CanElson Announces Second Quarter Results and Declares Quarterly Dividend

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CALGARY, ALBERTA--(Marketwired - Jul 31, 2014) - CanElson Drilling Inc. (TSX:CDI) today announces the financial results for the second quarter compared to a year earlier and declares a second quarter dividend of $0.06 per share.

SECOND QUARTER 2014 SUMMARY (compared with a year earlier)

- Services revenue of $61.9 million, up 65% from $37.5 million
- Adjusted EBITDA of $16.3 million, up 81% from $9.0 million, excluding Adjusted EBITDA from our equity investment joint venture DCM of $2.7 million (2013: $0.8 million)
- Income attributable to shareholders of the Corporation $5.5 million, up 196% from $1.9 million
- EPS (diluted) of $0.06, up 200% from $0.02
- Weighted average diluted shares outstanding 93.9 million, up 20% from 78.3 million
- Declared second quarter dividend of $0.06 per share, same as the prior year
- Canadian utilization of 36% was up 177% year-over-year, and exceeded the industry average by 1.38 times.
- US utilization of 75% was down 5% year-over-year, as a result of three drilling rig re-certifications and adverse weather conditions in North Dakota.

SIX MONTHS ENDED 2014 SUMMARY (compared with a year earlier)

- Services revenue of $159.0 million, up 45% from $109.8 million
- Adjusted EBITDA $48.1 million, up 32% from $36.5 million (excludes Adjusted EBITDA from our equity investment joint venture DCM of $5.6 million (2013: $1.0 million)
- Income attributable to shareholders of the Corporation $20.6 million, up 36% from $15.2 million
- EPS (diluted) of $0.22, up 10% from $0.20
- Weighted average diluted shares outstanding 93.8 million, up 21% from 77.7 million
- Canadian utilization of 57% was up 33% year-over-year, and exceeded the industry average by 1.33 times.
- US utilization of 79% was down 4% year-over-year, as a result of reduced activity in the second quarter (see above).

Second quarter Canadian utilization (spud to rig release days) of 36% was 1.38 times above the industry average utilization level of 25% and 2.32 times above our Q2 2013 utilization level of 13%. We credit our modern drilling fleet and our continued focus on working with our partners to find operating efficiencies as significant contributors to our outperformance in this operating region. In the US, utilization of 75% was down 5% year-over-year, primarily as a result of three drilling rig re-certifications and adverse weather conditions in North Dakota where wet conditions limited our ability to move from well to well. In Mexico, DCM continued to generate strong results, despite redeploying one drilling rig and one service rig in the quarter, driven by the operating efficiencies gained under our performance contracts.

For the first six months ended June 30, 2014, Canadian utilization (spud to rig release days) was 57%, 1.33 times above the average industry utilization level of 43%. Management is encouraged by current activity levels, with 75% of our drilling rig fleet currently working at the time of this press release, compared to 61% in 2013 and with the remaining idle rigs expected to start mid third quarter. Furthermore, 93% of the Canadian drilling rig fleet is committed through the winter drilling season and 43% of the fleet is under long-term contract at the time of this press release.

US utilization of 79% was down 4% year-over-year, due to the aforementioned three drilling rig re-certifications and adverse weather conditions in North Dakota. At the time of this press release 100% of the US drilling rig fleet is working and committed to customers, with 37% under long-term contract. In Mexico, DCM has generated more EBITDA in the first six months of the year than it did in all of 2013, despite significant downtime for one drilling rig and one service rig which were idle awaiting mobilization to the Miquetla Basin. DCM expects more clarity on the timing of resumption of drilling in the Ebano block in Q4. Therefore, the Corporation expects the remaining drilling operations to consist of one drilling rig operating in the Miquetla block during Q3.

