

SECOND QUARTER REPORT



HIGHLIGHTS

- Closed Totem business acquisition at the end of the second quarter adding 5 heavy duty double drilling rigs to our fleet, all currently operating in the Bakken area of south east Saskatchewan
- Closed bought deal financing raising gross proceeds of \$29.7 million in equity at \$2.70 per share and positioning CanElson for further growth
- Strong international operations result in break even net income during the traditionally slow Canadian Q2 spring break up
- Canadian rig fleet operated with a 36% utilization compared to an industry average utilization of 20%
- Operating drilling rig fleet increased to 14 (net: 13) and 1 (net: 0.5) service rig

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

At August 4, 2010

This Management's Discussion and Analysis ("MD&A") for CanElson Drilling Inc. and all of its subsidiaries and joint venture company ("CanElson" or the "Corporation") should be read in conjunction with: (1) the unaudited June 30, 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 and Saskatchewan. 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 second quarter of 2010, the Corporation continued to grow its rig fleet and expanded into an additional oil drilling focused area with the acquisition of Saskatchewan based Totem Drilling Ltd. ("Totem") on June 9, 2010 for consideration of \$8,300 cash, funded by a \$10,000 private placement in Totem prior to closing on June 9, 2010, and the issuance of 11,888 shares to Totem shareholders. Also in connection with the Totem acquisition, the Corporation renegotiated its bank facility agreements increasing the total available financing by \$20,000 to \$40,000 comprised of a \$35,000 committed long term facility and \$5,000 operating line.

Totem's five heavy duty double drilling rigs, and the current drilling rig under construction, are similar in style and capability to the existing CanElson drilling rig fleet which has the ability to efficiently drill resource play wells. The Totem drilling rigs contributed 46 days (55% utilization since acquisition June 9, 2010) to drilling operations in Canada during the second quarter and it is expected the effect of Totem operations will begin to have a significant effect on the Corporation's operations commencing in the third quarter.

The Corporation also announced and closed an equity offering (the "offering") during the second quarter raising \$29,700 at a share price of \$2.70 per share. The capital raised strengthened the Corporation's balance sheet and the Corporation had no outstanding bank debt at June 30, 2010, which provides the Corporation with significant available capital which will assist the Corporation in its continued expansion of drilling operational capability.

In addition to the significant corporate activity occurring during the second quarter, the Corporation began to see continued operational efficiencies in west Texas and Mexico where it is currently operating under performance based contracts. The improvement in operational efficiencies in its foreign operating segment provided for a significant contribution to break even second quarter earnings when much of the Canadian rig fleet was down for spring break-up and generally wet conditions. The Corporation believes that it can continue to improve the operational efficiencies of its foreign operating segment and expects increased activity in Canada during the third quarter with the Canadian rig fleet fully committed and operations at present only stopping for wet conditions.

At the date of this MD&A, the Corporation was operating or has committed for the operation of 9 drilling rigs in the WCSB, 3 drilling rigs in west Texas, 2 (net: 1) drilling rigs and 2 (net: 1) service rigs in the Ebano-Panuco-Cacalilao fields of the Misantla-Tampico Basin of Mexico.

FINANCIAL HIGHLIGHTS

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	change	2010	2009	change
Revenue	\$11,096	\$0	nm	\$22,711	\$2,981	662%
EBITDA (i)	\$1,059	(\$491)	nm	\$2,603	\$921	183%
Net income (loss)	\$11	(\$564)	nm	\$318	\$130	145%
Net income (loss) per share						
Basic	\$0.00	(\$0.02)	nm	\$0.01	\$0.03	-67%
Diluted	\$0.00	(\$0.02)	nm	\$0.01	\$0.03	-67%
Funds flow (ii)	\$751	(\$477)	nm	\$2,140	\$990	116%
Weighted average shares outstanding	29,932	26,100	15%	29,887	26,328	14%

At June 30, 2010 and December 31, 2009	2010	2009	change
Current assets	\$16,777	\$7,826	114%
Total assets	\$114,782	\$54,540	110%
Accounts payable and accrued liabilities	\$7,621	\$7,283	5%
Current portion of bank debt	\$0	\$935	-100%
Bank debt	\$0	\$4,065	-100%

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 June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Income (loss) before taxes	\$ 25	\$ (685)	\$ 589	\$ 318
Interest expense (income)	188	(14)	283	(69)
Depreciation	769	4	1,605	238
Stock-based compensation	167	204	303	434
Foreign exchange loss (gain)	(90)	-	(48)	-
Gain on disposal of property and equipment	-	-	(129)	-
EBITDA	\$ 1,059	\$ (491)	\$ 2,603	\$ 921

- (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 June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Operating cash flow	\$ 9,440	\$ 138	\$ 5,101	\$ 2,305
Changes in working capital	(8,689)	(615)	(2,961)	(1,315)
Funds flow	\$ 751	\$ (477)	\$ 2,140	\$ 990

Q2 2010 compared with Q2 2009

Net income for the second quarter 2010 of \$11 (0.00 per share) improved from a net loss of \$564 (\$0.02 per share) in 2009. Year-to-date net income was \$318 (\$0.01 per share) compared to net income of \$130 (\$0.01 per share) in 2009. Improved income is a function of a number of factors including strengthening in demand for oilfield services and expanded operations.

During the three and six months of 2010, CanElson had an average of 8.1 and 6.9 drilling rigs, respectively, available for operation including 3.9 and 2.8 drilling rigs, respectively, operating in its foreign operating segment which operated at substantially full utilization for the six month period ended June 30, 2010. This compares to approximately two drilling rigs operating in Canada during the comparative periods with no operational activity in the second quarter of 2009, as a result, the Corporation's comparative 2009 periods operational results vary significantly from the 2010 operational results.

