

Consolidated Financial Statements of

CENTRAL ALBERTA WELL SERVICES CORP.

For the Three and Nine Months Ended September 30, 2006

CENTRAL ALBERTA WELL SERVICES CORP.**Consolidated Balance Sheets**

(Unaudited)

	September 30, 2006	December 31, 2005
ASSETS		
Current assets		
Cash	\$ 4,183,538	\$ 2,644,827
Restricted cash (note 1)	5,571,726	-
Accounts receivable	12,538,879	3,263,105
Shareholder loans	-	84,646
Inventory	1,514,365	289,630
Prepays and deposits	218,734	160,088
	<u>24,027,242</u>	<u>6,442,296</u>
Property and equipment	67,355,000	19,962,118
Shareholder loans	175,000	211,875
Deferred financing costs	1,317,314	38,328
Intangible assets	5,324,512	-
Goodwill	10,907,667	519,183
	<u>\$ 109,106,735</u>	<u>\$ 27,173,800</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 7,812,364	\$ 3,628,656
Short term debt (note 4)	35,000,000	-
Shareholder loans	383,758	-
Income taxes payable	878,528	-
Current portion of long-term debt (note 5)	3,259,976	-
	<u>47,334,626</u>	<u>3,628,656</u>
Future income taxes	2,349,000	-
Long-term debt (note 5)	13,677,635	4,950,000
	<u>63,361,261</u>	<u>8,578,656</u>
SHAREHOLDERS' EQUITY		
Share capital (note 6)	47,554,446	21,172,024
Contributed surplus (note 6 (c) and (d))	1,782,505	538,829
Deficit	(3,591,477)	(3,115,709)
	<u>45,745,474</u>	<u>18,595,144</u>
Subsequent event (note 9)		
	<u>\$ 109,106,735</u>	<u>\$ 27,173,800</u>

See accompanying notes to financial statements.

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

(unaudited)

	Three Months Ended		Nine Months Ended	Seven Months Ended
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
REVENUE	\$ 13,289,105	\$ 552,068	\$ 25,855,698	\$ 1,030,460
OPERATING COSTS	7,908,146	362,207	15,317,437	784,837
	5,380,959	189,861	10,538,261	245,623
OTHER EXPENSES				
General and administrative	1,294,871	537,161	3,680,141	1,099,206
Stock based compensation	261,872	128,312	1,266,007	128,312
Interest	786,669	633,612	1,541,658	1,052,395
Depreciation and amortization	2,046,070	78,342	4,599,994	200,240
	4,389,482	1,377,427	11,087,800	2,480,153
NET INCOME (LOSS) BEFORE INCOME TAXES	991,477	(1,187,566)	(549,539)	(2,234,530)
INCOME TAXES				
Current	257,726	-	98,229	-
Future (reduction)	551,000	-	(172,000)	-
	808,726	-	(73,771)	-
NET INCOME (LOSS)	182,751	(1,187,566)	(475,768)	(2,234,530)
DEFICIT, BEGINNING OF PERIOD	(3,774,228)	(1,294,401)	(3,115,709)	(247,437)
DEFICIT, END OF PERIOD	\$ (3,591,477)	\$ (2,481,967)	\$ (3,591,477)	\$ (2,481,967)
INCOME (LOSS) PER SHARE				
Basic and Diluted (note 6 (e))	\$ 0.00	\$ (0.26)	\$ (0.01)	\$ (0.65)

See accompanying notes to financial statements.

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

(unaudited)

	Three Months Ended		Nine Months Ended	Seven Months Ended
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
CASH PROVIDED BY (USED IN):				
OPERATING:				
Net Income (loss)	\$ 182,751	\$ (1,187,566)	\$ (475,768)	\$ (2,234,530)
Items not affecting cash:				
Stock based compensation	261,872	128,312	1,266,007	128,312
Interest	(3,684)	225,453	(11,532)	377,720
Loss on disposal of assets	-	-	24,547	-
Future income taxes (reduction)	551,000	-	(172,000)	-
Depreciation and amortization	2,046,070	78,342	4,599,994	200,240
Funds from operations	3,038,009	(755,459)	5,231,248	(1,528,258)
Change in non-cash working capital	(1,627,088)	8,572	(1,057,363)	(203)
	1,410,921	(746,887)	4,173,885	(1,528,461)
INVESTING:				
Business acquisitions (note 3)	378,483	(108,528)	(4,285,569)	(2,819,711)
Purchase of property and equipment	(6,476,954)	(2,780,272)	(35,814,913)	(9,659,836)
Proceeds on sale of property and equipment	-	-	23,004	-
Restricted cash	(5,166,085)	-	(5,571,726)	-
Change in non-cash working capital	504,200	-	(1,887,549)	-
	(10,760,356)	(2,888,800)	(47,536,753)	(12,479,547)
FINANCING:				
Issuance of long-term debt	-	-	8,050,000	-
Repayment of long-term debt	(248,928)	-	(1,281,598)	-
Increase of short-term debt	14,000,000	-	35,000,000	-
Issuance of common shares	-	2,100,000	5,126,002	3,918,750
Share issue costs	-	(212,885)	(277,204)	(243,775)
Issue of convertible debentures	-	-	-	18,504,900
Deferred financing costs	(1,123,078)	-	(1,736,708)	(1,205,824)
Shareholder loans	12,083	-	21,087	(291,250)
	12,640,077	1,887,115	44,901,579	20,682,801
INCREASE (DECREASE) IN CASH	3,290,642	(1,748,572)	1,538,711	6,674,793
CASH, BEGINNING OF PERIOD	892,896	8,423,365	2,644,827	-
CASH, END OF PERIOD	\$ 4,183,538	\$ 6,674,793	\$ 4,183,538	\$ 6,674,793

