Western Energy Services Corp.
Management's Discussion and Analysis

The following discussion of the financial condition, changes in financial condition and results of operations of Western Energy Services Corp. (the "Company" or "Western") should be read in conjunction with the audited annual consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2009 and 2008, the Company's management discussion and analysis for the year ended December 31, 2009 as well as the Company's interim consolidated financial statements and notes for the three months ended March 31, 2010 and 2009. This management's discussion and analysis is dated May 27, 2010.

Overall Performance and Results of Operations

The Company operates in the oil and gas services sector in two specific segments, contract drilling in Canada and production services in Canada and, until recently, the United States and Internationally in Mexico and Central America. The contract drilling segment includes 11 technically advanced drilling rigs with depth capacities ranging from 1200 meters to 4500 meters including 6 telescopic singles, 3 modern design mechanical telescopic doubles and 2 Cantilever triples. The production services segment specializes in the delivery of acidizing and solvent well remediation services as well as nitrogen and fluid pumping services. The operating environment for the oil and gas services sector is highly dependent on the oil and gas exploration and production industry and commodity prices of both oil and natural gas. Overall, results from the first quarter of 2010 are improved from the same period in the prior year, as activity levels have increased and oil prices have improved.

Selected Financial Information

(stated in thousands of Canadian dollars, except per share amounts)	After comprehensive revaluation	Before comprehensive revaluation
Financial Highlights	**Three Months Ended March 31, 2010**	**Three Months Ended March 31, 2009**
Revenue	4,318	2,130
EBITDA(1)	307	(85)
Cash from operating activities	145	(181)
Net income (loss)	11,106(2)	(1,101)
- basic net income (loss) per share	0.06	(0.03)
- diluted net income (loss) per share	0.05	(0.03)
Weighted average number of shares		
-basic	193,556,748	32,246,405
-diluted	233,859,633	32,246,405
Outstanding common shares as at period end	527,549,161	32,246,405
Dividends declared	-	-

Financial Position at	March 31, 2010	December 31, 2009	March 31, 2009
Working capital(3)	47,463	1,087	(1,218)
Property and equipment	94,355	7,311	17,754
Total assets	151,452	12,219	20,629
Long term debt(4)(5)	39,086	321	10,875

(1) Non-GAAP measure. See page 9.
(2) Includes an $11.6 million nonrecurring gain on acquisitions.
(3) Working capital is calculated as current assets less current liabilities, excluding the current portion of long-term debt.
(4) Long term debt includes the current portion of long-term debt.
(5) Subsequent to March 31, 2010 the long term debt balance was substantially reduced to approximately $7 million.

The key operational results for the three months ended March 31, 2010 are:

- On March 18, 2010, Western completed a public offering of 375 million common shares at a price of $0.20 per share for gross proceeds of $75 million. Concurrent with the closing of this equity offering, Western completed the acquisition of Horizon for total consideration of approximately $66 million, including the assumption of debt, and the acquisition of Cedar Creek for consideration of approximately 20.5 million common shares. Each of Horizon and Cedar Creek were, at the time of acquisition, privately held companies engaged in the operation of contract drilling rigs in the western Canadian sedimentary basin.