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 June 30,			Six months ended June 30,		
	2010	2009	Change	2010	2009	Change
Revenue						
Domestic	\$ 3,392	\$ -	nm	\$ 10,560	\$ 2,981	254%
Foreign	7,704	-	nm	12,151	-	nm
	11,096	-	nm	22,711	2,981	254%
Operating expenses						
Domestic	3,077	68	4425%	8,261	1,363	506%
Foreign	5,781	-	nm	9,619	-	nm
	8,858	68	12926%	17,880	1,363	1212%
Gross margin	\$ 2,238	\$ (68)	nm	\$ 4,831	\$ 1,618	199%
Gross margin %	20%	nm	nm	21%	54%	78%
Operating days (spud to rig release)	(i) 417.9	114	267%	885.4	114	677%
Revenue per operating day (Domestic)	\$ 20.56	\$ -	nm	\$ 22.00	\$ 25.92	-15%
Revenue per operating day (Foreign)	\$ 30.46	\$ -	nm	\$ 30.00	\$ -	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 was recorded during the three month period ended June 30, 2010 compared to nil revenue for the comparative period. Year over year increase in revenue is a result of a significant increase in operational activity resulting from a larger fleet size and stronger utilization, offset by lower revenue per operating day in Canada.

The Corporation achieved a gross margin of 20% during the second quarter of 2010 and there was no comparative figure for Q2 2009. Stronger margins in foreign operations were offset by weaker margins in Canada. Weak margins in Canada are primarily a result of costs associated with starting up rigs after spring break up and significant wet conditions causing inefficient start and stop operating conditions. Stronger gross margins in foreign operations were a result of overall lower operating costs and operating efficiencies. Prospectively, management believes gross margins in Canada will increase to more normalized levels in a consistent operating environment and foreign operations gross margin levels may continue to improve with continued operating efficiencies.

Domestic Segment

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	2010	2009	Change
Drilling rigs						
Opening balance	4	2		4	1	
Construction	-	-		-	1	
Acquisition	5	-		5	-	
Ending Balance	9	2	350%	9	2	350%
Operating days (spud to rig release)	165	0	nm	480	115	nm
Utilization	37%	0%	nm	59%	33%	nm

For the three and six months ended June 30, 2010 the Corporation acquired 5 drilling rigs with the acquisition of Totem. No rigs under construction were completed during the periods then ended, but the Corporation is constructing one additional rig in south east Saskatchewan. The Corporation will continue to assess corporate and asset acquisition opportunities that would fit with its existing rig fleet.

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.

Foreign Segment

		Three months ended June 30,			Six months ended June 30,		
		2010	2009	Change	2010	2009	Change
Drilling rigs							
Opening balance		4	-		2	-	
Construction		-	-		2	-	
Drilling rigs	(i)	4	-	nm	4	-	nm
Operating days (spud to rig release)	(ii)	253	-	nm	405	-	nm
Utilization		93%	0%	nm	94%	0%	nm

- (i) Ending balance of drilling rigs in the foreign operating segment includes gross 2 (net: 1) subcontracted drilling rigs operating in Mexico
- (ii) Operating days includes only those operating days for the Corporation's owned drilling rigs and excludes the subcontracted 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 to west Texas in January 2010. In March 2010 the construction of the third United States drilling rig was completed for deployment in April 2010. 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. West Texas operations continued to improve during the second quarter.

The Corporation's Mexico joint venture DCM continued to improve operational efficiencies. The availability of one service rig for the full second quarter helped contribute to improved operational efficiencies of the drilling rigs. The Corporation believes operations in Mexico can continue to improve, although all improvements will require significant consultation with the customer and ultimately acceptance by PEMEX. The Corporation believes that any long term growth prospects to be obtained by the Corporation from Mexico will require continued efforts in working to optimize performance of drilling operations to the benefit of both the Corporation and our customer.

DEPRECIATION

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	2010	2009	Change
Depreciation	\$ 769	\$ 4	19125%	\$ 1,605	\$ 238	574%

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 three and six months ended June 30, 2010 compared to the same periods during 2009.

GENERAL & ADMINISTRATION

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	2010	2009	Change
General & Administration	\$ 1,179	\$ 423	179%	\$ 2,228	\$ 697	220%
Percent of revenue	11%	nm		10%	23%	

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

STOCK BASED COMPENSATION

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	2010	2009	Change
Stock based compensation	\$ 167	\$ 204	-18%	\$ 303	\$ 434	-30%

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

INTEREST EXPENSE (INCOME)

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	2010	2009	Change
Interest expense (income)	\$ 188	\$ (14)	nm	\$ 283	\$ (69)	nm

The Corporation earns interest income on its cash and pays interest expense on its bank indebtedness. During the three and six months ended June 30, 2010, the Corporation paid interest expense as a result of substantial financing activities related to bank debt compared to the comparative periods 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 June 30,			Six months ended June 30,		
	2010	2009	Change	2010	2009	Change
Gain on disposal of property and equipment	\$ -	\$ -	nm	\$ 129	\$ -	nm

During the first quarter of 2010, the Corporation sold a 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.

INCOME TAXES

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	2010	2009	Change
Current	\$ 169	\$ -	nm	\$ 223	\$ -	nm
Future	(155)	(121)	28%	48	188	-74%
Income taxes	\$ 14	\$ (121)	nm	\$ 271	\$ 188	44%

The Corporation has operations in three jurisdictions and is affected by tax rates in Canada, the United States and in Mexico. To date, the Corporation has not paid any current income taxes; however, the Corporation for the three and six months ended June 30, 2010 has accrued current tax expense of \$169 and \$223, respectively, related to operations of its foreign segment. The Corporation has recognized a future income tax expense of \$48 for the six months ended June 30 and a future income tax reduction primarily related to its Canadian operations. The Corporation has recognized a valuation allowance against certain of its future tax assets as there is uncertainty as to the timing and reversal of the related future tax assets.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows Relating to Operating Activities and Working Capital

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	2010	2009	Change
Funds flow	\$ 751	\$ (477)	-257%	\$ 2,140	\$ 990	116%
Changes in working capital	8,689	615	1313%	2,961	1,315	125%
Operating cash flow	\$ 9,440	\$ 138	6741%	\$ 5,101	\$ 2,305	121%

The Corporation provides and uses cash flows from operating activities from the operation of drilling rigs. Funds flow from operations and operating cash flow increased significantly for the three and six months ended June 30, 2010 compared to the same periods of 2009. This is due to increased operating activity in all jurisdictions.

