This is Exhibit "Y" to the Affidavit of Ronald J. Goguen sworn to on the 27th day of August 2012.

Jeffrey R. Parker
Commissioner of Oaths
Being a Solicitor

Landdrill International Inc.

Consolidated Financial Statements
For the years ended December 31, 2011 and 2010

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of **Landdrill International Inc.** (the "Company") have been prepared by the Company's management. The financial statements have been prepared in accordance with International Financial Reporting Standards and contain estimates based on management's judgement. Internal control systems are maintained by management to provide reasonable assurances that assets are safeguarded and financial information is reliable.

The Board of Directors of the Company is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and the accompanying management discussion and analysis. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors. It meets with the Company's management and auditors and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the financial statements to the Board of Directors for approval.

The Company's independent auditors, PricewaterhouseCoopers LLP, are appointed by the shareholders to conduct an audit in accordance with Canadian generally accepted auditing standards and their report follows.

(signed) *"Ron Goguen, Sr."*
President and Chief Executive Officer

(signed) *"Derrick West"*
Chief Financial Officer

Moncton, Canada
April 30, 2012

pwc

April 30, 2012

Independent Auditor's Report

To the Shareholders of
Landdrill International Inc.

We have the audited the accompanying consolidated financial statements of **Landdrill International Inc.** and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Landdrill International Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about Landdrill International Inc.'s ability to continue as a going concern.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Accountants

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Landdrill International Inc.
Consolidated Statements of Financial Position

(Expressed in Canadian Dollars Unless Otherwise Noted)

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Assets (notes 11 and 13)			
Current assets			
Cash and cash equivalents	1,113,168	944,628	423,505
Restricted cash	358,265	–	–
Marketable securities (note 7)	268,657	793,640	229,130
Trade and other receivables	7,195,742	5,179,689	1,071,309
Related party note receivable	–	107,145	150,426
Inventories	11,412,244	7,787,390	5,875,264
Other current assets	616,466	329,075	323,695
	20,964,542	15,141,567	8,073,329
Non-current assets			
Property, plant and equipment (note 9)	18,850,377	9,992,259	8,365,824
Intangible assets (note 10)	1,214,558	839,527	1,164,499
Goodwill	125,800	125,800	125,800
Total assets	41,155,277	26,099,153	17,729,452
Liabilities			
Current liabilities			
Bank indebtedness (note 11)	3,389,846	2,816,399	600,029
Accounts payables and accrued liabilities	9,262,969	5,733,777	2,040,720
Deposits on contracts	2,768,763	3,769,767	1,131,891
Income tax liabilities (note 8)	1,465,642	1,455,256	928,147
Current portion of convertible debentures payable (note 14)	–	2,000,000	1,945,948
Current portion of long–term debt (note 13)	2,292,201	1,371,715	2,603,111
Current portion of notes payable (note 12)	586,072	1,213,647	702,483
Current portion of finance lease obligation (note 15)	5,752	5,697	5,305
	19,771,245	18,366,258	9,957,634
Non-current liabilities			
Long-term debt (note 13)	3,840,448	447,124	315,944
Notes payable (note 12)	–	–	263,821
Convertible debentures payable (note 14)	4,568,287	–	–
Finance lease obligation (note 15)	7,796	13,368	18,650
Total liabilities	28,187,776	18,826,750	10,556,049
Equity			
Equity attributable to the shareholders of the Company	13,683,006	7,345,221	7,173,403
Non-controlling interests	(715,505)	(72,818)	–
Total equity	12,967,501	7,272,403	7,173,403
Total liabilities and equity	41,155,277	26,099,153	17,729,452

General information and going concern (note 1)
Commitments (note 17)
Subsequent events (note 23)

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board of Directors

(signed) *"Ron Goguen, Sr"*
Director

(signed) "Richard Ormston"
Director

Landdrill International Inc.

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31, 2011 and 2010

(Expressed in Canadian Dollars Unless Otherwise Noted)

	2011 $	2010 $
Revenues	64,763,997	34,677,257
Direct contract costs	52,128,498	26,890,095
Gross profit	12,635,499	7,787,162
General and administrative	11,590,555	7,215,142
Other (gains) and losses (net) (note 5)	(154,696)	(1,156,036)
	11,435,859	6,059,106
Operating profit	1,196,640	1,728,056
Finance expense	1,885,885	1,093,127
Income (loss) before income taxes	(686,245)	634,929
Provision for income taxes (note 8)		
Current	809,438	744,944
Deferred	153,345	–
	962,783	744,944
Net loss for the years	(1,649,028)	(110,015)
Net loss attributable to:		
Shareholders of the Company	(1,063,292)	(37,146)
Non-controlling interests	(585,736)	(72,869)
	(1,649,028)	(110,015)
Loss per share attributable to shareholders of the company:		
Basic and diluted (note 20)	(0.01)	0.00
Comprehensive loss		
Net loss for the years	(1,649,028)	(110,015)
Other comprehensive income (loss)		
Cumulative translation adjustments	(1,672,001)	69,405
Unrealized loss on marketable securities	(462,424)	(13,935)
	(2,134,425)	55,470
Comprehensive loss for the years	(3,783,453)	(54,545)
Comprehensive income (loss) attributable:		
Shareholders of the Company	(3,197,717)	18,324
Non-controlling interest	(585,736)	(72,869)
	(3,783,453)	(54,545)

The accompanying notes are an integral part of these consolidated financial statements.

Landdrill International Inc.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2011 and 2010

(Expressed in Canadian Dollars Unless Otherwise Noted)

	Attributable to shareholders of the Company							
	Share Capital $	Equity Portion of Convertible Debentures $	Contributed Surplus and Warrants $	Accumulated Other Comprehensive Income $	Deficit $	Total $	Non-Controlling Interest $	Total Equity $
Balance – January 1, 2010	15,269,385	107,500	2,629,518	–	(10,833,000)	7,173,403	–	7,173,403
Net loss for the year	–	–	–	–	(37,146)	(37,146)	(72,869)	(110,015)
Other comprehensive income	–	–	–	55,470	–	55,470	–	55,470
Comprehensive income (loss)	–	–	–	55,470	(37,146)	18,324	(72,869)	(54,545)
Stock-based compensation expense	–	–	243,094	–	–	243,094	–	243,094
Tax effect of expired warrants	–	–	(89,600)	–	–	(89,600)	–	(89,600)
Contribution from the partners	–	–	–	–	–	–	51	51
Balance – December 31, 2010	15,269,385	107,500	2,783,012	55,470	(10,870,146)	7,345,221	(72,818)	7,272,403
Net loss for the year	–	–	–	–	(1,063,292)	(1,063,292)	(585,736)	(1,649,028)
Other comprehensive loss	–	–	–	(2,134,425)	–	(2,134,425)	–	(2,134,425)
Comprehensive loss	–	–	–	(2,134,425)	(1,063,292)	(3,197,717)	(585,736)	(3,783,453)
Net proceeds on issuance of shares	7,319,080	–	–	–	–	7,319,080	–	7,319,080
Value of warrants issued	–	–	1,539,146	–	–	1,539,146	–	1,539,146
Value of shares issued as finance fee on new loan	200,000	–	–	–	–	200,000	–	200,000
Stock-based compensation expense	–	–	177,276	–	–	177,276	–	177,276
Equity portion of convertible debentures repaid	–	(107,500)	107,500	–	–	–	–	–
Equity portion of convertible debentures issued (net of deferred tax liabilities)	–	300,000	–	–	–	300,000	–	300,000
Distribution to the partners	–	–	–	–	–	–	(56,951)	(56,951)
Balance – December 31, 2011	22,788,465	300,000	4,606,934	(2,078,955)	(11,933,438)	13,683,006	(715,505)	12,967,501

As at December 31, 2011 and 2010, the Accumulated Other Comprehensive Loss is comprised of net unrealized losses on available-for-sale securities of \$(476,359) and \$(13,935), respectively, and cumulative translation adjustments of \$(1,602,596) and \$69,405, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

Landdrill International Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and 2010

(Expressed in Canadian Dollars Unless Otherwise Noted)

	2011 $	2010 $
Cash provided by (used in)		
Operating activities		
Net loss for the years	(1,649,028)	(110,015)
Adjustments for :		
Amortization and depreciation	3,941,335	1,987,365
Amortization of debt issue cost	88,013	70,683
Gain on disposal of property, plant and equipment	(168,862)	(353,447)
Gain on disposal of inventory	(48,007)	(97,783)
Loss on write down of inventory	354,165	–
Bargain purchase gain on business acquisition	(235,605)	–
Interest accrued on related party note receivable	–	(12,271)
Interest relating to debenture accretion	158,878	54,052
Interest relating to note payable accretion	–	41,067
Interest accrued on note payable	77,572	56,276
Interest relating to loan payable accretion	11,159	19,195
Gain on marketable securities	(65,886)	(610,175)
Stock–based compensation	177,276	243,094
Unrealized foreign exchange loss (gain)	(218,578)	(49,789)
Future tax expense	153,345	–
Bad debt expense	411,784	–
	2,987,561	1,238,252
Changes in items of working capital		
Trade and other receivables	(2,685,013)	(4,133,364)
Inventories	(3,429,881)	(1,990,014)
Other current assets	(310,932)	(4,897)
Trade payables and accrued liabilities	3,860,645	3,675,007
Deposits on contracts	(921,314)	2,642,726
Income taxes	(49,020)	437,509
Net cash generated from operating activities	(547,954)	1,865,219
Financing activities		
Bank indebtedness	573,447	2,216,370
(Repayment) proceeds of promissory notes payable	(705,147)	150,000
Contribution from (distribution to) non–controlling interest	(56,951)	51
Repayment of long–term debt	(2,620,658)	(2,053,815)
Proceeds from long–term debt, net of fees	6,699,681	–
Repayment of finance lease obligation	(5,517)	(4,890)
Repayment of debentures payable	(2,000,000)	–
Proceeds from debentures payable	4,809,409	–
Issuance of common shares and warrants, net of issuance costs	8,664,284	–
Net cash generated from financing activities	15,358,548	307,716
Investing activities		
Restricted cash	(358,265)	–
Acquisition of marketable securities	(316,750)	(900,900)
Proceeds from sale of marketable securities	445,195	932,630
Proceed from sale of inventory	168,147	278,004
Business acquisition (note 6)	(5,708,066)	–
Acquisition of property, plant and equipment	(9,576,031)	(2,561,508)
Proceeds from disposal of property, plant and equipment	606,704	573,657
Proceeds from related party note receivable	107,145	55,552
Net cash generated from investing activities	(14,631,921)	(1,622,565)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(10,133)	(29,247)
Increase in cash and cash equivalents	168,540	521,123
Cash and cash equivalents–beginning of years	944,628	423,505
Cash and cash equivalents–end of years	1,113,168	944,628
Cash payment of interest	1,550,264	851,853
Cash payment of income taxes	830,823	250,631

The accompanying notes are an integral part of these consolidated financial statements.

