



AUDITED CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2009 AND 2008 AND
FOR THE YEAR ENDED DECEMBER 31, 2009 AND THE PERIOD FROM
INCORPORATION JUNE 30, 2008 TO DECEMBER 31, 2008

MANAGEMENT'S REPORT

The accompanying consolidated financial statements of the Corporation and all other financial and operating information contained in this Report are the responsibility of management. The consolidated financial statements have been prepared in accordance with accounting policies detailed in the notes to the consolidated financial statements and in accordance with generally accepted accounting principles in Canada.

Management is also responsible for establishing and maintaining adequate internal controls over the Corporation's financial reporting. The Corporation's internal control system has been designed and maintained to provide reasonable assurance that assets are properly safeguarded and that the financial records are sufficiently well maintained to provide relevant, timely and reliable information to management.

External auditors, appointed by the shareholders, have independently examined the consolidated financial statements. They have performed such tests as they deemed necessary to enable them to express an opinion on these consolidated financial statements.

Signed "Randy Hawkings"

Randy Hawkings
President and Chief Operating Officer
March 1, 2010

Signed "Robert Skilnick"

Robert Skilnick
Chief Financial Officer

AUDITORS' REPORT

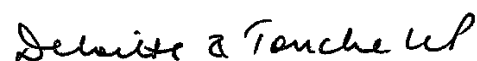
To the Shareholders of CanElson Drilling Inc.

We have audited the consolidated balance sheets of CanElson Drilling Inc. as at December 31, 2009 and 2008 and the statements of operations, comprehensive income (loss) and retained earnings (deficit) and cash flows for the year ended December 31, 2009 and the initial six month period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the year ended December 31, 2009 and the initial six month period ended December 31, 2008 in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
March 1, 2010



Chartered Accountants

CANELSON DRILLING INC.
CONSOLIDATED BALANCE SHEETS

At December 31, 2009 and 2008
(Stated in thousands of Canadian dollars)

	2009	2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,059	\$ 22,717
Accounts receivable	3,594	1,190
Prepaid expenses and deposits	173	182
Inventory	-	411
	<u>7,826</u>	<u>24,500</u>
Property and equipment (Note 4)	46,337	20,900
Future income tax asset (Note 6)	<u>377</u>	<u>-</u>
	<u>\$ 54,540</u>	<u>\$ 45,400</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,348	\$ 3,007
Current portion of bank debt (Note 5)	<u>935</u>	<u>-</u>
	<u>7,283</u>	<u>3,007</u>
Bank debt (Note 5)	<u>4,065</u>	<u>-</u>
	<u>11,348</u>	<u>3,007</u>
Commitments (Note 12)		
Contingency (Note 15)		
Shareholders' equity		
Share capital (Note 7)	42,375	41,892
Contributed surplus (Note 8)	1,205	488
Retained earnings (deficit)	<u>(388)</u>	<u>13</u>
	<u>43,192</u>	<u>42,393</u>
	<u>\$ 54,540</u>	<u>\$ 45,400</u>

See accompanying notes to these consolidated financial statements

Approved by the Board of Directors:

Signed "Elson J. McDougald"

Elson J. McDougald
 Director

Signed "Rodger Hawkins"

Rodger Hawkins
 Director

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

For the year ended December 31, 2009 and period from incorporation
 June 30, 2008 to December 31, 2008

(Stated in thousands of Canadian dollars - except per share data)

	2009	2008
Drilling revenue	\$ 6,631	\$ 477
Operating expenses	<u>3,895</u>	<u>223</u>
	<u>2,736</u>	<u>254</u>
Expenses:		
General and administrative	1,959	422
Foreign exchange gain	(21)	-
Stock based compensation	717	99
Depreciation	<u>517</u>	<u>40</u>
	<u>3,172</u>	<u>561</u>
Interest and other income	<u>146</u>	<u>320</u>
Income (loss) before income taxes	<u>(290)</u>	<u>13</u>
Income taxes expense:		
Current	-	-
Future	<u>111</u>	<u>-</u>
	<u>111</u>	<u>-</u>
Net and comprehensive income (loss)	\$ (401)	\$ 13
Retained earnings, beginning of period	13	-
Retained earnings (deficit), end of period	<u>\$ (388)</u>	<u>\$ 13</u>
Net loss per share (Note 13)		
Basic and diluted	\$ (0.02)	\$ -