The Corporation was able to generate strong three and six months utilization rates relative to the comparative periods and increased revenue and Adjusted EBITDA despite a decrease in Adjusted EBITDA margin percentage. The year- over-year reduction in Adjusted EBITDA margin percentage was primarily the result of a) lower average base revenue rates in Canada, b) the increase in the strength of the US dollar compared to the Canadian dollar; c) inflation increases in direct expenses primarily related to labour costs, and (d) an increase in drilling times for footage wells in Texas, mainly due to regulatory changes dictating an extra casing string in each new well, which introduces a higher revenue level per well, but requires more days that typically produce lower margins than footage performance rates. Earnings per share increased by 10% primarily due to strong second quarter activity levels, partially offset by an increase in the number of shares outstanding as a result of the equity financings in 2013.

"We have reasons to be optimistic across all of our operating geographies, and believe our track record of working with our customers to find efficiencies resulting in reduced well costs will result in continued opportunities for growth." stated Randy Hawkings, President and CEO of CanElson.

Fleet deployment (by rigs)

	Canada	Texas	North Dakota	Mexico Drilling	Mexico Service	Total
At June 30, 2014	28 (net 26.5)	13 (net 11.5)	6 (net 6)	2 (net 1)	2 (net 1)	51 (net 46)
At December 31, 2013	29 (net 27.5)	12 (net 10.5)	5 (net 5)	2 (net 1)	2 (net 1)	50 (net 45)
Change %	(3)%	8%	20%	Unchanged	Unchanged	2%

Gross fleet deployment (by %)

	Canada	Texas	North Dakota	Mexico Drilling	Mexico Service	Total
At June 30, 2014	55%	25%	12%	4%	4%	100%
At December 31, 2013	58%	24%	10%	4%	4%	100%

OUTLOOK

Drilling Services

During the first six months of 2014, CanElson generated higher consolidated activity levels than the comparative period, due to relatively strong seasonal activity in Canada and growth in the drilling rig fleet. We believe that our strategy to be measurably more efficient in order to reduce well costs for our customers has uniquely positioned CanElson to sustain relatively strong profitably during the full drilling industry cycle. Specifically, rising horizontal well costs and the inherent instability of commodity prices has created an opportunity in the contract drilling market to gain market share through demonstrated efficiency in the drilling process and cost saving programs. This reduction in drilling costs does not necessarily correspond to a lower revenue rate for the drilling contractor. It instead focuses on the contractor's ability to minimize non-productive time, to maximize performance while drilling, and to flexibly integrate related equipment, services and contract types into the drilling solution.

CanElson's growth opportunities historically have been sourced through existing customers and referrals, rather than through a competitive bid process, which we credit to our performance combined with our ability to identify cost saving opportunities. We currently have clear customer interest for new build drilling rigs across several operating geographies, and have the financial flexibility to pursue meaningful growth. Going forward, we will continue to pursue a disciplined growth strategy, which contemplates obtaining contracts which meet our investment criteria, and which does not exceed our ability to maintain the quality and performance that our customers have grown to expect.

Our primary challenge continues to be sourcing skilled personnel to crew our growing drilling rig fleet. To this end, our goal is to be an employer of choice, which includes a continued focus on safety, an employee stock participation program, and a platform for growth that fosters career advancement opportunities. As a result, we continue to invest in personnel and customer relationships that allow us to assist in the drilling optimization process.

Canada

During the second quarter of 2014, base drilling rig rate pricing levels remained flat in contrast to typical historical rate declines for the drilling industry during the second quarter. The relative strength in 2014 second quarter pricing combined with continued strong demand for drilling rigs capable of efficiently drilling horizontal wells could result in a positive Canadian pricing environment through the upcoming winter drilling season.

United States - Texas

CanElson has 25% of its rig fleet focused on oil directed drilling in the Permian Basin in Texas. Our success to date in this area has largely been the result of our operating efficiencies, coupled with performance-based contract options that deliver reduced customer well costs. The shift to horizontal drilling in the Permian Basin has allowed CanElson to further differentiate itself with the tele-double service offering. Over the last 18 months, the number of our rigs drilling horizontal wells has expanded to five from one. CanElson expects to see further expansion in the Permian Basin of both horizontal and vertical drilling. We believe the continued strong activity levels in the Permian Basin support our expectation to achieve utilization levels in 2014 consistent with 2013.

