

Landrill International Inc.

Interim Consolidated Financial Statements
(Unaudited– Prepared by Management)

For the Three Months Ended March 31, 2011 and 2010

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

These accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Landrill International Inc.

Interim Consolidated Statements of Financial Position (Unaudited—Prepared by Management)

(Expressed in Canadian Dollars Unless Otherwise Noted)

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Assets (notes 10, 11, 12 and 13)			
Current assets			
Cash and cash equivalents	706,671	944,628	423,505
Marketable securities (note 7)	669,265	793,640	229,130
Trade and other receivables	10,599,050	5,179,689	1,071,309
Related party note receivable	—	107,145	150,426
Inventories	9,979,506	7,787,390	5,875,264
Other current assets	890,268	329,075	323,695
	<u>22,844,760</u>	<u>15,141,567</u>	<u>8,073,329</u>
Non-current assets			
Property, plant and equipment (note 8)	15,775,489	9,992,259	8,365,824
Intangible assets (note 9)	2,118,804	839,527	1,164,499
Goodwill	125,800	125,800	125,800
Total assets	<u>40,864,853</u>	<u>26,099,153</u>	<u>17,729,452</u>
Liabilities			
Current liabilities			
Bank indebtedness (note 10)	2,888,958	2,816,399	600,029
Notes payable (note 11)	5,333,238	—	—
Trade payables and accrued liabilities	8,004,800	5,733,777	2,040,720
Deposits on contracts	3,478,657	3,769,767	1,131,891
Income tax liabilities	1,413,143	1,455,256	928,147
Debentures payable	—	2,000,000	1,945,948
Current portion of long-term debt (note 12)	1,352,191	1,371,715	2,603,111
Current portion of notes payable	—	1,213,647	702,483
Current portion of finance lease obligation (note 13)	5,801	5,697	5,305
	<u>22,476,788</u>	<u>18,366,258</u>	<u>9,957,634</u>
Non-current liabilities			
Long-term debt (note 12)	1,371,280	447,124	315,944
Notes payable	—	—	263,821
Finance lease obligation (note 13)	11,972	13,368	18,650
Total liabilities	<u>23,860,040</u>	<u>18,826,750</u>	<u>10,556,049</u>
Equity			
Equity attributable to the shareholders of the Company	17,016,762	7,272,352	7,173,403
Non-controlling interests	(11,949)	51	—
Total equity	<u>17,004,813</u>	<u>7,272,403</u>	<u>7,173,403</u>
Total liabilities and equity	<u>40,864,853</u>	<u>26,099,153</u>	<u>17,729,452</u>

Nature of operations and going concern (note 1)

Commitments (note 15)

Subsequent event (note 21)

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

Approved on behalf of the Board of Directors

(Signed) “Ron Goguen, Sr”
Director

(Signed) “Richard Ormston”
Director

Landrill International Inc.

Interim Consolidated Statements of Income and Comprehensive Income (Unaudited—Prepared by Management) For the Three Months Ended March 31, 2011 and 2010

(Expressed in Canadian Dollars Unless Otherwise Noted)

	2011 \$	2010 \$
Revenues	14,013,016	6,183,395
Direct contract costs	10,385,836	4,179,812
Gross profit	<u>3,627,180</u>	<u>2,003,583</u>
General and administrative	2,370,336	1,444,402
Other (gains) and losses (net) (note 5)	(302,760)	(352,174)
	<u>2,067,576</u>	<u>1,092,228</u>
Operating profit	1,559,604	911,355
Finance expense	243,045	257,577
	<u>1,316,559</u>	<u>653,778</u>
Income before income taxes	1,316,559	653,778
Income taxes	452,211	360,508
	<u>864,348</u>	<u>293,270</u>
Net Income for the period	<u>864,348</u>	<u>293,270</u>
Earnings per Share:		
Basic and Diluted (note 18)	<u>0.01</u>	<u>0.01</u>
Comprehensive income		
Net income for the period	864,348	293,270
Other comprehensive income (loss)		
Cumulative transaction adjustments	165,301	(19,432)
	<u>1,029,649</u>	<u>273,838</u>
Comprehensive income for the period	<u>1,029,649</u>	<u>273,838</u>

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

Landrill International Inc.

Interim Consolidated Statements of Changes in Equity (Unaudited—prepared by Management)

(Expressed in Canadian Dollars Unless Otherwise Noted)

	Attributable to shareholders of the Company						Total Equity
	Share Capital	Equity Portion of convertible debentures	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Non Controlling Interest	
	\$	\$	\$	\$	\$	\$	\$
Balance January 1, 2010	15,269,385	107,500	2,629,518	—	(10,833,000)	—	7,173,403
Net income for the period	—	—	—	—	293,270	—	293,270
Other comprehensive CTA	—	—	—	(19,432)	—	—	(19,432)
Stock-based compensation expense	—	—	19,297	—	—	—	19,297
Balance March 31, 2010	15,269,385	107,500	2,648,815	(19,432)	(10,539,730)	—	7,466,538
Net loss for the period	—	—	—	—	(417,220)	—	(417,220)
Other comprehensive income CTA	—	—	—	88,837	—	—	88,837
Tax effect of expired	—	—	(89,600)	—	—	—	(89,600)
Stock based compensation	—	—	223,797	—	—	—	223,797
Contribution from the partners	—	—	—	—	—	51	51
Balance December 31, 2010	15,269,385	107,500	2,783,012	69,405	(10,956,950)	51	7,272,403
Net income for the period	—	—	—	—	864,348	—	864,348
Other comprehensive income CTA	—	—	—	165,301	—	—	165,301
Proceeds on issuance of shares	6,580,288	—	—	—	—	—	6,580,288
Value of warrants issued	—	—	2,085,803	—	—	—	2,085,803
Stock-based compensation expense	—	—	48,670	—	—	—	48,670
Equity portion of convertible debentures repaid	—	(107,500)	107,500	—	—	—	—
Distribution to the partners	—	—	—	—	—	(12,000)	(12,000)
Balance March 31, 2011	21,849,673	—	5,024,985	234,706	(10,092,602)	(11,949)	17,004,813

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

Landrill International Inc.
Consolidated Statements of Cash Flows
(Unaudited—Prepared by Management)
For the Three Months Ended March 31, 2011 and 2010

(Expressed in Canadian Dollars Unless Otherwise Noted)

