



AUDITED ANNUAL FINANCIAL STATEMENTS
FOR THE PERIOD ENDING DECEMBER 31, 2008



Deloitte & Touche LLP
3000 Scotia Centre
700 Second Street S.W.
Calgary AB T2P 0S7
Canada

Tel: (403) 267-1700
Fax: (403) 264-2871
www.deloitte.ca

Auditors' Report

*To the Shareholders of
CanElson Drilling Inc.*

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

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

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

Calgary, Alberta
April 15, 2009

Deloitte & Touche LLP
Chartered Accountants

CANELSON DRILLING INC.
BALANCE SHEET

December 31,
2008

ASSETS

Current Assets

Cash and cash equivalents	\$ 22,716,596
Accounts receivable	1,190,172
Prepaid expenses and deposits	181,647
Inventory (Note 4)	411,000
	<hr/> 24,499,415

Property and equipment (Note 6)

20,899,841

\$ 45,399,256

LIABILITIES

Current Liabilities

Accounts payable and accrued liabilities

\$ 3,005,671

Commitments (Note 9)

SHAREHOLDERS' EQUITY

Share capital (Note 7) 41,891,924

Contributed surplus (Note 8) 488,476

Retained Earnings

13,185

42,393,585

\$ 45,399,256

On behalf of the Board:

Director Signed "Elson J. McDougald"

Director Signed "Randy Hawkings"

See accompanying notes to these financial statements

CANELSON DRILLING INC.
STATEMENT OF OPERATIONS, COMPREHENSIVE INCOME
AND RETAINED EARNINGS

For the initial six month period ended December 31, 2008

	2008
Drilling revenue	\$ 477,148
Operating expenses	222,545
	254,603
Drilling rig sales	-
Cost of sales	-
	-
	254,603
Expenses:	
General and administrative	422,652
Stock based compensation	98,776
Depreciation	39,705
	561,133
Loss before the undernoted	(306,530)
Other income	
Interest income	319,715
Income before income taxes	13,185
Income Taxes (Note 10):	
Current	-
Future	-
	-
Net and comprehensive income and retained earnings	\$ 13,185
Net Income per share	
Basic and diluted	\$ -

See accompanying notes to these financial statements

CANELSON DRILLING INC.
STATEMENT OF CASH FLOWS

For the initial six month period ended December 31, 2008

	2008
Cash flows relating to the following activities:	
Operating activities	
Net income for the period	\$ 13,185
Adjustment for items not affecting cash:	
Stock based compensation	98,776
Depreciation	39,705
	151,666
Changes in non-cash working capital balances:	
Accounts receivable	(1,180,727)
Prepaid expenses and deposits	(181,647)
Inventory	(411,000)
Accounts payable and accrued liabilities	336,081
	(1,285,627)
Financing	
Issuance of share capital	44,000,002
Share issuance costs	(1,995,673)
	42,004,329
Investing	
Reverse takeover transaction (Note 2)	396,859
Purchase of property and equipment	(17,481,761)
Accounts payable and accrued liabilities	2,540,581
Deposits on capital assets	(3,457,785)
	(18,002,106)
Increase in cash and cash equivalents during the period	22,716,596
Cash and cash equivalents, beginning of period	-
Cash and cash equivalents, end of period	\$ 22,716,596
Cash and cash equivalents consist of:	
Cash	\$ 22,496,826
Short term deposits	219,770
	\$ 22,716,596

See accompanying notes to these financial statements

CANELSON DRILLING INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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 and is engaged in the manufacture and (i) sale and (ii) operation of drilling rigs for the oil and gas industry. Pursuant to the reverse takeover described in Note 2, the Corporation's name was changed to CanElson Drilling Inc.

2. REVERSE TAKEOVER ("RTO")

On October 7, 2008 the Corporation and CanElson Drilling Inc. ("CanElson"), a capital pool company, entered into an amalgamation agreement whereby the Corporation and CanElson agreed to amalgamate in accordance with the provisions of the ABCA (the "Amalgamation Agreement").

