UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE THREE MONTHS ENDED MARCH 31, 2010

CANELSON DRILLING INC.

UNAUDITED CONSOLIDATED BALANCE SHEETS

At March 31, 2010 and December 31, 2009
(Stated in thousands of Canadian dollars)

	2010	2009
ASSETS		
Current assets:		
Cash	$ 3,356	$ 4,059
Accounts receivable	10,739	3,594
Prepaid expenses and deposits	185	173
Inventory	122	-
	14,402	7,826
Property and equipment (Note 4)	52,063	46,337
Future income tax asset (Note 6)	174	377
	$ 66,639	$ 54,540
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 8,176	$ 6,348
Current portion of bank debt (Note 5)	6,250	935
	14,426	7,283
Bank debt (Note 5)	8,500	4,065
	22,926	11,348
Commitments (Note 12)		
Shareholders' equity		
Share capital (Note 7)	42,678	42,375
Contributed surplus (Note 8)	1,137	1,205
Accumulated other comprehensive loss	(21)	-
Deficit	(81)	(388)
	43,713	43,192
	$ 66,639	$ 54,540

See accompanying notes to these consolidated financial statements

CANELSON DRILLING INC.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

For the three months ended March 31, 2010 and 2009

(Stated in thousands of Canadian dollars - except per share data)	2010	2009
Drilling revenue	$ 11,615	$ 2,981
Expenses:		
Operating	9,022	1,295
General and administrative	1,049	274
Depreciation	836	234
Stock based compensation	136	230
Interest expense (income)	95	(55)
Foreign exchange loss	42	-
Gain on disposal of property and equipment	(129)	-
	11,051	1,978
Income before income taxes	564	1,003
Income tax expense:		
Current	54	-
Future	203	309
	257	309
Net income	$ 307	$ 694
Retained earnings (deficit), beginning of period	(388)	13
Retained earnings (deficit), end of period	$ (81)	$ 707
Net income per share (Note 13)		
Basic and diluted	$ 0.01	$ 0.03

See accompanying notes to these consolidated financial statements

CANELSON DRILLING INC.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE LOSS

For the three months ended March 31, 2010 and 2009
(Stated in thousands of Canadian dollars - except per share data)

	2010	2009
Net income	$ 307	$ 694
Foreign currency translation adjustment	(21)	-
Net and comprehensive income	$ 286	$ 694
Accumulated other comprehensive income (loss) beginning of period	$ -	$ -
Foreign currency translation adjustment	(21)	-
Accumulated other comprehensive income (loss) end of period	$ (21)	$ -

See accompanying notes to these consolidated financial statements

CANELSON DRILLING INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2010 and 2009

(Stated in thousands of Canadian dollars)	2010	2009
Operating activities		
Net income for the period	$ 307	$ 694
Adjustment for items not affecting cash:		
Gain on sale of equipment	(129)	-
Unrealized foreign exchange loss	36	-
Stock based compensation	136	230
Depreciation	836	234
Future income tax	203	309
	1,389	1,467
Changes in non-cash working capital balances:		
Accounts receivable	(7,211)	396
Prepaid expenses and deposits	(12)	(4)
Inventory	(122)	411
Accounts payable and accrued liabilities	1,617	(103)
	(4,339)	2,167
Financing activities		
Increase in bank debt	10,000	-
Repayment of bank debt	(250)	
Issuance of share capital	100	-
	9,850	-
Investing activities		
Purchase of property and equipment	(7,083)	(5,240)
Proceeds on disposition on property and equipment	650	-
Changes in non-cash working capital balances	219	(900)
	(6,214)	(6,140)
Decrease in cash	(703)	(3,973)
Cash, beginning of period	4,059	22,717
Cash, end of period	$ 3,356	$ 18,744
Supplementary cash flow information:		
Interest paid	$ 95	$ -
Interest received	-	46

See accompanying notes to these consolidated financial statements

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.

The Corporation is engaged in the manufacture, acquisition and operation of drilling rigs for the oil and gas industry. The Corporation currently operates in the western Canadian sedimentary basin (the "WCSB"), the United States and Mexico.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Corporation's unaudited consolidated interim financial statements are reported in Canadian dollars and are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The accounting policies and procedures used in these interim consolidated financial statements are the same as those used in the preparing the December 31, 2009 audited consolidated financial statements. The unaudited consolidated interim financial statements should be read in conjunction with the December 31, 2009 audited consolidated financial statements.

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

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

3. FUTURE ACCOUNTING PRONOUNCEMENTS

In January 2009, the CICA issued new standards relating to business combinations (section 1582), consolidated financial statements (section 1601) and non-controlling interests (section 1602). Section 1582 will require most assets acquired and liabilities assumed, including contingent liabilities to be measured at fair value and that all acquisition costs to be expensed. Section 1602 requires that non-controlling interests be recognized as a separate component of equity and that net earnings be calculated without a deduction for non-controlling interest. Section 1601, in combination with Section 1602, replaces the former consolidated statements standard (1600) and establishes standards for the preparation of consolidated financial statements. These standards are effective January 1, 2011 with early adoption permitted. Based on the Corporation's consolidated financial statements at March 31, 2010, the Corporation does not anticipate these changes will have a material affect on its consolidated financial statements.

4. PROPERTY & EQUIPMENT

2010	Cost	Accumulated Depreciation	Net Book Value
Deposits on rig equipment	$ 67	$ -	$ 67
Rigs and accessories	53,312	1,372	51,940
Rigs under construction	0	-	-
Office furniture and equipment	77	21	56
Total	$ 53,456	$ 1,393	$ 52,063

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

In March 2010, the Corporation sold a drilling rig (single) for cash proceeds of $650 and realized a gain on disposition of $129.

5. BANK DEBT

Facility	Available Amount	Balance	Current Portion	Interest rate per annum	Maturity date
Operating loan	$ 5,000 (i)	$ -	$ -	(ii)	due on demand
Evergreen Loan	10,000	$ 9,750	$ 1,250	(iii)	(iv)
Capital Loan	5,000	$ 5,000	$ 5,000	(iii)	(v)

(i) Available amount is the lesser of $5,000 or 75% of accounts receivable less than 90 days. Based on accounts receivable at March 31, 2010, the estimated available amount is approximately $5,000.

(ii) Bank debt bears interest at the bank's prime lending rate plus 1.25%, U.S. prime rate plus 1.25% or U.S. Libor rate plus 2.50%.

(iii) Bank debt bears interest at the bank's prime lending rate plus 1.75%, U.S. prime rate plus 1.75% or U.S. Libor rate plus 3.25%.

(iv) Advances made under the Evergreen Loan during a calendar year will require interest only payments for the calendar year of the advance, with principal repayments on a monthly five year amortization basis commencing in the subsequent calendar year.