- Revenues increased by $2.2 million, or 103%, to $4.3 million in the first quarter of 2010 as compared to $2.1 million in the same period of the prior year. The increase reflects the acquisition of Horizon and Cedar Creek on March 18, 2010, which accounted for $1.8 million in revenue subsequent to their acquisition. The remaining $0.4 million increase in revenue is due to increased utilization in Western's production services segment which completed 679 jobs in the first quarter of 2010 as compared to 409 jobs completed in the first quarter of 2009.
- Net income increased by $12.2 million to $11.1 million in the first quarter of 2010 as compared to a net loss of $1.1 million in the first quarter of 2009. The increase reflects the aggregate gain of $11.6 million on the business acquisitions of Horizon and Cedar Creek. Of the remaining $0.6 million increase, $0.8 million is related to improved operating earnings in the production services segment, $0.1 million is related to operating earnings in the contract drilling segment generated for the 14 day period after the acquisition, offset by an increase in corporate and other costs of $0.3 million.
- During the first quarter of 2010, Western's EBITDA (see non-GAAP measures on page 9) was positive $0.3 million, as compared to negative $0.1 million in the same period of the prior year. The $0.4 million increase in EBITDA, is due to the acquisition of Horizon and Cedar Creek which contributed $0.4 million to EBITDA subsequent to their acquisitions, and an increase in the production services segment EBITDA of $0.3 million offset by an increase in corporate general and administrative costs of $0.3 million.
- During the first quarter of 2010, Western announced that due to the significant downturn in industry demand, Western would be ceasing its current operations in the United States. Subsequent to the announcement, Western has redeployed certain of its U.S. assets to its Canadian operations and completed the sale of the remaining assets in the United States. During the first quarter of 2010, Western has completed additional asset sales, including the sale of the majority of its U.S. assets, for total proceeds of approximately $2.8 million. The sale of the remaining U.S. assets has been completed in the second quarter of 2010.
- Subsequent to March 31, 2010, Western announced the increase of its credit facility with its existing lender. The credit facility will consist of a $5 million operating demand revolving loan (the "Operating Facility"), and a $45 million 364-day committed extendible revolving credit facility (the "Revolving Facility"). The purpose of the Revolving Facility is to assist the Company in completing corporate acquisitions and financing the construction of additional equipment. In addition, the Revolving Facility was initially used to consolidate certain indebtedness acquired from Horizon and Cedar Creek. After consolidation, the Company had approximately $39 million in available credit under the Revolving Facility and $5 million under the Operating Facility. These loans require interest to be paid monthly with no scheduled principal repayment unless the Revolving Facility is not extended. If not extended, the Revolving Facility is capped and repayable over the ensuing two year period by monthly principal and interest payments.

Outlook

Western believes that current market conditions in the Canadian energy sector provide an opportunity to build a new Canadian focused oilfield service provider through consolidation and that conditions are also favourable to attract qualified staff to grow the organization. It is anticipated that these factors combined with access to capital will provide Western with consolidation opportunities.

Western will be focused from both a business line and geographic perspective. Due to the experience of the management team, it is their intention to initially focus their efforts in three core business lines in Canada encompassing contract drilling, service rigs and rental and production services. The business plan will see the management team pursue strategic acquisitions focused on strengthening and adding depth to these core business lines with an emphasis on attracting business from Canadian customers engaged in unconventional resource development.

With the acquisitions of Horizon Drilling Inc. ("Horizon") and Cedar Creek Drilling Ltd. ("Cedar Creek") on March 18, 2010, Western now has a fleet of 11 drilling rigs which are, on average, less than 4 years old, have modern designs, move and rig-up efficiently and have a premium customer base. Western believes these assets should be in demand as exploration and development of key resource plays requiring horizontal drilling continues to increase. These acquisitions also provide Western with immediate cash flow and key human resource capabilities.

Subsequent to March 31, 2010, the following significant events have occurred:

- On April 15, 2010, Western announced the increase of its credit facility with its existing lender. The credit facility will consist of a $5 million operating demand revolving loan and a $45 million 364-day committed extendible revolving credit facility (the "Revolving Facility"). The purpose of the Revolving Facility is to assist the Company in completing corporate acquisitions and financing the construction of additional equipment.
- Management has determined that it will take all necessary steps to reduce its exposure to Mexico and Central America by either selling or winding up the operations. Western expects this transaction to result in a minimal write-off.

With the increase in Western's credit facilities, as noted above, Western has been able to repay all the debt assumed in the acquisitions of Horizon and Cedar Creek and consolidate its debt with one lender. Western intends to employ a conservative balance sheet strategy going forward by maintaining a conservative debt to annualized EBITDA ratio.

