CENTRAL ALBERTA WELL SERVICES CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

Central Alberta Well Services Corp.

Highlights

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2007	2006	2007	2006
Revenues	$ 5,965,572	$ 7,635,119	$ 22,863,361	$ 12,566,593
Operating costs	4,878,916	4,719,546	15,263,831	7,409,291
	1,086,656	2,915,573	7,599,530	5,157,302
	18.2%	38.2%	33.2%	41.0%
General and administrative expenses	1,392,741	1,680,407	3,273,659	2,385,269
EBITDAS (1)	(306,085)	1,235,166	4,325,871	2,772,033
EBITDAS per share (1)				
Basic and diluted	(0.01)	0.12	0.19	0.32
Stock based compensation	893,416	431,915	1,257,117	1,004,135
Interest	1,451,364	635,393	3,764,236	754,989
Depreciation and amortization	2,132,172	1,811,964	4,548,779	2,553,925
Net loss before tax	(4,783,037)	(1,644,106)	(5,244,261)	(1,541,016)
Funds from operations (2)	(1,364,245)	780,049	1,186,581	2,193,240
Funds from operations per share (2)				
Basic and diluted	$ (0.06)	$ 0.07	$ 0.05	$ 0.25
Loss per share				
Basic and diluted	$ (0.19)	$ (0.07)	$ (0.20)	$ (0.08)
Purchase of property and equipment	$ 6,769,800	$ 20,075,689	$ 19,347,005	$ 29,337,959

(1) EBITDAS is calculated from the statement of loss as revenue less operating costs and general and administrative expenses, exclusive of stock based compensation costs, and is used to assist management and investors in assessing the Company's ability to generate cash from operations. EBITDAS is a non-GAAP measure and does not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures provided by other companies. Number of shares outstanding is post consolidation of common shares described in note 8 of the financial statements.

(2) Funds from operations is defined as cash from operating activities before changes in non-cash working capital. Funds from operations and funds from operations per share are measures that provide investors additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Funds from operations and Funds from operations per share do not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures provided by other companies. Number of shares outstanding is post consolidation of common shares described in note 8 of the financial statements.

The following is management's discussion and analysis ("MD&A") of Central Alberta Well Services Corp.'s ("CWC" or the "Company") unaudited operating and financial results for the three month period ended June 30, 2007. This MD&A should be read in conjunction with the CWC's unaudited financial statements for the three months ended June 30, 2007, and the audited financial statement for the year ended December 31, 2006. Additional information on the Company can be found on the Company's website at www.cawsc.com or on SEDAR at www.sedar.com. The information provided in this MD&A is current as of August 21, 2007.

This discussion should not be considered all-inclusive as it excludes changes that may occur in general economic, political and environmental conditions.

Certain statements contained in this MD&A, including statements which may contain such word as "could", "should", "believe", "expect", "will", and similar expressions and statements relating to matters that are not historical facts are forward-looking statements including, but not limited to, statements as to: future capital expenditures, including the amount and nature thereof; business strategy; expansion and growth of the Company's business and operations; and other matters.

Management has made certain assumptions and analyses which reflect their experiences and knowledge in the industry. These assumptions and analyses are believed to be accurate and truthful at the time, but the Company can not assure readers that actual results will be consistent with these forward looking statements.

However, whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to known and unknown risks and uncertainties which could cause actual results to differ materially from the Company's expectations.

All forward-looking statements made in the MD&A are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected outcomes to or effects on the Company or its business operations. The Company does not intend, and does not assume any obligation, to update these forward-looking statements. Any forward-looking statements made previously may be inaccurate now.

Corporate Development

CWC is a public company traded on the TSX Venture exchange and has done so since September 2005. Through 2006 the CWC was active in growing its fleet of service rigs and also incorporating the three separate companies acquired during the year which brought snubbing, nitrogen delivery and pumping, well testing, and a rental fleet to the services it offers.

2007 began with 16 service rigs, 7 coil tubing units, 5 snubbing units, 11 nitrogen tankers and pumpers, and 12 well testing units. During the second quarter of 2007 the Company has fabricated one additional service rig with two more following early July. This growth follows the original business plan of building high quality assets with similar components in order to gain efficiencies through training, operating and decreasing the volume of inventory. The Company has now committed to building an additional eight service rigs that are planned to be operational by the end of December 2007.

