

*Consolidated Financial Statements of*

**CENTRAL ALBERTA WELL SERVICES CORP.**

*For the Three and Six Months Ended June 30, 2006*

**CENTRAL ALBERTA WELL SERVICES CORP.**  
**Consolidated Balance Sheets**  
(Unaudited)

	June 30, 2006	December 31, 2005
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 892,896	\$ 2,644,827
Restricted cash	405,641	-
Accounts receivable	9,358,603	3,263,105
Shareholder loans	-	84,646
Inventory	1,111,508	289,630
Prepays and deposits	299,284	160,088
Deferred financing costs	286,975	-
	<u>12,354,907</u>	<u>6,442,296</u>
<b>Property and equipment</b>	62,604,457	19,962,118
<b>Shareholder loans</b>	180,625	211,875
<b>Deferred financing costs</b>	76,179	38,328
<b>Intangible assets</b>	5,475,256	-
<b>Goodwill</b>	10,783,667	519,183
	<u>\$ 91,475,091</u>	<u>\$ 27,173,800</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 5,042,343	\$ 3,628,656
Short term debt (note 4)	21,000,000	-
Shareholder loans	410,935	-
Income taxes payable	864,353	-
Current portion of long-term debt (note 5)	2,557,267	-
	<u>29,874,898</u>	<u>3,628,656</u>
<b>Future income taxes</b>	1,674,000	-
<b>Long-term debt (note 5)</b>	14,625,343	4,950,000
	<u>46,174,241</u>	<u>8,578,656</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital (note 6)</b>	47,554,446	21,172,024
<b>Contributed surplus (note 6 (c) and (d))</b>	1,520,632	538,829
<b>Deficit</b>	(3,774,228)	(3,115,709)
	<u>45,300,850</u>	<u>18,595,144</u>
	<u>\$ 91,475,091</u>	<u>\$ 27,173,800</u>

See accompanying notes to financial statements.

**CENTRAL ALBERTA WELL SERVICE CORP.****Consolidated Statements Of Loss and Deficit**

(unaudited)

	Three Months Ended		Six Months	Four Months
	June 30, 2006	June 30, 2005	Ended June 30, 2006	Ended June 30, 2005
<b>REVENUE</b>	\$ 7,635,119	\$ 398,237	\$ 12,566,593	\$ 478,393
<b>OPERATING COSTS</b>	4,719,546	336,489	7,409,291	422,631
	2,915,573	61,748	5,157,302	55,762
<b>OTHER EXPENSES</b>				
General and administrative	1,680,407	475,925	2,385,269	562,045
Stock based compensation	431,915	-	1,004,135	-
Interest	635,393	262,148	754,989	260,692
Depreciation and amortization	1,811,964	262,208	2,553,925	279,989
	4,559,679	1,000,281	6,698,318	1,102,726
<b>NET LOSS BEFORE TAX</b>	(1,644,106)	(938,533)	(1,541,016)	(1,046,964)
<b>INCOME TAXES</b>				
Current	(159,497)	-	(159,497)	-
Future	(723,000)	-	(723,000)	-
	(882,497)	-	(882,497)	-
<b>NET LOSS</b>	(761,609)	(938,533)	(658,519)	(1,046,964)
<b>DEFICIT, BEGINNING OF PERIOD</b>	(3,012,619)	(108,431)	(3,115,709)	-
<b>DEFICIT, END OF PERIOD</b>	\$ (3,774,228)	\$ (1,046,964)	\$ (3,774,228)	\$ (1,046,964)
<b>LOSS PER SHARE - Basic and Diluted (note 6 (e))</b>	\$ (0.02)	\$ (0.31)	\$ (0.02)	\$ (0.41)

See accompanying notes to financial statements.

**CENTRAL ALBERTA WELL SERVICES CORP.****Consolidated Statement of Cash Flows**

(unaudited)