	2011 \$	2010 \$
Cash provided by (used in)		
Operating activities		
Net income for the period	864,348	293,270
Adjustments for :		
Amortization and depreciation	632,035	401,376
Amortization of debt issue cost	1,337	23,871
Gain on disposal of property, plant and equipment	(317,698)	(10,460)
Interest accrued on related party note receivable	(2,398)	(3,593)
Interest relating to debenture accretion	-	22,290
Interest related to note payable accretion	-	11,253
Interest relating to loan payable accretion	6,108	-
Loss (gain) on marketable securities	63,040	(168,625)
Stock-based compensation	48,670	19,297
Unrealized foreign exchange (gain) loss	13,744	(130,606)
Bad debt expense	200,000	-
	1,509,186	458,077
Changes in items of working capital		
Trade and other receivables	(5,576,509)	(2,324,053)
Inventories	(1,421,370)	(430,956)
Other current assets	(557,150)	(27,461)
Trade payables and accrued liabilities	2,925,642	1,194,929
Deposits on contracts	(314,074)	(187,144)
Income taxes	(42,119)	332,821
Net cash generated from operating activities	(3,476,394)	(983,791)
Financing activities		
Bank indebtedness	72,559	796,106
Proceeds from promissory notes payable	785,900	350,000
Repayment of promissory notes payable	(1,513,647)	(60,000)
Contribution from (distribution to) non-controlling interest	(12,000)	-
Repayment of long-term debt	(535,758)	(436,389)
Proceeds from long-term debt, net of fees	1,192,357	-
Repayment of finance lease obligation	(1,292)	(1,197)
Repayment of debentures payable	(2,000,000)	-
Issuance of common shares, net of issuance cost	8,666,091	-
Net cash generated from financing activities	6,654,210	648,520
Investing activities		
Proceeds from sale of marketable securities	61,335	113,515
Business acquisition (note 6)	(971,800)	-
Acquisition of property, plant and equipment	(2,921,288)	(103,544)
Proceeds from disposal of property, plant and equipment	309,277	24,523
Proceeds from related party note receivable	109,543	35,400
Net cash generated from investing activities	(3,412,933)	69,894
Effect of foreign currency exchange rate changes on cash and cash equivalents	(2,840)	124,033
Increase (decrease) in cash and cash equivalents	(237,957)	(141,344)
Cash and cash equivalents—beginning of periods	944,628	423,505
Cash and cash equivalents—end of periods	706,671	282,161
Cash payment of interest	235,600	200,163
Cash payment of income taxes	446,991	20,000

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

Landrill International Inc.

Notes to Interim Consolidated Financial Statements
(Unaudited—Prepared by Management)
For the Three Months Ended March 31, 2011 and 2010

(Expressed in Canadian Dollars Unless Otherwise Noted)

1 General information and going concern

Landrill International Inc. (Landrill 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 interim consolidated financial statements of the Company for the three month periods ended March 31, 2011 and 2010 comprise the Corporation and, its subsidiaries including Nitasi Landrill Limited Partnership (“Nitasi”), a 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.

Landrill operates in geographic areas with significant variance in weather, typically from mid December to mid February. Historically, contracts in these areas are delayed until spring when weather is warmer. Consequently, interim results are not necessarily an indicative of annual results. Operations in Mexico, Nicaragua and Canada will not be affected by seasonality.

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, as measured under IFRS, of approximately \$124,000 for the fiscal year ended December 31, 2010, and at December 31, 2010, the Company had a working capital deficiency of approximately \$3.2 million. For the current three month period ending March 31, 2011, the Company has reported net income of approximately \$864,000, and has raised gross proceeds of \$9.4 million through a private placement. With these funds, the Company has repaid the notes payable, and the debentures payable, and has also purchased more drilling rigs. During the quarter, the Company has also purchased the assets of HD Drilling for approximately \$6 million, of which \$5.3 million not paid in cash is due within 1 year of acquisition, (see note 6). At March 31, 2011, the Company has a working capital surplus of \$368,000. 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 \$1,352,000 and \$5,333,000. The Company is also in default on its financial covenants on its \$3.0 million revolving demand loan. 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, management is in the process of obtaining long term financing in order to repay the notes payable incurred in the acquisition of the assets of HD Drilling. The Company has also purchased additional rigs in Canada, Mongolia and Mexico, along with the assets purchased from HD Drilling, in order to increase revenue and generate positive cash flow from operations. Management plans to generate enough cash to fund operations from securing several drilling opportunities and if necessary obtain new financing.

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 as the market conditions improve; 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 balance sheet classifications and these adjustments could be material.

Landrill International Inc.

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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, the Company has commenced reporting on this basis in these interim consolidated financial statements. In these financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These unaudited interim consolidated financial statements, including comparatives, have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, (*Interim Financial Reporting*) and IFRS 1 (*First-Time Adoption of International Financial Reporting*). Subject to certain elections disclosed in note 4, the Company has consistently applied the same accounting policies in 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.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of June 24, 2011, the date the Board of Directors approved the statements, and effective as of December 31, 2011. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ended December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

These interim consolidated financial statements should be read in conjunction with the Company’s Canadian GAAP annual financial statements for the year ended December 31, 2010. Notes 4 and 5 disclose IFRS information that is material to an understanding of these interim consolidated financial statements.

3 Significant accounting policies

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

Basis of measurement

The interim consolidated financial statements have been prepared under historical cost convention, except for the revaluation of certain assets and financial liabilities to fair value, including some long-term debts and the marketable securities.

Landrill International Inc.

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3 Significant accounting policies (continued)

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 balance sheet 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.

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

i) **Business Combinations:**

The Company engages a third party valuator to assist in the identification and valuation of intangible assets including goodwill, as part of its business acquisition transactions. The third party valuator uses assumptions from management regarding future revenues, future profits and discount rates.

ii) **Trade Receivables:**

The Company estimates allowance for doubtful accounts based on analysis of historical collection activity and specific identification of overdue accounts. Actual amounts could differ from estimation made.

iii) **Inventories:**

The Company states its inventory at the lower of cost and net realizable value. Management must use assumptions and judgement in order to estimate the net realizable value of the inventory.

iv) **Property, plant and equipment:**

Measurement of property, plant and equipment involves the use of estimates for determining the expected useful lives of depreciable assets. Management's judgement is also required to determine depreciation methods and an asset's residual value.

Landrill International Inc.

Notes to Interim Consolidated Financial Statements
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(Expressed in Canadian Dollars Unless Otherwise Noted)

3 Significant accounting policies (continued)

Significant accounting judgements and estimates (continued)

v) 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.

vi) 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.

vii) Stock-based compensation:

In calculating the stock-based compensation expense, key estimates such as the rate of forfeiture of the options granted, the expected life of the option, the volatility of the Company’s stock price and the risk free interest rates are used.

Consolidation

The financial statements of the Company consolidate the accounts of Landrill 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 Landrill 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 Landrill and are de-consolidated from the date that control ceases.

Landrill International Inc.

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(Expressed in Canadian Dollars Unless Otherwise Noted)

3 Significant accounting policies (continued)

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.