(v) Advances made shall be repaid on demand, unless and until otherwise demanded, $83 of principal shall be repaid monthly commencing from the month of initial advance with the balance to be fully repaid within five years of the initial advance.

Bank debt is secured by charges on all present and future property of the Corporation and the Corporation's United States subsidiaries. The Corporation was in compliance with its covenants at March 31, 2010. The Corporation's covenants are as follows:

- Tested quarterly, current assets to current liabilities must be greater than 1.25:1. For purposes of the covenant calculation, current liabilities exclude current portion of bank debt.
- Tested quarterly, debt to tangible net worth must not exceed 2.50:1. For purposes of the covenant calculation, debt equals total liabilities less future taxes and net worth equals share capital plus retained earnings (accumulated deficit), less intangible assets and goodwill.
- Tested annually, cash flow to debt service must be greater than 1.25:1. For purposes of this calculation cash flow is equal to net income (loss) before interest, cash taxes, depreciation, and amortization, for the calendar year and debt service is defined as the sum of all interest paid by the Corporation on all bank and third party debt and the corresponding annual principal repayments.

6. INCOME TAXES

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

Three months ended March 31,	2010	2009
Income (loss) before taxes	$ 564	$ 1,003
Income tax rate	28.0%	29.0%
Expected income tax expense	158	291
Increase (decrease) resulting from:		
Rate reduction on future income taxes	(5)	(9)
Non-deductible stock-based compensation	38	67
Other	(4)	(36)
Change in valuation allowance on future tax asset	70	(4)
Total income tax expense	$ 257	$ 309

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

	March 31, 2010	December 31, 2009
Share issue costs	$ 304	$ 406
Non-capital loss carry-forwards	32	32
Property and equipment	(16)	4
Other	(25)	(15)
Valuation allowance	(121)	(50)
Net future income tax asset	$ 174	$ 377

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

7. SHARE CAPITAL

(a) Authorized

The authorized share capital of the Corporation consists of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares, issuable in series, none of which are issued or outstanding as of March 31, 2010.

(b) Issued Common Shares

	Number of shares	Share capital
Balance December 31, 2009	26,100	$ 42,375
Shares issued from exercise of stock options	138	$ 303
Balance March 31, 2010	26,238	$ 42,678

(c) Stock Options

The Corporation may grant options to its employees, executive, and board of directors or others up to a maximum of 10% of the issued and outstanding common shares. The exercise price of the options equals the market price of the Corporations common shares on the date of grant. Stock options vest evenly over periods ranging from two years to four years. A summary of the Corporation's outstanding stock options as at March 31, 2010 and the changes for the period then ended, is as follows:

7. SHARE CAPITAL (continued)

(c) Stock Options (continued)

Stock Options	Range of Exercise Price	Outstanding	Weighted Average Exercise Price
Outstanding at December 31, 2009	$0.20 - $2.50	1,582	$ 1.41
Options granted to directors	$3.00	183	$ 3.00
Options exercised	$2.00	(40)	$ 2.00
Options exercised	$0.20	(98)	$ 0.20
Outstanding at March 31, 2010	$0.20 - $3.00	1,627	$ 2.30

	Total Outstanding			Exercisable	
Range of Exercise Prices	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number	Weighted Average Price
Employees, executive and directors					
$ 0.20	273	$ 0.20	2.47	26	$ 0.20
$ 1.60 - 3.00	1,254	2.08	2.64	243	2.12
Agent Options					
$ 0.20	100	0.20	0.48	100	0.20
	1,627	$ 1.65	1.60	369	$ 1.46

Subsequent to March 31, 2010, the Corporation granted 148 options to employees with a weighted average exercise price of $2.70 and an expected life of four years.

7. SHARE CAPITAL (continued)

(d) Warrants

	Total Outstanding			Exercisable	
Range of Exercise Prices	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number	Weighted Average Price
Agent Warrants					
$ 2.00	900	$ 2.00	0.69	900	2.00

(e) Stock Based Compensation

For the periods ended March 31, 2010 and 2009, the Corporation recorded stock based compensation expense in the consolidated statements of operations, comprehensive income (loss) and retained earnings (deficit) related to the stock options issued to directors and employees.

The assumptions used for the Black-Scholes valuation of stock options during the three month periods ended March 31, 2010 and 2009 are as follows:

	2010	2009
Risk-free interest rate	1.34% - 2.09%	1.69% - 1.85%
Expected life of options	0.5 - 4 years	4 years
Annualized volatility	50 %	32%
Dividend rate	0%	0%

The estimated fair value of the options granted during the period was $163 (2009: $53) and will be recognized as an expense over the vesting periods of the options.

(f) Employee Stock Savings Plan

Employee and Corporation contributions are used to purchase common shares of the Corporation on the open market. During the three months ended March 31, 2010, the Corporation purchased 7 shares at an average price of $3.00 per share under the Plan.

8. CONTRIBUTED SURPLUS

A summary of changes in contributed surplus for the three months ended March 31, 2010 and the years ended December 31, 2009 and 2008 is as follows:

Balance December 31, 2009	$ 1,205
Stock based compensation	136
Stock options exercised	(204)
Balance March 31, 2010	$ 1,137

9. SEGMENTED INFORMATION

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

	Domestic	Foreign	Total
Revenue	$ 7,168	$ 4,447	$ 11,615
Property and equipment, net (i)	28,236	23,827	52,063
Capital expenditures, net	74	6,488	6,562
Depreciation	552	284	836

(i) At March 31, 2010, 100% of the Corporation's property & equipment was owned by the Corporation's domestic and United States division of the Corporation's foreign operating segment.

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

10. SIGNIFICANT CUSTOMERS

During the period ended March 31, 2010, two customers, one each in the United States and Mexico divisions of the Corporation’s foreign operating segment, provided 100% of the Corporation’s total operating revenue in the foreign operating segment. In management’s opinion, the future viability of the Corporation is not dependent upon these significant customers. Included in accounts receivable at March 31, 2010 due from these customers is $3,542.

11. FINANCIAL RISK MANAGEMENT

(a) Capital Management

The Corporation defines capital as the Corporation's shareholders' equity and bank debt, which at March 31, 2010 was $58,463 (December 31, 2009: $48,192). The Corporation's objective is to safeguard its ability to continue as a going concern given the cyclical nature of the oil and gas services business and provide returns to shareholders. The Corporation manages its capital structure to ensure the available amounts are adequate for business requirements and, the rates charged for capital are competitive. Availability of capital is important to future success and as such, the Corporation endeavours to maintain strong relationships with the capital investment community. Methods employed to adjust the Corporation's capital structure could include any, all, or a combination of: (1) issue new shares through a public offering or private placement; (2) expand and or refinance existing bank debt facilities; (3) issue fixed or floating rate debt; and or (4) enter into forms of partnerships using the Corporation's existing property and equipment asset base.