A special meeting of the Corporation was held on December 9, 2008 where the shareholders voted to approve the Amalgamation Agreement and the transaction was completed. 4,100,000 shares of the amalgamated entity were issued to CanElson's shareholders and, for accounting purposes, the Corporation was considered the acquirer.

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

Fair value of net assets acquired:

Cash	\$396,859
Non-cash working capital deficiency	<u>(119,564)</u>
	<u>\$277,295</u>

Allocated as follows to:

Shares	\$266,495
Agent's options	<u>10,800</u>
	<u>\$277,295</u>

The options assumed have been valued as part of the corporation's stock based compensation plan (Note 7).

CANELSON DRILLING INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments in the form of deposits with the Corporation's chartered bank and with original maturities of three months or less.

(b) Inventory

The Corporation's inventory includes drilling rigs and related equipment constructed or under construction, or purchased for sale to third parties. Inventory is valued at the lower of cost and estimated net realizable value.

(c) Revenue Recognition

Revenue from the sale of drilling rigs is recognized when title passes to the customer.

Revenue from contract drilling is recognized upon delivery of service to customers and only when collection is reasonably assured. The customer contract terms do not include a provision for post-delivery obligations.

(d) Property, Equipment and Depreciation

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is determined using the straight-line method beginning in the month of acquisition, except for drilling rigs and related equipment which are depreciated based on the number of expected drilling days.

- Drilling rigs and equipment 1,500 to 4,200 drilling rig days (20% salvage value)
- Office furniture and equipment 3 years on a straight-line basis

Costs related to equipment under construction are capitalized when incurred. No depreciation is provided on assets under construction.

CANELSON DRILLING INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment of Long-Lived Assets

Long-lived assets are tested for impairment whenever circumstances indicate that the carrying amount may not be recoverable. When events or circumstances indicate that the carrying amount is not recoverable, the long-lived assets are tested for impairment by comparing the estimate of undiscounted future expected cash flows to the carrying amount of the assets or groups of assets. If the carrying amount is not recoverable from undiscounted future expected cash flows, the loss is measured as the amount by which the asset's carrying amount exceeds estimated fair value and is recorded in the period.

(g) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates at the balance sheet date and non-monetary assets and liabilities are translated at historical exchange rates. Foreign currency income and expenses are translated at average exchange rates prevailing throughout the period. All unrealized and realized gains and losses are included in income.

(h) Capital Disclosures

Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, "Capital Disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure requirements with respect to the entity's objectives, policies and processes for managing capital, the quantitative data related to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance. The additional disclosure has been included in Note 5 of these financial statements.

(i) Financial Instruments

The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable. Cash is designated as "held for trading" and measured at fair value, with gains and losses recorded in income, accounts receivable is classified as loans and receivables and is measured at amortized cost, and accounts payable are classified as "other financial liabilities" and measured at amortized cost. It is management's opinion that the Corporation is not exposed to significant interest, currency or credit risk arising from these financial instruments. The fair value of these financial instruments approximates their carrying amounts given the short term to maturity.

CANELSON DRILLING INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Deferred Costs

Direct costs relating to a proposed issuance of shares are deferred. Costs are charged to share capital upon issuance of shares. In the event that the share issuance does not occur, costs are charged to earnings in that period.

(k) Income Taxes

The Corporation utilizes the asset and liability method to account for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the financial reporting and income tax bases of assets and liabilities, measured using substantively enacted income tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

(l) Earnings Per Share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the treasury stock method, giving effect to the exercise of all dilutive factors. The treasury stock method assumes that any proceeds that could be obtained upon the exercise of options and warrants would be used to purchase common shares at the average market price during the period.

(m) Stock Based Compensation

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

(n) Measurement Uncertainty

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

CANELSON DRILLING INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Recently Issued Accounting Pronouncements

Goodwill, Intangible Assets and Financial Statement Concepts

The CICA has issued a new accounting standard, Section 3064 “Goodwill and Intangible Assets”, which clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset. As a result, start-up costs must be expensed as incurred. Section 1000 “Financial Statement Concepts”, was also amended to provide consistency with this new standard. The new and amended standards are effective for the Corporation beginning January 1, 2009. The Corporation is currently assessing the effects of these standards on its financial statements.

