

CanElson Announces Fourth Quarter Results, Updates Its 2015 Capital Program and Declares Quarterly Dividend

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CALGARY, ALBERTA--(Marketwired - Mar 2, 2015) - [CanElson Drilling Inc.](#) (TSX:CDI) announces its financial results for the fourth quarter and year end compared to a year earlier, updates its 2015 capital program, and declares a quarterly dividend of \$0.03 per share.

2014 KEY DEVELOPMENTS

- Q1 - Continued to develop an LNG footprint, deploying its fourth drilling rig, a mechanical tele-double, in north east British Columbia
- Q2 - Delivered a mechanical tele-double to the Permian Basin in Texas, under a long-term contract
- Q2 - Generated seasonally strong Canadian utilization of 36%, compared to the industry average of 26%, with our focus on performance and alignment with strategic partners being key differentiators
- Q3 - Delivered a second mechanical tele-double to the Permian Basin in Texas, under a long-term contract
- Q4 - Exited the year with debt less cash of \$48.4 million, as well as a positive non-cash working capital balance of \$38.5 million.

FOURTH QUARTER 2014 SUMMARY (compared with a year earlier)

- Services revenue of \$90.6 million, up 12% from \$81.1 million
- Adjusted EBITDA of \$29.3 million, up 12% from \$26.2 million, excluding an Adjusted EBITDA loss from our joint venture equity investment in Diavaz CanElson de Mexico ("DCM") of \$0.6 million (2013: Adjusted EBITDA of \$1.6 million). Adjusted EBITDA from DCM includes \$1.7 million of non-cash charges
- Income attributable to shareholders of the Corporation \$10.8 million, up 2% from \$10.6 million
- EPS (diluted) of \$0.12, unchanged
- Weighted average diluted shares outstanding 93.1 million, up 3% from 90.4 million
- Declared fourth quarter dividend of \$0.03 per share, down 50% from \$0.06 per share
- Canadian utilization of 56% (1.34 times industry average), down 15% from 66%
- US utilization of 86%, unchanged

THE YEAR ENDED 2014 SUMMARY (compared with a year earlier)

- Services revenue of \$339.5 million, up 32% from \$257.0 million
- Adjusted EBITDA of \$105.1 million, up 23% from \$85.8 million (excludes Adjusted EBITDA from our joint venture equity investment in DCM of \$5.1 million (2013: \$3.7 million). Adjusted EBITDA from DCM includes \$1.7 million of non-cash charges
- Income attributable to shareholders of the Corporation \$42.6 million, up 20% from \$35.6 million
- EPS (diluted) of \$0.46, up 7% from \$0.43
- Weighted average diluted shares outstanding 93.3 million, up 13% from 82.5 million
- Canadian utilization of 59% (1.36 times industry average), up 11% from 53%
- US utilization of 83%, unchanged

Fourth quarter Canadian utilization (spud to rig release days) of 56% was 1.34 times the industry average utilization level of 42%. 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 86% was flat year-over-year. One drilling rig was active in Mexico for the majority of the fourth quarter, however, we reported an EBITDA loss of \$0.6 million, due to a \$1.7 million net reduction to the accounts receivable balance to reflect a time value of money discount. For the year ended December 31, 2014, Canadian utilization (spud to rig release days) was 59%, 1.36 times the average industry utilization level of 43%.

Fleet deployment (by rigs)

	Alberta / BC	Saskatchewan / Manitoba	Texas	North Dakota	Mexico Drilling	Mexico Service	Total
At December 31, 2014	15 (net 15)	13 (net 11.5)	14 (net 12.5)	6 (net 6)	2 (net 1)	2 (net 1)	52 (net 47)
At December 31, 2013	16 (net 16)	13 (net 11.5)	12 (net 10.5)	5 (net 5)	2 (net 1) (i)	2 (net 1)	50 (net 45)
Change %	(6)%	Unchanged	17%	20%	Unchanged	Unchanged	4%

(i) Excludes 1 (net:0.5) sub-contracted drilling rig in Mexico.