See accompanying notes to these consolidated financial statements

CANELSON DRILLING INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31, 2009 and period from incorporation
 June 30, 2008 to December 31, 2008

(Stated in thousands of Canadian dollars)

	2009	2008
Operating activities		
Net income (loss) for the period	\$ (401)	\$ 13
Adjustment for items not affecting cash:		
Unrealized foreign exchange gain	(6)	-
Stock based compensation	717	99
Depreciation	517	40
Future income tax	111	-
	<u>938</u>	<u>152</u>
Changes in non-cash working capital balances:		
Accounts receivable	(2,398)	(1,181)
Prepaid expenses and deposits	9	(182)
Inventory	411	(411)
Accounts payable and accrued liabilities	1,867	336
	<u>827</u>	<u>(1,286)</u>
Financing activities		
Increase in bank debt	5,000	-
Issuance of share capital	-	44,000
Share issuance costs	-	(1,996)
	<u>5,000</u>	<u>42,004</u>
Investing activities		
Reverse takeover	-	397
Purchase of property and equipment	(25,959)	(20,939)
Changes in non-cash working capital balances	1,474	2,541
	<u>(24,485)</u>	<u>(18,001)</u>
Increase (decrease) in cash and cash equivalents	(18,658)	22,717
Cash and cash equivalents, beginning of period	<u>22,717</u>	<u>-</u>
Cash and cash equivalents, end of period	<u>\$ 4,059</u>	<u>\$ 22,717</u>
Cash and cash equivalents consist of:		
Cash	\$ 4,059	\$ 22,497
Short term deposits	-	220

See accompanying notes to these consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

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

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”); see note 17. 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, acquisition and operation of drilling rigs for the oil and gas industry. The Corporation currently operates in the western Canadian sedimentary basin (the “WCSB”), the United States and Mexico.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The Corporation’s consolidated financial statements are reported in Canadian dollars and are prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”).

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, the recognition of future income tax assets, stock based compensation expense and include commitments, if any, related to the purchase of capital assets. Actual amounts could materially differ from these estimates.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and all of its subsidiaries and a proportionate share of its joint venture entity. All significant intercompany balances and transactions have been eliminated.

The Corporation does not hold investments in any companies where it exerts significant influence and does not hold interests in any variable interest entities.

(c) Joint venture

The Corporation conducts its operations in Mexico through a 50% ownership of a Mexican 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Cash and cash equivalents

Cash and cash equivalents consists of cash and short-term investments with maturities of three months or less.

(e) Inventory

Inventory is charged to operating expenditures as items are sold or consumed at the average cost of the item.

(f) Property and equipment

Property and equipment are recorded at cost, including costs of direct material and labour. Where costs are incurred to extend the useful life of property and equipment or to upgrade its capabilities, the amounts are capitalized to the related asset. Costs incurred to repair or maintain property and equipment are expensed as incurred.

Property and equipment are depreciated as follows:

	Expected life	Salvage value	Basis of depreciation
Drilling rig equipment	4,200 drilling days	20%	unit-of-production
Drill pipe and drill collars	1,500 drilling days	20%	unit-of-production
Service rig equipment	1,000 operating days	20%	unit-of-production
Other equipment	1500 drilling days	20%	unit-of-production
Light duty vehicles	4 years	-	straight-line
Office equipment	3 years	-	straight-line
Rigs under construction	-	-	no depreciation

Drilling rig and equipment is depreciated using the unit-of-production method based on the estimated useful life. For acquired drilling rig equipment the estimated useful life is dependant upon the age of the equipment when acquired.