United States - North Dakota

In the second quarter, CanElson re-deployed one additional drilling rig from Alberta to North Dakota to assist an existing customer. We believe that growth in this area is due to our track record of operating efficiency and resulting reduced drilling times.

Mexico

The rate of wells drilled in the Ebano block by DCM significantly outpaced the budgeted number of wells and the associated production from these wells exceeded the regional infrastructure capacity to handle this production. As a result, our customer released the DCM drilling rig operating in the Ebano block subsequent to the end of the second quarter. DCM expects more clarity on the timing of resumption of drilling in the Ebano block in Q4. The Corporation expects drilling operations for one drilling rig to commence in the Miquetla block during Q3.

Going forward we believe that our historical performance and alignment with an experienced and strong local partner (Grupo Diavaz, with 40 years of experience serving PEMEX) positions DCM to expand its range of services if Mexico's current energy sector reform results in increased demand for drilling rigs.

Rig Assembly

Based on existing customer contracts and those being finalized, CanElson's 2014 investment and deployment of new rig builds is expected to be as follows:

- Rig #44 (tele-double): Delivered in January 2014 under a long-term contract.
- Rig #45 (tele-double): Delivered in April 2014 under a long-term contract.
- Rig #46 (tele-double): Expected to commence operations in August under a long-term contract.
- Rig #103 (AC triple): Expected to be delivered in Q4 2014 with contract pending.
- Rig #49 (AC tele-double): Expected to be delivered in Q4 2014 with contract pending.
- Rig #104 (AC triple): Expected to be delivered in Q1 2015 with contract pending.

CanGas Solutions Inc.

For 2014 we expect to continue investing in our fleet of truck-hauled CNG delivery trailers and compressors.

For more information about our investment plan see the *Capital Availability and Capital Program* below.

Capital Availability and Capital Program

CanElson has approximately $83 million of available capacity on existing credit facilities to fund a portion of the 2014 capital program and take advantage of strategic opportunities. Funds flow continues to be strong and fully supports our current quarterly dividend rate of $0.06 per share as well as a majority of the expected 2014 capital investment program, with the remaining amount being funded through existing credit facilities.

2014 Capital Program

	Drilling Services				
Capital Expenditures	Spare equipment facility & overhead	Upgrades & maintenance	Expansion	CanGas	Total
Capital expenditures for the six months ended June 30, 2014	$ 2.2	$ 15.3	$ 35.3	$ 2.1	$ 54.9
Anticipated cost to complete 2014 capital expenditures	4.1	13.4	36.5	0.2	54.2
Total expected 2014 capital expenditures	$ 6.3	$ 28.7	$ 71.8	$ 2.3	$ 109.1
Previously anticipated 2014 capital expenditures (i)	$ 6.2	$ 25.9	$ 68.6	$ 2.3	$ 103.0
Variance from previously anticipated 2014 capital expenditures	$ 0.1	$ 2.8	$ 3.2	$ -	$ 6.1

(i) Refer to our MD&A dated May 14, 2014

2014 expansion capital is for the completion of additional new drilling rig builds (see *Rig Assembly* in the *Outlook*). Year to date, CanElson has spent $54.9 million, including $1.0 million in capitalized interest. Total expected capital expenditures for 2014 have increased by $6.1 million to $109.1 million, primarily due to additional components on selected new drilling rigs and various other critical maintenance items and rig equipment upgrades.

Primary Corporate Objectives

CanElson's primary objective is to maintain and strengthen its above industry average utilization by consistently providing operational excellence and drilling efficiencies to its customers. With this focus, our aim is to be well positioned to secure customer commitments and capitalize on new opportunities. Subject to securing suitable customer commitments, we intend to carry out the following activities to further enhance our competitive positioning:

- Continue to expand our standard tele-double fleet.
- Expand further into the AC triple drilling rig market.
- Expand our service offering in Mexico.
- Continue to form innovative long-term business relationships.
- Continue growth through strategic acquisitions.
- Provide customers with lower overall well costs.