Comprehensive revaluation

On December 22, 2009, the Company completed a recapitalization and reorganization involving a non-brokered private placement of $7.0 million, the conversion of the Company's existing bridge lending facility, subordinated convertible debentures (including the cancellation of the related common share purchase warrants) and other specified obligations into common shares of Western Energy Services Corp., and the appointment of a new board of directors and a new management team. This transaction resulted in a realignment of Western's equity and non-equity interests. Prior to the recapitalization, the Company faced the prospect of being unable to meet obligations to creditors due to its deteriorating financial position. The outcome of the recapitalization and reorganization was a significant de-leveraging of Western's balance sheet. Total debt was reduced to approximately $0.2 million, and Western is in a significantly better position to meet current and future market challenges.

As a result of the realignment of equity and non-equity interests, Western's identifiable assets and liabilities were recorded at a new cost basis, being the fair value, as required under Canadian Institute of Chartered Accountants Handbook Section 1625 – "Comprehensive Revaluation of Assets and Liabilities". The process of undertaking such a comprehensive revaluation is commonly referred to as "fresh start accounting". The recapitalization and reorganization is described in Note 2 of our audited consolidated financial statements for the period ended December 31, 2009 as filed on SEDAR at www.sedar.com.

Segment Review of Contract Drilling Services

(stated in thousands of Canadian dollars)	March 18, 2010 to March 31, 2010
Revenue	1,789
Expenses	
Operating	1,277
General and administrative	153
EBITDA[(1)]	359
Depreciation	227
Operating earnings[(1)]	132
Operating earnings as a percentage of revenue	7%
Drilling revenue per utilization day	22,088
Utilization	46%

(1) Non-GAAP measure. See page 9.

With the completion of the acquisitions of Horizon and Cedar Creek on March 18, 2010, the Company began operations in its contract drilling segment. For the 14 day period ended March 31, 2010, the Company's contract drilling revenue was $1.8 million reflecting a utilization rate of 46% and average revenue per operating day of $22,088. During this period, the Company drilled 6 wells for a total of 13,508 metres drilled. Both Horizon and Cedar Creek had strong first quarters in 2010, however, the results reported by the Company for the period of March 18th to March 31st, reflect lower utilization due to an early spring break up resulting in soft roads and road bans.

Segment Review of Production Services

	Three Months Ended March 31		
(stated in thousands of Canadian dollars)	2010	2009	% Change
Revenue	2,529	2,130	19%
Expenses			
Operating	1,879	1,993	(6%)
General and administrative	194	23	743%
EBITDA[(1)]	456	114	300%
Depreciation	181	687	(74%)
Operating earnings (loss)[(1)]	275	(573)	148%
Operating earnings (loss) as a percentage of revenue	11%	(27%)	38%
Jobs completed	679	409	66%

(1) Non-GAAP measure. See page 9.

Production services revenue for the three months ended March 31, 2010, increased by $0.4 million, or 19%, to $2.5 million from $2.1 million in the same period of the prior year. The increase reflects improved demand for fluid and pumping services in the first quarter of 2010, as the number of jobs completed increased by 66% to 679 as compared to 409 jobs completed in the same period of the prior year. Additionally, the Company for the first time has entered into long term projects as a result of increased demand for its services.

Production services EBITDA for the three months ended March 31, 2010 increased by $0.3 million, or 300%, to $0.4 million from $0.1 million in the same period of the prior year, as expenses remained relatively constant, while revenue increased.

Summary of Quarterly Results

In addition to other market factors, quarterly results of Western are markedly affected by weather patterns throughout its operating area in Canada. Historically, the first quarter of the calendar year is very active, followed by a much slower second quarter due to what is known in the Canadian energy services industry as spring break up. As a result of this, the variation on a quarterly basis, particularly in the first and second quarters, can be dramatic year-over-year independent of other demand factors. The following is a summary of selected financial information of the Company for the last eight completed quarters.

