



ANNUAL INFORMATION FORM

FOR THE YEAR ENDED DECEMBER 31, 2009

MARCH 1, 2010

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APPENDIX “A” Terms of Reference for the Audit and Safety Committee

FORWARD LOOKING INFORMATION

This Annual Information Form contains certain statements or disclosures that may constitute forward looking information under applicable securities laws (collectively, “**forward-looking information**”). All statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that management of the Corporation anticipates or expects may or will occur in the future (in whole or in part) should be considered forward looking information. In some cases, forward looking information can be identified by terms such as “forecast”, “future”, “may”, “will”, “expect”, “anticipate”, “believe”, “potential”, “enable”, “plan”, “continue”, “contemplate”, “should”, “intend” or other comparable terminology. In particular, this Annual Information Form contains forward looking information relating to: the deployment of drilling rigs to Texas and Mexico and a service rig to Mexico; the business strategy and operating objectives of the Corporation; retaining and recruiting employees; and the Corporation’s growth strategy described under “Outlook”.

Various assumptions or factors are typically applied in drawing conclusions or making the forecasts or projections set out in forward looking information. Those assumptions and factors are based on information currently available to the Corporation, including information obtained from third party industry analysts and other third party sources. In some instances, material assumptions and factors are presented or discussed elsewhere in this Annual Information Form in connection with the statements or disclosure containing the forward looking information. The material factors and assumptions include:

- oil and natural gas production levels;
- no significant adverse changes in economic conditions that influence the demand of oil and natural gas;
- no significant adverse changes in commodity prices;
- no unforeseen changes in the legislative and operating framework for the business of the Corporation;
- a stable competitive environment; and
- no significant event occurring outside the ordinary course of business such as a natural disaster or other calamity.

The forward looking information in this Annual Information Form is based (in whole or in part) upon factors which may cause actual results, performance or achievements of the Corporation to differ materially from those contemplated (whether expressly or by implication) in the forward looking information. Actual results or outcomes may differ materially from those predicted by such statements or disclosures. While the Corporation does not know what impact any of those differences may have, its business, results of operations, financial condition and credit stability may be materially adversely affected. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward looking information include, among other things:

- fluctuations in the price and demand for oil and natural gas;
- fluctuations in the level of oil and natural gas exploration and development activities;
- fluctuations in the demand for contract drilling;

- the effect of weather conditions on operations;
- the existence of competitive operating risks inherent in contract drilling;
- the ability of the Corporation to fund capital expenditures; and
- legislative and regulatory developments that may affect costs, revenues and global capital markets activity and general economic conditions in geographic areas where the Corporation operates.

The Corporation cautions the reader that the above list of risk factors is not exhaustive. Other factors which could cause actual results, performance or achievements of the Corporation to differ materially from those contemplated (whether expressly or by implication) in the forward-looking information are disclosed under the heading “*Risk Factors*” in this Annual Information Form.

The forward-looking information contained in this Annual Information Form is made as of the date hereof and the Corporation is not obligated to update or revise any forward looking information, whether as a result of new information, future events or otherwise, except as required by applicable laws. Because of the risks, uncertainties and assumptions contained herein, investors should not place undue reliance on forward looking information. The foregoing statements expressly qualify any forward looking information contained herein.

CORPORATE STRUCTURE

Name, Address and Incorporation

CanElson Drilling Inc.'s ("CanElson" or the "Corporation") principal and head office is located at 515, 808 – 4th Avenue S.W., Calgary, Alberta T2P 3E8. The Corporation's registered office is located at 1000, 400 - 3rd Avenue S.W., Calgary, Alberta T2P 4H2.

CanElson was incorporated pursuant to the provisions of the *Business Corporations Act* (Alberta) ("ABCA") on June 30, 2008 under the name "CanElson Drilling Inc.". On July 28, 2008, CanElson amended its articles to remove the restriction against the transfer of securities. On December 10, 2008 CanElson amalgamated with EMR Drilling Inc., a private Alberta drilling company, and continued as CanElson Drilling Inc.

Intercorporate Relationships

CanElson holds 100% of the outstanding shares of CanElson Drilling (US) Inc., a Delaware incorporated company. CanElson Drilling (US) Inc. is the sole member of two Delaware limited liability companies, CanElson Drilling (US), LLC and CanElson American Drilling LLC. The latter is registered to do business in Texas and the former is registered to do business in North Dakota and Texas (in Texas under the name CanElson Drilling (Texas), LLC).

CanElson also holds 50% of the outstanding shares of a Mexican joint venture company, Diavaz CanElson de Mexico S.A. de C.V.

General Development of the Business

The following is a summary of the development of the business of the Corporation from the date of incorporation to December 31, 2009.

CanElson was a "capital pool company" under TSX Venture Exchange Policy 2.4. On June 30, 2008, CanElson completed a private placement of 2,600,000 common shares at a price of \$0.10 per share for aggregate gross proceeds of \$260,000. On August 8, 2008, CanElson completed an additional private placement financing of 500,000 common shares at a price of \$0.20 per share for aggregate gross proceeds of \$100,000. On September 19, 2008, CanElson completed its initial public offering of 1,000,000 common shares at a price of \$0.20 per share for aggregate gross proceeds of \$200,000 by way of a final prospectus dated September 9, 2008 filed in the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. The agent of the public offering received as consideration for their services a cash commission equal to 10% of the gross proceeds and an aggregate of 100,000 Agent's Options. CanElson's common shares were listed on the TSX Venture Exchange on September 25, 2008 under the symbol "CDLP". Trading in CanElson's common shares was immediately halted upon commencement of trading pending the announcement of CanElson's intended amalgamation with EMR Drilling Inc. ("EMR") and resumed on September 30, 2008. The amalgamation with EMR constituted CanElson's Qualifying Transaction under the policies of the TSX Venture Exchange. Elson McDougald and Randy Hawkings were directors and officers of both CanElson and EMR.

EMR was a private company engaged in the manufacture and operation of drilling rigs in the Western Canada Sedimentary Basin ("WCSB"). EMR commenced operations on June 30, 2008. During July and August 2008, EMR raised aggregate gross proceeds of \$44,000,002 through: (i) the issuance of 4,000,001 common shares at a price of \$2.00 per share to its directors in July 2008; and (ii) the issuance of an aggregate of 18,000,000 common shares issued at \$2.00 per share pursuant to a brokered private

placement completed in August 2008. The agent of the brokered private placement received as consideration for their services a cash commission equal to 5% of the gross proceeds of the non-brokered private placement and an aggregate of 900,000 Agent's Warrants.

The net proceeds from the sale of the common shares were used by EMR to finance its rig construction program. EMR completed the construction of its first rig in December 2008 and it began operations on early December 2008.

On December 10, 2008 CanElson completed the amalgamation with EMR. The amalgamation was approved by 100% of the shareholders of each of CanElson and EMR who voted on the amalgamation at each of the special meetings of the shareholders of CanElson and EMR held on December 9, 2008. Pursuant to the amalgamation, each outstanding common share of CanElson and EMR was exchanged for one common share of the amalgamated company. Effective December 29, 2008, CanElson was no longer a "capital pool company" pursuant to the policies of the TSX Venture Exchange.

In October, 2009 the Corporation formed a Mexican joint venture company, Diavaz CanElson de Mexico S.A. de C.V., with D&S Petroleum S.A. de C.V., a wholly owned subsidiary of Grupo Diavaz S.A. de C.V. Both companies have a 50% interest in the Mexican joint venture company.

In November, 2009 CanElson's Mexican joint venture company entered into 2 one-year integrated drilling services rig contracts with DS Servicios Petroleros, S.A. de C.V. As CanElson's rig fleet was fully committed at that time, the Mexican joint venture subcontracted two drilling rigs already working in the Ebano-Panuco-Cacalilao fields of Misantla-Tampico Basin in Mexico to provide the drilling services for the 2 drilling services contracts.

Also in November, 2009 CanElson entered into multi-well contracts with a Midland, Texas based resource company to operate two drilling rigs in the Permian Basin region. The first drilling rig commenced operations in Texas in December, 2009 and the second rig commenced operations in Texas in January, 2010. The Corporation built and transported Rigs #3 and #4 to Texas to operate under these multi-well contracts.