DIVIDEND

On July 30, 2014, the Board of Directors approved a quarterly dividend of $0.06 per share to be paid on August 29, 2014 to shareholders of record at the close of business on August 20, 2014. The ex-dividend date is August 18, 2014.

FINANCIAL SUMMARY

(Tabular amounts are stated in thousands of Canadian dollars, except per share amounts and rig operating days)

	For the three months ended June 30,			For the six months ended June 30,		
	2014	2013	% change	2014	2013	% change
Services revenue	$ 61,904	$ 37,499	65%	$ 159,043	$ 109,776	45%
Adjusted EBITDA	$ 16,316	$ 9,036	81%	$ 48,077	$ 36,491	32%
Share of profit unconsolidated joint venture	$ 596	$ 476	25%	$ 2,249	$ 514	338%
Net income attributable to shareholders of the Corporation	$ 5,536	$ 1,870	196%	$ 20,638	$ 15,205	36%
Net income per share						
Basic	$ 0.06	$ 0.02	200%	$ 0.22	$ 0.20	10%
Diluted	$ 0.06	$ 0.02	200%	$ 0.22	$ 0.20	10%
Cash dividends per share	$ 0.06	$ 0.06	-%	$ 0.12	$ 0.12	-%
Funds flow	$ 17,460	$ 9,840	77%	$ 48,185	$ 36,691	31%
Gross Margin	$ 22,600	$ 13,579	66%	$ 61,083	$ 45,976	33%
Weighted average diluted share outstanding	$ 93,898	$ 78,254	20%	$ 93,812	$ 77,670	21%

Revenue and Operating Expenses

	For the three months ended June 30,			For the six months ended June 30,		
	2014	2013	% Change	2014	2013	% Change
Oilfield services segment						
Services revenue						
Canada	$ 25,718	7,430	246%	$ 86,218	50,655	70 %
US	36,186	30,069	20%	72,825	59,121	23 %
	61,904	37,499	65%	159,043	109,776	45 %
Other direct operating expenses	39,304	23,920	64%	97,960	63,800	54 %
Gross margin	$ 22,600	13,579	66%	$ 61,083	45,976	33 %
Gross margin %	37%	36%		38%	42%	
Administration expenses	6,284	4,543	38%	13,006	9,485	37 %
Adjusted EBITDA	16,316	9,036	81%	48,077	36,491	32 %
Adjusted EBITDA %	26%	24%	8%	30%	33%	(9)%
Operating days (spud to rig release)	2,127	1,428	49%	5,476	4,097	34 %
Revenue per operating day (Canada)	28.58	27.42	4%	29.06	28.16	3 %
Revenue per operating day (US)	29.48	25.99	13%	29.02	25.73	13 %
Other operating expenses per day	18.48	16.75	10%	17.89	15.57	15 %

CANELSON DRILLING INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, Stated in thousands of Canadian dollars)	June 30, 2014	December 31, 2013

ASSETS				
Current assets:				
Cash	$	9,324	$	6,402
Trade and other receivables		47,569		65,055
Prepaid expenses and deposits		970		1,693
Current income tax asset		4,303		6,020
Total current assets		62,166		79,170
Property and equipment		460,197		422,257
Deferred tax assets		769		749
Other intangible assets		1,814		1,872
Investment in unconsolidated joint venture		9,426		7,062
Goodwill		35,696		35,696
Total assets	$	570,068	$	546,806
LIABILITIES AND EQUITY				
Current liabilities:				
Trade payables and accrued liabilities	$	24,321	$	26,720
Deferred revenue		465		1,532
Loans and borrowings		15,933		17,163
Total current liabilities		40,719		45,415
Deferred revenue		1,141		1,450
Loans and borrowings		29,728		24,608
Deferred tax liabilities		64,390		56,423
Total liabilities		135,978		127,896
Equity:				
Share capital		304,742		301,439
Employee benefit reserve		4,857		4,406
Foreign currency translation reserve		7,994		8,791
Retained earnings		90,670		81,110
Equity attributable to shareholders of the Corporation		408,263		395,746
Equity attributable to non-controlling interest		25,827		23,164
Total equity		434,090		418,910
Total liabilities and equity	$	570,068	$	546,806