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 Landrill Limited Partnership; a 49% owned partnership as the guidelines for classification of a special purpose entity have been met.

Landrill International Inc.

Notes to Interim Consolidated Financial Statements
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(Expressed in Canadian Dollars Unless Otherwise Noted)

3 Significant accounting policies (continued)

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 Landrill's functional currency.

The assets and liabilities of the Company's foreign operations that have a functional currency different from that of Landrill 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.

ii) 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.

Landrill International Inc.

Notes to Interim Consolidated Financial Statements
(Unaudited—Prepared by Management)
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(Expressed in Canadian Dollars Unless Otherwise Noted)

3 Significant accounting policies (continued)

Financial instruments

Financial assets and liabilities are recognized when Landrill 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 Landrill has transferred substantially all the risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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) Fair value through profit or loss

A financial asset or liability can be classified as fair value through profit or loss only if it is designated at fair value through profit or loss or held-for-trading. A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Landrill's financial assets at fair value through profit or loss are held for trading financial assets and they comprise of marketable securities.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of income. Gains and losses arising from changes in fair value are presented in the statement of income within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.

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 and 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.

Landrill International Inc.

Notes to Interim Consolidated Financial Statements
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(Expressed in Canadian Dollars Unless Otherwise Noted)

3 Significant accounting policies (continued)

Financial instruments (continued)

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 and finance lease liability. 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 and finance lease liability 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 balance sheet 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.

Inventories

Inventories 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 estimated selling price less applicable selling expenses.

Landrill International Inc.

Notes to Interim Consolidated Financial Statements
(Unaudited–Prepared by Management)
For the Three Months Ended March 31, 2011 and 2010

(Expressed in Canadian Dollars Unless Otherwise Noted)

3 Significant accounting policies (continued)

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 unaudited interim 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.

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 amortized on a straight–line basis in the statement of income over their expected useful lives of five years.

Landrill International Inc.

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3 Significant accounting policies (continued)

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.

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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.

Provision

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 balance sheet 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.

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3 Significant accounting policies (continued)

Income taxes (continued)

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

Tax on income in interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

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 interim consolidated statement of comprehensive income. Accumulated other comprehensive income or loss is included on the interim 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 period. 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 and the employee stock options.

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3 Significant accounting policies (continued)

Accounting standards issued but not yet applied

International Financial Reporting Standard 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, 2013, 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.

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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 Other Standards

In addition, there have been amendments to existing standards, including IAS 27, (*Separate Financial Statements*) (IAS 27), and IAS 28, (*Investments in Associates and Joint Ventures*) (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

4 Transition to IFRS

As stated in note 2, these are Landrill's first interim consolidated financial statements prepared in accordance with IAS 34. The accounting policies set out in note 3 have been applied in preparing the interim consolidated financial statements for the three months ended March 31, 2011, the comparative information presented in these interim consolidated financial statements for both the three months ended March 31, 2010 and 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, March 31, 2010 and December 31, 2010
- iii) Reconciliation of comprehensive income for the three month period ended March 31, 2010 and the year ended December 31, 2010
- iv) Explanation of adjusting entries
- v) Adjustment to the statement of cash flows

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. Landrill has applied the following optional exemptions:

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4 Transition to IFRS (continued)

i) Transition elections under IFRS 1 (continued)

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.

Stock-based payment

IFRS 1 allows a first time adopter to not comply with the requirements of IFRS 2 (*Share Based Payments*) to equity instruments that were granted before November 7, 2002 and equity instruments that were granted after November 7, 2002, but vested before the date of transition to IFRS. The Company elected not to apply IFRS 2 to awards that vested prior to January 1, 2010, which had been accounted for in accordance to previous GAAP.

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.

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.

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4 Transition to IFRS (continued)

ii) Reconciliation of equity as at January 1, 2010

Notes	Previous 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	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	248,877	(141,377)	107,500
Contributed surplus	2,545,041	84,477	2,629,518
Accumulated other comprehensive income (loss)	(128,284)	128,284	–
Deficit	(10,722,960)	(110,040)	(10,833,000)
	7,212,059	(38,856)	7,173,403
Total equity	7,212,059	(38,856)	7,173,403
Total liabilities and equity	17,729,452	–	17,729,452

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4 Transition to IFRS (continued)

ii) Reconciliation of equity as at March 31, 2010

Notes	Previous Canadian GAAP	Effect of Transition To IFRS	IFRS
	\$	\$	\$
Assets			
Current assets			
Cash and cash equivalents	282,161		282,161
Marketable securities	284,240		284,240
Trade receivables	3,400,267		3,400,267
Related party note receivable	118,619		118,619
Inventories	6,241,155		6,241,155
Other current assets	351,811		351,811
	10,678,253		10,678,253
Non-current assets			
Property, Plant and Equipment	8,184,798		8,184,798
Goodwill	125,800		125,800
Intangible assets	1,083,256		1,083,256
Total assets	20,072,107		20,072,107
Liabilities			
Current liabilities			
Bank indebtedness	1,396,135		1,396,135
Trade payables and accrued liabilities	3,248,203		3,248,203
Deposits on contract	952,230		952,230
Income tax liabilities	1,260,968		1,260,968
Current portion of long-term debt	2,222,764		2,222,764
Current portion of notes payable	1,057,588		1,057,588
Current portion of finance lease liability	5,401		5,401
Current portion of debentures payable	1,947,024	21,214	1,968,238
	12,090,313	21,214	12,111,527
Non-current liabilities			
Long-term debt	266,716		266,716
Notes payable	209,969		209,969
Finance lease liability	17,357		17,357
Total Liabilities	12,584,355	21,214	12,605,569
Shareholders equity			
Capital stock	15,269,385		15,269,385
Equity portion of convertible debentures	248,877	(141,377)	107,500
Contributed surplus	2,606,988	41,827	2,648,815
Accumulated other comprehensive income (loss)	(138,702)	119,270	(19,432)
Deficit	(10,498,796)	(40,934)	(10,539,730)
	7,487,752	(21,214)	7,466,538
Total equity	7,487,752	(21,214)	7,466,538
Total liabilities and equity	20,072,107	–	20,072,107

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4 Transition to IFRS (continued)

ii) Reconciliation of equity as at December 31, 2010

Notes	Previous 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)	119,773	69,405
Deficit	a,b,c,d (10,938,791)	(18,159)	(10,956,950)
Non-controlling interest	e –	51	51
Total equity	7,272,352	51	7,272,403
Total liabilities and equity	26,099,153	–	26,099,153

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4 Transition to IFRS (continued)

iii) Reconciliation of comprehensive income for the three month period ended March 31, 2010