On November 18, 2009 the Corporation completed the purchase from Bronco Drilling Services Ltd. of a telescopic top-drive equipped double rig, a single rig and related equipment for cash consideration of \$6.5 million. In February 2010, the Corporation sold the single rig for cash proceeds of \$0.65 million.

On December 18, 2009 the Corporation completed the purchase from CCS Corporation of a top-drive equipped, telescopic double rig and a single service rig for cash consideration of \$6 million. The drilling rig commenced work immediately in west-central Alberta on a one year contract and the service rig was scheduled to be retrofitted and deployed to Mexico in early 2010.

Also on December 18, 2009, in connection with completion of the acquisition of the drilling rigs from CCS Corporation, the Corporation closed a debt financing with a Canadian chartered bank, whereby the bank made available to the Corporation \$10 million under an evergreen revolving term loan and an operating loan of \$5 million.

In early January, 2010 the Corporation entered into a 15 month multi-well contract with a U.S. based resource company to operate one drilling rig in the Permian Basin region. CanElson will complete the construction of Rig #5 at an estimated remaining construction cost of \$7.3 million and once completed this rig will be moved to Texas to work pursuant to the terms of this multi-well contract. CanElson expects this drilling rig to be operational in Texas by April 2010.

At the end of January 2010 CanElson had in operation 8 drilling rigs (net: 7) working or committed in three jurisdictions. In Alberta, CanElson had four rigs currently operating under multi-well contracts. In Texas, the company had two rigs currently operating under multi-well contracts and a contract for one additional rig. In Mexico, CanElson's joint venture company was operating two sub-contracted drilling rigs and expected to begin operating two service rigs (net: 1) in the first quarter of 2010. CanElson also has 1 additional drilling rig that is under construction for specific future deployment.

DESCRIPTION OF THE BUSINESS

General

CanElson constructs drilling rigs and provides contract-drilling services to the oil and gas industry in Western Canada, the U.S. and Mexico. CanElson supervises rig construction and commissioning, arranges bank and other financing for the construction of drilling rigs, arranges drilling contracts and acts as a manager and operator of the drilling rigs. CanElson's business strategy and operating objectives are to:

- build and operate modern state-of-the-art drilling rigs;
- lead the drilling industry by providing customers with superior performance and value by having experienced, well-trained and involved drilling crews;
- maximize operating time by working safely and efficiently, and minimizing downtime;
- develop and maintain a superior safety record through good recruiting, proper training and an effective safety program;
- keep rigs current with depth and commodity market trends as well as changing government regulatory requirements;
- establish a "preferred employer" reputation by being a people-orientated company with an involved senior management team; and
- develop mutually beneficial relationships with Aboriginal communities by providing a long-term rig investment opportunity, and hiring and training people from those Aboriginal communities to work on the drilling rigs.

Aboriginal relationships are expected to provide CanElson with unique operational and financial leverage. Establishing partnerships with Aboriginal groups presents benefits for both partners as well as for the Corporation's customers. Equity investment in drilling rigs will be designed with an expectation of a return on investment for the Corporation's Aboriginal partners.

For the Corporation's customers, CanElson believes that its Aboriginal relationships will facilitate the development of positive relations with Aboriginal communities with the objective that the relationship will foster the economic participation of Aboriginal communities in the energy services industry.

CanElson has entered into business development relationships with the Duncan First Nation and White Bear First Nation.

Western Canadian Sedimentary Basin

CanElson operates in the WCSB. The WCSB is a sedimentary basin underlying approximately 1,500,000 square kilometres of Western Canada including southwestern Manitoba, southern Saskatchewan, Alberta, northeastern British Columbia and the southwest corner of the Northwest Territories. It consists of a wedge of sedimentary rock extending from the Rocky Mountains in the west to the Canadian Shield in the east. The WCSB is the most prolific hydrocarbon region of Canada, accounting for the vast majority of crude oil and natural gas produced in Canada (Energy Resources Conservation Board, *Origins of Oil and Gas*, online: <http://www.ercb.ca>).

United States Operations

The Corporation has expanded its operations into the United States. CanElson has entered into multi-well contracts with a Midland, Texas based resource company to operate 2 drilling rigs in the Permian Basin region. Rigs #3 and #4 have been relocated to Texas and began operating in Texas in January 2010 and December 2009, respectively. The Corporation has also signed a 15 month multi-well contract with a public U.S. based resource company to operate an additional third drilling rig in the Permian Basin region. The drilling rig is anticipated to be operational in Texas by April 2010. CanElson has commenced construction of Rig #5 and once completed it will be moved to work on the 15 month contract.

Mexico Operations

The Corporation has formed a Mexican joint venture company, Diavaz CanElson de Mexico, S.A. de C.V., with D&S Petroleum, S.A. de C.V., a wholly owned subsidiary of Grupo Diavaz, S.A. de C.V. Both companies have a 50% interest in the Mexican joint venture company. The business of the joint venture company is the purchase and/or construction and operation of, one or more drilling rigs in Mexico and the ownership and operation of service rigs. The joint venture company is currently operating 2 sub-contracted drilling rigs in the Ebano-Panuco-Cacalilao fields of the Misantla-Tampico basin. CanElson provides the management and expertise for the drilling rig operations. The Mexican joint venture company has entered into 2 one-year Integrated Drilling Services Contracts under which the 2 sub-contracted drilling rigs are operating.

The Mexican joint venture company's business plan also includes the operation of 2 service rigs in the Misantla-Tampico area. It is expected that CanElson will retrofit and supply one of the service rigs. CanElson's joint venture partner has contributed the other service rig.

Principal Products, Services and Operations

Drilling Rig Construction

CanElson acts as a general contractor supervising the construction and commissioning of its drilling rigs. Once constructed, the drilling rig begins working in the field.

Contract Drilling Services

Contract drilling services are carried out using drilling rigs and other auxiliary equipment. Contract drilling services are performed based on instructions from the oil and gas exploration and production company (the "**Operator**") which has contracted the drilling company's rig(s). The drilling company follows these instructions and drills the oil or gas well at a specified location to the desired depth. If the

well is productive and can be economically produced, the drilling rig will set the production casing or liner for the well.

Drilling contracts are awarded through competitive bidding or on a negotiated basis. In periods of low activity, more contracts are offered on a competitive bid basis. During periods of high activity, contracts are often awarded on a negotiated basis. Terms and rates will vary depending on competitive conditions, equipment and services to be supplied, Aboriginal relationships, the geographical area, the geological formation to be drilled, the on-site drilling conditions and the anticipated duration of the work. The drilling contractor provides the drilling rig and crew and is typically responsible for the payment of rig operating and maintenance expenses. Surface lease construction, rig mobilization expenses as well as third party rentals are generally paid by the Operator.

Drilling services in Canada are provided primarily based on standard drilling contracts endorsed by both the Canadian Association of Oilwell Drilling Contractors (“CAODC”) and the Canadian Association of Petroleum Producers (“CAPP”). Drilling services in the U.S. are provided based on standard drilling contracts endorsed by the International Association of Drilling Contractors. The contracts outline the rights, responsibilities and obligations of each party to the contract. The contracts can be for a specific well, a series of wells or for a specific time frame.

Drilling contracts are carried out on either daywork, meterage (footage in the U.S.) or turnkey basis. Under daywork contracts, the drilling company charges the Operator a fixed charge per day for the number of days needed to drill the well. In addition, daywork contracts provide for a day rate, or a lump sum amount, for mobilization of the rig to the well location and for rig up and rig down of the rig. Under a daywork contract, the drilling company ordinarily bears no part of the costs arising from downhole risks (such as time delays for various reasons, including a stuck or broken drill string or blow-outs). Other contracts could provide for payment on a meterage (footage) basis, whereby the drilling company is paid a fixed charge for each metre (foot) drilled regardless of the time required or the problems encountered in drilling the well. Some contracts are carried out on a meterage basis to a specified depth and on a daywork basis thereafter. Turnkey contracts contemplate the drilling of an entire well for a fixed price. Compared to daywork contracts, meterage and turnkey contracts involve a higher degree of risk to the drilling company and, accordingly, normally provide greater profit or loss potential. To date, all of CanElson’s contracts in Canada have been signed on a daywork basis and in the U.S. on a footage basis. In Mexico, CanElson’s joint venture company’s contracts have been signed on a meterage basis.

