



UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2009

CANELSON DRILLING INC.
CONSOLIDATED BALANCE SHEETS
Unaudited – (Stated in thousands of dollars)

	<u>September 30</u> 2009	<u>December 31</u> 2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 16,586	\$ 22,717
Accounts receivable	444	1,190
Prepaid expenses and deposits	182	182
Inventory	-	411
	<u>17,212</u>	<u>24,500</u>
Property and equipment (Note 5)	26,391	20,900
Future income tax asset	343	-
	<u>\$ 43,946</u>	<u>\$ 45,400</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	<u>\$ 630</u>	<u>\$ 3,007</u>
Commitments (Note 8)		
Subsequent event (Note 13)		
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	42,375	41,892
Contributed surplus (Note 7)	1,093	488
Retained earnings (deficit)	<u>(152)</u>	<u>13</u>
	<u>43,316</u>	<u>42,393</u>
	<u>\$ 43,946</u>	<u>\$ 45,400</u>

See accompanying notes to these financial statements

CANELSON DRILLING INC.
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS
AND RETAINED EARNINGS (DEFICIT)

Unaudited – (Stated in thousands of dollars, except for per share amounts)

	Three Months Ended September 30		Nine Months Ended September 30
	2009	2008	2009
Drilling revenue	\$ 629	\$ -	\$ 3,610
Operating expenses	424	-	1,787
	<u>205</u>	<u>-</u>	<u>1,823</u>
Drilling rig sales	-	-	-
Cost of sales	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
	<u>205</u>	<u>-</u>	<u>1,823</u>
Expenses:			
General and administrative	373	1	1,070
Stock based compensation	171	1	605
Depreciation	70	-	308
	<u>614</u>	<u>2</u>	<u>1,983</u>
Other income			
Interest and other income	71	1	140
	<u>71</u>	<u>1</u>	<u>140</u>
Loss before income taxes	<u>(338)</u>	<u>(1)</u>	<u>(20)</u>
Income taxes:			
Current tax expense	-	-	-
Future income tax (reduction) expense	(43)	-	145
	<u>(43)</u>	<u>-</u>	<u>145</u>
Net and comprehensive loss	\$ (295)	\$ (1)	\$ (165)
Retained earnings, beginning of period	143	-	13
Deficit, end of period	<u>\$ (152)</u>	<u>\$ (1)</u>	<u>\$ (152)</u>
Net loss per share (Note 11)			
Basic and diluted	<u>\$ (0.01)</u>	<u>\$ -</u>	<u>\$ (0.01)</u>

See accompanying notes to these financial statements

CANELSON DRILLING INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited – (Stated in thousands of dollars)

	Three Months Ended September 30		Nine Months Ended September 30
	2009	2008	2009
Operating activities			
Net loss for the period	\$ (295)	\$ (1)	\$ (165)
Adjustment for items not affecting cash:			
Stock based compensation	171	1	605
Depreciation	70	-	308
Future income tax	(43)	-	145
	(97)	-	893
Changes in non-cash working capital balances:			
Accounts receivable	(332)	(4)	746
Prepaid expenses and deposits	(94)	-	-
Inventory	-	-	411
Accounts payable and accrued liabilities	159	28	(109)
	(364)	24	1,941
Financing activities			
Issuance of share capital	-	560	-
Share issuance costs	-	(149)	-
	-	411	-
Investing activities			
Purchase of property and equipment	(285)	-	(5,804)
Accounts payable and accrued liabilities	(75)	-	(2,268)
	(360)	-	(8,072)
Increase (decrease) in cash and cash equivalents during the period	(724)	435	(6,131)
Cash and cash equivalents, beginning of period	17,310	-	22,717
Cash and cash equivalents, end of period	\$ 16,586	\$ 435	\$ 16,586

See accompanying notes to these financial statements

CANELSON DRILLING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – (Stated in thousands except for per share amounts)

As at and for the three and nine month periods ended September 30, 2009

1. INCORPORATION AND NATURE OF BUSINESS

CanElson Drilling Inc. (formerly EMR Drilling Inc.) (the “Corporation”) was incorporated under the *Business Corporations Act* (Alberta) (“ABCA”) on June 30, 2008.