	Three Months Ended		Six Months Ended	Four Months Ended
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
<b>CASH PROVIDED BY (USED IN):</b>				
<b>OPERATING:</b>				
Net loss	\$ (761,609)	\$ (938,533)	\$ (658,519)	\$ (1,046,964)
Items not affecting cash:				
Stock based compensation	431,915	-	1,004,135	-
Interest on shareholder loans	(3,768)	(4,368)	(7,848)	(5,824)
Loss on disposal of assets	24,547	-	24,547	-
Future income tax	(723,000)	-	(723,000)	-
Depreciation and amortization	1,811,964	262,208	2,553,925	279,989
Funds from operations	780,049	(680,693)	2,193,240	(772,799)
Change in non-cash working capital	2,714,942	(97,271)	569,724	(13,776)
	3,494,991	(777,964)	2,762,964	(786,575)
<b>INVESTING:</b>				
Business acquisitions - net of cash (note 3)	-	(2,700,000)	(4,664,052)	(2,711,183)
Purchase of property and equipment	(20,075,689)	(6,585,654)	(29,337,959)	(6,879,564)
Proceeds on sale of property and equipment	23,004	-	23,004	-
Restricted cash	(405,641)	-	(405,641)	-
Change in non-cash working capital	64,847	-	(2,391,749)	-
	(20,393,479)	(9,285,654)	(36,776,397)	(9,590,747)
<b>FINANCING:</b>				
Issue of long-term debt	4,174,640	-	8,050,000	-
Retirements of long-term debt	(1,032,670)	-	(1,032,670)	-
Short-term debt	10,000,000	-	21,000,000	-
Issue of common shares	-	1,500,000	5,126,507	1,818,750
Share subscriptions received	-	(1,019,000)	-	5,000
Share issue costs	2,048	(15,335)	(277,709)	(30,889)
Issue of convertible debentures	-	18,504,900	-	18,504,900
Deferred financing costs	(358,576)	(1,205,824)	(613,631)	(1,205,824)
Repayment of shareholder loans	(29,745)	-	9,005	(291,250)
	12,755,697	17,764,741	32,261,502	18,800,687
<b>(DECREASE) INCREASE IN CASH</b>	<b>(4,142,791)</b>	<b>7,701,123</b>	<b>(1,751,931)</b>	<b>8,423,365</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>5,035,687</b>	<b>722,242</b>	<b>2,644,827</b>	<b>-</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 892,896</b>	<b>\$ 8,423,365</b>	<b>\$ 892,896</b>	<b>\$ 8,423,365</b>

See accompanying notes to financial statements.

**SUPPLEMENTARY INFORMATION**

Interest paid	\$ 655,267	\$ 281,701	\$ 783,181	\$ 281,701
Interest received	\$ 37,660	\$ 15,185	\$ 41,898	\$ 15,185
Income taxes paid	-	-	-	-
Income taxes refunded	-	-	-	-

## 1. Accounting policies

The interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2005 as the interim statements do not contain all of the disclosures required for annual statements. The interim financial statements have been prepared in accordance with generally accepted accounting principles following the same accounting policies and methods of application as the annual financial statements for the year ended December 31, 2005, with the exception of the following policy regarding Restricted Cash.

**Restricted Cash:** Certain cash balances are restricted as they relate to cash collateralization of bank guarantees for the payroll electronic funds transfer program and corporate credit cards. These funds are not available for general corporate usage and have been separately disclosed.

On March 31, 2006, Central Alberta Well Services Corp. (“Company”) acquired 100% of the issued and outstanding shares of SSI Special Services Inc. (“SSI”), Precise Energy Services Ltd. (“Precise”) and 1080104 Alberta Ltd, operating as Vertical Rentals (“Vertical”). The interim consolidated financial statements include the financial position of Central Alberta Well Services Corp. and its subsidiaries.

## 2. Seasonality of operations

The Company’s operations are performed in western Canada. The ability to move heavy equipment safely and efficiently in western Canadian oil and natural gas fields is dependent on weather conditions. The first quarter is typically the most robust as the frost creates a stable ground mass that allows for easy access to well sites and easier service rig movement. The second quarter is traditionally the slowest due to spring break-up. When winter’s frost leaves the ground, it renders many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. Road bans during this time restrict service rig and support equipment access to well sites. The third quarter has more activity as the summer months are typically drier than the second quarter. The fourth quarter show robust activity again as the winter temperatures freeze the ground once more, maximizing site access. In addition, there may be a temporary halt with all operations in extreme cold weather when the temperature falls below -35C.

## 3. Business acquisitions

### a) SSI Special Services Inc. (“SSI”)

On March 31, 2006, the Company acquired 100% of the issued and outstanding shares of SSI and certain shareholder loan balances for total consideration of \$18.3 million, excluding transaction costs, including \$4.0 million and the issuance of 8.0 million shares of the Company from treasury. SSI provides nitrogen and snubbing services to oil and gas companies operating in Western Canada and has been in operation since 1997.

### b) Precise Energy Services Ltd. (“Precise”)

On March 31, 2006, the Company acquired 100% of the issued and outstanding shares of Precise for a purchase price of \$4.8 million, excluding transaction costs, by the issuance of 2.5 million shares of the Company from treasury. Precise provides well testing services to resource companies operating in Western Canada.