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

(b) Credit Risk

Credit risk arises from the potential that a counterparty will fail to meet its obligations. The Corporation is normally exposed to credit risk through its accounts receivable balances. The Corporation manages credit risk by assessing the credit worthiness of its customers before providing services and on an ongoing basis, as well as monitoring the amount and age of balances outstanding. The Corporation views credit risks on its accounts receivable as normal for the industry. The Corporation does not have any accounts receivable at March 31, 2010 that are believed to be uncollectible. The Corporation's cash is deposited with two Canadian chartered banks and management believes the risk of credit loss is remote.

The Corporation's accounts receivable aging is as follows:

	March 31, 2010	December 31, 2009
Within 30 days	$ 5,918	$ 3,413
31 to 60 days	4,066	41
61 to 90 days	662	81
Over 90 days	93	59
Allowance for doubtful accounts	-	-
Accounts receivable	$ 10,739	$ 3,594

11. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity Risk

At March 31, 2010, the Corporation had a negative net working capital (current assets less current liabilities) of $24 and had available approximately $5,000 on its operating loan (note 5). Included within current liabilities is $5,000 related to the capital loan (note 5) that is expected to be repaid over five years, but it is due on demand at the banks request. Should the bank ask for repayment of the loan, the Corporation may be required to seek additional financing. At March 31, 2010, the Corporation was committed to various financial obligations (note 12) which require the Corporation to have available various sources capital and will require the Corporation to generate future operating cash flow to meet the commitments associated with these financial obligations.

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

(d) Market Risk

i) Interest rate risk

The Corporation is exposed to interest rate risk on its floating rate bank debt. The Corporation monitors its interest rate exposure and has the ability to enter into economic hedges on its interest bearing bank debt, but has not done so to date. The Corporation believes that a 1% interest rate change during the next 12 month reporting period would be reasonably possible. During 2010, a 1% change in the interest rate on the outstanding $14,750 of bank debt would increase (decrease) net and comprehensive income by $150.

ii) Foreign currency risk

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

11. FINANCIAL RISK MANAGEMENT (continued)

(d) Market Risk (continued)

iii) Foreign currency risk (continued)

The Canadian equivalent U.S. dollar denominated balances at March 31, 2010 and related effect of a 5% fluctuation in foreign exchange rates are presented below:

		2010
Cash	$	(2)
Accounts receivable		3,988
Accounts payable		(2,814)
Net U.S. dollar exposure	$	1,172
Effect of plus (minus) 5% change in the U.S. dollar to Canadian dollar exchange rate on net loss	$	59

With operations commencing in Mexico in 2009, it is expected the Corporation will be exposed to fluctuations in the Mexican peso relative to the Canadian dollar. At March 31, 2010, the Corporation was not exposed to significant foreign currency risk on its financial instruments related to the Mexican peso.

iv) Price risk

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

(e) Fair Value

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

12. COMMITMENTS

The following are the commitments and contractual maturities of the Corporation's financial liabilities at March 31, 2010:

	2010	2011	2012	2013	2014	Thereafter	Total
Bank debt (i)	$ 1,920	$ 3,470	$ 3,350	$ 3,230	$ 3,110	$ 1,275	$ 16,355
Commitments (ii)	167	180	107	89	-	-	543
Total	$ 2,087	$ 3,650	$ 3,457	$ 3,319	$ 3,110	$ 1,275	$ 16,898

(i) Includes principal and interest. Interest has been calculated based upon debt balances and interest rates at March 31, 2010
(ii) Includes office premises and vehicle lease payments

In addition to the above contractual maturities, the Corporation has: (1) remaining and incremental capital commitments of $1,250 for the completion of construction of one rig already deployed and various upgrades to the recently acquired drilling rig equipment, which is expected to be incurred in 2010; and (2) sub-contracted two drilling rigs through its Mexican joint venture company for a term ending November 2010, subject to the length of the customer contract. Future payments are variable depending upon the operating performance of the drilling rigs.

13. EARNINGS PER SHARE

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

Three months ended March 31,	2010	2009
Weighted average common shares	26,116	26,100
Effect of stock options and warrants	785	226
Balance, period end	26,901	26,326

For the three month period ended March 31, 2010, the above table excludes 183 options (2009: nil) that are considered anti-dilutive.

14. RELATED PARTY TRANSACTIONS

For the period ended March 31, 2010 the Corporation incurred $73 of fees included in general and administrative expenses (2009: $10) relating to professional services provided by a law firm of which one of the Corporation's directors is a partner. At March 31, 2010, $29 was included within accounts payable and accrued liabilities.

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

15. JOINT VENTURE

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

As at and for the three months ended March 31,		2010
Current assets	$	2,255
Current liabilities		1,299
Revenue		1,633
Expenses		1,468
Operating cash flow		50
Financing cash flow		-
Investing cash flow		(11)

During November 2009 the joint venture commenced operations and therefore there are no comparatives for the three months ended March 31, 2009.

UNAUDITED INTERIM MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2010

CANELSON DRILLING INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Stated in thousands, except for: per share amounts; number of drilling rigs; and meters)

As at May 10, 2010

This Management's Discussion and Analysis ("MD&A") for CanElson Drilling Inc. and all of its subsidiaries and joint venture ("CanElson" or the "Corporation") should be read in conjunction with: (1) the unaudited March 31, 2010 consolidated interim financial statements; (2) the audited December 31, 2009 consolidated financial statements; (3) the December 31, 2009 MD&A; and (4) the Annual Information Form. All financial measures presented in this MD&A are expressed in Canadian dollars unless otherwise indicated. Additional information regarding the Corporation is available on SEDAR at www.sedar.com.

OVERVIEW

The Corporation is engaged in the manufacture, acquisition and operation of drilling rigs for the oil and gas industry. The Corporation currently operates in the western Canadian sedimentary basin (the "WCSB"), the United States and Mexico. The Corporation's WCSB operations are currently focused in Alberta. The United States operations are currently focused in the Permian Basin in west Texas. The Corporation's Mexico operations are conducted through a joint venture Company, Diavaz CanElson de Mexico, S.A. de C.V. ("DCM" or the "Joint Venture"), of which CanElson holds a 50% ownership interest, and are currently focused in the Ebano-Panuco-Cacalilao fields of the Misantla-Tampico Basin of Mexico.

During the first quarter of 2010, the Corporation recorded utilization in Canada of 86%, which is the highest reported utilization by any CAODC contractor, increased its west Texas drilling fleet from 1 drilling rig to 3 drilling rigs and continued to see improved operating efficiencies in Mexico during its first full quarter of joint venture operations. The 2 heavy duty telescopic drilling rigs added in west Texas include: (1) a drilling rig previously constructed in 2009 for operation in Canada, which was subsequently retrofitted and deployed to west Texas in January 2010; and (2) a drilling rig fully constructed during the first quarter of 2010 which commenced drilling operations on March 31, 2010. At the date of this MD&A, the Corporation was operating 4 drilling rigs in the WCSB, 3 drilling rigs in west Texas, 2 (net: 1) drilling rigs and 1 (net: 0.5) service rig in the Ebano-Panuco-Cacalilao fields in Mexico.