On October 7, 2008 the Corporation and CanElson Drilling Inc. (“CanElson”), a capital pool company, entered into an amalgamation agreement whereby the Corporation and CanElson agreed to amalgamate in accordance with the provisions of the ABCA (the “Amalgamation Agreement”). A special meeting of the Corporation was held on December 9, 2008, the shareholders voted to approve the Amalgamation Agreement and the transaction was completed.

The Corporation is engaged in the manufacture and (i) sale and (ii) operation of drilling rigs for the oil and gas industry in the western Canadian sedimentary basin (the “WCSB”) and Mexico. All operations from inception to September 30, 2009 have been conducted in the WCSB.

2. BASIS OF PRESENTATION

The unaudited consolidated interim financial statements are reported in Canadian dollars and were prepared by management in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) and include the accounts of the Corporation and its subsidiaries and a proportionate share of its joint venture entity. The accounting policies and procedures used in these interim consolidated financial statements are the same as those used in the December 31, 2008 audited financial statements, except as referred to in Note 3 below. The unaudited consolidated interim financial statements should be read in conjunction with the December 31, 2008 audited financial statements.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the balance sheet. Significant estimates made by the Corporation are related to the depreciation periods for property and equipment, the recoverability of property and equipment, stock based compensation expense and include commitments, if any, related to the purchase of capital assets. Actual amounts could materially differ from these estimates.

Due to the seasonality of the industry, the operating and financial results for the interim periods covered do not necessarily reflect overall results which may be achieved in the fiscal year.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are the same as those set out in the most recent annual financial statements, other than as follows:

(a) Joint Venture

The Corporation conducts its operations in Mexico through a joint venture company. Ownership in, and results of operations from, this joint venture are recorded under the proportionate consolidation method whereby only the Corporation’s share of the joint venture’s assets, liabilities, revenue and expenses are recognized.

CANELSON DRILLING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – (Stated in thousands except for per share amounts)

As at and for the three and nine month periods ended September 30, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Goodwill and Intangibles

The Canadian Institute of Chartered Accountants (“CICA”) issued a new accounting standard, Section 3064 “Goodwill and Intangible Assets”, which clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset. As a result, start-up costs must be expensed as incurred. Section 1000 “Financial Statement Concepts”, was also amended to provide consistency with this new standard. On January 1, 2009 the Corporation adopted the new and amended standards which had no material effect on the current financial statements.

4. CAPITAL MANAGEMENT

One of the Corporation’s objectives when managing capital is to safeguard its ability to continue as a going concern given the cyclical nature of the oil and gas services business and provide returns to shareholders. The Corporation defines capital as the Corporation’s shareholders’ equity which as at September 30, 2009 was \$43,316 (December 31, 2008: \$42,393). The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares or obtain debt financing. The Corporation is not currently subject to any externally imposed capital requirements.

5. PROPERTY & EQUIPMENT

	September 30, 2009			December 31, 2008	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>	
Deposits on rigs	\$ 240	\$ -	\$ 240	\$ 3,458	
Rigs and accessories	23,135	335	22,800	7,765	
Rigs under construction	3,312	-	3,312	9,636	
Office furniture and equipment	50	11	39	41	
Total	\$ 26,737	\$ 346	\$ 26,391	\$ 20,900	

CANELSON DRILLING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – (Stated in thousands except for per share amounts)

As at and for the three and nine month periods ended September 30, 2009

6. SHARE CAPITAL

Authorized

The authorized share capital of the Corporation consists of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares, issuable in series, none of which are issued or outstanding as of September 30, 2009.

Issued Common Shares

	<u>Number of shares</u>	<u>Share capital</u>
Balance December 31, 2008	26,100	\$ 41,892
Share issue costs (net of future tax asset of \$488)	-	483
Balance September 30, 2009	26,100	\$ 42,375

Stock Options

A summary of the Corporation's outstanding stock options and warrants as at September 30, 2009 is as follows:

<u>Instrument</u>	<u>Expiry Date</u>	<u>Exercise Price</u>	September 30, 2009		December 31, 2008	
			<u>Number Outstanding</u>	<u>Number Exercisable</u>	<u>Number Outstanding</u>	<u>Number Exercisable</u>
Options	Sep 8, 2012	\$2.00	651	217	672	-
Options	Sep 8, 2010	\$2.00	40	40	40	-
Options	Sep 18, 2012	\$0.20	371	124	410	-
Options	Feb 9, 2013	\$2.50	39	-	-	-
Options	Mar 2, 2013	\$1.95	29	-	-	-
Options	Jun 4, 2013	\$1.95	78	-	-	-
Options	Aug 26, 2013	\$1.63	138	-	-	-
Options	Sep 24, 2013	\$1.60	111	-	-	-
			1,457	381	1,122	-
Agent Options	Sep 24, 2010	\$0.20	100	100	100	100
Agent Warrants	Dec 9, 2010	\$2.00	900	900	900	900
			2,457	1,381	2,122	1,000

The weighted average exercise price of the outstanding options and warrants is \$1.42 and \$2.00 per share, respectively. The weighted average remaining life of the outstanding stock options and warrants is 3 years and 1.2 years, respectively.

CANELSON DRILLING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – (Stated in thousands except for per share amounts)
As at and for the three and nine month periods ended September 30, 2009

6. SHARE CAPITAL (continued)

Stock Based Compensation

For the three and nine month periods ended September 30, 2009, the Corporation recorded stock based compensation expense in the consolidated statements of operations, comprehensive loss and retained earnings (deficit) related to the stock options issued to directors and employees.

The following assumptions were used for the Black-Scholes valuation of stock options granted during the period:

Risk-free interest rate	1.69 – 2.44 %
Expected life of options	4 years
Annualized volatility	32 %
Dividend rate	0%

For the nine months ended September 30, 2009, the Corporation granted 455 options to directors and employees and 120 options to directors and employees were forfeited. The estimated fair value of the options and warrants granted during the period was \$211 and will be recognized as an expense over the vesting periods of the options.

Employee Stock Savings Plan

During the three months ended September 30, 2009 the Corporation introduced an Employee Stock Savings Plan (the “Plan”). Under the Plan an employee may contribute up to 5% of their base salary to the Plan. The Corporation will contribute an amount equal to 50% for each dollar of the employees’ contributions. Employee and the Corporation contributions are used to purchase common shares of the Corporation on the open market.

7. CONTRIBUTED SURPLUS

Continuity of contributed surplus:

Balance December 31, 2008	\$ 488
Stock based compensation	<u>605</u>
Balance September 30, 2009	<u><u>\$ 1,093</u></u>

CANELSON DRILLING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – (Stated in thousands except for per share amounts)

As at and for the three and nine month periods ended September 30, 2009

8. COMMITMENTS

The Corporation has committed to lease payments for premises. Vehicles and equipment related expenses are included in operating expenses. The minimum annual lease payments for the next five years are as follows:

2009	\$86
2010	\$118
2011	\$107
2012	\$107
2013	\$89

9. SIGNIFICANT CUSTOMERS

During the three and nine month periods ended September 30, 2009, one customer provided 100% of the Corporation's total drilling revenue.

10. FINANCIAL RISK MANAGEMENT

The Corporation's risk exposures related to the Corporation's financial instruments are summarized as follows:

Credit Risk

Credit risk arises from the potential that a counterparty will fail to meet its obligations. The Corporation is normally exposed to credit risk through its accounts receivable balances. At September 30, 2009 the Corporation had no overdue outstanding operating accounts receivable balances. Management assesses the credit worthiness of its customers on an ongoing basis, as well as monitoring the amount and age of balances outstanding. The Corporation's policy is to enter into agreements with customers that are well established and well-financed entities in the oil and gas industry such that the level of credit risk is mitigated and, accordingly, the Corporation views the credit risks as normal for the industry. The Corporation's cash is deposited with two Canadian chartered banks and management believes the risk of loss is remote.

The Corporation makes an assessment quarterly as to whether there is any impairment of its financial assets. At September 30, 2009 no impairment allowance was considered necessary.

Liquidity Risk

The Corporation's approach to managing liquidity risk is designed to ensure that it will have sufficient liquidity to meet liabilities as they come due. The Corporation has no long term debt and has sufficient cash to settle its current liabilities and meet its anticipated 2009 working capital requirements and over the foreseeable future.