(Expressed in Canadian Dollars Unless Otherwise Noted)

1 General information and going concern

Landdrill International Inc. ("Landdrill" or the "Company") is incorporated under the laws of the Province of British Columbia. The address of its head office is 160 MacNaughton Avenue, Moncton, N.B., Canada, E1H 3L9. The common shares of the Company are traded on the TSX Venture Exchange under the symbol "LDI". The consolidated financial statements of the Company for the years ended December 31, 2011 and 2010 comprise the Company and, its subsidiaries including Nitasi Landdrill Limited Partnership ("Nitasi") and Nitasi Landdrill (Quebec) Limited Partnership (Quebec), two 49% owned entity consolidated under SIC Interpretation 12 (*consolidation–special purpose entities*).

The principal source of revenue consists of contract drilling for mineral exploration companies. The Company has operations in Canada, Mexico, Nicaragua, Mongolia and Russia.

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due.

The Company incurred a net loss of approximately $1.6 million for the fiscal year ended December 31, 2011, and at December 31, 2011, had an accumulated deficit of approximately $12 million and had working capital of approximately $1.2 million. As part of their working capital requirements, in the next year, the Company must secure sufficient funding for existing commitments, including principal payments of long-term debts and notes payable of approximately $2,292,000 and $586,000. By April 2013, the Company must secure sufficient funding to repay the convertible debentures payable of $5 million as well as $5 million of the $8 million bridge loan received subsequent to year-end. These circumstances cast significant doubt as to the ability to meet its obligations as they come due and accordingly the appropriateness of the use of accounting principles applicable to a going concern.

In recognition of these circumstances, subsequent to the year-end, the Company raised gross proceeds of $8.0 million through a bridge loan and gross proceeds of $1.2 million as a working capital loan, of which $5 million of the bridge loan is repayable in April 2013 (see note 23). With these funds, the Company repaid its revolving demand loan and also repaid the note payable. The balance of these loan monies was used to repay overdue accounts payable and as additional cash for operations. These undertakings, while significant, are not sufficient in and of themselves to enable the Company to fund all aspects of its operational and financial requirements and, accordingly, management is seeking new drilling contracts, greater operational efficiencies while also pursuing financing alternatives so it can continue as a going concern. Management plans to secure the necessary financing through the issuance of new debt and/or equity instruments prior to the January 2013 maturity of the $5 million of debentures payable and prior to the April 2013 maturity of the $5 million due on the $8 million bridge loan (that was received subsequent to year-end during early 2012). Management is also pursuing several drilling opportunities while implementing operational initiatives to improve results from operations. Management has been successful in the past on similar initiatives nevertheless there is no assurance that these initiatives will be successful.

The Company's ability to continue as a going concern is dependent on several factors, including its ability to raise additional funds either through equity financing or additional debts; to realize new contracts; and also to generate positive cash flows from operations. If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of the assets and liabilities, the reported expenses, the statement of financial position classifications and these adjustments could be material.

(Expressed in Canadian Dollars Unless Otherwise Noted)

2 Basis of preparation and adoption of IFRS

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These consolidated financial statements, including comparatives, have been prepared in compliance with IFRS. Subject to certain transition elections and exceptions disclosed in note 4, the Company has consistently applied the same accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010 prepared under Canadian GAAP.

These financial statements were approved by the board of directors for issue on April 30, 2012.

3 Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Basis of measurement

The consolidated financial statements have been prepared under historical cost convention, except for the revaluation to fair value of the marketable securities.

Significant accounting judgements and estimates

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Such estimates primarily relate to unsettled transactions and events at the statement of financial position date which are based on information available to management at each financial statement date. Actual results could differ from those estimated.

Judgements, estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(Expressed in Canadian Dollars Unless Otherwise Noted)

3 Significant accounting policies (continued)

Significant accounting judgements and estimates (continued)

Significant estimates made by management in applying accounting policies primarily relate to the following:

i) Income taxes:

The Company is subject to income taxes in numerous jurisdictions and significant judgement is required in determining the worldwide provision for income taxes. Management also uses judgement and estimates in determining the timing and probability of realization of any deferred income tax assets.

ii) Impairment of non–financial assets:

The impairment test on cash generating units ("CGU") is carried out by comparing the carrying amount of the CGU and its recoverable amount. The recoverable amount of a CGU is the higher of its fair value, less cost to sell and its value in use. This complex valuation process entails the use of methods such as the discounted cash flow method which uses assumptions to estimate cash flows. The recoverable amount depends significantly on the discount rate used in the discounted cash flow model as well as the expected future cash flows and the growth used for the extrapolation.

iii) Available-for-sale financial assets

The Company follows the guidance of IAS 39 to determine when an available-for-sale asset is impaired. This determination requires significant judgement. In making this judgement, the Company's management evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the volatility of the investment and the financial health and business outlook for the investee, including factors such as the current and expected status of the investee's exploration projects and changes in financing cash flows.

Consolidation

The financial statements of the Company consolidate the accounts of Landdrill International Inc. and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated upon consolidation.

Subsidiaries are those entities (including special purpose entities) which Landdrill controls by having the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is obtained by Landdrill and are de–consolidated from the date that control ceases.

Business combination

Business combinations are accounted for using the acquisition method. On acquisition, the assets, including intangible assets, and any liabilities assumed are measured at their fair value. Purchase price allocations may be preliminary when initially recognized and may change pending finalization of the valuation of assets acquired. Purchase price allocations are finalized within one year of the acquisition and prior periods are restated to reflect any adjustments to the purchase price allocation made subsequent to the initial recognition.

(Expressed in Canadian Dollars Unless Otherwise Noted)

3 Significant accounting policies (continued)

Business combination (continued)

The determination of fair value, particularly for intangible assets, is based on management's estimates and includes assumptions on the timing and the amount of future cash flows. The Company recognizes as goodwill the excess of the purchase price of an acquired business over the fair value of the underlying net assets, including intangible assets at the date of acquisition. When the excess is negative, a bargain purchase gain is recognized immediately in the statement of income. Transaction costs, other than those associated with the issuance of debt or equity, that the Company incurs in connection with a business combination are expensed as incurred.

Non–controlling interests

Non–controlling interests represent equity interest in subsidiaries (including special purpose entities) owned by outside parties. The share of net assets of subsidiaries attributable to non–controlling interests is presented as a component of equity. Their share of net income (loss) and comprehensive income (loss) is recognized directly in equity in accordance with the terms of the agreement. Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Special purpose entities

Under SIC interpretation 12, the Company evaluates its joint ventures and partnership agreements to determine whether the substance of the relationship between the entity and the Company indicates that the entity is controlled by the Company. As a result of this analysis, the Company has consolidated Nitasi Landdrill Limited Partnership and Nitasi Landdrill (Quebec) Limited Partnership; two 49% owned partnerships as the guidelines for classification of a special purpose entity have been met.

Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Canadian dollars, which is Landdrill's functional currency.

The assets and liabilities of the Company's foreign operations that have a functional currency different from that of Landdrill are translated in Canadian dollars using the exchange rates prevailing at the end of each reporting period. Income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of the transaction are used. Exchange differences arising, if any, are recognized in other comprehensive income as cumulative translation adjustments.

The long term receivables from foreign subsidiaries for which settlement is neither planned nor likely to occur in the foreseeable future, is considered a part of the Company's net investment in that foreign operation. Exchange differences arising on these monetary items are recognized in other comprehensive income.

(Expressed in Canadian Dollars Unless Otherwise Noted)

3 Significant accounting policies (continued)

Foreign currency translation (continued)

i) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year–end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of income.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held in banks, and other short–term highly liquid investments with original maturities of three months or less.

Restricted Cash

Restricted cash relates to funds in a Mexican bank account that were frozen by Mexican authorities due to the fact that the Company relocated. These funds were released on February 15, 2012.

Financial instruments

Financial assets and liabilities are recognized when Landdrill becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flow from the assets have expired or have been transferred and Landdrill has transferred substantially all the risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired.

i) Available-for-sale financial assets

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any other categories. The Company's available-for-sale assets are comprised of marketable securities.

Available-for-sale assets are recognized initially at fair value and are subsequently carried at fair value. Gains or losses arising from remeasuring are recognized in other comprehensive income. When an available-for-sale asset is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of income and are included in other gains or losses.