(g) Long-lived assets

On a periodic basis, management assesses the carrying value of long-lived assets for indications of impairment. Indications of impairment include an ongoing lack of profitability and significant changes in technology. When an indication of impairment is present, the Corporation tests for impairment by comparing the carrying value of the asset to its net recoverable amount. If the carrying amount is greater than the net recoverable amount, the asset is written down to its estimated fair value.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Income taxes

The Corporation and its subsidiaries follow the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on 'temporary differences' (differences between accounting basis and tax basis of the assets and liabilities), and are measured using current or substantively enacted tax rates and laws expected to apply when these differences reverse. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income in the period the change occurs. Future tax assets are recognized if it is considered more likely than not that the tax asset will be realized.

(i) Revenue recognition

The Corporation earns drilling revenue from two types of drilling contracts: (1) daywork contracts; and (2) integrated services contracts. Revenue earned from daywork contracts is recognized upon the passage of time and delivery of service to customers and only when collection is reasonably assured. Revenue earned from services provided under integrated services contracts whereby a well is drilled to an agreed upon depth under specified conditions for a fixed price, regardless of the time required or the problems encountered in drilling the well is recognized using the percentage-of-completion method based upon costs incurred to date and estimated total contract costs. Anticipated losses, if any, on uncompleted integrated services contracts are recorded at the time the estimated costs exceed the contract revenue. The customer contract terms do not include a provision for post-delivery obligations.

(j) Stock-based compensation

The Corporation has an employee stock option plan that provides all option holders the right to common shares for the options exercised. The Corporation follows the fair value method for accounting, using the Black-Scholes option pricing model, whereby compensation expense is recognized for the stock options on the date of grant, and amortized over the option's vesting period. All forfeited options are cancelled immediately and no stock-based compensation is recorded on these options in future periods and any unvested stock-based compensation related to cancelled, unvested options in the current period is reversed.

(k) Foreign currency translation

Accounts of the Corporation's integrated foreign operations are translated to Canadian dollars using average exchange rates for the month of the respective transaction for revenue and expenses. Monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date and non-monetary assets and liabilities are translated using historical rates of exchange. Gains or losses resulting from these translation adjustments are included in net earnings.

Accounts of the Corporation's self sustaining operations are translated to Canadian dollars using average exchange rates for the month of the respective transaction for revenue and expenses. Assets and liabilities are translated at exchange rates in effect at the balance sheet date. Gains or losses resulting from these translation adjustments are included in accumulated other comprehensive income in shareholders' equity.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Foreign currency translation (continued)

Transactions in foreign currencies are translated at rates in effect at the time of the transaction. Monetary assets and liabilities are translated at rates in effect at the time of the transaction. Monetary assets and liabilities are translated at current rates. Gains and losses are included in net earnings.

(m) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the period. Diluted per share amounts are calculated using the treasury stock method for stock options and warrants. The treasury stock method assumes that any proceeds obtained on exercise of stock options and warrants would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the difference between the number of units issued from the exercise of stock options and warrants and common shares repurchased from the related proceeds.

(n) Financial instruments

The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and bank debt. The Corporation has designated its financial instruments as follows:

- i) Cash and cash equivalents are classified as "held for trading" and any period change in fair value is recorded through net earnings;
- ii) Accounts receivable are classified as "loans and receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Corporation, the measured amount generally corresponds to the historical cost; and
- iii) Accounts payable and accrued liabilities and bank debt are classified as "other financial liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Corporation, the measured amount generally corresponds to historical cost.

(o) Adoption of new accounting policies

Goodwill and Intangibles

The 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Adoption of new accounting policies (continued)

Fair Value Measurement and Liquidity Risk

In June 2009, the CICA amended Section 3862 to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The Corporation adopted this standard prospectively effective December 31, 2009. The adoption of this standard did not have a material impact on the financial statements of the Corporation.