FINANCIAL HIGHLIGHTS

As at and for the three months ended March 31, 2010 and 2009	2010	% Increase (Decrease)	2009
Revenue	$11,615	290%	$2,981
EBITDA (i)	$1,544	9%	$1,412
Net income	$307	-56%	$694
Net income per share			
Basic	$0.01	nm	$0.03
Diluted	$0.01	nm	$0.03
Funds flow (ii)	$1,389	-5%	$1,467
Current assets	$14,402	-27%	$19,724
Total assets	$66,639	45%	$45,805
Accounts payable and accrued liabilities	$8,176	308%	$2,005
Current portion of bank debt	$6,250	nm	$0
Bank debt	$8,500	nm	$0
Weighted average diluted shares outstanding	26,901	2%	26,336

nm – calculation is not meaningful

NON-GAAP MEASURES

This MD&A contains references to EBITDA and funds flow. These financial measures are not measures that have any standardized meaning prescribed by GAAP and are therefore referred to as non-GAAP measures. The non-GAAP measures used by the Corporation may not be comparable to similar measures used by other companies.

(i) EBITDA is defined as "income before interest expense (income), income taxes, depreciation, stock based compensation expense and foreign exchange." Management believes that in addition to Net and comprehensive income (loss), EBITDA is a useful supplemental measure as it provides an indication of the results generated by the Corporation's principal business activities prior to consideration of how these activities are financed, how the results are taxed in various jurisdictions, or how the results are effected by the accounting standards associated with the Corporation's stock based compensation plan.

Three months ended March 31, 2010 and 2009	2010	2009
Income before taxes	$ 564	$ 1,003
Interest expense (income)	95	(55)
Depreciation	836	234
Stock-based compensation	136	230
Foreign exchange loss	42	-
Gain on disposal of property and equipment	(129)	-
EBITDA	$ 1,544	$ 1,412

(ii) Funds flow from operations is defined as "cash provided by operating activities before the change in non-cash working capital". Funds flow from operations is a measure that provides shareholders and potential investors additional information regarding the Corporation's liquidity and its ability to generate funds to finance its operations. Management utilizes this measurement to assess the Corporation's ability to finance operating activities and capital expenditures.

Three months ended March 31, 2010 and 2009	2010	2009
Operating cash flow	$ (4,339)	$ 2,167
Changes in working capital	5,728	(700)
Funds flow	$ 1,389	$ 1,467

Q1 2010 compared with Q1 2009

The Corporation recorded net income of $307 ($0.01 per share) compared to net income of $694 ($0.03 per share) during the three month period ended March 31, 2009. 2010 EBITDA and funds flow of $1,544 and $1,389, respectively, compared to EBITDA and funds flow of $1,412 and $1,467, respectively, during the comparative first quarter of 2009.

During Q4 2009 the Corporation commenced operations in the United States and Mexico. The first quarter of 2010 represented the first full quarter of operations in the United States and Mexico. There were also two more rigs operating in Canada and as a result the Corporation's comparative 2009 quarter operations vary significantly from the first quarter of 2010.

REVENUE AND OPERATING EXPENSE

The Corporation operates in two geographic segments within one industry segment. Oilfield services are provided in the domestic operating segment (Canada) and the foreign operating segment (United States and Mexico).

Three Months Ended March 31,		2010	2009	Change	% Change
Revenue					
Domestic		$ 7,168	$ 2,981	$ 4,187	140%
Foreign		4,447	0	4,447	nm
		11,615	2,981	8,634	290%
Operating expenses		9,022	1,295	7,727	597%
		$ 2,593	$ 1,686	$ 907	54%
Gross margin		22%	57%	-34%	-61%
Operating days (spud to rig release)	(i)	460	114	346	304%
Revenue per operating day (Domestic)		$ 23.27	$ 26.15	$ (2.88)	nm
Revenue per operating day (Foreign)		$ 29.16	$ -	$ 29.16	nm

(i) Operating days includes only those operating days for the Corporation's owned drilling rigs and excludes the sub-contracted drilling rigs conducting operations in Mexico.

Revenue recorded during the three month period ended 2010 increased significantly compared to 2009 as a result of an expanded rig fleet and operations in the United States and Mexico. During the first quarter of 2010, the Corporation had available for operation an average of 7.8 (net: 6.8) drilling rigs (2009: 1.8 drilling rigs) which the Corporation utilized to generate significantly more revenue.

The Corporation achieved a gross margin of 22% during the first quarter of 2010 as compared to 57% in 2009. The decrease in gross margin percentage relates to lower drilling rates in Canada during Q1 2010 and due to the fact that foreign operating segment contracts are performance based integrated service contracts which are generally characterized by higher revenues and additional flow through costs that the Corporation pays for on behalf of the customer. For this reason, both revenue and operating expenses on an individual rig will be higher in the foreign geographic segment compared to the domestic operating segment which will result in lower percentage gross margins. The nature of performance based integrated services contracts may cause quarter over quarter variations in revenue, operating expenses and gross margin as performance increases and decreases.

Revenue per operating day average decreased in 2010. The decrease is primarily attributable to lower day

rates realized in Canada partially offset by DCM's revenues earned which are earned on subcontracted drilling rigs that the Corporation does not own.

Domestic Segment

Three Months Ended March 31,	2010	2009	Change	Change %
Drilling rigs				
Opening balance	4	1		
Construction	-	1		
Acquisition	-	-		
Ending Balance	4	2	2	100%
Operating days (spud to rig release)	308	114	194	170%
Utilization	86%	70%	15%	22%

During the three month period ended March 31, 2010, no drilling rigs were constructed or acquired for the domestic segment; however the Corporation continued to assess corporate and asset acquisition opportunities, as well as evaluate various rig construction scenarios.

Utilization increased in 2010 due to a diversification of its customer base and as a result of the Corporation's drilling rigs primarily working in central Alberta which traditionally has more available drilling days available prior to spring break-up.

Foreign Segment

Three Months Ended March 31,	2010	2009	Change	Change %
Drilling rigs				
Opening balance	2	-		
Construction	2	-		
Ending Balance	4	-	4	nm
Operating days (spud to rig release) (i)	153	-	153	nm
Utilization	95%	0%	95%	nm

(i) Operating days includes only those operating days for the Corporation's owned drilling rigs and excludes the sub-contracted drilling rigs conducting operations in Mexico.