(Expressed in Canadian Dollars Unless Otherwise Noted)

3 Significant accounting policies (continued)

Financial instruments (continued)

ii) Loans and receivables

Loans and receivables are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of cash and cash equivalents, restricted cash, trade and other receivables, and are included in current assets due to their short–term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

iii) Financial liabilities at amortized cost

Financial liabilities at amortized cost include trade and other payables, bank debt, deposits on contracts, notes payable, long–term debt, finance lease liability and convertible debentures payable. Trade and other payables and deposits on contracts are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade and other payables and deposits on contracts are measured at amortized cost using the effective interest rate method. Bank debt, notes payable, long–term debt, finance lease liability and convertible debentures payable are initially recognized at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective rate method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non–current liabilities.

Impairment of financial assets

Financial assets, other than those recorded at fair value as adjusted through profit or loss, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired when there is objective evidence that, because of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

(Expressed in Canadian Dollars Unless Otherwise Noted)

3 Significant accounting policies (continued)

Inventories

Inventories consist of materials and supplies to be consumed in the rendering of services and are stated at the lower of cost and net realizable value. The cost of inventories is determined on a weighted average cost basis and includes expenditures incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. Net realizable value is the net amount expected to be realized from consuming the inventory in the ordinary course of business.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment consists of the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of income during the period in which they are incurred.

The property, plant and equipment are depreciated on a straight–line basis as follows:

Building	40 years
Leasehold improvements	10 years
Heavy machinery and equipment	5 – 10 years
Furniture and equipment	3 – 10 years
Equipment under finance lease	10 years
Vehicles	3 – 10 years

Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Any gains and losses arising on disposals of property, plant and equipment, determined as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized as part of other gains and losses in the consolidated statement of income.

Leases

Leases are classified as finance or operating depending on the terms and conditions of the contract. The costs of assets acquired under finance leases are amortized on a straight–line basis over their estimated useful lives. Obligations recorded under finance leases are reduced by lease payments net of imputed interest. Operating leases are expensed on a straight–line basis.

(Expressed in Canadian Dollars Unless Otherwise Noted)

3 Significant accounting policies (continued)

Identifiable intangible assets

The Company's intangible assets include contracts and customer relationships, with finite useful lives, which were acquired in business acquisitions. These assets are capitalized and the customer relationship are amortized on a straight–line basis in the statement of income over their expected useful lives of five years. The contracts are amortized based on the duration of the contract.

Goodwill

Goodwill represents the excess purchase price over the fair value of the net assets acquired, including tangible and intangible assets. Goodwill resulting from the acquisition of a business is not amortized but tested for impairment annually or more frequently if circumstances indicate potential impairment.

Impairment of non–financial assets

Property, plant and equipment and intangible assets are reviewed at each reporting date to determine whether there is an indication of impairment. If any indication exists, then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated each year at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash flows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating units"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the group of cash generating units that is expected to benefit from the synergies of the combination. The level at which goodwill is allocated is based on the level at which goodwill is monitored by management and is not higher than an operating segment. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is only reversed if there is indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized in previous years.

(Expressed in Canadian Dollars Unless Otherwise Noted)

3 Significant accounting policies (continued)

Stock–based compensation

The Company grants stock options to directors, officers and employees. These stock options vest over a two year period (1/3 on issue, 1/3 at end of year one, and 1/3 at end of year two), and expire after ten years. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black–Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest, by increasing contributed surplus. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that the reimbursement will be received and the amount can be measured reliably.

Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized for unused tax losses and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non–discounted basis using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

(Expressed in Canadian Dollars Unless Otherwise Noted)

3 Significant accounting policies (continued)

Income taxes (continued)

Deferred income tax assets and liabilities are presented as non–current.

Revenue

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transactions at the reporting date. The stage of completion is determined as follows; revenue from drilling contracts is recognized on the basis of actual meters drilled for each contract, and revenue from ancillary services normally arises when the services are rendered.

Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from other segments. Segment information is presented in respect of the group's geographic segments. The Company's primary format for segment reporting, and the information presented to the chief operating decision maker, is based on geographic segments as the Company has only one principal business activity, being contract exploration drilling.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from equity.

Comprehensive Income

The Company's comprehensive income is comprised of net income and other comprehensive income or loss. Other comprehensive income includes unrealized gains and losses on foreign currency translation of the net investment in foreign operations. The components of comprehensive income or loss are disclosed in the consolidated statement of comprehensive income. Accumulated other comprehensive income or loss is included on the consolidated statements of financial position.

Earnings per share

The Company presents basic and diluted earnings per share. Basic earnings per share are calculated by dividing the income or loss attributable to shareholders of the Company by the weighted average number of common shares outstanding during the year. The diluted earnings per share are determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effect of dilutive potential common shares. The Company uses the treasury stock method for calculating diluted earnings per share. The diluted earnings per share calculation considers the impact of the warrants, the employee stock options and convertible debentures.

(Expressed in Canadian Dollars Unless Otherwise Noted)

3 Significant accounting policies (continued)

Accounting standards issued but not yet applied

IFRS 9 – Financial Instruments

IFRS 9 was issued in November 2009. IFRS 9, which replaces IAS 39, (*Financial Instruments: Recognition and Measurement*), establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2015, with early adoption permitted. The Company has not yet assessed the impact of the standard on its consolidated financial statements.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 10, (*Consolidated Financial Statements*) (IFRS 10), IFRS 11, (*Joint Arrangements*) (IFRS 11), IFRS 12, (*Disclosure of Interests in Other Entities*) (IFRS 12), IAS 27, (*Separate Financial Statements*) (IAS 27), IFRS 13, (*Fair Value Measurement*) (IFRS 13) and amended IAS 28, (*Investments in Associates and Joint Ventures*) (IAS 28). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company continues to assess the impact that the new and amended standards will have on its financial statements. The following is a brief summary of the new standards:

IFRS 10 – Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 (*Consolidation—Special Purpose Entities*) and parts of IAS 27 (*Consolidated and Separate Financial Statements.*)

IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, (*Interests in Joint Ventures*), and SIC-13, (*Jointly Controlled Entities—Non-monetary Contributions by Venturers*).

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

(Expressed in Canadian Dollars Unless Otherwise Noted)

3 Significant accounting policies (continued)

Accounting standards issued but not yet applied (continued)

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to standards

IFRS 7, *Financial Instruments: Disclosures,* has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted. Landdrill continues to assess the impact of all other changes to IFRS 7 on its consolidated statement of income and financial position.

IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. Landdrill continues to assess the impact of all other changes to IAS 1 on its consolidated statement of income and financial position.

4 Transition to IFRS

As stated in note 2, Landdrill's consolidated financial statements are now prepared in compliance with IFRS. The accounting policies set out in note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information for the year ended December 31, 2010 and in the preparation of the opening IFRS statement of financial position at January 1, 2010 (the Company's "transition date").

The effect of the Company's transition to IFRS is summarized as follows:

i) Transition elections under IFRS 1
ii) Reconciliation of equity as at January 1, 2010 and December 31, 2010
iii) Reconciliation of comprehensive income for the years ended December 31,2010
iv) Explanation of adjusting entries
v) Adjustment to the statement of cash flows

(Expressed in Canadian Dollars Unless Otherwise Noted)

4 Transition to IFRS (continued)

i) Transition elections under IFRS 1

IFRS 1 – (*First Time Adoption of IFRS*) allows first time adopters of IFRS to elect a number of optional exemptions and apply mandatory exceptions from the general principal of retrospective applications of IFRS. Landdrill has applied the following optional exemptions:

Business combinations

IFRS 1 provides the option to apply IFRS 3 (Business Combinations), prospectively from the transition date. However, this election still requires assets and liabilities that do not meet the recognition criteria to be derecognized. This provides relief from full retrospective application, which would require restatement of business combinations that occurred prior to the transition date. The Company has elected to apply IFRS 3 prospectively from the transition date. Balances related to business combinations occurring prior to the transition date have not been restated.

Cumulative translation differences

IFRS 1 allows a first–time adopter to not comply with the requirements of IAS 21, (The Effect of Changes in Foreign Exchange Rates) for cumulative translation differences that existed at the date of transition to IFRS. The Company has chosen to apply this election and has eliminated the foreign currency translation reserve and adjusted the deficit by the same amount at the date of transition to IFRS.

Borrowing costs

Under IFRS, the Company is required to capitalize borrowing costs related to all qualifying assets rather than recording them as an expense when incurred. The Company has elected to apply the exemption to retrospective application for borrowing costs incurred prior to the transition date.

The Company has applied the following mandatory exception to the retrospective application of other IFRS:

Estimates

Estimates as at January 1, 2010 under IFRS are consistent with estimates made at the same date under Canadian GAAP.