### c) 1080104 Alberta Ltd. (“Vertical”)

On March 31, 2006, the Company acquired 100% of the issued and outstanding shares of Vertical for a purchase price of \$2.3 million, excluding transaction costs, by the issuance of 1.2 million shares of the

Company from treasury. Vertical has a fleet of rental equipment that it provides to oil and gas customers in Western Canada.

These transactions have been accounted for by the purchase method. These acquisitions closed March 31, 2006. Details of the acquisitions, as amended to reflect the values ascribed, are as follows:

	SSI	Precise	Vertical	Total
<b>Assets:</b>				
Working capital items	1,273,210	283,862	503,260	2,060,332
Property and equipment	11,441,304	2,825,000	1,200,000	15,466,304
Intangible assets	5,626,000	-	-	5,626,000
Goodwill	6,317,301	3,052,500	894,683	10,264,484
	24,657,815	6,161,362	2,597,943	33,417,120
<b>Assumed liabilities:</b>				
Due to parent	4,050	-	-	4,050
Long term debt	4,284,671	896,369	38,169	5,219,209
Future income taxes	1,802,000	431,000	257,000	2,490,000
	6,090,721	1,327,369	295,169	7,713,259
Net assets and total consideration	18,567,094	4,833,993	2,302,774	25,703,861
Less: cash position	612,078	350,591	(298,617)	664,052
Net assets - excluding cash	19,179,172	5,184,584	2,004,157	26,367,913
Cash consideration - net of cash acquired	4,612,078	350,591	(298,617)	4,664,052
Non cash consideration	14,567,094	4,833,993	2,302,774	21,703,861
Total consideration - net of cash position	19,179,172	5,184,584	2,004,157	26,367,913

#### 4. Short term debt

	As at June 30, 2006	As at December 31, 2005
Credit facility for \$21 million at interest rates from bank prime rate plus 1.25% to 3.00%, maturing July 31, 2006 with an extension option to September 29, 2006, monthly payments of interest only until maturity, secured by a second charge on equipment and a general security agreement. The option was exercised, effective July 31, 2006. As at June 30, 2006, the Company did not meet the working capital covenant for this facility but secured a waiver from the lender. As at July 31, 2006, the Company was compliant with its working capital covenant.	\$ 21,000,000	-

#### 5. Long term debt

	As at June 30, 2006	As at December 31, 2005
Credit facility for \$13 million at interest rates based on Government of Canada bond yield plus 3.2%, monthly payments of interest only to December 31, 2006 followed by 48 equal payments of principal and interest, secured by a first charge on equipment and a general security agreement.	13,000,000	4,950,000

Term loans interest at fixed interest rates from 2.9% to 11.0%, maturing at various dates from October 2006 to February 2011, monthly payments of principal and interest of \$77,805, secured by charges over specific equipment.	2,951,746	-
Equipment loans bearing interest at bank prime rate plus 1.25%, monthly payments of \$18,403 per month, maturing at various dates from September 2009 to October 2010.	786,364	-
Unsecured loans with no fixed terms of repayment, incurring interest at 10% per annum, payable monthly.	420,000	-
Unsecured, interest free loan from Government of Canada related to a patent and repayable upon commercial application of the patent.	24,500	-
Total debt	17,182,610	4,950,000
Less current portion	2,557,267	-
	<u>\$ 14,625,343</u>	<u>\$ 4,950,000</u>

At June 30, 2006, the estimated principal repayments due in each of the next five years are as follows:

2007	\$ 2,557,267
2008	3,996,521
2009	4,094,705
2010	4,100,225
2011	1,793,512
Thereafter	640,380
	<u>\$ 17,182,610</u>

## 6. Share capital

### a) Authorized:

Unlimited number of common shares

### b) Issued:

	Number	Amount
Balance at January 1, 2006	27,080,138	\$ 21,172,024
Issued on private placement	2,904,400	5,082,704
Issued on exercise of options	35,000	60,851
Issued on SSI acquisition (note 2)	8,000,000	14,320,000
Issued on Precise acquisition (note 2)	2,507,027	4,813,492
Issued on Vertical acquisition (note 2)	1,190,000	2,284,800
Share issue costs (net of tax \$ 93,000)	-	(184,204)
Balance at March 31, 2006	41,716,565	47,549,667
Issued on exercise of options	1,667	4,779
Balance at June 30, 2006	41,718,232	\$ 47,554,446

During February 2006, the Company completed a private placement of 2,904,400 shares at \$1.75 per share for gross proceeds of \$5,082,704. Related costs of \$247,204, less income tax of \$82,935, were recorded as share issue costs.