In the United States, a drilling rig that was previously constructed in 2009 for operation in Canada was retrofitted for operation in west Texas and deployed in west Texas in January 2010. In March 2010, the construction of the third United States drilling rig was completed and deployed. The west Texas area does not traditionally have seasonal operating restrictions; therefore, the Corporation anticipates that its west Texas rig fleet will operate during all 12 months in a calendar year. The west Texas operations were in the start-up phase during the first quarter and the Corporation expects the west Texas operations to continue through a start-up phase with expected operational efficiencies to be achieved during the second quarter.

In 2009, the Corporation entered into a joint venture agreement with a Mexico based oil and gas services company, formed the Mexican joint venture company DCM and signed 2 performance based integrated drilling rig contracts. DCM subcontracts 2 drilling rigs from a third party oil and gas services company that had been operating the drilling rigs in the Ebano-Panuco-Cacalilao fields of the Misantla-Tampico Basin area of Mexico. During Q1 2010, DCM commenced operating a service rig. The second service rig was expected to commence operating in Q1; however, the actual start date is now expected to be in Q2. DCM started to see some operational efficiencies towards the end of the first quarter, but overall expects DCM's operations to continue through a start-up phase during Q2 2010 with increasing operational efficiencies for drilling and service rig operations.

DEPRECIATION

Three Months Ended March 31,		2010		2009		Change	Change %
Depreciation	$	836	$	234	$	602	257%

Substantially all of the Corporation's property and equipment is depreciated based on rig operating days. The Corporation's depreciation expense increased significantly as a result of the expanded rig fleet and a significant increase in operating days during the first quarter of 2010 compared to the first quarter of 2009.

GENERAL & ADMINISTRATION

Three Months Ended March 31,		2010		2009		Change	Change %
General & Administration	$	1,049	$	274	$	775	283%
Percent of revenue		9%		9%			

General & Administration expense ("G&A") increased significantly from 2009 as a result of an increase in operational and support staff to support the growing domestic and international operations and significant professional fees associated with establishing international operations. The Corporation anticipates G&A for the year 2010 will be substantially greater than G&A during 2009 as a result of its growing operations. However, G&A as percent of revenue is anticipated to decrease during 2010 compared to 2009.

STOCK BASED COMPENSATION

Three Months Ended March 31,		2010		2009		Change	Change %
Stock based compensation	$	136	$	230	$	(94)	-41%

The Corporation has an employee stock option plan that provides all option holders the right to common shares for the options exercised. The Corporation follows the fair value method for accounting, using the Black-Scholes option pricing model, whereby compensation expense is recognized for the stock options on the date of grant, and amortized over the options vesting period. The Corporation's stock based compensation expense decreased in 2010 as a result of a number of lower priced stock options vesting during the period which results in a corresponding decrease in stock option expense.

INTEREST EXPENSE (INCOME)

Three Months Ended March 31,		2010		2009		Change	Change %
Interest expense (income)	$	95	$	(55)	$	150	-273%

The Corporation earns interest income on its cash and pays interest expense on its bank indebtedness. During the first quarter of 2010, the Corporation paid interest expense as a result of substantial financing activities related to bank debt compared to the first quarter of 2009 where the Corporation earned interest income on its significant first quarter 2009 average cash balance.

GAIN ON DISPOSAL OF PROPERTY AND EQUIPMENT

Three Months Ended March 31,		2010		2009		Change	Change %
Gain on disposal of property and equipment	$	129	$	-	$	129	nm

During the first quarter of 2010, the Corporation sold a drilling rig (single) rig for cash proceeds of $650. The single drilling rig was previously acquired on November 19, 2009 as part of the purchase of a heavy duty telescopic double drilling rig and ancillary equipment. The disposition of the single rig is consistent with the Corporation's focus on servicing the deeper wells that are currently in higher demand in the current market place.

INCOME TAXES

Three Months Ended March 31,	2010	2009	Change	Change %
Current	$ 54	$ -	$ 54	nm
Future	203	309	(106)	nm
Income taxes	$ 257	$ 309	$ (52)	

The Corporation has operations in three jurisdictions and is thus subject to tax rates in Canada, the United States and in Mexico. To date, the Corporation has not paid any current income taxes; however, the Corporation has accrued $54 of current income tax related to its foreign segment. The Corporation has recognized a future income tax expense in relation to its Canadian operations. The Corporation has recognized a valuation allowance against certain of its future tax assets in relation to its foreign segment as there is uncertainty as to the timing and reversal of the related future tax assets. The Corporation has available for deduction against future taxable income non-capital losses of approximately $127.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows Relating to Operating Activities and Working Capital

Three Months Ended March 31,	2010	2009	Change	Change %
Funds flow	$ 1,389	$ 1,467	$ (78)	-5%
Changes in working capital	(5,728)	700	(6,428)	-918%
Operating cash flow	$ (4,339)	$ 2,167	$ (6,506)	-300%

The Corporation provides and uses cash flows from operating activities from the operation of drilling rigs. Funds flow from operations decreased slightly in 2010 despite increased operations, due in part to start up costs related to the United States and Mexico. Operating cash flow decreased significantly for the first quarter of 2010, primarily as a result of the increase in working capital requirements for expanded operations in Canada, the United States and Mexico compared to the first quarter of 2009.

At March 31, 2010, the Corporation had an overall negative net working capital position (current assets less current liabilities) of $24 (2009: positive $543). Included in the 2010 working capital amount is $5,000 related to a capital loan which has been classified as current since it is repayable on demand; however, the repayment schedule is five years. The positive working capital position at March 31, 2010, excluding the capital loan, is $4,976. In addition, the Corporation had available an operating loan with an estimated $5,000 (2009: $nil) available to fund operating activities. The significant increase in the working capital position, excluding the demand portion of the capital loan, is a result of expanded operations in Canada, the United States and Mexico.

Cash Flows Relating to Financing Activities

Three Months Ended March 31,	2010	2009	Change	Change %
Increase in bank debt	$ 10,000	$ -	$ 10,000	nm
Repayment of bank debt	(250)	-	(250)	nm
Issuance of share capital	100	-	100	nm
Financing cash flow	$ 9,850	$ -	$ 9,850	nm

During the three months ended March 31, 2010, bank financing provided the Corporation net $9,750 of cash flows. The Corporation did not generate any additional cash flows from financing activities during the comparative quarter. Also during the first quarter of 2010, $100 was received from proceeds on the exercise of stock options.

As at March 31, 2010, the Corporation has outstanding 26,238 common shares, 900 warrants and 1,627 options, each convertible into one common share. At May 10, 2010, the Corporation had 1,269 exercisable options and warrants, which if exercised would provide financing cash flows of $2,340 for the Corporation. At the date of this MD&A, the Corporation has outstanding 26,238 common shares, 900 warrants and 1,775

options, each convertible into one common share.

As at March 31, 2010, the Corporation has the following bank debt available and outstanding (March 31, 2009: $nil).

