

Consolidated Financial Statements of

CENTRAL ALBERTA WELL SERVICES CORP.

For the First Quarter ended March 31, 2006

CENTRAL ALBERTA WELL SERVICES CORP.
Consolidated Balance Sheets

	March 31, 2006 (unaudited)	December 31, 2005
ASSETS		
Current assets		
Cash	\$ 5,035,687	\$ 2,644,827
Accounts receivable	13,176,678	3,263,105
Shareholder loans	-	84,646
Inventory	707,506	289,630
Prepaid expenses and deposits	344,386	160,088
	<u>19,264,257</u>	<u>6,442,296</u>
Property and equipment	43,956,323	19,962,118
Shareholder loans	180,625	211,875
Other assets	23,593	-
Deferred financing costs	262,200	38,328
Intangible assets	5,626,000	-
Goodwill	12,058,151	519,183
	<u>\$ 81,371,149</u>	<u>\$ 27,173,800</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,591,057	\$ 3,628,656
Short term debt (note 3)	11,000,000	-
Shareholder loans	444,448	-
Income taxes payable	753,509	-
Current portion of long-term debt (note 4)	1,669,373	-
	<u>19,458,387</u>	<u>3,628,656</u>
Future income tax	3,913,000	-
Long-term debt (note 4)	12,371,266	4,950,000
	<u>35,742,653</u>	<u>8,578,656</u>
SHAREHOLDERS' EQUITY		
Share capital (note 5)	47,549,667	21,172,024
Contributed surplus (note 5 (c) and (d))	1,091,448	538,829
Deficit	(3,012,619)	(3,115,709)
	<u>45,628,496</u>	<u>18,595,144</u>
	<u>\$ 81,371,149</u>	<u>\$ 27,173,800</u>

See accompanying notes to financial statements.

CENTRAL ALBERTA WELL SERVICE CORP.**Consolidated Statements Of Income And Deficit**

(unaudited)

	Three Months Ended March 31, 2006	One Month Ended March 31, 2005
REVENUE	\$ 4,931,474	\$ 80,156
OPERATING COSTS	2,689,745	86,142
	2,241,729	(5,986)
OTHER EXPENSES		
General and administrative	704,863	86,120
Stock based compensation	572,220	-
Interest	119,595	(1,456)
Depreciation and amortization	741,961	17,781
	2,138,639	102,445
NET INCOME (LOSS)	103,090	(108,431)
DEFICIT, BEGINNING OF PERIOD	(3,115,709)	-
DEFICIT, END OF PERIOD	\$ (3,012,619)	\$ (108,431)
BASIC AND DILUTED EARNINGS PER SHARE (note 5 (e))	\$ 0.00	\$ (0.09)

See accompanying notes to financial statements.

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

(unaudited)

	Three Months Ended March 31, 2006	One Month Ended March 31, 2005
CASH PROVIDED BY (USED IN):		
OPERATING:		
Net Income (loss)	\$ 103,090	\$ (108,431)
Items not affecting cash:		
Stock based compensation	572,220	-
Interest on shareholder loans	(4,080)	(1,456)
Depreciation and amortization	741,961	17,781
	1,413,191	(92,106)
Change in non-cash working capital	(2,145,216)	83,495
	(732,025)	(8,611)
INVESTING:		
Business acquisitions - net of cash (note 2)	(4,664,052)	(2,711,183)
Purchase of property and equipment	(9,262,272)	(293,910)
Change in non-cash working capital	(2,456,596)	2,700,000
	(16,382,920)	(305,093)
FINANCING:		
Long-term debt	14,875,360	-
Issue of common shares	5,123,954	318,750
Share subscriptions received	-	1,024,000
Share issue costs	(277,204)	(15,554)
Deferred financing costs	(255,055)	-
Shareholder loans	38,750	(291,250)
	19,505,805	1,035,946
INCREASE IN CASH	2,390,860	722,242
CASH, BEGINNING OF PERIOD	2,644,827	-
CASH, END OF PERIOD	\$ 5,035,687	\$ 722,242

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.