See accompanying notes to financial statements.

SUPPLEMENTARY INFORMATION

Interest paid	\$ 794,280	\$ 465,597	\$ 1,577,219	\$ 747,298
Interest received	11,943	57,437	53,842	72,622
Income taxes paid	132,783	-	132,783	-
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 short term loan advances related to equipment that was not received as of the balance sheet date. 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 located 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. Activity levels during the first quarter are 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 road bans during 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 is again quite active as winter temperatures freeze the ground once more, maximizing site access. However, there may be a temporary halt to 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
Assets:				
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	6,441,301	3,052,500	894,683	10,388,484
	<u>24,781,815</u>	<u>6,161,362</u>	<u>2,597,943</u>	<u>33,541,120</u>
Assumed liabilities:				
Due to parent	4,050	-	-	4,050
Long term debt	4,284,671	896,369	38,169	5,219,209
Future income taxes	1,926,000	431,000	257,000	2,614,000
	<u>6,214,721</u>	<u>1,327,369</u>	<u>295,169</u>	<u>7,837,259</u>
Net assets acquired	<u>18,567,094</u>	<u>4,833,993</u>	<u>2,302,774</u>	<u>25,703,861</u>
Cash consideration	4,000,000	-	-	4,000,000
Acquisition costs	247,094	20,501	17,974	285,569
Non cash consideration	<u>14,320,000</u>	<u>4,813,492</u>	<u>2,284,800</u>	<u>21,418,292</u>
Total consideration	<u>18,567,094</u>	<u>4,833,993</u>	<u>2,302,774</u>	<u>25,703,861</u>

(*): Includes cash of \$298,617 acquired on Vertical acquisition

4. Short-term debt

	As at September 30, 2006	As at December 31, 2005
Credit facility for \$35 million at interest rate of bank prime rate plus 3.00%, maturing April 30, 2007, monthly payments of interest only until maturity, secured by a second charge on equipment and a general security agreement.	\$ 35,000,000	-

Facility was to mature September 29, 2006 but prior to maturity the Company negotiated with the lender to extend to April 30, 2007 and expand from \$21 million to \$35 million.

5. Long-term debt

	As at September 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 with 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 \$87,329, secured by charges over specific equipment.	2,771,136	-
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.	741,975	-
Unsecured loans with no fixed terms of repayment, incurring interest at 10% per annum, payable monthly.	400,000	-
Unsecured, interest-free loan from Government of Canada related to a patent and repayable upon commercial application of the patent.	24,500	-
Total debt	16,937,611	4,950,000
Less current portion	3,259,976	-
	\$ 13,677,635	\$ 4,950,000

At September 30, 2006, estimated principal repayments for each of the next five years are as follows:

2007	\$ 3,259,976
2008	4,072,843
2009	4,141,947
2010	4,209,230
2011	717,509
Thereafter	536,106
	\$ 16,937,611

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 3)	8,000,000	14,320,000
Issued on Precise acquisition (Note 3)	2,507,027	4,813,492
Issued on Vertical acquisition (Note 3)	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 and September 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, 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, expiring during 2011. No additional options were issued during the quarter ended September 30, 2006.