	After comprehensive revaluation		Before comprehensive revaluation						
Three months ended (stated in thousands of Canadian dollars, except per share amounts)	March 31, 2010	Dec 31, 2009(2)	Dec 22, 2009(2)	Sept 30, 2009	June 30, 2009	March 31, 2009	Dec 31, 2008	Sept 30, 2008	June 30, 2008
Revenue	4,318	184	1,142	1,216	974	2,130	3,141	3,184	3,071
EBITDA(3)	307	(131)	(1,001)	(357)	(442)	(85)	168	281	40
Cash from operating activities	145	(436)	(2,421)	(187)	24	(181)	(364)	10	261
Income (loss)	11,106	(2,011)	(2,841)	(1,649)	(897)	(1,101)	(1,534)	(2,306)	(1,168)
Based income (loss) per share (1)	0.06	(0.02)	(0.09)	(0.05)	(0.03)	(0.03)	(0.12)	(0.16)	(0.08)
Diluted income (loss) per share(1)	0.05	(0.02)	(0.09)	(0.05)	(0.03)	(0.03)	(0.12)	(0.16)	(0.08)
Total assets	151,452	12,219	12,712	17,731	19,216	20,629	22,398	23,905	25,963
Long term financial liabilities	46,041	65	65	279	566	650	764	807	850
Dividends declared	-	-	-	-	-	-	-	-	-

(1) Per share amounts for all periods reflect the 1 for 12 consolidation of shares that occurred in September 2008.
(2) The fourth quarter of 2009 has been split into two periods, to reflect Western's results before and after the comprehensive revaluation completed on December 22, 2009.
(3) Non-GAAP measure. See page 9.

Segmented Information

During 2010, the Company operated in two industry segments, contract drilling and production services. Contract drilling activities were carried out exclusively in Canada, while production services activity was carried out in Canada and, until recently, the United States, and internationally in Mexico and Central America. The following table provides a breakdown of the relative revenues from these geographic regions and the assets that were deployed in each region.

Results by Geographic Region:

(stated in thousands of Canadian dollars)	**After comprehensive revaluation** **Three Months Ended March 31, 2010**	**Before comprehensive revaluation** **Three Months Ended March 31, 2009**
Revenue:		
Canada	4,318	1,258
United States	-	790
International	-	82
Total Assets:		
Canada	150,733	13,677
United States	650	4,770
International	69	2,182

Liquidity and Capital Resources

On March 18, 2010, Western completed a public offering of 375 million common shares at a price of $0.20 per share for gross proceeds of $75 million which was used to acquire Horizon and pay down the debt of Horizon and Cedar Creek. Each of Horizon and Cedar Creek were, at the time of acquisition, privately held companies engaged in the operation of contract drilling rigs in the western Canadian sedimentary basin. These acquisitions provide Western with immediate cash flow and key human resource capabilities.

During the first quarter of 2010, Western announced that due to the significant downturn in industry demand, Western would be ceasing its current operations in the United States. Western has redeployed certain of its U.S. assets to its Canadian operations and completed the sale of the remaining assets in the

United States. During the first quarter of 2010, Western has completed additional asset sales, including the sale of U.S. assets, for total proceeds of approximately $2.8 million.

As at March 31, 2010, Western had a positive working capital balance of $47.5 million, mainly due to a large cash balance of approximately $36.5 million, and $39.1 million in long-term debt. Subsequent to March 31, 2010, Western repaid the majority of the debt acquired from Horizon and Cedar Creek with its excess cash, resulting in a long term debt balance of approximately $7 million.

In the first quarter of 2010, Western generated positive operating cash flow of approximately $0.1 million as compared to negative cash flow of approximately $0.2 million in the same period of the prior year. The increase is mainly attributed to the acquisitions of Horizon and Cedar Creek, which before changes in non-cash working capital, contributed approximately $0.3 million in positive cash flow subsequent to their acquisitions, while improved performance in Western's production services segment was offset by increased corporate general and administrative costs.