(Expressed in Canadian Dollars Unless Otherwise Noted)

4 Transition to IFRS (continued)

i) Reconciliation of equity as at January 1, 2010

	Notes	Canadian GAAP $	Effect of Transition To IFRS $	IFRS $
Assets				
Current assets				
Cash and cash equivalents		423,505		423,505
Marketable securities		229,130		229,130
Trade receivables		1,071,309		1,071,309
Related party note receivable		150,426		150,426
Inventories		5,875,264		5,875,264
Other current assets		323,695		323,695
		8,073,329		8,073,329
Non–current assets				
Property, plant and equipment		8,365,824		8,365,824
Goodwill		125,800		125,800
Intangible assets		1,164,499		1,164,499
Total assets		17,729,452		17,729,452
Liabilities				
Current liabilities				
Bank indebtedness		600,029		600,029
Trade payables and accrued liabilities		2,040,720		2,040,720
Deposits on contract		1,131,891		1,131,891
Income tax liabilities		928,147		928,147
Current portion of long–term debt		2,603,111		2,603,111
Current portion of notes payable		702,483		702,483
Current portion of finance lease liability		5,305		5,305
Current portion of debentures payable	a	1,907,292	38,656	1,945,948
		9,918,978	38,656	9,957,634
Non–current liabilities				
Long–term debt		315,944		315,944
Notes payable		263,821		263,821
Finance lease liability		18,650		18,650
Total Liabilities		10,517,393	38,656	10,556,049
Shareholders' equity				
Capital stock		15,269,385		15,269,385
Equity portion of convertible debentures	a	248,877	(141,377)	107,500
Contributed surplus	b	2,545,041	84,477	2,629,518
Accumulated other comprehensive income (loss)	c	(128,284)	128,284	–
Deficit	a,b,c	(10,722,960)	(110,040)	(10,833,000)
Total equity		7,212,059	(38,656)	7,173,403
Total liabilities and equity		17,729,452	–	17,729,452

(Expressed in Canadian Dollars Unless Otherwise Noted)

4 Transition to IFRS (continued)

ii) Reconciliation of equity as at December 31, 2010

	Notes	Canadian GAAP $	Effect of Transition To IFRS $	IFRS $
Assets				
Current assets				
Cash and cash equivalents		944,628		944,628
Marketable securities		793,640		793,640
Trade receivables		5,179,689		5,179,689
Related party note receivable		107,145		107,145
Inventories		7,787,390		7,787,390
Other current assets		329,075		329,075
		15,141,567		15,141,567
Non–current assets				
Property, plant and equipment		9,992,259		9,992,259
Goodwill		125,800		125,800
Intangible assets		839,527		839,527
Total assets		26,099,153		26,099,153
Liabilities				
Current liabilities				
Bank indebtedness		2,816,399		2,816,399
Trade payables and accrued liabilities		5,733,777		5,733,777
Deposits on contract		3,769,767		3,769,767
Income tax liabilities		1,455,256		1,455,256
Current portion of long–term debt		1,371,715		1,371,715
Current portion of notes payable		1,213,647		1,213,647
Current portion of finance lease liability		5,697		5,697
Current portion of debentures payable		2,000,000		2,000,000
		18,366,258		18,366,258
Non–current liabilities				
Long–term debt		447,124		447,124
Finance lease liability		13,368		13,368
Total liabilities		18,826,750		18,826,750
Non–controlling interest	e	51	(51)	–
Shareholders equity				
Capital stock		15,269,385		15,269,385
Equity portion of convertible debentures	a	248,877	(141,377)	107,500
Contributed surplus	b	2,743,249	39,763	2,783,012
Accumulated other comprehensive income (loss)	c,d	(50,368)	105,838	55,470
Deficit	a,b,c,d	(10,938,791)	68,645	(10,870,146)
Non–controlling interest	e	–	(72,818)	(72,818)
Total equity		7,272,352	51	7,272,403
Total liabilities and equity		26,099,153	–	26,099,153

(Expressed in Canadian Dollars Unless Otherwise Noted)

4 Transition to IFRS (continued)

iii) Reconciliation of comprehensive income for the year ended December 31, 2010

	Notes	Canadian GAAP (note f) $	Effect of Transition to IFRS $	IFRS $
Revenue		34,677,257		34,677,257
Direct contract costs	f	26,890,095		26,890,095
Gross profit		7,787,162		7,787,162
Operating expenses				
General and administrative	b, f	7,259,856	(44,714)	7,215,142
Gain on disposal property, plant and equipment		(353,447)		(353,447)
Gain on disposal of inventory		(97,783)		(97,783)
Gain on marketable securities	g	(596,240)	(13,935)	(610,175)
Foreign currency gain	d	(86,120)	(8,511)	(94,631)
		6,126,266	(67,160)	6,059,106
Operating profit		1,660,896	67,160	1,728,056
Finance expense	a, f	1,131,783	(38,656)	1,093,127
Income before income taxes		529,113	105,816	634,929
Income taxes		744,944		744,944
Net loss for the period		(215,831)	105,816	(110,015)
Other comprehensive income				
Unrealized foreign currency translation gains	d	77,916	(8,511)	69,405
Unrealized loss on marketable securities		–	(13,935)	(13,935)
Comprehensive loss for the period		(137,915)	83,370	(54,545)

(Expressed in Canadian Dollars Unless Otherwise Noted)

4 Transition to IFRS (continued)

iv) Explanation of adjusting entries

a) Convertible debentures

Under IFRS the Company has calculated the fair value of the debt portion of the convertible debentures. The equity portion is calculated as the difference between the fair value and the face value of the debt. Under Canadian GAAP, the equity portion was calculated using the Black-Scholes method, and was deducted from the value of the debentures.

On January 1, 2010, this has resulted in an increase in the convertible debentures of $38,656, a decrease in the equity portion of convertible debentures of $141,377 and a decrease in the deficit of $102,721. On December 31, 2010, the equity portion of the convertible debentures decrease was $141,377, and the deficit decrease was also $141,377.

The comprehensive income increase was $38,656 for the year ended December 31, 2010.

b) Share-based payments

IFRS requires the expense relating to employee options to be recognized individually for each vesting tranche over the applicable vesting period, whereas, under Canadian GAAP, it was acceptable for the expense to be recognized on a straight line method over the longest vesting period. This has resulted in an increase in the contributed surplus and the deficit at January 1, 2010 of $84,477. Since there were new options issued in the fourth quarter of 2010 the cumulative adjustment as at December 31, 2010 was $39,763. Stock-based compensation expense decreased by $44,714 for the year ended December 31, 2010.

c) Accumulated other comprehensive income

In accordance with IFRS 1, the Company has elected to deem all foreign currency translation differences that arose prior to the date of transition in respect of all foreign operations to be $nil at the date of transition. The impact arising from this change at December 31, 2010 and January 1, 2010 was to decrease the cumulative translation reserve and to increase the deficit by $128,284.

(Expressed in Canadian Dollars Unless Otherwise Noted)

4 Transition to IFRS (continued)

iv) Explanation of adjusting entries (continued)

d) The effects of changes in foreign exchange rates

Under IFRS, the functional currency of the subsidiary determines the translation methodology. Two of Landdrill's foreign subsidiaries' functional currencies have been assessed as the Canadian dollar under IFRS. Under Canadian GAAP, these two subsidiaries were reporting under their local currency. However since these were translated into Canadian dollars following the accounting guidelines for translation of self–sustaining foreign operations, and since most of the assets and liabilities of these subsidiaries are monetary assets and liabilities, the impact arising from the change is minimal. The effect was an increase in the gain on foreign exchange, a decrease in the accumulated other comprehensive income and a decrease in the deficit for the year ended December 31, 2010 of $8,511.

e) Non–Controlling interest

Under IFRS, the non–controlling interest's share of the net assets of subsidiaries is included in equity and its share of the comprehensive income of subsidiaries is allocated directly to equity. Under previous Canadian GAAP, non–controlling interest was presented as a separate item between liabilities and equity in the statement of financial position, and the non–controlling interest's share of income and other comprehensive income was deducted in calculating net income and comprehensive income of the Company.

f) Functional presentation of financial statement

Under IFRS, the Company has elected to use the functional basis for the presentation of the income statement. Under Canadian GAAP, the income statement was presented using a mix of both function and nature of expenditure. As a result, depreciation of the drilling assets is no longer presented as a separate item on the statement of income, but is included in the cost of sales, and amortization of debt issue cost is reclassified from depreciation expense to finance expense. The Canadian GAAP columns in the reconciliations of comprehensive income for the year ended December 31, 2010 have been reclassified to conform with the IFRS functional presentation.

g) Marketable securities

Under IFRS, the marketable securities are recognized as available for sale. Under Canadian GAAP they were recognized at fair value through profit and loss. Under IFRS the loss of $13,935 arising from remeasuring the marketable securities at fair value was recorded in other comprehensive income.

(Expressed in Canadian Dollars Unless Otherwise Noted)

4 Transition to IFRS (continued)

v) Adjustment to the statement of cash flows

There are no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under Canadian GAAP.

5 Information about expenses by nature

The following IFRS disclosure relating to the years ended December 31, 2011 and 2010 is material to an understanding of these consolidated financial statements.

i) Presentation of expenses

The Company presents its expenses on the statement of income using the function of expense method whereby expenses are classified according to their function within the Company. This method was selected as it more closely aligns with the Company's business structure.

Use of the function of expense method also requires that the following additional information on the nature of expenses be disclosed:

	2011 $	2010 $
Depreciation (included in direct contract cost)	2,065,372	1,144,227
Depreciation (included in general & administrative expense)	802,600	518,166
Depreciation of intangible assets (included in general & administrative expense)	1,073,363	324,972
Bad debt expense	411,784	–
Loss on write down of inventory (included in direct contract cost)	354,165	–
Employee benefits expense (ii)	26,191,801	14,931,187
Inventory recognized as expense	14,711,957	7,425,114
Transportation	3,163,608	1,782,839
Equipment and office rental	2,856,571	1,519,367
Fuel oil and grease	4,073,800	1,957,064
Board and lodging	1,367,692	787,884
Other expense	6,646,340	3,714,417
Total direct contract costs and administrative expense	63,719,053	34,105,237

(Expressed in Canadian Dollars Unless Otherwise Noted)

5 Information about expenses by nature (continued)

ii) Employee benefits expense

Employee benefits include all forms of consideration given by the Company in exchange for services rendered by employees.