Financial Instruments – Impairment of Financial Assets

In July 2009, the CICA amended section 3855, “Financial Instruments – Recognition and Measurement”, in relation to the impairment of financial assets. Amendments to this section have revised the definition of “loans and receivables” and provided that certain conditions have been met, permits reclassification of financial assets from the held-for trading and available-for-sale categories into the loans and receivables category. The amendments also provide one method of assessing impairment for all financial assets regardless of classification. The Corporation adopted this standard prospectively effective December 31, 2009. The adoption of the amendments of this standard did not have a material impact on the financial statements of the Corporation.

3. FUTURE ACCOUNTING PRONOUNCEMENTS

In January 2009, the CICA issued new standards relating to business combinations (section 1582), consolidated financial statements (section 1601) and non-controlling interests (section 1602). Section 1582 will require most assets acquired and liabilities assumed, including contingent liabilities to be measured at fair value and that all acquisition costs to be expensed. Section 1602 requires that non-controlling interests be recognized as a separate component of equity and that net earnings be calculated without a deduction for non-controlling interest. Section 1601 in combination with Section 1602 replaces the former consolidated statements standard (1600) and establishes standards for the preparation of consolidated financial statements. These standards are effective January 1, 2011 with early adoption permitted. Based on the Corporation’s consolidated financial statements at December 31, 2009, the Corporation does not anticipate these changes will have a material affect to its consolidated financial statements.

4. PROPERTY & EQUIPMENT

2009	Cost	Accumulated Depreciation	Net Book Value
Deposits on rig equipment	\$ 240	\$ -	\$ 240
Rigs and accessories	45,958	542	45,416
Rigs under construction	634	-	634
Office furniture and equipment	63	16	47
Total	\$ 46,895	\$ 558	\$ 46,337

2008	Cost	Accumulated Depreciation	Net Book Value
Deposits on rig equipment	\$ 3,458	\$ -	\$ 3,458
Rigs and accessories	7,803	38	7,765
Rigs under construction	9,636	-	9,636
Office furniture and equipment	43	2	41
Total	\$ 20,940	\$ 40	\$ 20,900

On November 18, 2009, the Corporation acquired substantially all of the rigs and accessories from a company. for cash consideration of \$6,500. Transaction costs of \$65 were incurred in relation to the transaction.

On December 18, 2009, the Corporation acquired rigs and accessories from a company for cash consideration of \$6,000. Transaction costs of \$60 were incurred in relation to the transaction.

5. BANK DEBT

Facility	Available Amount	Drawn at December 31, 2009	Interest rate per annum	Maturity date
<u>Loans available at December 31, 2009</u>				
Operating loan	\$ 5,000 (i)	\$ -	(ii)	due on demand
Evergreen Loan	10,000	5,000	(iii)	(iv)
<u>Additional loan made available subsequent to December 31, 2009</u>				
Capital Loan	5,000 (v)	-	(iii)	(vi)

- (i) Available amount is the lesser of \$5,000 or 75% of accounts receivable less than 90 days. Based on accounts receivable at December 31, 2009, the estimated available amount is approximately \$2,700.
- (ii) Bank debt bears interest at the bank's prime lending rate plus 1.25%, U.S. prime rate plus 1.25% or U.S. Libor rate plus 2.50%.
- (iii) Bank debt bears interest at the bank's prime lending rate plus 1.75%, U.S. prime rate plus 1.75% or U.S. Libor rate plus 3.25%.
- (iv) Advances made under the Evergreen Loan during a calendar year will require interest only payments for the calendar year of the advance, with principal repayments on a monthly five year amortization basis commencing in the subsequent calendar year.
- (v) Subsequent to December 31, 2009, the Corporation increased its credit facility arrangements and obtained an additional \$5.0 million Capital Loan under similar terms to the Evergreen Loan.
- (vi) Advances made shall be repaid on demand, unless and until otherwise demanded, \$83 of principal shall be repaid monthly commencing from the month of initial advance with the balance to be fully repaid within five years of the initial advance.