	Notes	Previous Canadian GAAP (note f) \$	Effect of Transition to IFRS \$	IFRS \$
Revenue		6,183,395		6,183,395
Direct contract costs		4,179,812		4,179,812
Gross profit		2,003,583		2,003,583
Operating expenses				
General and administrative	b	1,487,052	(42,650)	1,444,402
(Gain) loss on disposal property, plant and equipment		(10,460)		(10,460)
Gain on marketable securities		(168,625)		(168,625)
Foreign currency (gain) loss	d	(164,075)	(9,014)	(173,089)
		1,143,892	(51,664)	1,092,228
Operating profit		859,691	51,664	911,355
Finance expense	a	275,019	(17,442)	257,577
Income before income taxes		584,672	69,106	653,778
Income taxes		360,508		360,508
Net income for the period		224,164	69,106	293,270
Other comprehensive income				
Unrealized foreign currency translation losses	d	(10,418)	(9,014)	(19,432)
Comprehensive income for the period		213,746	60,092	273,838

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4 Transition to IFRS (continued)

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

	Notes	Previous Canadian GAAP (note f) \$	Effect of Transition to IFRS \$	IFRS \$
Revenue		34,677,257		34,677,257
Direct contract costs		26,890,095		26,890,095
Gross profit		7,787,162		7,787,162
Operating expenses				
General and administrative	b	7,259,856	(44,714)	7,215,142
(Gain) loss on disposal property, plant and equipment		(353,447)		(353,447)
(Gain) loss on disposal of inventory		(97,783)		(97,783)
Gain on marketable securities		(596,240)		(596,240)
Foreign currency (gain) loss	d	(86,120)	(8,511)	(94,631)
		6,126,266	(53,225)	6,073,041
Operating profit		1,660,896	53,225	1,714,121
Finance expense	a	1,131,783	(38,656)	1,093,127
Income before income taxes		529,113	91,881	620,994
Income taxes		744,944		744,944
Net income for the period		(215,831)	91,881	(123,950)
Other comprehensive income				
Unrealized foreign currency translation losses	d	77,916	(8,511)	69,405
Comprehensive income for the period		(137,915)	83,370	(54,545)

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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 previous 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 March 31, 2010 the convertible debentures increase was \$21,214, the equity portion of convertible debentures decrease was \$141,377, the comprehensive income increase was \$17,442, while the deficit decrease was \$120,163. As at December 31, 2010 the equity portion of the convertible debentures was again decreased by \$141,377, the comprehensive income was increased by \$38,656 and the deficit was decreased by \$141,377.

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. At March 31, there was a cumulative adjustment of \$41,827 to these accounts and at December 31, 2010 a cumulative adjustment of \$39,763. Stock-based compensation expense decreased by \$42,650 for the three months ended March 31, 2010 and 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, March 31, 2010 and January 1, 2010 was to decrease the cumulative translation reserve and to increase the deficit by \$128,284.

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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 Landrill'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 as of March 31, 2010 and December 31, 2010 of \$9,014 and \$8,511 respectively.

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 balance sheet, 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 issued cost is reclassified from depreciation expense to finance expense. The previous GAAP columns in the reconciliations of comprehensive income for the three months ended March 31, 2011 and the year ended December 31, 2010 have been reclassified to conform with the IFRS functional presentation.

v) Adjustment to the statement of cash flow

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

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5 Additional IFRS disclosure

The following IFRS disclosure relating to the year ended December 31, 2010 and to the three months ended March 31, 2011 and 2010 is material to an understanding of these interim 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:

	3 months ended March 31, 2011 \$	3 months ended March 31, 2010 \$	Year ended December 31, 2010 \$
Depreciation (included in direct contract cost)	494,998	328,597	1,144,227
Depreciation (included in general & administrative expense)	137,037	72,779	843,138
Amortisation of debt issue cost (included in finance expense)	1,337	23,871	70,683
Bad debt expense	200,000	–	–
Employee benefits expense (ii)	5,349,350	2,607,601	14,931,187

ii) Employee benefits expense

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

	3 months ended March 31, 2011 \$	3 months ended March 31, 2010 \$	Year ended December 31, 2010 \$
Salaries and short term employee benefits	5,300,680	2,588,304	14,688,093
Share-based payments	48,670	19,297	243,094
	5,349,350	2,607,601	14,931,187

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5 Additional IFRS disclosure (continued)

iii) Other (gains) and losses net

Other (gains) and losses comprise the following:

	3 months ended March 31, 2011	3 months ended March 31, 2010	Year ended December 31, 2010
	\$	\$	\$
Gain on disposal of property, plant and equipment	(317,698)	(10,460)	(353,447)
Gain on disposal of inventory	–	–	(97,783)
Loss (gain) on marketable securities	63,040	(168,625)	(596,240)
Gain on foreign exchange	(48,102)	(173,089)	(94,631)
	<u>(302,760)</u>	<u>(352,174)</u>	<u>(1,142,101)</u>

6 Business acquisition

On March 31, 2011, the Company acquired the drilling assets of the exploration drilling companies HD Drilling s. de r.l de c.v. and Inflight s. de r.l de c.v. (jointly referred to as HD Drilling) based in Mazatlan, Sinaloa, Mexico. Through this acquisition, Landrill 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 \$6,148,000 including commodity taxes of US \$848,000. 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) and a note payable of US \$4,988,000. These promissory notes are short term and the Company intends to seek long-term loan to replace these promissory notes.

As at March 31, 2011, US \$3,900,000 of the purchase price was allocated to net tangible assets and US \$1,400,000 was allocated to intangible assets. Those values are preliminary and are subject to adjustments as additional information is obtained.

The estimated net assets at fair market value at acquisition are as follows:

	US \$
Inventories	700,000
Property, plant and equipment	3,200,000
Intangible assets	1,400,000
	<u>5,300,000</u>
Commodity taxes	848,000
	<u>6,148,000</u>

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7 Marketable securities

The marketable securities are classified as held-for-trading and recorded at fair value. The marketable securities consist of the following as at March 31, 2011, December 31, 2010 and January 1, 2010:

Issuer	Description	March 31,	December 31,	January 1,
		2011	2010	2010
		\$	\$	\$
Merrex Gold Inc	Sold during 2010	—	—	122,200
Gold Bullion Development Corp.	Sold during 2010	—	—	72,930
Frontline Gold Corp. (formally Chryso Capital Corporation)	72,000 common shares and 200,000 warrants expiring December 23, 2011	12,240	12,240	34,000
NSGold Corporation	456,500 flow through shares and 333,500 warrants expiring June	214,555	203,060	—
Meritus Minerals Ltd	150,000 common shares and 150,000 warrants expiring October 6, 2011	17,250	28,500	—
Portage Minerals Inc	794,000 common shares and 397,000 warrants expiring November 2, 2012	62,720	87,340	—
St.-Georges Platinum and Base Metals Ltd	2,500,000 common shares and 2,500,000 warrants expiring December 31, 2013	362,500	462,500	—
		<u>669,265</u>	<u>793,640</u>	<u>229,130</u>

