



UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD
ENDED MARCH 31, 2009

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

| | <u>March 31,</u> <u>2009</u> | <u>December 31,</u> <u>2008</u> |
|--|---------------------------------|------------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 18,744 | \$ 22,717 |
| Accounts receivable | 794 | 1,190 |
| Prepaid expenses and deposits | 186 | 182 |
| Inventory | - | 411 |
| | <u>19,724</u> | <u>24,500</u> |
| Property and equipment (Note 5) | 25,902 | 20,900 |
| Future income tax asset | 179 | - |
| | <u>\$ 45,805</u> | <u>\$ 45,400</u> |
| | | |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | <u>\$ 2,005</u> | <u>\$ 3,007</u> |
| Commitments (Note 8) | | |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 6) | 42,375 | 41,892 |
| Contributed surplus (Note 7) | 718 | 488 |
| Retained Earnings | <u>707</u> | <u>13</u> |
| | <u>43,800</u> | <u>42,393</u> |
| | <u>\$ 45,805</u> | <u>\$ 45,400</u> |
| | | |

See accompanying notes to these financial statements

CANELSON DRILLING INC.
STATEMENT OF OPERATIONS, COMPREHENSIVE INCOME
AND RETAINED EARNINGS
(Stated in thousands of dollars, except for per share amounts) (Unaudited)

For the three month period ended March 31, 2009

| | |
|---|------------------|
| Drilling revenue | \$ 2,981 |
| Operating expenses | <u>1,295</u> |
| | <u>1,686</u> |
| | |
| Drilling rig sales | - |
| Cost of sales | <u>-</u> |
| | <u>-</u> |
| | <u>1,686</u> |
| | |
| Expenses: | |
| General and administrative | 274 |
| Stock based compensation | 230 |
| Depreciation | <u>234</u> |
| | <u>738</u> |
| | |
| Income before the undernoted | 948 |
| | |
| Other income | |
| Interest income | <u>55</u> |
| | |
| Income before income taxes | <u>1,003</u> |
| | |
| Income Taxes: | |
| Current | - |
| Future | <u>309</u> |
| | <u>309</u> |
| | |
| Net and comprehensive income | \$ 694 |
| | |
| Retained earnings, beginning of period | 13 |
| | |
| Retained earnings, end of period | <u>\$ 707</u> |
| | |
| Net income per share (Note 11) | |
| Basic and diluted | <u>\$ 0.03</u> |

See accompanying notes to these financial statements

CANELSON DRILLING INC.
STATEMENT OF CASH FLOWS
(Stated in thousands of dollars) (Unaudited)

For the three month period ended March 31, 2009

Cash flows relating to the following activities:

Operating activities

| | |
|---|--------------|
| Net income for the period | \$ 694 |
| Adjustment for items not affecting cash: | |
| Stock based compensation | 230 |
| Depreciation | 234 |
| Future income tax | <u>309</u> |
| | 1,467 |
| Changes in non-cash working capital balances: | |
| Accounts receivable | 396 |
| Prepaid expenses and deposits | (4) |
| Inventory | 411 |
| Accounts payable and accrued liabilities | <u>(103)</u> |
| | <u>2,167</u> |

Investing

| | |
|--|----------------|
| Purchase of property and equipment | (5,240) |
| Accounts payable and accrued liabilities | <u>(900)</u> |
| | <u>(6,140)</u> |

Decrease in cash and cash equivalents during the period (3,973)

Cash and cash equivalents, beginning of period 22,717

Cash, end of period \$ 18,744

See accompanying notes to these financial statements

CANELSON DRILLING INC.

NOTES TO FINANCIAL STATEMENTS

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

For the three months ended March 31, 2009

1. INCORPORATION AND NATURE OF BUSINESS

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

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

The Corporation is engaged in the manufacture and (i) sale and (ii) operation of drilling rigs for the oil and gas industry.

2. BASIS OF PRESENTATION

These unaudited interim financial statements were prepared by management, in accordance with Canadian Generally Accepted Accounting Principles, and follow the same accounting policies and procedures as those used in the preparing the December 31, 2008 annual audited financial statements, except as referred to in Note 3, and therefore do not contain all of the disclosures required for the annual financial statements. As a result, the unaudited interim financial statements should be read in conjunction with the December 31, 2008 audited financial statements.

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

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

3. ADOPTION OF NEW ACCOUNTING STANDARDS

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.

CANELSON DRILLING INC.