Bank debt is secured by charges on all present and future property of the Corporation and the Corporation's United States subsidiaries. The Corporation was in compliance with its covenants at December 31, 2009. The Corporation's covenants are as follows:

- Tested quarterly, current assets to current liabilities must be greater than 1.25:1. For purposes of the covenant calculation, current liabilities exclude current portion of long term debt. For purposes of the initial covenant calculation at December 31, 2009, current assets includes the unfunded portion of the evergreen loan.
- Tested quarterly, debt to tangible net worth must exceed 2.50:1. For purposes of the covenant calculation, debt equals total liabilities less future taxes and net worth equals share capital plus retained earnings (accumulated deficit), less intangible assets and goodwill.
- Tested annually, cash flow to debt service must be greater than 1.25:1. For purposes of this calculation cash flow is equal to net income (loss) before interest, cash taxes, depreciation, and amortization, for the calendar year and debt service is defined as the sum of all interest paid by the Corporation on all bank and third party debt and the corresponding annual principal repayments.

6. INCOME TAXES

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

	2009	2008
Income (loss) before taxes	\$ (290)	\$ 13
Income tax rate	29.0%	29.5%
Expected income tax expense	(84)	4
Increase (decrease) resulting from:		
Rate reduction on future income taxes	(15)	(5)
Non-deductible stock-based compensation	208	29
Other	6	-
Change in valuation allowance on future tax asset	(4)	(28)
Total income tax expense	\$ 111	\$ -

The significant components of the Corporation's future income tax asset is as follows:

	2009	2008
Share issue costs	\$ 406	\$ 553
Non-capital loss carry-forwards	32	166
Property and equipment	4	(137)
Other	(15)	-
Valuation allowance	(50)	(582)
Net future income tax asset	\$ 377	\$ -

The Corporation has available for deduction against future taxable income non-capital losses of approximately \$127, based upon rates expected to be in effect when the losses reverse. These losses, if not utilized will expire in 2026. Certain future tax benefits which may arise primarily as a result of foreign operations, have not been recognized in these consolidated financial statements and have been offset by a valuation allowance as the Corporation has determined it is not currently more likely than not that sufficient taxable income will be available to allow the tax asset to be realized.

7. SHARE CAPITAL

(a) 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 December 31, 2009.

(b) Issued Common Shares

	Number of shares	Share capital
Shares issued for cash	4,000	\$ 8,000
Shares issued under a private placement for cash	18,000	36,000
Shares issued on reverse takeover (note 17)	4,100	266
Share issue costs (net of future tax asset of \$nil)	-	(2,374)
Balance December 31, 2008	26,100	\$ 41,892
Recognition of future tax asset on share issue costs	-	483
Balance December 31, 2009	26,100	\$ 42,375

In July 2008, the Corporation issued 4,000 common shares at \$2.00 per share for proceeds of \$8,000.

During August 2008, the Corporation completed three private placements at \$2.00 per common share for gross proceeds of \$36,000 and issued 18,000 common shares.

(c) Stock Options

The Corporation may grant options to its employees, executive, and board of directors or others up to a maximum of 10% of the issued and outstanding common shares. The options exercise price equals the market price of the Corporations common shares on the date of grant. Stock options vest evenly over periods ranging from two years to four years. A summary of the Corporation's outstanding stock options as at December 31, 2009 and 2008, and the changes for the year and period then ended, is as follows:

7. SHARE CAPITAL (continued)

(c) Stock Options (continued)

Stock Options	Range of Exercise Price	Outstanding	Weighted Average Exercise Price
Granted to employees, executive and directors	\$0.20	410	\$ 0.20
Granted to employees, executive and directors	\$2.00	712	2.00
Granted to Agent	\$0.20	100	0.20
Outstanding at December 31, 2008	\$0.20 - \$2.00	1,222	1.25
Granted to employees, executive and directors	\$1.60 - \$2.50	480	1.87
Forfeited by employees and directors	\$0.20 - \$2.50	(120)	1.57
Outstanding at December 31, 2009	\$0.20 - \$2.50	1,582	\$ 1.41

As part of the reverse takeover (note 17), 100 agent options were assumed for the purchase of common shares at a price of \$0.20 per share with an expiry date of September 24, 2010 and have an estimated fair value of \$11 based on the Black Scholes option pricing model using the following assumptions: a risk-free interest rate of 4.75%; an expected life for the options of 2 years; an annualized volatility of 32%; and a dividend rate of 0%.