Facility	Available Amount	Balance	Current Portion	Interest rate per annum	Maturity date
Operating loan	$ 5,000 (i)	$ -	$ -	(ii)	due on demand
Evergreen Loan	10,000	$ 9,750	$ 1,250	(iii)	(iv)
Capital Loan	5,000	$ 5,000	$ 5,000	(iii)	(v)

(i) Available amount is the lesser of $5,000 or 75% of accounts receivable less than 90 days. Based on accounts receivable at March 31, 2010, the estimated available amount is approximately $5,000.

(ii) Bank debt bears interest at the bank's prime lending rate plus 1.25%, U.S. prime rate plus 1.25% or U.S. Libor rate plus 2.50%.

(iii) Bank debt bears interest at the bank's prime lending rate plus 1.75%, U.S. prime rate plus 1.75% or U.S. Libor rate plus 3.25%.

(iv) Advances made under the Evergreen Loan during a calendar year will require interest only payments for the calendar year of the advance, with principal repayments on a monthly five year amortization basis commencing in the subsequent calendar year.

(v) Advances made shall be repaid on demand, unless and until otherwise demanded, $83 of principal shall be repaid monthly commencing from the month of initial advance with the balance to be fully repaid within five years of the initial advance.

Cash Flows Relating to Investing Activities

Three Months Ended March 31,	2010	2009	Change	Change %
Purchase of property & equipment	$ (7,083)	$ (5,240)	$ (1,843)	35%
Proceeds on disposition of property and equipment	650	-	650	nm
Changes in non-cash working capital	219	(900)	1,119	-124%
Investing cash flow	$ (6,214)	$ (6,140)	$ (74)	1%

The Corporation initiates and manages the construction of drilling rigs and at March 31, 2010 the Corporation was committed to complete construction activities and undertake various capital upgrades and recertification for its drilling rig fleet. Estimated capital costs are $1,250. The Corporation has not committed to any further significant capital expenditures.

During the first quarter of 2010 the Corporation incurred $7,083 (2009: $5,240) of capital expenditures related to rig construction and asset acquisitions. During the three month period ended March 31, 2010, the Corporation started and substantially completed construction of a heavy duty 3600 meter telescopic double rig and incurred various other miscellaneous construction and capital projects. These capital projects were substantially completed and these capital expenditures were previously estimated to cost $8,300. The Corporation was able to achieve positive capital cost savings as a result of utilization of existing spare parts and equipment previously acquired in other acquisitions and through general construction efficiencies.

During the comparative 2009 period, the Corporation substantially completed the construction of a heavy duty 3600 meter telescopic double rig.

Contractual Obligations

In the normal course of business, the Company incurs contractual obligations related to vehicle and premise leases and bank debt. The minimum annual payments for contractual obligations for the next five years are as follows:

		2010	2011	2012	2013	2014	Thereafter	Total
Bank debt	(i)	$ 1,920	$ 3,470	$ 3,350	$ 3,230	$ 3,110	$ 1,275	$ 16,355
Commitments	(ii)	167	180	107	89	-	-	543
Total		$ 2,087	$ 3,650	$ 3,457	$ 3,319	$ 3,110	$ 1,275	$ 16,898

(i) Includes principal and interest. Interest has been calculated based upon debt balances and interest rates at March 31, 2010

(ii) Includes office premises and vehicle lease payments

In addition to the above contractual maturities, the Corporation has: (1) remaining and incremental capital commitments of $1,250 for the completion of construction of one rig already deployed to west Texas and various upgrades to the recently acquired drilling rig equipment, which is expected to be incurred in 2010; and (2) sub-contracted two drilling rigs through its Mexican joint venture company for a term ending November 2010, subject to the length of the customer contract. Future payments are variable depending upon the operating performance of the drilling rigs.

SUMMARY OF QUARTERLY RESULTS

	2010	2009				2008	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	$11,615	$3,021	$629	$ Nil	$2,981	$477	$ Nil
EBITDA	$1,544	$45	($168)	($491)	$1,412	($168)	($1)
Net income (loss)	$307	($236)	($295)	($564)	$694	$13	($1)
Net income (loss) per share	$0.01	($0.01)	($0.01)	($0.02)	$0.03	$ Nil	$ Nil
Funds flow	$1,389	$45	($97)	($477)	$1,467	$152	$1
Current assets	$14,402	$7,826	$17,212	$17,510	$19,724	$24,500	$439
Total assets	$66,639	$54,540	$43,946	$43,986	$45,805	$45,400	$439
Accounts payable and accrued liabilities	$8,176	$6,348	$630	$546	$2,005	$3,007	$28
Current portion of bank debt	$6,250	$935	$0	$0	$0	$0	$0
Bank debt	$8,500	$4,065	$0	$0	$0	$0	$0
Weighted average diluted shares outstanding	26,901	26,406	26,342	26,322	26,336	21,002	4,100

The seasonal operating environment of the oil and gas services industry in Canada affects the quarterly results of the Corporation. The Corporation's strongest operating results are generally expected to be in the first and fourth quarters, as was the case in 2009. Utilization rates in Canada typically decline during the second quarter as spring breakup weather conditions hinder mobility of the Corporation's equipment. It is expected that the Corporation's United States and Mexico operations will partially decrease the overall seasonality of the Corporation's operations; however, given 57% of the Corporation's owned drilling rig fleet is based in Canada, seasonality is expected to continue to effect the Corporation's quarterly results.

During the first quarter of 2010, the Corporation experienced strong results as 4 drilling rigs operated in Alberta, 2 rigs (net: 1) operated in Mexico for an entire quarter as well as two rigs operated in west Texas for substantially all of the first quarter. The positive effect of the increased operating activity was offset by

increased operating and general and administration expenses, primarily in relation to the start-up of operations in the United States and Mexico. Also during the first quarter of 2010, the Corporation added 2 rigs to its drilling rig fleet, increasing the total operating rig fleet from 5 at the end of Q4 2009 to 7 at the end of Q1 2010.

OUTLOOK

The global economy continued to improve during the first quarter in 2010 but appears to overall remain relatively weak with high government debt levels and predicted future lower stimulus spending. Oil prices appear to have some support around $70 per barrel. However, natural gas prices remain low and continue to be volatile and there remain significant diverging views as to what the 2010, and beyond, outlook for natural gas prices will be.

During the first quarter of 2010, we continued to see an increase in customer demand and modest upward movement on day rates for drilling companies that have the ability to drill deep horizontal wells. Prospectively, we expect the average measured depth, and therefore the average well time, to trend upwards as our customer's capital programs are focused on deeper horizontal plays. As our modern Canadian rig fleet is capable of drilling a majority of these types of wells, we believe we are positioned to grow in the Canadian market place as the number of drilling rigs competing in this part of the Canadian drilling market is significantly less than the total Canadian rig count.