In January 2009, the CICA issued three new accounting standards for Section 1582, Business Combinations, Section 1601, and Consolidated Financial Statements, and Section 1602, Non-controlling interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. Section 1582 replaces Section 1581, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3 – Business Combinations. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace 1600 – Consolidated Financial Statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 – Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

International Financial Reporting Standards (“IFRS”)

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

CANELSON DRILLING INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

4. INVENTORY

	<u>2008</u>
Surplus drilling rig related equipment for resale, at cost	<u>\$411,000</u>

No inventories were pledged as security for the period ended December 31, 2008. For the period ended December 31, 2008, no writedown of inventory to net realizable value was required and no amounts were expensed.

5. CAPITAL MANAGEMENT

The Corporation's objective when managing capital is to safeguard its ability to continue as a going concern given the cyclical nature of the oil and gas services business and provide adequate returns for shareholders. The Corporation defines capital as the Corporation's shareholders' equity which as at December 31, 2008 was \$42,393,585. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares or obtain debt financing. The Corporation is not currently subject to any externally imposed capital requirements.

6. PROPERTY & EQUIPMENT

	<u>December 31, 2008</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Deposits on rigs	\$3,457,785	-	\$3,457,785
Rigs and accessories	7,803,029	37,694	7,765,335
Rigs under construction	9,636,028	-	9,636,028
Office furniture and equipment	<u>42,704</u>	<u>2,011</u>	<u>40,693</u>
Total	<u>\$20,939,546</u>	<u>\$39,705</u>	<u>\$20,899,841</u>

Rigs under construction are not depreciated.

CANELSON DRILLING INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

7. SHARE CAPITAL

Authorized

The authorized share capital of the Corporation consists of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares, issuable in series, none of which are issued or outstanding as of December 31, 2008.

Issued Common Shares

	<u>Number Of shares</u>	<u>Share Capital</u>
Shares issued for cash	4,000,001	\$8,000,002
Shares issued for cash	18,000,000	36,000,000
Issued on reverse takeover (Note 2)	4,100,000	266,495
Share issue costs	<u> </u>	<u>(2,374,573)</u>
Balance as at December 31, 2008	<u>26,100,001</u>	<u>\$41,891,924</u>

In July 2008, 4,000,001 common shares were issued at \$2.00 per share for proceeds of \$8,000,002.

During August 2008, the Corporation completed three private placements at \$2.00 per common share for gross proceeds of \$36,000,000 and issued 18,000,000 common shares. Pursuant to a related agency financing agreement 900,000 agent's warrants were issued with an exercise price of \$2.00 per share which expire on December 9, 2010 and have a fair value of \$378,900 based on the Black Scholes option pricing model using the following assumptions:

Risk-free interest rate	3.70%
Expected life of options	2 Years
Annualized volatility	32%
Dividend rate	0%

As part of the reverse takeover (note 2) agent options were assumed for the purchase 100,000 common shares at a price of \$0.20 per share with an expiry date of September 24, 2010 and have a fair value of \$10,800 based on the Black Scholes option pricing model using the following assumptions:

Risk-free interest rate	4.75%
Expected life of options	2 Years
Annualized volatility	32%
Dividend rate	0%

CANELSON DRILLING INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

7. SHARE CAPITAL (continued)

Stock Options

On September 9, 2008, the Corporation adopted an incentive stock option plan, which provides that the Board of Directors of the Corporation may from time to time, at its discretion, grant to directors, officers, employees and consultants to the Corporation non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Corporation. Such options will be exercisable for a period of up to five years from the date of grant. Vesting terms will be determined at the time of grant by the Board of Directors.