At June 30, 2010, the Corporation had a positive net working capital position (current assets less current liabilities) of \$9,156 (December 31, 2009: positive \$543). In addition, the Corporation had available an operating loan with an estimated \$5,000 (December 31, 2009: \$2,700) available to fund operating activities. The significant increase in the working capital position is a result of expanded operations in the domestic and foreign operating segment, acquisition of Totem completed on June 9, 2010 and the equity financing completed on June 29, 2010.

Cash Flows Relating to Financing Activities

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	2010	2009	Change
Increase in bank debt	\$ -	\$ -	nm	\$ 10,000	\$ -	nm
Repayment of bank debt	(26,167)	-	nm	(26,417)	-	nm
Issue of share capital (net of costs)	27,946	-	nm	28,046	-	nm
Financing cash flow	\$ 1,779	\$ -	nm	\$ 11,629	\$ -	nm

During the three months ended June 30, 2010 the Corporation assumed bank debt liabilities from the Totem acquisition of \$10,747, which was subsequently fully repaid in connection with the Corporation's outstanding bank debt bank financing from proceeds of the equity offering completed on June 29, 2010. The Corporation did not generate any additional cash flows from financing activities during the comparative three and six month periods ended June 30, 2010. Also during the first six months of 2010, \$100 was received from proceeds on the exercise of stock options.

At June 30, 2010 the Corporation has outstanding 49,126 common shares, 900 warrants and 1,758 options, each convertible into one common share. At August 4, 2010 the Corporation had 1,330 exercisable options and warrants, which if exercised would provide financing cash flows of \$2,479 for the Corporation. At the date of this MD&A the Corporation has outstanding 49,126 common shares, 900 warrants and 1,821 options,

each convertible into one common share.

At June 30, 2010, the Corporation has \$nil (December 31, 2009: \$5,000) bank debt outstanding and available undrawn capacity of \$35,000 (December 31, 2009: \$10,000) on its committed credit and \$5,000 (December 31, 2009: \$2,700) on its operating line. Management believes these available credit facilities will provide the capital necessary to undertake current capital projects expected for the remainder of 2010 (see *Contractual Obligations*) and additional capital necessary for further growth.

Facility	Available Amount	Balance	Current Portion	Interest rate per annum	Maturity date
Operating loan	\$ 5,000 (i)	\$ -	\$ -	(ii)	due on demand
Revolving loan	35,000	\$ -	\$ -	(iii)	(iv)

- (i) Available amount is the lesser of \$5,000 or 75% of accounts receivable less than 90 days. Based on accounts receivable at June 30, 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) Principal and interest paid on a monthly basis, based on a 5 year amortization. Unless otherwise extended, following the Revolving Loan maturity date, currently June 30, 2011, the outstanding balance shall be capped and repaid over the following 1 year, based on the monthly principal

At June 30, 2010, the Corporation was in compliance with its bank covenants.

Cash Flows Relating to Investing Activities

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	2010	2009	Change
Purchase of property & equipment	\$ (1,878)	\$ (279)	573%	\$ (8,961)	\$ (5,519)	62%
Proceeds on disposition of property and equipment	-	-	nm	650	-	nm
Use of funds for business acquisition	(8,929)	-	nm	(8,929)	-	nm
Changes in non-cash working capital	-	(1,293)	-100%	219	(2,193)	-110%
Investing cash flow	\$ (10,807)	\$ (1,572)	473%	\$ (17,021)	\$ (7,712)	-48%

The Corporation initiates and manages the construction of drilling rigs and at June 30, 2010 the Corporation was committed or expects to commit to complete construction activities and undertake various capital upgrades for its drilling rig fleet. The Corporation has committed to various capital expenditures as described in *Contractual Obligations*.

During the first three and six months of 2010 the Corporation incurred \$1,878 and \$8,961 (2009: \$279; and \$5,519), respectively, of cash capital expenditures related to rig construction and capital upgrades. The Corporation had previously disclosed second quarter capital expenditures of \$1,250, and the current quarter's capital expenditures exceed the previous estimate primarily due to CanElson incurring \$500 on the construction of Rig #16 (a project commenced by Totem prior to closing of the Totem acquisition) and \$303 of costs incurred in relation Rig #10 recertification (a rig acquired in the Totem acquisition). Capital expenditures for the six month ended June 30, 2010 approximated previous estimates of \$9.3 million.

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)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commitments	(ii)	111	180	107	89	-	-	487
Total		\$ 111	\$ 180	\$ 107	\$ 89	\$ -	\$ -	\$ 487

(i) At June 30, 2010, the Corporation had no bank debt outstanding. The Corporation expects it will make draws on its available credit facility, at which time the Corporation would be committed to make repayments on its bank debt facility in accordance with the terms of the Corporation's lending arrangements as described in *Cash Flows Related to Financing Activities*.

(ii) Includes office premises and vehicle lease payments.