Gross fleet deployment (by %)

	Alberta / BC	Saskatchewan / Manitoba	Texas	North Dakota	Mexico Drilling	Mexico Service	Total
At December 31, 2014	29%	25%	27%	11%	4%	4%	100%
At December 31, 2013	32%	26%	24%	10%	4%	4%	100%

OUTLOOK**Drilling Services**

The steep decline in global crude oil prices has caused significant contraction in demand for drilling rigs in North America. The extent of the downturn and the timing of an eventual recovery is uncertain and, therefore, CanElson has taken proactive steps toward maintaining a strong balance sheet. These steps include a reduction of our original 2015 capital program by \$46.0 million (~70%), and reducing our annual dividend commitment by \$11.2 million (50%). We are also actively taking steps toward reducing our variable direct operating and administrative expenses, to the extent that we do not compromise the long-term integrity of our drilling rig fleet or decrease the quality of our service offering. With this in mind, CanElson has reduced executive salaries and Board of Directors compensation by 20%. Since inception in 2008, CanElson has remained well positioned to withstand commodity price cycles and its impact on industry activity levels by building a fleet of modern drilling rigs and balancing growth with only modest levels of debt. This strategy is especially relevant today.

Canada - Alberta & British Columbia

Natural gas liquids pricing has decreased along with crude oil and, therefore, the economics for many producers in the Deep Basin targeting natural gas liquids have been negatively impacted. CanElson has a diverse customer mix ranging from national oil companies, to low-cost intermediate producers and well capitalized private companies, with strong relative play economics. Subsequent to the end of the fourth quarter, CanElson deployed Rig #49, a new build AC tele-double drilling rig, to British Columbia, under a long term contract with an existing customer. On February 26, 2015, CanElson had an active rig count of 10 drilling rigs in Alberta and British Columbia.

Canada - Saskatchewan & Manitoba

During the fourth quarter of 2014, activity levels remained below historical levels. We anticipate an extended period of low activity until late in Q3 2015, followed by gradual improvement in utilization. This outlook is based on conversations with customers, forward crude oil strip pricing, and a lower overall cost structure relative to the North Dakota Bakken. On February 26, 2015, CanElson had an active rig count of 8 drilling rigs in Saskatchewan and Manitoba.

United States - Texas

CanElson has migrated the terms of its contracts for Rig #47, Rig #48, Rig #103 and Rig #104 to existing drilling rigs, including provisions for contract extensions and for rigs that would have otherwise been idle. We believe that this is a mutually beneficial outcome for all parties. Specifically, CanElson took steps to reduce capital spending, maintain a strong contract position and keep existing crews working. Additionally, drilling commitments were extended over a longer time period on fewer rigs, allowing more flexibility for our customers in the near-term. The construction of Rig #47, Rig #48 and Rig #104 has been delayed

indefinitely. The construction of Rig #103 is substantially complete, and this drilling rig is actively being marketed.

CanElson entered the Permian Basin in 2009 with one drilling rig and we have grown to a fleet of 14 active drilling rigs in this area exclusively through referral. Our approach in this economic environment has been to remain flexible with our service offering. Some of the initiatives that we are working on with our customers include vertical pre-set drilling of horizontal wells in the Delaware Basin, an area we have not worked in previously. Additionally, many of our customers have requested to move from performance based drilling to day work, as they now have additional capacity of engineering personnel internally, due to reduced activity levels, to handle drilling optimization. On February 26, 2015, CanElson had an active rig count of 9 drilling rigs in Texas.

United States - North Dakota

Based on northern crude oil pricing differentials, we expect that there will only be a minimal level of activity in North Dakota for the remainder of 2015. On February 26, 2015, CanElson had an active rig count of one drilling rig in North Dakota.