NOTES TO FINANCIAL STATEMENTS

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

For the three months ended March 31, 2009

4. CAPITAL MANAGEMENT

The Corporation's objective when managing capital is to safeguard its ability to continue as a going concern given the cyclical nature of the oil and gas services business and provide adequate returns for shareholders. The Corporation defines capital as the Corporation's shareholders' equity which as at March 31, 2009 was \$43,800. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares or obtain debt financing. The Corporation is not currently subject to any externally imposed capital requirements.

5. PROPERTY & EQUIPMENT

| | March 31, 2009 | | December 31, 2008 | |
|--------------------------------|-----------------|-------------------------------------|-----------------------|-----------------------|
| | <u>Cost</u> | <u>Accumulated Depreciation</u> | <u>Net Book Value</u> | <u>Net Book Value</u> |
| Deposits on rigs | \$773 | \$- | \$773 | \$3,458 |
| Rigs and accessories | 23,050 | 268 | 22,782 | 7,765 |
| Rigs under construction | 2,310 | - | 2,310 | 9,636 |
| Office furniture and equipment | <u>43</u> | <u>5</u> | <u>38</u> | <u>41</u> |
| Total | <u>\$26,176</u> | <u>\$273</u> | <u>\$25,903</u> | <u>\$20,900</u> |

CANELSON DRILLING INC.

NOTES TO FINANCIAL STATEMENTS

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

For the three months ended March 31, 2009

6. SHARE CAPITAL

Authorized

The authorized share capital of the Corporation consists of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares, issuable in series, none of which are issued or outstanding as of March 31, 2009.

Issued Common Shares

| | <u>Number Of shares</u> | <u>Share Capital</u> |
|---------------------------|-----------------------------|--------------------------|
| Balance December 31, 2008 | 26,100 | \$41,892 |
| Share issue costs | <u> </u> | <u> (5)</u> |
| Balance March 31, 2009 | <u>26,100</u> | <u>\$41,887</u> |

Stock Options

A summary of the Corporation's outstanding stock options and warrants as at March 31, 2009 is as follows:

| <u>Instrument</u> | <u>Expiry Date</u> | <u>Exercise Price</u> | March 31, 2009 | | December 31, 2008 | |
|-------------------|------------------------|---------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | | | <u>Number Outstanding</u> | <u>Number Exercisable</u> | <u>Number Outstanding</u> | <u>Number Exercisable</u> |
| Options | Sep 8, 2012 | \$2.00 | 672 | - | 672 | - |
| Options | Sep 8, 2010 | \$2.00 | 40 | - | 40 | - |
| Options | Sep 18, 2012 | \$0.20 | 371 | - | 410 | - |
| Options | Feb 9, 2013 | \$2.50 | 39 | - | - | - |
| Options | Mar 2, 2013 | \$1.95 | 49 | - | - | - |
| | | | <u>1,171</u> | | <u>1,122</u> | |
| Agent Options | Sep 24, 2010 | \$0.20 | 100 | 100 | 100 | 100 |
| Agent Warrants | Dec 9, 2010 | \$2.00 | 900 | 900 | 900 | 900 |
| | | | <u>2,171</u> | <u>1,000</u> | <u>2,122</u> | <u>1,000</u> |

CANELSON DRILLING INC.

NOTES TO FINANCIAL STATEMENTS

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

For the three months ended March 31, 2009

6. SHARE CAPITAL (continued)

Stock Based Compensation

During the period, stock based compensation costs in the amount of \$230 were recorded in the Statement of Operations, Comprehensive Income and Retained Earnings related to the stock options issued to directors and employees.

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

| | |
|--------------------------|---------------|
| Risk-free interest rate | 1.69 - 1.85 % |
| Expected life of options | 4 years |
| Annualized volatility | 32 % |
| Dividend rate | 0% |

During the period 132 options were granted to directors and employees and 83 options issued to directors were forfeited. The estimated fair value of the options and warrants granted in the period was \$53 and will be recognized as an expense over the vesting periods of the options.

7. CONTRIBUTED SURPLUS

Continuity of contributed surplus:

| | |
|---------------------------|--------------|
| Balance December 31, 2008 | \$488 |
| Stock based compensation | 230 |
| Balance March 31, 2009 | <u>\$718</u> |

8. COMMITMENTS

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

| | |
|------|-------|
| 2009 | \$344 |
| 2010 | \$150 |
| 2011 | \$107 |
| 2012 | \$107 |
| 2013 | \$89 |

9. SIGNIFICANT CUSTOMERS

During the period ended March 31, 2009, one customer provided 100% of the Corporation's total revenue.