In addition to the above contractual maturities, the Corporation has remaining and incremental capital commitments of: (a) \$6,500 for the completion of construction of Rig #16 for a total estimated cost of \$7,300 and expected deployment in Saskatchewan at the end of the third quarter; (b) \$4,500 for various rig equipment, including two top drives, expected for use in the fourth quarter of 2010, loaders and other rig equipment; (c) \$1,600 for land and buildings in Nisku which is expected to improve the construction and operational capabilities of the Corporation; and (d) \$400 for other general capital requirements. The Corporation expects to use all of the capital assets in Canada and to incur these capital expenditures over the remainder of 2010. The Corporation is also committed to the sub-contract of 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		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	
Revenue	\$11,096	\$11,615	\$3,021	\$629	\$ Nil	\$2,981	\$477	\$ Nil	
EBITDA	\$1,059	\$1,544	\$45	(\$168)	(\$491)	\$1,412	(\$168)	(\$1)	
Net income (loss)	\$11	\$307	(\$236)	(\$295)	(\$564)	\$694	\$13	(\$1)	
Net income (loss) per share	\$0.00	\$0.01	(\$0.01)	(\$0.01)	(\$0.02)	\$0.03	\$ Nil	\$ Nil	
Funds flow	\$751	\$1,389	\$45	(\$97)	(\$477)	\$1,467	\$152	\$1	
Current assets	\$16,777	\$14,402	\$7,826	\$17,212	\$17,510	\$19,724	\$24,500	\$439	
Total assets	\$114,782	\$66,639	\$54,540	\$43,946	\$43,986	\$45,805	\$45,400	\$439	
Accounts payable and accrued liabilities	\$7,621	\$8,176	\$6,348	\$630	\$546	\$2,005	\$3,007	\$28	
Current portion of bank debt	\$0	\$6,250	\$935	\$0	\$0	\$0	\$0	\$0	
Bank debt	\$0	\$8,500	\$4,065	\$0	\$0	\$0	\$0	\$0	
Weighted average diluted shares outstanding	29,932	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 particular within 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. The Corporation's foreign operations are expected to have year round utilization and therefore

help mitigate the effects of seasonality; however, given 75% of the Corporation's owned drilling rig fleet is based in Canada, seasonality is still expected to affect the Corporation's quarterly results.

The Corporation's foreign operations helped minimize the effects of seasonality of the Corporation's operations during the second quarter by generating approximately 70% of the Corporation's second quarter revenues and leading CanElson to break even net income levels, strong second quarter EBITDA and funds flow of \$1,059 and \$751, respectively. This compares to the first quarter of 2010 where domestic operations generated 62% of revenue and was a primary contributor to net income of \$307, EBITDA of \$1,544 and funds flow of \$1,389. The Corporation expects that the third quarter will see increased operating activity in Canada along with continued operating efficiencies in the US and Mexico.

OUTLOOK

The global economy showed signs of weakness again in the second quarter with high debt levels weighing heavily on markets and consumer optimism. Indications are that governments may continue with current levels of stimulus spending which may help support a stable level of economic activity, but might have a negative effect on the long term outlook as debt levels of governments continue to rise. During the second quarter, oil prices per barrel traded below \$70 and showed volatility with prices also rising above \$85 during the quarter. We believe current price levels will support high drilling activity levels in south east Saskatchewan, central Alberta and the US. Natural gas prices remain low and there remain significant diverging views as to what the 2010, and beyond, outlook for natural gas prices will be.

At present we are expanding our Canadian drilling rig fleet by one drilling rig and adding related rig equipment which should help provide the Corporation with additional earnings opportunity. Although the weather in the second quarter was extremely wet, we continued to see an increase in customer demand and modest upward pressure on day rates for our rigs which 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. Continued expansion of the Canadian operations may occur either by way of construction, acquisition or under both methods. The Corporation's approach to growth will be dependent upon a number of factors including the availability of similar style rigs by way of acquisition relative to the cost the Corporation can construct the rigs.

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 metres. 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 268 rigs for July 2010 compared with 82 active rigs in June 2009. Although at present we do not have any firm commitments for expanding our US rig fleet, 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.

In a period of only nine months the Corporation has grown from two drilling rigs operating in Canada to 14 drilling rigs operating across three jurisdictions each providing opportunities for further deployment of capital. With a strong balance sheet able to take advantage of future opportunities we expect to continue to grow our domestic and foreign operating capabilities. Critical to our growth will be the continued dedication of our

experienced drilling crews, management team and board of directors, along with a continued resolve to focus on expansion of our already modern purpose built drilling rig fleet and a firm resolve for Aboriginal relationships and Aboriginal workers.

FINANCIAL INSTRUMENTS

Financial instruments 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 three month period ended June 30, 2010 the Corporation incurred \$262 (2009 - \$69) of fees included in share issue costs (\$121), general and administrative expenses (\$45) and Totem transaction costs (\$96) relating to professional services provided by a law firm of which one of the Corporation's directors is a partner. For the six month period ended June 30, 2010 the Corporation incurred \$335 (2009 - \$79) of fees included in share issue costs (\$121), general and administrative expenses (\$118) and Totem transaction costs (\$96) relating to professional services provided by a law firm of which one of the Corporation's directors is a partner. At June 30, 2010 \$263 (2009 - \$10) was included within accounts payable and accrued liabilities.

During the three month period ended June 30, 2010 the Corporation provided an officer of the Corporation with a \$161 relocation loan. The terms of the loan are unsecured, non-interest bearing and repayable in September 2010.

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

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Application of critical accounting estimates

The significant accounting policies used by the Corporation are disclosed in the audited financial statements for the year ended December 31, 2009 and disclosed below in *new accounting policies adopted during 2010*. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstance may result in actual results or changes to estimated amounts that differ materially from current estimates.

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.

Acquisition of Totem

In determining the consideration for the Totem acquisition, the Corporation considered the publicly traded price before and after the announcement date on May 25, 2010 as an indication of fair value and determined that the due to extremely low quantities traded during the evaluation period, the quoted market price of shares issued to effect the business combination is not representative of their fair value. In determining the fair value consideration of the shares issued management reviewed and considered a number of observable factors including, private placement transactions undertaken by Totem concurrent with the acquisition and the cash consideration election offered to Totem shareholders.

New accounting policies adopted during 2010

Goodwill

Goodwill is the amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Corporation's reporting segments that are expected to benefit from the business combination.

Goodwill is not amortized and is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps.

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 June 30, 2010, the Corporation does not anticipate these changes will have a material affect to its consolidated financial statements. The changes to section 1582 will affect how the Corporation accounts for acquisition costs in relation to the business acquisition completed on June 9, 2010.