	2011	2010
	$	$
Salaries and short term employee	26,014,525	14,688,093
Share–based payments	177,276	243,094
	26,191,801	14,931,187

iii) Other (gains) and losses net

Other (gains) and losses comprise the following:

	2011	2010
	$	$
Gain on disposal of property, plant and equipment	(168,862)	(353,447)
Gain on disposal of inventory	(48,007)	(97,783)
Gain on marketable securities	(65,886)	(610,175)
Bargain purchase gain on business acquisition	(235,605)	–
Loss (gain) on foreign exchange	363,664	(94,631)
	(154,696)	(1,156,036)

(Expressed in Canadian Dollars Unless Otherwise Noted)

6 Business acquisition

On March 31, 2011, the Company acquired the drilling assets of the exploration drilling companies HD Drilling s. de r.1 de c.v. and Inflight s. de r.1 de c.v. (jointly referred to as HD Drilling) based in Mazatlan, Sinaloa, Mexico. Through this acquisition, Landdrill acquired nine drill rigs, support equipment and inventory, existing contracts and customer relationships and personnel and determined the acquisition to contribute a business. The cost of this acquisition was US $6,813,498 including commodity taxes of US $939,793. The purchase price was settled through a cash payment of US $1,160,000 (financed from a promissory note of US $500,000 and cash from working capital) a note payable of US $4,988,000 and a short term payable of US $665,498.

In the third quarter, the Company obtained long-term debt of $4,000,000 from Sprott Resources Lending Partnership. With these funds, the Company finalized the payment of the principal portion of the US $4,988,000 note payable.

The net assets acquired at fair market value in Canadian dollars at acquisition are as follows:

	$
Inventories	1,237,786
Property, plant and equipment	3,109,760
Intangible assets	1,596,125
Net identifiable assets	5,943,671
Less: Bargain purchase gain	(235,605)
Purchase consideration	5,708,066

There was a bargain purchase gain of $235,605 recognized on this acquisition. The gain is due to the saved costs because of the synergy between Landdrill Mexico and the acquired business. The gain is recorded in the income statement in other gains and losses.

The direct cost relating to the acquisition amounted to $33,365 and included mainly legal, valuation and professional consulting fees and were expensed in the income statement in general and administration expenses.

(Expressed in Canadian Dollars Unless Otherwise Noted)

7 Marketable securities

The marketable securities are classified as available-for-sale and recorded at fair value. The marketable securities consist of listed securities with the following issuers as at December 31, 2011 and 2010 and January 1, 2010:

	December 31, 2011	December 31, 2010	January 1, 2010
Issuer	$	$	$
Merrex Gold Inc	–	–	122,200
Gold Bullion Development Corp.	–	–	72,930
Frontline Gold Corp. (formally Chrysos Capital Corporation)	3,240	12,240	34,000
NSGold Corporation	33,540	203,060	–
Meritus Minerals Ltd	3,000	28,500	–
Portage Minerals Inc	66,377	87,340	–
St.-Georges Platinum and Base Metals Ltd	162,500	462,500	–
	268,657	793,640	229,130

(Expressed in Canadian Dollars Unless Otherwise Noted)

8 Income Taxes

The following table reconciles the expected income taxes recoverable (payable) at the statutory income tax rate to the amounts recognized in the consolidated statements of operations for the years ended December 31, 2011 and 2010:

	2011 $	2010 $
Income (loss) before income taxes	(686,425)	620,994
Income tax rate	27%	29%
Expected income tax expense (recovery) based on above rates	(185,000)	180,000
Effect of lower tax rates on losses in foreign jurisdictions	48,000	46,000
Other non-deductable expenses	201,000	62,000
Non-deductible stock option expense	48,000	85,000
Non-taxable portion of capital gains	(21,000)	(123,000)
Adjustment to unrecognized deferred tax assets	1,249,000	169,000
Effect of rate change	(5,000)	18,000
Effect of income tax assessment of prior years	3,000	183,000
Other	(375,217)	124,944
Provision for income taxes	962,783	744,944
Provision for (recovery of) income taxes is comprised of:		
Current	825,000	854,000
Utilization of loss carry forward	(103,000)	(265,000)
Future income taxes	(1,007,000)	(110,000)
Adjustment to unrecognized deferred tax assets	1,249,000	169,000
Effect of rate change	(5,000)	18,000
Effect of income tax assessment of prior years	3,000	183,000
Other	783	(104,056)
	962,783	744,944

The nominal tax rates for the Company's operations in Canada and abroad are as follows:

- Canada – 27% (2010-29%)
- Mexico – 30% (2010-30%)
- Mongolia – 10% (2010-10%)
- Russia – 20% (2010-20%)
- Nicaragua – 30% (2010-30%)
- Barbados – 30% (2010-30%)

(Expressed in Canadian Dollars Unless Otherwise Noted)

8 Income taxes (continued)

Current income taxes payable and receivable are offset against each other when there is a legally enforceable right to offset the amounts and the intention is to settle on a net basis.

	December 31, 2011 $	December 31, 2010 $	January, 2010 $
Income taxes receivable			
Canada	25,000	–	–
Nicaragua	40,000	–	–
	65,000	–	–
Income taxes payable			
Canada	(1,459,000)	(1,371,000)	(928,000)
Mexico	–	(11,000)	–
Mongolia	–	(6,000)	–
Barbados	(71,000)	(67,000)	–
	(1,530,000)	(1,455,000)	(928,000)
	(1,465,000)	(1,455,000)	(928,000)

The following reflects deferred tax assets and liabilities at December 31, 2011 and 2010 and January 1, 2010:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Deferred tax assets			
Non-capital losses carried forward	1,616,000	962,000	867,000
Resource expenditures	262,000	377,000	453,000
Deductible share issuance costs	108,000	47,000	61,000
Foreign business taxes payable	725,000	725,000	709,000
Other timing differences	399,000	57,000	112,000
	3,110,000	2,168,000	2,202,000
Portion of deferred tax assets unrecognized	(2,925,000)	(1,884,000)	(1,826,000)
	185,000	284,000	376,000
Deferred tax liabilities			
Differences between tax value and accounting value of property and equipment and prepaid expenses	(179,000)	(284,000)	(376,000)
Other timing differences	(6,000)	–	–
Net deferred tax asset recognized	–	–	–

(Expressed in Canadian Dollars Unless Otherwise Noted)

8 Income taxes (continued)

The Company's non-capital tax losses carried forward expire in the following years:

	Canada $	Mexico $	Mongolia $	Russia $	Nicaragua $	Total $
Year ended December 31, 2013	–	–	105,000	–	13,000	118,000
2014	–	–	–	–	27,000	27,000
2016	–	204,000	–	–	–	204,000
2018	–	364,000	–	–	–	364,000
2019	–	156,000	–	516,000	–	672,000
2020	–	661,000	–	871,000	–	1,532,000
2021	521,000	1,862,000	–	683,000	–	3,066,000
	521,000	3,247,000	105,000	2,070,000	40,000	5,983,000

The Company's resource and development expenditures of approximately $1,050,000 are available to reduce income taxes in Canada in future years.

The recognition and measurement of the current and future income tax assets and liabilities involves dealing with uncertainties in the application of complex tax regulations in a multitude of jurisdictions and in the assessment of the recoverability of future tax assets. Potential liabilities are recognized for anticipated tax audit issues in various tax jurisdictions based on the Company's estimation of whether, and the extent to which, additional taxes will be due. If payment of the accrued amounts ultimately proves to be unnecessary, the elimination of the liabilities would result in tax benefits being recognized in the year when the Company determines the liabilities no longer exist. If the estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense will result. In addition, a valuation allowance has been provided against a portion of the Company's future tax asset based on current assessment of recoverability of this future tax asset. If the Company's assessment changes, any increases or decreases in the valuation allowance will result in decreases or increases in net income or loss for the year, respectively.

(Expressed in Canadian Dollars Unless Otherwise Noted)

9 Property, plant and equipment

	As at January 1, 2010		
	Cost $	Accumulated depreciation $	Net $
Land and building	513,944	28,326	485,618
Leasehold improvements	34,014	6,725	27,289
Heavy machinery and equipment	10,409,912	3,555,946	6,853,966
Furniture and equipment	731,631	341,763	389,868
Equipment under finance lease	34,900	9,069	25,831
Vehicles	1,063,431	480,179	583,252
	12,787,832	4,422,008	8,365,824

	Year ended December 31, 2010					
	Opening Net book value $	Addition $	Disposals $	Depreciation for the period $	Exchange Differences $	Closing Net Book Value $
Land and building	485,618	23,194	–	(12,690)	11,611	507,733
Leasehold improvements	27,289	8,885	–	(3,447)	14	32,741
Heavy machinery and equipment	6,853,966	2,712,293	(243,613)	(1,321,278)	19,107	8,020,475
Furniture and equipment	389,868	115,395	(25,138)	(114,880)	3,987	369,232
Equipment under finance lease	25,831	–	–	(3,563)	–	22,268
Vehicles	583,252	722,704	(89,009)	(207,657)	30,520	1,039,810
	8,365,824	3,582,471	(357,760)	(1,663,515)	65,239	9,992,259

	As at December 31, 2010		
	Cost $	Accumulated depreciation $	Net $
Land and building	550,716	42,983	507,733
Leasehold improvements	42,908	10,167	32,741
Heavy machinery and equipment	11,798,054	3,777,579	8,020,475
Furniture and equipment	821,878	452,646	369,232
Equipment under finance lease	34,900	12,632	22,268
Vehicles	1,723,555	683,745	1,039,810
	14,972,011	4,979,752	9,992,259

(Expressed in Canadian Dollars Unless Otherwise Noted)

9 Property, plant and equipment (continued)

	Years ended December 31, 2011						
	Opening Net book value	Addition (re-classification)	Addition from business acquisition	Disposals	Depreciation for the period	Exchange Differences	Closing Net Book Value
	$	$	$	$	$	$	$
Land and building	507,733	10,583	–	–	(8,872)	(11,161)	498,283
Leasehold improvements	32,741	149,284	–	(14,275)	(6,507)	(5,956)	155,287
Heavy machinery and equipment	8,020,475	8,917,780	2,641,050	(423,481)	(2,323,468)	(761,920)	16,070,436
Furniture and equipment	369,232	(58,753)	14,650	(86)	(76,747)	(11,040)	237,256
Equipment under finance lease	22,268	–	–	–	(3,562)	–	18,706
Vehicles	1,039,810	897,656	454,060	–	(448,516)	(72,601)	1,870,409
	9,992,259	9,916,550	3,109,760	(437,842)	(2,867,672)	(862,678)	18,850,377