Equipment Fleet

CanElson currently owns six drilling rigs and one service rig. The six drilling rigs are telescopic double rigs rated to 3,600 metres depth. The service rig is rated at 2,800 metres and is free standing (internally guy wired). Benefits of the Corporation’s basic rig equipment include simple maintenance, long life and reduced downtime.

Six of CanElson’s rigs are modern “step down” substructure, telescopic double drilling rigs, meaning that they are configured to handle two joints of 30 foot length drill pipe at one time within the rig framework, with pipeskates (except Rig 9) built into the catwalk. This makes them suitable for all medium to long reach drilling (from depths of 1,800 metres to 4,000+ metres). The choice of rig design is based on the Corporation’s market analysis, which indicates that demand is primarily for rigs capable of drilling in a depth range of 2,800 to 3,600 metres vertically or up to 4,300 metres horizontally.

CanElson’s current fleet of drilling rigs and service rigs is described below:

Rig #	Type	Drawworks	Rated Depth (metres)	Date of Completion/Acquisition
1	Telescoping Double	TSM 850	3,600	December 2008
2	Telescoping Double	TSM 850	3,600	January 2009
3	Telescoping Double	TSM 850	3,600	April 2009
4	Telescoping Double	TSM 850	3,600	December 2009
5	Telescoping Double	TSM 850	3,600	Estimated completion March 2010
7	Telescoping Double	CE750-SD Crown	3,500	Purchased November 2009
9	Telescoping Double	TSM 850	3,600	Purchased December 2009
665 ⁽¹⁾	Hydraulic Single	Schramm T130XD	1,200	Subcontracted
667 ⁽¹⁾	Hydraulic Single	Schramm T130XD	1,200	Subcontracted
668	Service	Kremco 600	2,800	Purchased December 2009
666 ⁽²⁾	Service	FF300	3,500	Acquired February 2010

Notes:

(1) Rig is subcontracted from a third party.

(2) Rig contributed to the Mexican joint venture company by the joint venture partner.

Rigs 1 through 5, 7 and 9 have similar configuration and specifications which are most suitable for drilling wells up to approximately 3,600 metres vertically or 4,300 metres horizontally. Rigs 7 and 9 are equipped with a top drive and the rest of the telescoping double rigs are capable of using top drive equipment. The seven telescoping double rigs all have unitized substructures and feature single skid, mast and drawworks components. This enables the rigs to generally be moved and prepared for drilling operations very quickly. These features allow the rigs to be moved in approximately 11 loads without drill pipe, compared to older rigs with a similar depth capacity which move in approximately 15 to 36 loads. The substantial similarities in rig equipment allow CanElson to minimize its need for spare equipment inventory and associated costs.

Rigs 1 through 5, 7 and 9 all feature 750 to 850 input horsepower drawworks and have hook loads (the amount of weight that can be lifted by the rig) of 350,000 to 400,000 pounds. All seven rigs also include two 800 or 1,000 horsepower triplex mud pumps. These rigs are most typically used on wells with depths of 2,800 metres to 3,600 metres vertically or up to 4,300 metres horizontally depending on the operational requirements of the client.

The drilling and service rigs in Mexico are suited for the shallow heavy oil horizontal work.

Other than the two drilling rigs operating in the United States, all of CanElson's drilling rigs are winterized, allowing for operations in the harsh weather conditions faced in the Canadian drilling environment.

CanElson's drilling fleet is relatively new. The young age of the fleet means that the rigs are efficient and should require minimal maintenance and down-time.

CanElson's drilling rigs have an efficient design which results in cost savings for its clients. A portion of the cost savings result from CanElson's ability to move rigs with fewer loads and prepare for drilling operations (or "rig up") in a shorter period of time. The rigs are capable of rigging up or down in approximately six to twelve hours. Many of the rigs against which CanElson competes rig up or down in 12 to 24 hours. The standardized design of CanElson's current fleet of rigs also allows CanElson to better manage its employee base and minimize inventory and spare parts costs. The design of the rigs incorporates a number of design elements which improve the operating characteristics and safety of the rigs.

Market for Services

The market demand for drilling rigs is determined by the amount of capital allocated for oil and gas reserve development or replacement by Operators. The total capital available is influenced by commodity prices and the ability to finance capital programs with cash flow, debt or new equity issues. These market forces, as well as land tenure, exploration and development, production, refining, transportation and marketing, governmental legislation, in combination with consumer demand for oil and gas, are key factors in determining the number of wells that will be drilled by oil and gas producing companies in Canada, the United States and Mexico.

In Canada the CAODC stated that 20,729 and 9,348 wells were drilled in western Canada during the 2008 and 2009 calendar years, respectively, and estimates that 8,523 wells will be drilled in 2010 (CAODC, *Updated Forecast – 2009 - Western Canada*, October 20, 2009). There were 884 rigs operated by CAODC members as at December 31, 2008 and 855 rigs operated by CAODC members as at December 31, 2009.

In the United States CanElson has drilling contracts with two customers with property in the Permian Basin in Texas with a high volume of infill oil development locations and therefore the demand for services is primarily subject to continued drilling success and oil prices.

Mexico has had a historic decline in production and currently has an aggressive expansion of onshore drilling operations to increase production levels. CanElson through its joint venture company operates in the Ebano-Panuco-Cacalilao fields of the Misantla-Tampico basin, which is considered development drilling in a mature field, with some undeveloped exploration potential. CanElson's Mexican joint venture partner is a subsidiary of Grupo Diavaz, S.A. de C.V. who holds rights to explore in this basin and therefore the demand for services is primarily subject to continued drilling success and oil prices.

Cycles

The drilling business in Canada is subject to seasonality, with peak activity levels usually being realized from December to the following March. During spring in Canada, activity levels are usually lower due to thawing which causes ground conditions to be soft and unstable. These unstable ground conditions increase operating costs and cause seasonal "road bans" to occur which cause inefficient operations. As a result of these conditions, the busiest quarter for CanElson's drilling services business in Canada is expected to be the first quarter, followed by the fourth quarter.

In the areas in the United States and Mexico where CanElson operates there are infrequent operational restrictions due to weather and therefore operations can generally continue throughout the entire year but

may experience weather constraints such as hurricanes, tornadoes, extreme heat or rain, or other conditions that halt operations for a period of time.

In Mexico the movement of drilling rigs and equipment can experience delays while authorities negotiate access or settle local disputes.

Competitive Conditions

The Corporation's operations are currently based in Canada, the United States and Mexico within the oilfield services markets which are highly competitive. The level of oilfield services provided is directly related to the exploration and development activities of the Corporation's customers, which in turn fluctuate with oil and natural gas prices. As a result of these varying commodity prices, there are continuous shifts by the Corporation's customers between natural gas and oil drilling and there remains some uncertainty expressed by the Corporation's customers regarding their drilling and completion budgets. Natural gas prices remain uncertain, although current prices have induced some operators to commence drilling for natural gas again. Oil prices have strengthened significantly over the past year and with improving technologies, are opening greater opportunities for operators to drill for oil.

In Canada and the United States with increases in horizontal drilling the need for rigs with the specifications of CanElson's rig fleet is increasing and the need for competent personnel will also increase. As a result of the Corporation's fleet size within the sector and the desire of employees to work with new equipment, management believes the Corporation will continue to experience less difficulty in retaining and recruiting the necessary personnel to deploy its equipment.

As most of the wage costs within the Corporation's drilling businesses are standardized throughout the industry, the Corporation's labour costs parallel quite closely to those of its competitors. As a result, quality of service, customer relationships and cost management are critical to achieving above-average results in the oilfield services businesses overall.

The Corporation continues to assess further expansion or redeployment of its fleet both domestically and internationally taking into account the potential diversification and expansion benefits, against the inherent economic, political and operating risks.

The market for CanElson's contract drilling services is comprised of numerous oil and gas exploration companies. However, the drilling industry in Canada, the United States and Mexico are very competitive sectors dominated by a few large established contractors which account for the majority of the industry's drilling rig fleets. With this concentration of drilling services, the larger contractors have the ability to influence the dayrates and operating practices. Weakened demand for drilling services caused by a collapse in commodity prices or operational performance issues could result in customers renegotiating or terminating contracts.