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 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 basis of depreciation for drilling rig and equipment will continue to be on a unit of production basis; however, it will change as follows:

Current Canadian GAAP Basis for Depreciation

Drilling rig equipment: 4,200 days; 20% Salvage
Drill pipe and drill collars: 1,500 days; 20% Salvage

Preliminary IFRS Basis for Depreciation

Drilling rig components: 2,500 – 5,000 days; 20% Salvage
Drill pipe and drill collars: 1,500 days; 20% Salvage

The Corporation has made a preliminary assessment of the financial effect on the Company's financial statements and this assessment has determined the depreciation expense will not materially change, nor would there have been a material financial effect on the Corporation's depreciation expense for the three and six months ended June 30, 2010. The Corporation has not yet determined the most effective matter to implement componentization of its capital assets into its accounting system which will meet both IFRS requirements and internal reporting requirements of its operations staff. Implementation is expected to occur in the third and fourth quarters of 2010.

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 has opted to not use the fair value election and is rebuilding historical cost records under IFRS provisions.

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

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. Examples of how the income statement line items are currently presented in the Corporation's financial statements and how this might change is presented below:

Canadian GAAP	IFRS (Classification by Nature)	IFRS (Classification by Function)
Operating revenue	Revenue	Operating revenue
Drilling rig sales	Expenses:	<u>Operating expenses</u>
Expenses:	Wages and salaries	Gross profit
Operating expenses	Repairs and maintenance	
Cost of sales	Raw materials and consumables	Drilling rig sales
General & administrative	Interest	Cost of sales
Depreciation	Depreciation	<u>Gross profit</u>
Interest expense	Other Expense	
Stock based compensation		Administrative costs
<u>Total expenses</u>	<u>Total expenses</u>	<u>Other expense</u>
Net income before tax	Net income before tax	Net income before tax

IFRS income statement classification by nature or function will differ from the Corporation's current presentation under Canadian GAAP and therefore certain measures some readers currently use to review the Corporation's financial performance will not be the same when compared to the current financial statements.

The Corporation is currently reviewing the detailed requirements for presentation, including a determination of presentation of the income statement, of financial statements under IFRS. It is anticipated sample financial statements will be drafted during the remainder of the year and a determination regarding various presentation matters will be made.

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's has not finalized an impairment test model. The new impairment model will first be used for testing asset impairment at the date of transition.

Accounting for Share Based Transactions on Business Acquisitions

Management has made a preliminary assessment of IFRS 2 on the acquisition of Totem in determining the appropriate fair value of the consideration offered. Management's preliminary assessment is that there would be no change in the estimate of fair value of the consideration.

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 has identified the IFRS 1 elections and is completing the calculations to estimate the impact 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 there 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

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 June 30, 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.

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	\$ 1,558
Accounts receivable	6,421
Accounts payable	(4,048)
Net U.S. dollar exposure	<u>\$ 3,931</u>
Effect of plus (minus) 5% change in the U.S. dollar to Canadian dollar exchange rate on net loss	<u>\$ 197</u>

With operations commencing in Mexico during the year, it is expected the Corporation will be exposed to fluctuations in the Mexican peso relative to the Canadian dollar. At June 30, 2010, the Corporation was not exposed to significant foreign currency risk on its financial instruments related to the Mexican peso.

Liquidity

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 is expected to be greater than anticipated capital expenditures and the contractual maturities of the Corporation's financial liabilities for 2010. This expectation could be adversely affected by a material negative change in the oil and gas services business in North America.

Significant Customer

During the period ended June 30, 2010, three customers, two in the United States and one in Mexico 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 June 30, 2010 due from these customers is \$6,421.

Regulatory and Industry

The Corporation continues to monitor events in the Gulf of Mexico and the effect those events might have on the regulatory and business environment in which the Corporation operates.

FORWARD LOOKING INFORMATION

This MD&A contains forward-looking information pertaining to the effect of Totem operations on the Corporation's operations in the third quarter; the intended expansion of drilling operational capability; long term growth prospects; management's belief that gross margins in Canada will increase to more normalized levels; the Corporation's belief that it can continue to improve the operational efficiencies of its foreign operating segment and its expected increased activity in Canada during the third quarter; the expected increase in G&A in 2010; capital expenditures for the remainder of 2010 and expected construction completion dates; 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 Corporation's 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 cause 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.

CANELSON DRILLING INC.
UNAUDITED CONSOLIDATED BALANCE SHEETS

At June 30, 2010 and December 31, 2009
(Stated in thousands of Canadian dollars)

	2010	2009
ASSETS		
Current assets:		
Cash	\$ 3,768	\$ 4,059
Accounts receivable	12,728	3,594
Prepaid expenses and deposits	146	173
Inventory	135	-
	<u>16,777</u>	<u>7,826</u>
Property and equipment (Note 5)	92,114	46,337
Future income tax asset (Note 7)	-	377
Goodwill (Note 4)	<u>5,891</u>	<u>-</u>
	<u>\$ 114,782</u>	<u>\$ 54,540</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,621	\$ 6,348
Current portion of bank debt (Note 6)	-	935
	<u>7,621</u>	<u>7,283</u>
Bank debt (Note 6)	-	4,065
Future income tax liability (Note 7)	<u>2,745</u>	<u>-</u>
	<u>10,366</u>	<u>11,348</u>
Commitments (Note 13)		
Business acquisition (Note 4)		
Shareholders' equity		
Share capital (Note 8)	103,162	42,375
Contributed surplus (Note 9)	1,304	1,205
Accumulated other comprehensive income	20	-
Deficit	<u>(70)</u>	<u>(388)</u>
	<u>104,416</u>	<u>43,192</u>
	<u>\$ 114,782</u>	<u>\$ 54,540</u>