672,000 options were issued to directors, officers and employees of the Corporation at an exercise price of \$2.00 per share and an expiry date of September 8, 2012. The options vest at a rate of 1/3 on each of the first three anniversary dates of the option grant. In addition, 40,000 options were issued to a director and an officer at an exercise price of \$2.00 per share with an expiry date of September 8, 2010 and which vest on September 9, 2009.

Stock options granted to officers and directors by CanElson to acquire 410,000 common shares at a price of \$0.20 per share with an expiry date of September 18, 2012 were exchanged for equivalent options in the Corporation. The options vest at a rate of 1/3 on each of the first three anniversary dates of the option grant.

A summary of the Corporation's outstanding stock options and warrants as at December 31, 2008 is as follows:

<u>Instrument</u>	<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Common Shares</u>	<u>Options/Warrants Exercisable</u>
Options	Sep 8, 2012	\$2.00	672,000	-
Options	Sep 8, 2010	\$2.00	40,000	-
Options	Sep 18, 2012	\$0.20	<u>410,000</u>	-
			1,122,000	
Agent Options	Sep 24, 2010	\$0.20	100,000	100,000
Agent Warrants	Dec 9, 2010	\$2.00	<u>900,000</u>	<u>900,000</u>
			<u>2,122,000</u>	<u>1,000,000</u>

Stock Based Compensation

During the period, stock based compensation costs in the amount of \$98,776 were recorded in the Statement of Operations, Comprehensive Income and Retained Earnings related to the stock options issued to directors and officers. Costs of \$378,900 related to the Agent's Warrants and Options were included in share issue costs.

CANELSON DRILLING INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

7. SHARE CAPITAL (continued)

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

Risk-free interest rate	3.70 %
Expected life of options	2 - 4 years
Annualized volatility	32 %
Dividend rate	0%

The fair value of the options and warrants granted in the period was \$1,186,098 and will be recognized as an expense over the vesting periods of the options in the future .

8. CONTRIBUTED SURPLUS

Continuity of contributed surplus:

Stock based compensation	98,776
Agent's warrants	378,900
Agent's options assumed on RTO (Note 2)	<u>10,800</u>
Balance – end of period	<u>\$488,476</u>

9. COMMITMENTS

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

2009	\$150,278
2010	\$150,278
2011	\$107,380
2012	\$107,380
2013	\$89,483

10. SIGNIFICANT CUSTOMERS

During the six months ended December 31, 2008, one customer provided 100% of the Corporation's total revenue which is included in accounts receivable as at December 31, 2008.

CANELSON DRILLING INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

11. FINANCIAL RISK MANAGEMENT

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

Credit Risk

Credit risk arises from the potential that a counterparty will fail to meet its obligations. The Corporation is exposed to credit risk through its accounts receivable balance which is currently due from one customer operating in the oil and gas industry and is not past due at December 31, 2008. Management assesses the credit worthiness of its customers on an ongoing basis, as well as monitoring the amount and age of balances outstanding. The Corporation's policy is to enter into agreements with customers that are well established and well-financed entities in the oil and gas industry such that the level of credit risk is mitigated and, accordingly, the Corporation views the credit risks as normal for the industry. The Corporation's cash is deposited with a Canadian chartered bank and management believes the risk of loss is remote.

The Corporation makes an assessment quarterly if there is any impairment of its financial assets. During the period ended December 31, 2008 there was no impairment allowance recognized on financial assets.

Liquidity Risk

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

Market Risk

a) Interest rate risk

The Corporation is presently not exposed to interest rate risk.

b) Foreign currency risk

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

c) Price risk

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

CANELSON DRILLING INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

12. INCOME TAXES

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

	2008
Income for the period	<u>\$ 13,185</u>
Federal and Provincial statutory rate	<u>29.5%</u>
Expected income tax expense	\$ 3,890
Non-deductible stock based compensation	29,139
Effect of tax rate changes	(5,038)
Recognition of unrecognized future tax assets	<u>(27,990)</u>
Total income tax recovery	<u>\$ -</u>

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

	2008
Future income tax assets and liabilities:	
Share issue costs	\$ 553,646
Non-capital loss carry-forwards	166,134
Property and equipment	<u>(137,164)</u>
	582,615
Valuation allowance	<u>(582,615)</u>
Net future income tax assets and liabilities	<u>\$ -</u>

The Corporation has available for deduction against future taxable income non-capital losses of approximately \$664,534. These losses, if not utilized will expire through to 2026. Future tax benefits which may arise as a result of these non-capital losses and share issue costs have not been recognized in these 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 for the tax asset to be realized.