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. 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, consisting of \$4.0 million of cash 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, consisting 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, consisting 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 on the last day of the reporting period and the financial position of these companies has been included in the Consolidated Balance Sheet as at March 31, 2006. Details of the acquisitions are as follows:

	SSI	Precise	Vertical	Total
Assets:				
Working capital items	1,441,210	311,997	541,309	2,294,516
Property and equipment	11,441,304	2,825,000	1,200,000	15,466,304
Intangible assets	5,626,000	-	-	5,626,000
Goodwill	7,504,929	3,182,401	851,638	11,538,968
	26,013,443	6,319,398	2,592,947	34,925,788
Assumed liabilities:				
Due to parent	4,050	-	-	4,050
Long term debt	4,284,671	896,369	34,238	5,215,278
Future income taxes	3,159,000	590,000	257,000	4,006,000
	7,447,721	1,486,369	291,238	9,225,328
Net assets and total consideration	18,565,722	4,833,029	2,301,709	25,700,460
Less: cash position	612,078	350,591	(298,617)	664,052
Net assets - excluding cash	19,177,800	5,183,620	2,003,092	26,364,512
Cash consideration - net of cash acquired	4,612,078	350,591	(298,617)	4,664,052
Non cash consideration	14,565,722	4,833,029	2,301,709	21,700,460
Total consideration - net of cash position	19,177,800	5,183,620	2,003,092	26,364,512

The purchase price allocation is preliminary and certain items have not yet been finalized.

d) Cactus Coil Tubing Ltd. (“Cactus”)

On March 1, 2005 the Company purchased the operating assets of Cactus Coil Tubing Ltd. for cash consideration of \$2,700,000. The acquisition was accounted for by the purchase method with the results of operations included from the date of acquisition. The allocation of the purchase price is as follows:

Net Assets Acquired:	
Coiled tubing units	\$ 1,980,500
Other field equipment	85,500
Inventory	126,000
Goodwill	519,183
	<u>\$ 2,711,183</u>
Consideration:	
Due on business acquisition	<u>\$ 2,711,183</u>

e) e-Quisitions Inc. (“EQ”)

On September 1, 2005, Central Alberta Well Services Corp. was amalgamated with EQ, with the newly formed corporation continuing as Central Alberta Well Services Corp. The amalgamation represented a reverse takeover of EQ, a non-operating public company whose shares had been halted from trading since October 22, 2004, and was accounted for as a capital transaction. On amalgamation EQ shareholders received one share of the Company in exchange for each twenty shares of EQ and the Company’s shareholders received one share of the Company for each share its predecessor. The net liabilities assumed from EQ were as follows:

Net liabilities assumed:	
Accounts payable and accrued liabilities	\$ 147,437
Note payable	100,000
	<u>\$ 247,437</u>

The net liability was charged directly to deficit at the time of the acquisition. The Company also issued 100,000 common shares at \$1 each in settlement of the note payable concurrent with the closing of the reverse takeover.

3. Short term debt

	As at March 31, 2006	As at December 31, 2005
Credit facility for up to \$21 million at interest rates from CIBC prime plus 1.25% to 3.00%, maturing July 31, 2006 with available extension to September 30, 2006, monthly payments of interest only until maturity, secured by a second charge on equipment and a general security agreement.	\$ 11,000,000	-

4. Long term debt

	As at March 31, 2006	As at December 31, 2005
Credit facility for up to \$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.	8,825,360	4,950,000
Term loans bearing interest at fixed 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.	3,940,409	-
Equipment loans bearing interest at National Bank of Canada prime plus 1.25%, monthly payments of \$18,403 per month, maturing at various dates from September 2009 to October 2010.	830,370	-
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.	24,500	-
Total debt	14,040,639	4,950,000
Less current portion	1,669,373	-
	<u>\$ 12,371,266</u>	<u>\$ 4,950,000</u>