On April 15, 2010, Western announced the increase of its credit facility with its existing lender. The credit facility will consist of a $5 million operating demand revolving loan (the "Operating Facility"), and a $45 million 364-day committed extendible revolving credit facility (the "Revolving Facility"). The purpose of the Revolving Facility is to assist the Company in completing corporate acquisitions and financing the construction of additional equipment. In addition, the Revolving Facility was initially used to consolidate certain indebtedness acquired from Horizon and Cedar Creek. After consolidation, the Company had approximately $39 million in available credit under the Revolving Facility and $5 million under the Operating Facility. These loans require interest to be paid monthly with no scheduled principal repayment unless the Revolving Facility is not extended. If not extended, the Revolving Facility is capped and repayable over the ensuing two year period by monthly principal and interest payments. Amounts borrowed under the Operating Facility will bear interest at the bank's prime rate plus 1.5% and amounts borrowed under the Revolving Facility will bear interest at the Company's option of either the bank's prime rate plus 1.5% to 2.0% or the banker's acceptance rate plus 3.0% to 3.5% depending, in each case, on the ratio of funded debt to EBITDA. Western's increased credit facility is subject to the following financial covenants:

	Covenant
Current assets to current liabilities	1.25 to 1.00 or more
Funded Debt to EBITDA	2.5 to 1.0 or less
Revolving Facility balance to net book value of fixed assets	Less than 45%

Contractual Obligations

In the normal course of business, the Company incurs contractual obligations. The expected maturities of the Company's contractual obligations are as follows:

	Payments due by period				
(stated in thousands of Canadian dollars)	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Operating leases	**$ 2,199**	$ 517	$ 967	$ 455	$ 260
Capital commitments	**672**	672	-	-	-
Purchase commitments	**68**	68	-	-	-
Total	**$ 2,939**	**$ 1,257**	**$ 967**	**$ 455**	**$ 260**

Outstanding Share Data

	May 27, 2010	March 31, 2010	Dec 31, 2009
Common shares outstanding	527,549,161	527,549,161	132,031,830
Warrants outstanding	50,500,000	50,500,000	50,500,000
Stock options outstanding	17,595,002	18,570,003	170,003

Off Balance Sheet Arrangements

As at March 31, 2010, Western had no off balance sheet arrangements in place.

Transactions with Related Parties

Subsequent to the recapitalization and reorganization that was completed on December 22, 2009, Western has no transactions with related parties.

Changes in Accounting Policies

The following new Canadian accounting standards were released in 2009 with an effective date of January 1, 2011 with early adoption permitted. Western has elected to adopt these standards effective January 1, 2010:

- Section 1582 “Business Combinations” requires most assets acquired and liabilities assumed, including contingent consideration to be measured at fair value and that all acquisition costs be expensed. The adoption of this standard impacted the accounting for the business combinations completed in 2010. See Note 4 of the March 31, 2010 interim financial statements filed on SEDAR at www.sedar.com.
- Section 1602 “Non-controlling Interests” 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. The adoption of this standard did not have a material impact on the financial statements of the Company.
- Section 1601 “Consolidated Financial Statements” establishes standards for the preparation of consolidated financial statements. The adoption of this standard did not have a material impact on the financial statements of the Company.

Financial Instruments

Fair Values

The Company measures and reports its financial assets and liabilities at fair value, defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. To obtain fair values, observable market prices are used if available. In some instances, observable market prices are not readily available for certain financial instruments and fair value is determined using present value or other techniques appropriate for a particular financial instrument. These techniques involve some degree of judgment and as a result are not necessarily indicative of the amounts the Company would realize in a current market exchange. The use of different assumptions or estimation techniques may have a material effect on the estimated fair value amounts. These valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect the Company’s market assumptions. The Company uses a three-level hierarchy for disclosure to show the extent and level of judgement used to estimate fair value measurements:

1. Level 1 inputs – Quoted prices in active markets for identical assets or liabilities.

2. Level 2 inputs – Quoted prices in active markets for similar assets or liabilities; quoted prices in markets that are not active for identical or similar assets or liabilities; and valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly.

3. Level 3 inputs – Valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and long term debt. The fair values of the accounts receivable, and accounts payable and accrued liabilities approximate their carrying values as at March 31, 2010 due to their short-term or otherwise liquid nature of these items. The fair value of long term debt instruments approximates their carrying values as they bear interest at rates that are not significantly different from current rates, and have been classified as level 2.