CANELSON DRILLING INC.

NOTES TO FINANCIAL STATEMENTS

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

For the three months ended March 31, 2009

10. FINANCIAL RISK MANAGEMENT

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

Credit Risk

Credit risk arises from the potential that a counterparty will fail to meet its obligations. The Corporation is exposed to credit risk through its accounts receivable balance which is currently due from one customer operating in the oil and gas industry and is not past due at March 31, 2009. Management assesses the credit worthiness of its customers on an ongoing basis, as well as monitoring the amount and age of balances outstanding. The Corporation's policy is to enter into agreements with customers that are well established and well-financed entities in the oil and gas industry such that the level of credit risk is mitigated and, accordingly, the Corporation views the credit risks as normal for the industry. The Corporation's cash is deposited with a Canadian chartered bank and management believes the risk of loss is remote.

The Corporation makes an assessment quarterly if there is any impairment of its financial assets. During the period ended March 31, 2009 there was no impairment allowance recognized on financial assets.

Liquidity Risk

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

Market Risk

a) Interest rate risk

The Corporation is presently not exposed to interest rate risk.

b) Foreign currency risk

The Corporation is not exposed to foreign currency risk since all of its current operations and transactions are denominated in Canadian dollars with the exception of the purchase of certain drilling rig parts. The Corporation has sufficient funds to pay foreign currency denominated payables in a timely fashion to mitigate foreign currency risk.

c) Price risk

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

CANELSON DRILLING INC.

NOTES TO FINANCIAL STATEMENTS

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

For the three months ended March 31, 2009

11. EARNINGS PER SHARE

Basic and diluted earnings per share have been calculated based on the net earnings divided by the weighted average number of common shares outstanding for the period ended March 31, 2009. The weighted average number of common shares basic and diluted is 26,100 and 26,336 respectively.

12. RELATED PARTY TRANSACTIONS

During the period, the Corporation incurred \$10 of expenses included in general and administration expense relating to professional services provided by a law firm of which one of the Corporation's directors is a partner.

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.

CANELSON DRILLING INC.

**MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE
PERIOD ENDED MARCH 31, 2009**

The following discussion and analysis should be read in conjunction with the unaudited financial statements of the Corporation for the period ended March 31, 2009 and the audited financial statements of the Corporation for the year ended December 31, 2008. Additional information regarding the Corporation is available on SEDAR at www.sedar.com. Amounts are stated in thousands except for per share amounts.

DATE

This management's discussion and analysis ("MD&A") is dated May 15, 2009 and is in respect of the three-month period ended March 31, 2009 and discusses the operating and financial results for the three-month period ended March 31, 2009. Estimates and forward-looking information are based on assumptions of future events and actual results will vary from these estimates.

OVERALL PERFORMANCE

During the period, the Corporation completed construction of two additional drilling rigs. Rig 2 was completed around mid-January and went to work in the field immediately after construction was complete. Rig 3 was not completed until the end of the quarter.

SELECTED FINANCIAL INFORMATION

The Corporation was incorporated on June 30, 2008 and was not a "Reporting Issuer" pursuant to applicable securities legislation until September 11, 2008. (Going forward, the Corporation will be a "Reporting Issuer" in each of the provinces of Alberta, Saskatchewan, Manitoba, British Columbia and Ontario). Comparative quarterly data does not exist. A summary of selected annual financial information follows:

| | Period Ended December 31, 2008 |
|--|--------------------------------------|
| Total Operating Revenue | \$ 477 |
| Net and Comprehensive Income | \$ 13 |
| Basic and Diluted Income per Share | \$ Nil |
| Total assets | \$ 45,400 |
| Total accounts payable & accrued liabilities | \$ 3,007 |
| Total Long Term Liabilities | \$ Nil |
| Weighted Average Number of Shares Outstanding | 21,002 |

The quarterly financial information follows:

Three Months Ended

| | March 31, 2009 | December 31, 2008 | September 30, 2008 |
|--|-------------------|----------------------|-----------------------|
| Total Operating Revenue | \$ 2,981 | \$ 477 | \$ Nil |
| Net and Comprehensive Income | \$ 694 | \$ 13 | \$ 86 |
| Income Per Share | \$ 0.03 | \$ Nil | \$ 0.006 |
| Total Assets | \$ 45,805 | \$ 45,400 | \$ 42,826 |
| Total Liabilities | \$ 2,005 | \$ 3,007 | \$ 656 |
| Rig Operating Days (spud to rig release) | 114 | 19 | 0 |

RESULTS OF OPERATIONS

As at March 31, 2009, the Corporation was operating two drilling rigs with an additional rig completed at the end of the quarter. For the three month period ended March 31, 2009, the Corporation recorded net and comprehensive income of \$694.