CANELSON DRILLING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Unaudited – (Stated in thousands except for per share amounts)
 As at and for the three and nine month periods ended September 30, 2009

10. FINANCIAL RISK MANAGEMENT (continued)

Market Risk

a) Interest rate risk

The Corporation is not exposed to interest rate risk.

b) Foreign currency risk

The Corporation is not exposed to significant foreign currency risk since all of its current operations and transactions are primarily denominated in Canadian dollars with the exception of the purchase of certain drilling rig parts and certain other income amounts. The Corporation has sufficient funds to pay foreign currency denominated payables in a timely fashion to mitigate foreign currency risk. As at September 30, 2009, the Corporation had United States dollar denominated accounts receivable and payable of \$94 and \$37, respectively, exposed to foreign currency risk.

c) Price risk

The Corporation is not exposed to price risk due to the short term nature of its financial instruments.

11. EARNINGS PER SHARE

A summary of the common shares used in calculating earnings per share is as follows:

	<u>Three months ended September 30, 2009</u>	<u>Three months ended September 30, 2008</u>	<u>Nine months ended September 30, 2009</u>
Weighted average common shares	26,100	314	26,100
Effect of stock options and warrants	-	-	-
Balance, period end	<u>26,100</u>	<u>314</u>	<u>26,100</u>

For the three and nine months ended September 30, 2009, the above table excludes 1,557 options and 900 warrants (three months ended September 30, 2008: 510), respectively, that are considered anti-dilutive.

CANELSON DRILLING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – (Stated in thousands except for per share amounts)
As at and for the three and nine month periods ended September 30, 2009

12. RELATED PARTY TRANSACTIONS

For the three and nine months ended September 30, 2009, the Corporation incurred \$22 and \$101, respectively, of expenses included in general and administrative expenses relating to professional services provided by a law firm which one of the Corporation's directors is a partner. At September 30, 2009, \$10,000 was accrued within accounts payable and accrued liabilities.

All of the transactions occurred in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

13. SUBSEQUENT EVENT

On November 4, 2009, the Corporation signed a letter of intent to purchase certain drilling rig assets from Bronco Drilling Services Ltd. ("Bronco") for \$6,500. The purchase is subject to the Corporation completing satisfactory due diligence on the assets, ratification by CanElson's board of directors and the receipt of all other applicable consents and approvals.

14. COMPARATIVE INFORMATION

There is no information presented for the comparative nine month period ended September 30, 2008 as the Corporation was incorporated on June 30, 2008.



**UNAUDITED INTERIM MANAGEMENT DISCUSSION & ANALYSIS
FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2009**

CANELSON DRILLING INC.
MANAGEMENT'S DISCUSSION & ANALYSIS
For the three and nine month periods ended September 30, 2009
Stated in thousands, except for per share amounts

Management's discussion and analysis ("MD&A") should be read in conjunction with the unaudited consolidated financial statements of CanElson Drilling Inc. ("CanElson" or the "Corporation") for the three and nine months ended September 30, 2009, which have been prepared by management in accordance with Canadian generally accepted accounting principles, December 31, 2008 audited financial statements and the December 31, 2008 MD&A. Additional information regarding the Corporation is available on SEDAR at www.sedar.com. All currency amounts are stated in Canadian dollars. This MD&A is dated November 5, 2009.

CYCLICAL AND SEASONAL NATURE OF CANELSON'S OPERATIONS

The drilling sector is very competitive within the oil and gas industry. As a service industry, its activities are affected by its customers' exploration and development efforts which, in turn, are significantly affected by world energy prices and government policies (see "Risks and Uncertainties").

Due to the seasonality of the industry, the operating and financial results for the interim periods covered in this MD&A do not necessarily reflect overall results which may be achieved in the fiscal year. Historically within the drilling sector, the first quarter is the strongest in the drilling industry followed by a much slower second quarter. As a result of this, the variation on a quarterly basis can be significant.

OVERALL PERFORMANCE

Year to date, the Corporation completed construction of two drilling rigs. Rig 2 was completed mid-January and went to work in the field immediately after construction was complete. Rig 3 was completed at the end of the first quarter, but has not yet commenced operations. During the second and third quarters of 2009, the Corporation minimized capital expenditures by curtailing the rig construction program. For the three and nine months ended September 30, 2009, the Corporation had operated for 32 drilling days and 114 drilling days, respectively.