See accompanying notes to these consolidated financial statements

CANELSON DRILLING INC.
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
AND RETAINED EARNINGS (DEFICIT)**

<i>(Stated in thousands of Canadian dollars - except per share data)</i>	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Drilling revenue	\$ 11,096	\$ -	\$ 22,711	\$ 2,981
Expenses:				
Operating	8,858	68	17,880	1,363
General and administrative	1,179	423	2,228	697
Depreciation	769	4	1,605	238
Stock based compensation	167	204	303	434
Interest expense (income)	188	(14)	283	(69)
Foreign exchange gain	(90)	-	(48)	-
Gain on disposal of property and equipment	-	-	(129)	-
	<u>11,071</u>	<u>685</u>	<u>22,122</u>	<u>2,663</u>
Income before income taxes	<u>25</u>	<u>(685)</u>	<u>589</u>	<u>318</u>
Income tax:				
Current tax expense	169	-	223	-
Future tax expense (reduction)	(155)	(121)	48	188
	<u>14</u>	<u>(121)</u>	<u>271</u>	<u>188</u>
Net income (loss)	\$ 11	\$ (564)	\$ 318	\$ 130
Retained earnings (deficit), beginning of period	(81)	707	(388)	13
Retained earnings (deficit), end of period	<u>\$ (70)</u>	<u>\$ 143</u>	<u>\$ (70)</u>	<u>\$ 143</u>
Net income (loss) per share (Note 14)				
Basic and diluted	\$ -	\$ (0.02)	\$ 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**

<i>(Stated in thousands of Canadian dollars - except per share data)</i>	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Net income (loss)	\$ 11	\$ (564)	\$ 318	\$ 130
Foreign currency translation adjustment	41	-	20	-
Net and comprehensive income (loss)	<u>\$ 52</u>	<u>\$ (564)</u>	<u>\$ 338</u>	<u>\$ 130</u>
Accumulated other comprehensive income (loss) beginning of period	\$ (21)	\$ -	\$ -	\$ -
Foreign currency translation adjustment	41	-	20	-
Accumulated other comprehensive income end of period	<u>\$ 20</u>	<u>\$ -</u>	<u>\$ 20</u>	<u>\$ -</u>

See accompanying notes to these consolidated financial statements

CANELSON DRILLING INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Stated in thousands of Canadian dollars - except per share data)</i>	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Operating activities				
Net income (loss) for the period	\$ 11	\$ (564)	\$ 318	\$ 130
Adjustment for items not affecting cash:				
Gain on sale of equipment	-	-	(129)	-
Unrealized foreign exchange gain	(41)	-	(5)	-
Stock based compensation	167	204	303	434
Depreciation	769	4	1,605	238
Future tax expense (reduction)	(155)	(121)	48	188
	<u>751</u>	<u>(477)</u>	<u>2,140</u>	<u>990</u>
Changes in non-cash working capital balances:				
Accounts receivable	9,859	682	2,648	1,078
Prepaid expenses and deposits	(209)	98	(221)	94
Inventory	(13)	-	(135)	411
Accounts payable and accrued liabilities	(948)	(165)	669	(268)
	<u>9,440</u>	<u>138</u>	<u>5,101</u>	<u>2,305</u>
Financing activities				
Increase in bank debt	-	-	10,000	-
Repayment of bank debt	(26,167)	-	(26,417)	-
Issuance of share capital (net of costs)	27,946	-	28,046	-
	<u>1,779</u>	<u>-</u>	<u>11,629</u>	<u>-</u>
Investing activities				
Purchase of property and equipment	(1,878)	(279)	(8,961)	(5,519)
Proceeds on disposition of property and equipment	-	-	650	-
Business acquisition (Note 4)	(8,929)	-	(8,929)	-
Changes in non-cash working capital balances	-	(1,293)	219	(2,193)
	<u>(10,807)</u>	<u>(1,572)</u>	<u>(17,021)</u>	<u>(7,712)</u>
Increase (decrease) in cash	412	(1,434)	(291)	(5,407)
Cash, beginning of period	<u>3,356</u>	<u>18,744</u>	<u>4,059</u>	<u>22,717</u>
Cash, end of period	<u>\$ 3,768</u>	<u>\$ 17,310</u>	<u>\$ 3,768</u>	<u>\$ 17,310</u>
Supplementary cash flow information:				
Interest paid	\$ 188	\$ -	\$ 283	\$ -
Interest received	-	14	-	69

See accompanying notes to these consolidated financial statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 and 2009

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

1. INCORPORATION AND NATURE OF BUSINESS

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

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 preparing the December 31, 2009 audited consolidated financial statements except for those noted below. 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 consideration and allocation of the purchase price of business acquisition, 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.

Effective during the three months ended June 30, 2010 the Corporation adopted the following accounting policy:

Goodwill

Goodwill is the amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Corporation’s reporting segments that are expected to benefit from the business combination.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

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 June 30, 2010, the Corporation does not anticipate the changes to Section 1601 and 1602 will have a material affect on its consolidated financial statements. The changes to section 1582 will affect how the Corporation accounts for acquisition costs in relation to the business acquisition completed on June 9, 2010 (see note 4).

4. BUSINESS ACQUISITION

On June 9, 2010 (the “acquisition date”), the Corporation acquired all the issued and outstanding shares of Totem Drilling Ltd. (“Totem”) for cash and share consideration. The aggregate consideration for the Totem acquisition consists of the following:

Shares issued (11,888,499 shares @ \$2.70 per share)	\$ 32,099
Cash	8,289
Transaction costs	640
Total consideration for the Acquisition	\$ 41,028

The acquisition has been accounted for using the purchase method of accounting with an effective date of June 9, 2010, whereby the assets acquired and the liabilities assumed are recorded at their fair values with any excess of the aggregate consideration over the fair value of the identifiable net assets allocated to goodwill. In determining the consideration for the Totem acquisition, the Corporation considered the publicly traded price before and after the announcement date on May 25, 2010 as an indication of fair value and determined that due to extremely low quantities traded during the evaluation period, the quoted market price of shares issued to effect the business combination is not representative of their fair value. In determining the fair value consideration of the shares issued management reviewed and considered a number of observable factors including, private placement transactions undertaken by Totem concurrent with the acquisition and the cash consideration election offered to Totem shareholders.

As of the acquisition date, Totem’s operating results have been included in Corporation’s revenues, expenses and capital spending. The following summarizes the allocation of the aggregate consideration for the Totem acquisition:

Purchase Price Allocation:	
Net working capital surplus	\$ 11,122
Rigs and equipment	37,845
Land and buildings	1,100
Future tax liability	(3,513)
Bank debt	(11,417)
Goodwill	5,891
	\$ 41,028

The allocations and determination of the consideration described above are preliminary and subject to changes upon final adjustments. These adjustments may include, but are not limited to, future income tax balance adjustments on the filing of Totem’s tax return, working capital adjustments on respective balances acquired, adjustments to the consideration, transaction cost adjustments for actual costs incurred.