On March 31, 2006, the Company completed the acquisitions of SSI, Precise and Vertical. On the SSI transaction the Company issued 8,000,000 shares for purchase consideration of \$14,320,000. On the Precise acquisition, the Company issued 2,507,027 shares for purchase consideration of \$4,813,492. On the Vertical acquisition, the Company issued 1,190,000 shares for purchase consideration of \$2,284,800. Related costs of \$30,000, less income tax of \$10,065, were recorded as issue costs.

c) Performance warrants

The Company issued 3,600,000 performance warrants on April 28, 2005 to certain of its directors and officers with a term of five years. Upon vesting, the warrants are exercisable into shares of the Company at a price of \$1.00 per share. Vesting was conditional upon the weighted average trading price of the Company's common shares being above specified levels for 20 consecutive trading days. During the fourth quarter of 2005, the vesting conditions were met for 100% of the warrants.

Of these warrants, 2,936,850 [82%] are subject to an escrow agreement, whereby, upon subject to the above vesting conditions, 10% of the warrants were released upon issuance and 15% of the balance are releasable every six months for three years.

The fair value of the performance warrants was estimated as at the grant date using the Trinomial Lattice pricing model. The Company recognized compensation expense for the performance warrants based upon the following assumptions:

Risk free rate of return	3.40%
Expected life (years)	5
Volatility	50%
Dividend yield	0%
Employee exit rate	0%

d) Stock option plan

During 2005 the Company established a stock option plan to provide directors, officers, employees and consultants with the opportunity to participate in its growth and development. As at January 1, 2006, 1,445,000 options were outstanding at exercise prices between \$1.15 and \$2.50 per share and expiring during 2010. As at March 31, 2006, an additional 1,467,500 options were issued at exercise prices between \$1.75 and \$1.82 per share, expiring during 2011. During the quarter ended June 30, 2006, an additional 548,000 options were issued at an exercise price of \$2.07 per share and expiring during 2011. One third of the options vested upon issuance and the balance vest in equal amounts on each anniversary over the next two years. Exercisable options were 959,167 at March 31, 2006 and 1,139,611 at June 30, 2006.



	Number of Options	Weighted Average Exercise Price
Outstanding, January 1, 2006	1,445,000	\$ 1.80
Granted during period	1,467,500	1.78
Exercised during period	(35,000)	(1.18)
Outstanding, March 31, 2006	2,877,500	\$ 1.79
Granted during period	548,000	2.07
Exercised during period	(1,667)	(1.15)
Forefeited during period	(5,000)	(1.15)
Outstanding, June 30, 2006	3,418,833	\$ 1.84

The fair value of the options granted was estimated as at the grant date using the Black-Scholes option pricing model. The Company recognizes compensation expense for these stock options based upon the following assumptions:

Risk free rates of return range	3.71% - 4.15%
Expected life (years)	5
Volatility	50%
Dividend yield	0%

Compensation expense and contributed surplus of \$572,220, (2005, Nil) relating to the stock options was recorded for the quarter ended March 31, 2006 and \$431,915, (2005, Nil) for the quarter ended June 30, 2006.

e) Basic and diluted loss per share

	Three Months Ended					
	June 30, 2006			June 30, 2005		
	Loss	Shares	Per Share Amount	Net Loss	Shares	Per Share Amount
Basic and diluted loss per share	\$ (761,609)	41,718,122	\$ (0.02)	\$ (938,533)	3,005,775	\$ (0.31)
Dilutive effect of:						
Stock option conversions	-	-	-	-	-	-
Performance warrant conversions	-	-	-	-	-	-
Diluted income loss per share	\$ (761,609)	41,718,122	(0.02)	\$ (938,533)	3,005,775	(0.31)
Securities excluded from diluted loss per share as the effect would be anti-dilutive		6,972,167			24,161,000	

  

	Six Months Ended					
	June 30, 2006			Four Months Ended June 30, 2005		
	Net Loss	Shares	Per Share Amount	Net Loss	Shares	Per Share Amount
Basic and diluted loss per share	\$ (658,519)	35,057,636	\$ (0.02)	\$ (1,046,964)	2,565,988	\$ (0.41)
Dilutive effect of:						
Stock option conversions	-	-	-	-	-	-
Performance warrant conversions	-	-	-	-	-	-
Diluted income loss per share	\$ (658,519)	35,057,636	(0.02)	\$ (1,046,964)	2,565,988	(0.41)
Securities excluded from diluted loss per share as the effect would be anti-dilutive		6,972,167			24,161,000	

## 7. Related party transactions

Pursuant to a master supply agreement, the Company purchased property and equipment from a company controlled by one of its directors. The transactions occurred in the regular course of the Company's activities and are recorded at the exchange amounts, which is the amount of consideration established and agreed to by the related parties.