The Company is headquartered in Red Deer, Alberta providing well services to oil and gas exploration and development companies operating in Western Canada through operating divisions in Red Deer, Provost and Whitecourt, Alberta. CWC has also just recently opened a Calgary office which will provide sales support and other corporate functions.

Overview

For the quarter ending June 30, 2007, the Company was severely hampered by the wet weather and prolonged road bans. The Company generated $6.0 million in revenue and a loss of $4.8 million before tax compared to 2006 revenues of $7.6 million and a loss of $1.6 million before tax. During the second quarter 2007, the Company experienced stock based compensation expense resulting from the change of control provision in the stock option plan which resulted in an expense of $893,000. The equity placement of $50 million in which one party purchased the majority of the shares issued caused the change of control clause in the stock option plan to be exercised. As a result of all options vesting the Company had to take into expense the full future expense in the current period. From this point forward there is no stock based compensation expense unless the Company issues more options to employees in which the normal vesting program will begin again.

EBITDAS for the quarter ending June 30, 2007 is a negative $306,000 compared to a positive $1.2 million in the same period of 2006. This is a result of the prolonged spring break-up and the costs associated with the growth of the Company through the fabrication of new equipment and deploying it to the field.

Utilization for quarter two for Well Servicing was 36% (6,221 hours) and 17% in the Other Oilfield Services. Utilization for Well Servicing is based on the number of hours worked and in the Other Oilfield Services segment is based on the number of jobs performed in the period.

THREE MONTHS ENDED JUNE 30	2007	2006
WELL SERVICING		
Revenues	3,968,059	3,903,409
Income (loss) before income taxes	(421,917)	461,128
EBITDAS (1)	1,684,652	1,775,107
OTHER OILFIELD SERVICES		
Revenues	1,997,513	3,731,710
Loss before income taxes	(1,403,486)	(258,571)
EBITDAS (1)	(539,110)	373,987
CORPORATE		
Revenues	–	–
Loss before income taxes	(2,957,635)	(1,846,664)
EBITDAS (1)	(1,451,627)	(913,928)

(1) EBITDAS is calculated from the statement of loss as revenue less operating costs and general and administrative expenses, exclusive of stock based compensation costs, and is used to assist management and investors in assessing the Company's ability to generate cash from operations. EBITDAS is a non-GAAP measure and does not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures provided by other companies.

Operational Review

CWC operates from four facilities; two in Red Deer, one in Provost and a satellite branch in Whitecourt, Alberta. The Company provides well services to oil and gas exploration and development companies operating in the Western Canadian Sedimentary Basin including completions, work-over and abandonment, well maintenance, high pressure and critical sour gas well work, re-entry preparation and re-entry drilling and coal bed methane work-overs and completions.

The Company continues to expand its fleet by fabricating high quality new technology equipment. Through the second quarter the Company completed fabricating one service rig with an additional two service rigs following early in quarter 3. The Company has also committed to fabricating an additional eight service rigs through the remainder of 2007 with the last service rig scheduled to be completed in late December.

As a result of this expansion, the Company now operates the following fleet of equipment within the Western Canadian Sedimentary Basin:

	2007		2006			
	JUNE 30	MARCH 31	DECEMBER 31	SEPTEMBER 30	JUNE 30	MARCH 31
Units operating at end of period						
Service rigs	19	18	16	15	12	8
Coil units	8	8	7	5	4	3
Snubbing units	7	7	5	5	5	5
Nitrogen tankers & pumpers	13	13	11	10	10	8
Pressure tanks	12	12	12	10	9	9

An important competitive advantage that the Company has followed through its growth is to fabricate a well service equipment fleet that utilizes identical components on all units and that are sourced through one primary equipment manufacturer. Such a standardized fleet is expected to benefit from the incremental operating advantages of reduced maintenance costs and lower parts and replacement component inventories. The Company's commitment to building a modern fleet with leading edge technology will stand out in an industry characterized by an ageing equipment infrastructure.