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8 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

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8 Property, plant and equipment (continued)

	Three months ended March 31, 2011						
	Opening Net book value \$	Addition (reclassification) \$	Addition from business acquisition \$	Disposals \$	Depreciation for the period \$	Exchange Differences \$	Closing Net Book Value \$
Land and building	507,733	–	–	–	609	3,451	511,793
Leasehold improvements	32,741	6,885	–	–	(1,039)	2	38,589
Heavy machinery and equipment	8,020,475	2,604,843	2,103,558	(8,070)	(330,761)	65,095	12,455,140
Furniture and equipment	369,232	(67,613)	241,006	(85)	(17,435)	921	526,026
Equipment under finance lease	22,268	–	–	–	(891)	–	21,377
Vehicles	1,039,810	619,339	765,195	(7,664)	(201,274)	7,158	2,222,564
	<u>9,992,259</u>	<u>3,163,454</u>	<u>3,109,759</u>	<u>(15,819)</u>	<u>(550,791)</u>	<u>76,627</u>	<u>15,775,489</u>

	As at March 31, 2011		
	Cost \$	Accumulated depreciation \$	Net \$
Land and building	554,755	42,962	511,793
Leasehold improvements	49,902	11,313	38,589
Heavy machinery and equipment	16,543,262	4,088,122	12,455,140
Furniture and equipment	877,175	351,149	526,026
Equipment under finance lease	34,900	13,523	21,377
Vehicles	3,101,258	878,694	2,222,564
	<u>21,161,252</u>	<u>5,385,763</u>	<u>15,775,489</u>

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9 Intangible assets

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

	3 months ended March 31, 2011 \$	Year ended December 31, 2010 \$
Cost	1,651,187	1,651,187
Addition from business acquisition	1,360,520	—
	<u>3,011,707</u>	<u>1,651,187</u>
Accumulated amortization, beginning	811,660	486,688
Charge for the period	81,243	324,972
Accumulated amortization, ending	<u>892,903</u>	<u>811,660</u>
Net book value, ending	<u>2,118,804</u>	<u>839,527</u>

10 Bank indebtedness

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Revolving demand loan	<u>2,888,958</u>	<u>2,816,399</u>	<u>600,029</u>

Revolving demand loan, bearing interest at the rate of prime plus 3% per annum, with an authorized maximum amount at March 31, 2011 of \$3,000,000, which fluctuates based on total accounts receivable and inventories of the Company in Canada. As at March 31, 2011, the amount available on the loan to the Company was \$3,000,000. 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 March 31, 2011, the Company was not in compliance with the revolving demand loan's two restrictive financial covenants (note 19). 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 \$2,500 per month and the interest rate will be calculated at prime plus 5.5%. The Company is currently negotiating to obtain a waiver for these financial covenant breaches for the quarter.

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11 Promissory notes payable	March 31, 2011 \$
Promissory note payable bearing interest at 6% per annum due on April 30, 2011. If payment is in default, a late penalty charge of 2% per month will be assessed. The note is secured by the Company.	4,847,338
Promissory note payable with an interest fee of 5% to be paid in a lump sum with repayment of principal amount. Note is due on May 16 and is unsecured.	485,900
	<u>5,333,238</u>

Payments on these promissory notes have not been made on the due dates. The Company is seeking long term financing for repayment of these notes.

12 Long-term debt	March 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 Northstar Trade Finance Inc. of US \$290,300, bearing interest at Libor plus 3%, repayable in quarterly principal instalments of US \$29,030 plus interest. The loan will mature on August 25, 2013, and the Company has pledged two drilling rigs as security	282,114	317,606	455,733
Loan payable to GE Canada Equipment Financing G.P., bearing interest at a fixed rate of 8.02%, repayable in monthly instalments of \$8,295. The loan will mature on July 28, 2011, and the Company has pledged a drilling rig as security	32,730	56,641	147,546

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12 Long-term debt (continued)	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Loan payable to GE Canada Equipment Financing G.P., bearing interest at a fixed rate of 9.95%, repayable in monthly instalments of \$119,549. The loan will mature on July 29, 2011, and is secured by a first ranking security interest and hypothec on the equipment of the Company in Quebec and a personal guarantee by a director of the Company of \$370,000	468,449	809,770	2,089,004
Loan Payable to GE Canada Equipment Financing G.P., bearing interest at a fixed rate of 9.12%, repayable in 36 monthly instalment of \$71,671. The loan is secured by a first ranking security interest and hypothec on the equipment of the Company in Quebec. At March 31, 2011 the Company had only received \$1,215,168 as a partial advance on this loan. The total amount of the loan is \$1,655,886 and the Company has received the balance during the second quarter of 2011.	1,215,169	—	—
GMAC loan, bearing interest at a fixed rate of 5.99%, repayable in monthly instalments of \$543. This loan will mature on May 5, 2014, and the Company has pledge a vehicle as security	18,780	20,116	—
GMAC loan, bearing interest at a fixed rate of 5.99%, repayable in monthly instalments of \$532. This loan will mature on May 5, 2014, and the Company has pledged a vehicle as security	18,375	19,682	—
GMAC loan, bearing interest at a fixed rate of 5.89%, repayable in monthly instalments of \$542. The loan will mature on June 21, 2015 and the Company has pledged a vehicle as security	24,329	25,586	—
GMAC loan, bearing interest at a fixed rate of 5.89%, repayable in monthly instalments of \$503. The loan will mature on June 21, 2015 and the Company has pledged a vehicle as security	22,600	23,767	—

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12 Long-term debt (continued)	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Loan payable to Raymond Chabot Inc., non interest bearing, repayable in monthly instalments of \$20,000. The loan will mature on May 15, 2011, and the Company has pledged a drilling rig, a dozer and a muskeg as security	40,000	100,000	—
GMAC loan, bearing interest at a fixed rate of 5.59% repayable in monthly instalments of \$873. The loan will mature on July 28, 2013 and the Company has pledged a vehicle as security	22,877	25,155	—
GMAC loan, bearing interest at a fixed rate of 5.99%, repayable in monthly instalments of \$597. The loan will mature on September 10, 2014 and the Company has pledged a vehicle as security	22,556	23,993	—
GMAC loan, bearing interest at a fixed rate of 5.99%, repayable in monthly instalments of \$691. The loan will mature on September 10, 2014 and the Company has pledged a vehicle as security	26,107	27,771	—
GMAC loan, bearing interest at a fixed rate of 5.99%, repayable in monthly instalments of \$708. The loan will mature on September 10, 2014 and the Company has pledged a vehicle as security	26,772	28,479	—
GMAC loan, bearing interest at a fixed rate of 5.99%, repayable in monthly instalments of \$685. The loan will mature on September 10, 2014 and the Company has pledged a vehicle as security	25,885	27,534	—
GMAC loan, bearing interest at a fixed rate of 5.99%, repayable in monthly instalments of \$591. The loan will mature on September 10, 2014 and the Company has pledged a vehicle as security	22,334	23,757	—
GMAC loan, bearing interest at a fixed rate of 7.99%, repayable in monthly instalments of \$774. The loan will mature on September 10, 2014 and the Company has pledged a vehicle as security	28,278	30,012	—
GMAC loan, bearing interest at a fixed rate of 7.99%, repayable in monthly instalments of \$774. The loan will mature on September 10, 2014 and the Company has pledged a vehicle as security	28,278	30,012	—