5. PROPERTY & EQUIPMENT

2010	Cost	Accumulated Depreciation	Net Book Value
Deposits on rig equipment	\$ 67	\$ -	\$ 67
Rigs and accessories	93,123	2,137	90,986
Rigs under construction	1,006	-	1,006
Office furniture and equipment	81	26	55
Total	\$ 94,277	\$ 2,163	\$ 92,114

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.

6. BANK DEBT

Facility	Available Amount	Balance	Current Portion	Interest rate per annum	Maturity date
Operating loan	\$ 5,000 ⁽ⁱ⁾	\$ -	\$ -	(ii)	due on demand
Revolving loan	35,000	\$ -	\$ -	(iii)	(iv)

- (i) Available amount is the lesser of \$5,000 or 75% of accounts receivable less than 90 days. Based on accounts receivable at June 30, 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) Principal and interest paid on a monthly basis, based on a 5 year amortization. Unless otherwise extended, following the Revolving Loan maturity date, currently June 30, 2011, the outstanding balance shall be capped and repaid over the following 1 year, based on the monthly principal payments then in effect, with the remaining outstanding balance payable in full at maturity of the 1 year period.

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 June 30, 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 quarterly with the first period for testing commencing December 31, 2010, funded debt to EBITDA must not exceed 2.5:1 commencing December 31, 2010. For purposes of the covenant calculation, funded debt equals the aggregate of all outstanding loans, interest bearing liabilities, capital leases and any other obligations of the Corporation on a consolidated basis which constitutes debt in accordance with GAAP, excluding accounts payable and other short term non-interest bearing liabilities and future income taxes, determined on a consolidated basis in accordance with GAAP.

For purposes of the covenant EBITDA equals the consolidated income of the Corporation before deducting interest, income taxes, extraordinary items (which for purposes of this calculation, includes all one time costs incurred in connection with the disposition of assets, including the disposition of shares of subsidiaries, outside of the ordinary course of business and the restructuring of the Corporation), depreciation, amortization and all non-cash charges (including stock based compensation, asset impairments, losses on fixed asset disposals and

6. BANK DEBT (continued)

foreign exchange losses); all determined in accordance with GAAP; provided that in respect of each company which has become a subsidiary of the Corporation in the immediately preceding twelve month period, the determination of EBITDA shall include the net income of such company. Where a company has ceased to be a subsidiary of the Corporation in the immediately preceding twelve month period, EBITDA shall be determined for the period as if the company was not a subsidiary of the Corporation during such fiscal period.

7. INCOME TAXES

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Income (loss) before taxes	\$ 25	\$ (685)	\$ 589	\$ 318
Income tax rate	28.0%	29.0%	28.0%	29.0%
Expected income tax	7	(199)	165	92
Increase (decrease) resulting from:				
Rate reduction on future income taxes	(18)	\$ (1)	(23)	(10)
Non-deductible stock-based compensation	47	\$ 43	85	110
Other	(22)	\$ 36	(26)	-
Change in valuation allowance	-	\$ -	70	(4)
Total income tax	\$ 14	\$ (121)	\$ 271	\$ 188

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

	June 30, 2010	December 31 2009
Share issue costs	\$ 883	\$ 406
Non-capital loss carry-forwards	1,618	32
Property and equipment	(5,147)	4
Other	22	(15)
Valuation allowance	(121)	(50)
Net future income tax asset (liability)	\$ (2,745)	\$ 377

The Corporation has available for deduction against future taxable income non-capital losses of approximately \$6,002, 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 partially 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.

8. 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 June 30, 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
Issued on acquisition of Totem (Note 4)	11,888	\$ 32,099
Issued for cash June 29, 2010 financing	11,000	\$ 29,700
Cost associated with shares issued, net of future tax benefit of \$439	-	\$ (1,315)
Balance June 30, 2010	49,126	103,162

On June 29, 2010 the Corporation closed an equity financing with a syndicate of underwriters whereby the Corporation issued 11.0 million common shares at a price of \$2.70 per common share for aggregate gross proceeds of approximately \$29.7 million.

(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 June 30, 2010 and the changes for the period then ended, is as follows:

8. 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 granted to employees	\$2.70	148	\$ 2.70
Options exercised	\$2.00	(40)	\$ 2.00
Options exercised	\$0.20	(98)	\$ 0.20
Options forfeited	\$1.95	(17)	\$ 1.95
Outstanding at June 30, 2010	\$0.20 - \$3.00	1,758	\$ 1.73

Range of Exercise Prices	Total Outstanding			Exercisable	
	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number	Weighted Average Price
<u>Employees, executive and directors</u>					
\$ 0.20	273	\$ 0.20	1.45	26	\$ 0.20
\$ 1.60 - 3.00	1,385	2.15	1.71	304	2.15
<u>Agent Options</u>					
\$ 0.20	100	0.20	0.24	100	0.20
	1,758	\$ 1.73	1.67	430	\$ 1.58

Subsequent to June 30, 2010, the Corporation granted 63 options to a director with an exercise price of \$2.65 and an expected life of four years.

8. SHARE CAPITAL (continued)

(d) Warrants

Range of Exercise Prices	Number	Total Outstanding		Exercisable	
		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number	Weighted Average Price
<u>Agent Warrants</u>					
\$ 2.00	900	\$ 2.00	0.44	900	2.00

(e) Stock Based Compensation

For the three and six month periods ended June 30, 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 June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Risk-free interest rate	1.34% - 2.58%	1.69% - 2.44%
Expected life of options	.5 - 4 years	4 years
Annualized volatility	50 - 58.8 %	32%
Dividend rate	0%	0%

The estimated fair value of the options granted during the period was \$351 (2009: \$97) 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 and six months ended June 30, 2010, the Corporation purchased 18 shares at an average price of \$2.90 per share and 25 shares at an average price of \$2.93 per share respectively under the Plan.