During the third quarter, CanElson formed a Mexican joint venture Company, Diavaz CanElson de Mexico, S.A. de C.V. (the "Joint Venture") with D&S Petroleum, S.A. de C.V. ("D&S"). CanElson and D&S each own 50% of the Joint Venture. During the third quarter, the Corporation did not conduct any operations or enter into any significant contracts with or through the Joint Venture.

On November 4, 2009, the Corporation signed a letter of intent to purchase certain drilling rig assets from Bronco Drilling Services Ltd. ("Bronco") for \$6,500. The purchase is subject to the Corporation completing satisfactory due diligence on the assets, ratification by CanElson's board of directors and the receipt of all other applicable consents and approvals.

Subsequent to the third quarter, CanElson entered into a business relationship with the Whitebear First Nation ("Whitebear"). The nature of the business relationship agreement is such that Whitebear will receive a percentage of CanElson's daily gross margin from CanElson rigs successfully marketed by Whitebear. Whitebear is located in southeast Saskatchewan.

SELECTED FINANCIAL AND OTHER INFORMATION

The Corporation was incorporated on June 30, 2008 and was not a "Reporting Issuer" pursuant to applicable securities legislation until September 11, 2008. (Going forward, the Corporation will be a "Reporting Issuer" in each of the provinces of Alberta, Saskatchewan, Manitoba, British Columbia and Ontario). There were no operations or material expenses incurred during the comparative quarter for 2008. The following is a summary of selected quarterly financial information since the Corporation became a Reporting Issuer:

	September 30	2009 June 30	March 31	2008 December 31	September 30
Total operating revenue	\$629	\$ Nil	\$2,981	\$477	\$ Nil
Net and comprehensive income (loss)	(\$295)	(\$564)	\$694	\$13	(\$1)
Basic and diluted income (loss) per share	(\$0.01)	(\$0.02)	\$0.03	\$ Nil	\$ Nil
Total assets	\$43,946	\$43,986	\$45,805	\$45,400	\$439
Total liabilities	\$630	\$546	\$2,005	\$3,007	\$28
Rig Operating Days (spud to rig release)	32	0	114	19	0
Number of rigs available for operations	3	3	2	1	0

RESULTS OF OPERATIONS

At September 30, 2009, CanElson has three drilling rigs available for operations. Rig 1 was built and ready to go to the field on schedule, was moved to the field and spudded its first well on December 12, 2008. Rig 2 moved to the field and spudded its first well on January 18, 2009. Rigs 1 and 2 have drilled seven wells during the first nine months of 2009 and performed to the Company's high standards from initial startup. There were no operations or material expenses incurred during the comparative quarter for 2008.

Drilling Revenue

For the three and nine months ended September 30, 2009, the Corporation generated \$629 and \$3,610, respectively, of drilling revenue. Third quarter operating revenue of \$629 compared to \$nil for the second quarter of 2009 as the Corporation had operated for 32 drilling days during the third quarter compared to nil drilling days for the second quarter of 2009.

Operating Expenses

For the three and nine months ended September 30, 2009, the Corporation incurred \$424 and \$1,787, respectively, of operating expenses. During the third quarter of 2009, the Corporation incurred \$424 of operating expenses compared to \$68 of fixed operating expenses during the second quarter. The increase is a result of 32 drilling days in the third quarter compared to nil drilling days in the second quarter of 2009.

GENERAL AND ADMINISTRATIVE EXPENSES

For the three and nine months ended September 30, 2009, the Corporation incurred \$373 and \$1,070, respectively, of general and administrative expenses (“G&A”). The Corporation incurred \$373 of G&A in the third quarter of 2009 compared to \$423 in the second quarter of 2009. G&A decreased from the second quarter primarily as a result of a decrease in professional fees incurred during the second quarter associated with the Corporation investigating and evaluating business growth opportunities.

STOCK BASED COMPENSATION EXPENSE

For the three and nine months ended September 30, 2009, the Corporation incurred \$171 and \$605, respectively, of stock based compensation expense. Stock based compensation expense of \$171 for the third quarter is lower than stock based compensation expense of \$204 for the second quarter of 2009 as a result of certain stock options vesting during the period.

DEPRECIATION EXPENSE

The Corporation’s drilling rigs are depreciated based on operating days. For the three and nine months ended September 30, 2009, the Corporation operated for 32 drilling days and for 114 drilling days, respectively, and incurred depreciation expense of \$70 and \$308, respectively. Depreciation expense of \$70 for the third quarter of 2009 was significantly higher when compared to \$4 for the second quarter of 2009 as the Corporation did not conduct any drilling operations during the second quarter.