Credit Risk

The Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risk

Interest Rate Risk

The Company is exposed to interest rate risk on debt subject to floating interest rates.

Foreign Exchange Risk

The Company is exposed to foreign exchange fluctuations in relation to its USA and international operations.

Liquidity Risk

Liquidity risk is the exposure of the Company to the risk of not being able to meet its financial obligations as they become due.

International Financial Reporting Standards ("IFRS")

In 2008, the CICA Accounting Standards Board confirmed that IFRS will replace Canadian GAAP effective January 1, 2011 for publicly accountable enterprises. The adoption date of January 1, 2011 will require the restatement of comparative amounts beginning in January 2010, including an opening balance sheet as at January 1, 2010.

Management will evaluate the effects of all current and pending pronouncements of the International Accounting Standards Board on the financial statements of the Company and will develop a plan for implementation. The Company's implementation is anticipated to have three components:

1. Scoping and diagnostic phase – This phase includes an analysis, on a high level, of the areas of the Company's financial statements and systems that will be impacted by the conversion to IFRS;

2. Impact analysis and evaluation phase – This phase includes a detailed analysis of each item identified in the scoping and diagnostic phase to determine the impacts on the financial statements, accounting policies and procedures, internal control procedures and external agreements;

3. Implementation phase – This phase involves the implementation of all changes in the information systems and business processes approved in the impact analysis and evaluation phase. It also includes training of staff, management and the audit committee.

Until recently, management's focus has been on the recapitalization and reorganization and completing the acquisitions of Horizon and Cedar Creek. Management will now be working to complete the scoping and diagnostic phase which it expects will be accomplished in the second quarter of 2010. The Company will also be meeting with its IT consultants to determine what changes, if any, need to be made to its information systems and will also be working internally and with its external auditors to identify the impacts on all other matters. The audit committee will also continue to receive regular progress reports on the IFRS conversion going forward.

Business Risks

The following business risks are applicable to the Company's business:

- Competition among related service companies is significant. Many competitors are substantially larger and have substantially greater revenues than the Company and overall greater financial resources. The Company's ability to generate revenues depends on its ability to attract and win contracts and to perform services.
- Currently the Company is focused on providing services in the western Canadian sedimentary basin, which exposes the Company to market fluctuations in specific locations which may be more extreme than the overall industry conditions.
- The success of the Company is dependent upon the efforts and abilities of its management team. The loss of any member of the management team could have a material adverse effect upon the business and prospects of the Company.
- The Company has a limited history of operations. Failure to achieve projected rates of market penetration or commercial acceptance could significantly affect its success.
- The Company's business is subject to the operating risks inherent to the oil and gas service industry. On occasion, substantial liabilities to third parties may be incurred. The Company will have the benefit of insurance maintained by it and industry standard contracts, however, it may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.
- The Company is vulnerable to market prices. Fixed costs, including costs associated with operations, leases, labour costs and depreciation account for a significant portion of the Company's costs and expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, or other factors could significantly affect its revenues and financial results.
- The Company's business relies on the oil and gas exploration and production industry which is subject to a number of risks. General economic conditions, fluctuations in demand and supply of production components, competition and increases in operating costs are some of them. In addition, changes may occur in government regulation, including regulations relating to prices, taxes, royalties, land tenure, allowable production, importing and exporting of oil and natural gas and environmental protection for the oil and gas industry as a whole. Risks affecting the oil and gas exploration and production business may also affect the Company's business. The exact effect of these risks cannot be accurately predicted.
- The oil and gas services industry has experienced a high degree of invention and innovation. It is possible that new technology will be developed which will compete with the Company's products and services.
- A portion of the operations of the Company are in the United States, Mexico and Latin America, which subject the Company to currency fluctuations and different tax and regulatory laws.

Non-GAAP Measures

Western uses certain measures in this discussion which do not have any standardized meaning as prescribed by Canadian generally accepted accounting principles ("GAAP") and therefore are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other reporting issuers. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Company.