13. EARNINGS PER SHARE

Basic and diluted earnings per share have been calculated based on the net earnings divided by the weighted average number of common shares outstanding for the period ended December 31, 2008. The weighted average number of common shares basic and diluted is 18,668,637 and 20,236,450 respectively.

CANELSON DRILLING INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

14. RELATED PARTY TRANSACTIONS

During the period, the Corporation incurred \$227,000 of expenses included in share issue costs and \$32,918 in general and administration expense for a total of \$260,192 relating to professional services provided by a law firm of which one of the Corporation's directors is a partner. \$47,233 of the total amount remains in accounts payable as at December 31, 2008.

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

CANELSON DRILLING INC.

MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE PERIOD ENDED DECEMBER 31, 2008

The following discussion and analysis should be read in conjunction with the audited financial statements of the Corporation for the period ended December 31, 2008.

DATE

This management's discussion and analysis ("MD&A") is dated April 17, 2009 and is in respect of the period ended December 31, 2008 and discusses the operating and financial results for the initial six-month period ended December 31, 2008. Estimates and forward-looking information are based on assumptions of future events and actual results may vary from these estimates.

OVERALL PERFORMANCE

CanElson Drilling Inc. (formerly EMR Drilling Inc.) (the "Corporation" or "CanElson") was incorporated under the Business Corporations Act (Alberta) ("ABCA") on June 30, 2008 and is engaged in the manufacture and (i) sale and (ii) operation of drilling rigs for the oil and gas industry. Pursuant to the reverse takeover described below the Corporation's name was changed to CanElson Drilling Inc.

In July 2008, 4,000,001 shares were issued at \$2.00 per share for proceeds of \$8,000,002. During August 2008, the Corporation completed three private placements at \$2.00 per share totaling gross proceeds of \$36,000,000 and issued 18,000,000 common shares. Pursuant to a related agency financing agreement 900,000 agent's warrants were issued with an exercise price of \$2.00 per share.

The Corporation signed a letter of intent on September 25, 2008 with a public company to amalgamate. The public company, CanElson Drilling Inc. ("CanElson"), was a Capital Pool Company listed on the TSX Venture Exchange. On October 7, 2008 the Corporation and CanElson entered into an Amalgamation Agreement whereby the Corporation and CanElson agreed to amalgamate in accordance with the provisions of the ABCA (the "Amalgamation Agreement"). Pursuant to the Amalgamation Agreement, the Corporation and CanElson would amalgamate to form Amalco which would carry on business under the name "CanElson Drilling Inc.". All of the issued and outstanding securities of the Corporation would be exchanged for corresponding Amalco securities on a one-for-one basis and all of the issued and outstanding CanElson securities would be exchanged for corresponding Amalco securities on a one-for-one basis and be accounted for as a reverse takeover.

A special meeting of the Corporation was held on December 9, 2008 where the shareholders voted to approve the Amalgamation Agreement and the transaction was completed.

At December 31, 2008, the Corporation had completed construction of one drilling rig with an additional two rigs under construction. The first drilling rig was completed around mid-December and went to work in the field immediately after construction was complete.

