shares	22,022	25,959	31,907
Surplus	1,681	1,681	1,681
Retained Earnings	(11,053)	(11,271)	(12,212)
Equity	12,649	16,369	21,376
Equity and Liabilities	30,215	30,598	29,908

Western Energy Services Corp - Cash Flow
($000s)

	Q3 2007	2007E	2008E
Operating			
Net Income	(2,425)	(1,647)	(941)
Plus			
Depreciation	2,049	2,691	2,892
Stock Compensation	213	213	213
Gain on Sale	(13)	(13)	-
Future Income Taxes	-	-	-
Funds From Operations	(175)	1,244	2,164
Investment in W/C			
A/R	(204)	494	(1,071)
AP	(112)	(1,366)	1,211
Inventory	33	132	(214)
Prepaid Expenses	(108)	(9)	(185)
Total Investment in W/C	(391)	(748)	(258)
Cash From Operations	(565)	496	1,906
Investing			
Capex	(5,804)	(5,804)	(1,000)
Sale of Assets	2,618	4,058	
Cash Used in Investing	(3,186)	(1,746)	(1,000)
Financing			
Revolving Credit	(1,479)	(1,479)	
ST Debt	-	-	(2,000)
Demand Term Loans	5,184	(1,425)	(1,425)
LT Debt	(114)	(437)	(469)
Convertible	(5,712)	(5,712)	(3,014)
Capital Leases	(115)	(89)	-
Equity	6,093	9,847	5,948
Cash From Financing	3,857	705	(960)
Change in Cash	105	(545)	(55)
Cash BOP	439	545	(0)
Cash EOP	545	(0)	(55)

*-cash EOP = increase in bank debt

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

Disclaimers and Disclosure
The opinions expressed in this report are the true opinions of the analyst about this company and industry. Any "forward looking statements" are our best estimates and opinions based upon information that is publicly available and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. The analyst and Fundamental Research Corp. "FRC" does not own any shares of the subject company, does not make a market or offer shares for sale of the subject company, and does not have any investment banking business with the subject company. Fees of less than $30,000 have been paid by WSV to FRC. The purpose of the fee is to subsidize the high costs of research and monitoring. FRC takes steps to ensure independence including setting fees in advance and utilizing analysts who must abide by CFA Institute Code of Ethics and Standards of Professional Conduct. Additionally, analysts may not trade in any security under coverage. Our full editorial control of all research, timing of release of the reports, and release of liability for negative reports are protected contractually. To further ensure independence, WSV has agreed to a minimum coverage term including an initial report and three updates. Coverage cannot be unilaterally terminated. Distribution procedure: our reports are distributed first to our web-based subscribers on the date shown on this report then made available to delayed access users through various other channels for a limited time. The performance of FRC's research is ranked by Investars. Full rankings and are available at www.investars.com.

The distribution of FRC's ratings are as follows: BUY (78%), HOLD (10%), SELL (5%), SUSPEND (7%).
To subscribe for real-time access to research, visit http://www.researchfrc.com/subscription.htm for subscription options.

This report contains "forward looking" statements. Forward-looking statements regarding the Company and/or stock's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company's periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward looking statements, Fundamental Research Corp. and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report. A report initiating coverage will most often be updated quarterly while a report issuing a rating may have no further or less frequent updates because the subject company is likely to be in earlier stages where nothing material may occur quarter to quarter.
Fundamental Research Corp DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE'S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO. This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated, and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. Additional information is available upon request. THIS REPORT IS COPYRIGHT. YOU MAY NOT REDISTRIBUTE THIS REPORT WITHOUT OUR PERMISSION. Please give proper credit, including citing Fundamental Research Corp and/or the analyst, when quoting information from this report.

Fundamental Research Corp is registered with the British Columbia Securities Commission as a Securities Adviser which is not in any way an endorsement from the BCSC. The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.