Mexico

Low commodity prices and migration to the new Energy Reform have resulted in increased uncertainty, resulting in lower DCM activity levels. We are now anticipating minimal activity levels for the first half of 2015 and for collections of accounts receivable to continue to be slow. However, 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 participate in increased drilling activity if Mexico's current energy sector reform results in increased demand for drilling and service rigs. On February 26, 2015, DCM had no active drilling rigs and one active service rig in the Miquetla block's Chicontepec area.

CanGas Solutions Inc.

Demand for our services has been relatively resilient as producers identify opportunities to reduce well costs, with the cost of fuel being material to overall oilfield service operating costs. Activity associated with drilling rig activity is expected to decline. For more information about our investment plan see the *Capital Availability and Capital Program* below.

Capital Availability and Capital Program

CanElson has approximately \$72 million of cash and available capacity on existing credit facilities to fund its capital programs and take advantage of strategic opportunities. Funds flow continues to be strong and fully supports our revised quarterly dividend rate of \$0.03 per share as well as the 2015 capital investment program.

A review of CanElson's total 2014 and current anticipated 2015 capital investment programs are as follows (in millions):

Capital Expenditures	Drilling Services			CanGas	Total
	Spare equipment facility & overhead	Upgrades & maintenance	Expansion		
Total expected 2015 capital expenditures	\$ 4.3	\$ 6.6	\$ 5.5	\$ 1.5	\$ 17.9
Previously anticipated 2015 capital expenditures (i)	\$ 2.3	\$ 5.0	\$ 4.1	\$ 1.5	\$ 12.9
Variance from previously anticipated 2015 capital expenditures	\$ 2.0	\$ 1.6	\$ 1.4	\$ -	\$ 5.0
Total 2014 capital expenditures	\$ 4.2	\$ 24.2	\$ 65.8	\$ 5.6	\$ 99.8
Previously anticipated 2014 capital expenditures (ii)	\$ 4.7	\$ 28.1	\$ 63.8	\$ 4.8	\$ 101.4
Variance from previously anticipated 2014 capital expenditures	\$ (0.5)	\$ (3.9)	\$ 2.0	\$ 0.8	\$ (1.6)

i. See our Press Release dated January 19, 2015, which is available on the Corporation's SEDAR profile at <http://www.sedar.com/>.

ii. See our MD&A dated November 6, 2014.

2015 Capital Program

We now anticipate a 2015 capital program of \$17.9 million, a \$5.0 million increase compared with the capital program as previously reported. The increase primarily relates to an additional top drive and drill pipe associated with modified contracts, as CanElsion has migrated various contracts from deferred new builds to drilling rigs currently in the fleet. The remainder of the capital program is comprised of rig recertification's and other maintenance capital expenditures.

2014 Capital Program

The 2014 total capital investment program of \$99.8 million is a decrease of \$1.6 million compared with the capital program as previously reported. The decrease primarily relates to non-critical expansion and maintenance capital.

Primary Corporate Objective

CanElsion's primary objective is to maintain and strengthen its above industry average utilization by consistently providing operational excellence and drilling efficiencies to its customers. We intend to carry out the following activities to further enhance our competitive positioning:

- Continue to expand our modern drilling rig fleet through organic builds (subject to securing suitable customer commitments) and/or evaluate mergers and acquisitions.
- Optimize the rig fleet composition to meet our customers' needs.
- Continue to form innovative long-term business relationships.
- Provide customers with lower overall well costs.

DIVIDEND

Subsequent to year end, the Board of Directors approved a quarterly dividend of \$0.03 per share to be paid on March 31, 2015 to shareholders of record at the close of business on March 20, 2015. The ex-dividend date is March 18, 2015.