Range of Exercise Prices	Total Outstanding			Exercisable	
	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number	Weighted Average Price
<u>Employees, executive and directors</u>					
\$ 0.20	371	\$ 0.20	2.95	124	\$ 0.20
\$ 1.60 - 2.50	1,111	1.93	2.72	243	2.00
<u>Agent Options</u>					
\$ 0.20	100	0.20	0.73	100	0.20
	1,582	\$ 1.41	2.10	467	\$ 1.14

7. SHARE CAPITAL (continued)

(d) Warrants

Range of Exercise Prices	Total Outstanding			Exercisable	
	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number	Weighted Average Price
<u>Agent Warrants</u>					
\$ 2.00	900	\$ 2.00	0.94	900	2.00

In August 2008, pursuant to a related agency financing agreement, 900 agent's warrants were issued. The agent warrants issued have an exercise price of \$2.00 per share and expire on December 9, 2010 and had an estimated fair value of \$379 based on the Black Scholes option pricing model using the following assumptions: a risk-free interest rate of 3.70 %; an expected life for the options of 2 years; an annualized volatility of 32%; and a dividend rate of 0%.

(e) Stock Based Compensation

For the years ended December 31, 2009 and 2008, the Corporation recorded stock based compensation expense in the consolidated statements of operations, comprehensive income (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:

	<u>2009</u>	<u>2008</u>
Risk-free interest rate	1.69 – 2.44 %	3.7%
Expected life of options	4 years	2 – 4 Years
Annualized volatility	32 %	32%
Dividend rate	0%	0%

The estimated fair value of the options and warrants granted during the year was \$253 (2008: \$1,186) and will be recognized as an expense over the vesting periods of the options.

(f) Employee Stock Savings Plan

During the year ended December 31, 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. During the year ended December 31, 2009 the Corporation purchased 20 shares at an average price of \$2.00 per share under the Plan.

8. CONTRIBUTED SURPLUS

A summary of changes in contributed surplus for the year and period ended December 31, 2009 and 2008 is as follows:

Stock based compensation	\$	99
Agent options (note 17)		11
Agent warrants		378
Balance December 31, 2008	\$	488
Stock based compensation		717
Balance December 31, 2009	\$	1,205

9. SEGMENTED INFORMATION

The Company operates in two geographic segments within one industry segment. Oilfield services are provided in the domestic operating segment (Canada) and the foreign operating segment (United States and Mexico). The amounts related to each geographic segment are as follows:

2009	Domestic	Foreign	Total
Revenue	\$ 5,546	\$ 1,085	\$ 6,631
Property and equipment, net ⁽ⁱ⁾	29,564	16,773	46,337
Capital expenditures, net	9,167	16,792	25,959
Depreciation and amortization	498	19	517

(i) At December 31, 2009, 100% of the Corporation's property & equipment was owned by the Corporation's domestic and United States division of the Corporation's foreign operating segment.

For the comparative period, all operations were conducted in the domestic operating segment.

10. SIGNIFICANT CUSTOMER

During the year ended December 31, 2009, one customer in the domestic operating segment provided 65% (2008: 100%) of the Corporation's total operating revenue of which \$614 is included in accounts receivable at December 31, 2009 (2008: \$500). In management's opinion, the future viability of the Corporation is not dependent upon this significant customer.