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, 1,139,611 at June 30, 2006 and 1,331,556 at September 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
Granted during period	-	-
Exercised during period	-	-
Forefeited during period	(25,833)	1.86
Outstanding, September 30, 2006	3,393,000	\$ 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. For the quarter ended June 30, 2006 \$431,915, (2005: Nil) was recorded and \$261,872 (2005: \$128,312) for the quarter ended September 30, 2006.

e) Basic and diluted loss per share

	Three Months Ended					
	September 30, 2006			September 30, 2005		
	Net Income	Shares	Per Share Amount	Net Loss	Shares	Per Share Amount
Basic and diluted income (loss) per share	\$ 182,751	41,718,232	\$ 0.00	\$ (1,187,566)	4,553,474	\$ (0.26)
Dilutive effect of:						
Stock option conversions		-			-	
Performance warrant conversions		809,302			-	
Diluted income (loss) per share	\$ 182,751	42,527,534	0.00	\$ (1,187,566)	4,553,474	(0.26)
Securities excluded from diluted loss per share as the effect would be anti-dilutive		3,393,000			22,894,003	

	Nine Months Ended			Seven Months Ended		
	September 30, 2006			September 30, 2005		
	Net Loss	Shares	Per Share Amount	Net Loss	Shares	Per Share Amount
Basic and diluted loss per share	\$ (475,768)	37,301,670	\$ (0.01)	\$ (2,234,530)	3,420,421	\$ (0.65)
Dilutive effect of:						
Stock option conversions		-			-	
Performance warrant conversions		-			-	
Diluted income (loss) per share	\$ (475,768)	37,301,670	(0.01)	\$ (2,234,530)	3,420,421	(0.65)
Securities excluded from diluted loss per share as the effect would be anti-dilutive		6,993,000			15,763,175	

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.

	September 30, 2006	December 31, 2005
Purchases of capital equipment	\$ 27,269,085	\$ 13,235,793
Amounts in accounts payable	\$ 296,716	\$ 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, primarily providing 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. Once 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		Nine Months Ended	Seven Months Ended
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Segment revenues				
Well Servicing	6,442,313	552,068	15,277,196	1,030,460
Other Oilfield Services	6,957,505	-	10,749,159	-
	<u>13,399,818</u>	<u>552,068</u>	<u>26,026,355</u>	<u>1,030,460</u>
Inter-segment revenues				
Well Servicing	(2,213)	-	(4,723)	-
Other Oilfield Services	(108,500)	-	(165,934)	-
	<u>(110,713)</u>	<u>-</u>	<u>(170,657)</u>	<u>-</u>
Well Servicing	6,440,100	552,068	15,272,473	1,030,460
Other Oilfield Services	6,849,005	-	10,583,225	-
Revenues from external customers	<u>13,289,105</u>	<u>552,068</u>	<u>25,855,698</u>	<u>1,030,460</u>
Interest expense				
Well Servicing	696,179	633,612	1,353,455	1,052,395
Other Oilfield Services	90,490	-	188,203	-
	<u>786,669</u>	<u>633,612</u>	<u>1,541,658</u>	<u>1,052,395</u>
Depreciation and amortization				
Well Servicing	1,352,463	78,342	3,254,477	200,240
Other Oilfield Services	693,607	-	1,345,517	-
	<u>2,046,070</u>	<u>78,342</u>	<u>4,599,994</u>	<u>200,240</u>
Income taxes				
Well Servicing	754,000	-	184,000	-
Other Oilfield Services	54,726	-	(257,771)	-
	<u>808,726</u>	<u>-</u>	<u>(73,771)</u>	<u>-</u>
Income (loss) before income taxes				
Well Servicing	247,357	(1,887,566)	(188,118)	(2,234,530)
Other Oilfield Services	744,120	-	(361,421)	-
	<u>991,477</u>	<u>(1,887,566)</u>	<u>(549,539)</u>	<u>(2,234,530)</u>
Assets				
Well Servicing	67,174,181	20,338,246	67,174,181	20,338,246
Other Oilfield Services	41,932,554	-	41,932,554	-
	<u>109,106,735</u>	<u>20,338,246</u>	<u>109,106,735</u>	<u>20,338,246</u>
Purchase of property and equipment				
Well Servicing	4,837,614	2,780,272	30,585,090	9,659,836
Other Oilfield Services	1,639,340	-	5,229,823	-
	<u>6,476,954</u>	<u>2,780,272</u>	<u>35,814,913</u>	<u>9,659,836</u>

9. Subsequent Event

Subsequent to the end of the quarter, SSI Special Services Inc. ("SSI") a wholly-owned subsidiary of the Company, was served with a summons under the Occupational Health & Safety Act alleging that SSI failed to ensure the safety of certain employees with respect to an incident in 2004. The Company has determined that the amount of damages, if any, and the potential outcome of this action is indeterminable at this time. The Company intends to vigorously defend all charges. Furthermore, pursuant to the terms of the SSI acquisition agreement, the Company is fully indemnified for all damages, if any, and costs related to this contingent liability.