A drilling company is evaluated by potential customers based on the condition of its equipment, its drilling depth capacity, its safety performance and the expertise of its operational personnel.

CanElson's believes that its drilling fleet is among the newest in the industry where it operates and believes that this should result in lower operating costs than many of its competitors which may be operating older drilling fleets. CanElson has developed favourable customer relationships in Canada, the United States and Mexico that should support strong utilization rates.

Employees

As of December 31, 2009, CanElson employed or retained 75 individuals on a full or part-time basis.

Health, Safety and Environment

The Canadian, United States and Mexican oil and gas industries are regulated by a number of federal, provincial and state governmental bodies and agencies under a variety of complex federal, provincial and state legislation that sets forth numerous prohibitions and requirements, with respect to planning and approval processes related to land use, sustainable resource management, waste management, responsibility for the release of presumed hazardous materials, protection of wildlife and the environment and the health and safety of workers. Legislation provides for restrictions and prohibitions on the transport of dangerous goods and the release or emission of various substances, including substances used and produced in association with certain oil and gas industry operations. The legislation addresses various permits, drilling, access road construction, camp construction, well completion, installation of surface equipment, air monitoring, surface and ground water monitoring in connection with these activities, waste management and access to remote or environmentally sensitive areas.

The operations of the Corporation are subject to a variety of federal, provincial, state and local laws, regulations and guidelines, and as a consequence, the various environmental and health and safety statutes and regulations governing the manufacturing, processing, importation, transportation, handling and disposal of substances used in the operations, or that may otherwise be present or in lands the Corporation owns or occupies. Such legislation also generally imposes potential liability on present owners or occupants of property where contamination has occurred without regard to whether such owner or occupant played a role in the original contaminating event. Government authorities have the power to issue orders and take other actions (including enforcement action) to protect the environment and ensure safety, including licensing, equipment certification, environmental assessments, reclamation orders and safety regimes.

The Corporation believes that it is imperative that safety practices are upheld. To achieve this goal, regular on-site safety meetings and training seminars are held with a goal to ensure that all personnel are kept informed and that everyone within CanElson continues to work toward exceeding all applicable regulatory and safety requirements.

CanElson supports efforts to minimize the effect of its operations on the environment and is responsive to the concerns of government, the general public and its employees regarding its activities. Environmental protection measures have been incorporated into CanElson's regular procedures for equipment, site inspections and waste disposal.

CanElson's operating practices comply with federal, provincial and state standards for oilfield waste management. These standards are communicated to its personnel to ensure that they are aware of such standards as well as CanElson's expectations with respect to the environment.

Outlook

The senior executives of CanElson have significant experience in all aspects of the management and operation of contract drilling entities. Management also has significant experience in the construction and development of new rigs and has developed strong relationships with the suppliers of various components necessary for the construction of new rigs. CanElson intends to continue developing its relationships with its clients and potential new clients to identify opportunities to expand its fleet of rigs.

CanElson intends to continue building rigs and adding drilling equipment to its fleet based on market conditions and the needs of its clients. CanElson also intends to continue focusing on equipment improvements to its rig design and operations to achieve higher utilization rates and improve operating efficiencies. CanElson's growth strategy will focus on developing customer and geographic diversity. The construction of additional rigs will allow CanElson to provide services to a larger number of oil and gas companies. Although CanElson expects that the expansion of its rig fleet will occur primarily through the construction of new rigs, the Corporation will also consider the acquisition of existing rigs or drilling companies. The acquisition of existing rigs or drilling companies is dependent on the ability of such acquisitions to create value for CanElson.

As CanElson grows it will also be able to operate in a broader number of areas and thus reduce the potential impact of regional conditions or drilling activities on its operations. The Corporation expects that most of the short term growth in demand for rigs that have deeper well and long reach horizontal well drilling capacity will be in central and northern Alberta and northeast British Columbia and in west Texas. Over the longer term, the Corporation believes that market demand will also increase this type of well demand.

In Mexico CanElson believes that the oil and gas services market has growth opportunities in services that help optimization of drilling and well servicing operations and CanElson intends to capitalize and expand operations with its Mexican joint venture partner.

RISK FACTORS

The risk factors and uncertainties which CanElson faces in its business are as follows.

Industry Risks

There are many risks inherent in the drilling services industry, which even a combination of experience, knowledge and careful evaluation, may be difficult to overcome. The demand, price and terms of contract drilling services are dependent on the level of activity in the industry. Industry conditions are influenced by numerous factors over which CanElson has no control, including the level of oil and gas prices, expectations about oil and gas prices, the cost of exploring for, producing and delivering oil and gas, the expected rates of declining current production, the discovery rates of new oil and gas reserves; available pipeline and other oil and gas transportation capacity, weather conditions, political regulatory and economic conditions and the ability of oil and gas companies to raise equity or debt financing.

The level of activity of oil and gas exploration and production is volatile. No assurance can be given that expected trends in oil and gas production activities will continue or that demand for oilfield services will reflect the level of activity in the industry. Any prolonged substantial reduction in oil and natural gas prices would likely affect oil and gas production levels and therefore affect the demand for drilling services to oil and gas customers. A material decline in oil or gas prices or industry activity could have a material adverse effect on CanElson's business, financial condition, results of operations and cash flows.

Any addition to or elimination or curtailment of government incentives could have a significant impact on the oilfield services industry.

CanElson's success will depend on the ability of CanElson's customers to select and acquire suitable producing properties or undeveloped exploration prospects. The marketability of any oil and natural gas acquired or discovered by CanElson's customers will be affected by numerous factors beyond the control of such customers. These factors include market fluctuations, the world price of crude oil, the continental price of natural gas, the supply and demand for oil and natural gas, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulations, including regulations relating to prices, taxes, royalties, land tenure, allowable production, the import and export of oil and natural gas and environmental protection. The effects of these factors cannot be accurately predicted.

Operations are subject to many hazards such as unusual or unexpected geological formations, abnormal pressures, blow-outs, cratering, explosions, loss of well control, loss of hole, inclement weather or natural disaster, fires or other conditions that may be encountered in drilling and operating wells. Any of these hazards could result in personal injury or death, damage to or destruction of equipment and facilities, suspension of operations, environmental damage and damage to the property of others. Such hazards are primarily the responsibility of the oil and gas companies which contract with CanElson. CanElson maintains insurance for situations which it may become liable, however, CanElson may become liable for damages arising from pollution, blow-outs or other hazards against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons.

Seasonality/Weather

The activities in the oilfield services industry are subject to a degree of seasonality. Operating activities within the Canadian service industry are generally lower in April and May during spring break-up, and tend to increase in the fall and peak in the winter months of December through March. In addition, unpredictability in the weather and temperature not only within these seasons, but year round as well, can create additional unpredictability in rig utilization rates and operational results for entities such as CanElson.

The ability to move and operate drilling equipment is often dependent on weather conditions. As warm weather arrives in the spring and the frost begins leaving the ground, many secondary roads become too soft to support heavy equipment until they are completely dried. The inability to move equipment during this period (spring break-up) can have a direct effect on operations and can result in a period when some or all of the drilling rigs may be inactive. To mitigate this risk, efforts are made to work with customers to position drilling equipment before spring break-up so it will be working as much as possible during or immediately after this period.

In the areas in United States and Mexico where CanElson operates there are infrequent operational restrictions due to weather and therefore operations can generally continue throughout the entire year but may experience weather constraints such as hurricanes, tornadoes, extreme heat or rain, or other conditions that halt operations for a period of time.

Government Regulation

The oil and natural gas industry is subject to extensive controls and regulations imposed by various levels of government in the countries that it operates. Compliance with, breaches of, or changes to such laws, regulations and guidelines could have a material adverse effect on CanElson's business, financial condition, results of operations and cash flows. It is not expected that any of these controls or regulations

will affect the operations of CanElson in a manner materially different than they would affect other oil and gas service companies of similar size.