INTEREST AND OTHER INCOME

During the three and nine months ended September 30, 2009, the Corporation recorded \$71 and \$140 of interest and other income, respectively. For the third quarter of 2009, interest income of \$71 increased compared to \$14 for the second quarter of 2009. The increase quarter over quarter is primarily as a result of \$60 of other income generated through drilling consulting services provided to a Mexico corporation’s drilling operations.

TAXES

During the three and nine months ended September 30, 2009, the Corporation recorded \$43 future tax reduction and \$145 future tax expense, respectively. For the third quarter of 2009, a future tax reduction of \$43 was recognized compared to a future tax reduction of \$121 for the second quarter of 2009. The difference in the expected tax rate of 29% for the first six months of 2009 and the effective tax rate for that same period relates primarily to the differences from stock based compensation.

NET AND COMPREHENSIVE LOSS AND LOSS PER SHARE

For the three and nine month periods ended September 30, 2009, CanElson recorded net and comprehensive loss of \$295 (\$0.01 loss per share) and \$165 (\$0.01 loss per share), respectively. The third quarter net and comprehensive loss decreased from the second quarter of 2009 net and comprehensive loss of \$564 (\$0.02 loss per share) as a result of increased drilling operations activity.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Corporation's objective when managing capital is to safeguard its ability to continue as a going concern, given the cyclical nature of the oil and gas services business, and provide returns for shareholders. The Corporation defines capital as the Corporation's shareholders' equity. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares or obtain debt financing. The Corporation is not currently subject to any externally imposed capital requirements.

Cash Flows Related to Operating Activities and Working Capital

The Corporation provides and uses cash flows from operating activities from the operation and sale of drilling rigs. During the three and nine months ended September 30, 2009, operating activities used \$364 of cash flow and provided \$1,941 of cash flow, respectively.

At September 30, 2009, the Corporation had a cash balance of \$16,586 (December 31, 2008: 22,717) and an overall positive net working capital position (current assets minus current liabilities) of \$16,582 (December 31, 2008: 21,493) comprised of cash, prepaid expenses and deposits, accounts receivable, inventory and accounts payable and accrued liabilities, which management considers to be sufficient for the Corporation to meet its ongoing obligations.

Cash Flows Related to Financing Activities

During the three and nine months ended September 30, 2009, no financing activity took place and therefore the Corporation did not generate any cash flows from financing activities. During the comparative third quarter of 2008, the issuance of shares provided the Corporation with \$411 of cash flows from financing activities.

As at September 30, 2009 and at the date of this MD&A, the Corporation has outstanding 26,100 common shares, 900 warrants and 1,557 options, respectively. At September 30, 2009 the Corporation had 1,381 exercisable options and warrants, which if exercised would provide financing cash flows of \$2,359 for the Corporation.

As at September 30, 2009 and the date of this MD&A, the Corporation has no outstanding current or long term debt (December 31, 2008: \$nil).

Cash Flows Related to Investing Activities

The Corporation initiates and manages the construction of drilling rigs and as at September 30, 2009, the Corporation was not committed to any expenditure other than in the normal course of business. Subsequent to September 30, 2009, the Corporation recommenced with construction of Rig 4 and signed a letter of intent to purchase \$6,500 worth of drilling rig assets from Bronco. The Corporation expects to use approximately \$12,250 from existing cash resources to complete the construction of Rig 4 and purchase the Bronco assets. The Corporation is considering various opportunities for its deployment.

During the three and nine months ended September 30, 2009, the Corporation purchased \$285 and \$5,804 of capital assets, respectively. Capital asset purchases of \$285 during the third quarter of 2009 were consistent with capital asset purchase of \$279 during the second quarter of 2009. The significant decreases in capital asset purchases during the second and third quarters of 2009 from first quarter capital expenditures of \$5,240 reflect the curtailment of the rig construction program during the second and third quarters of 2009.

Contractual Obligations

In the normal course of business, the Company incurs contractual obligations. The Corporation has committed to lease payments for premises. Vehicles and equipment related expenses are included in operating expenses. The minimum annual lease payments for the next five years are as follows:

2009	\$86
2010	\$118
2011	\$107
2012	\$107
2013	\$89

FINANCIAL INSTRUMENTS

Financial instruments comprised of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The fair values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short-term maturities.