Rig 1 was built and ready to go to the field on schedule, moved to the field and spudded its first well on December 12, 2008. The rig proceeded to drill three wells before breakup and performed smoothly from the initial startup onward. Rig 2 construction was finished in only 23 business days from Rig 1 moving out of the rig-up yard. Rig 2 moved to the field and spudded on January 18, 2009. Rig 2 drilled one well before breakup and performed flawlessly from initial startup.

OUTSTANDING SHARE DATA

As at March 31, 2009, the Corporation had 26,100 common shares outstanding.

Stock Options and Warrants

A summary of the Corporation's outstanding stock options and warrants as at March 31, 2009 are as follows:

| <u>Instrument</u> | <u>Expiry Date</u> | <u>Exercise Price</u> | March 31, 2009 | | December 31, 2008 | |
|-------------------|--------------------|-----------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | | | <u>Number Outstanding</u> | <u>Number Exercisable</u> | <u>Number Outstanding</u> | <u>Number Exercisable</u> |
| Options | Sep 8, 2012 | \$2.00 | 672 | - | 672 | - |
| Options | Sep 8, 2010 | \$2.00 | 40 | - | 40 | - |
| Options | Sep 18, 2012 | \$0.20 | 371 | - | 410 | - |
| Options | Feb 9, 2013 | \$2.50 | 39 | - | - | - |
| Options | Mar 2, 2013 | \$1.95 | 49 | - | - | - |
| | | | 1,171 | | 1,122 | - |
| Agent Options | Sep 24, 2010 | \$0.20 | 100 | 100 | 100 | 100 |
| Agent Warrants | Dec 9, 2010 | \$2.00 | 900 | 900 | 900 | 900 |
| | | | 2,171 | 1,000 | 2,122 | 1,000 |

LIQUIDITY

As at March 31, 2009, the Corporation had net working capital of \$17,719 comprised of cash and cash equivalents, prepaid expenses and deposits, accounts receivable, accounts payable and accrued liabilities, which management considers to be sufficient for the Corporation to meet its ongoing obligations.

CAPITAL EXPENDITURES

The Corporation initiates and manages the construction of drilling rigs and is not committed to any expenditure other than in the normal course of business.

FINANCIAL INSTRUMENTS

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

Credit Risk

Credit risk arises from the potential that a counterparty will fail to meet its obligations. The Corporation is exposed to credit risk through its accounts receivable balance which is currently due from one customer operating in the oil and gas industry. Management assesses the credit worthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. The Corporation's policy is to enter into agreements with customers that are well established and well-financed entities in the oil and gas industry such that the level of credit risk is mitigated and, accordingly, the Corporation views the credit risks as normal for the industry. The Corporation's cash is deposited with its chartered bank and management believes the risk of loss is remote.

Liquidity Risk

The Corporation's approach to managing liquidity risk is designed to ensure that it will have sufficient liquidity to meet liabilities when due. The Corporation has no long term debt and has sufficient cash to settle its current liabilities.

Market Risk

a) Interest rate risk

The Corporation is presently not exposed to interest rate risk.

b) Foreign currency risk

The Corporation is not exposed to foreign currency risk since all of its current operations and transactions are denominated in Canadian dollars, with the exception of the purchase of certain drilling rig parts. The Corporation has sufficient funds to pay foreign currency denominated payables in a timely fashion to mitigate foreign currency risk.

c) Price risk

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

ADOPTION OF NEW ACCOUNTING STANDARDS

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 to the financial statements.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian Generally Accepted Accounting Principles (“GAAP”) with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date refers to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of fiscal 2011 will require restatement for comparative purposes of amounts reported by the Corporation for the 2010 fiscal year. The effects of IFRS on the Corporation’s current financial statements has not yet been determined. The Corporation will monitor any changes in both its activities and in IFRS that may effect its adoption of these standards in 2011 and is currently designing a plan to ensure that the transition is completed in an efficient manner.