11. FINANCIAL RISK MANAGEMENT

(a) Capital Management

The Corporation defines capital as the Corporation's shareholders' equity and bank debt, which at December 31, 2009 was \$48,192 (2008: \$42,393). The Corporation's objective 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 manages its capital structure to ensure the available amounts are adequate for business requirements and the rates charged for capital are competitive. Availability of capital is important to future success and as such, the Corporation endeavours to maintain strong relationships with the capital investment community. Methods employed to adjust the Corporation's capital structure could include any, all, or a combination of: (1) issue new shares through a public offering or private placement; (2) Expand and or refinance existing bank debt facilities; (3) Issue fixed or floating rate debt; and or (4) Enter into forms of partnerships using the Corporation's existing property and equipment asset base.

The Corporation is not currently subject to any externally imposed capital requirements, other than its bank covenants as is disclosed in Note 5.

(b) 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. The Corporation manages credit risk by assessing the credit worthiness of its customers before providing services and on an ongoing basis as well as monitoring the amount and age of balances outstanding. The Corporation views credit risks on its accounts receivable as normal for the industry. The Corporation does not have any accounts receivable at December 31, 2009 that are believed uncollectible. The Corporation's cash is deposited with two Canadian chartered banks and management believes the risk of credit loss is remote.

The Corporation's accounts receivable aging is as follows:

	2009	2008
Within 30 days	\$ 3,413	\$ 1,190
31 to 60 days	41	-
61 to 90 days	81	-
Over 90 days	59	-
Allowance for doubtful accounts	-	-
Accounts receivable	<u>3,594</u>	<u>\$ 1,190</u>

11. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity Risk

At December 31, 2009, the Corporation had positive net working capital (current assets less current liabilities) of \$543 and had available approximately \$2,700 on its operating loan and \$5,000 available on its evergreen loan (note 5). Subsequent to December 31, 2009, the Corporation obtained an additional \$5,000 capital loan (note 5). At December 31, 2009, the Corporation was committed to various financial obligations (note 12) which require the Corporation to have available various sources capital and will require the Corporation to generate future operating cash flow to meet the commitments associated with these financial obligations.

The Corporation is exposed to liquidity risk. Liquidity risk is the exposure of the Corporation to the risk of not being able to meet its financial obligations as they become due. The Corporation manages liquidity risk through management of its capital structure, monitoring and reviewing actual and forecasted cash flows and the effect on bank covenants (note 5), and maintaining unused credit facilities where possible to ensure there are available cash resources to meet the Corporation's liquidity needs. The Corporation's existing credit facilities and cash flow from operating activities is expected to be greater than anticipated capital expenditures and the contractual maturities of the Corporation's financial liabilities for 2010. This expectation could be adversely affected by a material negative change in the oil and gas services business in North America.

(d) Market Risk

i) Interest rate risk

The Corporation is exposed to interest rate risk on its floating rate bank debt. The Corporation has the ability to enter into economic hedges on its interest bearing bank debt, but has not done so to date. Management believes that a 1% interest rate change during the next 12 month reporting period would be reasonably possible. During 2010, a 1% change in the interest rate on the outstanding \$5,000 of bank debt would increase (decrease) net and comprehensive loss by \$50.

ii) Foreign currency risk

The Corporation is exposed to foreign currency fluctuations on its financial instruments primarily in relation to its U.S. dollar denominated cash, accounts receivable and accounts payable. The Corporation monitors its foreign currency exposure and attempts to minimize the effect of fluctuations in the U.S. dollar by maintaining appropriate levels of cash and accounts receivable to offset corresponding U.S. dollar denominated accounts payable. The Corporation believes a fluctuation of the U.S. dollar relative to the Canadian dollar of 5% during the next 12 month reporting period would be reasonably possible.