SELECTED FINANCIAL INFORMATION

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

	December 31 2008
Total Operating Revenue	\$ 477,148
Net and Comprehensive Income	\$ 13,185
Basic and Diluted Income per Share	\$ Nil
Total assets	\$ 45,399,256
Total accounts payable & accrued liabilities	\$ 3,005,671
Total Long Term Liabilities	\$ -
Weighted Average Number of Shares Outstanding	18,668,637

The quarterly financial information follows:

	<u>Three Months Ended</u>	
	December 31, 2008	September 30, 2008
Total Operating Revenue	\$ 477,148	\$ Nil
Net and Comprehensive Income (loss)	\$ (73,171)	\$ 86,356
Income Per Share	\$ Nil	\$ 0.006
Total Assets	\$ 45,399,256	\$ 42,826,442
Total Liabilities	\$ 3,005,671	\$ 656,344

RESULTS OF OPERATIONS

As at December 31, 2008, the Corporation was operating one drilling rig with an additional two under construction. For the six month period ended December 31, 2008, the Corporation recorded net and comprehensive income of \$13,185.

OUTSTANDING SHARE DATA

As at December 31, 2008, the Corporation had 26,100,001 common shares outstanding.

In July 2008, 4,000,001 shares were issued at \$2.00 per share for proceeds of \$8,000,002.

During August 2008, the Corporation completed three private placements at \$2.00 per share totaling gross proceeds of \$36,000,000 and issued 18,000,000 common shares. Pursuant to a related agency financing agreement 900,000 agent's warrants were issued with an exercise price of \$2.00 per share which expire on September 24, 2010.

Activities of Canelson prior to reverse takeover

On June 30, 2008, CanElson issued 2,600,000 common shares for cash consideration of \$260,000 and on August 8, 2008, 500,000 common shares were issued for cash consideration of \$100,000.

On September 19, 2008 CanElson closed a Public Offering (the "Offering") pursuant to a prospectus filed with the securities regulatory authorities in each of the provinces of Alberta, British Columbia, Saskatchewan, Manitoba and Ontario and with the TSX Venture Exchange dated September 9, 2008. CanElson issued 1,000,000 common shares at a price of \$0.20 per share. Pursuant to an Agency Agreement between the Corporation and Lightyear Capital Inc. (the "Agent"), the Corporation appointed the Agent as its agent for the Offering. The Agent was also granted a non-transferable Agent's Option to purchase 100,000 common shares at a price of \$0.20 per common share, which expires on September 24, 2010.

Stock Options and Warrants

On September 9, 2008, the Corporation adopted an incentive stock option plan, which provides that the Board of Directors of the Corporation may from time to time, at its discretion, grant to directors, officers, employees and consultants to the Corporation, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Corporation. Such options will be exercisable for a period of up to five years from the date of grant. Vesting terms will be determined at the time of grant by the Board of Directors.

On September 9, 2008, 672,000 options were issued to directors, officers and employees of the Corporation at an exercise price of \$2.00 per share and an expiry date of September 8, 2012. The options vest at a rate of 1/3 on each anniversary date of the option grant. In addition, 40,000 options were issued to a director and an officer at an exercise price of \$2.00 per share with an expiry date of September 8, 2010 which vest on September 9, 2009.

Stock options granted to officers and directors by CanElson to acquire 410,000 common shares at a price of \$0.20 per share with an expiry date of September 18, 2012 were exchanged for equivalent options in the Corporation. The options vest at a rate of 1/3 on each anniversary date of the option grant. The stock options were qualified under the Prospectus dated September 9, 2008 and were approved and distributed concurrent with the completion of the Offering.

A summary of the Corporation's outstanding stock options and warrants as at December 31, 2008 are as follows:

<u>Instrument</u>	<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Number</u>	<u>Options/Warrants Exercisable</u>
Option	Sep 8, 2012	\$2.00	672,000	-
Option	Sep 8, 2010	\$2.00	40,000	-
Option	Sep 18, 2012	\$0.20	<u>410,000</u>	-
			1,122,000	
Agent Option	Sep 24, 2010	\$0.20	100,000	100,000
Agent Warrants	Sep 24, 2010	\$2.00	<u>900,000</u>	<u>900,000</u>
			<u>2,122,000</u>	<u>1,000,000</u>

LIQUIDITY

As at December 31, 2008, the Corporation had net working capital of \$21,493,744 comprised of cash and cash equivalents, prepaid expense, inventory, accounts receivable, accounts payable and accrued liabilities, which management considers to be sufficient for the Corporation to meet its ongoing obligations.