	As at December 31, 2011		
	Cost	Accumulated depreciation	Net
	$	$	$
Land and building	548,082	49,799	498,283
Leasehold improvements	171,376	16,089	155,287
Heavy machinery and equipment	21,378,463	5,308,027	16,070,436
Furniture and equipment	622,208	384,952	237,256
Equipment under finance lease	34,900	16,194	18,706
Vehicles	2,995,203	1,124,794	1,870,409
	25,750,232	6,899,855	18,850,377

(Expressed in Canadian Dollars Unless Otherwise Noted)

10 Intangible assets

Intangible assets are comprised of contracts and customer relationships. The cost of the intangible assets comprised of contracts is being amortized over the length of the contract. The cost of intangible assets comprised of customer relationship is being amortized over five years. Details of the unamortized cost are as follows:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Cost	1,651,187	1,651,187	1,651,187
Addition from business acquisition	1,596,125	–	–
Exchange difference	(147,731)	–	–
	3,099,581	1,651,187	1,651,187
Accumulated amortization, beginning	811,660	486,688	137,572
Charge for the period	1,073,363	324,972	331,116
Accumulated amortization, ending	1,885,023	811,660	486,688
Net book value, ending	1,214,558	839,527	1,164,499

11 Bank indebtedness

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Revolving demand loan	3,389,846	2,816,399	600,029

Revolving demand loan, bearing interest at the rate of prime plus 3% per annum, with an authorized maximum amount at December 31, 2011 of $5,000,000, which fluctuates based on total accounts receivable and inventories of the Company in Canada. As at December 31, 2011, the amount available on the loan to the Company was $4,051,138. This revolving demand loan is secured by a first priority security interest in all present and future accounts receivable and inventory of the Company in Canada and a second priority interest subject to prior GE Canada Equipment Financing G.P. interest in all present and future personal property of the Company in Canada.

As at December 31, 2011, the Company was not in compliance with the revolving demand loan's current ratio covenant (note 21). As a result of the non compliance and until such time as the reporting requirements confirm that the financial covenants are in compliance, the monthly monitoring fee will be increased from $250 to $1,500 per month and the interest rate will be calculated at prime plus 5.0%.

This loan has been repaid in full on March 22, 2012.

(Expressed in Canadian Dollars Unless Otherwise Noted)

12 Notes payable

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Promissory note payable, repaid during the year	–	300,090	–
Promissory note payable, repaid during the year	–	506,186	500,000
Promissory note payable, repaid during the year	–	420,000	520,000
Fair value adjustment	–	(12,629)	(53,696)
Promissory note payable of US $500,000 plus accumulated interest of US$76,276, which includes an interest fee of 5% to be paid in a lump sum with repayment of principal amount. Note was due on May 16, 2011 and at maturity	586,072	–	–
	586,072	1,213,647	966,304
Less: Current portion	586,072	1,213,647	702,483
	–	–	263,821

13 Long-term debt

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Loan payable to Northstar Trade Finance Inc., repaid in 2010	–	–	186,042
GMAC loan, repaid in 2010	–	–	7,511
Loan payable to GE Canada Equipment Financing G.P., repaid in 2011	–	9,391	117,410
Loan payable to Raymond Chabot Inc., repaid in 2011	–	100,000	–
Loan payable to Northstar Trade Finance Inc., repaid in 2011	–	317,606	455,733
Loan payable to GE Canada Equipment Financing G.P., repaid in 2011	–	56,641	147,546
Loan payable to GE Canada Equipment Financing G.P., repaid in 2011	–	809,770	2,089,004
Loan payable to Strategic Resources Inc., repaid in 2011	–	120,000	–
	–	1,413,408	3,003,246

(Expressed in Canadian Dollars Unless Otherwise Noted)

13 Long-term debt (continued)

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Carried forward	–	1,413,408	3,003,246
Loan payable to GE Canada Equipment Financing G.P., bearing interest at a fixed rate of 9.03%, repayable in 36 monthly instalments of $52,682. The loan will mature on May 26, 2014 and is secured by a first ranking security interest and hypothec on the equipment of the Company in Canada	1,367,926	–	–
Loan payable to GE Canada Equipment Financing G.P., bearing interest at a fixed rate of 8.88%, repayable in 36 monthly instalments of $11,968. The loan will mature on July 13, 2014 and is secured by a first ranking security interest and hypothec on the equipment of the Company in Canada	330,450	–	–
Loan payable to GE Capital Equipment Financing G.P., bearing interest at a fixed rate of 8.14%, repayable in 36 monthly instalments of $22,205. The loan will mature on October 3, 2014 and is secured by a first ranking security interest and hypothec on the equipment of the Company in Canada	654,523	–	–
Loan payable to Hinterland Geoscience & Geomatics, non-interest bearing, repayable in monthly instalments of $5,000. The loan will mature on February 1, 2012 and the Company has pledge some equipment as security	10,000	70,000	–
Loan payable to Sprott Resource Lending Partnership, bearing interest at a fixed rate of 12%. The loan was originally repayable in monthly instalments of $100,000, plus interest until July 31, 2013, on which date, the outstanding balance will be due in full. However, subsequent to year end, the loan has been renegotiated and the February and March, 2012 payments were $200,000 each and starting April 30, 2012, monthly installments are now $150,000 plus interest until July 31, 2013, on which date, the outstanding balance will be paid in full. The loan is secured by a first fixed charge on the Company's assets in Mexico and a third fixed charge, subject to GE Canada Equipment Financing G.P. and CIBC, on the Company's assets in Canada	3,500,000	–	–
	5,862,899	1,483,408	3,003,246

(Expressed in Canadian Dollars Unless Otherwise Noted)

13 **Long-term debt** (continued)

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Carried forward	5,862,899	1,483,408	3,003,246
Truck loans payable to CE EFE controladora SA de CV of 1,543,876 Mexican Pesos, bearing interest at fixed rates ranging from 13.5% to 14.5%, repayable in total monthly instalments of 65,448 Mexican Pesos. These loans will mature between May 31, 2014 and July 22, 2014 and the Company has pledged 6 trucks as security	26,632	–	–
GMAC loans, bearing interest at fixed rates ranging from 5.59% to 7.99%, repayable in total monthly instalments of $17,947. These loans will mature between June 28, 2013 and June 21, 2015 and the Company has pledged vehicles as security	554,343	362,350	–
	6,443,874	1,845,758	3,003,246
Less: Fair value adjustment	612	12,880	–
	6,443,262	1,832,878	3,003,246
Less: Financing fees	310,613	14,039	84,191
	6,132,649	1,818,839	2,919,055
Less: Current portion	2,292,201	1,371,715	2,603,111
	3,840,448	447,124	315,944

The aggregate amount of principal repayment required in each of the next four years to meet the terms of the long-term debt, is as follows:

		$
Year ending December 31,	2012	2,292,201
	2013	3,443,250
	2014	692,129
	2015	16,294
		6,443,874
Fair value adjustment		(612)
		6,443,262

Property, plant and equipment pledged against the long-term debt has a carrying value of $14,868,106 at December 31, 2011.

(Expressed in Canadian Dollars Unless Otherwise Noted)

14 Convertible debentures payable and equity portion of convertible debentures

The convertible debentures recognised on the statement of financial position are calculated as follows:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Initial recognition	5,000,000	2,000,000	2,000,000
Finance charge	(190,591)	(182,500)	(182,500)
Equity portion	(400,000)	(107,500)	(107,500)
Value of convertible debentures	4,409,409	1,710,000	1,710,000
Accretion	158,878	290,000	235,948
Convertible debentures at end of years	4,568,287	2,000,000	1,945,948
Less: current portion	–	2,000,000	1,945,948
	4,568,287	–	–

During the year, the Company closed a non-brokered private placement consisting of non-secured convertible debentures in the principal amount of $5,000,000. These debentures closed in three tranches between July 31, 2011 and August 12, 2011, and will mature 18 months from their respective issue date. They bear interest at the rate of 10% per annum, and are convertible, at any time before the maturity date, into common shares of the Company at the rate of one common share for $0.35 of principal amount converted. They can be redeemed by the Company at any time with a thirty day written notice.

The fair value of the liability component, net of finders' fees and other issue cost of $190,591, is included in non-current liabilities and was calculated using a market interest rate for an equivalent non-convertible debt. The residual amount, representing the value of the equity conversion option is included in shareholders' equity.

(Expressed in Canadian Dollars Unless Otherwise Noted)

15 Finance lease obligation

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
De Lage Landen Financial Services Canada Inc. lease contract, bearing interest at 7.75% per annum, repayable in monthly lease payments of $550 plus a purchase option of $5,250 on May 15, 2013. The lease is guaranteed by the equipment under capital lease	13,548	19,065	23,955
Less: Current portion	5,752	5,697	5,305
	7,796	13,368	18,650

The aggregate amount of lease payments required in each of the next two years is as follows:

	$
Year ending December 31 , 2012	6,600
2013	8,000
Future minimum payments	14,600
Less: Amount representing interest	1,052
Present value of future minimum lease payments	13,548

16 Capital stock

Authorized

Unlimited number of common shares, without nominal or par value

a) Issuance of common shares

	Number of shares	Ascribed value $
Balance – December 31, 2010 and January 1, 2010	48,914,661	15,269,385
Issued during 2011		
Shares issued for cash, net of issuance costs	31,466,834	7,319,080
Shares issued as finance fees on Sprott Resource Lending Partnership Loan	663,350	200,000
Balance – December 31, 2011	81,044,845	22,788,465

(Expressed in Canadian Dollars Unless Otherwise Noted)

16 Capital stock (continued)

b) Transactions during the year ended December 31, 2011

The Company issued, in connection with a private placement, 31,466,834 units for gross proceeds of $9,440,050. Each unit is comprised of one common share and one–half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at $0.45 until August 24, 2012. All warrants remain outstanding at December 31, 2011. The warrants were valued at $1,381,049 and were credited to contribute surplus.