EBITDA

Management believes that in addition to net earnings, earnings before interest, taxes, depreciation, goodwill impairment, loss on sale of assets, gain on debt settlement, gain on business acquisitions, stock based compensation, acquisition costs and foreign exchange ("EBITDA") as derived from information reported in the Consolidated Statements of Income (Loss) is a useful supplemental measure as it provides an indication of the results generated by Western's principal business activities prior to consideration of how those activities are financed, the impact of foreign exchange, how the results are taxed, how funds are invested, and how non-cash depreciation and goodwill impairment charges affect results.

The following table provides a reconciliation of net earnings under GAAP as disclosed in the Consolidated Statements of Income (Loss) to EBITDA.

	After comprehensive revaluation	Before comprehensive revaluation
(stated in thousands of Canadian dollars)	**Three Months Ended March 31, 2010**	**Three Months Ended March 31, 2009**
EBITDA	307	(85)
Add (deduct):		
Depreciation	(408)	(687)
Stock based compensation	(18)	-
Gain on sale of assets	9	13
Gain on business acquisitions	11,624	-
Acquisition costs	(176)	-
Foreign exchange loss	(131)	(105)
Interest and finance costs	(96)	(237)
Future income taxes	(5)	-
Net Income (Loss)	11,106	(1,101)

Operating Earnings (Loss)

Management believes that in addition to net income (loss), operating earnings (loss) is a useful supplemental measure as it provides an indication of the results generated by the Company's principle operating segments prior to consideration of how those activities are financed or how the results are taxed.

	After comprehensive revaluation	Before comprehensive revaluation
(stated in thousands of Canadian dollars)	**Three Months Ended March 31, 2010**	**Three Months Ended March 31, 2009**
Operating earnings (loss)	(101)	(772)
Add (deduct):		
Stock based compensation	(18)	-
Gain on sale of assets	9	13
Gain on business acquisitions	11,624	-
Acquisition costs	(176)	-
Foreign exchange loss	(131)	(105)
Interest and finance costs	(96)	(237)
Future income taxes	(5)	-
Net Income (Loss)	11,106	(1,101)

Forward-looking statements

This Management's Discussion and Analysis contains certain statements or disclosures relating to the Company that are based on the expectations of its management as well as assumptions made by and information currently available to the Company which may constitute forward-looking information under applicable securities laws. All such statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that the Company anticipates or expects may, or will occur in the future (in whole or in part) should be considered forward-looking information. In some cases, forward-looking information can be identified by terms such as "forecast", "future", "may", “will”, “expect”, “anticipate”, “believe”, “potential”, “enable”, “plan”, “continue”, “contemplate”, “pro-forma”, or other comparable terminology.

Under the heading “Outlook” there are statements to the effect that current market conditions in the Canadian energy sector provide an opportunity to build a new Canadian focused oilfield services provider through consolidation and that conditions are also favourable to attract qualified staff to grow the organization and those factors along with access to capital will provide the company with consolidation opportunities. Also, under the heading “Outlook” there are statements pertaining to the intentions of the Corporation with respect to seeking opportunities in three core business lines in Canada, encompassing contract drilling, service rigs and rental and production services and that the business plan will see the management team pursue strategic acquisitions focused on strengthening and adding depth to the core businesses.

Those statements assume that the Company will be able to attract enough additional capital or credit to allow for anticipated acquisitions. There is a risk that, due to a number of factors, adequate additional capital and credit may not become available to the Company to allow for further acquisitions and even if such capital does become available, there is further risk that opportunities that are accretive may either not be available or, if completed, are ultimately not accretive.

In addition, the Company states that the 11 drilling rigs that it has recently acquired should be in demand as exploration and development of key resource plays requiring horizontal drilling continues to increase. The foregoing assumes that the demand for horizontal drilling and the Company's rigs should continue to increase. There are numerous risks that could result in the demand for horizontal drilling and the Company's rigs not to increase or which demand could decrease.

As such, many factors could cause the performance or achievement of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements.

Additional Data

Additional information relating to the Company is filed on SEDAR at www.sedar.com.