FINANCIAL SUMMARY

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

	For the three months ended December 31,			For the year ended December 31,		
	2014	2013	% change	2014	2013	% change
Services revenue	\$ 90,553	\$ 81,073	12 %	\$ 339,529	\$ 257,004	32 %
Adjusted EBITDA	\$ 29,343	\$ 26,200	12 %	\$ 105,131	\$ 85,751	23 %
Share of profit unconsolidated joint venture	\$ (193)	\$ 676	nm	\$ 2,681	\$ 1,776	51 %
Net income attributable to shareholders of the Corporation	\$ 10,846	\$ 10,586	2 %	\$ 42,586	\$ 35,558	20 %
Net income per share						
Basic	\$ 0.12	\$ 0.12	- %	\$ 0.46	\$ 0.44	5 %
Diluted	\$ 0.12	\$ 0.12	- %	\$ 0.46	\$ 0.43	7 %
Cash dividends per share	\$ 0.06	\$ 0.06	- %	\$ 0.12	\$ 0.12	- %
Funds flow	\$ 29,420	\$ 25,844	14 %	\$ 105,199	\$ 85,381	23 %
Gross Margin	\$ 35,966	\$ 31,429	14 %	\$ 131,400	\$ 105,631	24 %
Weighted average diluted share outstanding	\$ 93,070	\$ 90,376	3 %	\$ 93,312	\$ 82,526	13 %

Revenue and Operating Expenses

	For the three months ended December 31,			For the year ended December 31,		
	2014	2013	% Change	2014	2013	% Change
<i>Oilfield services segment</i>						
Services revenue						
Canada	\$ 42,533	47,713	(11) %	\$ 174,608	132,255	32 %
US	48,020	33,360	44 %	164,921	124,749	32 %
	90,553	81,073	12 %	339,529	257,004	32 %
Other direct operating expenses	54,928	49,643	11 %	208,129	151,373	37 %
Gross margin	\$ 35,625	31,430	13 %	\$ 131,400	105,631	24 %
Gross margin %	39 %	39 %		39 %	41 %	
Administration expenses	6,282	5,229	20 %	26,269	19,880	32 %
Adjusted EBITDA	29,343	26,201	12 %	105,131	85,751	23 %
Adjusted EBITDA %	32 %	32 %	- %	31 %	33 %	(6) %
Operating days (spud to rig release)	3,004	2,998	- %	11,754	9,624	22 %
Revenue per operating day (Canada)	29.74	28.95	3 %	28.60	28.10	2 %
Revenue per operating day (US)	30.51	24.71	23 %	29.20	25.37	15 %
Other operating expenses per day	18.28	16.56	10 %	17.71	15.73	13 %

CANELSON DRILLING INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,	
(Stated in thousands of Canadian dollars)	2014	2013
ASSETS		
Current assets:		
Cash	\$ 3,372	\$ 6,402
Trade and other receivables	60,574	65,055
Prepaid expenses and deposits	2,826	1,693
Current income tax asset	3,597	6,020
Total current assets	70,369	79,170
Property and equipment	496,021	422,257
Deferred tax assets	1,210	749
Other intangible assets	1,754	1,872
Investment in joint venture	9,309	7,062
Goodwill	35,696	35,696
Total assets	\$ 614,359	\$ 546,806
LIABILITIES AND EQUITY		
Current liabilities:		
Trade payables and accrued liabilities	\$ 28,059	\$ 26,720
Deferred revenue	406	1,532
Loans and borrowings	4,885	17,163
Total current liabilities	33,350	45,415
Deferred revenue	902	1,450
Loans and borrowings	46,848	24,608
Deferred tax liabilities	75,669	56,423
Total liabilities	156,769	127,896
Equity:		
Share capital	307,155	301,439
Employee benefit reserve	5,333	4,406
Foreign currency translation reserve	20,803	8,791
Retained earnings	101,482	81,110
Equity attributable to shareholders of the Corporation	434,773	395,746
Equity attributable to non-controlling interest	22,817	23,164
Total equity	457,590	418,910
Total liabilities and equity	\$ 614,359	\$ 546,806