The Company paid a total amount of $775,766 as finder fees and other issuance costs, and also issued agent warrants to acquire 1,095,453 units. Each unit entitles the holder to purchase one common share at an exercise price of $0.30 per share until August 24, 2012. All these agent warrants are still outstanding at December 31, 2011. These agent warrants were valued at $158,097 and were credited to contributed surplus.

The fair value of the warrants was estimated using the Black–Scholes option model with the following assumptions used:

Risk–Free interest rate	1.87%
Expected life	1.5 years
Expected volatility	103.29%
Expected dividend yield	nil

On July 27, 2011, in connection with the loan from Sprott Resource Lending Partnership, the Company issued 663,350 common shares with a fair value of $200,000 as finder's fees.

(Expressed in Canadian Dollars Unless Otherwise Noted)

16 Capital stock (continued)

c) Stock options

The Company has a stock option plan under which it is authorized to grant options to directors, employees and consultants to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option will not be less than the market price of the Company's stock as calculated on the date of the grant, less an applicable discount. The options can be granted for a maximum of ten years and vest as determined by the board of directors. Issuance of options under the plan will be determined annually by the Company's board of directors.

Option activity for the years ended December 31, 2011 and 2010 was as follows:

	2011		2010	
	Number of shares	Weighted average exercise price $	Number of shares	Weighted average exercise price $
Outstanding – Beginning of years	4,165,000	0.36	2,618,181	0.42
Granted during the years	–	–	2,050,000	0.28
Expired during the years	(194,167)		(503,181)	
Forfeited during the years	(184,999)	0.29	–	0.37
Outstanding – End of years	3,785,834	0.36	4,165,000	0.36

Stock options outstanding and exercisable at December 31, 2011 are as follows:

Outstanding			Exercisable	
Average number of options	Weighted average exercise price $	Weighted average remaining contractual life (years)	Number of options	Weighted average exercise price $
635,000	0.60	4.2	635,000	0.60
165,000	0.20	5.3	165,000	0.20
135,000	0.24	6.1	135,000	0.24
1,140,000	0.40	6.5	1,140,000	0.40
1,710,834	0.28	8.8	1,148,337	0.28
3,785,834	0.36	7.1	3,223,337	0.38

The amount of the stock–based compensation expense of $177,276 (2010 – $287,808) was charged to the income statement and credited to the contributed surplus in the statement of financial position.

(Expressed in Canadian Dollars Unless Otherwise Noted)

16 Capital stock (continued)

d) Warrants

Warrant activity for the years ended December 31, 2011 and 2010, was as follows:

	Number of shares	Weighted average exercise price $
Outstanding – January 1, 2010	6,207,880	0.44
Expired during the year	(6,207,880)	0.44
Outstanding – December 31, 2010	–	
Private Placement	15,733,417	0.45
Agent warrants	1,095,493	0.30
Outstanding – December 31, 2011	16,828,910	0.44

The weighted average grant date fair value of warrants granted during the period was $0.09 (2010 - $nil) per warrant.

Warrants outstanding at December 31, 2011 are as follows:

	Number of warrants	Weighted average exercise price per share $	Expiry date
Private placement–February 10, 2011	3,175,250	0.45	August 10, 2012
Private placement–February 17, 2011	12,242,167	0.45	August 17, 2012
Private placement–February 24, 2011	316,000	0.45	August 24, 2012
Agent warrants–February 10, 2011	222,267	0.30	August 10, 2012
Agent warrants–February 17, 2011	856,952	0.30	August 17, 2012
Agent warrants–February 24, 2011	16,274	0.30	August 24, 2012
	16,828,910	0.44	

(Expressed in Canadian Dollars Unless Otherwise Noted)

17 Commitments

The Company has various commitments for operating leases for the rentals of premises and vehicles. The minimum annual payments are as follows:

	$
Year ending December 31, 2012	503,159
2013	372,963
2014	316,868
2015	188,127
2016	137,227
Thereafter	18,800

The Company is involved in various legal actions, which have occurred in the ordinary course of operations. Management is of the opinion that losses, if any, arising from such legal actions would not have a material effect on these financial statements.

18 Related party transactions

Related party transactions were in the normal course of operations and were measured at the amount of consideration established and agreed by the related parties. Related party transactions not disclosed elsewhere include the following:

a) During the year ended December 31, 2011, the Company entered into the following transactions with companies related to a director:

1) The Company was charged for overnight rentals by a company related to a director for the amount of $nil (2010 – $10,250);

2) The Company was charged $225,000 (2010 – $nil) for support equipment built by LEM Manufacturing Inc. ("LEM"), a company controlled by the President and CEO of the Company;

3) The Company recorded interest revenue of $2,398 (2010 – $12,250) on the related party note receivable from LEM;

4) The Company paid interest on its debentures of $2,486 (2010 – $33,000) to key management and close family members of key management;

(Expressed in Canadian Dollars Unless Otherwise Noted)

18 Related party transactions (continued)

5) The Company sold a drill rig for $75,000 to a company controlled by a director. This amount was outstanding at December 31, 2011 and was included in accounts receivable;

6) The Company recorded total interest expense of $28,633 (2010 - $nil) on promissory notes payable with companies related to directors of the Company; and

7) The Company recorded revenue of $nil (2010-$80,605) from a company controlled by the president and CEO of the Company.

b) Compensation of key management personnel for the years ended December 31, 2011 and 2010 is summarized as follows:

	2011 $	2010 $
Salaries, directors fees and benefits	1,281,790	1,110,641
Share-based payments	128,847	194,164
	1,410,637	1,304,805

Key management personnel include the Company's directors, officers and vice presidents.

Key management personnel were not paid post-retirement benefits, termination benefits, or other long-term benefits during the years ended December 31, 2011 and 2010.

19 Supplementary cash flow information

The following non–cash transactions have been excluded from the statement of cash flow

i) Acquisition of vehicles in consideration of long–term debt of $340,519;

ii) Issuance of 663,350 common shares with a fair value of $200,000 as finders fees.

(Expressed in Canadian Dollars Unless Otherwise Noted)

20 Earnings per share

The weighted average number of common shares outstanding used in the calculation of basic earnings per share and diluted earnings per share for the periods was as follows:

	2011	2010
Weighted average number of common shares outstanding-basic	76,638,392	48,914,661

For the years ended December 31, 2011 and 2010, since the Company incurred losses, the dilutive effect of the outstanding stock options and warrants has not been calculated as it would be anti-dilutive.

21 Capital management

In the management of capital, the Company includes shareholders' equity (excluding accumulated other comprehensive income (loss)), long–term borrowings, bank indebtedness, notes payable and convertible debenture payable in the definition of capital.

The Company's objectives when managing its capital structure are to maintain financial flexibility so as to preserve access to capital markets and its ability to meet its financial obligations and to finance internally generated growth and potential new acquisitions. To manage its capital structure, the Company may adjust spending, issue new shares, issue new debt or repay existing debt. In order to facilitate the management of its capital requirements, the Company prepares annual budgets that are updated as necessary depending on various factors.

The Company monitors its capital structure and financing requirements using, amongst other parameters, the ratio of senior debt to EBITDA, defined as all current and long-term loan arrangements divided by earnings before income taxes, finance expenses, amortization and foreign currency loss (gain).

The Company's objective is to have the senior debt to EBITDA ratio below 2.0:1.0 which is also one of the restrictive financial covenant under the revolving demand loan.

As indicated, the Company has a senior debt to EBITDA financial covenant on its revolving demand loan, whereby the ratio cannot exceed 2.0 to 1.0, it also has a current ratio whereby the Company is not to fall below 1.2 to 1.0. The Company is in breach of this covenant for this quarter, and was also in breach of the two covenants during the first quarter of 2011 and the EBITDA covenant for the second and third quarter of 2011. The Company has obtained a written waiver for the breaches for the first three quarters of 2011. The revolving demand loan was repaid subsequent to year-end (see note 23).

(Expressed in Canadian Dollars Unless Otherwise Noted)

22 Financial instruments and risk management

Fair value

The Company's financial instruments consist of cash, restricted cash, marketable securities and accounts receivable, which will result in future cash receipts, bank indebtedness, notes payable, accounts payable and accrued liabilities, deposits on contracts, long–term debt, finance lease obligation and convertible debentures payable which will result in future cash outlays.

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, demand loan, notes payable, accounts payable and accrued liabilities and deposits on contracts approximates their fair value due to their immediate and short–term nature. The fair value estimates of the long–term debt, the finance lease liability and the convertible debentures payable are made as of the statement of financial position dates based on estimates using present value or other valuation techniques. These techniques involve uncertainties and are affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, and estimates of future cash flows, future expected loss experience and other factors.

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

The following table represents the financial instruments recorded at the fair value in the statement of financial position classified using the fair value hierarchy described in the significant accounting policies:

	December 31, 2011			December 31, 2010			January 1, 2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	$	$	$	$	$	$	$	$	$
Marketable securities	268,657	–	–	793,640	–	–	229,130	–	–

The carrying value of the Company's cash, restricted cash, accounts receivable, related party notes receivable, bank indebtedness and accounts payable and accrued liabilities, which are all carried at amortized cost, approximate their fair value due primarily to the short-term nature of the related instruments. The carrying value of the Company's convertible debentures, long-term debt, notes payable and finance lease obligations approximates fair value as the rates are similar to rates currently available to the Company.