CANELSON DRILLING INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Three months ended June 30,				Six months ended June 30,		
(Unaudited, Stated in thousands of Canadian dollars - except per share data)		2014		2013		2014		2013
Services revenue	$	61,904	$	37,499	$	159,043	$	109,776
Cost of sales:								
Other direct operating expenses		39,304		23,920		97,960		63,800
Depreciation and amortization		5,649		3,905		14,639		9,519
Stock based compensation		200		118		398		261
Total cost of sales		45,153		27,943		112,997		73,580
Total gross profit		16,751		9,556		46,046		36,196
Expenses:								
Administration expenses		6,284		4,543		13,006		9,485
Stock based compensation		355		303		722		645
Foreign exchange loss (gain)		(564)		249		364		553
Total expenses		6,075		5,095		14,092		10,683
Share of unconsolidated joint venture profits		596		476		2,249		514
Income before interest and taxes		11,272		4,937		34,203		26,027
Interest expense		108		427		304		944
Income before income tax		11,164		4,510		33,899		25,083
Current tax expense (recovery)		(1,910)		(1,578)		2,403		1,309
Deferred tax expense		6,003		2,851		7,799		5,624
		4,093		1,273		10,202		6,933
Net income	$	7,071	$	3,237	$	23,697	$	18,150
Other comprehensive income								

Foreign currency translation differences for foreign operations		(5,858)		4,209		(1,308)		6,308
Share of unconsolidated joint venture translation differences		(190)		193		115		384
Total comprehensive income	$	1,023	$	7,639	$	22,504	$	24,842
Income attributable to:								
Shareholders of the Corporation	$	5,536	$	1,870	$	20,638	$	15,205
Non-controlling interest		1,535		1,367		3,059		2,945
	$	7,071	$	3,237	$	23,697	$	18,150
Total comprehensive income attributable to:								
Shareholders of the Corporation	$	690	$	6,669	$	19,841	$	21,789
Non-controlling interest		333		970		2,663		3,053
	$	1,023	$	7,639	$	22,504	$	24,842
Income per share:								
Basic	$	0.06	$	0.02	$	0.22	$	0.20
Diluted	$	0.06	$	0.02	$	0.22	$	0.20

NON-GAAP MEASURES

This press release contains references to Adjusted EBITDA, funds flow, gross margin, and effective tax rate to shareholders of the Corporation. These financial measures are not measures that have any standardized meaning prescribed by IFRSs and are therefore referred to as non-GAAP measures. The non-GAAP measures used by CanElson may not be comparable to similar measures used by other companies.

Adjusted EBITDA is defined as income (loss) before interest, taxes, business acquisition transaction costs, depreciation and amortization, stock based compensation expense, gains on disposal of property and equipment, foreign exchange and share of unconsolidated joint venture profits. Adjusted EBITDA includes 100% of revenue and expenses from controlled entities where the Corporation holds less than 100% of the outstanding shares. Management believes that, in addition to net and total comprehensive income (loss), Adjusted EBITDA is a useful supplemental measure as it provides an indication of the results generated by CanElson's principal business activities prior to consideration of how these activities are financed, how the results are taxed in various jurisdictions, or how the results are effected by the accounting standards associated with CanElson's stock based compensation plan.

		For the three months ended June 30,					For the six months ended June 30,			
		2014		2013	% change		2014		2013	% change
Net Income	$	7,071	$	3,237	118 %	$	23,697	$	18,150	31 %
Interest Expense		108		427	(75)%		304		944	(68)%
Current and Deferred Taxes		4,093		1,273	222 %		10,202		6,933	47 %
Depreciation expense		5,649		3,905	45 %		14,639		9,519	54 %
EBITDA		16,921		8,842	91 %		48,842		35,546	37 %
Stock based compensation expense		555		421	32 %		1,120		906	24 %
Share of profit unconsolidated joint venture		(596)		(476)	25 %		(2,249)		(514)	338 %
Foreign exchange (recovery) losses		(564)		249	327 %		364		553	34 %
Adjusted EBITDA	$	16,316	$	9,036	81 %	$	48,077	$	36,491	32 %

Funds flow from operations is defined as cash provided by operating activities before changes in non-cash working capital. Funds flow from operations is a measure that provides shareholders and potential investors with additional information regarding CanElson's liquidity and its ability to generate funds to finance its operations, fund investing activities and support dividend payments. Management utilizes this measurement to assess CanElson's ability to finance operating activities and capital expenditures.