Our United States area of focus is in the west Texas area of the Permian Basin which is a mature oil basin. Our customers in the Permian Basin are focused on drilling a high volume of infill drilling locations to measured depths of approximately 3300 meters. Current oil prices appear to have already supported an increase in activity in the Permian Basin with significant year-over-year increase in drilling activity. The active rig count in the Permian Basin is estimated at 219 rigs for March 2010 compared with 78 active rigs in March 2009. We believe the increased activity will support new work and better rates in the Permian Basin for those drilling contractors who can compete by drilling on a performance basis.

The Mexico oil and gas services market has significant room for growth in services that help optimization of drilling and well servicing operations. In particular, we believe there is an opportunity for the application of Canadian drilling techniques in Mexico which will help reduce the total well-time and increase the speed with which new production can be brought on stream.

With record first quarter revenues, three fully operational platforms for growth, a Board of Directors and management team with a wealth of knowledge and experience, a strategic Mexico Joint Venture partner, along with a commitment to field presence, highly qualified experienced drilling crews, a modern fleet of drilling rigs, opportunity for international growth and a firm resolve for Aboriginal relationships and Aboriginal workers, we believe there is significant opportunity for growth.

FINANCIAL INSTRUMENTS

Financial instruments are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and bank debt. The fair values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short-term maturities. The fair value of bank debt approximates its carrying value due to the floating interest rate associated with the debt instrument.

RELATED PARTY TRANSACTIONS

For the period ended March 31, 2010 the Corporation incurred $73 of fees included in general and administrative expenses (2009: $10) relating to professional services provided by a law firm of which one of the Corporation's directors is a partner. At March 31, 2010, $29 was included within accounts payable and accrued liabilities.

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

CONTINGENCY

During 2010, Corporation received a statement of claim from a company claiming use of confidential and proprietary information, solicitation of clients, consultants and employees by certain officers and staff of the company. No estimate of the claim can be made. The Corporation does not view the claim as having any merit; accordingly no provision for any liability is presented in these consolidated financial statements.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Application of critical accounting estimates

The significant accounting policies used by the Corporation are disclosed in the audited financial statements for the year ended December 31, 2009. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates.

The accounting estimates considered to have the greatest effect on the Corporation's consolidated financial results are as follows:

Depreciation

Depreciation of the Corporation's property and equipment incorporates estimates of useful lives and residual values. These estimates may change as the Corporation establishes a longer operating history or as general market conditions change.

Long lived assets

On a periodic basis, management assesses the carrying value of long-lived assets for indications of impairment. This requires the Corporation to forecast future cash flows to be derived from utilization of these assets based on assumptions about future operating conditions. These assumptions may change as more experience is obtained or as general market conditions change.

Accounts receivable

The Corporation is subject to credit risk on accounts receivable balances and assesses the recoverability of accounts receivable on an ongoing basis. To date, the Corporation has not established an allowance for doubtful accounts for uncollectible accounts receivable balances as all accounts receivable are deemed to be collectible. Assessing accounts receivable for impairment involves significant judgment and uncertainty, including estimates of future events. Changes in circumstances underlying these estimates may result in the

Corporation recognizing an allowance against accounts receivable.

Recent pronouncements

New Accounting Standards

In January 2009, the CICA issued new standards relating to business combinations (section 1582), consolidated financial statements (section 1601) and non-controlling interests (section 1602). Section 1582 will be harmonized with IFRS 3, "Business Combinations" and will require most assets acquired and liabilities assumed, including contingent liabilities to be measured at fair value and that all acquisition costs to be expensed. Section 1602 will harmonize with the requirements of International Accounting Standard ("IAS") 27, "Consolidated and Separate Financial Statements" and requires that non-controlling interests be recognized as a separate component of equity and that net earnings be calculated without a deduction for non-controlling interest. Section 1601 in combination with Section 1602 replaces the former consolidated statements standard (1600) and establishes standards for the preparation of consolidated financial statements. These standards are effective January 1, 2011 with early adoption permitted. Based on the Corporation's consolidated financial statements at March 31, 2010, the Corporation does not anticipate these changes will have a material affect to its consolidated financial statements.

Transition to International Financial Reporting Standards

The Corporation is required to report its financial results in accordance with IFRS from January 1, 2011, the changeover date set by Accounting Standards Board (AcSB). IFRS compliant comparative financial information for one year will be required on the effective date, therefore the transition date for adoption of IFRS is January 1, 2010.

Good project management practices are essential for a successful transition. The Corporation's management team provides quarterly status updates to the Audit Committee of the Board of Directors. The Corporation is participating in industry groups to share and gain knowledge regarding IFRS as it applies to the oil and gas drilling services industry. Key financial management personnel have also participated in various IFRS training sessions to help ensure the appropriate knowledge level of financial reporting personnel.

A preliminary diagnostic assessment conducted by the Corporation has highlighted five key areas of expected influence to financial reporting of the Corporation, namely: (1) capital assets: (a) componentization; (b) accounting policy choice on initial adoption; and (c) asset qualification criteria; (2) financial statement disclosure; (3) asset impairments; (4) joint ventures; and (5) IFRS 1 "First Time Adoption of International Financial Reporting Standards" ("IFRS 1"). It has not yet been determined how income tax standards under IFRS will affect the Corporation's financial reporting process. With respect to the key areas of impact to the Corporation's financial reporting process, the following is a status update:

Capital Assets

Componentization - Under IFRS, each separate component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Canadian GAAP provides no guidance on the cost of a component and the replacement of components, and is less specific than IFRS about the level at which component accounting is required. Under Canadian GAAP, the Corporation depreciated each major asset as one item. As an example, under Canadian GAAP the Corporation depreciates an entire drilling rig as one item whereas under IFRS the Corporation has preliminarily identified five separate components which will be depreciated using the unit of production method but with depreciation lives applicable to the relevant component. The Corporation is currently evaluating the effect of this change on its

information technology. The change to componentization policy is not expected to have a significant effect on depreciation expense.

Accounting policy choice - Under IFRS, an entity can choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. The Corporation has opted for the cost model for recognition and measurement of ongoing asset transactions after its adoption of IFRS in 2011. In addition to the above accounting policy choice, IFRS 1 grants an optional election, whereby an entity can measure the carrying amount of an item of property, plant and equipment at the date of transition on the basis of fair value, to alleviate the need to rebuild historical records of property, plant and equipment as if IFRS provisions had always been used by the Corporation. The Corporation is currently considering whether to use the fair value election on adoption.

Asset qualification criteria - Under IFRS, the qualification criterion for capital expenditure has now been expanded beyond betterment to include all material costs whereby future economic benefits will flow to the entity. Effectively, this requirement redefines the Corporation's policy with respect to capital versus repairs and maintenance. The existing policy prohibits the replacement of existing equipment unless it qualifies as betterment. IFRS will require the Corporation to capitalize replacement parts and service costs except those that pertain to the day-to-day operation of the asset.