(Expressed in Canadian Dollars Unless Otherwise Noted)

22 Financial instruments and risk management (continued)

Currency risk

The Company has operations outside of Canada. The Company could therefore be at risk for currency translation. Some of the Company's revenues in foreign countries are negotiated in US dollars and also some of its labor and material purchases are in US dollars.

The significant balances in foreign currencies at December 31, 2011 are as follows:

	US Dollars	Mexican Pesos	Mongolian MNT	Russian Rubles
Cash	1,067,490	2,995,959	105,746,751	64,663
Accounts receivable	2,060,140	216,000	895,927,292	6,237,045
Accounts payable and accrued liabilities	(2,823,524)	(17,295,556)	(998,422,006)	(5,249,480)
Deposits on contracts	(464,885)	–	(560,768,275)	(5,600,479)
Notes payable	(586,073)	–	–	–
Long–term debt	–	(366,065)	–	–
	(746,852)	(14,449,662)	(557,516,238)	(4,548,251)
Canadian dollar equivalent	(759,548)	(1,051,264)	(406,048)	(143,770)

Based on the aforementioned net exposure as at December 31, 2011, and assuming that all other variables remain constant, a 10% rise or fall in the Canadian dollar against the other foreign currencies would have resulted in approximately the following increase (decrease) in the comprehensive income (loss) for the year:

	Canadian Dollars	
	Appreciates 10% $	Depreciates 10% $
Against US dollar	75,955	(75,955)
Against Mexican peso	105,126	(105,126)
Against Mongolian MNT	40,604	(40,604)
Against Russian ruble	14,377	(14,377)

Interest rate risk

The Company's demand loan has a floating rate of interest. The Company is therefore exposed to interest rate fluctuation. Based on the balances outstanding as at December 31, 2011, the annual increase or decrease for each one percent change in interest rate amounts to approximately $33,898.

(Expressed in Canadian Dollars Unless Otherwise Noted)

22 Financial instruments and risk management (continued)

Credit risk

The Company provides credit to its customers in the normal course of operations. The Company carries out, on a continuous basis, credit checks on its customers, which are almost all publicly traded companies. The Company also minimizes its risk by getting deposits from its clients before starting a contract. These deposits are applied to the last invoice at the end of the contract. The Company diversifies its credit risk by dealing with several customers in various countries. The Company's largest customers for year ending December 31, 2011 represented 15% of the total revenue for the year (the same customer represented 34% for the year of 2010). Also at December 31, 2011, the Company's accounts receivable included one customer who had a balance over 10% of the total accounts receivable (two had balances over 10% as at December 31, 2010). As at December 31, 2011, trade receivables of $800,905 (December 31, 2010 – $478,490) were past due and an allowance of $235,270 (December 31, 2010 – $2,920) was recorded against these. The balance relates to a number of independent customers for whom there is no history of default.

The ageing analysis of the trade receivables is as follows (note that these amounts exclude sales taxes receivable):

	December 31, 2011	December 31, 2010	January 1 , 2010
	$	$	$
Current and up to 30 days	3,777,183	2,544,849	682,387
Past due:			
31 to 60 days	1,727,848	886,493	21,949
61 to 90 days	312,686	46,793	–
Over 90 days	800,905	478,490	272,406
	6,618,622	3,956,625	976,742
Less: Allowance for doubtful accounts	(235,270)	(2,920)	(2,920)
Trade accounts receivable	6,383,352	3,953,705	973,822

Liquidity risk

The Company is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. The Company manages its liquidity risks by maintaining borrowing facilities and by continuously monitoring its cash flows and taking the necessary actions to maintain enough liquidity for operations and for its growth objectives. Total financial liabilities including interest as at December 31, 2011 are as follows:

	Less than 1 year	2 – 3 years	4 – 10 years	Total
	$	$	$	$
Demand loan	3,389,846	–	–	3,389,846
Promissory notes payable	588,233	–	–	588,233
Accounts payable and accrued liabilities	9,262,969	–	–	9,262,969
Deposits on contracts	2,768,763	–	–	2,768,763
Long–term debt	2,848,146	4,406,519	16,294	7,270,959
Debentures payable	500,000	5,041,666	–	5,541,666
Finance lease obligation	6,600	8,000	–	14,600
	19,364,557	9,456,185	16,294	28,837,036

(Expressed in Canadian Dollars Unless Otherwise Noted)

23 Subsequent events

Subsequent to the year-end, the Company received a bridge loan of $8.0 million. This loan will be repaid by $5 million on April 22, 2013 and the balance either on the same date or on March 21, 2015 with a 2% fee on April 22, 2013. The loan bears interest at the annual rate of 12%. As part of the covenants on this loan, the Company must maintain a minimum cumulative consolidated EBITDA and a minimum working capital. The Company does not expect to meet these covenants for the first quarter of 2012.

Subsequent to the year-end, the Company received a working Capital loan of $1.2 million. This loan bears interest at the rate of 8.995% per annum and is repayable over 30 months.

On March 22, 2012, the Company repaid the revolving demand loan.

On March 22, 2012, the Company repaid the promissory note payable of US $500,000 plus accumulated interest.

On March 1, 2012, the Company obtained a promissory note payable of US $500,000. This note has an interest fee of 5%, and was repaid on March 22, 2012.

On April 5, 2012, the Company obtained a promissory note payable of US $500,000. This note has an interest fee of 5%, and is due on May 5, 2012.

24 Segmented information

The Company's business is contract drilling, and it is conducted in three reportable geographic segments located in Canada, Asia and Mexico and Central America. The services provided in each of these segments are essentially the same. The accounting policies of the segments are the same as those described in the significant accounting policies note. Management evaluates performance based on profit or loss from operations before interest and income taxes.

	2011 $	2010 $
Revenues		
Asia	8,236,103	3,594,418
Mexico and Central America	20,479,125	7,586,940
Canada	36,048,769	23,495,899
	64,763,997	34,677,257

Revenues from the Company's two largest customers accounted for approximately 15% and 8% of the Company's revenue for the year ended December 31, 2011. Comparatively revenues from the Company's two largest customers accounted for approximately for 34% and 11% of the Company's revenues for the year ended December 31, 2010. All revenues from the major customers are in the geographic segment located in Canada.

(Expressed in Canadian Dollars Unless Otherwise Noted)

24 Segmented information (continued)

	Year ended December 31, 2011			
	Asia	Mexico and Central America	Canada	Total
Segment profit	$	$	$	$
Gross profit–before depreciation	1,145,651	3,571,584	9,943,474	14,660,709
Less: General and administrative	2,003,448	1,887,456	1,777,675	5,668,579
Depreciation	478,008	1,591,359	1,834,738	3,904,105
Other (gains) losses	288,679	(442,931)	(51,468)	(205,720)
Segment profit	(1,624,484)	535,700	6,382,559	5,293,745

	Year ended December 31, 2010			
	Asia	Mexico and Central America	Canada	Total
Segment profit	$	$	$	$
Gross profit–before depreciation	310,030	621,888	7,999,471	8,931,389
Less: General and administrative	877,142	895,483	1,515,100	3,287,725
Depreciation	295,151	415,120	1,250,653	1,960,924
Other (gains) losses	(502,168)	(66,398)	(599,043)	(1,167,609)
Segment profit	(360,095)	(622,317)	5,832,761	4,850,349

	2011	2010
Net income	$	$
Income (loss) from geographic segments		
Asia	(1,624,484)	(360,095)
Mexico and Central America	535,700	(622,317)
Canada	6,382,559	5,832,761
	5,293,745	4,850,349
Unallocated expenses		
General corporate expenses	4,094,105	3,122,293
Interest expense	1,885,885	1,093,127
Income tax expense	962,783	744,944
Net loss	(1,649,028)	(110,015)

	2011	2010
	$	$
Capital expenditures		
Asia	3,127,556	752,801
Mexico and Central America	1,979,015	758,644
Assets purchased as part of the business acquisition in Mexico	3,109,759	–
Canada	4,736,403	2,065,531
Unallocated corporate assets–Canada	73,576	5,495
	13,026,309	3,582,471

(Expressed in Canadian Dollars Unless Otherwise Noted)

24 Segmented information (continued)

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Property, plant and equipment			
Asia	3,705,292	1,319,687	1,525,739
Mexico and Central America	5,984,640	2,404,658	2,147,087
Canada	8,947,917	6,091,736	4,566,826
Unallocated corporate assets–Canada	212,528	176,178	126,172
	18,850,377	9,992,259	8,365,824

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Intangibles			
Mexico and Central America	700,003	–	–
Canada	514,555	839,527	1,164,499
	1,214,558	839,527	1,164,499
Goodwill - Canada	125,800	125,800	125,800

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Identifiable assets			
Asia	8,540,781	6,057,189	4,991,258
Mexico and Central America	13,703,488	5,267,452	3,916,666
Canada (includes goodwill of $125,800)	17,346,015	13,826,713	8,299,824
Unallocated corporate assets – Canada	1,564,993	947,799	521,704
	41,155,277	26,099,153	17,729,452
Segment liabilities			
Asia	1,726,948	784,558	578,292
Mexico and Central America	3,715,038	1,635,668	1,183,686
Canada	12,412,047	13,361,727	6,261,905
Unallocated corporate liabilities–Canada	9,870,762	3,044,797	2,532,166
	27,724,795	18,826,750	10,556,049

	2011 $	2010 $
Amortization		
Asia	478,008	295,151
Mexico and Central America	1,591,359	415,120
Canada	1,834,738	1,250,653
Unallocated corporate assets – Canada	37,230	26,441
	3,941,335	1,987,365