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12 Long-term debt (continued)	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
GMAC loan, bearing interest at a fixed rate of 5.99%, repayable in monthly instalments of \$714. The loan will mature on September 10, 2014 and the Company has pledged a vehicle as security	26,994	28,715	—
GMAC loan, bearing interest at a fixed rate of 5.99%, repayable in monthly instalments of \$691. The loan will mature on September 10, 2014 and the Company has pledged a vehicle as security	26,107	27,771	—
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	55,000	70,000	—
Loan payable to Strategic Resources Inc, non-interest bearing, repayable in monthly instalments of \$10,000. The loan will mature on December 1, 2011 and the Company has pledge some equipment as security	90,000	120,000	—
GMAC loan, bearing interest at a fixed rate of 6.49%, repayable in monthly instalments of \$493. The loan will mature on January 18, 2015 and the Company has pledged a vehicle as security	20,047	—	—
GMAC loan, bearing interest at a fixed rate of 6.99%, repayable in monthly instalments of \$678. The loan will mature on January 25, 2015 and the Company has pledged a vehicle as security	27,282	—	—
GMAC loan, bearing interest at a fixed rate of 6.99%, repayable in monthly instalments of \$678. The loan will mature on January 25, 2015 and the Company has pledged a vehicle as security	27,282	—	—
GMAC loan, bearing interest at a fixed rate of 6.99%, repayable in monthly instalments of \$678. The loan will mature on January 25, 2015 and the Company has pledged a vehicle as security	27,282	—	—
GMAC loan, bearing interest at a fixed rate of 6.99%, repayable in monthly instalments of \$678. The loan will mature on January 25, 2015 and the Company has pledged a vehicle as security	27,282	—	—

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12 Long-term debt (continued)	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
GMAC loan, bearing interest at a fixed rate of 6.14%, repayable in monthly instalments of \$896. The loan will mature on February 28, 2015 and the Company has pledged a vehicle as security	37,341	—	—
GMAC loan, bearing interest at a fixed rate of 6.59%, repayable in monthly instalments of \$634. The loan will mature on March 14, 2015 and the Company has pledged a vehicle as security	26,691	—	—
GMAC loan, bearing interest at a fixed rate of 6.59%, repayable in monthly instalments of \$1,163. The loan will mature on March 14, 2015 and the Company has pledged a vehicle as security	48,950	—	—
	<u>2,765,891</u>	<u>1,845,758</u>	<u>3,003,246</u>
Less: Fair value adjustment	6,772	12,880	—
	<u>2,759,119</u>	<u>1,832,878</u>	<u>3,003,246</u>
Less: Financing fees	35,648	14,039	84,191
	<u>2,723,471</u>	<u>1,818,839</u>	<u>2,919,055</u>
Less: Current portion	1,352,191	1,371,715	2,603,111
	<u>1,371,280</u>	<u>447,124</u>	<u>315,944</u>

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

	\$
Year ending March 31, 2012	1,352,191
2013	675,814
2014	622,751
2015	112,189
2016	2,946
	<u>2,765,891</u>
Fair value adjustment	(6,772)
	<u>2,759,119</u>

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13 Finance lease obligation

	March 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	17,773	19,065	23,955
Less: Current portion	5,801	5,697	5,305
	<u>11,972</u>	<u>13,368</u>	<u>18,650</u>

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

	\$
Year ending March 31, 2012	6,600
2013	6,600
2014	<u>5,800</u>
Future minimum payments	19,000
Less: Amount representing interest	<u>1,227</u>
Present value of future minimum lease payments	<u>17,773</u>

14 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	6,580,288
Balance—March 31, 2011	<u>80,381,495</u>	<u>21,849,673</u>

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14 Capital stock (continued)

b) Transactions during the period ended March 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 March 31, 2011. The warrants were valued at \$1,927,108 and were credited to contribute surplus.

The Company paid a total amount of \$773,959 as finder fees and other issuance costs, and also issued agent warrants to acquire 1,101,339 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 March 31, 2011. These agent warrants were valued at \$158,695 and were credited to contribute 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

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14 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 three months ended March 31, 2011 and the year ended December 31, 2010 was as follows:

	<u>March 31, 2011</u>		<u>December 31, 2010</u>	
	Number of shares	Weighted average exercise price \$	Number of shares	Weighted average exercise price \$
Outstanding – Beginning of periods	4,165,000	0.36	2,618,181	0.42
Granted during the periods	–	–	2,050,000	0.28
Forfeited during the periods	<u>(75,000)</u>	0.28	<u>(503,181)</u>	0.37
Outstanding – End of periods	<u>4,090,000</u>	0.36	<u>4,165,000</u>	0.36

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

<u>Outstanding</u>			<u>Exercisable</u>	
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	5.0	635,000	0.60
175,000	0.20	6.0	175,000	0.20
135,000	0.24	6.8	135,000	0.24
1,170,000	0.40	7.2	1,170,000	0.40
<u>1,975,000</u>	0.28	9.6	<u>674,995</u>	0.28
<u>4,090,000</u>	0.36	7.9	<u>2,789,995</u>	0.40

The amount of the of stock-based compensation expense of \$48,670 (2010 – \$19,297) was charged to the income statement and credited to the contributed surplus in the balance sheet.

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14 Capital stock (continued)

d) Warrants

Warrant activity for the three months ended March 31, 2011 and the year ended December 31, 2010, was as follows:

	Number of shares	Weighted average exercise price \$
Outstanding – January 1, 2010	6,207,880	0.44
Expired during the period	<u>(6,207,880)</u>	0.44
Outstanding – December 31, 2010	–	
Private Placement	15,733,417	0.45
Agent warrants	<u>1,101,339</u>	0.30
Outstanding – March 31, 2011	<u><u>16,834,756</u></u>	0.44

The weighted average grant date fair value of warrants granted during the period was \$0.12 (2010 - \$nil) per warrant.