Significant Agreements

The Company continues to fabricate the majority of the service rig and its auxiliary equipment through one main supplier. This has been the Company's strategy in having all components of a service rig identical in order to reduce operating costs and to minimize the volume of spare parts the Company has to carry. Currently the Company has committed to fabrication of an additional eight service rigs to be completed by the end of 2007 at an estimated cost of $20 million.

Selected Financial Information

	2007		2006			
THREE MONTHS ENDING	JUNE 30	MARCH 31	DECEMBER 31	SEPTEMBER 30	JUNE 30	MARCH 31
Revenues	$ 5,965,572	$ 16,897,789	$ 13,941,627	$ 13,289,105	$ 7,635,119	$ 4,931,474
Net income (loss)	(4,309,637)	(253,686)	(11,506,480)	182,751	(761,609)	103,090
EPS: Basic and diluted*	(0.19)	(0.02)	(1.20)	0.02	(0.07)	0
Weighted average Class A common shares	57,707,221	41,873,273	41,746,881	41,718,232	41,718,122	28,457,574
Weighted average Class B common shares	6,772,018					
Total assets	107,107,035	106,675,393	94,798,411	109,106,735	91,475,091	81,371,149
Long-term debt	15,498,793	58,134,623	16,523,834	16,937,611	17,182,610	14,040,639
Purchase of property and equipment	$ 6,769,800	$ 12,577,205	$ 5,152,624	$ 6,476,954	$ 20,075,689	$ 9,262,272

	2005		
THREE MONTHS ENDING	DECEMBER 31	SEPTEMBER 30	JUNE 30
Revenues	$ 1,946,699	$ 552,068	$ 398,237
Net income (loss)	(633,742)	(1,187,566)	(938,533)
EPS: Basic and diluted	(0.03)	(1.04)	(1.25)
Weighted average common shares	20,282,878	4,553,474	3,005,775
Total assets	27,173,800	20,338,246	19,785,195
Long-term debt	4,950,000	13,595,425	13,845,574
Purchase of property and equipment	$ 8,754,760	$ 2,780,272	$ 6,585,654

* EPS has been restated for prior periods taking into account the consolidation of shares on a 1:4 basis as outlined in note 8 of the financial statements.

The quarterly results of operations have been provided for the first six months of 2007, the four quarters of 2006 and three quarters of 2005. The large net loss in quarter four of 2006 is the result of the impairment of goodwill which was recorded at December 31, 2006. The total amount of this impairment was $10.7 million net of tax adjustments. This impairment is also responsible for the decrease in total assets from $109.1 million to $94.8 million from quarter three to quarter four respectively.

Capital expenditures include assets under construction at the end of each of the quarters presented. Assets under construction are not depreciated until they are available for use.

Quarterly Review

General and administrative expenditures for quarter two 2007 were 23% of revenue. This was expected as the revenue dropped significantly due to spring break-up. Year to date general and administrative is 14% of revenue. The Company estimates that these expenses will be close to 10% of revenue for the full year of 2007.

Interest expense includes the interest paid on the various debt instruments the Company had during the period. In June 2007 the Company reduced the total amount outstanding on all debt facilities to $20 million.

Capital expenditures for the quarter consisted of the fabrication of many pieces of equipment including assets that are still under construction at quarter end. The Company has two service rigs still under construction at the end of the quarter which will be received early in quarter 3. The Company has also committed to the fabrication of eight additional service rigs through to the end of 2008.

Liquidity and Capital Resources

	2007		2006			
FOR THE QUARTER ENDED	JUNE 30	MARCH 31	DECEMBER 31	SEPTEMBER 30	JUNE 30	MARCH 31
Working capital (deficiency)	9,679,652	11,588,974	(27,256,935)	(23,307,384)	(17,519,991)	(194,130)
Working capital (deficiency) – net of bridge loan and restricted cash	9,264,652	11,173,974	7,330,725	6,120,890	3,074,368	(194,130)
Long-term debt	15,498,793	58,134,623	16,523,834	16,937,611	17,182,610	14,040,639
Shareholders' equity	82,550,545	37,148,201	34,626,065	45,578,780	45,300,850	45,628,496
Long-term debt to equity	0.19	1.56	0.48	0.37	0.38	0.31

	2005		
FOR THE QUARTER ENDED	DECEMBER 31	SEPTEMBER 30	JUNE 30
Working capital (deficiency)	2,813,640	6,745,091	8,636,777
Working capital (deficiency) – net of bridge loan and restricted cash	2,813,640	6,745,091	8,636,777
Long-term debt	4,950,000	13,595,425	13,845,574
Shareholders' equity	18,595,144	5,654,048	5,558,314
Long-term debt to equity	0.27	2.40	2.49

Working capital ended the quarter at $9.3 million net of restricted cash; a decrease of $1.9 million from March 31.