CAPITAL EXPENDITURES

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

FINANCIAL INSTRUMENTS

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

Credit Risk

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

Liquidity Risk

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

Market Risk

a) Interest rate risk

The Corporation is presently not exposed to interest rate risk.

b) Foreign currency risk

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

c) Price risk

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Goodwill, Intangible Assets and Financial Statement Concepts

The Canadian Institute of Chartered Accountants (“CICA”) has issued a new accounting standard, Section 3064 “Goodwill and Intangible Assets”, which clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset. As a result, start-up costs must be expensed as incurred. Section 1000 “Financial Statement Concepts”, was also amended to provide consistency with this new standard. The new and amended standards are effective for the Corporation beginning January 1, 2009. The Corporation is currently assessing the effects of these standards on its financial statements.

In January 2009, the CICA issued three new accounting standards for Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. Section 1582 replaces Section 1581, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3 – Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace 1600 – Consolidated Financial Statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 – Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

International Financial Reporting Standards (“IFRS”)

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

CAPITAL MANAGEMENT

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

CRITICAL ACCOUNTING ESTIMATES

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

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

Allowance for Doubtful Accounts Receivable

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

Impairment of Long-lived Assets

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

Depreciation

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

Stock-based Compensation

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

RISKS AND UNCERTAINTIES

Risk factors and uncertainties which the Corporation faces in its business include the following:

Industry Risks

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

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

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

Hazards such as unusual or unexpected geological formations, abnormal pressures, blow-outs, fires or other conditions may be encountered in drilling and operating wells. Such hazards are primarily the responsibility of the oil and gas companies which contract with the Corporation. The Corporation maintains insurance for situations for which it may become liable; however, the Corporation may become liable for damages arising from pollution, blowouts or other hazards against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons.

Seasonality/Weather

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

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

Canadian Government Regulation

The oil and natural gas industry is subject to extensive controls and regulations imposed by various levels of government. It is not expected that any of these controls or regulations will affect the operations of the Corporation in a manner materially different than they would affect other oil and gas service companies of similar size.

Regulation of Drilling Services Industry

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

Canadian Environmental Regulation

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

Business Growth

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

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

Competition

Competition could adversely affect the Corporation's performance. Drilling contracting is characterized by intense competition and the Corporation competes directly with other companies that have greater resources and access to capital. There is also increasing competition with other drilling services companies which enter into arrangements with Aboriginal communities.

Kyoto Protocol

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

Credit Risk

A substantial portion of the Corporation's accounts receivable are expected to be with customers involved in the oil and natural gas industry, whose revenues may be affected by fluctuations in commodity prices. Although collection of these receivables could be influenced by economic factors affecting this industry, management considers the risk of a significant loss to be remote at this time.

Equipment and Technology Risks

The ability of the Corporation to meet customer demands in respect of performance and cost will depend upon continuous improvements in its drilling rigs. There can be no assurance that it will be successful in its efforts in this regard or that it will have the resources available to meet this continuing demand. Failure by the Corporation to do so could have a material adverse effect on the Corporation. No assurances can be given that competitors will not achieve technological advantages over the Corporation.

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

Alternatives to and Changing Demand for Petroleum Products

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

Workforce Availability

The Corporation may not be able to find enough skilled labour to meet its needs, which could limit its growth. As a result, the Corporation may have problems finding enough skilled and unskilled labourers in the future if demand for its services increases. If the Corporation is not able to increase its service rates sufficiently to compensate for similar wage rate increases, its operating results may be adversely affected.

Reliance on Key Personnel

The success of the Corporation is dependent upon its key personnel, and any loss of the services of such persons could have a material adverse effect on the business and operations of the Corporation. The ability of the Corporation to expand its services is dependent upon its ability to attract additional qualified employees.