Regulation of Drilling Services Industry

CanElson's activities are subject to complex and stringent energy, environmental and other governmental laws and regulations. While management believes that CanElson's business will be operated in accordance with applicable laws, CanElson will remain subject to a varied and complex body of laws and regulations that both public officials and private individuals may seek to enforce. Existing laws and regulations may be revised or new laws and regulations may become applicable to CanElson that may have a negative effect on CanElson's business and the results of operations. CanElson expects that it will be able to comply with regulatory requirements in all material respects.

Environmental Regulation

The oil and natural gas industry is currently subject to environmental regulation pursuant to provincial, federal, and state legislation. Environmental legislation provides for restrictions and prohibitions on releases or emissions of various substances produced or utilized in association with certain oil and gas industry operations. In addition, certain legislation requires that well and facility sites be abandoned and reclaimed. Compliance with such legislation can require significant expenditures and a breach of such legislation may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage and the imposition of fines and penalties. These environmental compliance obligations are primarily the responsibility of the oil and gas companies which contract with CanElson; however, where applicable directly to CanElson, CanElson is committed to meeting its responsibilities in all material respects to protect the environment wherever it operates.

Business Growth

CanElson's ability to add additional rigs to its fleet will, in part, be limited to its ability to secure customer commitments. In addition, if there is limited availability and capacity of contractors to build drilling rigs, there is no guarantee that CanElson will be able to add additional rigs to its fleet, maintain or repair the rigs currently in its fleet, or be able to develop additional lines of business.

CanElson may experience growth through acquisitions. Its continued profitability and growth will depend in part upon its ability to successfully integrate its acquisitions and its failure to do so could have a material adverse effect on its business, operations, results and prospects.

CanElson is also dependent on its ability to attract, train, motivate and retain employees and management. Failure to do so could have a materially adverse effect upon CanElson's growth and profitability.

Additional Financing

To the extent that external sources of capital, including debt financing and equity financing, become limited or unavailable, CanElson's ability to make the necessary capital investments to maintain or expand its asset base and operations will be impaired.

Competition

Competition could adversely affect CanElson's performance. The drilling industry is characterized by intense competition and CanElson competes directly with other companies that have greater resources and

access to capital. In Canada there is also increasing competition with other drilling services companies which enter into arrangements with Aboriginal communities.

Service Agreements and Contracts

The business operations of the Corporation depends on successful execution of drilling contracts, primarily written agreements that are cancellable at any time, some of which are subject to termination costs. The key factors which determine whether a client continues to use CanElson are service quality and availability, reliability and performance of equipment used to perform its services, technical knowledge and experience, safety and competitive price. There can be no assurance that CanElson's relationships with its customers will continue.

Rig Construction Risks

CanElson currently manufactures and constructs rigs for its own use. CanElson estimates the cost of the construction of the rig and the timeline for completing the construction. Actual costs of construction, may, however, vary significantly from those estimated as a result of numerous factors, including, without limitation, changes in input costs such as the price of steel; variations in labour rates; and, to the extent that component parts must be sourced from other countries, fluctuations in exchange rates. In addition several factors could cause delays in the construction of a rig, including, and without limitation, shortages in skilled labour and delays or shortages in the supply of component parts. Construction delays may lead to postponements of the anticipated date for deployment of the newly constructed rig into operation and any such postponement could have a negative impact on cash flows generated from operations or the loss of a drilling contract, of which the effect may be material.

Kyoto Protocol

In 1994, the United Nations' Framework on Climate Change came into force and three years later led to the Kyoto Protocol which requires nations to reduce their emissions of carbon dioxide and, consequently, greenhouse gases. Reductions in greenhouse gases from oil and gas producers may be required that could result in, among other things, increased operating and capital expenditures for those producers which may make certain production of crude oil or natural gas by those producers uneconomic, resulting in reductions in such production and may result in a decrease in the demand for drilling services. Management is unable to predict the effect on the future earnings of CanElson that may result from the ratification of the Kyoto Protocol by the countries where CanElson operates.

Credit Risk

A substantial portion of CanElson's accounts receivable are expected to be with customers involved in the oil and natural gas industry, whose revenues may be impacted by fluctuations in commodity prices. Although collection of these receivables could be influenced by economic factors affecting this industry Management considers the risk of a significant loss to be remote at this time. Any inability of CanElson to collect these accounts receivable could have a material adverse effect on CanElson's business, financial condition, results of operations and cash flows.

Equipment and Technology Risks

The ability of CanElson to meet customer demands in respect of performance and cost will depend upon continuous improvements in its drilling rigs. There can be no assurance that CanElson will be successful in its efforts in this regard or that it will have the resources available to meet this continuing demand.

Failure by CanElson to do so could have a material adverse effect on CanElson. No assurances can be given that competitors will not achieve technological advantages over CanElson.

CanElson has not sought or obtained patent or other similar protection in respect of any drilling rigs, equipment or technology it has developed independently. In the future, CanElson may seek patents or other similar protections in respect of particular equipment and technology, however, CanElson may not be successful in such efforts. Competitors may also develop similar equipment and technology to that of CanElson thereby adversely affecting CanElson's competitive advantage in one or more of its businesses. Additionally, there can be no assurance that certain equipment or technology developed by CanElson may not be the subject of future patent infringement claims or other similar matters which could result in litigation, the requirement to pay licensing fees or other results that could have a material adverse effect on the business, results of operations and financial conditions of CanElson.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. CanElson cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on CanElson's business, financial condition, results of operations and cash flows.

Stage of Development

An investment in CanElson is subject to certain risks related to the nature of CanElson's business and its early stage of development. There are numerous factors which may affect the success of CanElson's business which are beyond CanElson's control including local, national and international economic and political conditions. CanElson's business involves a high degree of risk which a combination of experience, knowledge and careful evaluation may not overcome. CanElson has a limited history of operations and there can be no assurance that CanElson's business will be successful or profitable.

Reliance on Key Personnel

CanElson's success depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse effect on CanElson. The competition for qualified personnel in the oil and natural gas drilling industry is intense and there can be no assurance that CanElson will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Shareholders of CanElson must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of CanElson.

Additional Funding Requirements

CanElson's cash flow from its operations may not be sufficient to fund its ongoing activities at all times. From time to time, CanElson may require additional financing in order to carry out its operations. Failure to obtain such financing on a timely basis could cause CanElson to reduce or terminate its operations. If CanElson's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable to CanElson.

Issuance of Debt

From time to time CanElson may enter into transactions to acquire assets or the shares of other entities. Those transactions may be financed partially or wholly with debt, which may increase CanElson's debt levels above industry standards. Depending on future plans, CanElson may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. Neither CanElson's articles nor its bylaws limit the amount of indebtedness that CanElson may incur. The level of CanElson's future indebtedness from time to time, could impair CanElson's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Foreign Currency Exchange

CanElson conducts business outside of Canada and therefore it is exposed to risks caused by fluctuations in currency exchange rates. In particular, international contracts are denominated in United States dollars and expenses in United States dollars as well as Mexican Pesos, and, accordingly, a material decrease or increase in value of these currencies may negatively impact revenues and expenses, which could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows. In addition, CanElson is exposed to currency exchange risk on assets and liabilities denominated in United States dollars. Since CanElson presents its financial statements in Canadian dollars, any change in the value of the Canadian dollar relative to the United States dollar or Mexican peso during a given financial reporting period would result in a foreign currency gain, loss or translation adjustment on the translation of the United States dollar or Mexican peso denominated assets or liabilities into Canadian dollars.

Foreign Operations

CanElson operates in the United States and Mexico and as a result it is subject to political, economic, and other uncertainties, including, but not limited to, changes in energy policies, currency exchange fluctuations, royalty and tax increases and other risks arising out of foreign governmental sovereignty such as threats to security and terrorism. CanElson's operations may be adversely affected by laws and policies affecting foreign trade, taxation and investment and by lack of access to materials, components and skilled workers and time delays associated with shipment of products and materials or interruptions to address local access matters.

Management of Growth

CanElson may be subject to growth related risks including capacity constraints and pressure on its internal systems, controls and personnel. The ability of CanElson to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expend, train and manage its employee base. The inability of CanElson to deal with this growth could have a material adverse impact on its business, operations and prospects.

Dividends

CanElson has not paid any dividends on its outstanding shares. Payment of dividends in the future will be dependent on, among other things, the cash flow, results of operations and financial condition of CanElson, the need for funds to finance ongoing operations and other business considerations as the CanElson Board considers relevant.