	June 30, 2006	December 31, 2005
Purchases of capital equipment	\$ 22,186,113	\$ 13,235,793
Amounts in accounts payable	\$ 153,364	\$ 2,246,018

## 8. Segmented Information

The Company operates in two primary segments within the service industry in Western Canada: well servicing and other oilfield services. The well servicing segment provides well services through the use of service rigs and coil tubing units. The other oilfield services segment provides snubbing, nitrogen, production testing and equipment rentals. They primarily provide support services to the well service business.

The accounting policies of the segments are the same as those described in note 1, significant accounting policies. The Company evaluates performance on net income before taxes. Inter-segment sales are recorded at current market prices and eliminated upon consolidation.

The reportable segments are distinct operations as they offer complementary services to the well service business. When a service rig is on site, the other services are typically onsite at various times supporting the rig activity. However, these services can be sold independently of the well servicing. They are managed separately as the businesses were acquired as a unit and the Company has retained management of each acquirer.

The amounts related to each industry segment are as follows:

	Three Months Ended		Six Months	Four Months Ended
	June 30, 2006	June 30, 2005	Ended June 30, 2006	June 30, 2005
<b>Segment revenues</b>				
Well Servicing	3,903,409	398,237	8,834,883	478,393
Other Oilfield Services	3,791,654	-	3,791,654	-
	<u>7,695,063</u>	<u>398,237</u>	<u>12,626,537</u>	<u>478,393</u>
<b>Inter-segment revenues</b>				
Well Servicing	(2,510)	-	(2,510)	-
Other Oilfield Services	(57,434)	-	(57,434)	-
	<u>(59,944)</u>	<u>-</u>	<u>(59,944)</u>	<u>-</u>
Well Servicing	3,900,899	398,237	8,832,373	478,393
Other Oilfield Services	3,734,220	-	3,734,220	-
	<u>7,635,119</u>	<u>398,237</u>	<u>12,566,593</u>	<u>478,393</u>
<b>Revenues from external customers</b>				
<b>Interest expense</b>				
Well Servicing	537,680	262,148	657,276	260,692
Other Oilfield Services	97,713	-	97,713	-
	<u>635,393</u>	<u>262,148</u>	<u>754,989</u>	<u>260,692</u>
<b>Depreciation and amortization</b>				
Well Servicing	1,160,053	262,208	1,902,014	279,989
Other Oilfield Services	651,911	-	651,911	-
	<u>1,811,964</u>	<u>262,208</u>	<u>2,553,925</u>	<u>279,989</u>
<b>Income taxes</b>				
Well Servicing	(570,000)	-	(570,000)	-
Other Oilfield Services	(312,497)	-	(312,497)	-
	<u>(882,497)</u>	<u>-</u>	<u>(882,497)</u>	<u>-</u>
<b>Loss before income taxes</b>				
Well Servicing	(949,337)	(938,533)	(846,247)	(1,046,964)
Other Oilfield Services	(694,769)	-	(694,769)	-
	<u>(1,644,106)</u>	<u>(938,533)</u>	<u>(1,541,016)</u>	<u>(1,046,964)</u>
<b>Assets</b>				
Well Servicing	52,042,222	19,785,195	52,042,222	19,785,195
Other Oilfield Services	39,432,869	-	39,432,869	-
	<u>91,475,091</u>	<u>19,785,195</u>	<u>91,475,091</u>	<u>19,785,195</u>
<b>Purchase of property and equipment</b>				
Well Servicing	16,485,206	6,585,654	25,747,476	6,879,564
Other Oilfield Services	3,590,483	-	3,590,483	-
	<u>20,075,689</u>	<u>6,585,654</u>	<u>29,337,959</u>	<u>6,879,564</u>

## 9. Subsequent events

On August 9, 2006, the Company entered into an agreement for a private placement of common shares for proceeds of a maximum of \$15.0 million on a best efforts basis and to be priced in the context of the market. Closing of the financing is expected to occur during September 2006, subject to TSX Venture Exchange and regulatory approvals.