As at June 30, 2007, the Company had 90,687,720 class A common shares issued and outstanding and 22,614,124 Class B common shares outstanding

Contractual Obligations

The Company is committed to repayment of its long-term debt over the next three years with interest only payments monthly and a balloon payment of the outstanding amount at the end of the term of the loan. Along with that, the Company has several vehicle leases, building and facility leases.

Critical Accounting Estimates

This Management's Discussion and Analysis of the Company's financial condition and results of operations is based on the consolidated financial statements which are prepared in accordance with Canadian generally accepted accounting principles (GAAP). The Company's significant accounting policies are discussed in note 3 of the audited consolidated financial statements. The presentation of these financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. These estimates are based on experience and assumptions that are believed to be reasonable under the circumstances. Although care has been taken, anticipating future events cannot be done with certainty, therefore actual results may vary from these estimates over time as more accurate information is available and as the Company's operating environment changes.

Impairment of Long-Lived Assets: Long-lived assets, including property and equipment and intangible assets comprise a majority of the Company's assets. Management reviews the carrying values of these assets for impairment periodically or whenever events or changes in circumstance indicate that their carrying value may not be recoverable. When this occurs, management performs various tests to see if the net carrying value differs from fair value, and if the fair value is less than carrying value, the asset would be considered to be impaired and an impairment loss would be recognized to reduce the asset's carrying value to its estimated fair value.

Depreciation and Amortization: The Company's property, plant, equipment and intangibles are depreciated and amortized over estimated useful life using both straight line and unit-of-production methods. The estimates may change over time as more useful information becomes available, market conditions shift or other factors change the estimated useful life of the assets.

Stock Based Compensation: Stock based compensation expense associated with the stock-option rights granted to directors and employees is calculated based on assumptions using the Black-Scholes option pricing model to produce an estimate of compensation. This estimate may vary due to changes in the Black-Scholes variables, which include the risk free rate of return, the share price volatility and the rates of forfeiture.

Risk Management

Business Risks: Activity in the oil and gas industry is subject to a range of external factors that are difficult to actively manage, including resource demand, commodity pricing and climate. The Company plans to mitigate these risks by creating a strong balance sheet and remaining responsive to changes in industry dynamics.

The Company has a comprehensive insurance policy to help safeguard its assets, operations and employees. This is reviewed annually and revised as changes in circumstances warrant.

Credit Risks: The Company currently transacts with oil and gas exploration companies and is exposed to the associated credit risk. Management continually assesses the credit worthiness of these customers and monitors all outstanding balances. Management views the credit risk of its accounts receivables as normal for its industry.

Financing Risk: The ability of the Company to complete its budgeted capital acquisition program and meet its payment obligations as they become due will continue to be dependent on its ability to secure sufficient funds through additional debt and equity financing and to generate positive cash flow from operations.

Supplier Risk: The Company has a large portion of its service rig and associated equipment manufactured by a single provider. While this arrangement provides certain market advantages, it also exposes the Company to potential short-term vulnerability if this supplier experiences unusual production disruptions or labour disputes.

Seasonal and Weather Risk: Seasonal factors and unexpected weather patterns may lead to reduced oil and gas exploration activity and corresponding declines in the demand for the Company's services during various times of the year.

Competitive Conditions: The operating climate within the Western Canadian Sedimentary Basin is very competitive resulting in fluctuations of price and utilization rates. CWC attempts to mitigate these risks by creating a good working relationship with its customers and focusing on longer term contracts.