Warrants outstanding at March 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	<u>22,120</u>	0.30	August 24, 2012
	<u><u>16,834,756</u></u>	0.44	

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15 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 March 31, 2012	453,509
2013	279,776
2014	228,776
2015	178,776
2016	168,776
Thereafter	103,400

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.

16 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 three months ended March 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 – \$6,050);
 - 2) The Company was charged \$135,000 (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 – \$3,593) on the related party note receivable from LEM; and
 - 4) The Company paid interest on its debentures of \$2,486 (2010 – \$15,750) to key management and close family members of key management.

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16 Related party transactions (continued)

- b) Compensation of key management personnel for the three months ended March 31, 2011 and 2010 and for the year ended December 31, 2010 is summarized as follows:

	3 months ended March 31, 2011 \$	3 months ended March 31, 2010 \$	Year ended December 31, 2010 \$
Salaries, directors fees and benefits	260,929	263,712	1,110,641
Share-based payments	—	—	362,474
	<u>260,929</u>	<u>263,712</u>	<u>1,473,115</u>

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 three months ended March 31, 2011 and 2010.

17 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 \$247,737;
- ii) Short-term note payable of US \$4,988,000 issued on acquisition of business of HD Drilling.

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18 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:

	3 months ended March 31, 2011 \$	3 months ended March 31, 2010 \$
Weighted average number of common shares outstanding-basic	64,043,956	48,914,661
Effect of dilutive stock options and agent warrants	222,994	—
Weighted average number of common shares outstanding -diluted	<u>64,266,950</u>	<u>48,914,661</u>

The calculation of the diluted earnings per share for the period ended March 31, 2011, excluded the effect of 1,805,000 stock options and the share purchase warrants as they were anti-dilutive since their exercise price was higher than the average market price for the period. For the period ended March 31, 2010 all the stock options and share purchase warrants were anti-dilutive.

19 Capital management

In the management of capital, the Company includes shareholders' equity (excluding accumulated other comprehensive income (loss)), long-term borrowings, bank indebtedness and notes 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). EBITDA for this purpose is calculated on a 12 month trailing basis and is defined below:

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19 Capital management (continued)	12 months ended March 31, 2011 \$	12 months ended December 31, 2010 \$
Net income (loss) for the period	447,128	(123,950)
Adjusted for the following:		
Depreciation	2,194,153	1,987,365
Amortization of deferred finance costs	48,014	70,683
Finance expense	1,069,102	1,022,444
Income taxes	836,647	744,944
Foreign currency loss (gain)	30,356	(94,631)
EBITDA	<u>4,625,400</u>	<u>3,606,855</u>

The ratio of senior debt to EBITDA does not have any standardized meaning prescribed under IFRS and may not be comparable to similar measures used by other companies.

At March 31, 2011, the senior debt to EBITDA ratio was 2.37:1.0 (December 31, 2010 -1.62:1.0) calculated on a 12 month trailing basis as follows.

	March 31, 2011 \$	December 31, 2010 \$
Senior debt		
Bank indebtedness	2,888,958	2,816,399
Notes payable	5,333,238	1,213,647
Long-term debt including current portion	2,723,471	1,818,839
Finance lease obligation including current portion	17,773	19,065
Senior debt	<u>10,963,440</u>	<u>5,867,950</u>
EBITDA	<u>4,625,400</u>	<u>3,606,855</u>
Senior debt to EBITDA ratio	<u>2.37:1.0</u>	<u>1.62:1.0</u>

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19 Capital management (continued)

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. At March 31, 2011, this ratio was not met due to the combination of additional debt incurred with the purchase of HD Drilling combined with lower than normal trailing EBITDA.

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 these covenants for this quarter, and was also in breach during the first two quarters of 2010. For the third and fourth quarters of 2010, the Company was in breach of the current ratio. The Company has obtained written waivers from the bank for these breaches in 2010 and is currently negotiating a waiver for the current quarter.

20 Financial instruments and risk management

Fair value

The Company's financial instruments consist of 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 and finance lease obligation which will result in future cash outlays.

The carrying value of cash and cash equivalents, 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 and the finance lease obligation are made as of the balance sheet 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 flow, 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 balance sheet 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.

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20 Financial instruments and risk management (continued)

Fair value (continued)

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

	March 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	669,265	—	—	793,640	—	—	229,130	—	—

The carrying value and fair value of these financial instruments at March 31, 2011 and December 31, 2010 disclosed below by financial instrument category:

	March 31, 2011		December 31, 2010		January 1, 2010	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Financial assets						
Fair value through profit and loss						
Marketable securities	669,265	669,265	793,640	793,640	229,130	229,130
Loans and receivable						
Cash	706,671	706,671	944,628	944,628	423,505	423,505
Accounts receivable	10,599,050	10,599,050	5,179,689	5,179,689	1,071,309	1,071,309
Related party note receivable	—	—	107,145	107,145	150,426	150,426
Financial liabilities						
Other liabilities						
Bank indebtedness	2,888,958	2,888,958	2,816,399	2,816,399	600,029	600,029
Promissory notes	5,333,238	5,333,238	1,213,647	1,213,647	966,304	966,304
Debentures payable	—	—	2,000,000	2,000,000	1,945,948	1,945,948
Accounts payable and accrued liabilities	8,004,800	8,004,800	5,733,777	5,733,777	2,040,720	2,040,720
Deposits on contracts	3,478,657	3,478,657	3,769,767	3,769,767	1,131,891	1,131,891
Long-term debt, including current portion	2,723,471	2,723,471	1,818,839	1,818,839	2,919,055	2,919,055
Finance lease obligation, including current portion	17,733	17,733	19,065	19,065	23,955	23,955

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20 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 March 31, 2011 are as follows:

	US Dollars	Mexican Pesos	Mongolian MNT	Russian Rubles	European Euros
Cash	251,966	124,591	275,971,298	2,406,077	1,624
Accounts receivable	1,640,396	10,148,694	427,731,288	12,204,780	—
Accounts payable and accrued liabilities	(103,468)	(5,362,882)	(634,036,921)	(1,017,792)	—
Deposits on contracts	(770,989)	—	(155,421,237)	(8,903,285)	—
Notes payable	(5,488,000)	—	—	—	—
Long-term debt	(290,295)	—	—	—	—
	(4,760,390)	4,910,403	(85,755,572)	4,689,780	1,624
Canadian dollar equivalent	(4,626,146)	398,731	(69,557)	160,390	2,237

Based on the aforementioned net exposure as at March 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	462,615	(462,615)
Against Mexican peso	(39,873)	39,873
Against Mongolian MNT	6,955	(6,955)
Against Russian ruble	(16,039)	16,039
Against European euro	(223)	223

Interest rate risk

One of the Company's long-term loans payable and the demand loan have floating rates of interest. The Company is therefore exposed to interest rate fluctuation. At March 31, 2011, the annual increase or decrease for each one percent change in interest rate amounts to approximately \$32,066.