11. FINANCIAL RISK MANAGEMENT (continued)

(d) Market Risk (continued)

iii) Foreign currency risk (continued)

The Canadian equivalent U.S. dollar denominated balances at December 31, 2009 and related affect of a 5% fluctuation in foreign exchange rates is presented below:

	2009
Cash	\$ 51
Accounts receivable	1,566
Accounts payable	(1,760)
Net U.S. dollar exposure	<u>\$ (143)</u>
Effect of plus (minus) 5% change in the U.S. dollar to Canadian dollar exchange rate on net loss	<u>\$ 7</u>

With operations commencing in Mexico during the year, it is expected the Corporation will be exposed to fluctuations in the Mexican peso relative to the Canadian dollar. At December 31, 2009, the Corporation was not exposed to significant foreign currency risk on its financial instruments related to the Mexican peso.

iv) Price risk

The Corporation is not exposed to price risk due to the short term nature of its cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. Bank debt is subject to a floating interest rate and is therefore not exposed to price risk.

(e) Fair Value

The carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short period to maturity of the instruments. The carrying value of bank debt approximates its fair value as it bears interest at a floating interest rate.

12. COMMITMENTS

The following are the commitments and contractual maturities of the Corporation's financial liabilities at December 31, 2009:

		2010	2011	2012	2013	2014	Thereafter	Total
Bank debt	(i)	\$ 1,100	\$ 1,100	\$ 1,100	\$ 1,100	\$ 1,100	\$ -	\$ 5,500
Commitments	(ii)	157	146	107	89	-	-	499
Total		\$ 1,257	\$ 1,246	\$ 1,207	\$ 1,189	\$ 1,100	\$ -	\$ 5,999

(i) Includes principal and interest. Interest has been calculated based upon debt balances and interest rates at December 31, 2009

(ii) Includes office premises and vehicle lease payments

In addition to the above contractual maturities, the Corporation has: (1) decided to complete a retrofit of one drilling rig and construct another drilling rig at a total estimated remaining cost of \$8,300 with costs expected to be incurred in 2010; and (2) sub-contracted two drilling rigs through its Mexican joint venture company for a term ending November 2010, subject to the length of the customer contract. Future payments are variable depending upon the operating performance of the drilling rigs.

13. EARNINGS PER SHARE

Common shares potentially issuable in exchange for stock options and agent options are not included in the computation of diluted loss per share as to do so would be anti-dilutive. A summary of the common shares used in calculating (loss) earnings per share is as follows:

	December 31,	
	2009	2008
Weighted average common shares	26,100	18,669
Effect of stock options and warrants	289	1,567
Balance, period end	26,389	20,236

For the year ended December 31, 2009, the above table excludes 1,152 options (2008: nil) and 900 warrants (2008: nil), respectively, that are considered anti-dilutive.

14. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2009 the Corporation incurred \$181 of fees included in general and administrative expenses and property and equipment (2008: \$260 included in general administration expense and share issue costs) relating to professional services provided by a law firm of which one of the Corporation's directors is a partner. At December 31, 2009, \$70 (2008: \$47) was included 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.

15. CONTINGENCY

Subsequent to December 31, 2009, the Corporation received a statement of claim from a company claiming use of confidential and proprietary information, solicitation of clients, consultants and employees by certain officers and staff of the company. No estimate of the claim can be made. The Corporation does not view the claim as having any merit; accordingly no provision for any liability is presented in these consolidated financial statements.

16. JOINT VENTURE

The following summarizes the financial results of the Corporation related to its joint venture operations.

	2009
Current assets	\$ 804
Current liabilities	804
Revenue	704
Expenses	704
Operating cash flow	-
Financing cash flow	-
Investing cash flow	-

17. REVERSE TAKE OVER (“RTO”)

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 where the Shareholders voted to approve the Amalgamation Agreement and the transaction was completed. 4,100 shares of the amalgamated entity were issued to CanElson’s shareholders and, for purposes of GAAP, the Corporation was considered the acquirer.

The value assigned to the securities issued equalled the estimated fair value of the net assets of CanElson at the time of the transaction, and was calculated as follows:

Net assets at assigned values:	
Cash	\$ 397
Non-cash working capital deficiency	(120)
	<u>\$ 277</u>
Consideration:	
Shares	\$ 266
Agent's options	11
	<u>\$ 277</u>