9. CONTRIBUTED SURPLUS

A summary of changes in contributed surplus for the six months ended June 30, 2010 is as follows:

Balance December 31, 2009	\$ 1,205
Stock based compensation	303
Stock options exercised	(204)
Balance June 30, 2010	\$ 1,304

10. 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:

Three months ended June 30, 2010	Domestic	Foreign	Total
Revenue	\$ 3,392	\$ 7,704	\$ 11,096
Property and equipment, net ⁽ⁱ⁾	69,319	22,795	92,114
Capital expenditures, net	2,022	(147)	1,875
Depreciation	311	458	769

Six months ended June 30, 2010	Domestic	Foreign	Total
Revenue	\$ 10,560	\$ 12,151	\$ 22,711
Property and equipment, net ⁽ⁱ⁾	69,319	22,795	92,114
Capital expenditures, net	2,096	6,341	8,437
Depreciation	863	742	1,605

(i)
 At June 30, 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 periods, all operations were conducted in the domestic operating segment. On June 9, 2010 \$38,945 of property and equipment in the domestic segment was acquired through a business acquisition (see note 4).

11. SIGNIFICANT CUSTOMERS

During the period ended June 30, 2010, three customers, two in the United States and one in Mexico 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 June 30, 2010 due from these customers is \$6,421.

12. FINANCIAL RISK MANAGEMENT

(a) Capital Management

The Corporation defines capital as the Corporation's shareholders' equity and bank debt, which at June 30, 2010 was \$104,416 (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 6.

(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 June 30, 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.

12. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit Risk

The Corporation's accounts receivable aging is as follows:

	June 30, 2010	December 31, 2009
Within 30 days	\$ 5,488	\$ 3,413
31 to 60 days	3,450	41
61 to 90 days	2,760	81
Over 90 days	1,030	59
Allowance for doubtful accounts	-	-
Accounts receivable	<u>\$ 12,728</u>	<u>\$ 3,594</u>

Included in the accounts receivable balance is a \$161 relocation loan and \$8 expense advance to an officer of the Corporation (see note 15).

(c) Liquidity Risk

At June 30, 2010, the Corporation had net working capital (current assets less current liabilities) of \$9,156 and had available approximately \$5,000 on its operating loan (note 6). At June 30, 2010, the Corporation was committed to various financial obligations (note 13) 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 6), and maintaining unused credit facilities where possible to ensure there are available cash resources to meet the Corporation's liquidity needs..

(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 currently does not have any outstanding bank debt and therefore is not subject to interest rate exposure.

12. FINANCIAL RISK MANAGEMENT (continued)

(d) Market Risk (continued)

ii) Foreign currency risk (continued)

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.

The Canadian equivalent U.S. dollar denominated balances at June 30, 2010 and related effect of a 5% fluctuation in foreign exchange rates are presented below:

	2010
Cash	\$ 1,558
Accounts receivable	6,421
Accounts payable	(4,048)
Net U.S. dollar exposure	<u>\$ 3,931</u>
Effect of plus (minus) 5% change in the U.S. dollar to Canadian dollar exchange rate on net loss	<u>\$ 197</u>

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 June 30, 2010, the Corporation was not exposed to significant foreign currency risk on its financial instruments related to the Mexican peso.

iii) 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.

13. COMMITMENTS

The following are the commitments and contractual maturities of the Corporation's financial liabilities at June 30, 2010:

	2010	2011	2012	2013	2014	Thereafter	Total
Bank debt (i)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commitments (ii)	111	180	107	89	-	-	487
Total	\$ 111	\$ 180	\$ 107	\$ 89	\$ -	\$ -	\$ 487

(i) At June 30, 2010, the Corporation had no bank debt outstanding. The Corporation expects it will make draws on its available credit facility, at which time the Corporation would be committed to make repayments on its bank debt facility in accordance with the terms of the Corporation's lending arrangements..

(ii) Includes office premises and vehicle lease payments

In addition to the above contractual maturities, the Corporation has remaining and incremental capital commitments of: (a) \$6,500 for the completion of construction of one rig; (b) \$4,500 for various rig equipment; (c) \$1,600 for land and buildings; and (d) \$400 for other general capital requirements. The Corporation would expect to incur these capital expenditures over the remainder of 2010. The Corporation is also committed to the sub-contract of 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.

14. 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 earnings (loss) per share is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Weighted average common shares	29,102	26,100	27,618	26,100
Effect of stock options and warrants	829	0	785	226
Balance, period end	29,931	26,100	28,403	26,326

For the three and six month periods ended June 30, 2010, the above table excludes 949 options (2009: 2,249 and 2,021, respectively) that are considered anti-dilutive.

15. RELATED PARTY TRANSACTIONS

For the three month period ended June 30, 2010 the Corporation incurred \$262 (2009 - \$69) of fees included in share issue costs (\$121), general and administrative expenses (\$45) and Totem transaction costs (\$96) relating to professional services provided by a law firm of which one of the Corporation's directors is a partner. For the six month period ended June 30, 2010 the Corporation incurred \$335 (2009 - \$79) of fees included in share issue costs (\$121), general and administrative expenses (\$118) and Totem transaction costs (\$96) relating to professional services provided by a law firm of which one of the Corporation's directors is a partner. At June 30, 2010 \$263 (2009 - \$10) was included within accounts payable and accrued liabilities.

During the three month period ended June 30, 2010 the Corporation provided an officer of the Corporation with a \$161 relocation loan. The terms of the loan are unsecured, non-interest bearing and repayable in September 2010.

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.

16. JOINT VENTURE

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

As and the for the periods ended June 30	Three Months 2010	Six Months 2010
Current assets	\$ 3,911	\$ 3,911
Current liabilities	2,168	2,168
Revenue	2,419	4,052
Expenses	2,053	3,575
Operating cash flow	(421)	(371)
Financing cash flow	-	-
Investing cash flow	(49)	(60)

During November 2009 the joint venture commenced operations and therefore there are no comparatives for the six months ended June 30, 2009.