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20 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 3 month period ending March 31, 2011 represented 23% of the total revenue for the period (the same customer represented 64% for the same period of 2010). Also at March 31, 2011, the Company's accounts receivable included three customers who had a balance over 10% of the total accounts receivable (two had balances over 10% as at December 31, 2010). As at March 31, 2011, trade receivables of \$654,443 (December 2010 – \$478,490) were past due and an allowance of \$202,920 (2010 – \$2,920) was recorded against these. The balance relates to a number of independent customers for whom there is no history of default and the Company has deposits of \$440,122 from these customers.

The ageing analysis of the trade receivables is as follows:

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Current and up to 30 days	6,282,246	2,544,849	682,387
31 to 60 days	2,331,918	886,493	21,949
61 to 90 days	87,214	46,793	–
Over 90 days	654,443	478,490	272,406
	<u>9,355,821</u>	<u>3,956,625</u>	<u>976,742</u>
Less allowance for doubtful account	(202,920)	(2,920)	(2,920)
Trade accounts receivable	<u>9,152,901</u>	<u>3,953,705</u>	<u>973,822</u>

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 as at March 31, 2011 are as follows:

	Less than 1 year	2 – 3 years	4 – 10 years	Total
	\$	\$	\$	\$
Demand loan	2,888,958	–	–	2,888,958
Promissory notes payable	5,333,288	–	–	5,333,288
Accounts payable and accrued liabilities	8,004,800	–	–	8,004,800
Deposits on contracts	3,478,657	–	–	3,478,657
Long-term debt	1,352,191	1,298,565	115,135	2,765,891
Finance lease obligation	6,600	12,400	–	19,000
	<u>21,064,494</u>	<u>1,310,965</u>	<u>115,135</u>	<u>22,490,594</u>

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21 Subsequent events

Subsequent to the quarter end, the Company acquired five drills for a total amount of approximately \$1.4 million of which approximately \$440,000 has been financed with a three-year term loan and \$400,000 was financed from short term promissory notes (bridge financing).

22 Segmented information

The Company has one reportable business segment, which is contract drilling, with 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. The Company's head office is located in New Brunswick, Canada.

	3 months ended March 31, 2011 \$	3 months ended March 31, 2010 \$
Revenues		
Asia	1,237,554	103,845
Mexico and Central America	2,873,213	701,242
Canada	9,902,249	5,378,308
	<u>14,013,016</u>	<u>6,183,395</u>

Revenues to the Company's three largest customers accounted for approximately 23%, 15% and 11% of the Company's revenue for the three months ended March 31, 2011. Comparatively revenues to the Company's two largest customers accounted for approximately for 64% and 13% of Company's revenues for the three months ended March 31, 2010. All revenues from the major customers are in the geographic segment located in Canada.

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22 Segmented information (continued)

	3 months ended March 31, 2011			
	Asia	Mexico and Central America	Canada	Total
	\$	\$	\$	\$
Segment profit				
Gross profit—before depreciation	254,905	884,347	2,982,927	4,122,179
Less: General and administrative	379,852	280,241	586,600	1,046,693
Depreciation	96,775	115,002	413,432	625,209
Other (gains) losses	(290,849)	(71,157)	67,289	294,717
Segment profit	69,127	560,261	1,915,606	2,744,994
	3 months ended March 31, 2010			
	Asia	Mexico and Central America	Canada	Total
	\$	\$	\$	\$
Segment profit				
Gross profit—before depreciation	(124,497)	(5,428)	2,462,104	2,332,179
Less: General and administrative	241,121	162,618	310,552	714,291
Depreciation	41,090	95,719	282,002	418,811
Other (gains) losses	(1,820)	(174,864)	(171,133)	(347,817)
Segment profit	(404,888)	(88,901)	2,040,683	1,546,894
			3 months ended March 31, 2011	3 months ended March 31, 2010
Net income			\$	\$
Income (loss) from geographic segments				
Asia			69,127	(404,888)
Mexico and Central America			560,261	(88,901)
Canada			1,915,606	2,040,683
			<u>2,544,994</u>	<u>1,546,894</u>
Unallocated expenses				
General corporate expenses			986,727	659,410
Interest expense			241,708	233,706
Income tax expense			452,211	360,508
Net income			<u>864,348</u>	<u>293,270</u>

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22 Segmented information (continued)

	3 months ended March 31, 2011 \$	3 months ended March 31, 2010 \$
Capital expenditures		
Asia	725,952	2,475
Mexico and Central America	320,841	61,566
Assets purchased as part of the business acquisition in Mexico	3,109,760	—
Canada	2,065,669	39,294
Unallocated corporate assets—Canada	56,563	209
	<u>3,169,025</u>	<u>103,544</u>
	March 31, 2011 \$	December 31, 2010 \$
		January 1, 2010 \$
Intangible assets		
Mexico and Central America	1,360,520	—
Canada	758,284	839,527
	<u>2,118,804</u>	<u>1,164,499</u>
	March 31, 2011 \$	December 31, 2010 \$
		January 1, 2010 \$
Property, plant and equipment		
Asia	1,989,710	1,319,687
Mexico and Central America	5,735,981	2,404,658
Canada	7,825,218	6,091,736
Unallocated corporate assets—Canada	224,580	176,178
	<u>15,775,489</u>	<u>9,992,259</u>
		<u>8,365,824</u>

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22 Segmented information (continued)

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Identifiable assets			
Asia	6,863,390	6,057,189	4,991,258
Mexico and Central America	12,832,117	5,267,452	3,916,666
Canada (includes goodwill of \$125,800)	19,967,758	13,826,713	8,299,824
Unallocated corporate assets – Canada	1,201,588	947,799	521,704
	<u>40,864,853</u>	<u>26,099,153</u>	<u>17,729,452</u>
Segment liabilities			
Asia	909,020	784,558	578,292
Mexico and Central America	7,176,097	1,635,668	1,183,686
Canada	13,529,875	13,361,727	6,261,905
Unallocated corporate liabilities—Canada	2,245,048	3,044,797	2,532,166
	<u>23,860,040</u>	<u>18,826,750</u>	<u>10,556,049</u>
		3 months ended March 31, 2011 \$	3 months ended March 31, 2010 \$
Amortization			
Asia		96,775	41,090
Mexico and Central America		115,002	95,719
Canada		413,432	282,002
Unallocated corporate assets – Canada		8,163	6,436
		<u>633,372</u>	<u>425,247</u>