Third Party Credit Risk

CanElson is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners and other parties. In the event such entities fail to meet their contractual obligations to CanElson, such failures could have a material adverse effect on CanElson and its cash flow from operations.

Conflicts of Interest

The directors or officers of CanElson may also be directors or officers of other companies involved in the oil and gas industry and situations may arise where they are in a conflict of interest with CanElson, as the case may be. Conflicts of interest, if any, which arise will be subject to and governed by procedures prescribed by the ABCA which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has some material interest in any person who is a party to, a material contract or proposed material contract with CanElson to disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

Aboriginal Relationships

A key part of the Corporation's business strategy in Canada is based on developing and maintaining positive relationships with Aboriginal partners. These relationships are important to the Corporation's customers who desire to work with Aboriginal communities. The inability to develop and maintain relationships with Aboriginal communities could affect the Corporation's business strategy, growth and profitability.

The Corporation's ability to provide reliable and quality services is dependent on its ability to hire and retain a dedicated and quality pool of employees. The Corporation hopes that the Aboriginal relationships formed in the future will allow access to a large, capable workforce of Aboriginal employees. CanElson is striving to retain all employees by providing a safe working environment, competitive wages and benefits, an employee stock purchase plan and an atmosphere in which all employees are treated equally regarding opportunities for advancement.

Dependence on Major Customers

One customer accounted for 100% of CanElson's operating revenue from its contract drilling services business for its 2008 fiscal year. In late 2009 the Corporation expanded its customer base to 5 oil and gas companies in Canada. CanElson currently has one customer in Mexico and two in the United States. While CanElson is satisfied with its relationships with its existing customers, the loss of one or more of its major customers, or a significant reduction in business done with CanElson by one or more of its major customers, if not offset by sales to new or other existing customers, could have a material adverse effect on CanElson's business, results of operations and prospects.

DIVIDENDS

CanElson has not declared or paid any dividends or distributions on its common shares to date. The payment of dividends or distributions in the future are dependent on CanElson's earnings, financial condition and such other factors as the board of directors considers appropriate. CanElson currently does not anticipate paying any dividends in the foreseeable future due to the stage of development of the Corporation.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized capital of CanElson consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series. The following is a summary of the rights, privileges, restrictions and conditions attaching to the common shares and the preferred shares.

Common Shares

CanElson is authorized to issue an unlimited number of common shares without nominal or par value of which, as at the date hereof, 26,100,001 are issued and outstanding as fully paid and non-assessable, 1,482,000 are reserved for issuance pursuant to the outstanding stock options and 1,000,000 are reserved for issuance pursuant to the outstanding Agent's Options and Agent's Warrants.

The holders of common shares are entitled to dividends, if, as and when declared by the board of directors, to one vote per share at meetings of the shareholders of CanElson and, upon dissolution, to share equally in such assets of CanElson as are distributable to the holders of common shares.

Preferred Shares

CanElson is authorized to issue an unlimited number of preferred shares, issuable in series, none of which are issued and outstanding as of the date hereof. Subject to the provisions of the ABCA, the board of directors may fix the number of shares in each series and may, prior to the issuance of any preferred shares of a particular series, fix the designation, rights, privileges, restrictions and conditions attaching to the preferred shares of that series and, without limiting the generality of the foregoing, the directors may attach to any series of preferred shares rights and privileges which are equal or superior to those attached to the common shares.

MARKET FOR SECURITIES

The common shares of the Corporation were listed and posted for trading on the TSX Venture Exchange (the "TSXV") on September 25, 2008 under the symbol CDI.

The following table sets forth the high and low trading prices (which are not necessarily the closing prices) and the aggregate volume of trading of the common shares on the TSXV for the periods indicated (as quoted by the TSXV):

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
<u>2009</u>			
January	2.45	2.20	30,100
February	1.95	1.95	20,000
March	1.95	1.94	10,790
April	-	-	-
May	1.95	1.85	213,000
June	1.95	1.95	6,284
July	1.95	1.34	154,700
August	1.90	1.51	36,550
September	2.05	1.60	48,000
October	1.95	1.61	268,400
November	2.10	1.87	109,000
December	2.25	2.00	79,415

Period	High	Low	Volume
<u>2010</u>			
January	3.10	2.25	220,227
February	3.15	2.70	101,636

DIRECTORS AND OFFICERS

The following table sets forth the name, municipality of residence and principal occupation for the last five years of each of the directors and executive officers of CanElson. The term of office of each director will expire at the end of the next annual meeting of shareholders of CanElson.

Name, Residence and Positions with CanElson	Date Appointed a Director of CanElson	Principal Occupations for the Previous Five Years
Elson McDougald Alberta, Canada Chairman and Chief Executive Officer	December 10, 2008	Independent businessman and Chairman and Chief Executive Officer of CanElson. From August 2006 to May 2008, Mr. McDougald was Chairman of Savanna Energy Services Corp. Prior thereto, Mr. McDougald was the Chairman and Chief Executive Officer of Western Lakota Energy Services Inc.
Randy Hawkings Alberta, Canada President and Chief Operating Officer and Director	December 10, 2008	President and Chief Operating Officer of CanElson and Principal Engineer of Enercon International Inc. From August 2006 to August 2007, Vice President and General Manager of the Lakota Drilling Division of Savanna Energy Services Corp. Prior thereto, Vice President and Chief Operating Officer of Western Lakota Energy Services Inc.
Dan Kolibar ⁽¹⁾⁽²⁾⁽³⁾ Alberta, Canada Corporate Secretary and Director	December 10, 2008	Partner with Borden Ladner Gervais LLP.
Rodger Hawkins ⁽¹⁾⁽³⁾ Alberta, Canada Director	June 1, 2009	Independent business advisor. Prior to January 1, 2007 Mr. Hawkins was a partner with BDO Canada LLP.
Dale Johnson ⁽¹⁾⁽³⁾ Alberta, Canada Director	June 1, 2009	Business management consultant since 2007 and Chairman of Neovia Financial Plc. Prior thereto Mr. Johnson was President of NeTeller Asia and Executive VP and Director of Neovia Financial Plc.
Kent Jespersen ⁽¹⁾ Alberta, Canada Director	December 10, 2008	Chairman and Chief Executive Officer of La Jolla Resources International Ltd.
Donald Seaman ⁽²⁾ Alberta, Canada Director	December 10, 2008	President of D.R.S. Resource Investments Inc., a personal investment holding company.
Rob Skilnick Alberta, Canada Chief Financial Officer		Chief Financial Officer of CanElson since February 2010. From July 2009 to February 2010 Mr. Skilnick was the controller at CanElson. Prior thereto Mr. Skilnick worked at KPMG in Calgary and KPMG in the Cayman Islands, in various capacities, most recently as a Senior Manager in the audit practice of KPMG Calgary.

Name, Residence and Positions with CanElson	Date Appointed a Director of CanElson	Principal Occupations for the Previous Five Years
Murray Hinz Alberta, Canada Vice President of Finance	N/A	Vice President of Finance of CanElson since February 2010 and prior thereto the Chief Financial Officer of CanElson. President of Marazul Consulting Inc., an international financial consulting firm. Prior thereto, from 2004 to 2007, he was controller and financial analyst for Ritz Carlton Resort Development in Grand Cayman. From 2001 to 2004, he was a financial business advisor with Deloitte & Touche (Grand Cayman).
Lawrence Kolasa Alberta, Canada Vice President, Rig Construction	N/A	Currently Vice President, Rig Construction of CanElson. Mr. Kolasa was the field superintendent for Western Lakota Energy Services Inc. and was responsible for constructing all of Western Lakota's rigs. Prior to joining CanElson, Mr. Kolasa was a rig manager for Tetonka Drilling Inc. and Precision Drilling Corp.
Terry Kuiper Alberta, Canada Vice President & General Manager - Canada		Currently Vice President & General Manager – Canada of CanElson from February 2010. Prior thereto contracts representative and manager for Savanna Energy Services Corp.
Michael Smith Saskatchewan, Canada Vice President & General Manager - Texas	N/A	Currently Vice President and General Manager-Texas (Prior to February 2010 was Vice President of Operations) of CanElson. From 2005 to 2008, Mr. Smith was a field supervisor for Ensign Energy Services Inc. where he supervised 8 drilling rigs. Prior thereto, Mr. Smith was a rig manager for Big Sky Drilling Ltd., which was acquired by Ensign in 2003.