Change in Accounting Policy

On January 1, 2007, the Company adopted the recommendations included in the following:

Sections of the Canadian Institute of Chartered Accountants Handbook: Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement, Section 3865, Hedges, Section 3861, Financial Instruments – Disclosure and Presentation, and Section 3251, Equity.

Section 1530, Comprehensive income, requires the presentation of comprehensive income and its components in a new financial statement. Comprehensive income is the change in the net assets of a company arising from transactions, events and circumstances not related to shareholders. Section 3251, Equity, establishes standards for the presentation of equity and changes in equity during the reporting period.

Section 3855, Financial Instruments – Recognition and Measurement, and Section 3861, Financial Instruments – Disclosure and Presentation, establishes standards for classification, recognition, measurement, presentation and disclosure of financial instruments (including derivatives) and non-financial derivatives in the financial statements. This standard prescribes when to recognize a financial instrument in the balance sheet and at what amount, fair value or amortized cost depending on their balance sheet classification of the related financial instrument. This standard also prescribes the basis of presentation for gains and losses on financial instruments. Based on financial instrument classification, gains and losses on financial instruments are recognized in net income or other comprehensive income.

The Company has made the following classifications:

- Cash is classified as an "Asset held for trading." It is measured at fair value and the gains or losses resulting from the re-measurement at the end of each period are recognized in net income.
- Accounts receivable are classified as: "Loans and receivables." They are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Bank indebtedness, accounts payable and accrued liabilities, and long-term debt are classified as "Other financial liabilities." They are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest method.

Section 3865, Hedges, sets out standards specifying when and how an entity can use hedge accounting. The adoption of this new standard is optional. It offers the possibility of applying different reporting options than those set out in Section 3855, Financial Instruments – Recognition and Measurement, to qualifying transactions that they elect to designate as hedges for accounting purposes. The Company does not currently engage in hedging activities required to be addressed by these new standards.

Based on Section 3855, Financial Instruments – Recognition and Measurement, these derivatives are measured at fair value at the end of each period and the gains or losses resulting from re-measurement recognized in net income. The Company has reviewed its contracts and concluded there are no embedded derivatives at this time.

Internal Control Over Financial Reporting and Evaluation of Disclosure Controls and Procedures.

The Chief Executive Officer and the Chief Financial Officer (the "Disclosure Officers") are responsible for establishing and maintaining the Company's disclosure controls and procedures to provide reasonable assurance that the material information relating to the Company is made known. Internal controls over financial reporting have been designed under the supervision of the Disclosure Officers to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statement for external purposes in accordance with Canadian GAAP.

For the period ending December 31, 2006, the Disclosure Officers have evaluated the effectiveness of the disclosure controls and procedures for CWC. This evaluation has caused the Disclosure Officers to identify certain weaknesses within the Company's controls which are:

1. Due to the limited number of staff of CWC, it is not possible to achieve a segregation of all duties; and
2. Due to a limited number of staff, CWC does not have technical accounting expertise and knowledge to address all non-routine complex accounting issues that may arise.

These weaknesses in CWC's internal controls over financial reporting result in a slightly more than remote likelihood that a material misstatement may not be prevented or detected. Management and the board of directors work to mitigate the risk of material misstatement in financial reporting by segregating duties as much as possible and where not possible to have duplication of processes to ensure the accuracy of information. The Company also employs outside consultants and accounting firms to assist with complex accounting and technical issues. In spite of management's best efforts, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

Outlook

The first six months of 2007 has been challenging in that activity levels have dropped from prior years. Demand for oilfield services has decreased significantly and the increased capacity from the capital build programs in the past has come to leave excess capacity in many areas of the service sector. The Company believes that there is still an opportunity to replace older, inefficient service rigs in the industry with new technology service rigs. With this in mind the Company has undertaken to fabricate an additional eight (8) service rigs that are anticipated to be available by the end of the December 2007. Upon completion of this build program the Company will operate 29 service rigs, eight coil tubing units, seven snubbing units, 13 nitrogen tankers and pumpers, and 12 pressure tanks as well as a small fleet of rental equipment.

The Company has completed the restructuring of the long-term debt and at the end of June had $20 million drawn on a $63 million facility. This has positioned the Company to be in a financially stable position and able to react to potential opportunities as they arise.

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