Access to Additional Financing

The Corporation may find it necessary in the future to obtain additional debt or equity financing to support ongoing operations, to undertake capital expenditures, to repay existing indebtedness or to undertake acquisitions or other business combinations. There can be no assurance that additional financing will be available to the Corporation when needed or on terms acceptable or favourable to the Corporation. The Corporation's inability to raise financing to support ongoing operations or to fund capital expenditures, acquisitions, debt repayments or other business combination transactions could limit the Corporation's growth and may have a material adverse effect upon the Corporation.

Environmental

The Corporation is subject to the operating risks inherent in the industry, including environmental damage. The Corporation has established programs to address compliance with current environmental standards and monitors its practices concerning the handling of environmentally hazardous materials. There can be no assurance that the Corporation's procedures will prevent environmental damage occurring from spills of materials handled by the Corporation. The Corporation may have the benefit of insurance maintained by it or the operator; however, the Corporation may become liable for damages against which it cannot be adequately insured against or which it may elect not to insure because of high costs or other reasons.

Dependence on Suppliers

Failure of suppliers to deliver equipment in a timely and efficient manner would be detrimental to the Corporation's ability to keep customers and to grow. In addition, certain equipment is manufactured specifically for the Corporation and the Corporation is dependent upon the continued availability of the manufacturer and the maintenance of the quality of the manufacture. No assurances can be given that the Corporation will be successful in maintaining its required supply of equipment.

Operating Risk and Insurance

The Corporation has an insurance and risk management program in place to protect its assets, operations and employees, along with compliance with current safety and regulatory standards. The Corporation's operations are subject to risks inherent in the oilfield services industry such as equipment defects, malfunction, failures and natural disasters. These risks could expose the Corporation to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages. Although the Corporation has obtained insurance against certain of the risks to which it is exposed, such insurance is subject to coverage limits and no assurance can be given that such insurance will be adequate to cover the Corporation's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Corporation were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Corporation were to incur such liability at a time when it is not able to obtain liability insurance, its business, financial condition, results of operations and cash flows could be materially adversely affected.

Alberta Royalty Structure Changes

On October 25, 2007, the Government of Alberta announced proposed changes to the Alberta royalty regime, including changing the royalty structure for natural gas and conventional oil by adjusting the sliding rate formulas that are price and volume sensitive and adopting a new price sensitive formula for oil sands development at both pre-and post-payout stages. In late 2008 and early 2009, relief from this royalty regime was announced in the form of additional transitional provisions, royalty credits and royalty rate incentives. The Corporation is not a royalty payor and therefore, is not directly affected by these proposed changes. However, as a service provider, it will be affected by the producers' responses to the new regime. Producers are continuing to assess the effects of the new royalty regime on their operations and future activities. In the short term, some producers have announced plans to reduce their exploration and development activities in the province of Alberta and the long-term implications of the royalty announcement for the Corporation are difficult to determine.

SUBSEQUENT EVENTS

On February 5, 2009 the Corporation granted 78,000 options to new directors at an exercise price of \$2.50 per share and an expiry date of February 4, 2013. On February 25, 2009 one of the directors announced their resignation and therefore 39,000 of the options were forfeited.

On March 3, 2009 the Corporation granted 49,500 options to employees with an exercise price of \$1.95 per share and expiry date of March 2, 2013.

OUTLOOK

The new Alberta royalty regime, depressed stock markets, lower commodity prices, worldwide recession and the banking crisis are all combining to make 2009 a challenging year for the oil and gas industry, with the Canadian Association of Oilwell Drilling Contractors (“CAODC”) predicting the lowest number of wells to be drilled in Western Canada in over a decade. The commodity price drop has triggered E&P companies to drastically reduce capital spending compared to the past several years, which in turn has resulted in lower drilling activity levels for drilling contractors.

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

The North American natural gas market may be presently well supplied, however, the Corporation believes that the current low levels of activity will result in lower supplies due to the high production decline rates in the highly publicized shale natural gas plays. This will eventually require more drilling to reverse the production declines. In addition, oil prices appear to have made some recovery ahead of natural gas. With all these factors in mind, the Corporation is confident the industry will recover, although that may not be until 2010 and beyond.

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

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

FORWARD LOOKING INFORMATION

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