Notes:

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of the Corporate Governance Committee

As of March 1, 2010, the directors and officers of the Corporation, as a group, owned directly or indirectly 3,591,801 common shares of the Corporation, or approximately 14% of the issued and outstanding common shares. The information as to the common shares owned not being within the knowledge of the Corporation, has been furnished by the respective directors and officers of the Corporation individually.

Corporate Cease Trade Orders

None of CanElson's directors or executive officers, have, within 10 years prior to the date of this Annual Information Form, been a director, chief executive officer or chief financial officer of any company, including CanElson and any personal holding companies, that:

- (i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer of the relevant company; or
- (ii) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities

legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Bankruptcies

None of CanElson's directors or executive officers, or a shareholder holding a sufficient number of securities of CanElson to affect materially the control of CanElson, or any personal holding companies of the foregoing, has within 10 years prior to the date of this Annual Information Form.

- (i) been a director or executive officer of any company, as applicable, that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager, or trustee appointed to hold its assets; or
- (ii) become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Penalties or Sanctions

None of CanElson's directors or executive officers, nor any shareholder holding a sufficient number of securities of CanElson to affect materially the control of CanElson, or any personal companies of the foregoing, have been subject to:

- (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (ii) any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

Conflicts of Interest

There are potential conflicts of interest to which the directors and officers of CanElson may be subject in connection with the operations of CanElson. All of the directors and officers are engaged in and will continue to be engaged in corporations or businesses which may be in competition with CanElson. Accordingly, situations may arise where the interests of such directors and officers, as they relate to CanElson, conflict with their interests as directors and officers of other companies. The resolution of such conflicts is governed by the ABCA, which require that the directors act honestly, in good faith and with a view to the best interests of CanElson. Conflicts, if any, will be handled in a manner consistent with the procedures and remedies set forth in the ABCA.

AUDIT COMMITTEE MATTERS

Terms of Reference of the Audit Committee

The audit committee of CanElson (the “**Audit Committee**”) is a committee of the board of directors of CanElson established for the purpose of overseeing the accounting and financial reporting process of CanElson. The Audit Committee has set out its responsibilities and composition requirements in fulfilling its oversight in relation to CanElson’s internal accounting standards and practices, financial information, accounting systems and procedures. See Appendix A attached hereto for a copy of the Terms of Reference of the Audit Committee.

Composition of the Audit Committee

The Audit Committee consists of Rodger Hawkins, Dale Johnson and Dan Kolibar. Rodger Hawkins is the Chairman of the Audit Committee. All members of the Audit Committee have been determined to be independent, except for Dan Kolibar by virtue of the fact that Borden Ladner Gervais LLP, a law firm in which Mr. Kolibar is a partner, provides legal services to the Corporation and all members are considered to be financially literate, as such terms are defined in Multilateral Instrument 52-110 – *Audit Committees* (“**MI 52-110**”).

Relevant Education and Experience of Audit Committee Members

The education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee is as follows.

Rodger Hawkins, C.A. – Chair

Mr. Hawkins has over 30 years experience as a Chartered Accountant in audit and accounting with a focus on junior public companies in the resource, technology and resource service sectors. Prior to retirement in 2007 Mr. Hawkins was the Managing Partner of BDO Canada LLP for the Calgary office.

Dale Johnson

Mr. Johnson has almost 40 years of experience in corporate leadership, operations management, business development, project management and turnarounds for private and public companies, primarily in the oil and gas sector. Mr. Johnson provides management consulting services and serves as non-executive Chairman of a leading online financial services firm listed on the London Stock Exchange (AIM).

Dan Kolibar

Mr. Kolibar is a partner at the law firm of Borden Ladner Gervais LLP, Calgary, Alberta. Mr. Kolibar specializes in securities law with a focus in both private and public offerings and mergers and acquisitions. Mr. Kolibar has served as a director or Corporate Secretary of a number of public companies and is currently a director and a member of the Audit Committee of AIC Diversified Canada Split Corp. Mr. Kolibar received a Bachelor of Arts degree from the University of Calgary in 1985 and his Bachelor of Laws degree from the University of Alberta in 1988.

Audit Committee Oversight

At no time since incorporation was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the CanElson Board.

Reliance on Certain Exemptions

Since incorporation, CanElson has not relied on the De Minimis Non-Audit Services exemption provided for in section 2.4 of MI 52-110. However, as a “venture issuer”, CanElson is relying on the exemptions provided by section 6.1 of MI 52-110 with respect to Part 3 – *Composition of the Audit Committee and Part 5 – Reporting Obligations*.

Pre-Approval Policies and Procedures

The Audit Committee has adopted a pre-approval policy (the "**Audit Policy**") with respect to the policies and procedures that must be followed for the engagement of audit and non-audit services. Pursuant to MI 52-110, the Audit Committee is responsible for the appointment, compensation and oversight of the work of the independent auditor (the "**Auditor**"). As part of this responsibility, the Audit Committee is required to pre-approve all audit and non-audit services to be performed by the Auditor and to consider whether non-audit related services impair the Auditor's independence.

Pursuant to the Audit Policy, all services provided by the Auditor for fees in excess of an aggregate of \$20,000 annually must be pre-approved by the Audit Committee. For non-audit services, the audit engagement partner of the Auditor must be consulted. The pre-approval of audit and non-audit services may be given at any time up to one year before commencement of a specified service. Prior to the beginning of each financial year, management of the Corporation may submit to the Audit Committee a request for pre-approval of audit services, audit-related services and tax services.

The Audit Committee may delegate to one or more designated member(s) of the Audit Committee the authority to grant pre-approvals of audit and non-audit services to be provided by the Auditor throughout the year. Any decisions made by such a designated member of the Audit Committee must be reported to the Audit Committee at the next meeting of the committee.

The Audit Committee will recommend to the directors the appointment of the Auditor to perform the annual external audit of the Corporation's financial statements and additional audit services as required, which services may include, but are not limited to: audit of the Corporation, services associated with the continuous disclosure obligations of the Corporation and consultations regarding financial accounting and reporting standards.

With respect to audit-related and tax-related services, management is required to request pre-approval of such services it reasonably believes will be required by the Corporation for the upcoming financial year. Audit-related services are those assurance and related services that are reasonably related to the performance of the audit or review of the Corporation's financial statements and include, but are not limited to: due diligence and audit services related to business acquisitions and dispositions, internal control reviews and consultations regarding financial accounting and reporting standards. Tax services include, but are not limited to: tax planning and advice, the preparation and review of tax returns and international tax planning.

All services to be provided by the Auditor will be reviewed by the Chief Financial Officer of the Corporation who will determine whether such services are included within the accepted list of services for which pre-approval must be requested under the Audit Policy. Prior to the beginning of each financial year, the Chief Financial Officer will deliver to the Audit Committee the documents reasonably required or requested to determine the services to be performed by the Auditor. At each regularly scheduled Audit Committee meeting, the committee will review a report summarizing the services provided by the Auditor and an updated analysis for the current financial year of the estimated annual fees to be paid to the Auditor.

External Auditor Service Fees (By Category)

<u>Period Ended</u>	<u>Audit Fees⁽¹⁾</u>	<u>Audit-Related Fees⁽²⁾</u>	<u>Tax Fees⁽³⁾</u>	<u>All Other Fees⁽⁴⁾</u>
December 31, 2008	\$85,667	Nil	Nil	Nil
December 31, 2009	\$39,700	Nil	\$40,305	Nil

Notes:

- (1) The aggregate fees billed for audit services.
- (2) The aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit review of the Corporation's financial statements and are not disclosed in the 'Audit Fees' column.
- (3) The aggregate fees billed for tax compliance, tax advice, and tax planning services.
- (4) The aggregate fees billed for professional services other than those listed in the other three columns.