RELATED PARTY TRANSACTIONS

For the three and nine months ended September 30, 2009, the Corporation incurred \$22 and \$101, respectively, of expenses included in general and administrative expenses relating to professional services provided by a law firm which one of the Corporation's directors is a partner. At September 30, 2009, \$10,000 was accrued within accounts payable and accrued liabilities.

All of the transactions occurred in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Application of critical accounting estimates

The significant accounting policies used by the Corporation are disclosed in the audited financial statements for the period ended December 31, 2008. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstance may result in actual results or changes to estimated amounts that differ materially from current estimates.

Accounting standards adopted

The Canadian Institute of Chartered Accountants ("CICA") issued a new accounting standard, Section 3064 "Goodwill and Intangible Assets", which clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset. As a result, start-up costs must be expensed as incurred. Section 1000 "Financial Statement Concepts", was also amended to provide consistency with this new standard. On January 1, 2009, the Corporation adopted the new and amended standards which had no material effect to the financial statements.

Recent pronouncements

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan

outlines the convergence of Canadian Generally Accepted Accounting Principles (“GAAP”) with International Financial Reporting Standards (“IFRS”) over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date refers to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of fiscal 2011 will require restatement for comparative purposes of amounts reported by the Corporation for the 2010 fiscal year. The effect of IFRS on the Corporation’s current financial statements has not yet been determined. The Corporation will monitor any changes in both its activities and in IFRS that may effect its adoption of these standards in 2011 and expects to complete a plan during Q4 to ensure that the transition is completed in an efficient manner.

RISKS AND UNCERTAINTIES

There are a number of risks and uncertainties that may affect companies participating in the drilling industry. A summary of certain risks and uncertainties relating to our business are provided in the annual December 31, 2008 MD&A. In addition, readers should note CanElson is pursuing drilling related services business in Mexico and other international jurisdictions. CanElson will be exposed to risks inherent in such operations, such as: terrorist threats; fluctuations in currency and exchange controls; increases in duties and taxes; and changes in laws and policies governing operations. In addition, interpretation of laws and regulations in foreign jurisdictions can prove to be uncertain.

OUTLOOK

The third quarter of 2009 continued to be challenging in the Canadian oil and gas industry. Rig utilization rates continue to be very low by historical measures and day rates continue to be depressed as exploration and production companies look at ways to reduce their well costs considering historically low natural gas prices and overall commodity price volatility. Despite the continued weakness in the Canadian drilling market, CanElson will continue to maintain a strong presence in the Western Canadian Sedimentary Basin (the “WCSB”) and expects to have an active winter drilling season. In addition, CanElson will continue to seek international oil and gas services opportunities, in particular through its newly formed Mexican Joint Venture. CanElson anticipates that its Joint Venture will participate in drilling operations in the Ebano-Panuco-Cacalilao fields of Misantla-Tampico basin by the end of the fourth quarter with the potential for future growth in Mexico in 2010.

With a strong balance sheet, a Board of Directors and management team with a wealth of knowledge and experience, a strategic Mexico Joint Venture partner in D&S, along with a commitment to field presence, highly qualified experienced drilling crews, a brand new fleet of drilling rigs, opportunity for international growth and a firm resolve for Aboriginal relationships and Aboriginal workers, CanElson believes that it is well situated to weather the current environment and is optimistic for the future.

FORWARD LOOKING INFORMATION

This MD&A contains forward-looking information in the “Risks and Uncertainties” and “Outlook” sections that involves material assumptions and known and unknown risks and uncertainties, certain of which are beyond the Corporation’s control. Such assumptions, risks and uncertainties include, without limitation, those associated with, loss of markets, volatility of commodity prices, currency fluctuations, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources, the effect of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations and changes in how they are interpreted and enforced, increased competition, the lack of qualified personnel or management, fluctuations in foreign exchange or interest rates, stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof, and obtaining required approvals of regulatory authorities. The Corporation’s actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits the Corporation will derive therefrom. The forward-looking information is made as at the date of this MD&A and the Corporation does not undertake any obligation to update publicly or to revise any of the included forward-looking information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.