CAPITAL MANAGEMENT

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

CRITICAL ACCOUNTING ESTIMATES

This MD&A is based on the financial statements which have been prepared in accordance with GAAP. The preparation of the financial statements requires that certain estimates and judgments are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances.

The following are accounting estimates believed to be the most critical to the Corporation’s reporting of results of operations and financial position.

Allowance for Doubtful Accounts Receivable

The Corporation reviews the allowance for doubtful accounts and past due receivables and they are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. Given the cyclical nature of the oil and natural gas industry, along with the current economic environment, a customer’s ability to fulfill their payment obligations can change suddenly and without notice.

Impairment of Long-lived Assets

Long-lived assets, which include property, plant and equipment, comprise the majority of the Corporation's assets. The carrying value of these assets is periodically reviewed for impairment or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. This requires the Corporation to forecast future cash flows to be derived from the utilization of these assets based upon assumptions about future business conditions and technological developments. Significant and unanticipated changes to these assumptions could require a provision for impairment in the future.

Depreciation

The Corporation's property, plant and equipment are depreciated and amortized based upon the estimated useful lives and salvage values. These estimates may change as more experience is gained, market conditions shift or new technological advancements are made.

Stock-based Compensation

Compensation expense associated with stock options granted is based on various assumptions using the Black-Scholes option-pricing model to produce an estimate of compensation. This estimate may vary due to changes in the variables used in the model including interest rates, expected life, expected volatility and share prices.

RISKS AND UNCERTAINTIES

Risk factors and uncertainties which the Corporation faces in its business remain unchanged from those disclosed in the annual December 31, 2008 MD&A.

OUTLOOK

The new Alberta royalty regime, depressed stock markets, lower commodity prices, worldwide recession and the worldwide banking crisis are all combining to make 2009 a challenging year for the oil and gas industry, with the Canadian Association of Oilwell Drilling Contractors ("CAODC") and Petroleum Services Association of Canada ("PSAC") predicting the lowest number of wells to be drilled in Western Canada since 1999. The commodity price drop has triggered exploration and production ("E&P") companies to drastically reduce capital spending compared to the past several years, has resulted in lower drilling activity levels for drilling contractors. Although there has been recent modest recovery in the commodity prices, this has not yet prompted E&P companies to announce increased capital expenditures.

With rig utilization rates declining, day rates come under pressure as E&P companies look to ways to reduce their costs in the face of low commodity prices. In turn, drilling contractors are looking at ways to reduce their costs, the first of which is the CAODC recommending lower crew wages for the first time in about 25 years. CanElson has adopted the revised CAODC crew wages, and has approached all its vendors with a view to reducing both operating and capital costs.

The North American natural gas market may be presently well supplied: however, the Corporation believes that the current low levels of activity will eventually result in lower supplies due to the high production decline rates in the highly publicized shale natural gas plays. This may consequently require more drilling to reverse the production declines, although the addition of more LNG re-gasification capability in North America and the reduction in global LNG demand could cap or delay North American natural gas price recovery. Oil prices appear to have made some recovery ahead of natural gas, possibly due to OPEC cutbacks. With all these factors in mind, the Corporation is confident the industry will recover, although that may not be until 2010 and beyond.

With strong financial backing, an excellent balance sheet, a Board of Directors and management team with a wealth of knowledge and experience, along with a commitment to field presence, highly qualified experienced drilling crews, a brand new fleet of drilling rigs, and a firm resolve for Aboriginal relationships and Aboriginal workers, CanElson believes that it is well situated to weather the current storm. In addition to the CAODC wage rollbacks, and acknowledging the current economic crisis, the entire senior management team at CanElson has taken a 15 to 20% reduction of their annual salary effective at the beginning of April 2009, with no annual bonuses to be in effect until further notice, thereby reducing the annual costs of the Corporation by a significant amount.

Though the current state of the economy is significantly depressed compared to recent past, CanElson continues to pursue opportunities both inside and outside of the Western Canadian Sedimentary Basin (“WCSB”) and is confident that its many strengths will provide a significant competitive advantage and allow the Corporation to succeed in existing markets plus new and emerging markets. The Corporation believes that its style of ultra-heavy telescoping double rig, coupled with excellent Canadian crews, will prove to be very competitive not only in the WCSB, but also in both the United States and Latin America. With all the opportunities ahead, CanElson remains optimistic for the future.

FORWARD LOOKING INFORMATION

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