LEGAL PROCEEDINGS

There are no outstanding legal proceedings involving claims to which the Corporation is a party or of which any of its property is subject, other than that noted below:

In February 2010 CanElson 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 Corporation.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

There were no material interests, direct or indirect, of any director or executive officer of the Corporation, a person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than 10% of the common shares, or their respective associates or affiliates, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or would materially affect the Corporation or any of its subsidiaries.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar of the Corporation's common shares is Olympia Trust Company at its principal office in Calgary, Alberta.

INTERESTS OF EXPERTS

Deloitte & Touche LLP, Chartered Accountants, are the auditors of the Corporation and have performed the audit in respect of the audited annual financial statements of the Corporation as at and for the year ended December 31, 2009. Deloitte & Touche LLP, Chartered Accountants, are independent of the Corporation in accordance with the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta, as of the date hereof.

ADDITIONAL INFORMATION

Additional information relating to the Corporation is available on SEDAR at www.sedar.com.

Additional information, including directors and officers remuneration and indebtedness, principal holders of the Corporation's securities, and securities authorized for issuance under equity compensation plans, is contained in the Corporation's most recent Management Information Circular dated April 22, 2009. Additional financial information is contained in our consolidated financial statements and Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2009.

APPENDIX “A”

CANELSON DRILLING INC.

TERMS OF REFERENCE FOR THE AUDIT AND SAFETY COMMITTEE

I. PURPOSE

The primary function of the Audit and Safety Committee (the “Committee”) is to assist the board in fulfilling its oversight responsibilities by considering:

- A. the financial information that will be provided publicly;
- B. the systems of internal controls, including controls over public reporting; and
- C. all financial audit processes.

Primary responsibility for the financial reporting, information systems, risk management and internal controls of CanElson Drilling Inc. (“CanElson” or the “Corporation”) is vested in management and is overseen by the board.

II. COMPOSITION AND OPERATIONS

- A. The Committee shall be composed of not fewer than three directors all of whom must be independent as defined in Section 1.4 of National Instrument 52-110 Audit Committees (“NI 52-110”) as may be amended from time to time.
- B. All Committee members shall be “financially literate” as defined in NI 52-110.
- C. CanElson’s auditors shall be advised of the names of the Committee members and will receive notice of and be invited to attend meetings of the Audit Committee, and to be heard at those meetings on matters relating to the Auditor’s duties.
- D. The Committee shall meet with the external auditors as it deems appropriate to consider any matter that the Committee or auditors determine should be brought to the attention of the board or shareholders.
- E. The Committee shall meet at least once (by person or by teleconference) in each fiscal quarter to review CanElson’s quarterly financial statements and MD&A and related news releases for the immediately preceding fiscal quarter and to review and recommend approval by the full board of such interim financial statements for the immediately preceding fiscal quarter.
- F. The Committee shall meet at least once (by person or by teleconference) in each fiscal year to review CanElson’s audited financial statements and MD&A and related news releases for the immediately preceding fiscal year and to review and recommend approval by the full board of such audited financial statements for the immediately preceding fiscal year.

III. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the board, the Committee will perform the following duties:

- A. Financial Statements and Other Financial Information

The Committee will consider and recommend for approval to the board of directors, before being provided to the board of directors, financial information that will be made publicly available, including:

1. CanElson's annual financial statements, MD&A and related news release;
2. CanElson's quarterly financial statements, MD&A and related news release; and
3. financial information contained in the Annual Information Form and any Prospectus/Private Placement Memorandums.

The Committee will consider:

4. the appropriateness of accounting policies and financial reporting practices used by CanElson;
5. any significant proposed changes in financial reporting and accounting policies and practices to be adopted by CanElson; and
6. any new or pending developments in accounting and reporting standards that may affect CanElson.

B. Risk Management, Internal Control and Information Systems

The Audit Committee will consider whether the Corporation's risk management, internal control and public reporting systems appear to be operating effectively to produce accurate, appropriate and timely management and financial information, including:

1. the Corporation's risk management controls and policies;
2. the reliability of the information systems and the design and effective implementation of the systems of internal controls through discussions with and reports from management, and as applicable, the external auditor; and
3. management steps to implement and maintain appropriate internal control procedures.

C. External Audit

The Committee will discuss the planning and results of external audit activities and the ongoing relationship with the external auditor. This includes:

1. considering and recommending to the board, for shareholder approval, engagement of the external auditor;
2. considering the annual external audit plan, including:
 - (a) engagement letter;
 - (b) objectives and scope of the external audit work;
 - (c) procedures for quarterly review of financial statements;
 - (d) materiality limit;

- (e) areas of audit risk;
 - (f) staffing;
 - (g) timetable; and
 - (h) proposed fees.
1. meeting with the external auditor to discuss the Corporation's quarterly and annual financial statements and the auditor's report including the appropriateness of accounting policies and underlying estimates and resolve any disagreements between management and the external auditors regarding financial reporting;
 2. considering and advising the board with respect to the planning, conduct and reporting of the annual audit, including:
 - (a) any difficulties encountered, or restrictions imposed by management, during the annual audit;
 - (b) any significant accounting or financial reporting issue;
 - (c) the auditors' evaluation, if any, as applicable of CanElson's system of internal controls, procedures and documentation;
 - (d) the post audit or management letter containing any findings or recommendations of the external auditor, including management's response thereto and the subsequent follow-up to any identified internal control weaknesses;
 - (e) any other matters the external auditor brings to the Committee's attention; and
 - (f) the performance and the annual appointment of external auditors for recommendation to the board.
 1. considering the auditor's reports on all material entities that the Corporation consolidates, proportionately consolidates or equity accounts;
 2. receiving assurances on the independence of the external auditor;
 3. pre-approving all non-audit services to be provided by the external auditor's firm or its affiliates (including estimated fees), and considering the effect on the independence of the external audit; and
 4. meeting periodically, and at least annually, with the external auditor without management present.

B. Other

The Committee will also consider:

1. insurance coverage of significant business risks;
2. material litigation and its effect on financial reporting;

3. policies and procedures for approval of officers' expenses and perquisites; and
4. the terms of reference for the Committee as required and make recommendations to the board as required.

The Committee will also establish procedures for:

1. the receipt, retention and treatment of complaints received by the Corporation regarding public reporting, accounting, internal accounting controls, or auditing matters; and
2. the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters; and
3. the Corporation's hiring policies regarding employees and former employees of the present and former external auditors of the Corporation.

The Committee will also receive quarterly safety due diligence reports from management in respect of the Corporation's operations. In addition, all employee injury incidents shall be immediately reported by management to the Committee with a description of management's actions to date to address the situation and management's intentions to fully resolve the incident. The Committee has an oversight role of management's actions in dealing with safety incidents.

IV. ACCOUNTABILITY

The Committee chair has the responsibility to make periodic reports to the board, as requested, on financial matters relative to the Corporation. The Committee shall report its discussions to the board by maintaining minutes of its meetings and providing an oral report at the next board meeting.

V. RELIANCE ON EXPERTS

In contributing to the Committee's discharging of its duties under this mandate, each member shall be entitled to rely in good faith on:

- A. financial statements of the Corporation represented to the member by an officer of the Corporation, or in a written report of the external auditors, to present fairly in all material respects the financial position of the Corporation and the results of its operations in accordance with generally accepted accounting principles; and
- B. any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

The board is of the view that monitoring of the Corporation's financial reporting and disclosure policies and procedures cannot usually be reasonably met unless the following activities (the "fundamental activities") are, in all material respects, conducted effectively:

- A. the Corporation's accounting functions are performed in accordance with a system of internal financial controls designed to capture and record properly and accurately in all material respects all of the Corporation's financial transactions;
- B. the internal financial controls are regularly considered for effectiveness;

- C. the Corporation's quarterly and annual financial statements are properly prepared by management in accordance with generally accepted accounting principles in all material respects; and
- D. such financial statements are reported on by an external auditor appointed by the shareholders of the Corporation.

VI. LIMITATIONS ON COMMITTEE'S DUTIES

In contributing to the Committee's discharging of its duties under these terms of reference, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in these terms of reference is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all board members are subject. The essence of the Committee's duties is monitoring and considering to endeavour to gain reasonable assurance (but not to ensure) that the fundamental activities are being conducted effectively and that the objectives of the Corporation's financial reporting are being met and to enable the Committee to report thereon to the board.