Financial Statement Disclosure

With IFRS and Canadian GAAP both being principle based frameworks, there are minimal differences in the general principles for preparation of financial statements. However there are differences between classification of items and nature and extent of notes disclosures required under IFRS. IFRS prescribes minimum content requirements for balance sheet (called Statement of Financial Position) and also requires classification of expenses as either by nature or by function. The Corporation is currently reviewing the detailed requirements for presentation of financial statements under IFRS.

Impairments

The definition of an asset group under Canadian GAAP and IFRS is a key difference between the two standards. Under IFRS, a cash-generating unit (CGU) is the smallest group of assets that generates cash inflows from continuing use that largely are independent of the cash inflows of other assets or groups thereof. As a result of this, impairment testing under IFRS will be performed at a lower level in the entity as compared to Canadian GAAP. The Corporation's individual assets do not have independent cash flows and there is a high degree of interchangeability between individual assets. Therefore, under IFRS the Corporation anticipates assessing impairment by grouping assets in various categories with each category defined as a CGU. There are a number of other differences between the actual impairment test under Canadian GAAP and IFRS. The most significant difference is that the asset impairment under IFRS test is one step based and it is discounted. The Corporation has not finalized an impairment test model. The new impairment model will first be used for testing asset impairment at the date of transition.

IFRS 1 – First Time Adoption

Generally on first time adoption of IFRS, an entity is required to retrospectively apply all IFRS standards. The process to restate all Canadian GAAP accounting records since inception of the entity into IFRS would be an enormous task. Recognizing this major impediment to adopting IFRS, the standard setters developed IFRS 1. This standard provides some relief from the full retrospective application in the form of mandatory and optional exemptions. The Corporation is considering IFRS 1 elections and once identified complete calculations to determine the effect on the financial statements.

Joint Ventures

In September 2007, the IASB issued Exposure Draft 9 - Joint Arrangements ("ED 9") which set out proposals to replace IAS 31 - Interests in Joint Ventures. The current timeline is for the IASB to complete this project in the second part of 2010. If ED 9 is adopted into IFRS, it may have an effect on the Corporation's accounting treatment for its 50% interest in DCM. Based on the current proposed ED 9, it is expected that the Corporation will be required to account for its interest in DCM using the equity method of accounting, which differs from the current method under GAAP, proportionate consolidation. The final effects, if any, of ED 9 on the Corporation's financial statements cannot be determined until the IASB finalizes their decision.

Income Taxes

In October 2009, after reviewing the numerous comment letters received from the constituents, the International Accounting Standards Board (IASB) decided not to finalize the income tax exposure draft into a new Income Taxes standard. Therefore, it is currently anticipated that the existing IAS 12 – Income Taxes standard will be applicable to the Corporation at adoption of IFRS. An impact assessment of differences between incomes taxes under Canadian GAAP and IFRS has been completed and is currently being analyzed to address the identified differences.

RISKS AND UNCERTAINTIES

There are a number of risk factors facing the Corporation. A summary of certain risk factors relating to the Corporation's business is in the Annual Information Form filed with SEDAR, available at www.sedar.com and incorporated herein by reference. Also refer to the cautionary statement regarding "Forward-Looking Information".

Financial Instruments Risks

Credit risk arises from the potential that a counterparty will fail to meet its obligations. The Corporation is normally exposed to credit risk through its accounts receivable balances. The Corporation manages credit risk by assessing the credit worthiness of its customers before providing services and on an ongoing basis as well as monitoring the amount and age of balances outstanding. The Corporation views credit risks on its accounts receivable as normal for the industry. The Corporation does not have any accounts receivable at March 31, 2010 that are believed uncollectible. The Corporation's cash is deposited with two Canadian chartered banks and management believes the risk of credit loss is remote.

The Corporation is exposed to interest rate risk on its floating rate bank debt. The Corporation monitors its interest rate exposure and has the ability to enter into economic hedges on its interest bearing bank debt, but has not done so to date. The Corporation believes that a 1% interest rate change during the next 12 month reporting period would be reasonably possible. During 2010, a 1% change in the interest rate on the outstanding $14,750 of bank debt would increase (decrease) net and comprehensive loss by $150.

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

	2010
Cash	$ (2)
Accounts receivable	3,988
Accounts payable	(2,814)
Net U.S. dollar exposure	$ 1,172
Effect of plus (minus) 5% change in the U.S. dollar to Canadian dollar exchange rate on net loss	$ (59)

With operations commencing in Mexico during the fourth quarter of 2009, it is expected the Corporation will be exposed to fluctuations in the Mexican peso relative to the Canadian dollar. At March 31, 2010, the Corporation was not exposed to significant foreign currency risk on its financial instruments related to the Mexican peso.

Liquidity Risks

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

Significant Customer Risks

During the quarter ended March 31, 2010, two customers, one each in the United States and Mexico divisions of the Corporation’s foreign operating segment, provided 100% of the Corporation’s total operating revenue in the foreign operating segment. In management’s opinion, the future viability of the Corporation is not dependent upon these significant customers. Included in accounts receivable at March 31, 2010 due from these customers is $3,542.

FORWARD LOOKING INFORMATION

This MD&A contains forward-looking information pertaining to the effect of performance based integrated services contracts on revenue, operating expenses and gross margins; the startup of a second service rig in Mexico; the continuation of the start-up phase of operations in Mexico and U.S.; the expected increase in G&A in 2010; estimated capital costs to complete construction activities; capital upgrades and recertification for the Corporation’s drilling rig fleet; the seasonality of the Corporation’s operating results and the effect of its United States and Mexico operations on the seasonality of operations; in the “Outlook” section increased activity and better rates in the Permian Basin of Texas; application of Canadian drilling techniques in Mexico; our expected growth and outlook; the drilling industry’s outlook; and that the economic recovery in 2010 in the drilling industry will be magnified for companies that can drill deep horizontal wells; pertaining to fluctuations in interest rates and to U.S. dollar and Mexican Peso exchange rates in the “Financial Instruments Risks” section; and the Corporations expectations regarding existing credit facilities and cash flow from operating activities in the “Liquidity Risks” section. This forward-looking information involves material assumptions and known and unknown risks and uncertainties, certain of which are beyond the Corporation’s control. Those assumptions include: the assumption that the jurisdictions in which we operate will experience low to moderate economic growth in 2010; there will be a modest recovery in the drilling industry in 2010;

and our customer's capital programs will be focused on deeper wells in 2010. Further, there are risk factors and uncertainties that could affect the Corporation's actual results performance or achievements to differ materially from the forward-looking information, including the risks set out in the "Risks and Uncertainties" section and risks associated with: loss of markets; delays resulting from our inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources; general economic conditions in Canada, the United States and Mexico; lack of qualified personnel or management; fluctuations in foreign exchange or interest rates; and stock market volatility. 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.