At March 31, 2006, the estimated principal repayments due in each of the next five years are as follows:

2007	\$ 1,669,373
2008	3,155,887
2009	3,205,652
2010	3,174,439
2011	2,183,363
	<u>\$ 13,388,714</u>

5. Share capital

a) Authorized:

Unlimited number of common shares.

b) Issued:

	Number	Amount
Common Shares:		
Issued on incorporation	1,275,000	\$ 318,750
Issued on private placement	2,500,008	1,500,000
Issued on EQ acquisition (note 2)	900,000	-
Issued on settlement of note payable (note 2)	100,000	100,000
Issued on short form offering document	1,739,130	2,000,000
Issued on conversion of debentures	20,561,000	18,504,900
Issued on exercise of options	5,000	5,750
Share issue costs	-	(1,257,376)
Balance December 31, 2005	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)	-	(184,204)
Balance March 31, 2006	41,716,565	\$ 47,549,667

On March 1, 2005, the Company issued 1,275,000 shares at \$0.25 per share for cash of \$27,500 and promissory notes of \$291,250. On April 28, 2005, the Company completed a private placement of 2,500,008 shares at \$0.60 per share for gross proceeds of \$1,500,000. Issue costs of \$30,890 were netted against the combined proceeds of these transactions.

On September 1, 2005, the Company completed a reverse take-over of EQ and the two companies were amalgamated to form a new company called Central Alberta Well Services Corp. On amalgamation, 900,000 shares of the Company were issued to shareholders of EQ and 100,000 shares were issued in settlement of certain EQ liabilities.

On September 8, 2005 the Company issued 1,739,130 shares at a price of \$1.15 each for gross proceeds of \$2,000,000, less commission, legal costs and other placement costs of \$212,885.

During June 2005, the Company issued \$18,504,900 of unsecured subordinated convertible debentures bearing interest at 10% payable semi-annually. At December 2005, 100% of these debentures had been converted into 20,561,000 shares of the Company at a conversion price of

\$0.90 per share. Legal and other costs relating to the debenture conversions of \$48,942 were recorded as share issue costs.

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 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 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. After vesting the warrants are exercisable into shares of the Company at a price of \$1.00 per share. Vesting of the warrants 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. Compensation expense and contributed surplus of \$54,000 relating to the performance warrants was recorded for the period ended December 31, 2005.

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.

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 December 31, 2005, 1,445,000 options were outstanding at exercise prices between \$1.15 and \$2.50 per share. These options expire 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. 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 481,667 at December 31, 2005 and 959,167 at March 31, 2006.

	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	-	\$ -
Granted	1,455,000	1.79
Exercised	(5,000)	(1.15)
Forfeited	(5,000)	(1.15)
Outstanding, December 31, 2005	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

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

Risk free rate of return range	3.71% - 3.91%
Expected life (years)	5
Volatility	50%
Dividend yield	0%

Compensation expense and contributed surplus of \$572,220 relating to the stock options was recorded for the quarter ended March 31, 2006.

e) Basic and diluted income (loss) per share

	Three Months Ended					
	March 31, 2006			March 31, 2005		
	Net Income	Shares	Per Share Amount	Net Loss	Shares	Per Share Amount
Basic and diluted income (loss) per share	\$103,090	28,457,574	\$ 0.00	\$ (108,431)	1,275,000	\$ (0.09)
Dilutive effect of:						
Stock option conversions		279,192			-	
Performance warrant conversions		1,695,238			-	
Diluted income (loss) per share	\$103,090	30,432,004	0.00	\$ (108,431)	1,275,000	(0.09)
Stock options excluded from diluted income (loss) per share as the effect would be anti-dilutive		800,000			-	

6. Related party transactions

Pursuant to the 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.

	As At March 31, 2006	As At December 31, 2005
Purchases of capital equipment	\$ 8,033,697	\$ 13,235,793
Amounts in accounts payable	\$ 129,109	\$ 2,246,018