CANELSON DRILLING INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

December 31,

<i>(Stated in thousands of Canadian dollars - except per share data)</i>			2014	2013
Services revenue	\$	339,529	\$	257,004
Cost of sales:				
Other direct operating expenses		208,129		151,373
Depreciation and amortization		32,409		23,044
Stock based compensation		769		613
Total cost of sales		241,307		175,030
Total gross profit		98,222		81,974
Expenses:				
Administration expenses		26,269		19,880
Business acquisition transaction costs		-		575
Stock based compensation		1,398		1,405
Loss on disposal and decommissioning of assets		3,935		-
Foreign exchange loss		1,581		346
Total expenses		33,183		22,206
Share of joint venture profits		2,681		1,776
Income before interest and taxes		67,720		61,544
Interest expense		489		1,977
Income before income tax		67,231		59,567
Current tax expense		2,101		2,864
Deferred tax expense		15,931		14,664
Total income tax		18,032		17,528
Net income	\$	49,199	\$	42,039
Other comprehensive income				
Foreign currency translation differences for foreign operations		12,721		8,799
Share of joint venture translation differences		(434)		228
Total comprehensive income	\$	61,486	\$	51,066
Income attributable to:				
Shareholders of the Corporation	\$	42,586	\$	35,558
Non-controlling interest		6,613		6,481
Total net income	\$	49,199	\$	42,039
Total comprehensive income attributable to:				
Shareholders of the Corporation	\$	54,598	\$	44,045
Non-controlling interest		6,888		7,021
Total comprehensive income	\$	61,486	\$	51,066
Income per share:				
Basic	\$	0.46	\$	0.44
Diluted	\$	0.46	\$	0.43

NON-GAAP MEASURES

This press release contains references to Adjusted EBITDA, funds flow and gross margin. These financial measures are not measures that have any standardized meaning prescribed by International Financial Reporting Standards ("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 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 December 31,			For the year ended December 31,		
	2014	2013	% change	2014	2013	% change
Net Income	\$ 12,751	\$ 12,391	3 %	\$ 49,199	\$ 42,039	17 %
Interest Expense	112	644	(83)%	489	1,977	(75)%
Current and Deferred Taxes	2,285	5,493	(58)%	18,032	17,528	3 %
Depreciation expense	9,186	7,351	25 %	32,409	23,044	41 %
EBITDA	24,334	25,879	(6)%	100,129	84,588	18 %
Business acquisition and transaction cost	-	383	(100)%	-	575	(100)%
Stock based compensation expense	445	679	(34)%	2,167	2,018	7 %
Share of profit joint venture	193	(676)	nm	(2,681)	(1,776)	nm
Loss on disposal and decommissioning of assets	3,594	-	nm	3,935	-	nm
Foreign exchange (recovery) losses	777	(65)	nm	1,581	346	357 %
Adjusted EBITDA	\$ 29,343	\$ 26,200	12 %	\$ 105,131	\$ 85,751	23 %

nm - calculation is not meaningful

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 December 31,			For the year ended December 31,		
	2014	2013	% change	2014	2013	% change
Operating cash flow	\$ 25,330	\$ 14,409	76 %	\$ 106,543	\$ 73,586	45 %
Income taxes paid	933	3,073	nm	(208)	9,254	nm
Changes in working capital	3,157	8,362	(62)%	(1,136)	2,541	nm
Funds flow	\$ 29,420	\$ 25,844	14 %	\$ 105,199	\$ 85,381	23 %

nm - calculation is not meaningful

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 three months ended December 31,			For the year ended December 31,		
	2014	2013	% change	2014	2013	% change
Gross profit	\$ 26,613	\$ 23,892	11 %	\$ 98,222	\$ 81,974	20 %
Depreciation expense	9,186	7,351	25 %	32,409	23,044	41 %
Stock based compensation expense	167	186	(10)%	769	613	25 %
Gross margin	\$ 35,966	\$ 31,429	14 %	\$ 131,400	\$ 105,631	24 %

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 activity level expectations across each of our geographic operating regions; our 2015 capital program; and our primary corporate objectives. This forward-looking information involves material assumptions and known and unknown 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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