		For the three months ended June 30,					For the six months ended June 30,			
		2014		2013	% change		2014		2013	% change
Operating cash flow	$	41,045	$	23,802	72 %	$	57,789	$	52,097	11 %
Income taxes paid		310		1,821	(83)%		686		3,110	(78)%

Changes in working capital		(23,895)		(15,783)	51 %		(10,290)		(18,516)	(44)%
Funds flow	$	17,460	$	9,840	77%	$	48,185	$	36,691	31%

Gross margin is defined as "gross profit from services revenue before stock based compensation and depreciation". Gross margin is a measure that provides shareholders and potential investors additional information regarding CanElson's cash generating operating performance. Management utilizes this measurement to assess CanElson's operating performance.

		For the six months ended June 30,					For the six months ended June 30,			
		2014		2013	% change		2014		2013	% change
Gross profit	$	16,751	$	9,556	75%	$	46,046	$	36,196	27%
Depreciation expense		5,649		3,905	45%		14,639		9,519	54%
Stock based compensation expense		200		118	69%		398		261	52%
Gross margin	$	22,600	$	13,579	66%	$	61,083	$	45,976	33%

STANDARD INDUSTRY DEFINITIONS

In addition to the non-GAAP measures listed above, we use a number of industry and other terms in this press release which are described below:

Drilling rigs are categorized as singles, doubles, or triples based on the number of connected segments or "joints" of drill pipe that can be handled as a "stand" in the mast. Taller masts (e.g. triples) generally correspond to greater drilling depth capacities. We often refer to many of our rigs as tele-doubles - "tele" is short for telescoping, which refers to a design featuring an upper section of the mast that nests inside the lower section for transport and telescopes to full operating height to handle two-joint stands while drilling. Drilling rigs are also categorized as mechanical or AC electric, which refers to the method by which the hoisting and pumping equipment are powered.

CanElson presents its activity levels on a drilling day basis, and sources its utilization statistics from the Canadian Association of Oilwell Drilling Contractors ("CAODC"), which measures drilling rig utilization based on spud to rig release dates. Moving, rig up, and tear down time are excluded, although revenue may be earned during these times.

Revenue per operating day is calculated as total segment revenue divided by the number of drilling days (spud to rig release) and is not indicative of our drilling rig rates.

FORWARD LOOKING INFORMATION

This press release contains forward-looking information pertaining to: our belief that our strategy and key drivers have uniquely positioned us to sustain relatively strong profitability during the full drilling industry cycle; our expectation of a positive Canadian pricing environment through the upcoming winter drilling season; our expectation that we will achieve utilization in 2014 similar to utilization levels of 2013 for our Texas rigs; our expectation that we can continue to grow in North Dakota; our performance and partner relationships in Mexico provides an opportunity for DCM to expand in the region; the construction and deployment of additional rigs in 2014 and 2015; our 2014 capital program; our primary corporate objectives; expected commencement of drilling by DCM in the Miquetla block; and expectations regarding existing credit facilities and cash flow from operating activities described under "Risks and Uncertainties - Liquidity Risk". This forward-looking information involves material assumptions and known and unknown risks and uncertainties, including the risks set out under "Risks and Uncertainties", certain of which are beyond CanElson's control. CanElson's Annual Information Form and other documents filed with securities regulatory authorities (accessible through the SEDAR website www.sedar.com) describe the other risks, the material assumptions and other factors that could influence actual results and which are incorporated herein by reference. Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits CanElson will derive therefrom. The forward-looking information is made as at the date of this press release and CanElson does not undertake any obligation to update publicly or to revise any of the included forward-looking information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

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